SC 216638

Report and Accounts

for the year ended 30 September 2003

Standard Life European Private Equity Trust PLC

Contents

Objective

To achieve long-term capital gains through investment in a diversified portfolio of private equity funds investing predominantly in Europe.

Company Summary

Investment strategy	The Company's investment policy is to invest in private equity funds, the majority of which are structured as limited partnerships. The Company will not invest more than 15% of its gross assets in other listed investment companies (including investment trusts).
Investment Manager	Standard Life Investments (Private Equity) Limited
Shareholders' funds	£148.93 million as at 30 September 2003
Market capitalisation	£130.50 million as at 30 September 2003
Capital structure	159,150,000 ordinary shares of 0.2p each Each ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every ordinary share held. 35,000,000 founder shares of 0.2p each The founder shares do not carry any right to vote, except in the case of changes to class rights. See page 18 for further details.
Management fee	0.8% per annum of the net assets of the Company. The notice period is one year, subject to a minimum initial period of three years.
Company secretarial and administration fee	£68,154 (index linked) plus 0.035% per annum of the net assets of the Company in excess of £100 million. The notice period is six months.
ISA status	The Company's ordinary shares are eligible for Individual Savings Accounts (ISAs).
AITC membership	The Company is a member of The Association of Investment Trust Companies.

Financial Summary

Performance	30 September 2003	30 September 2002	Launch 29 May 2001
Capital return			
Net asset value per ordinary share	93.6p	90.3p	98.7p
Share price	82.0p	82.0p	100.0p
FTSE All-Share Index[1]	2,027.7	1,801.5	2,852.7
MSCI Europe Index (in sterling)[1]	586.2	498.8	851.3

Performance: percentage change	Year to 30 September 2003 %	Since launch %
Capital return		
Net asset value per ordinary share	3.7	(5.2)
Share price	0.0	(18.0)
FTSE All-Share Index[1]	12.6	(28.9)
MSCI Europe Index (in sterling)[1]	17.5	(31.1)

Income returns, discount and expense ratio	30 September 2003	30 September 2002
Revenue return per ordinary share[2]	0.71p	1.51p
Final dividend per ordinary share	0.55p	1.20p
Discount (difference between share price and net asset value)	(12.4%)	(9.2%)
Total expense ratio[3] – as a % of average shareholders' funds	1.07%	0.76%

Highs/Lows	High	Low
Share price (mid)	82.0p	75.0p

[1] The Company has no defined benchmark; the indices above are shown solely for comparative purposes.

[2] The allocation of the management fee and finance costs between the revenue and capital accounts is 10:90.

[3] See note on basis of management fee on page 1.

Performance and dividend

The year to 30 September 2003 began with a period of significant stock market volatility, reflecting investor concerns about the global political and economic environment. As the outlook on both these fronts improved, stock markets generally reacted positively and have subsequently moved in a broadly upward direction. Against this challenging background, the Company can report a satisfactory result. As at 30 September 2003 the Company's net asset value per ordinary share ("NAV") was 93.6p, a 3.7% increase over the NAV of 90.3p reported as at 30 September 2002.

Scott Dobbie

The income received from the Company's private equity fund interests and from uninvested cash and money market holdings allows the Board to recommend a final dividend of 0.55p per ordinary share (year ended 30 September 2002 – 1.20p). Subject to shareholder approval at the forthcoming Annual General Meeting, this dividend will be paid on 5 February 2004 to shareholders on the share register as at 9 January 2004. In line with the Company's dividend policy, the Board did not declare an interim dividend.

Private equity should be viewed as a long-term asset class. Although the Company does not have a defined benchmark, the Company's NAV since listing has materially out-performed the two relevant, major stock market indices. Since listing in May 2001, the Company's NAV has fallen by 5.2%, while the FTSE All-Share Index has fallen by 28.9% and the MSCI Europe Index (sterling adjusted) by 31.1%. The out-performance is attributable to a combination of the portfolio of private equity fund interests being focused on traditional buy-out, as opposed to venture capital, funds and on the Company's significant holdings of cash and money market instruments.

The closing mid-market price of the Company's ordinary shares on 30 September 2003 was 82.0p (30 September 2002 – 82.0p).

Valuation

The value of the Company's portfolio of 30 private equity fund interests was £126.9 million as at 30 September 2003 (30 September 2002 – £86.7 million). The unrealised loss on the portfolio over the year was £2.3 million. This comprised write-downs and write-ups made by fund managers to specific underlying investments in their respective funds, offset by a £5.4 million unrealised foreign exchange gain on the portfolio. It is pleasing to see that as the year has progressed the number of new write-downs and write-offs being reported by fund managers has fallen. This reflects both the improving economic environment and the portfolio's emphasis on the buy-out segment of the private equity market, where investee companies generally operate within traditional business sectors, are profitable and generate free cash flow.

The Company's aggregate cash and money market holdings were £23.1 million as at 30 September 2003 (30 September 2002 – £60.6 million). The reduction in cash and money market holdings over the year comprised £39.0 million of net investment made by the Company, partially offset by a £2.2 million unrealised foreign exchange gain. It is anticipated that the remaining monies will be invested over the next year.

During the year the Company benefited from a 10.4% appreciation of the euro against sterling. The closing euro/sterling foreign exchange rate as at 30 September 2003 was £1/€1.4267 (30 September 2002 – £1/€1.5913). As at 30 September 2003, the Company had £150.3 million of gross assets, of which £72.1 million (sterling equivalent) comprised euro denominated assets (30 September 2002 – £147.5 million and £100.4 million (sterling equivalent) respectively).

Investment activity

The year ended 30 September 2003 was an active period for new private equity investment and most fund managers enjoyed a good deal flow, with buyers able to negotiate attractive pricing against a background of a difficult market for corporate vendors. In aggregate

Chairman's Statement

£52.6 million was drawn down by the Company's portfolio of fund interests (year ended 30 September 2002 – £36.0 million).

The portfolio generated £13.6 million of distributions during the year (year ended 30 September 2002 – £15.6 million), of which £2.5 million was net realised gains and £0.9 million was income (year ended 30 September 2002 – net realised gains and income of £5.1 million). The aggregate distributions received by the Company were relatively small, reflecting the difficult mergers and acquisitions market in Europe, although the quantum received did increase quarter on quarter. As reported in the Company's interim statement, much of the money received came from underlying investments being releveraged by the relevant fund manager or being sold via a secondary buy-out to another private equity manager.

No new commitments were made during the year. This is in line with the Company's previous statements that, having made aggregate new commitments since the Company's listing in May 2001 of £215.9 million to 12 private equity funds and having met the Board's target for over-commitment so as to maximise the return for shareholders, the pace of new commitments will be significantly slower. This position is consistent with the current fund raising environment for the leading European private equity managers, with most managers not expected to start raising new funds before late 2004. The Company's aggregate outstanding commitments to its existing 30 private equity fund interests amounted to £141.6 million as at 30 September 2003 (30 September 2002 – £191.0 million). Most of these commitments should be drawn down over the next 3-4 years.

These outstanding commitments will be funded largely from the Company's existing cash and money market holdings and from distributions received from the Company's portfolio of private equity fund investments. In May 2003 the Company negotiated a £40 million five year committed revolving credit facility with The Royal Bank of Scotland plc. This facility, as foreseen in the Company's listing particulars, will be utilised to meet any short-term cash flow requirements of the Company. As at 30 September 2003 this facility remained undrawn.

Corporate governance and regulation

The Board is considering the revised Combined Code issued by the Financial Reporting Council and incorporating recommendations made by the Higgs Review and the Smith Report. The revisions will come into effect for reporting years beginning on or after 1 November 2003. The Combined Code provides a template for the governance of a company which follows a typical UK corporate structure. This Company, as in the case of many investment trusts, is not a standard UK corporate vehicle, insofar as the Board comprises only independent directors and delegates the day-to-day management and control of the business to the Manager. In considering the revised Combined Code, your Board will be mindful of the Company's special characteristics.

The FSA conducted a detailed review of investment trusts during 2003. The Board, from the perspective of your Company, is satisfied with the outcome of this review and, in anticipation of changes to the Listing Rules, the Company announced on 21 October 2003 that it shall not invest more than 15% of its gross assets in other listed investment companies (including investment trusts).

Outlook

New investment activity in the buy-out segment of the private equity market has been strong. With a growing expectation of a better global economic environment and improving financial markets, some fund managers are beginning to report a reduction in deal flow and in the ability to complete transactions on the attractive terms apparent over the last eighteen months. Notwithstanding, the Company is substantially invested and the Board anticipates that the Company's remaining monies will be invested over the next year.

Pleasingly, the Company has started to see, in the last few months, an increasing number of realisations either completed or at least planned. It is hoped that with the prospect of a better European mergers and acquisitions market the pace of realisations from the Company's portfolio will increase. Given the generally conservative valuation methodology used in valuing unrealised private equity investments, it is largely through such realisations that an uplift in the Company's NAV will be achieved.

Scott Dobbie CBE
Chairman

28 November 2003

The Company was admitted to the Stock Exchange on 29 May 2001. As at that date its assets comprised a portfolio of 19 European private equity fund interests, acquired for £80.7 million, and gross cash subscribed in an institutional placing of £79.3 million. The issue price was 100p per ordinary share and the opening NAV was 98.7p. During the financial year ended 30 September 2003 the NAV increased 3.7%, from 90.3p to 93.6p. Over the same period, the mid-market price for the Company's ordinary shares traded between 75.0p and 82.0p, with a closing mid-market price on 30 September 2003 of 82.0p (30 September 2002 – 82.0p).

Background

The Company's policy is to announce its NAV at the time of the Company's unaudited interim and audited annual results' announcements in May and December respectively. In addition, the Company will announce any material movements in its NAV between such results' announcements.

The Manager of the Company is Standard Life Investments (Private Equity) Limited, which comprises a team of 12 investment professionals with over 150 years' combined private equity experience. This team manages in excess of £1.5 billion of private equity investments on behalf of over 50 clients worldwide, including The Standard Life Assurance Company ('Standard Life').

European private equity market

The start of the Company's financial year witnessed a weak macro-economic environment, with equity markets constrained by geo-political risks and concerns over deflation. Since March 2003, however, global equity markets have risen in the expectation of economic recovery and there are now signs of an increase in European mergers and acquisitions activity. However, economic growth in the major European countries remains below the long-term trend rate and some countries, such as Germany and Italy, have experienced negative growth during the first two quarters of 2003. The Scandinavian region, Spain and the UK continue to be the better performing economies. With these fragile economic conditions in Europe there has continued to be a squeeze on corporate earnings, which has resulted in some private equity backed companies performing below plan and private equity managers paying closer attention to delivering operational and financial improvements within their investee companies.

At the same time, such conditions have thrown up opportunities for astute private equity managers to invest money in profitable businesses with good prospects, at lower entry valuations than would be the case if earnings were stronger and there were more corporate buyers competing for the same assets. Moreover, the drivers behind the growth in European buy-out activity remain valid, and if anything have been enhanced. European companies are under pressure to restructure and focus on their core businesses, driven by a desire to increase shareholder value, to improve corporate governance or a need to de-gear. Additionally, the harmonisation of non-tariff trade barriers within Europe is ongoing, forcing industrial rationalisation and restructuring.

As a result, buy-out activity during the last year has been robust, with the funds to which the Company is committed drawing down 46% or £16.6 million more than they did in the year to 30 September 2002. While low entry valuations provided an attractive environment for new investment, it was not an active period for private equity funds to dispose of portfolio companies. As a result, the total number of realisations during the year was disappointing. However, with some stability returning to stock markets and increasing business confidence, there are signs that the situation is improving. The flotation of Yell in July 2003 has signalled a potential change of mood with the flotation being over-subscribed and the lead private equity manager, Apax Partners & Co. Ventures, able to realise a substantial proportion of its holding on listing. Provided market conditions remain stable, more flotations are expected. Similarly, with the improvement in the financial markets, trade buyers are becoming more active and the Company has started to see increased activity in this area.

Manager's Review

In terms of both money raised and invested, the European private equity market experienced similar conditions to those seen in 2001-02. The return to more normal market conditions has seen new buy-out and expansion capital funds raising a significant proportion of money, with a compensating decline in new venture funds. The chart below sets out the private equity funds raised and invested by the European private equity industry between 1995 and 2002. While the size of the market, as measured by funds invested, has shrunk by 21% from the peak in 2000 to €27.6 billion in 2002, it is still almost five times as large as it was in 1995. Most of the market decline in the past two years is attributable to the drop in enthusiasm for venture and technology investment. Funds raised in 2002 of €27.5 billion represented a decline of 43% from the peak figure for funds raised in 2000, confirming the increasing difficulty of raising a new private equity fund. Fund raising is likely to remain difficult over the next year or two, but longer term, further growth in the size of the European private equity market is expected. Against this background of a more difficult fund raising environment, the Manager believes the supply and demand of private equity capital seeking to fund European buy-outs is reasonably well balanced.

Private Equity Funds Raised and Invested in Europe

The Company's investment policy

The Company's investment policy is to invest in private equity funds that operate predominantly in Europe. The Company has the flexibility to invest up to 20% of its gross assets in funds that operate outside Europe. At present only two fund investments held by the Company, Pomona Capital V and Coller International Partners IV, which are both secondary funds, principally invest outside Europe. These funds represent 5.2% of the Company's investment portfolio. The Company invests only in private equity funds, but occasionally it may hold direct private equity investments or quoted securities as a result of *in specie* distributions from its portfolio of fund investments.

The principal focus of the Company is to invest in the leading private equity funds that invest in buy-outs, typically having an enterprise value of between €100 million and €400 million (approximately £60 million – £250 million sterling equivalent), and in expansion capital. These segments of the private equity market are ones that the Manager believes have offered, and will continue to offer more attractive returns.

The aim is to build a portfolio of private equity fund interests diversified by country, industry sector, stage and size of investment. The objective is for the portfolio to comprise around 35 active fund investments. As at 30 September 2003 the Company had £126.9 million (30 September 2002 – £86.7 million) invested in a total of 30 private equity funds (30 September 2002 – 31 funds). The split of the portfolio by type of private equity fund is set out below:

Type of fund (% of 30 September 2003 valuation)

Details of all of the Company's private equity fund investments, and more detailed information on the thirty largest underlying portfolio companies, can be found on pages 12 and 15 respectively.

Investment performance

As at 30 September 2003 the value of the Company's portfolio of private equity fund interests was £126.9 million (30 September 2002 – £86.7 million) which, together with its money market holdings and current assets less liabilities, resulted in the Company having total net assets of £148.9 million (30 September 2002 – £143.8 million). This represented an NAV per share of 93.6p (30 September 2002 – 90.3p). A breakdown of the £5.1 million movement in the Company's net assets during the year is detailed in Table 1.

The valuation of the Company's private equity fund interests was carried out by the Manager and approved by the Board in accordance with the accounting policies set out on page 29. In undertaking the valuation, the Company uses the most recent valuation of each fund prepared by the relevant fund manager, adjusted where necessary for subsequent cash flows. The fund valuations are generally prepared in accordance with either the European Private Equity and Venture Capital Association's or the British Venture Capital Association's valuation guidelines. Consequently, such valuations are prepared on a relatively conservative basis and should be at a discount to comparable listed companies. Of the 30 private equity funds in which the Company is invested, 25 of the funds, or 93% of the portfolio by value, were valued by their fund managers as at 30 September 2003 and 99% of the portfolio by value was valued no earlier than 30 June 2003. In undertaking the valuation the Board did not have recourse to use its discretion, under the Company's accounting policies, to make downward adjustments to individual fund manager's valuations.

The movement in the value of the Company's portfolio of private equity fund interests during the year was an unrealised loss of £2.3 million (2002 – loss of £10.5 million) comprising a £7.7 million loss at constant exchange rates and a £5.4 million foreign exchange gain. This loss at a constant exchange rate largely arose from a number of write-downs and write-offs of specific underlying investments.

Details of the valuation and the cost of each respective fund interest held by the Company as at 30 September 2003 are set out on page 12.

Table 1

Movement in net assets	Investment portfolio £m	Cash and other net assets £m	Total net assets £m	NAV per ordinary share (p)
Opening balance	**86.7**	**57.1**	**143.8**	**90.3**
Draw downs	52.6	(52.6)	—	
Opening cost of investment realisations during the period	(10.1)	10.1	—	
Realised gains on investments in the period	—	5.7	5.7	
Income earned	—	2.1	2.1	
Unrealised (losses)/gains in the period at constant exchange rates	(7.7)	—	(7.7)	
Impact of foreign exchange rate movement	5.4	2.3	7.7	
Expenses and tax incurred	—	(1.8)	(1.8)	
Recommended dividend	—	(0.9)	(0.9)	
Closing balance	**126.9**	**22.0**	**148.9**	**93.6**

As at 30 September 2003 the Company's aggregate cash and money market holdings were £23.1 million (30 September 2002 – £60.6 million), of which £22.8 million (30 September 2002 – £60.2 million) was held in a selection of AAA rated money market funds and £0.3 million (30 September 2002 – £0.4 million) was held in bank deposits and cash at bank. As a result of the over-commitment strategy being pursued by the Company, it can be expected that the remaining cash and money market holdings will continue to decline as the amount of draw downs by funds exceeds distributions received by the Company. The expectation is that the Company will become fully invested, on a cash basis, over the next year.

In order to meet any future short-term cashflow requirements, the Company has negotiated a £40 million five year committed revolving credit facility with The Royal Bank of Scotland plc. As at 30 September 2003, this facility remained undrawn.

Within the Company's portfolio of private equity fund interests, £50.8 million of the portfolio was denominated in sterling and £49.0 million (sterling equivalent) was denominated in euros at the year end. The Company's liquid resources are largely denominated in euros in order

Manager's Review

Table 2

Largest distributions during the year	Type of Fund	Aggregate distributions £m	Aggregate realised gains £m	Aggregate income received £m
HEV III	Buy-out	2.8	0.3	0.4
Apax Europe IV	Balanced	2.1	0.4	—
CVC Europe II	Buy-out	1.9	0.7	0.2
The Alchemy Investment Plan	Buy-out	1.6	0.5	0.1
Apax European Buy-in Fund	Buy-out	1.0	0.3	—
Candover 1997 Fund	Buy-out	0.7	0.1	0.2
Total of largest distributions		**10.1**	**2.3**	**0.9**
Total of all distributions during the year		**13.6**	**2.5**	**0.9**

to match more closely the currency of its outstanding private equity fund commitments, which are predominantly to euro denominated funds. As at 30 September 2003 99.6%, or £23.1 million (sterling equivalent), of the Company's cash and money market holdings were held in euro denominated instruments. The prevailing sterling/euro foreign exchange rate as at 30 September 2003 was £1/€1.4267 (30 September 2002 – €1.5913). As indicated in Table 1, during the year there was a £7.7 million unrealised foreign exchange gain on the Company's total assets as a result of a 10.4% appreciation of the euro against sterling.

Distributions, gains and income

During the year ended 30 September 2003 the Company's portfolio of 30 private equity fund interests generated aggregate distributions of £13.6 million (year ended 30 September 2002 – £15.6 million), comprising net realised gains of £2.5 million (year ended 30 September 2002 – £3.9 million) and income of £0.9 million (year ended 30 September 2002 – £1.2 million). The limited quantum of distributions received reflected the difficult listed financial markets and a generally weak European mergers and acquisitions market. The aggregate net realised gains of £2.5 million included a realised loss of £0.9 million that was crystallised following the sale of the residue of Morgan Grenfell Equity Partners IV by the manager of that fund in a secondary transaction.

Excluding this transaction, the realised gains and income for the year would have been £4.3 million on distributions of £13.0 million and the average return on the Company's acquisition cost of the realised investments would have been 1.5 times (year to 30 September 2002 – 1.5 times).

The largest distributions, gains and income broken down by fund received during the year ended 30 September 2003 are set out in Table 2.

The most significant distributions were:-

1. £2.8 million from HEV III following the partial sale of its investment in Focus Wickes;
2. £1.2 million from Apax Europe IV following the flotation of Yell;
3. £1.0 million from the Apax European Buy-in Fund following the sale of Aigle; and
4. £0.9 million from The Alchemy Investment Plan following the disposal of MMS.

During the year the Korda Seed Capital Fund was wound up, with the shares in the one remaining portfolio company, Zylepsis, being distributed *in specie* to the Company. As at 30 September 2003 these shares were valued at nil.

Commitments

As reported in the Chairman's Statement, the Company made no new commitments during the year. Since the Company's listing in May 2001, aggregate new commitments of £215.9 million have been made to twelve private equity funds. This is consistent with the Company's objective of becoming fully invested on a cash basis and thereby increasing returns to shareholders. The pace and quantum of new commitments during the next financial year will be dependant on the Company's actual and projected cash flows. The Manager monitors on a pro-active basis the projected short and medium term cash flows associated with the Company's portfolio and the level of outstanding commitments.

In line with the Company's intention at the time of committing to The Alchemy Investment Plan in October 2001 to commit up to £30 million to this fund, the Company has cancelled its £10 million annual commitment to the fund with effect from 30 June 2004.

The Alchemy Investment Plan, unlike the Company's other investments, is an annual fund.

As at 30 September 2003 the Company had outstanding commitments of £141.6 million (30 September 2002 – £191.0 million), of which £6.4 million related to the private equity fund interests acquired on listing and £135.2 million to the new private equity fund commitments made since listing.

Draw downs

The Company financed draw downs of £52.6 million during the year ended 30 September 2003 (30 September 2002 – £36.0 million). The increase over the previous financial year was as a result of the impact of the new fund commitments made by the Company since listing and the attractive conditions for new investment activity that prevailed in the European buy-out market.

The private equity funds to which the Company paid the largest draw downs during the year are set out in Table 3:-

The most notable draw downs by the above funds and the underlying investments funded by them were:-

1. £3.5 million by the Candover 2001 Fund to fund the acquisition of Gala, a leading gaming operator in the UK;
2. £3.2 million by CVC Europe III to fund the acquisitions of Danske Traelast, a leading Danish builders merchant and DIY retailer, and Viterra Energy Services, the world leader in submetering of heat and water;
3. £3.1 million by CVC Europe III to fund the acquisition of Seat, the largest yellow pages business in Europe;
4. £2.5 million by The Alchemy Investment Plan to fund the acquisition of Riverdeep, an Irish publisher of educational software;
5. £2.2 million by the Candover 2001 Fund to fund the acquisition of Ontex, a European producer of hygiene products for the baby, feminine and adult care markets;
6. £1.9 million by Barclays Private Equity European Fund to fund the acquisition of the healthcare insurance and related assistance operations of Royal & Sun Alliance Plc;

Table 3

Largest draw downs during the year	Type of fund	Draw downs £m
Candover 2001 Fund	Buy-out	9.3
The Alchemy Investment Plan	Buy-out	7.7
CVC Europe III	Buy-out	7.3
Barclays Private Equity European Fund	Buy-out	5.7
Third Cinven Fund	Buy-out	4.6
MUST 4	Buy-out	4.5
Advent Global Private Equity IV	Buy-out	4.3
Pomona Capital V Fund	Secondary	3.0
Total of largest draw downs		**46.4**
Total of all draw downs during the year		**52.6**

7. £1.8 million by the Candover 2001 Fund to fund the acquisition of BertelsmannSpringer, an academic and professional publisher; and
8. £1.7 million by Advent Global Private Equity IV to fund the acquisition of Aviagen, the world's largest broiler chicken breeding company.

Diversification

The Board has agreed diversification limits with the Manager regarding the Company's net asset and commitment exposure to both individual private equity funds and their managers. In operating within these diversification limits, the Manager also monitors and updates the Company's exposure to the portfolio of underlying investments held by the different private equity funds in which the Company is invested. The Company was invested in 30 different private equity funds and held one *in specie* stock as at 30 September 2003, which collectively had interests in a total of 347 underlying investments (30 September 2002 – 31 funds and 300 underlying investments).

Monitoring the underlying investments held by the different private equity funds allows the Manager to track the Company's exposure by geography, industrial sector, maturity of investment and valuation methodology employed by the relevant fund managers in valuing the underlying investments. Such information is used by the Manager in reviewing the overall exposure of the Company's portfolio of private equity fund interests, in assisting it to make new investment decisions and in having a better understanding of the timing of prospective cash flows.

As at 30 September 2003 the Company's £126.9 million of private equity fund interests were diversified as shown on the following page.

The following charts demonstrate the broad diversification that applies by sector and geography within the Company's underlying portfolio of investments. The geographic exposure has continued to widen as a result of new investments made in continental Europe. The new investments have also changed the maturity exposure, with an increasing number of investments having been held for less than one year. Pleasingly, and despite the difficult market for realisations, the percentage of the portfolio over five years old has declined. Finally, the valuation exposure pie chart illustrates the conservative basis of valuation used by fund managers in valuing their underlying investments, with 63% of investments held at cost or written down value.

Prospects

The Manager believes that the investments made during the financial year were made in an attractive environment of lower prices and are optimistic about the prospect for such investments. However, with an improving macro-economic situation and more stable financial markets, it is anticipated that fund managers will find it more difficult to complete transactions on the favourable terms they have enjoyed over the last eighteen months. As regards distributions, the Manager has already started to see an increasing number of realisations and looks forward to this trend continuing during the year ahead.

Standard Life Investments (Private Equity) Limited
28 November 2003

Geographic exposure (% of 30 September valuation)

2003

2002

Sector exposure (% of 30 September valuation)

2003

2002

Maturity exposure (% of 30 September valuation)

2003

2002

Valuation exposure (% of 30 September valuation)

2003

2002

Fund Investments

The private equity funds in which the Company invests usually take the form of limited partnerships. Contractual commitments are made to the funds and these are drawn down by the managers of the funds as required for investment over time. Details of all of the Company's fund investments by valuation and a description of the ten largest fund investments follow:-

Year of commitment	Fund	Type	Number of investments	Valuation date*	Outstanding commitment £000	Cost £000	Valuation £000	% total assets
2001	The Alchemy Investment Plan**	Buy-out	14	30.09.03	9,778	13,939	14,234	9.6
2001	CVC Europe III	Buy-out	13	30.09.03	10,571	11,072	10,927	7.3
2001	Candover 2001 Fund	Buy-out	8	30.09.03	11,317	11,135	10,921	7.3
1997	Charterhouse VI	Buy-out	7	30.09.03	945	7,242	9,592	6.5
1999	CVC Europe II	Buy-out	35	30.09.03	1,244	8,779	9,554	6.4
2001	Third Cinven Fund	Buy-out	10	30.09.03	13,337	9,187	9,202	6.2
2002	Barclays Private Equity European Fund	Buy-out	20	30.09.03	10,176	7,111	7,319	4.9
1999	Apax Europe IV	Balanced	48	30.09.03	2,418	12,208	7,228	4.9
2001	Advent Global Private Equity IV	Buy-out	8	30.09.03	13,668	7,045	6,400	4.3
1998	Phildrew Fifth	Buy-out	9	30.09.03	193	9,348	5,764	3.9
2001	MUST 4	Buy-out	10	30.09.03	8,927	6,075	5,362	3.6
2002	Pomona Capital V Fund	Secondary	23	30.06.03	6,922	5,102	4,797	3.2
2002	Duke Street Capital V Fund	Buy-out	6	30.09.03	10,316	6,745	4,600	3.1
1998	Candover 1997 Fund	Buy-out	10	30.09.03	632	3,626	4,283	2.9
1997	HEV III	Buy-out	5	30.09.03	—	2,329	2,569	1.7
1997	Apax UK VI	Balanced	16	30.09.03	—	5,379	2,232	1.5
2002	Charterhouse VII	Buy-out	1	30.09.03	20,420	1,755	1,988	1.3
1996	The Primary Capital No.1 Fund	Buy-out	6	30.06.03	240	2,418	1,949	1.3
2002	Coller International Partners IV	Secondary	6	30.09.03	16,144	1,896	1,786	1.2
2001	SEP II	Venture Capital	15	30.09.03	3,616	1,384	1,121	0.8
1997	The Global Rights Development Fund	Development Capital	4	31.03.03	—	862	749	0.5
1995	Granville Private Equity Fund V	Buy-out	7	30.09.03	610	2,072	736	0.5
1989	Apax European Buy-in Fund	Buy-in	1	30.06.03	—	2,984	735	0.5
1995	Apax UK V	Balanced	12	30.09.03	—	2,094	595	0.4
1995	Phildrew Fourth	Buy-out	5	30.09.03	—	1,586	512	0.3
1994	Charterhouse V	Buy-out	2	30.09.03	19	334	476	0.3
1990	Apax CR III	Balanced	6	30.09.03	—	460	362	0.2
1996	Scottish Equity Partnership	Venture Capital	29	30.09.03	24	930	324	0.2
1992	Midland Montagu Investissement FCPR	Buy-out	5	30.09.03	—	586	286	0.2
1995	Morgan Grenfell Equity Partners IV	Buy-out	5	30.06.03	110	981	264	0.2
1989	Zylepsis‡	*In specie*	1	30.09.03	—	1,156	—	0.0
Total portfolio investments†			347		141,627	147,820	126,867	85.2
"AAA" rated money markets							22,816	15.3
Current assets less current liabilities							(750)	(0.5)
Shareholders funds							148,933	100.0

* valuation date refers to the date of the last valuation prepared by the manager of the relevant fund.

** the outstanding commitment to The Alchemy Investment Plan is calculated on the basis that the total commitment to this fund is £10 million for the year to 30 June 2004.

‡ Zylepsis was an *in specie* distribution on the winding up of the Korda Seed Capital Fund.

† the 347 underlying investments represent holdings in 326 separate companies.

Ten Largest Fund Investments

The Alchemy Investment Plan

The Alchemy Investment Plan is a £235 million annual rolling private equity fund. The fund is managed by Alchemy Partners, based in London, and is structured as a rolling investment where investors build their portfolio from the date of commitment. The manager was established in 1997 by Jon Moulton and a number of partners with industrial and private equity experience. The strategy is to invest in complex transactions and turnaround situations in the UK and Ireland, and the manager is a leading player in UK public to private transactions.

CVC Europe III

CVC European Equity Partners III is a $4.0 billion private equity fund focused on European buy-outs. The fund is managed by CVC Capital Partners Europe Limited ('CVC'). CVC is a leading pan-European manager of buy-outs with a long track record and operates from offices in London, Paris, Frankfurt, Amsterdam, Brussels, Copenhagen, Madrid, Stockholm, Zurich and Milan. CVC undertakes medium and large sized buy-out transactions where the target companies have annual sales of €50 million and above.

Candover 2001 Fund

The Candover 2001 Fund is a €2.7 billion private equity fund focused on European buy-outs. The fund is managed by Candover Partners Limited, a subsidiary of Candover Investments plc. The Candover 2001 Fund is the manager's eighth fund since being founded in 1983. Historically Candover has concentrated on larger buy-outs in the UK market, however, investments in France, Germany and the Benelux countries are now a significant part of the manager's strategy. The manager has recently opened offices in Paris, Dusseldorf and Madrid to support this European expansion.

Charterhouse VI

Charterhouse Capital Partners VI is a £800 million private equity fund focused on European buy-outs. The fund is managed by Charterhouse Development Capital Limited, one of the oldest private equity firms in the UK. The manager operates across western Europe from its London office and has a long track record of delivering superior returns for investors. The investment strategy is to target large corporate buy-outs with an equity requirement of €200-450 million per transaction. Charterhouse prefers to invest the equity requirement for each deal on its own, or together with its limited partners, rather than join syndicated transactions. The fund is now fully invested in a diversified portfolio across various industries and sectors.

CVC Europe II

CVC European Equity Partners II is a $2.5 billion private equity fund focused on European buy-outs. The fund is managed by CVC Capital Partners Europe Limited ('CVC'). CVC is a leading pan-European manager of buy-outs with a long track record and operates from offices in London, Paris, Frankfurt, Amsterdam, Brussels, Copenhagen, Madrid, Stockholm, Zurich and Milan. CVC undertakes medium and large sized buy-out transactions where the target companies have annual sales of €50 million and above. The fund is now fully invested in a broad range of industries and sectors across Europe.

Ten Largest Fund Investments

Third Cinven Fund

The Third Cinven Fund is a €4.4 billion private equity fund targeting large buy-outs of European headquarted companies. The fund is managed by Cinven Limited. The manager operates from offices in London, Frankfurt and Paris and enjoys a strong market position in the UK market. The strategy of the fund is to invest in larger management buy-outs in the UK and continental Europe.

Barclays Private Equity European Fund

Barclays Private Equity European Fund is a €600 million private equity fund focused on European middle market buy-outs. The fund is managed by Barclays Private Equity Limited, the private equity arm of Barclays Bank plc. The manager operates from offices in London, Paris, Munich, Milan, Birmingham, Manchester and Reading. The majority of investments will be sourced from the UK, where there are four regional offices, with an average investment size of €20 million. The French team has been in existence for over 10 years and is one of the most established teams in that market.

Apax Europe IV

Apax Europe IV is a €1.8 billion balanced private equity fund focused on the European market. The fund is managed by Apax Partners & Co. Ventures, one of the leading and most experienced private equity managers in Europe, part of the Apax Partners international network. The manager operates from offices in London, Munich, Milan and Madrid and manages in excess of €7 billion. The balanced strategy spans early-stage, expansion capital, special situations and buy-outs, and targets Apax Partners' six chosen sectors of information technology, telecommunications, healthcare, media, financial services and retail.

Advent Global Private Equity IV

Advent Global Private Equity IV is a private equity fund focused on global buy-outs. The fund has total commitments of $1.5 billion for global investment. The Company has committed to the euro denominated partnership that invests only in European transactions and has total commitments of €249.5 million. The fund is managed by Advent International who operate in Europe from offices in London, Paris, Frankfurt, Milan and Madrid. Advent focuses on middle market buy-out and expansion capital transactions, typically in the chemicals, business services, media, telecommunications and IT sectors.

Phildrew Fifth

The Phildrew Fifth Fund is a £260 million private equity fund focused on UK buy-outs. The manager is IRRfc Limited, a company run by former executives of UBS Capital, the private equity business of UBS. The fund invests in UK focused management buy-outs, buy-ins and expansion capital opportunities. The fund is now fully invested in a diversified portfolio across various industries and sectors.

Top 30 Underlying Investments

Entity	Description	Fund	% of total assets
Springer	Publisher of academic & scientific journals	Candover 2001, Third Cinven	3.20
Gala	Bingo & casino operator	Candover 2001, Third Cinven	2.62
Tussauds	Leisure operator	Charterhouse VI	2.31
Lucite International	Acrylics manufacturer	Charterhouse VI	2.14
Focus Wickes	Building merchant & DIY retailer	HEV III	2.02
SEAT	Directories & business information	CVC III	1.99
Coral Eurobet	Licensed bookmakers	Charterhouse VI & VII	1.73
Riverdeep	Educational & productivity software publisher	Alchemy	1.67
Regus	Provider of serviced offices & business suites	Alchemy	1.60
Ontex	Manufacturer of disposable hygiene products	Candover 2001	1.30
FirstAssist	Provider of healthcare insurance	Barclays	1.28
Cegelec	Electrical contracting services	Charterhouse VI	1.13
Danske Traelast	Building merchant & DIY retailer	CVC III	1.09
Cedar	Services & systems integration	Alchemy	1.07
Kappa Packaging	Fibre board packaging	CVC III	1.07
Homeform	Retail home improvements	Phildrew Fifth	1.06
Cementbouw	Building supplies	CVC III	1.05
The Unique Pub Company	Public house operator	Third Cinven	1.03
Galaxie Hotels	Budget hotel chain	Duke Street V	1.00
Viatris	Pharmaceutical company	Advent	0.99
Viterra Energy Services	Heat & water metering	CVC III	0.95
Aviagen	Broiler chicken breeding company	Advent	0.95
Acordis	Fibre manufacturer	CVC II	0.94
Inveresk Research	Drug development service provider	Candover 1997	0.92
Open & Direct	Retail lending & insurance broking	Alchemy	0.85
Hogg Robinson	Business services group	Phildrew Fifth	0.83
Halfords	Retailer of car parts	CVC II & III	0.82
Xerium	Supplier of consumable products used in paper making	Apax Europe IV	0.79
Esporta	Health club operator	Duke Street V	0.79
Telediffusion de France	Transmission towers operator	Charterhouse VI	0.78
Total of top 30 underlying investments			**39.97**

Abbreviations

Advent	—	Advent Global Private Equity IV	Charterhouse VI & VII	—	Charterhouse VI and Charterhouse VII
Alchemy	—	The Alchemy Investment Plan	CVC II & III	—	CVC Europe II and CVC Europe III
Barclays	—	Barclays Private Equity European Fund	Duke Street V	—	Duke Street Capital V Fund
Candover 1997	—	Candover 1997 Fund	Third Cinven	—	Third Cinven Fund
Candover 2001	—	Candover 2001 Fund			

Corporate Information

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1 George Street
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United Kingdom

Investment Manager
Standard Life Investments (Private Equity) Limited
1 George Street
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United Kingdom

Company Secretary and Administrator
Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
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Company Broker
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Solicitors
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Tax Advisers
Ernst & Young LLP
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United Kingdom

Registrars
Lloyds TSB Registrars Scotland
PO Box 28448
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Orchard Brae
Edinburgh EH4 1WQ
United Kingdom

Board of Directors

Scott Dobbie CBE

Chairman

Scott Dobbie (64), Chairman, began his career in Wood Mackenzie & Co. and worked for 30 years at a senior level at this and successive companies before retiring in 1999. He is the chairman of the Securities Institute and The Edinburgh Investment Trust plc, a director of Scottish Financial Enterprise and Premier Oil plc, and a commissioner of the Jersey Financial Services Commission. He is also an adviser to Deutsche Bank.

Hamish Buchan*

Director

Hamish Buchan (59), started with Wood Mackenzie & Co. in 1969 where he was appointed a partner in 1979. Following his retirement in 1999, he has worked as a consultant in the investment trust sector and is currently a deputy chairman of the Association of Investment Trust Companies and chairman of the Statistics Committee. He is also a non-executive director of Aberforth Smaller Companies Trust plc, Collective Assets Trust plc, JP Morgan Fleming American Trust plc, Personal Assets Trust plc, Shires Income Trust plc and The Scottish Investment Trust plc.

Simon Edwards

Director

Simon Edwards (40), is chief executive of Midas Capital Partners. His earlier experience included three years with CSFB in London, three years as equity investment manager for National Provident Fund in New Zealand, three years with AMP Society, also in New Zealand, and seven years with Merseyside Pension Fund. He is a non-executive director of London Scottish Bank PLC and chairman of Parkhaven Trust.

George Kershaw

Director

George Kershaw (51), started his career in stockbroking and joined de Zoete & Bevan in 1977, becoming a partner in 1984. He became head of global equity sales at BZW and following the acquisition by CSFB became head of the investment trust team from 1996 to 2000. He is now a director of Trust Associates Ltd, an independent adviser in the investment trust sector. He is a non-executive director of Royal London Growth & Income Trust PLC and is currently a deputy chairman of the Association of Investment Trust Companies.

Mark Tyndall

Director

Mark Tyndall (45), is chief executive of Artemis Investment Management Limited, with overall responsibility for investment strategy. Prior to founding Artemis in 1997, he spent thirteen years at Ivory & Sime plc where he was the main board director responsible for Ivory & Sime Development Capital and, from 1993, head of UK equities. He is also a non-executive director of Cairn Energy plc.

* Hamish Buchan has been nominated as the senior independent director.

All of the Directors are members of the Audit, Management Engagement and Nominations Committees.

All of the Directors were appointed on 25 April 2001.

Directors' Report

Business and status

The Company was incorporated as a public limited company on 9 March 2001 and commenced business on 29 May 2001.

The Company carries on business as an investment trust and has been approved as such by the Inland Revenue for the year ended 30 September 2002, subject to their rights to further enquiry under the Finance Act 1998. The Company has subsequently conducted its affairs so as to enable it to continue to seek such approval.

The Company is an investment company within the terms of section 266 of the Companies Act 1985.

The Manager of the Company is Standard Life Investments (Private Equity) Limited. The Board is independent of the Manager and Standard Life.

Review of activities

During the year the Company followed the normal activities of an investment trust. Details of these are given in the Chairman's Statement and the Manager's Review.

Share capital

As at 30 September 2003, the Company's issued share capital was £353,673 divided into 159,150,000 fully paid up ordinary shares, 14,835,625 founder A shares and 14,835,625 founder B shares partly paid up as to 0.1p per share and 2,664,375 founder A shares and 2,664,375 founder B shares partly paid up as to 0.11p per share.

Standard Life Investments Limited and individual members of the Manager's investment team have been allotted 35,000,000 founder shares which, subject to the performance of the Company, are convertible into a maximum of 10 per cent of the ordinary share capital of the Company as enlarged by conversion. The founder shares are not listed, have restrictions on transferability and do not carry voting rights, except in the case of changes to class rights.

The founder shares have been allotted in two tranches which, in the normal course, are convertible from 2006 and 2011 based on performance in the five year periods 2001 to 2006 and 2006 to 2011. The performance condition for each period is that the total return on the Company's net asset value per ordinary share, including distributions other than share buy-backs, exceeds a compound rate of 10 per cent per annum. In each case the extent to which the founder shares are convertible will depend on the total return achieved in excess of the 10 per cent hurdle, with the full 5 per cent in each tranche being convertible at a compound annual return of 15 per cent. The conversion price is 100p per ordinary share less the amount already paid up on that founder share, subject to adjustment in certain circumstances.

The net asset value will be re-based on 1 October 2006 for the purposes of calculating the total return in respect of the second period. There are provisions applicable to extend the management incentive to apply to any further issues of share capital.

Income and final dividend

Income available for dividends was £1,136,000 or 0.71p per ordinary share (30 September 2002 – £2,418,000 or 1.51p per ordinary share). The Directors recommend that a final dividend of 0.55p (30 September 2002 – 1.20p) per ordinary share be paid on 5 February 2004 to shareholders on the Company's share register as at the close of business on 9 January 2004.

Directors

Scott Dobbie and Simon Edwards retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election at the Annual General Meeting.

The names of the Directors and their holdings in the Company's shares are shown in Table 4.

The Company has not been notified of any changes in the Directors' holdings between 30 September 2003 and 28 November 2003.

No contract or arrangement existed during the period in which any of the Directors had a material interest. No Director had a service contract with the Company.

Corporate Governance

Compliance

The Board and Manager are committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good governance and this statement describes how the Company applies the principles identified in the Combined Code appended to the Listing Rules of the Financial Services Authority.

The Board believes that the Company has complied throughout the accounting period with the provisions set out in Section 1 of the Code except for the provision which relates to the combination of the roles of the Chairman and Chief Executive. This provision does not apply as the Company has no executive directors.

Directors
The Board has overall responsibility for the Company's affairs. It delegates, through the investment management and administration agreements and through specific instructions, the day to day management of the Company to the Manager, Standard Life Investments (Private Equity) Ltd, and the Administrator, Edinburgh Fund Managers plc. The Company has no executives or employees.

The Board presently consists of five non-executive Directors, one of whom is Chairman. All of the Directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Profiles of the Directors appear on page 17. Each Director has the requisite business and financial experience to enable the Board to provide effective strategic leadership and proper governance of the Company. The senior independent director is Hamish Buchan.

The Board meets at least five times each year. There is an annual cycle of Board meetings which is designed to address, in a systematic way, overall strategy, review of investment policy, investment performance, marketing, budgets, dividends and communication with shareholders.

Appointments to the Board will be considered by the Nominations Committee. All of the Directors are members of the Nominations Committee and Scott Dobbie is the Chairman. When a new Director is appointed to the Board, he or she will be provided with all relevant information regarding the Company and his or her duties as a Director.

A Director appointed during the period is required to retire and seek election by shareholders at the next Annual General Meeting. The Articles of Association also require that one third of the non-executive Directors retire by rotation each year and seek re-election at the Annual General Meeting and also that every Director submit himself or herself for re-election at least every three years.

There is a procedure for Directors to take independent professional advice, if necessary, at the Company's expense. This is in addition to the access which every Director has to the advice and services of the Company Secretary, Edinburgh Fund Managers plc, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Communication with shareholders
The Directors place great importance on communication with the Company's shareholders. The Manager also carries out a programme of regular dialogue and individual meetings with institutional shareholders. The Chairman welcomes correspondence from shareholders addressed to the Company's registered office.

All shareholders have the opportunity to put questions to the Board at the Annual General Meeting. The Board hopes that as many shareholders as possible will be able to attend the meeting.

Accountability and audit
The respective responsibilities of the Directors and the auditors in connection with the financial statements appear on pages 24 and 25.

Table 4 Directors and their holdings in the Company	Ordinary Shares held as at 30 September 2003	 2002
Scott Dobbie	150,000	150,000
Hamish Buchan	25,000	25,000
Simon Edwards	10,000	10,000
George Kershaw	20,000	20,000
Mark Tyndall	5,000	5,000

All ordinary shares are beneficially held by the Directors and their families. No Director held any founder shares.

Directors' Report

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the Company's significant business and operational risks and that it has been in place for the year ended 30 September 2003 and up to the date of approval of the annual report and accounts. It is regularly reviewed by the Board and accords with the internal control guidance for Directors set out in the Combined Code.

The Manager and Administrator are responsible for the design, implementation and maintenance of controls and procedures to safeguard the assets of the Company and to manage its affairs properly. The system extends to operational and compliance controls and risk management. Clear lines of accountability have been established between the Board, the Manager and Administrator and regular reports on controls and compliance issues are provided to the Board. In carrying out its review, the Board has regard to the activities of the Manager and Administrator and their internal audit function and the external auditors.

The Audit Committee, comprising all of the Directors and of which Scott Dobbie is the Chairman, meets at least twice a year and considers reports from the auditors, the Manager and the Administrator. The Audit Committee keeps the scope and effectiveness of the external audit under review and considers and recommends the re-appointment of the auditors to the Board. The independence and objectivity of the external auditors are also considered on a regular basis, with particular regard to the level of non-audit fees, if any. Shareholders have the opportunity at each Annual General Meeting to vote on the election of the external auditors for the forthcoming year.

Management Engagement Committee

All of the Directors are members of the Management Engagement Committee and Scott Dobbie is the Chairman. The Committee reviews the performance of both the Manager and Administrator and their compliance with the terms of the management and administration agreements. The terms and conditions of the Manager's appointment, including an evaluation of performance and fees, are reviewed by the Committee on an annual basis. The management agreement is terminable on not less than 12 months' written notice. The Manager's appointment may be terminated by a lesser period of notice although (save in some exceptional circumstances) compensation in lieu of notice would be payable by the Company to the Manager. The Committee considers that the Manager, whose team is well qualified and experienced, has fully met the terms of its agreement with the Company. Investments are carefully identified, screened and monitored and risks rigorously controlled. Written and verbal presentation to the Board is made in a highly professional manner, as is communication to shareholders, City commentators and the media. Company secretarial and support services have performed well. A review of management fees, relative to the peer group, indicates that the fees paid by the Company are competitive. Having regard to the foregoing, the Committee and hence the Board believes that the continuing appointment of the Manager is in the interests of shareholders.

New Combined Code

In July 2003 the Financial Reporting Council issued a revised Combined Code which incorporates recommendations made by the Higgs Review and the Smith Report. These revisions will come into effect for reporting years beginning on or after 1 November 2003. During the financial year to 30 September 2004 the Board and Manager will review the revised Combined Code, along with the recently published AITC Code of Corporate Governance, and will amend the Company's corporate governance procedures as it considers appropriate.

Going concern

The Directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the accounts.

Substantial share interests

As at 28 November 2003 the substantial interests in the Company's ordinary share capital which had been notified to the Company are shown in Table 5.

Standard Life and the Company have entered into a relationship agreement which provides that, for so long as Standard Life and its associates exercise, or control the exercise of, 30 per cent or more of the voting rights of the Company, Standard Life will not seek to nominate to the Board directors who are not independent of Standard Life and will not take, in its capacity as a beneficial holder of any ordinary shares, any action which would be detrimental to the general body of shareholders. For this purpose any action which has the support or recommendation of a majority of the Directors shall be deemed not to be detrimental.

Payment policy

The Company's payment policy is to ensure settlement of suppliers' invoices in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to business taking place.

Independent Auditors

Following the conversion of the Company's auditors, PricewaterhouseCoopers ('PWC'), to a Limited Liability Partnership (LLP) with effect from 1 January 2003, PWC resigned on 28 January 2003 and the Directors appointed their successor, PricewaterhouseCoopers LLP, as auditors. PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution to reappoint them and authorise the Directors to agree their remuneration for the ensuing year will be proposed at the forthcoming Annual General Meeting.

Table 5

Substantial share interests	No of ordinary shares	%
The Standard Life Assurance Company	81,565,718	51.2
Foreign & Colonial Investment Trust PLC	8,000,000	5.0
The Alliance Trust PLC	6,000,000	3.8
British Assets Trust plc	5,000,000	3.1
Oxfordshire County Council	5,000,000	3.1

Directors' authority to buy back shares

During the financial year no ordinary shares were bought back by the Company. The current authority of the Company to make market purchases of up to 14.99 per cent of the issued ordinary shares expires at the end of the Annual General Meeting and Resolution 7, as set out in the notice of the Annual General Meeting, seeks renewal of such authority until the earlier of 26 July 2005 or the Annual General Meeting in 2005. The price paid for ordinary shares will not be less than the nominal value of 0.2p per share nor more than 5 per cent above the average of the market values of the ordinary shares for the five business days before the ordinary shares are purchased.

By order of the Board Valerie Mackenzie

Edinburgh Fund Managers plc
Company Secretary

Edinburgh, 28 November 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 for 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 page 25.

Remuneration committee

The Company has five non-executive Directors. The Board as a whole fulfils the function of a Remuneration Committee. The Board has instructed the Manager, Standard Life Investments (Private Equity) Limited, to provide appropriate information to assist the Board in considering the level of Directors' fees.

Policy on Directors' fees

The Company's policy is to remunerate Directors at a rate which both attracts and retains individuals of the necessary calibre and experience, and is comparable to that paid by other companies of similar characteristics. It is intended that this policy will continue for the year to September 2004 and subsequent years.

Total cumulative ordinary shareholder return for the period from launch to 30 September 2003

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

The Board carried out a review of the level of Directors' fees during the year. It concluded that the scope of its work, and the levels of comparable fees have increased since flotation in 2001 when current fees were determined. On the other hand, the portfolio of private equity fund investments is as yet immature and the expected levels of profit have yet to flow through. In these circumstances, the Board felt it would not be appropriate to recommend other than that the amounts should remain unchanged for the year to 30 September 2004 at £25,000 per annum for the chairman and £15,000 per annum for each Director. All Directors were Directors at the time of the review.

Directors' service contracts

It is the Board's policy that none of the Directors has a service contract. 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, and at least every three years thereafter. The terms also provide that a Director may be removed without notice and that compensation will not be due on leaving office.

Total shareholder return

The graph charts for the period from launch, 29 May 2001, to 30 September 2003, the total shareholder return (assuming all dividends are reinvested) in each financial period for a holding in the Company's shares against 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 and MSCI Europe (in sterling) indices are calculated. These indices are chosen for comparison purposes only.

Directors' Remuneration Report

Directors' emoluments for the year (audited)

The Directors who served in the year received emoluments in the form of fees, as described in Table 6.

Approval

The Directors' Remuneration Report on pages 22 to 23 was approved by the Board of Directors on 28 November 2003 and signed on its behalf:

By order of the Board

Edinburgh Fund Managers plc

Company Secretary

Edinburgh, 28 November 2003

Table 6
Directors' fees excluding VAT and NI (audited)

	2003 £	2002 £
Scott Dobbie	25,000	25,000
Hamish Buchan	15,000	15,000
Simon Edwards	15,000	15,000
George Kershaw	15,000	15,000
Mark Tyndall	15,000	15,000
Total	**85,000**	**85,000**

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the total return of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors confirm that they comply with all the above requirements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and to detect fraud and other irregularities.

The maintenance and integrity of the Manager's website, upon which these financial statements may be presented, is the responsibilty of the Manager. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may occur to the financial statements once they are presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Edinburgh Fund Managers plc
Company Secretary

Edinburgh, 28 November 2003

Independent Auditors' Report

To the members of Standard Life European Private Equity Trust PLC

We have audited the financial statements which comprise the Statement of Total Return, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 25 to the financial statements. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 auditable part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement and the Manager's Report. 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 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 to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. 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 auditable part of the Directors' Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs at 30 September 2003 and of its total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' Remuneration Report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditor

Edinburgh, 28 November 2003

Statement of Total Return

for the year ended 30 September 2003

	Notes	2003 Revenue £000	2003 Capital £000	2003 Total £000	2002 Revenue £000	2002 Capital £000	2002 Total £000
Net realised gains on investments	15	—	5,672	5,672	—	4,114	4,114
Net unrealised depreciation on investments	16	—	(68)	(68)	—	(10,445)	(10,445)
GAINS/(LOSSES) ON INVESTMENTS		—	5,604	5,604	—	(6,331)	(6,331)
Currency gains/(losses) on cash balances	15	—	47	47	—	(121)	(121)
Income from investments	2	2,036	—	2,036	3,755	—	3,755
Interest receivable on cash		109	—	109	73	—	73
Investment management fee	3	(118)	(1,063)	(1,181)	(82)	(741)	(823)
Administrative expenses	4	(391)	—	(391)	(291)	—	(291)
RETURN ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		1,636	4,588	6,224	3,455	(7,193)	(3,738)
Interest	15	(12)	(58)	(70)	—	—	—
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		1,624	4,530	6,154	3,455	(7,193)	(3,738)
Taxation	5	(488)	336	(152)	(1,037)	223	(814)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		1,136	4,866	6,002	2,418	(6,970)	(4,552)
Dividend in respect of ordinary shares	6	(875)	—	(875)	(1,910)	—	(1,910)
Transfer to/(from) reserves		261	4,866	5,127	508	(6,970)	(6,462)
RETURN PER ORDINARY SHARE	7	0.71p†	3.06p	3.77p	1.51p†	(4.36p)	(2.85p)
DIVIDEND PER ORDINARY SHARE		0.55p			1.20p		

The revenue column of this statement represents the revenue account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

† Earnings per share - basic and diluted

Balance Sheet

as at 30 September 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
FIXED ASSETS					
Investments	8		149,683		146,862
CURRENT ASSETS					
Debtors	9	316		191	
Cash	19	329		463	
		645		654	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	(1,395)		(3,710)	
NET CURRENT LIABILITIES			(750)		(3,056)
TOTAL ASSETS LESS CURRENT LIABILITIES			148,933		143,806
CAPITAL AND RESERVES					
Called up share capital	11		354		354
Share premium	12		77,775		77,775
Special reserve	13		79,148		79,148
Capital redemption reserve	14		1		1
Capital reserve – realised	15		9,394		4,460
Capital reserve – unrealised	16		(18,654)		(18,586)
Revenue reserve	17		915		654
TOTAL SHAREHOLDERS' FUNDS			148,933		143,806
ANALYSIS OF SHAREHOLDERS' FUNDS					
Equity interests (ordinary shares)			148,898		143,771
Non-equity interests (founder shares)	11		35		35
			148,933		143,806
NET ASSET VALUE PER EQUITY SHARE	20		93.6p		90.3p

The financial statements on pages 26 to 36 were approved by the Board on 28 November 2003 and were signed on its behalf by:

SCOTT DOBBIE CBE, Chairman

Cashflow Statement

for the year ended 30 September 2003

	Notes	2003 £000	2003 £000	2002 £000	2002 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18		755		2,927
NET CASH OUTFLOW FROM SERVICING OF FINANCE			(5)		—
NET CASH OUTFLOW FROM TAXATION			(1,014)		(519)
FINANCIAL INVESTMENT					
Purchase of investments	8	(61,158)		(111,559)	
Disposal of investments	8	63,941		108,965	
NET CASH INFLOW/(OUTFLOW) FROM FINANCIAL INVESTMENT			2,783		(2,594)
ORDINARY DIVIDENDS PAID			(1,910)		(720)
NET CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING			609		(906)
FINANCING					
Expenses of issue		(605)		(606)	
Buyback of ordinary shares		(185)		(504)	
Expenses of share buyback		—		(3)	
NET CASH OUTFLOW FROM FINANCING			(790)		(1,113)
DECREASE IN CASH	19		(181)		(2,019)

Notes to the Accounts

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

(a) Basis of Accounting – The accounts have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments. The accounts have been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'.

(b) Income from investments and interest receivable – Dividends from quoted investments are included in revenue by reference to the date on which the price is marked ex-dividend. Interest on quoted investments and other interest receivable are dealt with on an accruals basis. Income from unquoted investments is included when the right to payment is established.

(c) Investments

Unquoted – Unquoted fund investments are stated at Directors' estimate of fair value and follow the recommendations of the European Private Equity & Venture Capital Association ('EVCA'). This is normally the latest valuation placed on a fund by its manager, adjusted if necessary for cash flows between the Company and the fund occurring between the fund manager's valuation date and the Company's balance sheet date. The valuation policies used by the manager in undertaking that valuation will generally be in line with the recommendations of either the British Venture Capital Association ('BVCA') or the EVCA. However, the valuation adopted by the Company may depart from the valuation prepared by the manager of the fund if, in the opinion of the Company's Manager, an upward adjustment is not prudent. A downward adjustment may be made if the Company's Manager receives relevant information which has not been notified by the manager of the fund or if the Company's Manager forms a more cautious view than that held by the manager of the fund.

Quoted – Quoted investments are valued at mid-market prices, discounted to recognise any restriction on sale or lack of liquidity.

Overseas currencies – Overseas assets and liabilities are translated at the exchange rate prevailing at the Company's balance sheet date. Profits or losses on retranslation of investments held at the year end are accounted for through the unrealised capital reserve. Gains and losses on translation of overseas currency balances held at the year end are accounted for through the realised capital reserve.

Rates of exchange to sterling as at 30 September were:

	2003	2002
Euro	1.4267	1.5913
US dollar	1.6614	1.5726

Transactions in overseas currency are translated at the exchange rate prevailing on the date of the transaction.

(d) Capital reserve

Realised – Gains and losses on realisation of investments of a capital nature are dealt with in this reserve. 90% of the investment management fee and any associated tax relief is credited to this reserve.

Unrealised – Unrealised depreciation/appreciation of investments is accounted for in this reserve.

(e) Expenses – All expenses are accounted for on an accruals basis and are charged through the revenue account, except where they directly relate to the acquisition or disposal of an investment or the maintenance or enhancement of its value, in which case they are added to the cost of the investment or deducted from the sales proceeds.

The investment management fee and finance costs are allocated 90% to the realised capital reserve and 10% to the revenue account.

(f) Taxation – Deferred taxation is provided for under the provisions of FRS19, 'Deferred Tax' to the extent that assets and liabilities are likely to arise from timing differences. The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular item to which it relates, using the Company's effective rate of tax for the accounting period.

Notes to the Accounts

	Year to 30 September 2003 £000	Year to 30 September 2002 £000
2 Investment income		
Income from 'AAA' rated money market funds	1,133	2,543
Other income from unquoted investments	903	1,212
	2,036	3,755
3 Investment management fee		
Investment management fee	1,181	823
Charged against capital reserve – realised	(1,063)	(741)
	118	82

The investment management fee payable to Standard Life Investments (Private Equity) Limited is 0.8% per annum, paid quarterly in arrears, of the investments and other assets of the Company and any subsidiaries less the aggregate of the liabilities of the Company and any subsidiaries. No fee was payable on uninvested cash raised in the placing in May 2001 until the quarter beginning 1 July 2002. The investment management fee is allocated 90% to the realised capital reserve and 10% to the revenue account. The management agreement between the Company and Standard Life Investments (Private Equity) Limited is terminable by either party on one year's notice, subject to a minimum initial period of three years.

4 Administrative expenses		
Secretarial and administration fee	99	100
Directors' fees	88	88
Auditors' remuneration - all audit related	26	23
Printing and postage	12	9
Legal fees	19	10
Fees and subscriptions	31	14
Loan arrangement fee	80	—
Other expenses	36	47
	391	291

The secretarial and administration fee is payable to Edinburgh Fund Managers plc at the rate of £66,164 (excluding VAT) plus 0.035% of net assets in excess of £100 million per annum, and is adjusted annually in line with the retail prices index. The secretarial and administration agreement between the Company and Edinburgh Fund Managers plc is terminable by either party on six months notice, subject to a minimum initial period of two years.

The emoluments of the Chairman, who was the highest paid Director, were £25,000 (2002 – £25,000). The emoluments of each of the other Directors were £15,000 (2002 – £15,000).

Irrecoverable VAT has been shown under the relevant expense line above.

	Year to 30 September 2003 £000	Year to 30 September 2002 £000

5 Taxation

UK corporation tax charge – 30% of return on ordinary activities before tax	488	1,037
Relief to capital reserve – realised	(336)	(223)
	152	814

There is no provision for deferred tax in either period.

There are no differences between the tax on profit on ordinary activities at the standard UK corporation tax rate and the Company's actual current tax charge.

6 Dividend on ordinary shares

Final dividend of 0.55p (2002 – 1.20p) per ordinary share payable on 5 February 2004	875	1,910

7 Return per ordinary share

The return per ordinary share is based on the following figures:

Weighted average number of ordinary shares in issue	159,150,000	159,735,685
Revenue return	£1,136,000	£2,418,000
Capital return	£4,866,000	(£6,970,000)

8 Fixed asset investments

	'AAA' Rated Money Market Funds £000	Unquoted £000	Total £000	2002 Total £000
Opening market value	60,171	86,691	146,862	150,599
Opening unrealised (appreciation)/depreciation	(92)	18,678	18,586	8,141
Opening book cost	*60,079*	*105,369*	*165,448*	*158,740*
Movements in the year:				
Additions at cost	8,616	52,542	61,158	111,559
Disposal of investments	(51,334)	(12,607)	(63,941)	(108,965)
	17,361	145,304	162,665	161,334
Realised gains on investments	3,156	*2,516*	*5,672*	4,114
Closing book cost	20,517	147,820	168,337	165,448
Closing unrealised appreciation/(depreciation)	2,299	(20,953)	(18,654)	(18,586)
Closing market value	22,816	126,867	149,683	146,862

9 Debtors

Amounts falling due within one year:		
Accrued income	42	179
Prepayments	19	12
Taxation	*255*	—
	316	191

Notes to the Accounts

	Year to 30 September 2003 £000	Year to 30 September 2002 £000
10 Creditors: amounts falling due within one year		
Taxation	—	607
Management fee	375	349
Secretarial fee	25	25
Broker's fee [1]	—	605
Sundry creditors	55	29
Proposed final dividend	875	1,910
Amounts due to brokers	—	185
Loan commitment fee	65	—
	1,395	3,710

[1] An agreement exists between the Company and its broker, UBS to pay UBS a fee on cash raised in the placing in May 2001, payable as to one fifth on the first day of dealings (29 May 2001) with the balance payable in four equal instalments at six monthly intervals.

11 Called up share capital

	£	£
Authorised:		
160,000,000 ordinary shares of 0.2p	320,000	320,000
17,500,000 founder A shares of 0.2p	35,000	35,000
17,500,000 founder B shares of 0.2p	35,000	35,000
	390,000	390,000
Issued:		
159,150,000 (2002 – 159,150,000) ordinary shares of 0.2p – fully paid	318,300	318,300
17,500,000 (2002 – 17,500,000) founder A shares of 0.2p – partly paid	17,687	17,687
17,500,000 (2002 – 17,500,000) founder B shares of 0.2p – partly paid	17,686	17,686
	353,673	353,673

On 2 May 2001, 14,835,625 founder A shares and 14,835,625 founder B shares were allotted each partly paid up at 0.1p per share and 2,664,375 founder A shares and 2,664,375 founder B shares were allotted each partly paid up at 0.11p per share. The founder shares are entitled to a fixed non-cumulative dividend of 0.05% per annum on the nominal amount per share paid up. The founder shares do not carry any right to vote, except in the case of changes to class rights.

The founder shares carry an entitlement to convert into a maximum of 10% of the ordinary share capital, as enlarged by the conversion, in certain circumstances. Details of the conversion price and rights of the founder shares are set out on page 18.

12 Share premium

Opening and closing balance	77,775	77,775

Court approval was granted on 27 September 2001 for 50% of the initial premium arising on the issue of the ordinary share capital to be cancelled and transferred to a special reserve (note 13).

	Year to 30 September 2003 £000	Year to 30 September 2002 £000
13 Special reserve		
Opening balance	79,148	79,840
Share buy-backs	—	(692)
Closing balance	79,148	79,148

The special reserve was created with Court approval on 27 September 2001 out of the initial share premium arising on the issue of ordinary shares on 29 May 2001. The reserve is a distributable reserve and may be applied in any manner as a distribution, other than by way of dividend.

14 Capital redemption reserve

Opening balance	1	—
Transfer from called up share capital arising from share buy-backs	—	1
Closing balance	1	1

15 Capital reserve – realised

Opening balance	4,460	985
Net realised gains on sale of investments	2,516	3,931
Net realised gains on sale of 'AAA' funds	3,156	183
Management fee charged to capital	(1,063)	(741)
Loan non-utilisation fee charged to capital	(58)	—
Tax relief on fees above	336	223
Currency gains/(losses) on cash balances	47	(121)
Closing balance	9,394	4,460

16 Capital reserve – unrealised

Opening balance	(18,586)	(8,141)
Movement in unrealised depreciation on investments	(2,275)	(10,537)
Movement in unrealised appreciation on 'AAA' funds	2,207	92
Closing balance	(18,654)	(18,586)

17 Revenue reserve

Opening balance	654	146
Return before dividends	1,136	2,418
Final dividend	(875)	(1,910)
Closing balance	915	654

	Year to 30 September 2003 £000	Year to 30 September 2002 £000

18 Reconciliation of net revenue on ordinary activities before taxation to net cash inflow from operating activities

	Year to 30 September 2003 £000	Year to 30 September 2002 £000
Net revenue on ordinary activities before taxation	1,636	3,455
Decrease in accrued income	137	120
Increase in prepayment	(7)	(8)
Increase in creditors	52	101
Expenses charged to capital reserve – realised	(1,063)	(741)
	755	2,927

19 Analysis of changes in net funds during the period

	At 30 September 2002 £000	Currency movement £000	Cashflows £000	At 30 September 2003 £000
Cash	463	47	(181)	329

20 Net asset value per ordinary share

The net asset value per ordinary share and ordinary shareholders' funds are calculated in accordance with the Company's Articles of Association.

	30 September 2003	30 September 2002
Ordinary shareholders' funds	£148,898,000	£143,771,000
Number of ordinary shares in issue	159,150,000	159,150,000
Net asset value per ordinary share	93.6p	90.3p

21 Reconciliation of movement in shareholders' funds

	Year to 30 September 2003 £000	Year to 30 September 2002 £000
Opening shareholders' funds	143,806	150,960
Revenue return before dividends	1,136	2,418
Capital losses	4,866	(6,970)
	149,808	146,408
Dividend in respect of ordinary shares	(875)	(1,910)
Share buy-backs	—	(692)
Closing shareholders' funds	148,933	143,806

22 Commitments and contingencies

	30 September 2003 £000	30 September 2002 £000
Outstanding calls on investments	141,627	190,977

This represents commitments made to fund investments remaining undrawn.

23 Parent undertaking and related party transactions

The ultimate parent undertaking is Standard Life. The accounts of the ultimate parent undertaking are the only group accounts incorporating the accounts of the Company.

Standard Life and the Company have entered into a relationship agreement which provides that, for so long as Standard Life and its associates exercise, or control the exercise of, 30 per cent or more of the voting rights of the Company, Standard Life will not seek to nominate to the Board directors who are not independent of Standard Life and will not take, in its capacity as a beneficial holder of any ordinary shares, any action which would be detrimental to the general body of shareholders. For this purpose any action which has the support or recommendation of a majority of the Directors shall be deemed not to be detrimental. Copies of the accounts of the ultimate parent undertaking can be obtained at Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.

The Manager is a wholly owned subsidiary of Standard Life and is therefore a related party of the Company. During the year ended 30 September 2003 the Manager charged management fees totalling £1,181,000 (2002 – £823,000) to the Company in the normal course of business.

In the year to 30 September 2002, Hamish Buchan, a Director of the Company, received a consultancy fee for general advice of £3,500 from Standard Life Investments Limited, a company in the Standard Life group. No related party transactions were undertaken during the year to 30 September 2003.

24 Risk management, financial assets and liabilities

The following information is given in accordance with Financial Reporting Standard 13, 'Derivatives and Other Financial Instruments' ('FRS 13').

Financial assets and liabilities

As an investment trust, the Company holds assets in the form of financial instruments for its liquidity and in respect of its fixed asset investments, which is typical of equity investing. The assets and liabilities are managed with the overall objective of achieving long-term capital growth for shareholders. Short-term debtors and creditors are excluded from disclosure as allowed by FRS 13.

Risk management

The Company's investments are in private equity funds, typically unquoted limited partnerships. These are valued by their managers in line with EVCA or BVCA guidelines which provide a conservative basis of valuation, with underlying investments usually held at cost for the first year, unless there is reason for them to be written-down. The funds may hold investments that have become quoted and these will be marked to market and discounted to acknowledge any restriction placed on them. Risk is spread over a range of economies and industrial sectors, thereby reducing excess exposure to particular areas. The Manager's investment review and monitoring process is used to identify and, where possible, reduce risk of loss of value in the Company's investments. Surplus funds are invested in 'AAA' rated money market funds, which generate securities income rather than interest in order to meet the income requirements of investment trust status. The money market fund investments are monitored by the treasury team of Standard Life Investments for credit risk and interest rate. The Directors consider that the valuation of assets on the balance sheet represents their fair value.

Currency risk

The Company has assets and fund commitments in currencies other than sterling. The Manager takes account of the balance of assets and liabilities in each currency. Over time, it is expected that the majority of the Company's investments and commitments will be denominated in euros. Accordingly, nearly all of the Company's liquidity is currently held in that currency. No currency swaps or forwards were used during the year. The table overleaf sets out the Company's currency exposure.

25 Risk management, financial assets and liabilities–contd

Currency exposure at 30 September 2003.

	Interest Rate %	Local Currency 000s	Foreign Exchange Rate	Sterling Equivalent £000
Investments:				
Sterling		50,762	—	50,762
Euro		69,964	1.4267	49,041
US dollar		44,964	1.6614	27,064
'AAA' rated money market funds	1.96	32,550	1.4267	22,816
Cash and liquidity:				
Sterling	2.53	—	—	—
US dollar	0.40	155	1.6614	94
Euro	0.66	335	1.4267	235
Total				150,012
Commitments:				
Sterling		25,094	—	25,094
US dollar		57,950	1.6614	34,880
Euro		116,489	1.4267	81,653
Total				141,627

Currency exposure at 30 September 2002.

	Interest Rate %	Local Currency 000s	Foreign Exchange Rate	Sterling Equivalent £000
Investments:				
Sterling		44,292	—	44,292
Euro		63,879	1.5913	40,143
US dollar		3,548	1.5726	2,256
'AAA' rated money market funds	3.24	95,750	1.5913	60,171
Cash and liquidity:				
Sterling	2.33	295	—	295
US dollar	0.65	162	1.5726	103
Euro	1.64	103	1.5913	65
Total				147,325
Commitments:				
Sterling		44,538	—	44,538
US dollar		76,672	1.5726	48,755
Euro		155,445	1.5913	97,684
Total				190,977

Liquidity risk

The Company holds its uninvested assets in the form of 'AAA' rated money market funds, cash balances and deposits, all of which are repayable on demand. Cash balances are maintained with the Company's custodian. 'AAA' rated money market funds and deposits are placed with third parties and monitored by the treasury team of Standard Life Investments. No dealing in derivatives was undertaken during the year. During the year, the Company negotiated a £40 million five year committed revolving credit facility with The Royal Bank of Scotland plc. As at 30 September 2003 this facility remained undrawn.

Interest rate risk

'AAA' rated money market funds, cash and short-term deposits are held in floating rate accounts. The benchmark that determines the interest received or paid on sterling balances is the sterling bank base rate which was 3.5% (2002 – 4.0%) as at 30 September 2003. Interest on US dollar and euro balances is based on variable interest rates. Interest rates earned at the year end are detailed in the table above.

Information for Investors

Registered address
This report has been mailed to shareholders at the address shown on the Company's share register. Any change of address should be advised to the Registrars at the following address under the signature of the shareholder:

Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1WQ

Registrars' shareholder helpline: 0870 601 5366
Registrars' broker helpline: 0906 559 6025

If your shares are held via a nominee you should contact them with any such change.

Ordinary share price and net asset value
The Company's ordinary share price is published under the heading 'Investment Companies' in the Financial Times, The Scotsman, The Herald and The Daily Telegraph.

The Stock Exchange code for the Company's ordinary shares is SEP.L.

In view of the unlisted nature of the Company's portfolio, the NAV is announced twice yearly in the preliminary announcement of the Company's annual and interim results and subsequently in the relevant published report to shareholders.

ISA (Individual Savings Accounts)
Lump sums and regular savings ISAs in the Company's ordinary shares are offered by Standard Life Savings Limited. These provide a tax efficient vehicle for investors wishing to invest up to £7,000 per annum. There is an initial charge of 1.25% and no annual management charge for the plans. Further details are available from Standard Life Savings Limited, 12 Blenheim Place, Edinburgh EH7 5ZR or by telephoning 0845 602 4247.

Investment Manager
Standard Life Investments (Private Equity) Limited
1 George Street
Edinburgh EH2 2LL

Telephone: 0131 245 0055
Fax: 0131 245 6105

Standard Life Investments (Private Equity) Limited is authorised and regulated by the Financial Services Authority and is a subsidiary of Standard Life Investments Limited. Standard Life Investments Limited may record and monitor telephone calls to help improve customer service.

Financial Calendar

December – Preliminary results for the year announced

December – Annual report and accounts published

January – Annual General Meeting

May – Interim results announced

June – Interim report published

The Annual General Meeting will be held at 1 George Street, Edinburgh EH2 2LL on Tuesday, 27 January 2004 at 12.30pm.

Notice of Meeting

Notice is hereby given that the third Annual General Meeting of Standard Life European Private Equity Trust PLC will be held at 1 George Street, Edinburgh on 27 January 2004 at 12.30 pm, for the following purposes:

To consider and, if thought fit, pass the following as ordinary resolutions:

1. That the report and accounts for the year ended 30 September 2003, the Directors' Report, the Directors' Remuneration Report and the Independent Auditors' Report be received.
2. That the Directors' Remuneration Report for the year ended 30 September 2003 be approved.
3. That a final dividend of 0.55p per ordinary share be declared.
4. That Mr Scott Dobbie, who retires from office by rotation, be re-elected as a Director.
5. That Mr Simon Edwards, who retires from office by rotation, be re-elected as a Director.

To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:

6. That PricewaterhouseCoopers LLP be reappointed Auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors.

To consider and, if thought fit, pass the following as a special resolution:

7. That the Company be generally and unconditionally authorised, in accordance with section 166 of the Companies Act 1985 (the 'Act'), to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 0.2 pence each ('ordinary shares') in the share capital of the Company, provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased shall be 23,856,585 ordinary shares (representing 14.99 per cent of the Company's issued ordinary share capital);

(ii) the minimum price which may be paid for an ordinary share shall be 0.2p;

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall be 105 per cent of the average of the middle market quotations (as derived from the Daily Official List) for the ordinary shares for the five business days immediately preceding the date of purchase; and

(iv) unless previously varied, revoked or renewed, the authority hereby conferred shall expire on 26 July 2005 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2005, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the Board

Edinburgh Fund Managers plc
Company Secretary

Edinburgh, 19 December 2003

Notes:

The final dividend, if approved, will be paid on 5 February 2004 to ordinary shareholders on the Company's share register at close of business on 9 January 2004.

A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. Such a proxy need not also be a member of the Company.

A form of proxy for use by ordinary shareholders is enclosed with this report and accounts. Proxies must be lodged with the Company's registrar, Lloyds TSB Registrars, The Causeway, Worthing BN99 6ZR not less than 48 hours before the time appointed for the meeting. Completion of the form of proxy will not prevent an ordinary shareholder from attending the meeting and voting in person.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those holders of ordinary shares having their name entered on the Company's share register not later than 48 hours before the time appointed for the meeting shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to the entries on the Company's share register after that time shall be disregarded in determining the rights of any holder of ordinary shares to attend and vote at the meeting, notwithstanding any provisions in any enactment, the articles of association of the Company or other instrument to the contrary.

A holding of founder shares does not entitle the holder thereof to attend or vote at the meeting.

No Director has a service contract with the Company.

Standard Life European Private Equity Trust PLC
Registered in Scotland no. 216638
1 George Street
Edinburgh EH2 2LL
United Kingdom

Managed by Standard Life Investments (Private Equity) Limited
1 George Street
Edinburgh EH2 2LL
United Kingdom