

LIFE OFFICES OPPORTUNITIES TRUST PLC

ANNUAL REPORT

31 DECEMBER 2001

SC 162841



REPORT OF THE DIRECTORS

The Directors submit their Report and Group Financial Statements for the year to 31 December 2001.

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 2000. 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.

Results

The revenue transferred from revenue reserve was £57,000. 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 2001	31 December 2000
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 2001 and 12 February 2002.

No Director has a service contract with the Company.

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

Substantial shareholdings

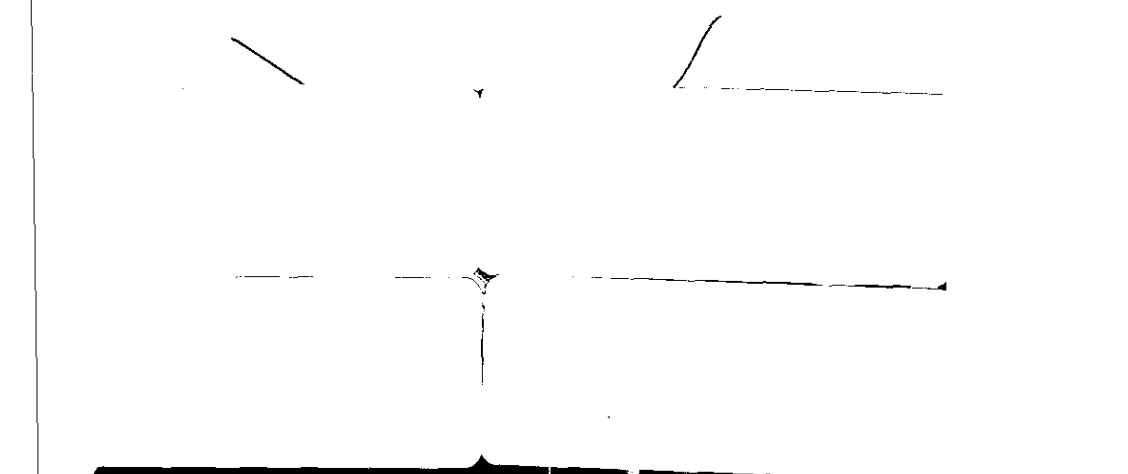
As at 12 February 2002, the following interests in excess of 3 per cent of the issued Ordinary Shares of the Company had been reported:

Name	Number of Shares	Percentage of Issued Shares
Low Risk Asset Fund	2,275,000	9.6%
Secured Profits Fund II	1,000,000	4.2%
Secured Profits Fund	754,000	3.2%

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.

BOARD OF DIRECTORS



left to right: John Wilson, Raymond Paul, John Brumwell and John Motion

John Brumwell (Chairman) (aged 67)

John Brumwell retired in 1995 as a fund manager and company secretary of Prudential Portfolio Managers Limited. He is a Fellow of the Institute of Actuaries and is currently a consultant with FTSE International Limited and serves on the Membership, Representative and Statistics Committees of the Association of Investment Trust Companies.

John Motion (aged 66)

John Motion worked for over 25 years as a stockbroker and retired from Merrill Lynch in 1995. He specialised in the investment trust sector, joining Kitcat & Aitken in 1969 and was joint head of investment trusts there for 15 years. In 1986 he became director of investment trusts at Kitcat & Aitken Limited. He was a member of the London Stock Exchange for over 20 years. He is also a director of Low Risk Asset Fund.

Raymond Paul (aged 59)

Raymond Paul is a Fellow of the Faculty of Actuaries. He has spent over 35 years in the life assurance industry and was formerly Appointed Actuary at the Life Association of Scotland Limited. He is an independent consulting actuary and is the author of a paper on the subject of merging and reconstructing life funds.

John Wilson (aged 59)

John Wilson joined James Capel in 1960 and retired in 1995. He was a partner of James Capel & Co. for eight years until James Capel became part of the HSBC Group in 1986. He worked in a variety of roles at James Capel and was a trustee of James Capel's in-house pension schemes. He was a member of the London Stock Exchange for over 25 years. He is also a director of Low Risk Asset Fund.

Individual Savings Account ("ISA")

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

Auditors

On 28 June 2001, Ernst & Young, the Company's auditors, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001.

A resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put to the forthcoming Annual General Meeting.

Directors' Authority to Issue Shares

The Directors are currently authorised to allot ordinary shares up to an aggregate amount of £975,000, such authority expiring on 28 June 2002. 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 12 February 2002, for cash without first offering such shares to existing shareholders pro rata to their existing holdings. This authority will continue in effect until 26 June 2003. 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 2003. 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.

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 and the Group at the end of the financial year and of the revenue of the Group for that year. These 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 the Group 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 Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE DIRECTORS

Going Concern

The Board, having made appropriate enquiries, has a reasonable expectation that the Group 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.

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 confirm that the Group has complied with the requirement to be headed by an effective Board to lead and control the Group. 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 non-executive Directors, all of whom are independent of the Managers and free from all business or other relationships that could interfere with the exercise of their independent judgement. Whilst the Directors are not appointed for specific terms, as required by the Code, all 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. Directors may seek independent advice at the expense of the Company.

The Managers maintain regular contact with the Group's shareholders, particularly institutional shareholders, and report regularly to the Board on shareholder relations. In addition, the Board uses the Annual General Meeting as a forum for shareholders to meet and discuss issues with the Board and the Managers.

The Company usually exercises its voting powers for general meetings of investee companies. The Company does not operate a fixed policy when voting but treats each case on merit. The Company does not have an environmental policy.

Internal Control and Financial Reporting

The Board, in conjunction with the Managers, established a process in June 2000 for identifying, evaluating and managing the significant risks faced by the Group. 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 12 February 2002. The Board is responsible for establishing and maintaining the Group'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.

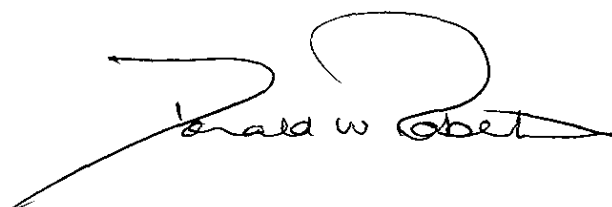
The Board meets every quarter to review the overall business of the Group and to consider the matters specifically reserved for it to decide upon. At these meetings, the Directors review investment performance of the Group and in relation to comparable investment trusts. The Directors also review the Group'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 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 for which a quorum is any two of the independent Directors, 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 for which a quorum is any two of the independent Directors, meets at least twice a year. Its remit is to review the Group's financial position, internal controls, scope and results of the audit and its cost effectiveness and the independence and objectivity of auditors. The Committee must also satisfy itself that the Group's published financial statements represent a true and fair view of the position. The Group'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 Group. 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 internal systems of financial control which affect the Company and the Group.

The Board confirms that it has reviewed the effectiveness of the Group's system of internal controls as it operated during the year. The Company has complied with the applicable provisions of the Combined Code during the year and up to the date of the approval of the financial statements.

By Order of the Board,
Scottish Value Management Limited
 Secretaries
 Edinburgh



12 February 2002

GROUP STATEMENT OF TOTAL RETURN

For the year to 31 December 2001

	Notes	Revenue £000	Capital £000	Total £000
Gain on sale of investments	10	—	376	376
Movement in unrealised appreciation on investments	10	—	2,355	2,355
		<u>—</u>	<u>2,731</u>	<u>2,731</u>
Income	1	58	—	58
Investment management fees		—	(375)	(375)
Other expenses	2	(115)	(250)	(365)
		<u>(57)</u>	<u>2,106</u>	<u>2,049</u>
Return before interest and taxation		(57)	2,106	2,049
Bank overdraft interest		—	(569)	(569)
		<u>—</u>	<u>(569)</u>	<u>(569)</u>
Transfer (from)/to reserves	10	(57)	1,537	1,480
		<u>(57)</u>	<u>1,537</u>	<u>1,480</u>
Return per ordinary share	3	(0.24p)	6.48p	6.24p

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

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

GROUP STATEMENT OF TOTAL RETURN

For the year to 31 December 2000

	Notes	Revenue £000	Capital £000	Total £000
Gain on sale of investments		–	377	377
Movement in unrealised appreciation on investments		–	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		(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 Group.

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

BALANCE SHEETS

As at 31 December 2001

		Group		Company	
	Notes	2001 £000	2000 £000	2001 £000	2000 £000
Fixed Assets					
Investments	4	<u>48,340</u>	<u>45,049</u>	<u>48,340</u>	<u>45,049</u>
Current Assets					
Debtors	5	39	11	39	11
Cash at bank and on deposit		<u>—</u>	<u>547</u>	<u>—</u>	<u>547</u>
Total current assets		39	558	39	558
Creditors: amounts falling due within one year	6	<u>(5,294)</u>	<u>(4,002)</u>	<u>(5,344)</u>	<u>(4,002)</u>
Net current liabilities		<u>(5,255)</u>	<u>(3,444)</u>	<u>(5,305)</u>	<u>(3,444)</u>
Total assets less current liabilities		43,085	41,605	43,035	41,605
Creditors: amounts falling due after more than one year	7	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>	<u>(5,000)</u>
		<u>38,085</u>	<u>36,605</u>	<u>38,035</u>	<u>36,605</u>
Capital and Reserves					
Share capital	9	17,775	17,775	17,775	17,775
Share premium account	10	—	6,003	—	6,003
Special reserve	10	6,003	—	6,003	—
Capital redemption reserve		525	525	525	525
Capital reserve – realised	10	(3,476)	(2,658)	(3,476)	(2,658)
Capital reserve – unrealised	10	17,556	15,201	17,556	15,201
Revenue reserve	10	(298)	(241)	(348)	(241)
		<u>38,085</u>	<u>36,605</u>	<u>38,035</u>	<u>36,605</u>
Net asset value per Ordinary Share	3	160.70p	154.45p		



Raymond M Paul Director

12 February 2002

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

GROUP CASH FLOW STATEMENT

For the year to 31 December 2001

	2001 £000	2000 £000
Reconciliation of revenue before interest and taxation to net operating cash flows		
Revenue before interest and taxation	(57)	(126)
Investment management fees charged to capital	(372)	(359)
Policy advisory fees charged to capital	(250)	(239)
Tax on unfranked investment income	—	(5)
Movement in debtors	(34)	—
Movement in creditors	(176)	34
Net cash outflow from operating activities	(889)	(695)

CASH FLOW STATEMENT

Net cash outflow from operating activities	(889)	(695)
Returns on investment and servicing of finance		
Interest paid	(569)	(424)
Taxation		
Taxation received	6	—
Capital expenditure and financial investment		
Purchases of fixed asset investments	(1,231)	(1,952)
Sales of fixed asset investments	671	1,327
	(560)	(625)
Total cash flow before financing	(2,012)	(1,744)
Financing		
Shares purchased for cancellation	(511)	(403)
Decrease in cash	(2,523)	(2,147)
Reconciliation of net cash flow to movements in net debt (Note 12)		
Movement in cash in the year	(2,523)	(2,147)
Net debt as at 1 January	(7,423)	(5,276)
Net debt as at 31 December	(9,946)	(7,423)

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").

Group Financial Statements

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertaking drawn up to 31 December 2001. No revenue account has been published for the Company as provided by Section 230(3) of the Companies Act 1985.

Income

Income is included in the Statement of Total Return on an accruals basis. 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

	2001 £000	2000 £000
1. Income		
Income from shares and securities – unfranked income	–	3
Interest on short-term deposits	2	2
Net income from dealing activities in subsidiary undertaking	56	–
	<u>58</u>	<u>5</u>
2. Other Expenses		
Revenue		
General expenses	67	83
Directors' fees	33	33
Auditors' remuneration – audit services	15	15
	<u>115</u>	<u>131</u>
Capital		
Policy advisory fees	250	239
	<u>365</u>	<u>370</u>

3. Returns per Share

Returns per share is based on a weighted average of 23,700,000 (2000 – 24,358,356) ordinary shares in issue during the year. Capital return per share is based on net capital gains during the year of £1,537,000 (2000 – £3,357,000). Revenue return per share is based on the revenue loss after taxation for the year of £57,000 (2000 – £126,000).

The net asset values per share are based on the net assets of the Group (2001 – £38,085,000, 2000 – £36,605,000) divided by the number of shares in issue as shown in Note 9.

	Company and Group	
	2001 £000	2000 £000
4. Fixed Assets – Investments		
Valuation as at 1 January	45,049	40,043
Unrealised appreciation as at 1 January	15,201	11,197
Cost as at 1 January	29,848	28,846
Additions at cost (premiums)	1,231	1,952
Disposals at cost	(295)	(950)
Cost as at 31 December	30,784	29,848
Unrealised appreciation as at 31 December	17,556	15,201
Valuation as at 31 December	<u>48,340</u>	<u>45,049</u>

The Company has one wholly owned subsidiary undertaking, LOOT Dealing Limited, which is registered in Scotland, whose main business is investment dealing. The subsidiary undertaking was acquired during the year as a shell company for a nominal amount.

NOTES TO THE ACCOUNTS

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
5. Debtors				
Taxation recoverable within one year	5	11	5	11
Other debtors	34	—	34	—
	<u>39</u>	<u>11</u>	<u>39</u>	<u>11</u>
6. Creditors: amounts falling due within one year				
Bank overdraft	4,946	2,970	4,946	2,970
Shares purchased for cancellation	—	511	—	511
Investment management fees	95	92	95	92
Amounts due to subsidiary undertaking	—	—	50	—
Other creditors	253	429	253	429
	<u>5,294</u>	<u>4,002</u>	<u>5,344</u>	<u>4,002</u>
7. Creditors: amounts falling due after more than one year				
Bank loan	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>

Although 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, it is the intention to roll this amount for a further three years.

8. Commitments

Future premiums payable in respect of endowment policies held at 31 December 2001 are as follows:

	2001 £000
Due within one year	1,375
Due after more than one year	5,497
	<u>6,872</u>

	2001	2000
9. Share Capital		
Authorised		
25,000,000 ordinary 75p shares	<u>18,750</u>	<u>18,750</u>
Allotted, issued and fully paid		
23,700,000 ordinary 75p shares	<u>17,775</u>	<u>17,775</u>

	Share Premium Account £000	Special Reserve £000	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Revenue Reserve £000
10. Reserves					
Company					
As at 1 January 2001	6,003	—	(2,658)	15,201	(241)
Gain on sale of investments	—	—	376	—	—
Expenses charged to capital	—	—	(1,194)	—	—
Movement in unrealised appreciation on investments	—	—	—	2,355	—
Transfer from revenue account	—	—	—	—	(107)
Cancellation of share premium account	(6,003)	6,003	—	—	—
As at 31 December 2001	—	6,003	(3,476)	17,556	(348)
Group					
As at 1 January 2001	6,003	—	(2,658)	15,201	(241)
Gain on sale of investments	—	—	376	—	—
Expenses charged to capital	—	—	(1,194)	—	—
Movement in unrealised appreciation on investments	—	—	—	2,355	—
Transfer from revenue account	—	—	—	—	(57)
Cancellation of share premium account	(6,003)	6,003	—	—	—
As at 31 December 2001	—	6,003	(3,476)	17,556	(298)
				2001 £000	2000 £000
11. Reconciliation of Movement in Shareholders' Funds					
Revenue attributable to shareholders				(57)	(126)
Other recognised gains and losses for the year				1,537	3,357
Shares purchased for cancellation				—	(914)
				1,480	2,317
Opening shareholders' funds				36,605	34,288
Closing shareholders' funds				38,085	36,605

Shareholders' funds are wholly attributable to equity shareholders.

NOTES TO THE ACCOUNTS

	As at 1 January 2001 £000	Cash Flows £000	As at 31 December 2001 £000
12. Analysis of Changes in Net Debt			
Cash at bank and on deposit	547	(547)	—
Bank overdraft	(2,970)	(1,976)	(4,946)
Bank loan	(5,000)	—	(5,000)
	<u>(7,423)</u>	<u>(2,523)</u>	<u>(9,946)</u>

13. FRS 13 Disclosures

Risk Management

The major risks inherent within the Group 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. Specifically, gearing is forecast to be not more than 30 per cent of total assets with the fixed rate element accounting for up to three-quarters of the total gearing. The Group does not use currency hedging or the use of derivatives within its portfolio.

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 2001 (2000 – 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 4.0 per cent as at 31 December 2001 (2000 – 6 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. There are no undrawn committed borrowing facilities. It is anticipated that total gearing will rise to no more than 30 per cent at the peak in 2005. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LIFE OFFICES OPPORTUNITIES TRUST PLC

We have audited the Group's financial statements for the year ended 31 December 2001 which comprise Group Statement of Total Return, Balance Sheets, Group Cash Flow Statement, Accounting Policies and the related notes 1 to 13. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Report of the Directors on Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

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 1985. We also report to you if, in our opinion, the Report of the Directors 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 information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement 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 the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Report of the Directors, Chairman's Statement, Managers' Review, Investment Portfolio, Shareholder Information, Board of Directors and Notice of Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 Group'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 and of the Group as at 31 December 2001 and of the net deficit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Edinburgh

12 February 2002

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 Hilton Hotel, Edinburgh on Tuesday, 26 March 2002 at 12 noon for the following purposes:

Ordinary Resolutions

1. To receive the financial statements for the year to 31 December 2001 together with the Directors' and Auditors' Reports thereon.
2. To re-appoint Mr J S H H Motion, who retires by rotation, as a Director.
3. To re-appoint Ernst & Young LLP 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 25 June 2003, 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 26 June 2003 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.

By Order of the Board

Scottish Value Management Limited

Secretaries

12 February 2002

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.