



**Life Offices Opportunities Trust plc**

Annual Report 31 December 2007

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*The investment objective of the Company has been long term capital growth from a diversified portfolio of with-profits life assurance policies which have the potential for achieving enhanced capital returns, particularly through corporate change in the life assurance industry.*

*The Company is now in realisation mode.*

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- Net asset value (“NAV”) increases by 13.4%
- Maturities average 4.4% higher than management expectations
- Company now almost 50% in cash and equivalents
- Liquidation vote to take place in the fourth quarter of 2008
- Accounts now prepared on a break-up basis

Financial Highlights	31 December 2007	31 December 2006	% Change
Total return:			
Net asset value	<b>162.27p</b>	143.15p	+13.4
Share price	<b>152.00p</b>	133.50p	+13.9
Discount			
	<b>6.6%</b>	6.7%	
Total expense ratio:			
Investment management fees	<b>0.75%</b>	0.75%	
Policy advisory fees	<b>0.36%</b>	0.36%	
Other operating expenses	<b>0.38%</b>	0.35%	

Historical record Year to 31 December	NAV per share (p)	Share price (p)	Total Return per share (p)
2002	154.86	98.00	(8.21)
2003	123.49	91.75	(29.37)
2004	117.73	98.50	(5.72)
2005	123.73	113.00	6.00
2006	143.15	133.50	19.41
2007	162.27	152.00	19.13

## Chairman's Statement



I am pleased to report that the net asset value per share increased by 13.4 per cent to 162.27 pence for the year to 31 December 2007. The investment objective of your Company has been to achieve long-term capital growth and no dividend is payable.

This performance is superior to life office with-profit fund returns for the year for the same reasons as intimated last year. Four years of favourable markets have allowed life offices to pass on the positive investment performance of the underlying life funds to policyholders by way of increased annual and terminal bonuses. In addition, the Company maintained an appropriately prudent valuation policy and there have been uplifts as policies mature.

### **Going concern**

As set out in the Articles of Association, an Extraordinary General Meeting will be convened in the fourth quarter of 2008 in order to approve the voluntary winding-up of the Company. The Directors believe that this approval will be given and accordingly the financial statements for the year ended 31 December 2007 have been prepared on a break-up basis. Further details are given in the accounting policies on page 23.

Over recent years, the Company has published projected terminal maturity values on a quarterly basis. The median projected terminal asset value based on 31 December 2007 numbers is slightly in excess of 169 pence per share. Assuming the Company is wound up at the end of December this year and using the share price of 152 pence, this would equate to a yield to maturity in excess of 11 per cent.

### **Review of 2007**

There are 818 policies still to mature in 2008, spread evenly through the first seven months of the year. There were 777 maturities in 2007 yielding approximately £27.9 million, including all eight of the

large Century Life policies. The average proceeds for all maturities in the year were approximately 4.4 per cent higher than forecasted this time last year. Initially, maturity proceeds were used to repay the Company's overdraft. Thereafter, following full repayment in August 2007, surplus liquidity was split between short dated UK Government Securities ("gilts") and Sterling deposits. As at the end of December 2007, the Company has approximately 45 per cent of assets in cash and cash equivalents. In order to retain investment trust status, the Company retains more gilts than deposits and the average yield on liquidity is slightly in excess of 5.3 per cent. This rate is higher than the 4 per cent used in the recent quarterly projected terminal maturity value announcements.

Life office bonus announcements made in the first quarter of 2007 proved favourable with bonus rates mostly being raised. Generally, terminal bonus rises were favoured ahead of rises in reversionary terminal bonuses. The major with-profit life office funds produced returns of around 9 per cent in calendar 2006, after taxation and some reserving held back for smoothing. Over the summer, a couple of life offices, principally Standard Life, increased their payouts for policies maturing after August 2007.

Undoubtedly, 2007 was a more challenging year for life offices with returns forecast to be in low single digits. The average cautious managed fund has yielded around 2½ per cent net of charges and the median balanced managed fund around 4½ per cent. With property unlikely to have contributed much in the way of return, with-profit funds have probably only returned 3½ – 4 per cent gross and around 2¾ per cent or so net.

Therefore, it is not surprising to see that recent maturities are not only very close to the Managers' estimations but also at levels only slightly higher than end December 2007 valuations. As previously intimated, the valuation methodology has tended to under-promise and over-deliver.

### Standard Life

The Company was allocated Standard Life ordinary shares in July 2006, these being retained in order to take advantage of the bonus allocation on the first anniversary of flotation. The opportunity was taken subsequently to realise the entire holding at an average price of 320 pence. This contributed approximately 0.75 pence per share to the asset value during the year. At the time of sale, it had been one of the best performing stocks in the FTSE 100 Share Index.

### Winding up

The remaining policies should have matured by the end of the third quarter of 2008. It is the Board's intention to convene a formal shareholder meeting in the fourth quarter, as stipulated in the Company's Articles of Association, to approve the winding up of the Company. A further update will be circulated to shareholders in the interim report in August.

### Conclusion

With approximately half the assets now matured and in cash and cash equivalents and the remaining policies scheduled for maturity this year, we believe the risks to the Company have been markedly reduced. Barring unforeseen circumstances, the Managers believe that the Company should deliver its projected terminal asset value.

### John C H Brumwell

Chairman

7 March 2008

## Managers' Review

### Fund Managers



**Colin McLean**  
Fund Manager & Managing  
Director of SVM Asset Management

Colin has over 30 years' investment experience and is widely regarded as one of the UK's top stockpicking analysts. Prior to establishing SVM

Asset Management in 1990, he held senior positions with three major financial institutions. He was Head of Investment of two UK life assurers, FS Assurance and Scottish Provident, before being Managing Director of Templeton International's European operations.



**Donald Robertson**  
Fund Manager & Finance Director  
of SVM Asset Management

Donald is a qualified accountant with in excess of 25 years' investment and financial experience. Prior to co-founding

SVM, he worked at Ivory & Sime, one of UK's largest independent fund management companies. In addition to the management of the Company, he manages a number of SVM's specialist funds and fund of funds products.

### Review of the year

The net asset value continued to make steady progress in the year under review rising 13.4% over the year. However, shareholders are understandably much more interested in the performance of the share price. The share price increased by 13.9% in the year with the discount narrowing marginally to 6.3% as at the end of 2007. This discount narrowing should be viewed in comparison to investment trusts in general where average discounts widened from 7% to in excess of 12%.

There were 777 maturities in 2007 yielding approximately £27.9 million, including all eight of the large Century Life policies. The average proceeds for all maturities in the year were approximately 4.4% higher than December 2006 forecasts. As intimated last year, the maturity proceeds were used initially to repay the Company's overdraft which was completed in mid August 2007. Thereafter, proceeds from subsequent maturities were split between short dated gilts and Sterling deposits. As at the end of December 2007, the Company had approximately 45% of assets in gilts and deposits. There are 818 policies still to mature in 2008, spread evenly through the first seven months of the year.

### With-Profit Fund Performance

With more than half the Company's original policies having matured, there is now a reduced exposure to bonus rate movements which could affect remaining payouts. Nevertheless, a disappointing bonus declaration season this year could have had a material impact on the Company's terminal asset value. Therefore, it is with a particularly keen eye that we watched the 2008 declarations.

Bonus rates are set each year by the management teams of insurers, having regard to underlying investment performance but with a degree of discretion. This latter element means it is not always possible to estimate bonus rate movements from

underlying markets alone, but they are a good starting point.

Unfortunately, investment performance has been largely uninspiring across all asset classes.

- Gilt funds turned in small positive performances with rising yields creating capital losses that have reduced but not fully cancelled out interest receipts.
- The picture for corporate bonds which should be higher yielding than gilts has actually been worse as the effects of credit rating mark downs have widened the yield gap with gilts and further depressed returns.
- UK equities started the year with the FTSE-100 at around 6200 and ended it only a little higher.
- Overseas equity markets have been variable but recent Sterling weakness may improve any gains if with-profit funds do not carry any currency hedges.
- Commercial property had also had a tough year. Much like gilts, running income has been offset by capital depreciation.

### Bonus Declarations

Therefore, with a year of below par investment performance, it could have been expected that bonus rates would be reduced across the board, but in fact the picture so far has been a little better than expected. This is perhaps an illustration of the smoothing process unique to with-profits investments working in investors favour in dull markets. Although some bonus rates have fallen, principally Clerical Medical and Norwich Union, many have been increased including Standard Life and Friends Provident. Although there are a couple still to announce (Prudential and Scottish Amicable), we estimate that overall the recent declarations will be broadly neutral or even produce a small uplift in the asset value.

Since the stock market falls of 2000-3 and the introduction of the new capital adequacy testing regime for insurers introduced by the FSA in 2004, there has been a tendency for life offices to review bonus rates more frequently than their customary once per year. It is therefore possible that there may be a few further adjustments to bonus rates, although, as policies are maturing continuously, the exposure to changes is declining all the time. Indeed, by the end of March 2008, exposure will have been reduced to less than 30% of total assets.

### Standard Life shares

As shareholders will recall, Standard Life completed its demutualisation with a stock-market flotation in July 2006. The Company was allotted ordinary shares which were retained in order to benefit from the 5% share bonus entitlement distributed on the first anniversary of the flotation. Subsequently, the entire holding was realised at an average price of 320 pence per share yielding approximately £1.5 million.

### Conclusion

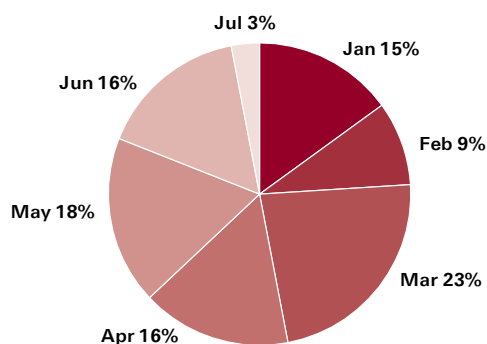
The Company is currently well into its disinvestment phase, with approximately half the assets now matured and in cash and cash equivalents. With the remaining policies scheduled to mature in the first half of the year, barring unforeseen circumstances, we are confident that the terminal asset value should be not less than 169 pence per share.

## Investment Portfolio *as at 31 December 2007*

Company	Number of Policies	Cost £000	2007 Valuation £000	% of Net Assets	2006 Valuation £000
1 Standard Life	255	4,361	6,197	16.2	9,821
2 Aviva (Norwich Union)	121	2,174	3,209	8.4	5,848
3 Scottish Provident	90	1,744	2,361	6.2	4,247
4 Prudential (Scottish Amicable)	79	1,119	2,324	6.1	4,039
5 Prudential	66	1,042	1,900	5.0	3,001
6 Legal & General	50	833	1,414	3.7	2,577
7 Scottish Life Assurance	46	843	1,204	3.1	2,292
8 Friends Provident	27	431	541	1.4	729
9 Pearl Assurance	19	311	422	1.1	590
10 Clerical Medical	11	172	272	0.7	1,125
<b>Ten largest exposures</b>	<b>764</b>	<b>13,030</b>	<b>19,844</b>	<b>51.9</b>	
11 Sun Life of Canada	10	171	247	0.6	467
12 AXA (Equity & Law)	8	127	183	0.5	403
13 Royal London Mutual	5	103	162	0.4	256
14 AXA (Sun Life)	6	109	150	0.4	268
15 Windsor Life (Gresham)	5	78	147	0.4	227
16 MGM	3	67	113	0.3	101
17 Royal & Sun Alliance (Royal)	5	67	98	0.3	217
18 Scottish Widows	3	51	75	0.2	106
19 Friends Provident (UKPI)	3	41	58	0.2	100
20 Aegon (Scottish Equitable)	2	22	52	0.1	46
<b>Twenty largest exposures</b>	<b>814</b>	<b>13,866</b>	<b>21,129</b>	<b>55.3</b>	
Other exposures	4	75	104	0.3	
<b>Total exposures</b>	<b>818</b>	<b>13,941</b>	<b>21,233</b>	<b>55.6</b>	
UK Treasury 5% 2008	8,000,000	8,000	7,996	20.9	
<b>Total investments</b>		<b>21,941</b>	<b>29,229</b>	<b>76.5</b>	
<b>Other net assets</b>			<b>8,986</b>	<b>23.5</b>	
			<b>38,215</b>	<b>100.0</b>	

### Maturity Profile (2008)

(percentage of remaining policies)



### John Brumwell (Chairman) (aged 73)



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 Statistics Committee of the Association of Investment Companies. He was appointed in 1996 and is due for re-election this year.

### Raymond Paul (Senior non-executive Director) (aged 66)



Raymond Paul is a Fellow of the Faculty of Actuaries. He has spent over 40 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. He was appointed in 1996 and is due for re-election this year.

### John Motion (aged 72)



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 SVM Cautious Managed Fund. He was appointed in 1996 and is due for re-election this year.

### John Wilson (aged 65)



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 SVM Cautious Managed Fund. He was appointed in 1996 and is due for re-election this year.

## Shareholder Information

### Contact Information

If you have any questions or need more information on the Company, you can contact us in the following ways:

SVM Asset Management  
7 Castle Street  
Edinburgh EH2 3AH  
Tel: 0131 226 7660  
Web: [www.svmonline.co.uk](http://www.svmonline.co.uk)

Regularly updated information including the Company share price, net asset value and quarterly factsheets are available on a dedicated page on the SVM website at [www.svmonline.co.uk](http://www.svmonline.co.uk)

If you already hold shares through SVM Investment Trust Savings Scheme SVM Asset Management Limited Block C, Western House, Peterborough Business Park, Lynchwood, Peterborough PE2 6BP  
Tel: 0845 358 1108

If you own shares in your own name, the Registrar's website at [www.computershare.co.uk](http://www.computershare.co.uk) allows you to check your holding, display its current value and amend your details. Alternatively, you may contact the Registrar on: 0870 707 1120.

### Registrar

Computershare Investor Services plc  
Lochside House, 7 Lochside Avenue,  
Edinburgh Park,  
Edinburgh EH12 9DI

### Registered Number

162841

### Stockbrokers

HSBC Securities

### Policy Advisors

W L Consulting Limited

### Investing in Life Offices Opportunities Trust

There are a variety of ways to invest in the Company. Shares can be easily traded on the stock market. However, regular savings can also be made through the SVM Investment Trust Savings Scheme. The minimum lump sum investment is £200 and monthly savings from £50. Investments can also be made as gifts for children or other adults.

For more information or brochures call 0131 226 7660. Alternatively, application packs can be downloaded from [www.svmonline.co.uk](http://www.svmonline.co.uk)

### Duration of the Company

Under the Articles of Association, an Extraordinary General Meeting will be convened in 2008 to approve the voluntary winding up of the Company.

### Investment Managers and Secretaries

Registered Office  
SVM Asset Management Limited  
7 Castle Street  
Edinburgh EH2 3AH

### Auditors

Ernst & Young LLP  
Ten George Street  
Edinburgh EH2 2DZ

### Bankers

The Royal Bank of Scotland plc  
Bank of New York Mellon

The Directors submit their Report and Accounts for the year to 31 December 2007.

### Basis of Preparation of Accounts

With less than one year until the continuation vote, the Board, in conjunction with the Auditors, has decided to present the accounts on a break-up rather than going concern basis. Consequently all assets and liabilities have been valued at their realisable value. Further details are disclosed in the Accounting Policies on page 23.

### Principal activity and status

The Company is an Investment Company as defined in Section 266 of the Companies Act 1985. The Company is not a close company for taxation purposes. The Company has been approved by HM Revenue and Customs as an investment trust under Section 842 of The Income and Corporation Taxes Act 1988 for the year to 31 December 2006. 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.

The Company is due to wind up voluntarily in 2008. Further details are disclosed in the Accounting Policies.

### Investment policy

The Company is an investment trust quoted on the London Stock Exchange and is required to comply with the Companies Act, the UK Listing Rules and applicable accounting standards. In addition to the formal annual and interim accounts, the Company publishes six monthly interim management statements, quarterly asset values and factsheets.

The Company's investment policy has been to invest in a diversified portfolio of with-profits life assurance policies with particular emphasis on those life offices that could benefit from life assurance industry restructuring. The principal objective of the Company was to achieve long term capital growth.

Although the objective is for long term growth, the Managers believe that outperformance in the short term is also important for the control of the Company's discount. The performance and the level of the discount, as detailed on page 1, are the two primary key performance indicators for the Company and the Board assesses these on a quarterly basis. The factsheets and the website carry further information on these indicators.

The Company's investments are in traded endowment policies which, although having set maturity dates, can suffer from limited liquidity and may be seen as carrying higher degree of risk. We believe that these risks are mitigated through the Company's closed end structure, portfolio diversification, in depth analysis, the experience of the Managers and a rigorous internal control culture. Further information on the internal controls operated for the Company is detailed in the Report of the Directors on page 13.

### Business review

The reviews of the business during the year are set out on pages 2 to 5.

### Results

The total return for the year of £4,504,000 (2006 – £4,572,000) has been transferred to reserves. 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 2007	1 January 2007
	Shares	Shares
J C H Brumwell	25,000	25,000
J S H H Motion	20,000	20,000
R M Paul	30,000	30,000
J B Wilson	12,500	12,500

There have been no changes in the Directors' interests between 31 December 2007 and 4 March 2008.

No Director has a service contract with the Company.

## Report of the Directors

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

Mr J C H Brumwell and Mr J S H H Motion, having attained the age of 70, retire and offer themselves for re-election at the Annual General Meeting.

The Board considers that, notwithstanding having served on the Board for more than nine years, all Directors are independent but are required to be re-elected annually. The Board is of the view that length of service does not necessarily compromise the independence of directors of an investment trust, where continuity and experience can add significantly to the strength of the Board. The Board recommends all the Directors' re-elections to shareholders.

### Disclosure of information to auditors

Each Director of the Company confirms that:

- so far as each Director is aware, there is no information needed by the Auditors in connection with preparing their audit of which the Auditors are unaware; and
- the Director has taken all the steps that he ought to have taken to make himself aware of any such information and to establish that the Auditors are aware of that information.

### Substantial shareholdings

As at 4 March 2008, the following interests in excess of 3% of the issued Ordinary Shares of the Company had been reported:

Name	Number of Shares	Percentage of Issued Shares
CG Asset Management Limited Rensberg Shepherds Investment Management	3,673,500	16.1%
SVM Cautious Managed Fund	1,412,117	6.0%
limia Investment Trust	1,500,000	6.4%
	1,385,000	5.9%

### Management

SVM Asset Management Limited provides investment management and secretarial services to the Company.

These services can be terminated by either party, without compensation, at any time by giving one year's notice or an immediate payment of a year's fee in lieu of notice. SVM Asset Management Limited receives a fee for these services, payable quarterly in arrears, equivalent to 0.75% per annum of the total assets of the Company less current liabilities.

The Management and Nomination Committee assesses the Managers' performance on an ongoing basis and each year meets to conduct a formal evaluation of the Managers. It assesses the resources made available by the Managers, the results and investment performance in relation to objectives and also the additional services provided by the Managers to the Company.

The Management and Nomination Committee has reviewed the appropriateness of the Manager's contract. In carrying out its review, the Committee considered the past investment performance and the Manager's capability and resources to deliver optimal future performance. It also considered the length of the notice period of the investment management contract and the fees payable, together with the standard of other services provided which include secretarial, accounting and marketing.

Following this review, it is the Directors' opinion that the continuing appointment of the Managers on the terms agreed is in the best interests of the shareholders as a whole.

### Creditors Payment Policy

The Company's policy is to agree and make suppliers aware of payment terms prior to the transacting of business. The Company has and will continue to operate this policy. The Company did not have any trade creditors at the year end.

### Financial Instruments

The Company's financial instruments comprise the investment portfolio, cash at bank and on deposit and debtors and creditors that arise directly from operations. The main risks that the Company faces

from its financial instruments are disclosed in Note 11 to the financial statements.

### **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 Buy Back Shares**

The current authority of the Company to make market purchases of up to 15% of the issued ordinary shares expires at the end of the Annual General Meeting and Special Resolution 8 as set out in the Notice of the Annual General Meeting, seeks renewal of such authority until 31 December 2008. The price paid for shares will not be less than 75 pence per share nor more than 5% 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 responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial 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. 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.

### **Corporate Governance**

The Board of Directors has in place throughout the year the procedures necessary to ensure compliance with the 2006 Financial Reporting Council Combined Code of Best Practice ("the Combined Code") except as noted below. In addition, the Company, as a member of the Association of Investment Companies ("AIC") has complied throughout the year with the provisions of the AIC Code of Corporate Governance. Therefore, those issues on which the Company does not report in detail are excluded because the Board deems them to be irrelevant to the Company as explained in the AIC Code.

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 (Code A.2.1). Mr R M Paul has acted as the Senior non-executive Director throughout the year. As detailed on page 7, the Board comprises the four independent non-executive Directors. Although Messrs J S H H Motion and J B Wilson are non-executive Directors of SVM Cautious Managed Fund Limited, we believe them to be 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 Combined Code (Code A.7.2), 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 Company is not required to comply with the principles of the Combined Code in respect of executive Directors' remuneration. Directors may seek independent advice at the expense of the Company.

## Report of the Directors

The Directors conduct an annual self-assessment of their collective and individual performances on a range of issues in order to ensure that they are acting in the best interest of the Company and its shareholders. Each Director continues to be effective and committed to the Company.

During the year, there were five Board and four Committee meetings (two Audit and two Management & Nomination). All Directors attended all the meetings.

The Managers maintain regular contact with the Company'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 Board has defined the scope of the Managers' Responsibilities, including the principal operating issues such as hedging, gearing and share buy backs. Details of the limits set on the key areas of risk are set out in the Financial Instruments disclosures in Note 10 to the Financial Statements.

The Managers have adopted the statement of principles set out by the Institutional Shareholders' Committee on The Responsibilities of Institutional Shareholders and Agents.

The Board recognises that corporate, social, environmental and ethical responsibility enables good sustainable business growth and can have positive implications for shareholder value. The Board believes that encouraging companies to recognise these responsibilities is best achieved with a dialogue and actively aiming to encourage best practice.

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 given the investment remit it operates.

### Committees

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 Chairman of both Committees is Mr R M Paul. The terms of reference of both committees are available from the Managers upon request.

#### Management and Nomination Committee

The Management and Nomination Committee, which comprises all of the Directors and for which a quorum is any two of the Directors, meets at least once a year. Its remit includes such matters as reviewing all contracts for services delivered to the Company, reviewing and recommending new appointments to the Board and fixing the remuneration of the Directors.

#### Audit Committee

The Audit Committee, which comprises all of the Directors and for which a quorum is any two of the Directors, meets at least twice a year. Its remit includes the review of the Company's financial position, internal controls, scope and results of the audit and its cost effectiveness and the independence and objectivity of the Auditors. 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 that meeting and report on the results of the audit. The Auditors do not provide any non-audit services other than tax services for which they were paid £1,000 during the year. Notwithstanding these, the Committee has concluded that the Auditors are independent.

The Committee considers annually the need for an internal audit function. It believes such a function is unnecessary as the Company has no employees and subcontracts its business to third parties the principal one of which is SVM Asset Management Limited.

#### Internal Control and Financial Reporting

The Board, in conjunction with the Managers, has in place a process for identifying, evaluating and

managing the significant risks faced by the Company. This process, which accords with the Turnbull guidance, has been in place for the whole year and up to the date of the approval of the financial statements. The Board is responsible for establishing and maintaining the Company's system of internal control and reviewing its effectiveness. 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 Company'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 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 Company and to consider the matters specifically reserved for it to decide upon. At these meetings, the Directors review investment performance of the Company in relation to comparable investment trusts. The Directors also review 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 to enable it to discharge its duties.

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 internal systems of financial control which affect the Company.

### **VAT on Management Fees**

In relation to the action raised against HM Revenue and Customs regarding the charging of VAT on management fees, the Board has agreed with the Managers that the Company will only recover VAT to the extent it has previously been paid over to them. Further details are disclosed in Note 11 on page 28.

### **Compliance Statement**

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

7 March 2008

## Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. 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 16 and 17.

### Remuneration Committee

The Company has four non-executive Directors, as detailed on page 7, all of whom are regarded as independent. The Management and Nomination Committee, comprising all of the Directors, fulfils the function of a Remuneration Committee in addition to its nominations functions. The Board has appointed SVM Asset Management Limited as the Company Secretaries 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. In addition SVM Asset Management Limited provides investment management and administration services to the Company.

### 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. It is the intention that this policy will continue until liquidation in 2008. The fees have remained at current levels since 2006.

The fees for the Directors are determined within the limits set out in the Company's Articles of Association and shareholder approval in a general meeting would be required to change these limits. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

### Directors' service contracts

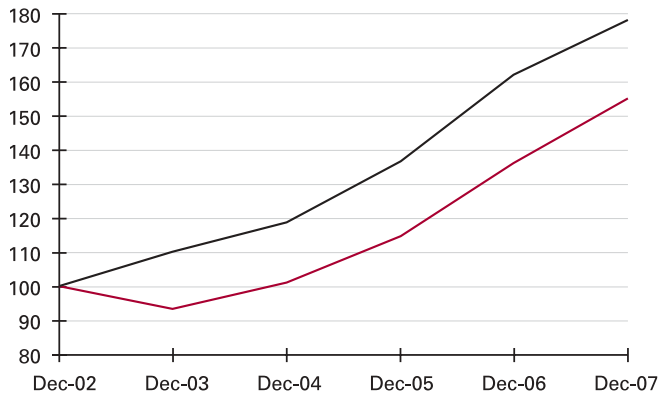
It is the Board's policy that none of the Directors has a service contract. All Directors were originally appointed at the Company's inception and the due date for re-election is detailed on page 7. The terms of their appointment provide that a Director shall retire and be subject to re-election at the 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 thereafter. In addition, in compliance with Article 97 of the Articles of Association of the Company, on reaching the age of 70, all such Directors will submit themselves for annual re-election. There is no notice period and no provision for compensation on early termination of appointment.

The Board's policy of tenure is to review actively whether Directors with service of nine years or more should be re-nominated, whilst ensuring that the process of refreshing the Board does not compromise a balance of experience, age, length of service and skills. The Management and Nominations Committee recommends to the Board candidates for nomination as Directors. The Committee seeks candidates with the aim of ensuring that the Board comprises a broad spread of experience and knowledge and, where appropriate, actively searches for candidates.

## Directors' Remuneration Report

### Company performance

The graph below compares the total return (assuming any dividends are reinvested) to Ordinary Shareholders for the last five financial years to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. The Index has been chosen as it represents a comparable broad equity market index.



— LOOT  
— FTSE All-Share Index

### Directors' emoluments for the year (audited)

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

	Fees 2007 £	Fees 2006 £
J C H Brumwell (Chairman)	<b>14,250</b>	14,250
J S H Motion	<b>9,500</b>	9,500
R M Paul	<b>9,500</b>	9,500
J B Wilson	<b>9,500</b>	9,500
	<b>42,750</b>	42,750

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

7 March 2008

## Independent Auditors' Report *to the Members of Life Offices Opportunities Trust plc*

We have audited the financial statements of Life Offices Opportunities Trust plc for the year ended 31 December 2007 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Reconciliation of Movements in Shareholders Funds, Accounting Policies and the related notes 1 to 11. These financial statements have been prepared under the accounting policies set out therein on a break-up basis. 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 auditors' 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 (United Kingdom Generally Accepted Accounting Practice) 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 and International Standards on Auditing (UK and Ireland).

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 and whether the information given in the Report of the Directors is consistent with the financial statements.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 Company'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 Highlights, Chairman's Statement, Managers' Review, Investment Portfolio, Board of Directors, Shareholder Information, Report of the Directors, unaudited part of Directors' Remuneration Report 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.

## Independent Auditors' Report *to the Members of Life Offices Opportunities Trust plc*

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 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 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, in accordance with United Kingdom General Acceptance Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its net return for the year then ended;
- 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; and
- the information given in the Report of the Directors is consistent with the financial statements.

### **Ernst & Young LLP**

Registered Auditor  
Edinburgh

7 March 2008

## Income Statement *for the year to 31 December 2007*

	<i>Notes</i>	<b>Revenue £000</b>	<b>Capital £000</b>	<b>Total £000</b>
Net gain on investments at fair value through profit or loss	4	–	5,463	5,463
Income	1	153	–	153
Investment management fees		–	(324)	(324)
Other expenses	2	(257)	(155)	(412)
<b>Return before interest and taxation</b>		<b>(104)</b>	<b>4,984</b>	<b>4,880</b>
Finance costs – Bank overdraft interest		–	(376)	(376)
<b>Return on ordinary activities before tax</b>		<b>(104)</b>	<b>4,608</b>	<b>4,504</b>
Taxation	3	–	–	–
<b>Transfer to/(from) reserves</b>		<b>(104)</b>	<b>4,608</b>	<b>4,504</b>
<b>Return per Ordinary Share</b>	9	<b>(0.44p)</b>	<b>19.57p</b>	<b>19.13p</b>

The Total column of this statement is the profit and loss account of the Company. All revenue and capital items are derived from continuing operations. No operations were acquired or discontinued in the year. A statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

## Income Statement *for the year to 31 December 2006*

	<i>Notes</i>	Revenue £000	Capital £000	Total £000
Net gain on investments at fair value through profit or loss	4	–	5,964	5,964
Income	1	2	–	2
Investment management fees		–	(371)	(371)
Other expenses	2	(111)	(189)	(300)
<b>Return before interest and taxation</b>		(109)	5,404	5,295
Finance costs – Bank overdraft interest		–	(723)	(723)
<b>Return on ordinary activities before tax</b>		(109)	4,681	4,572
Taxation	3	–	–	–
<b>Transfer to/(from) reserves</b>		(109)	4,681	4,572
<b>Return per Ordinary Share</b>	9	(0.47p)	19.88p	19.41p

The Total column of this statement is the profit and loss account of the Company. All revenue and capital items are derived from continuing operations. No operations were acquired or discontinued in the year. A statement of Total Recognised Gains and Losses is not required as all gains and losses of the Company have been reflected in the above statement.

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

## Balance Sheet *as at 31 December 2007*

	<i>Notes</i>	<b>2007 £000</b>	2006 £000
<b>Fixed Assets</b>			
Investments at fair value through profit or loss	4	–	44,695
<b>Current Assets</b>			
Investments at fair value through profit or loss	4	<b>29,229</b>	–
Bank		<b>4,912</b>	16
Debtors	5	<b>4,356</b>	165
<b>Creditors: amounts falling due within one year</b>	6	<b>38,497 (282)</b>	181 (11,165)
<b>Net current assets/(liabilities)</b>		<b>38,215</b>	(10,984)
<b>Total assets less current liabilities</b>		<b>38,215</b>	33,711
<b>Capital and Reserves</b>			
Share capital	7	<b>17,662</b>	17,662
Special reserve		<b>5,859</b>	5,859
Capital redemption reserve		<b>638</b>	638
Capital reserve – realised		<b>7,799</b>	(5,572)
Capital reserve – unrealised		<b>7,288</b>	16,051
Revenue reserve		<b>(1,031)</b>	(927)
<b>Total shareholders' funds</b>		<b>38,215</b>	33,711
<b>Net asset value per ordinary share</b>	8	<b>162.27p</b>	143.15p

Approved by the Board of Directors and authorised for issue on 7 March 2008  
and signed on its behalf by John Brumwell, Chairman

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

## Cash Flow Statement *for the year to 31 December 2007*

	<i>Notes</i>	2007 £000	2006 £000
<b>Reconciliation of return before interest and taxation to net operating cash flows</b>			
Return before interest and taxation		4,880	5,295
Gains on investments		(5,463)	(5,964)
Movement in debtors		(126)	–
Movement in creditors		(28)	(35)
<b>Net cash outflow from operating activities</b>		<b>(737)</b>	<b>(704)</b>
<b>Taxation</b>			
Taxation received		(2)	1
<b>Returns on investment and servicing of finance</b>			
Interest paid		(376)	(723)
<b>Capital expenditure and financial investment</b>			
Purchases of fixed asset investments		(13,996)	(1,177)
Sales of fixed asset investments		30,862	5,153
		<b>16,866</b>	<b>3,976</b>
<b>Increase in cash</b>		<b>15,751</b>	<b>2,550</b>
<b>Reconciliation of Net Cash Flow to Movement in Net Funds/(Debt)</b>			
Increase in cash	8	15,751	2,550
Net debt as a 1 January		(10,839)	(13,389)
<b>Net funds/(debt) as at 31 December</b>		<b>4,912</b>	<b>(10,839)</b>

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

## Reconciliation of Movements in Shareholders Funds *as at 31 December 2007*

### For the year to 31 December 2007

	Share capital £000	Special reserve £000	Capital redemption reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000
As at 1 January 2007	17,662	5,859	638	(5,572)	16,051	(927)
Realised gain on sale of investments	–	–	–	14,226	–	–
Expenses charged to capital	–	–	–	(855)	–	–
Movement in unrealised appreciation on investments	–	–	–	–	(8,763)	–
Return on ordinary activities after taxation	–	–	–	–	–	(104)
As at 31 December 2007	17,662	5,859	638	7,799	7,288	(1,031)

### For the year to 31 December 2006

	Share capital £000	Special reserve £000	Capital redemption reserve £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000
As at 1 January 2006	17,662	5,859	638	(5,905)	11,703	(818)
Realised gain on sale of investments	–	–	–	1,616	–	–
Expenses charged to capital	–	–	–	(1,283)	–	–
Movement in unrealised appreciation on investments	–	–	–	–	4,348	–
Return on ordinary activities after taxation	–	–	–	–	–	(109)
As at 31 December 2006	17,662	5,859	638	(5,572)	16,051	(927)

The Accounting Policies and the Notes on pages 23 to 28 form part of these Financial Statements

### **Basis of Preparation**

The financial statements are prepared in accordance with UK Generally Accepted Accounting Practice ("GAAP") and with the 2005 Statement of Recommended Practice "Financial Statements of Investment Trust Companies" ("SORP").

### **Going Concern**

The Company's accounts have been prepared on a break-up basis and all assets and liabilities are stated at their recoverable value. This is due to the fact that the Company is due to wind up voluntarily in 2008. As a consequence, all assets and liabilities have been re-classified as current. In addition, a provision of £120,000 for liquidation expenses has been made.

### **Income**

Income is included in the Income Statement on an ex-dividend 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, Policy Advisory Fees and Finance Costs**

The investment management, policy advisory fees (fees paid to the Policy Advisor for the administration and valuation of the endowment policies), and finance costs 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 8.

### **Investments**

The Company's investments have been categorised as "Fair value through profit or loss".

Purchases and sales of fixed asset investments are accounted for on a trade date basis and are measured initially at fair value. After initial measurement, investments are subsequently valued at fair value. Fair value is the amount at which an asset can be realised in an arm's length transaction.

Listed investments are valued at bid prices.

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. Transaction costs on purchases and sales of fixed asset investments are also 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.

## Notes to the Financial Statements

	2007 £000	2006 £000
<b>1. Income</b>		
Income from shares and securities		
UK investment income	34	1
UK unfranked income	74	–
Interest on short term deposits	45	1
	153	2
<b>2. Other Expenses</b>		
<b>Revenue</b>		
Liquidation expenses	120	–
General expenses	72	48
Directors' fees	43	43
Auditors' remuneration – audit services	20	18
Auditors' remuneration – non audit services	2	2
	257	111
<b>Capital</b>		
Policy advisory fees	155	189
	412	300
<b>3. Taxation</b>		
Current taxation	–	–
Deferred taxation	–	–
	–	–
Total taxation charge for the year	–	–
The tax assessed for the year is different from the standard rate of corporation tax in the UK. The differences are noted below:		
Revenue on ordinary activities before taxation	(4)	(109)
UK corporation tax (30%)	(1)	(33)
Non-taxable UK dividends	(10)	–
Current year excess expenses	11	33
	–	–
Current taxation charge for the year	–	–

At 31 December 2007, the Company had unutilised management expenses of £12,105,000 (2006 – £11,232,000). No deferred tax asset has been recognised on the unutilised management expenses as it is unlikely that there will be suitable taxable profits from which the future reversal of the deferred tax asset could be deducted.

## Notes to the Financial Statements

	2007 £000	2006 £000
<b>4. Investments at fair value through profit or loss</b>		
Endowment policies	21,233	43,380
Listed investments	7,996	1,315
	<u>29,229</u>	<u>44,695</u>
Valuation as at 1 January	44,695	42,675
Unrealised appreciation as at 1 January	(16,051)	(11,703)
	<u>28,644</u>	<u>30,972</u>
Cost as at 1 January	28,644	30,972
Additions at cost	13,996	1,177
Sale proceeds	(34,925)	(5,121)
Net gain on sale of investments	14,226	1,616
	<u>21,941</u>	<u>28,644</u>
Cost as at 31 December	21,941	28,644
Unrealised appreciation as at 31 December	7,288	16,051
	<u>29,229</u>	<u>44,695</u>
<b>Valuation as at 31 December</b>	<b>29,229</b>	<b>44,695</b>
	<u>14,226</u>	<u>1,616</u>
Total gains on sale of investments	14,226	1,616
Movement in unrealised appreciation	(8,763)	4,348
	<u>5,463</u>	<u>5,964</u>
<b>Total gains on investments at fair value through profit or loss</b>	<b>5,463</b>	<b>5,964</b>
There were no transaction costs incurred either during this year or in the previous year.		
<b>5. Debtors</b>		
Amounts due from life offices	4,206	143
Taxation recoverable within one year	2	–
Other debtors	148	22
	<u>4,356</u>	<u>165</u>
<b>6. Creditors: amounts falling due within one year</b>		
Bank overdraft	–	10,855
Investment management fees	85	97
Other creditors	197	213
	<u>282</u>	<u>11,165</u>
<b>7. Share Capital</b>		
Authorised		
25,000,000 ordinary 75p shares (2006 – same)	18,750	18,750
	<u>17,662</u>	<u>17,662</u>
Allotted, issued and fully paid		
23,550,000 ordinary 75p shares (2006 – same)	17,662	17,662

## Notes to the Financial Statements

	As at 1 January 2007 £000	Cash Flows £000	As at 31 December 2007 £000
<b>8. Analysis of Changes in Net Debt</b>			
Bank overdraft	(10,855)	10,855	–
Bank loan	–	–	–
Bank account	16	4,896	<b>4,912</b>
	<u>(10,839)</u>	<u>15,751</u>	<u><b>4,912</b></u>

### 9. Returns per share

Return per share is based on a weighted average of 23,550,000 (2006 – 23,550,000) ordinary shares in issue during the year.

Capital return per share is based on net capital gain during the year of £4,608,000 (2006 – 4,681,000).

Revenue return per share is based on the revenue loss after taxation for the year of £104,000 (2006 – £109,000).

The net asset values per share are based on the net assets of the Company 31 December 2007 – £38,215,000 (2006 – £33,711,000) divided by the number of shares in issue as shown in Note 7.

### 10. Financial Instruments

#### *Financial Instruments*

The Company's investment policy is to hold investments in the form of with-profit life assurance policies (note 4) and cash balances with gearing, where appropriate, being provided by a bank overdraft. All financial instruments are denominated in Sterling. Until the repayment of the bank overdraft in August 2007, gearing was 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 holds held short dated UK Government Securities. As at 31 December 2007, the Company held £8,000,000 in short dated UK Government Securities.

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 5.5% as at 31 December 2007 (2006 – 5.0%). Short term debtors and creditors are excluded from this disclosure.

The fair value is not materially different from the carrying value of all financial assets and liabilities.

#### *Risk Management*

The major risks inherent within the Company are market risk, liquidity risk, interest rate risk and credit 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. The Company does not use currency hedging or derivatives within its portfolio and does not have any non-Sterling exposure.

Market risk exists where bonuses change materially during the life of the investments and the terminal value is less than originally anticipated. This risk has been mitigated by owning a diversified portfolio of policies that mature at different times and cash and equivalents held have very short maturities.

In addition the Managers monitor life office surrender values for individual policies on a regular basis to ensure that the valuations being used are fair.

Liquidity risk exists where the Company is a forced seller of its investments at times where there may not be sufficient demand for these assets. However, the Company maintains an overdraft facility to ensure that the Company is not a forced seller of its investments.

In addition, substantial cash balances were accumulated in the second half of 2007.

## Notes to the Financial Statements

### 10. Financial Instruments (continued)

Interest rate risk exists where the returns generated from the investments are less than any cost of borrowing. With a relative short time until maturity, this risk has been mitigated and cash and equivalent held have very short maturities.

Credit risk exists where life offices fails to pay out on an endowment policy. The Managers believe that this is extremely unlikely and, in any event, maintain a broad spread of investments.

#### *Sensitivity analysis*

The following table details the impact on net asset value per share of the Company to changes in the two principal drivers of performance, namely investment returns and interest rates. The calculations are based on the balances at the respective balance sheet dates and are not representative of the year as a whole.

	2007	2006
Investment portfolio		
5% increase	+6.2p	+9.5p
5% decrease	-6.2p	-9.5p
Other assets/liabilities		
interest rate +1%	+0.4p	-0.5p
interest rate -1%	-0.4p	+0.5p

#### *Contractual maturity analysis*

	Due not later than 1 month £000	Due between 1 and 3 months £000	Due between 3 and 12 months £000	2007 Total £000
Investments at fair value through profit or loss	3,191	14,808	11,230	29,229
Bank	4,912	-	-	4,912
Debtors	4,206	148	2	4,356
Creditors	(162)	-	(120)	(282)
<b>Net liquidity</b>	<b>12,147</b>	<b>14,956</b>	<b>11,112</b>	<b>38,215</b>
	Due not later than 1 month £000	Due between 1 and 3 months £000	Due between 3 and 12 months £000	2006 Total £000
Bank	16	-	-	16
Debtors	165	-	-	165
Creditors	(97)	(213)	(10,855)	(11,165)
<b>Net liquidity</b>	<b>84</b>	<b>(213)</b>	<b>(10,855)</b>	<b>(10,984)</b>

Cash flows payable under financial liabilities by remaining contractual liabilities are as stated above.

## Notes to the Financial Statements

### 10. Financial Instruments (continued)

#### *Capital management policies*

The Company's management objectives were to provide shareholders with long term capital growth. The Company is now in realisation mode and is expected to be liquidated within one year.

The Company's capital comprises:	2007 £000	2006 £000
Capital and reserves:		
Share capital	17,662	17,662
Special reserve	5,859	5,859
Capital redemption reserve	638	638
Capital reserve – realised	7,799	(5,572)
Capital reserve – unrealised	7,288	16,051
Revenue reserve	(1,031)	(927)
<b>Total shareholders' funds</b>	<b>38,215</b>	<b>33,711</b>

The Company's objectives for managing capital are the same as the previous year and have been complied with throughout the year. The Company is subject to a number of capital requirements including restricting gearing to 50% of net assets, maintaining a minimum share capital of £50,000 (as a public company) and capital restrictions imposed by relevant company and tax legislation.

### 11. Contingent Assets

In June 2004, an action was raised against HM Customs & Excise regarding the charging of VAT on management fees. Following the judgment by the European Court of Justice, HM Revenue & Customs announced their withdrawal in November 2007. As a result, VAT will no longer be charged on investment management fees and, as referred to in the Report of the Directors, the Company is entitled to seek reimbursement of VAT previously paid. The Managers have filed the requisite protective claims and, as a result, approximately £185,000 of VAT is potentially recoverable.

No assets has been recorded in the accounts as at 31 December 2007 due to the lack of certainty surrounding the amount or timing of any recovery.

# Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Life Offices Opportunities Trust plc will be held at 7 Castle Street, Edinburgh EH2 3AH on Tuesday 15 April 2008 at 12 noon for the following purposes:

## Ordinary Resolutions

1. To receive the financial statements for the year to 31 December 2007 together with the Directors' and Auditors' Reports thereon.
2. To re-appoint Mr J C H Brumwell, who has reached the age of 70, as a Director.
3. To re-appoint Mr J S H H Motion, who has reached the age of 70, as a Director.
4. To re-appoint Mr R M Paul, who retires by rotation, as a Director.
5. To re-appoint Mr J B Wilson, who retires by rotation, as a Director.
6. To approve the Directors' Remuneration Report.
7. To re-appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration.

## Special Resolutions

8. 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% 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% 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 17 July 2009 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

7 March 2008

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.

**0800 0199 440**  
**www.svmonline.co.uk**

SVM Asset Management  
7 Castle Street, Edinburgh EH2 3AH

INVESTMENT MANAGERS AND SECRETARIES

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