

Life Offices Opportunities Trust plc



REPORT AND ACCOUNTS 31 DECEMBER 2000

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REPORT OF THE DIRECTORS

The Directors submit their Report and Financial Statements for the year to 31 December 2000.

Principal activity and status

The Company is an Investment Company as defined in Section 266 of the Companies Act 1985. The Company has been approved by the Inland Revenue as an investment trust under Section 842 of The Income and Corporation Taxes Act 1988 for the year to 31 December 1998. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to continue to obtain such approval and the Company will continue to seek approval each year. However, under corporation tax self-assessment, which applied to accounting periods ended after 30 June 1999, the Inland Revenue will no longer be obliged to give written approval. Instead the Inland Revenue have twelve months after the return filing date in which to give notice that they intend to enquire into the return but if no such notice is given, then approval may be assumed to have been obtained. A review of the business during the year is set out on pages 4 to 6.

Results

The revenue transferred from revenue reserve was £126,000. No dividend has been declared.

Directors

The Directors who held office during the year and their beneficial interests in the Ordinary Shares of the Company were:

| | 31 December 2000 | 31 December 1999 |
|----------------|---------------------|---------------------|
| J C H Brumwell | 10,000 | 10,000 |
| J S H H Motion | 15,000 | 15,000 |
| R M Paul | 10,000 | 10,000 |
| J B Wilson | 7,500 | 7,500 |

There have been no changes in the Directors' interests between 31 December 2000 and 13 February 2001.

No Director has a service contract with the Company.

This year, Mr J C H Brumwell retires by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

Substantial shareholdings

As at 13 February 2001, the following interests in excess of 3 per cent of the issued Ordinary Shares of the Company had been reported:

| Name | Number of Shares | Percentage of Issued Shares |
|--------------------------------|---------------------|-----------------------------------|
| Investec Holdings (UK) Limited | 2,808,645 | 11.9% |
| Secured Profits Fund | 2,048,000 | 8.6% |
| Low Risk Asset Fund | 1,100,000 | 4.6% |
| Secured Profits Fund II | 1,000,000 | 4.2% |

Management

Scottish Value Management Limited provides investment management and secretarial services to the Company. These services can be terminated by either party at any time by giving one year's notice. Scottish Value Management Limited receives a fee for these services, payable quarterly in arrears, equivalent to 0.75 per cent per annum of the total assets of the Company less current liabilities.

Share Capital

During the year, 700,000 Ordinary Shares of 75 pence, representing 2.9 per cent of the issued share capital of the Company, were purchased at a cost of £914,000. The share issue was effected at a level that enhanced the Company's net asset value.

Individual Savings Account ("ISA")

The Company's shares are eligible for inclusion in an ISA.

Auditors

Ernst & Young has stated that, subject to the approval of its partners, it is intending to transfer its business to a limited liability partnership during the year. If this happens, it is the current intention of the Directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

Directors' Authority to Issue Shares

The Directors are currently authorised to allot ordinary shares up to an aggregate amount of £450,000, such authority expiring on 14 June 2001. Resolution 4 will, if approved, authorise the Directors to allot ordinary shares pursuant to such authority up to an aggregate nominal amount of £975,000, being 5.5 per cent of the total issued shares as at 13 February 2001, for cash without first offering such shares to existing shareholders pro rata to their existing holdings. This authority will continue in effect until 28 June 2002. The Directors would only issue new shares pursuant to these authorities if they believe it is advantageous to the Company's shareholders to do so and in no circumstances would result in a dilution of net asset value per share.

Directors' Authority to Buy Back Shares

The current authority of the Company to make market purchases of up to 15 per cent of the issued ordinary shares expires at the end of the Annual General Meeting and Resolution 5 as set out in the notice of the Annual General Meeting, seeks renewal of such authority until the Annual General Meeting in 2002. The price paid for shares will not be less than the nominal value of 75 pence per share nor more than 5 per cent above the average of the market values of these shares for the five business days before the shares are purchased. This power will only be exercised if, in the opinion of the Directors, a repurchase would be in the best interests of the shareholders as a whole. Any shares purchased under this authority will be cancelled.

Cancellation of Share Premium Account

As an investment trust, the Company may not retain more than 15 per cent of the income it derives from shares or securities in any accounting period. As a result, the Company is unable to retain sufficient revenue profits to fund purchases of any significant number of shares and, therefore, is required to fund the purchases of shares out of its realised capital reserves.

As at 31 December 2000, the Company's realised capital reserve was in deficit. Under the Companies Act 1985, the Company is, subject to the approval of shareholders and the court, able to cancel its share premium account and establish a new special reserve of the Company which, after setting off any realised losses, may be treated as profits available to the Company for the purpose of funding purchases of shares.

Accordingly, if approved by shareholders, Resolution 6 which is being proposed at the Annual General Meeting will, subject to the approval of the court, cancel the Company's entire share premium account of £6.0 million. The Company will then have sufficient realised reserves of £3.1 million which it will be able to use to fund future share buy backs.

REPORT OF THE DIRECTORS

Directors' Responsibilities

The Directors are required by law to prepare financial statements each year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the revenue of the Company for that year. These financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In preparing these statements, the Directors are required to: (a) select suitable accounting policies and then apply them consistently; (b) make judgements and estimates that are reasonable and prudent; and (c) state whether applicable accounting standards have been followed.

The Directors are also responsible for the maintenance of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. Directors may seek independent advice at the expense of the Company.

Corporate Governance

The Board of Directors has in place the procedures necessary to ensure compliance with the Combined Code of Best Practice ("the Code"). However, in certain areas as described below, the Board has implemented alternative arrangements more suited to an investment trust.

The Directors, having made appropriate enquiries, have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis of preparing the financial statements. An Extraordinary General Meeting will be convened in the year 2008 in order to give shareholders the opportunity to consider whether to approve a resolution to put the Company into voluntary liquidation.

The Directors confirm that the Company has complied with the requirement to be headed by an effective Board to lead and control the Company. The Company is an investment trust and not a trading company and as such there is no requirement for a Chief Executive Officer. As all Directors are non-executive, it is not considered necessary to appoint a Senior non-executive Director in addition to the Chairman. As detailed on page 9, the Board comprises the four independent non-executive Directors, all of whom are independent of the Managers and are free from all business or other relationships that could materially interfere with the exercise of their independent judgement. Whilst the Directors are not appointed for specific terms as required by the Code, all of the Directors must submit themselves for re-election by the shareholders every three years and are not entitled to compensation if they are not re-elected to office.

Since all Directors are non-executive, the Group is not required to comply with the principles of the Code in respect of executive Directors' remuneration.

The Company has a policy of regularly keeping in contact with its institutional shareholders and maintaining good relations with them. In addition, the Board uses the Annual General Meeting as a means to improve communications with shareholders.

Internal Control and Financial Reporting

The Board, in conjunction with the Managers, established a process for identifying, evaluating and managing the significant risks faced by the Company in June 2000. This process, which is documented in a "Review of Internal Controls", is reviewed by the Board on a six monthly basis and most recently at the Board Meeting on 13 February 2001. The Board is responsible for establishing and maintaining the Company's system of internal control. Internal control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

Principal elements of the Group's system of internal controls are:

- Clearly documented contractual arrangements with service providers
- Annual review by the Board of FRAG 21 reports of service providers
- Consideration by the Board of the latest Review of Internal Controls every six months
- Quarterly Board meetings to review performance, investment policy, strategy and shareholder relations
- Regular updating by the Managers on key risks and control developments
- Review of Annual Audit Committee Report produced by the Auditors

The Board confirms that it has reviewed the effectiveness of the Group's system of internal controls as it operated during the year. Following the implementation of the Turnbull recommendations at the end of June, the Company has complied with the applicable provisions of the Combined Code from the beginning of July 2000.

The Board meets every quarter to review the overall business of the Company and to consider the matters specifically reserved for it to decide upon. Specifically at these meetings, the Board monitors the investment performance of the Company in relation to comparable investment trusts. The Board also reviews the Company's activities over the preceding quarter to ensure it adheres to its investment policy or, if it is considered appropriate, to authorise any change to that policy. The Board is satisfied that it is supplied in a timely manner with information supplied to it to enable it to discharge its duties.

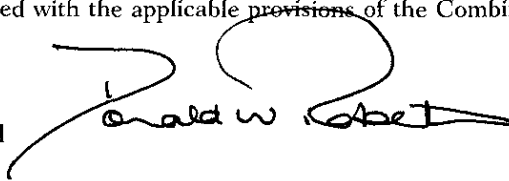
The Board has adopted a schedule of matters specifically reserved to itself for decision and, in relation to certain matters, two committees have been established. The Management and Nomination Committee, which comprises all of the independent Directors and a quorum is any two of them, meets at least once a year. Its remit includes such matters as reviewing all contracts for services delivered to the Company (e.g. by the Auditors and the Managers), reviewing and recommending new appointments to the Board and fixing the remuneration of the Directors. The Audit Committee, which comprises all of the independent Directors and a quorum is any two of them, meets at least once a year. Its remit is to review the Company's financial position and internal financial controls. The Committee must also satisfy itself that the Company's published financial statements represent a true and fair view of the position. The Company's Auditors are invited to attend such meetings and report on the position. Both Committees are chaired by the Chairman of the Company.

The Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company. There are clearly documented contractual arrangements between the Company and these organisations which define the areas where the Board has delegated authority to them. The Board receives reports on at least an annual basis detailing the internal control objectives and procedures adopted by each organisation. Each report has been reviewed by the respective organisation's auditors. The Board's examination of these reports allows it to assess the effectiveness of the systems of internal control which affect the Company.

The Board confirms that it has reviewed the effectiveness of the Company's system of internal controls as it operated during the year. Following the implementation of the Turnbull recommendations at the end of June, the Company has complied with the applicable provisions of the Combined Code from the beginning of July 2000.

By Order of the Board,

Scottish Value Management Limited
Secretaries
Edinburgh



26 February 2001

STATEMENT OF TOTAL RETURN

For the year to 31 December 2000

| | Notes | Revenue £000 | Capital £000 | Total £000 |
|--|-------|-----------------|-----------------|---------------|
| Gain on sale of investments | 10 | — | 377 | 377 |
| Movement in unrealised appreciation on investments | 10 | — | 4,004 | 4,004 |
| | | — | 4,381 | 4,381 |
| Income | 1 | 5 | — | 5 |
| Investment management fees | | — | (359) | (359) |
| Other expenses | 2 | (131) | (239) | (370) |
| Return before interest and taxation | | (126) | 3,783 | 3,657 |
| Bank overdraft interest | | — | (426) | (426) |
| Transfer (from)/to reserves | 10 | (126) | 3,357 | 3,231 |
| Return per ordinary share | 3 | (0.52p) | 13.78p | 13.26p |

The Revenue column of this statement is the profit and loss account of the Company.

The Accounting Policies and the Notes on pages 18 to 22 form part of these Financial Statements

STATEMENT OF TOTAL RETURN

For the year to 31 December 1999

| | Notes | Revenue £000 | Capital £000 | Total £000 |
|--|-------|-----------------|-----------------|---------------|
| Gain on sale of investments | | – | 40 | 40 |
| Movement in unrealised appreciation on investments | | – | 5,457 | 5,457 |
| | | – | 5,497 | 5,497 |
| Income | 1 | 16 | – | 16 |
| Investment management fees | | – | (321) | (321) |
| Other expenses | 2 | (122) | (214) | (336) |
| Return before interest and taxation | | (106) | 4,962 | 4,856 |
| Bank overdraft interest | | – | (358) | (358) |
| Transfer (from)/to reserves | | (106) | 4,604 | 4,498 |
| Return per Ordinary Share | 3 | (0.45p) | 19.36p | 18.91p |

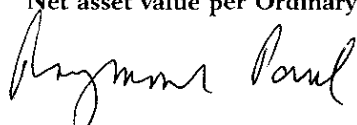
The Revenue column of this statement is the profit and loss account of the Company.

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BALANCE SHEET

As at 31 December 2000

| | Notes | 2000 £000 | 1999 £000 |
|--|-------|----------------------|----------------------|
| Fixed Assets | | | |
| Investments | 4 | <u>45,049</u> | <u>40,043</u> |
| Current Assets | | | |
| Debtors | 5 | 11 | 6 |
| Cash at bank and on deposit | | <u>547</u> | <u>27</u> |
| Total current assets | | 558 | 33 |
| Creditors: amounts falling due within one year | 6 | <u>(4,002)</u> | <u>(788)</u> |
| Net current liabilities | | <u>(3,444)</u> | <u>(755)</u> |
| Total assets less current liabilities | | 41,605 | 39,288 |
| Creditors: amounts falling due after more than one year | 7 | <u>(5,000)</u> | <u>(5,000)</u> |
| | | <u>36,605</u> | <u>34,288</u> |
| Capital and Reserves | | | |
| Share capital | 9 | 17,775 | 18,300 |
| Share premium account | | 6,003 | 6,003 |
| Capital redemption reserve | 10 | 525 | — |
| Capital reserve – realised | 10 | (2,658) | (1,097) |
| Capital reserve – unrealised | 10 | 15,201 | 11,197 |
| Revenue reserve | 10 | <u>(241)</u> | <u>(115)</u> |
| | | <u>36,605</u> | <u>34,288</u> |
| Net asset value per Ordinary Share | 3 | 154.45p | 140.52p |



Raymond M Paul Director

26 February 2001

The Accounting Policies and the Notes on pages 18 to 22 form part of these Financial Statements

CASH FLOW STATEMENT

For the year to 31 December 2000

| | 2000 £000 | 1999 £000 |
|---|--------------|--------------|
| Reconciliation of revenue before interest and taxation to net operating cash flows | | |
| Revenue before interest and taxation | (126) | (106) |
| Investment management fees charged to capital | (359) | (321) |
| Policy advisory fees charged to capital | (239) | (214) |
| Tax on unfranked investment income | (5) | (6) |
| Movement in debtors | — | 1 |
| Movement in creditors | 34 | 107 |
| Net cash outflow from operating activities | (695) | (539) |

CASH FLOW STATEMENT

| | | |
|---|----------------|----------------|
| Net cash outflow from operating activities | (695) | (539) |
| Returns on investment and servicing of finance | | |
| Interest paid | (424) | (358) |
| Capital expenditure and financial investment | | |
| Purchases of fixed asset investments | (1,952) | (2,732) |
| Sales of fixed asset investments | 1,327 | 1,195 |
| | (625) | (1,537) |
| Total cash flow before financing | (1,744) | (2,434) |
| Financing | | |
| Shares purchased for cancellation | (403) | — |
| Bank loan | — | 5,000 |
| Share issue | — | 2,780 |
| Expenses in connection with the issue | — | (12) |
| | (403) | 7,768 |
| (Decrease)/increase in cash | (2,147) | 5,334 |
| Reconciliation of net cash flow to movements in net debt (Note 12) | | |
| Movement in cash in the year | (2,147) | 5,334 |
| Cash inflow from bank loan | — | (5,000) |
| Change in net debt resulting from cash flows | (2,147) | 334 |
| Net debt as at 1 January | (5,276) | (5,610) |
| Net debt as at 31 December | (7,423) | (5,276) |

The Accounting Policies and the Notes on pages 18 to 22 form part of these Financial Statements

ACCOUNTING POLICIES

Basis of Preparation

The financial statements are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments. The financial statements are prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" ("SORP").

Income

Income is included in the Statement of Total Return on an accruals basis. The return on the fixed interest investments is recognised on a time apportionment basis so as to reflect the effective yield on the fixed interest investments. Deposit interest is included on an accruals basis.

Expenses and Interest

Expenses and interest payable are dealt with on an accruals basis.

Investment Management and Policy Advisory Fees

The investment management and policy advisory fees have been allocated 100 per cent to capital. The allocation is in line with the Board's expected long-term return from the investment portfolio. The terms of the investment management agreement are detailed in the Report of the Directors on page 10.

Finance Costs

Bank overdraft interest has been allocated 100 per cent to capital. The allocation is in line with the Board's expected long-term return from the investment portfolio.

Fixed Assets – Investments

Endowment policies are recognised as assets only when contract notes in respect of their purchase are issued. Endowment policies have been valued using a method which projects an estimated maturity value for each policy by reference to prevailing bonus rates of endowment policies. Using standard actuarial formulae, an appropriate internal rate of return is then applied to the projected maturity value and future premium liabilities to give the present value of the policies. No allowances for mortality have been made. Premiums are accounted for on a paid basis and are treated as an increase to the cost of investments.

Capital Reserve – Realised

Gains and losses on realisations of fixed asset investments are dealt with in this reserve. The investment management fees, policy advisory fees and finance costs, together with any tax relief, are also taken to this reserve. The cost of share repurchases is charged against this reserve.

Capital Reserve – Unrealised

Increases and decreases in the valuation of fixed asset investments are dealt with in this reserve.

NOTES TO THE ACCOUNTS

| | 2000 £000 | 1999 £000 |
|---|--------------|--------------|
| 1. Income | | |
| Income from shares and securities – unfranked income | 3 | 12 |
| Interest on short-term deposits | 2 | 4 |
| | <u>5</u> | <u>16</u> |
| 2. Other Expenses | | |
| Revenue | | |
| General expenses | 83 | 76 |
| Directors' fees | 33 | 31 |
| Auditors' remuneration – audit services | 15 | 15 |
| | <u>131</u> | <u>122</u> |
| Capital | | |
| Policy advisory fees | 239 | 214 |
| | <u>370</u> | <u>336</u> |

3. Returns per Share

Returns per share is based on a weighted average of 24,358,356 (1999 – 23,779,743) ordinary shares in issue during the year. Capital return per share is based on net capital gains during the year of £3,357,000 (1999 – £4,604,000). Revenue return per share is based on the revenue loss after taxation for the year of £126,000 (1999 – £106,000).

The net asset values per share are based on the net assets of the Company (2000 – £36,605,000, 1999 – £34,288,000) divided by the number of shares in issue as shown in Note 9.

| | 2000 £000 | 1999 £000 |
|---|---------------|---------------|
| 4. Fixed Assets – Investments | | |
| Valuation as at 1 January | 40,043 | 32,928 |
| Unrealised appreciation as at 1 January | 11,197 | 5,740 |
| | <u>28,846</u> | <u>27,188</u> |
| Cost as at 1 January | 28,846 | 27,188 |
| Additions at cost | 1,952 | 2,732 |
| Disposals at cost | (950) | (1,074) |
| | <u>29,848</u> | <u>28,846</u> |
| Cost as at 31 December | 29,848 | 28,846 |
| Unrealised appreciation as at 31 December | 15,201 | 11,197 |
| Valuation as at 31 December | <u>45,049</u> | <u>40,043</u> |

NOTES TO THE ACCOUNTS

| | 2000 £000 | 1999 £000 |
|---|--------------|--------------|
| 5. Debtors | | |
| Taxation recoverable within one year | 11 | 6 |
| 6. Creditors: amounts falling due within one year | | |
| Bank overdraft | 2,970 | 303 |
| Shares purchased for cancellation | 511 | — |
| Investment management fees | 92 | 87 |
| Other creditors | 429 | 398 |
| | <u>4,002</u> | <u>788</u> |

| | | |
|--|-------|-------|
| 7. Creditors: amounts falling due after more than one year | | |
| Bank loan | 5,000 | 5,000 |

The bank loan matures in January 2002, is secured in the form of a floating charge and incurs an interest rate of 6.34 per cent per annum.

8. Commitments

Future premiums payable in respect of endowment policies held at 31 December 2000 were as follows:

| | 2000 £000 |
|------------------------------|--------------|
| Due within one year | 1,483 |
| Due after more than one year | 7,521 |
| | <u>9,004</u> |

| | Number of Ordinary 75p Shares | £000 |
|--------------------------------------|----------------------------------|---------------|
| 9. Share Capital | | |
| Authorised | | |
| As at 1 January and 31 December 2000 | 25,000,000 | 18,750 |
| Allotted, issued and fully paid | | |
| As at 1 January 2000 | 24,400,000 | 18,300 |
| Shares purchased for cancellation | (700,000) | (525) |
| As at 31 December 2000 | <u>23,700,000</u> | <u>17,775</u> |

During the year, 700,000 ordinary shares of 75 pence were purchased for cancellation at a cost of £914,000.

| | Capital Redemption Reserve £000 | Capital Reserve Realised £000 | Capital Reserve Unrealised £000 | Revenue Reserve £000 |
|--|--|--|--|----------------------------|
| 10. Reserves | | | | |
| As at 1 January 2000 | – | (1,097) | 11,197 | (115) |
| Gain on sale of investments | – | 377 | – | – |
| Expenses charged to capital | – | (1,024) | – | – |
| Movement in unrealised appreciation on investments | – | – | 4,004 | – |
| Transfer from revenue account | – | – | – | (126) |
| Shares purchased for cancellation | 525 | (914) | – | – |
| As at 31 December 2000 | 525 | (2,658) | 15,201 | (241) |

| | 2000 £000 | 1999 £000 |
|---|--------------|--------------|
| 11. Reconciliation of Movement in Shareholders' Funds | | |
| Revenue attributable to shareholders | (126) | (106) |
| Share issue | – | 2,768 |
| Other recognised gains and losses for the year | 3,357 | 4,604 |
| Shares purchased for cancellation | (914) | – |
| | 2,317 | 7,266 |
| Opening shareholders' funds | 34,288 | 27,022 |
| Closing shareholders' funds | 36,605 | 34,288 |

Shareholders' funds are wholly attributable to equity shareholders.

| | As at 1 January 2000 £000 | Cash Flows £000 | As at 31 December 2000 £000 |
|-------------------------------------|------------------------------------|-----------------------|--------------------------------------|
| 12. Analysis of Changes in Net Debt | | | |
| Cash at bank and on deposit | 27 | 520 | 547 |
| Bank overdraft | (303) | (2,667) | (2,970) |
| Bank loan | (5,000) | – | (5,000) |
| | (5,276) | (2,147) | (7,423) |

NOTES TO THE ACCOUNTS

13. FRS 13 Disclosures

Risk Management

The major risks inherent within the Company are market risk, liquidity risk and interest rate risk. The Company has an established environment for the management of these risks which are continually monitored by the Managers. Appropriate guidelines for the management of the investments, gearing and financial instruments have been established by the Board of Directors.

Market risk exists where bonuses change materially during the life of the fixed asset investments and the terminal value is less than originally anticipated. Liquidity risk exists where the Company is a forced seller of the fixed asset investments at times where there may not be sufficient demand for these assets. Interest rate risk exists where the returns generated from the investments are less than the cost of borrowing.

Financial Instruments

The Company's investment policy is to hold fixed asset investments in the form of with-profit life assurance policies (note 4), cash balances with gearing being provided by a bank loan and a bank overdraft. All financial instruments are denominated in Sterling. Gearing is utilised in order to enhance asset value. The Company does not invest in fixed rate securities other than where the Company has substantial cash resources. In this situation, the Company has typically held short dated UK Government Securities. There were no fixed rate securities held at 31 December 2000 (1999 – nil). Fixed asset investments are valued as detailed in the Company's accounting policies. All cash balances are held on a variable rate call account generally yielding a higher rate of interest than that available for fixed interest securities. The benchmark rate which determines the interest received on cash balances and paid on overdrafts is the bank base rate which was 6.0 per cent as at 31 December 2000 (1999 – 5.5 per cent). Short term gearing is undertaken through a variable rate bank overdraft (note 6) and long term gearing through a fixed interest bank loan. The terms of the loan are detailed in note 7. Short term debtors and creditors are excluded from disclosure as permitted by FRS 13. The fair value is not materially different from the carrying value of all financial assets and liabilities.

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

Report of the Auditors to the Shareholders of Life Offices Opportunities Trust plc

We have audited the financial statements on pages 14 to 22 which have been prepared under the historical cost convention, as modified by the revaluation of fixed asset investments and the accounting policies set out on page 18.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 12, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding Director's remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement on page 12 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

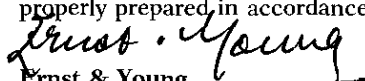
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company as at 31 December 2000 and of its net deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Registered Auditor
Edinburgh

26 February 2001

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting of Life Offices Opportunities Trust plc will be held at The Caledonian Hotel, Edinburgh on Wednesday, 28 March 2001 at 12 noon for the following purposes:

Ordinary Resolutions

1. To receive the financial statements for the year to 31 December 2000 together with the Directors' and Auditors' Reports thereon.
2. To re-appoint Mr J C H Brumwell, who retires by rotation, as a Director.
3. To re-appoint Ernst & Young as auditors and to authorise the Directors to fix their remuneration.

Special Resolutions

4. To empower the Directors pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities for cash, pursuant to the authority under section 80 of the Act conferred on the Directors, as if section 89(1) of the Act did not apply to any such allotment, up to an aggregate nominal amount of £975,000, such power to expire on 28 June 2002, unless previously revoked, varied or extended by the Company in general meeting, provided that such power shall be limited to the allotment of equity securities:

- (i) in connection with an offer of equity securities open for acceptance for a period fixed by the Directors to the holders of ordinary shares in the share capital of the Company on a fixed record date in proportion (as nearly as practicable) to their respective holdings of such ordinary shares (but subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with legal problems under or resulting from the application or apparent application of the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever); and
- (ii) other than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £975,000; and

save that the Company may at any time prior to the expiry of such power make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if such power had not expired.

5. To authorise the Company generally and unconditionally pursuant to section 166 of the Act to make market purchases (within the meaning of section 163 of the Act) on the London Stock Exchange of any of its ordinary shares provided that:
 - (a) the maximum number of shares hereby authorised to be purchased is less than 15 per cent of the issued share capital of the Company as at the date of this resolution;
 - (b) the minimum price (exclusive of expenses) which may be paid for a share shall be 75 pence;
 - (c) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5 per cent above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and
 - (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 28 June 2002 or at the conclusion of the next general meeting of the Company (whichever is the earlier) save that the Company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.
6. Subject to the approval of the Court, to cancel the whole amount standing to the credit of the share premium account of the Company on the date on which this resolution is passed.

By Order of the Board

Scottish Value Management Limited
Secretaries

26 February 2001

Only shareholders are entitled to attend and vote at the meeting. Any shareholder may appoint one or more proxies, who need not be shareholders, to attend and vote on a poll instead of him or her. A form of proxy is enclosed.