

LIFE OFFICES OPPORTUNITIES TRUST PLC

REPORT & ACCOUNTS

31 DECEMBER 2002

SC 162841



REPORT OF THE DIRECTORS

The Directors submit their Report and Group Financial Statements for the year to 31 December 2002.

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 2001. 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 £150,000. 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 2002 | 31 December 2001 |
|----------------|---------------------|---------------------|
| J C H Brumwell | 15,000 | 10,000 |
| J S H H Motion | 20,000 | 15,000 |
| R M Paul | 20,000 | 10,000 |
| J B Wilson | 12,500 | 7,500 |

There have been no changes in the Directors' interests between 31 December 2002 and 11 February 2003.

No Director has a service contract with the Company.

This year, Messrs R M Paul and J B Wilson retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting.

Substantial shareholdings

As at 11 February 2003, 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 |
|-------------------------|---------------------|-----------------------------------|
| SVM TEP Fund | 2,275,000 | 9.7% |
| Secured Profits Fund II | 1,000,000 | 4.3% |

Management

SVM Asset 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. SVM Asset 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, 150,000 Ordinary Shares of 75 pence (representing 0.6 per cent of the issued share capital) of the Company were purchased and cancelled at a cost of £144,000. These share purchases were effected at levels that enhanced the net asset value for the remaining shareholders.

Individual Savings Account ("ISA")

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

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as the Company's auditors and a resolution proposing their reappointment 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 £1,087,500, such authority expiring on 25 June 2003. Special Resolution 6 will, if approved, authorise the Directors to allot ordinary shares pursuant to such authority up to an aggregate nominal amount of £1,087,500, being 6.2 per cent of the total issued shares as at 11 February 2003, for cash without first offering such shares to existing shareholders pro rata to their existing holdings. This authority will continue in effect until 17 June 2004. 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 Special Resolution 7 as set out in the notice of the Annual General Meeting, seeks renewal of such authority until the Annual General Meeting in 2004. The price paid for shares will not be less than 25 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.

Statement of 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 throughout the year 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 2000 for identifying, evaluating and managing the significant risks faced by the Group. This process, which is documented in a "Risk and Assurance Profile", is reviewed by the Board on a six monthly basis and most recently at the Board Meeting on 11 February 2003. The controls have been in place for the whole year. 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.

The principal elements of the Group's system of internal controls and the process applied by the Board in reviewing its effectiveness 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 Risk & Assurance Profile 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 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. Both committees are chaired by the Chairman of the Company.

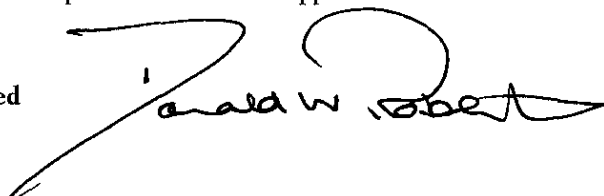
The Management and Nomination Committee, which comprises all of the independent Directors and for which a quorum is any two of the independent Directors, meets at least once a year. Its remit includes such matters as reviewing all contracts for services delivered to the Company (e.g. by the Auditors 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.

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. FRAG 21 reports are received and attested to by independent 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.

Except as noted above, 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,
SVM Asset Management Limited
Secretaries
Edinburgh



11 February 2003

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time to this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditors' opinion is included in their report on pages 25 and 26.

Remuneration Committee

The Company has four non-executive Directors. The Management and Nomination Committee fulfils the function of a Remuneration Committee in addition to its nominations functions. The Board have appointed the Company Secretary to provide advice when the Management and Nomination Committee considers the level of Directors' fees. The Management and Nomination Committee carries out a review of the level of Directors' fees on an annual basis.

Policy on Directors' fees

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure, and have similar investment objectives. The fees paid to the Directors were increased in 2002 to reflect the fact that the fees had remained constant since 2000 and had fallen behind the fees paid in similar companies. The fees are typically reviewed every two years and it is the intention that this policy will continue for subsequent years.

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

Directors' service contracts

It is the Board's policy that none of the Directors have a service contract. All Directors were originally appointed at the Company's inception. The terms of their appointment provide that a Director shall retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are thereafter obliged to retire by rotation, and, if they wish, to offer themselves for re-election, at least every three years after that.

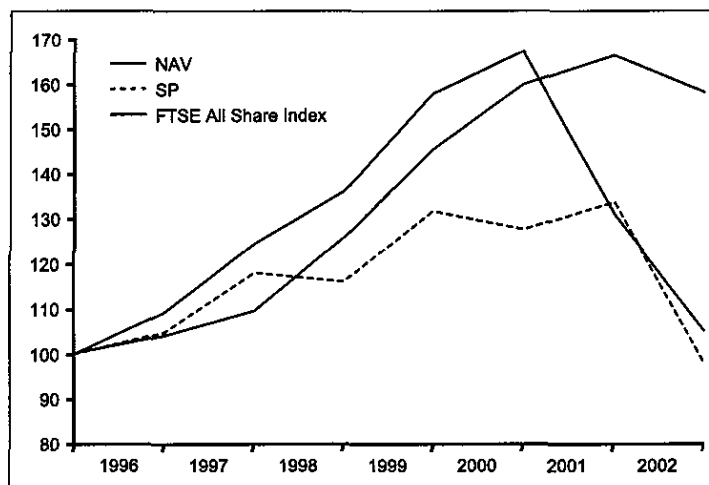
Directors' emoluments for the year (audited)

The Directors who served in the year received the following emoluments in the form of fees:

| | Fees 2002 | Fees 2001 |
|---------------------------|---------------|---------------|
| | £ | £ |
| J C H Brumwell (Chairman) | 12,750 | 10,750 |
| J S H H Motion | 8,500 | 7,500 |
| R M Paul | 8,500 | 7,500 |
| J B Wilson | 8,500 | 7,500 |
| | <u>38,250</u> | <u>33,250</u> |

Company performance

The graph below compares the percentage change in the total return to Ordinary Shareholders since inception, both in term of net asset value and share price, compared to the FTSE All-Share Index. The Index has been chosen as it represents a comparable broad equity market index.



By Order of the Board,
SVM Asset Management Limited
Secretaries
Edinburgh

11 February 2003

GROUP STATEMENT OF TOTAL RETURN

For the year to 31 December 2002

| | Notes | Revenue £000 | Capital £000 | Total £000 |
|--|-------|-----------------|-----------------|----------------|
| Gain on sale of investments | 10 | — | 1,464 | 1,464 |
| Movement in unrealised appreciation on investments | 10 | — | (1,932) | (1,932) |
| | | — | (468) | (468) |
| Income | 1 | 8 | — | 8 |
| Investment management fees | | — | (414) | (414) |
| Other expenses | 2 | (158) | (276) | (434) |
| Return before interest and taxation | | (150) | (1,158) | (1,308) |
| Bank overdraft interest | | — | (635) | (635) |
| Transfer from reserves | 10 | (150) | (1,793) | (1,943) |
| Return per ordinary share | 13 | (0.64p) | (7.57p) | (8.21p) |

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

The Accounting Policies and the Notes on pages 20 to 24 form part of these Financial Statements

GROUP STATEMENT OF TOTAL RETURN

For the year to 31 December 2001

| | Notes | Revenue £000 | Capital £000 | Total £000 |
|--|-------|-----------------|-----------------|---------------|
| Gain on sale of investments | | — | 376 | 376 |
| Movement in unrealised appreciation on investments | | — | 2,355 | 2,355 |
| | | — | 2,731 | 2,731 |
| Income | 1 | 58 | — | 58 |
| Investment management fees | | — | (375) | (375) |
| Other expenses | 2 | (115) | (250) | (365) |
| Return before interest and taxation | | (57) | 2,106 | 2,049 |
| Bank overdraft interest | | — | (569) | (569) |
| Transfer (from)/to reserves | | (57) | 1,537 | 1,480 |
| Return per Ordinary Share | 13 | (0.24p) | 6.48p | 6.24p |

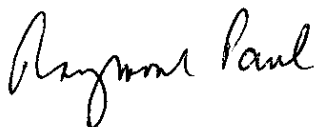
The Revenue column of this statement is the profit and loss account of the Group.

The Accounting Policies and the Notes on pages 20 to 24 form part of these Financial Statements

BALANCE SHEETS

As at 31 December 2002

| | | Group | | Company | |
|---|-------|-----------------|----------------|-----------------|----------------|
| | Notes | 2002 £000 | 2001 £000 | 2002 £000 | 2001 £000 |
| Fixed Assets | | | | | |
| Investments | 4 | <u>46,863</u> | <u>48,340</u> | <u>46,863</u> | <u>48,340</u> |
| Current Assets | | | | | |
| Debtors | 5 | 110 | 39 | 110 | 39 |
| Cash at bank and on deposit | | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total current assets | | 110 | 39 | 110 | 39 |
| Creditors: amounts falling due within one year | 6 | <u>(975)</u> | <u>(5,294)</u> | <u>(1,007)</u> | <u>(5,344)</u> |
| Net current liabilities | | <u>(865)</u> | <u>(5,255)</u> | <u>(897)</u> | <u>(5,305)</u> |
| Total assets less current liabilities | | 45,998 | 43,085 | 45,966 | 43,035 |
| Creditors: amounts falling due after more than one year | 7 | <u>(10,000)</u> | <u>(5,000)</u> | <u>(10,000)</u> | <u>(5,000)</u> |
| | | <u>35,998</u> | <u>38,085</u> | <u>35,966</u> | <u>38,035</u> |
| Capital and Reserves | | | | | |
| Share capital | 9 | 17,662 | 17,775 | 17,662 | 17,775 |
| Special reserve | 10 | 5,859 | 6,003 | 5,859 | 6,003 |
| Capital redemption reserve | 10 | 638 | 525 | 638 | 525 |
| Capital reserve – realised | 10 | (3,337) | (3,476) | (3,337) | (3,476) |
| Capital reserve – unrealised | 10 | 15,624 | 17,556 | 15,624 | 17,556 |
| Revenue reserve | 10 | (448) | (298) | (480) | (348) |
| | | <u>35,998</u> | <u>38,085</u> | <u>35,966</u> | <u>38,035</u> |
| Net asset value per Ordinary Share | 13 | 152.86p | 160.70p | | |



Raymond M Paul Director

11 February 2003

The Accounting Policies and the Notes on pages 20 to 24 form part of these Financial Statements

GROUP CASH FLOW STATEMENT

For the year to 31 December 2002

| | 2002 £000 | 2001 £000 |
|---|--------------|--------------|
| Reconciliation of revenue before interest and taxation to net operating cash flows | | |
| Revenue before interest and taxation | (150) | (57) |
| Investment management fees charged to capital | (407) | (372) |
| Policy advisory fees charged to capital | (272) | (250) |
| Movement in debtors | (4) | (34) |
| Movement in creditors | — | (176) |
| Net cash outflow from operating activities | (833) | (889) |

CASH FLOW STATEMENT

| | | |
|---|-----------------|----------------|
| Net cash outflow from operating activities | (833) | (889) |
| Returns on investment and servicing of finance | | |
| Interest paid | (651) | (569) |
| Taxation | | |
| Taxation received | 4 | 6 |
| Capital expenditure and financial investment | | |
| Purchases of fixed asset investments | (1,140) | (1,231) |
| Sales of fixed asset investments | 2,077 | 671 |
| | 937 | (560) |
| Total cash flow before financing | (543) | (2,012) |
| Financing | | |
| Loan drawdown | 5,000 | — |
| Shares purchased for cancellation | (144) | (511) |
| Increase/(decrease) in cash | 4,313 | (2,523) |
| Reconciliation of net cash flow to movements in net debt (Note 12) | | |
| Movement in net debt in the year | (687) | (2,523) |
| Net debt as at 1 January | (9,946) | (7,423) |
| Net debt as at 31 December | (10,633) | (9,946) |

The Accounting Policies and the Notes on pages 20 to 24 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 2002. 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 bonus rates of endowment policies prevailing at the balance sheet date. 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.

Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less tax in the future have occurred at the balance sheet date measured on an undiscounted basis and based on enacted tax rates. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the accounts which are capable of reversal in one or more subsequent periods.

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.

Capital Reserve – Unrealised

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

Share Repurchases

The cost of share repurchases is charged directly to the Special Reserve.

NOTES TO THE ACCOUNTS

| | 2002 £000 | 2001 £000 |
|--|--------------|--------------|
| 1. Income | | |
| Interest on short-term deposits | 8 | 2 |
| Net income from dealing activities in subsidiary undertaking | — | 56 |
| | <u>8</u> | <u>58</u> |
| 2. Other Expenses | | |
| Revenue | | |
| General expenses | 105 | 67 |
| Directors' fees | 38 | 33 |
| Auditors' remuneration – audit services | 15 | 15 |
| | <u>158</u> | <u>115</u> |
| Capital | | |
| Policy advisory fees | 276 | 250 |
| | <u>434</u> | <u>365</u> |
| 3. Taxation | | |
| Revenue before taxation | (150) | (57) |
| Corporation tax at 30% | (45) | (17) |
| Excess management expenses | 45 | 17 |
| | <u>—</u> | <u>—</u> |

At 31 December 2002, the Company had unutilised management expenses of £4,255,914 (2001 – £4,105,523). No deferred tax asset has been recognised on the unutilised management expenses as it is unlikely that there would be suitable taxable profits from which the future reversal of the deferred tax asset could be deducted.

| | Company and Group | |
|---|-------------------|---------------|
| | 2002 £000 | 2001 £000 |
| 4. Fixed Assets – Investments | | |
| Valuation as at 1 January | 48,340 | 45,049 |
| Unrealised appreciation as at 1 January | 17,556 | 15,201 |
| Cost as at 1 January | 30,784 | 29,848 |
| Additions at cost (premiums) | 1,140 | 1,231 |
| Disposals at cost | (685) | (295) |
| Cost as at 31 December | 31,239 | 30,784 |
| Unrealised appreciation as at 31 December | 15,624 | 17,556 |
| Valuation as at 31 December | <u>46,863</u> | <u>48,340</u> |

The Company has one wholly owned subsidiary undertaking, LOOT Dealing Limited, which is registered in Scotland, whose main business is investment dealing.

NOTES TO THE ACCOUNTS

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2002 £000 | 2001 £000 | 2002 £000 | 2001 £000 |
| 5. Debtors | | | | |
| Taxation recoverable within one year | 1 | 5 | 1 | 5 |
| Due from investments realised | 71 | — | 71 | — |
| Other debtors | 38 | 34 | 38 | 34 |
| | <u>110</u> | <u>39</u> | <u>110</u> | <u>39</u> |
| 6. Creditors: amounts falling due within one year | | | | |
| Bank overdraft | 633 | 4,946 | 633 | 4,946 |
| Investment management fees | 102 | 95 | 102 | 95 |
| Amounts due to subsidiary undertaking | — | — | 32 | 50 |
| Other creditors | 240 | 253 | 240 | 253 |
| | <u>975</u> | <u>5,294</u> | <u>1,007</u> | <u>5,344</u> |
| 7. Creditors: amounts falling due after more than one year | | | | |
| Bank loan | 10,000 | 5,000 | 10,000 | 5,000 |

The bank loan matures in January 2005, is secured in the form of a floating charge and incurs an interest rate of 6.15 per cent per annum.

8. Commitments

Future premiums payable in respect of endowment policies held are as follows:

| | 2002 £000 |
|------------------------------|--------------|
| Due within one year | 1,334 |
| Due after more than one year | 4,183 |
| | <u>5,517</u> |

| | Group and Company | |
|--------------------------------------|-------------------------------------|--------|
| | Number of ordinary 75p shares | £,000 |
| 9. Share Capital | | |
| Authorised | | |
| As at 1 January and 31 December 2002 | 25,000,000 | 18,750 |
| Allotted, issued and fully paid | | |
| As at 1 January 2002 | 23,700,000 | 17,775 |
| Shares purchased for cancellation | (150,000) | (113) |
| As at 31 December 2002 | 23,550,000 | 17,662 |

The above movement in share capital is discussed in the Report of the Directors on page 11.

| | Special Reserve £000 | Capital Redemption Reserve £000 | Capital Reserve Realised £000 | Capital Reserve Unrealised £000 | Revenue Reserve £000 |
|--|----------------------------|--|--|--|----------------------------|
| 10. Reserves | | | | | |
| Company | | | | | |
| As at 1 January 2002 | 6,003 | 525 | (3,476) | 17,556 | (348) |
| Gain on sale of investments | — | — | 1,464 | — | — |
| Expenses charged to capital | — | — | (1,325) | — | — |
| Movement in unrealised investment appreciation | — | — | — | (1,932) | — |
| Transfer from revenue account | — | — | — | — | (132) |
| Shares purchased for cancellation | (144) | 113 | — | — | — |
| As at 31 December 2002 | 5,859 | 638 | (3,337) | 15,624 | (480) |
| Group | | | | | |
| As at 1 January 2002 | 6,003 | 525 | (3,476) | 17,556 | (298) |
| Gain on sale of investments | — | — | 1,464 | — | — |
| Expenses charged to capital | — | — | (1,325) | — | — |
| Movement in unrealised investment appreciation | — | — | — | (1,932) | — |
| Transfer from revenue account | — | — | — | — | (150) |
| Shares purchased for cancellation | (144) | 113 | — | — | — |
| As at 31 December 2002 | 5,859 | 638 | (3,337) | 15,624 | (448) |
| | | | | 2002 £000 | 2001 £000 |

| | | |
|--|---------|--------|
| 11. Reconciliation of Movement in Shareholders' Funds | | |
| Revenue attributable to shareholders | (150) | (57) |
| Other recognised gains and losses for the year | (1,793) | 1,537 |
| Shares purchased for cancellation | (144) | — |
| | (2,087) | 1,480 |
| Opening shareholders' funds | 38,085 | 36,605 |
| Closing shareholders' funds | 35,998 | 38,085 |

Shareholders' funds are wholly attributable to equity shareholders.

| | As at 1 January 2002 £000 | Cash Flows £000 | As at 31 December 2002 £000 |
|--|------------------------------------|-----------------------|--------------------------------------|
| 12. Analysis of Changes in Net Debt | | | |
| Cash at bank and on deposit | | | |
| Bank overdraft | (4,946) | 4,313 | (633) |
| Bank loan | (5,000) | (5,000) | (10,000) |
| | (9,946) | (687) | (10,633) |

NOTES TO THE ACCOUNTS

13. Returns per Share

Returns per share is based on a weighted average of 23,677,808 (2001 – 23,700,000) ordinary shares in issue during the year. Capital return per share is based on net capital losses during the year of £1,793,000 (2001 – gain of £1,537,000). Revenue return per share is based on the revenue loss after taxation for the year of £150,000 (2001 – £57,000).

The net asset values per share are based on the net assets of the Group (2002 – £35,998,000, 2001 – £38,085,000) divided by the number of shares in issue as shown in Note 9.

14. 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 the majority 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 2002 (2001 – 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 2002 (2001 – 4.0 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 2002 which comprise the Group Statement of Total Return, Group and Company Balance Sheets, Group Cash Flow Statement, Accounting Policies and the related notes 1 to 14. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This Report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been 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, unaudited part of Directors' Remuneration Report, 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 and the part of the Directors' Remuneration Report to be audited. 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.

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

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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

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 2002 and of the net deficit of the Group for the year then ended; and

the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP *Ernst & Young LLP*
Registered Auditor
Edinburgh

11 February 2003

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, 18 March 2003 at 12 noon for the following purposes:

Ordinary Resolutions

1. To receive the financial statements for the year to 31 December 2002 together with the Directors' and Auditors' Reports thereon.
2. To re-appoint Mr R M Paul, who retires by rotation, as a Director.
3. To re-appoint Mr J B Wilson, who retires by rotation, as a Director.
4. To re-appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration.
5. To approve the Directors' Remuneration Report.

Special Resolutions

6. 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 £1,087,500, such power to expire on 17 June 2004, 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 £1,087,500; 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.

7. 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 25 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

NOTICE OF ANNUAL GENERAL MEETING

- (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 17 June 2004 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

SVM Asset Management Limited

Secretaries

11 February 2003

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.