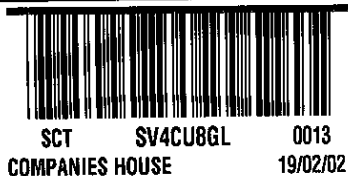


SC216638

Report and Accounts

Standard Life European Private Equity Trust PLC

for the period ended 30 September 2001



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

Company Summary

Investment manager	Standard Life Investments (Private Equity) Limited.
Shareholders' funds	£151.0 million as at 30 September 2001.
Market capitalisation	£154.4 million as at 30 September 2001.
Capital structure	<p>160 million ordinary shares of 0.2p each.</p> <p>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.</p> <p>35 million founder shares of 0.2p each.</p> <p>The founder shares do not carry any right to vote, except in the case of changes to class rights. See page 14 for further details.</p>
Management agreement	<p>0.8% per annum of the net assets of the Company. No fee will be charged in respect of uninvested cash raised in the placing in May 2001 until the quarter beginning 1 July 2002.</p> <p>The notice period is one year, subject to a minimum initial period of three years.</p>
Company secretarial and administration agreement	<p>£65,000 (index linked) plus 0.035% per annum of net assets in excess of £100 million.</p> <p><i>The notice period is six months, subject to a minimum initial period of two years.</i></p>
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

	30 September 2001	Launch 29 May 2001	% change
Performance			
Capital return			
Net asset value per ordinary share	94.3p	98.7p	-4.4
Share price	96.5p	100.0p**	-3.5
FTSE All-Share Index†	2,340.5	2,852.7	-18.0
MSCI Europe Index (in sterling)†	672.0	851.3	-21.1
Final dividend for period per ordinary share	0.45p		
Revenue return per ordinary share*	0.54p		
Premium			
(difference between share price and net asset value)	2.3%		
Expense ratio (annualised)			
– as a % of average shareholders' funds	0.7%††		
Highs/Lows			
	High	Low	
Share price	108.0p	96.5p	

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

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

** Issue price.

†† See note on basis of management fee on page 1.

This is my first Chairman's statement following the admission of the Company's ordinary shares to trading on the London Stock Exchange on 29 May 2001 and I would like to welcome all shareholders to the Company.

The investment objective of the Company is to achieve long term capital gains through investment in a diversified portfolio of private equity funds investing predominantly in Europe.

Performance and dividend

The period under review, whilst short, saw dramatic changes at a global macro-economic level and in the valuation of quoted equities. I am pleased to report that against such a background the Company performed well. Over the period from 29 May to 30 September 2001, the net asset value per ordinary share fell by 4.4% from an opening net asset value per share of 98.7p to 94.3p. The income generated on the cash raised at the time of the Company's listing allows the Board to recommend a final dividend of 0.45p per ordinary share, to be paid on 5 February 2002 to shareholders on the Company's share register as at 11 January 2002. The Company is unlikely to pay regular dividends when it becomes more fully invested.

While the Company does not have a defined benchmark, the 4.4% fall in net asset value over the period to 30 September 2001 compares with falls of 18.0% and 21.1% respectively in the FTSE All-Share Index and the MSCI Europe Index (sterling adjusted) over the period. The Company's out-performance is principally attributable to its significant cash and money market holdings and the focus of the portfolio on buy-out as opposed to venture capital funds. Further, a substantial proportion of the private equity assets acquired by the Company on listing continues to be valued at or below the original cost of investment.

Valuation and cashflow

On listing the Company acquired an existing portfolio of 19 European private equity fund interests from The Standard Life Assurance Company ('Standard Life') for £80.7 million, satisfied wholly through the issue of

ordinary shares. In the period to 30 September 2001 this portfolio of fund interests generated £7.5 million of distributions, of which £1.2 million was realised gains.

Since listing the Company has made new commitments totalling £104.4 million to six private equity funds, which are expected to be drawn down over the next 3-4 years. Of these new commitments five were to buy-out funds and one was to a venture capital fund. In the period to 30 September 2001, £1.8 million was drawn down from these new fund commitments and £3.5 million was drawn down from the outstanding commitments of £18.4 million assumed in the acquisition of the portfolio of fund interests from Standard Life.

In undertaking the valuation of the Company's portfolio of 25 private equity fund interests, the Company used the most recent valuation of each fund prepared by the relevant fund manager, adjusted where necessary for subsequent cash flows. Of the 25 fund interests held by the Company, 22 of the funds were valued by their fund managers as at 30 September 2001. The closing value of the Company's portfolio of fund interests as at 30 September 2001 was £71.6 million – £8.1 million less than the initial valuation on listing. This reduction reflected write-downs and write-offs by fund managers of some of the underlying investments in their respective funds. The majority of these adjustments related either to technology investments, or to more traditional buy-outs where there had been a deterioration in trading. There was little impact on the portfolio from foreign exchange movements.

Chairman's Statement

The aggregate closing cash and money market holdings of the Company as at 30 September 2001 were £81.6 million, slightly higher than the £79.3 million raised at the time of the Company's listing. This small increase is largely due to the Company's new commitments being to recently launched funds and to private equity fund managers exhibiting caution in concluding transactions until the outlook for corporate profitability is clearer. The increase also demonstrates the ability of the portfolio of fund interests to generate distributions in difficult market conditions.

Over-commitment strategy

The Company's objective of maximising shareholder returns will be best achieved by seeking, over time, to be fully invested on a cash basis. The current level of cash, anticipated distributions and the time-lag between commitment and investment of monies means that the Manager must pursue a policy of over-commitment. Accordingly, the amount of new commitments being made by the Company will exceed its existing cash and money market holdings. The Board closely monitors the level of new commitments being made by the Company and its capacity for over-commitment. Subject to suitable investment opportunities being identified and the Board and the Manager being satisfied with on-going cash flows, we expect to make a similar amount of new commitments during the next year as were made in the period to 30 September 2001.

Share capital reduction and buy-back authority

Immediately prior to listing, special resolutions were passed authorising the cancellation of part of the Company's share premium account and granting the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue.

On 27 September 2001 the Company obtained Court approval for the cancellation of £79.8 million of its share premium account and the transfer of such sum to a special reserve. The Board is proposing to renew the authority to make market purchases of up to 14.99% of the ordinary shares in issue at the forthcoming Annual General Meeting of the Company.

In considering whether to utilise this authority, the Board will have regard to the supply and demand balance in the Company's ordinary shares in the market, the prevailing level of the Company's share price relative to its net asset value and the volatility of any discount. No purchases will be made unless they result in an increase in the net asset value of the remaining ordinary shares.

Marketing

Since receiving advice that the ordinary shares of the Company are eligible for inclusion in ISAs, the Company has been working with the Standard Life group to establish an appropriate ISA product in its ordinary shares. It is anticipated that this will be marketed by Standard Life Investments (Mutual Funds) Limited from early 2002. The Board and the Manager believe that the launch of an ISA will generate retail interest in the Company's ordinary shares and broaden the shareholder base.

The Company became a member of the Association of Investment Trust Companies on 1 October 2001.

Outlook

The European macro-economic environment has undoubtedly deteriorated over recent months. It is often at such times, when expectations and valuations have fallen, that some of the best buy-out opportunities are to be found. With the Company holding substantial liquid assets and the Board and the Manager pursuing an over-commitment strategy, I believe that the Company will be well placed to benefit from such circumstances. As for the existing portfolio of private equity fund interests, while fund managers' valuations may be affected by the severity and length of any economic downturn, we do anticipate further distributions and realised gains being generated.

Scott Dobbie CBE
Chairman

30 November 2001

Background

The Company was admitted to the London 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 opening net assets of the Company, after deducting the costs of the listing and placing, were £157.9 million, equivalent to 98.7p per ordinary share. As at 30 September 2001 the net asset value per ordinary share had fallen to 94.3p. Over the same period, the mid-market price for the Company's ordinary shares traded between 108p and 96.5p, with a closing mid-market price on 30 September 2001 of 96.5p. The issue price was 100p per ordinary share.

It is the Company's intention to announce its net asset value 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 net asset value between such results' announcements.

The Manager of the Company is Standard Life Investments (Private Equity) Limited, which comprises a team of eight investment professionals with a total of 92 years' private equity experience. This team manages in excess of £750 million of private equity investments on behalf of 40 clients worldwide, including Standard Life.

European private equity market

Following the record levels of money raised, invested and realised in 2000, the European private equity market has experienced a slowdown in 2001. This slowdown has reflected the weaker macro-economic environment in Europe and the ending of the technology "bubble" that drove much of the excesses of late 1999 and early 2000. Notwithstanding, it has still been possible for some of the leading European private equity managers to raise new funds successfully in 2001, most notably in the buy-out segment of the market.

With respect to new investments, private equity managers in Europe have been exercising a degree of

caution. This arises from the general expectation that the major European economies will experience slower growth, if not recession, over the coming year with an adverse impact on corporate profits and valuations. In addition, banks have become more cautious, resulting in lower debt to equity ratios for leveraged transactions.

Conditions for realising investments have also become more difficult with flotations open only to the best companies, capable of demonstrating strong and sustainable earnings growth. Trade sales continue to be available, but these too have declined both in number and in the valuations achieved.

Despite such conditions, the drivers behind the growth in European private equity investment are still valid and support the Company's investment policy. European companies remain under pressure to focus on their core competencies and to increase shareholder value, providing buy-out opportunities across the corporate arena. Additionally, the harmonisation of non-tariff trade barriers within Europe is ongoing, creating pressure for industrial rationalisation and restructuring. Finally, the pool of entrepreneurial and private equity talent available to manage and execute transactions continues to grow.

The Company's investment policy

The Company's investment policy is to invest in private equity funds that operate predominantly in Europe. The Company does have the flexibility to invest up to 20% of its gross assets in funds that operate outside Europe; however, no such exposure existed as at 30 September 2001. The Company will invest only in private equity funds, but occasionally 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, attractive returns.

Manager's Review

The aim is to build a portfolio of private equity fund interests diversified by country, industry sector, stage and size of investment. The portfolio is expected to comprise around 35 active fund investments, including the 19 fund investments acquired on listing. As at 30 September 2001 the Company had £71.6 million invested in a total of 25 private equity funds. The split of the portfolio by type of private equity fund was as follows:-

	Venture capital 3%	
Balanced funds 25%		Buy-out & development capital 72%

Type of fund (% of 30 September 2001 valuation)

Details of all of the Company's private equity fund investments, and more detailed information on the ten largest holdings, can be found on pages 10 and 11 respectively.

Transfer portfolio and distributions to date

As part of the listing arrangements the Company acquired an existing portfolio of 19 European private equity fund interests from Standard Life for £80.7 million, satisfied wholly through the issue of ordinary shares in the Company. This portfolio is relatively mature, with the earliest fund commitment being made in 1989 and the latest in 1999.

In the period from 29 May to 30 September 2001 this portfolio generated aggregate distributions of £7.5 million and realised gains, compared to the acquisition price paid by the Company for these interests, of £1.2 million. In the light of current market conditions this outcome is regarded as satisfactory.

The largest distributions and realised gains received during the period are set out in Table 1.

The most significant distribution was from Charterhouse Capital Partners VI, where the total distribution and gain received arose on the disposal of part of that fund's holding in PHS Group plc following the flotation of that company on the London Stock Exchange in June 2001.

Commitments and draw downs

On acquiring the portfolio of private equity fund interests from Standard Life, the Company assumed £18.4 million of outstanding commitments with respect to these funds. In the period to 30 September 2001 a total of £3.5 million of these outstanding commitments was drawn down as set out in Table 2.

In the period to 30 September 2001 the Company made new commitments totalling £104.4 million to six private equity funds, of which five were buy-out funds and one was a venture capital fund. These funds are managed by some of the leading private equity fund managers operating in Europe. Details of the new fund commitments made by the Company and the respective amounts drawn down by each fund as at 30 September 2001 are set out in Table 3.

The most notable draw downs made by the funds in Tables 2 and 3 during the period were:-

- a \$0.53 million draw down by CVC European Equity Partners III, which was used by CVC in funding a follow-on investment in Kappa Packaging as part of the acquisition of certain packaging businesses from Assi Doman;
- a 0.75 million draw down by Apax Europe IV, which was used by Apax in funding its investment in the acquisition of Yell, the former British Telecommunications "Yellow Pages" business; and

Table 1

Largest distributions and realised gains	Type of fund	Aggregate distributions	Aggregate realised gains
Charterhouse Capital Partners VI	Buy-out	£2.8m	£0.8m
CVC European Equity Partners II	Buy-out	£1.4m	£0.1m
HEV III	Buy-out	£1.1m	£0.2m
Total		£5.3m	£1.1m

- \$1.41 million and \$0.71 million draw downs by CVC European Equity Partners II and CVC European Equity Partners III respectively, which were used by CVC in funding the acquisition of Cementbouw, a Dutch building products and materials company.

As at 30 September 2001 the Company's outstanding commitments to the 25 private equity funds in which the Company was invested, after accounting for the above £5.3 million of draw downs, was £117.4 million. Subject to suitable investment opportunities being identified and as discussed in the Chairman's Statement, it is expected that the Company will make a similar amount of new fund commitments during the next year as were made in the period to 30 September 2001.

Investment performance

As at 30 September 2001 the value of the Company's portfolio of private equity fund interests was £71.6 million which, together with its money market holdings and current assets less liabilities, resulted in the Company having total net assets of £151.0 million (94.3p per ordinary share). This compares with an investment portfolio valued at £80.7 million and total net assets of £157.9 million (98.7p per ordinary share) as at 29 May 2001. A breakdown of the £6.9 million movement in the Company's net assets over the period is detailed in Table 4 on page 8.

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 23. Of the 25 private equity funds in which the Company was invested 22 of the funds were valued by their fund managers as at 30 September 2001. Accordingly, the valuation of the Company's portfolio of private equity fund interests is based on timely information. In undertaking the valuation the Manager 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 value of the Company's portfolio of private equity fund interests as at 30 September 2001 was £71.6 million. The movement in the value of the portfolio over the period was an unrealised loss of £8.1 million. Details of the cost and the valuation of each respective fund interest held by

Table 2

Assumed commitments and draw downs	Type of Fund	Outstanding commitments assumed by the Company on 29.5.01	Sterling equivalent outstanding commitments	Draw downs as at 30.9.01 (sterling equivalent)
Apax Europe IV	Balanced	8.3m	£5.1m	£1.0m
Apax UK VI	Balanced	nil	nil	£0.2m
Charterhouse Capital Partners VI	Buy-out	£4.1m	£4.1m	£1.0m
CVC European Equity Partners II	Buy-out	\$4.7m	£3.2m	£1.0m
Granville Private Equity Fund V	Buy-out	£0.9m	£0.9m	£0.2m
The Primary Capital No.1 Fund	Buy-out	£0.7m	£0.7m	£0.1m
Total			£14.0m	£3.5m

Notes: the foreign exchange rates used in calculating the sterling equivalent outstanding commitments in the above table were the prevailing rates as at 30 September 2001. The £0.2 million draw down by Apax UK VI relates to a recycling of a distribution to allow the funding of follow-on investments.

Table 3

New commitments and draw downs	Type of Fund	Total commitments made by the Company	Sterling equivalent commitments	Draw downs as at 30.9.01 (sterling equivalent)
Candover 2001 Fund	Buy-out	33.0m	£20.4m	£0.2m
CVC European Equity Partners III	Buy-out	\$35.0m	£24.9m	£1.1m
Advent Global Private Equity IV	Buy-out	30.0m	£18.6m	nil
MUST 4	Buy-out	£15.0m	£15.0m	£0.3m
Scottish Equity Partnership II	Venture	£5.0m	£5.0m	£0.2m
Third Cinven Fund	Buy-out	33.0m	£20.5m	nil
Total			£104.4m	£1.8m

Note: the foreign exchange rates used in calculating the sterling equivalent commitments in the above table were the prevailing rates as at 30 September 2001.

Manager's Review

the Company as at 30 September 2001 are set out on page 10.

Within the portfolio of private equity fund interests, £45.9 million of the portfolio was denominated in sterling and £25.7 million (sterling equivalent) was denominated in euros at the financial period end. As indicated in table 4, there was no significant foreign exchange movement over the period. The prevailing sterling/euro foreign exchange rate as at 30 September 2001 was £1/ 1.6138. To date the Company has not sought to hedge its non-sterling currency exposure, although hedging may be undertaken as the trust's euro denominated fund commitments and invested assets increase. Over time it can be expected that a majority of the Company's commitments and investments will be in euros.

Table 4

	Investment portfolio	Cash and other net assets	Total net assets	NAV per ordinary share (p)
Opening balance	£80.7m	£77.2m*	£157.9m	98.7p
Draw downs	£5.3m	(£5.3m)	Nil	
Opening value of investment realisations during the period	(£6.3m)	£6.3m	Nil	
Realised gains on investments in the period	—	£1.2m	£1.2m	
Income earned	—	£1.4m	£1.4m	
Unrealised (losses)/gains in the period at constant exchange rates	(£8.2m)	—	(£8.2m)	
Impact of foreign exchange rate movement	£0.1m	—	£0.1m	
Expenses and tax incurred	—	(£0.7m)	(£0.7m)	
Recommended dividend	—	(£0.7m)	(£0.7m)	
Closing balance	£71.6m	£79.4m	£151.0m	94.3p

* The opening balance reflects the gross cash raised in the placing of £79.3 million less the costs of the listing and placing of £2.1 million.

As at 30 September 2001 the Company's aggregate cash and money market holdings were £81.6 million, of which £79.0 million was held in a selection of 'AAA' rated money market funds and £2.6 million was held in bank deposits and cash at bank. As a result of the over-commitment strategy being pursued, it can be expected that the Company's cash and money market holdings will decline as the amount of draw downs by funds exceeds distributions received by the Company. The intention is that over the next two years the Company moves towards being fully invested on a cash basis.

Diversification

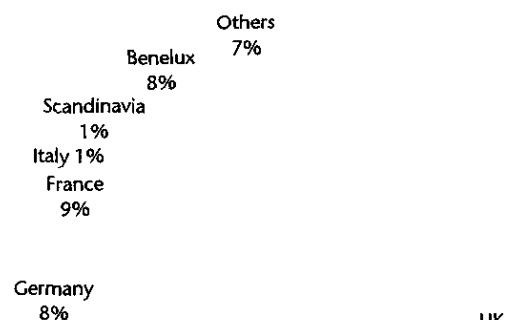
The Board has agreed diversification limits with the Manager regarding the Company's net asset and commitment exposure to individual private equity funds and managers. In operating within these diversification limits, the Manager monitors and updates the Company's exposure to the portfolio of underlying investments held by the different private equity funds in which the Company is invested. As reported above, the Company was invested in 25 different private equity funds as at 30 September 2001, which funds had interests in a total of 280 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.

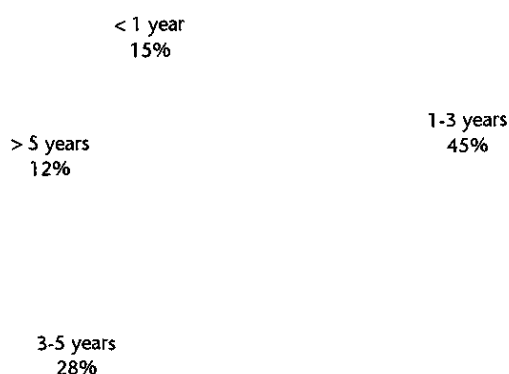
As at 30 September 2001 the Company's £71.6 million of private equity fund interests were diversified as shown on page 9.

The pie charts demonstrate the broad diversification that applies by sector and maturity within the Company's underlying portfolio of investments and the conservative basis of valuation used by the fund managers in valuing their investments. As regards geographic exposure, it can be expected that, in line with the increasing amount of private equity money being invested in continental Europe, the Company's percentage exposure to the United Kingdom will decline over time.

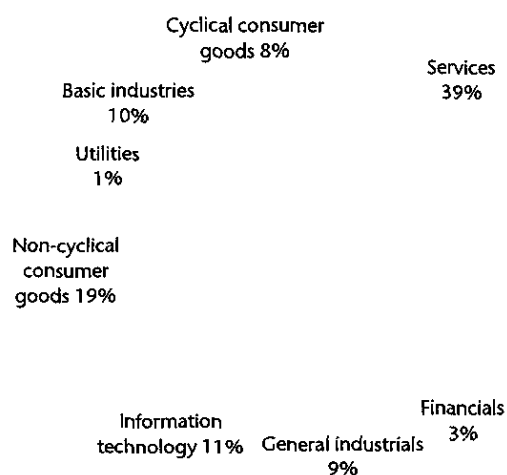
Manager's Review



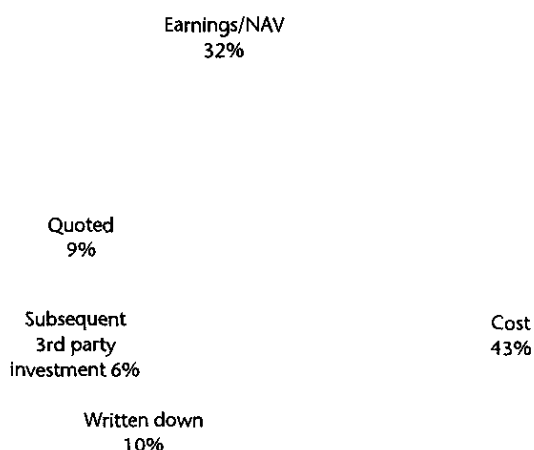
Geographic exposure (% of 30 September 2001 valuation)



Maturity exposure (% of 30 September 2001 valuation)



Sector exposure (% of 30 September 2001 valuation)



Valuation exposure (% of 30 September 2001 valuation)

Outlook

The Company has made material progress since its listing and we believe it is well positioned for the future. Against a background of substantial commitments having being made by the Company to new private equity funds, the adoption of an over-commitment strategy and the holding of significant liquid resources, the Company should be able to benefit from lower

pricing in the buy-out sector and, thereafter, any recovery in the macro-economic environment. In the short term, however, the value of the existing portfolio of private equity fund interests may be affected by any recessionary downturn.

Standard Life Investments (Private Equity) Limited
30 November 2001

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 cost and 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
1999	Apax Europe IV	Balanced	62	30.9.01	4,090	12,149	10,484	6.9
1999	CVC Europe II	Buy-out	34	30.9.01	3,099	9,469	9,683	6.4
1998	Phildrew Fifth	Buy-out	15	30.9.01	3,375	9,713	7,848	5.2
1998	Candover 1997 Fund	Buy-out	13	30.9.01	648	6,032	6,224	4.1
1997	Charterhouse VI	Buy-out	6	30.9.01	3,022	5,333	5,749	3.8
1997	HEV III	Buy-out	6	30.9.01	—	4,403	5,731	3.8
1997	Apax UK VI	Balanced	23	30.9.01	—	6,112	4,733	3.1
1995	Morgan Grenfell Equity Partners IV	Buy-out	12	30.6.01	110	4,530	3,630	2.4
1989	Apax European Buy-In Fund	Buy-in	6	30.9.01	—	4,211	2,773	1.8
1996	The Primary Capital No.1 Fund	Buy-out	6	30.6.01	636	2,592	2,562	1.7
1995	Apax UK V-B	Balanced	16	30.9.01	—	2,271	1,775	1.2
1994	Charterhouse V	Buy-out	5	30.9.01	241	1,935	1,660	1.1
1995	Granville Private Equity Fund V	Buy-out	9	30.9.01	610	2,375	1,627	1.1
1995	Phildrew Fourth	Buy-out	10	30.9.01	—	1,641	1,299	0.9
1989	Korda Seed Capital Fund	Venture capital	1	31.3.01	—	1,165	1,165	0.8
1990	Apax CR III	Balanced	8	30.9.01	—	1,455	1,102	0.7
2001	CVC Europe III	Buy-out	2	30.9.01	22,745	1,090	940	0.6
1997	The Global Rights Development Fund	Development capital	4	30.9.01	—	861	817	0.5
1992	Midland Montagu Investissement FCPR	Buy-out	5	30.9.01	—	741	714	0.5
2001	Scottish Equity Partnership II	Venture capital	5	30.9.01	4,802	198	692	0.5
2001	MUST 4	Buy-out	1	30.9.01	14,676	328	257	0.2
1996	Scottish Equity Partnership	Venture capital	31	30.9.01	100	917	130	0.1
2001	Candover 2001 Fund	Buy-out	—	30.9.01	20,240	216	4	—
2001	Third Cinven Fund	Buy-out	—	30.9.01	20,449	3	—	—
2001	Advent Global Private Equity IV	Buy-out	—	30.9.01	18,590	—	—	—
Total portfolio investments			280†		117,433	79,740	71,599	47.4
'AAA' rated money market funds							79,000	52.3
Current assets less liabilities							361	0.3
Shareholders' funds							150,960	100.0

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

† The 280 underlying investments represent holdings in 266 separate companies.

Ten Largest Fund Investments

Apax Europe IV

An English limited partnership which invests in unquoted companies, mainly in western Europe. The fund is managed by Apax Partners & Co Ventures Ltd, one of the leading and most experienced private equity managers in Europe, part of the Apax Partners international organisation. The fund's strategy spans early-stage, expansion capital, special situations, buy-ins and buy-outs across Apax Partners' six specialist sectors – IT, telecoms, media, biotechnology/healthcare, financial services and speciality retailing – whilst investing opportunistically in other sectors.

CVC Europe II

A Jersey limited partnership which invests in unquoted companies, mainly in Europe. The manager is CVC European Equity II Limited, a subsidiary of CVC Capital Partners Group Limited, which has approximately twenty year's experience in executing their investment strategy - investing in European management buy-outs, buy-ins, acquisitions and recapitalisations. The fund is approaching full investment and has made investments in a broad range of industries and sectors across Europe.

Phildrew Fifth

A Jersey limited partnership which invests in unquoted companies, mainly in the UK. The manager is Phildrew Ventures, the UK arm of UBS Capital, the private equity business of UBS. The fund invests in UK based management buy-outs and buy-ins and expansion capital opportunities. Investments to date are in a diversified portfolio across various industries and sectors.

Candover 1997 Fund

An English limited partnership which invests in unquoted companies, mainly in the UK although the fund has made investments in western Europe. The general partner and manager is Candover Partners Limited, a subsidiary of Candover Investments plc. The strategy of this fund, which is almost fully invested, is to invest in management buy-outs in the UK and continental Europe. The portfolio currently comprises investments in a broad range of sectors and industries.

Charterhouse VI

An English limited partnership which invests in unquoted companies located in western Europe. The fund is managed by Charterhouse Development Capital Limited which has a long history of successful management buy-outs and development capital transactions in Europe. The fund has no pre-determined industrial or sector bias.

HEV III

An English limited partnership which invests in unquoted companies in Europe. The adviser is Duke Street Capital which grew out of what was originally Hambro European Ventures (HEV), a wholly owned subsidiary of Hambros Plc, a merchant banking group. The fund is fully invested in middle market UK and Western European management buy-outs, buy-ins and expansion capital opportunities.

Apax UK VI

An English limited partnership which invests in unquoted companies, mainly in the UK. The fund is managed by Apax Partners & Co Ventures Ltd. The fund's strategy spans early-stage, expansion capital, special situations and buy-outs, with an emphasis on certain sectors – IT, electronics, telecoms, media, biotechnology/healthcare, consumer products and speciality retailing – whilst investing opportunistically in other sectors.

Morgan Grenfell Equity Partners IV

An English limited partnership which holds a portfolio of unquoted investments located principally in the UK and also elsewhere in western Europe. The manager of the fund is Morgan Grenfell Private Equity Limited. The fund is fully invested and the portfolio of investments is relatively mature.

Apax European Buy-In Fund

An English limited partnership which holds a portfolio of unquoted investments located in the UK and France. The fund is managed by Apax Partners & Co Ventures Ltd. The portfolio currently comprises investments in industrial and retail companies.

The Primary Capital No.1 Fund

An English limited partnership which invests in unquoted companies, mainly in the UK. The fund is advised by Primary Capital Limited. The fund is approaching full investment and has made investments in the food, security and engineering sectors.

Corporate Information

Registered Office

1 George Street
Edinburgh EH2 2LL
United Kingdom

Investment Manager

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

Company Secretary and Administrator

Edinburgh Fund Managers plc
Donaldson House
97 Haymarket Terrace
Edinburgh EH12 5HD
United Kingdom

Company Broker

UBS Warburg Ltd
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

Solicitors

Dickson Minto WS
11 Walker Street
Edinburgh EH3 7NE
United Kingdom

Auditors

PricewaterhouseCoopers
PO Box 90
Erskine House
68-73 Queen Street
Edinburgh EH2 4NH
United Kingdom

Tax Advisers

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ
United Kingdom

Bankers

The Chase Manhattan Bank
125 London Wall
London EC2Y 5AJ
United Kingdom

Registrars

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

Scott Dobbie CBE*Chairman*

Scott Dobbie (62), started his career with Unilever, then joined Wood Mackenzie & Co in 1972, where he was appointed a partner in 1975, becoming managing partner in 1982. He remained with the company through acquisitions by National Westminster Bank and Bankers Trust and finally Deutsche Bank. Following his retirement in 1999, he has remained an adviser to Deutsche Bank. He is Chairman of the Securities Institute, senior independent director of the Edinburgh Investment Trust plc and a director of Scottish Financial Enterprise and Premier Oil plc.

Hamish Buchan**Director*

Hamish Buchan (57), started with Wood Mackenzie & Co in 1969 where he was appointed a partner in 1979. Throughout his career he specialised in investment trust analysis. Following his retirement in 1999 he has worked as a consultant in the investment trust industry and is a member of the Association of Investment Trust Companies Statistics and Representative Committees. He is also a non-executive director of Aberforth Split Level Trust plc, Fleming American Investment Trust plc, Shires Income Trust plc, Personal Assets Trust plc and Collective Assets Trust plc.

Simon Edwards*Director*

Simon Edwards (38), is chief investment manager with Merseyside Pension Fund, responsible for a portfolio of more than £3 billion. His earlier experience included three years with CSFB in London, three years as an equity investment manager for National Provident Fund in New Zealand and three years with AMP Society, also in New Zealand. He is a non-executive director of London Scottish Bank PLC and Latin American Capital Partners Limited.

the board

George Kershaw*Director*

George Kershaw (49), 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 its acquisition by CSFB became head of the investment trust team from 1996 to 2000. He is now an independent adviser in the investment trust sector and is a non-executive director of Royal London Growth & Income Trust PLC.

Mark Tyndall*Director*

Mark Tyndall (43), is chief executive of Artemis Investment Management Limited with overall responsibility for investment strategy. Prior to founding Artemis in 1997, he spent twelve 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.

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

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

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 it is the Directors' intention to apply to the Inland Revenue for approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988. The Company has conducted its affairs so as to enable it 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 period 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

The authorised share capital of the Company on incorporation was £50,000 divided into 200,000 ordinary shares of 25p each, of which two were issued fully paid.

On 2 May 2001 each of the issued and unissued ordinary shares of 25p each was subdivided into 125 ordinary shares of 0.2p each and the authorised share capital of the Company was increased from £50,000 to £120,000 by the creation of 17,500,000 founder A shares of 0.2p each and 17,500,000 founder B shares of 0.2p each. Also on 2 May 2001, 14,835,625 founder A shares and 14,835,625 founder B shares were allotted in each case partly paid up at 0.1p per share and 2,664,375 founder A shares and 2,664,375 founder B shares were allotted in each case partly paid up at 0.107p per share. Of the total founder shares issued, 8,750,000 founder A shares and 8,750,000 founder B shares were issued to Standard Life Investments Limited

and 8,750,000 founder A shares and 8,750,000 founder B shares were issued to members of the Manager's investment team.

On 15 May 2001 the authorised share capital of the Company was increased from £120,000 to £390,000 by the creation of an additional 135,000,000 ordinary shares of 0.2p each.

Following a placing of ordinary shares on 29 May 2001, the Company's issued share capital was £355,373 divided into 160,000,000 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 0.107p per share.

Dealings in the ordinary shares commenced on 29 May 2001.

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

Directors' Report

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 £866,000 or 0.54p per ordinary share. The Directors recommend that a final dividend of 0.45p per ordinary share be paid on 5 February 2002 to ordinary shareholders on the register of members at the close of business on 11 January 2002.

Directors

In accordance with the Articles of Association, all Directors retire from office and, being eligible, offer themselves for re-election at the Annual General Meeting.

Mr A Todd and Mr C McHale were appointed Directors on the date of incorporation, 9 March 2001, and resigned on 25 April 2001. All of the current Directors were appointed on 25 April 2001.

The names of the Directors and their holdings in the Company's shares are shown in Table 1.

The Company has not been notified of any changes in the Directors' holdings between 30 September 2001 and 30 November 2001.

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 Company is 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 Combined 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 13. 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

Table 1

Directors and their holdings in the Company

Ordinary Shares held at
29 May 2001 and
30 September 2001

Scott Dobbie	150,000
Hamish Buchan	25,000
Simon Edwards	10,000
George Kershaw	20,000
Mark Tyndall	5,000

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

Directors' Report

Nominations Committee. All 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 require that one third of the 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.

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 18 and 19.

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, that it has been in place for the period ended 30 September 2001 and up to the date of approval of the annual report and accounts, that 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 the 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 had regard to the activities of the Manager and the Administrator and their internal audit function and the external auditors.

The Audit Committee, of which Scott Dobbie is 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. Shareholders have the opportunity at each Annual General Meeting to vote on the election of the auditors for the forthcoming year.

Management Engagement Committee

All 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 the Administrator and their compliance with the terms of the management and administration agreements.

Going concern

The Directors believe that the Company has adequate resources to continue in operational existence for the

Directors' Report

foreseeable future. For this reason, they have adopted the *going concern basis in preparing the accounts*.

Substantial share interests

At 30 November 2001 the substantial interests in the ordinary share capital which had been notified to the Company are shown in Table 2.

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.

Table 2 Substantial share interests

Holder	No of ordinary shares	%
The Standard Life Assurance Company	80,745,718	50.5
Foreign & Colonial Investment Trust PLC	8,000,000	5.0
The Alliance Trust PLC	6,000,000	3.7
Merchant Investors Assurance Co Ltd	5,600,000	3.5
British Assets Trust plc	5,000,000	3.1
Oxfordshire County Council	5,000,000	3.1

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.

Auditors

A resolution will be proposed at the Annual General Meeting for the re-appointment of PricewaterhouseCoopers as auditors of the Company and to authorise the Directors to determine their remuneration.

Directors' authority to buy back shares

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 9, as set out in the notice of the Annual General Meeting, seeks renewal of such authority until the earlier of 28 July 2003 and the Annual General Meeting in 2003. 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. Any ordinary shares repurchased under this authority will be cancelled.

By order of the Board,

Edinburgh Fund Managers plc
Company Secretary

Edinburgh, 30 November 2001

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;
- prepare the financial statements on the 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.

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 and the cash flow statement and the related notes, which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

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.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the 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 or the Listing Rules 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 Chairman's Statement, the Manager's Review and the corporate governance statement.

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

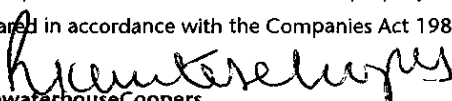
Basis of audit opinion

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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30 September 2001 and of its total return and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditor

Edinburgh, 30 November 2001

Statement of Total Return

for the period 9 March 2001 to 30 September 2001

	Notes	Revenue £000	Capital £000	Total £000
Net realised gains on investments	15	—	1,151	1,151
Unrealised depreciation on investments	16	—	(8,141)	(8,141)
LOSSES ON INVESTMENTS		—	(6,990)	(6,990)
Currency losses on cash balances	15	—	(12)	(12)
Income from investments	2	1,268	—	1,268
Interest receivable on short term deposits		105	—	105
Investment management fee	3	(22)	(195)	(217)
Administrative expenses	4	(116)	(16)	(132)
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		1,235	(7,213)	(5,978)
Taxation	5	(369)	57	(312)
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		866	(7,156)	(6,290)
Dividend in respect of ordinary shares	6	(720)	—	(720)
Transfer to/(from) reserves		146	(7,156)	(7,010)
RETURN PER ORDINARY SHARE	7	0.54p	(4.47p)	(3.93p)
DIVIDEND PER ORDINARY SHARE		0.45p		

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.
Other than the acquisition of 19 European private equity fund interests from Standard Life
on 29 May 2001, no operations were acquired or discontinued during the period.
The Company commenced business on 29 May 2001.

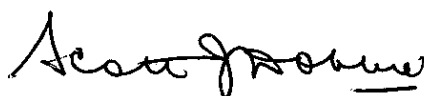
Balance Sheet

as at 30 September 2001

	Notes	£000	£000
FIXED ASSETS			
Investments	8		150,599
CURRENT ASSETS			
Debtors	9	303	
Cash and short term deposits		2,603	
		<u>2,906</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	<u>(1,940)</u>	
NET CURRENT ASSETS			<u>966</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>151,565</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	11		<u>(605)</u>
			<u>150,960</u>
CAPITAL AND RESERVES			
Called up share capital	12		355
Share premium	13		77,775
Special reserve	14		79,840
Capital reserve – realised	15		985
Capital reserve – unrealised	16		(8,141)
Revenue reserve	17		<u>146</u>
TOTAL SHAREHOLDERS' FUNDS			<u>150,960</u>
ANALYSIS OF SHAREHOLDERS' FUNDS			
Equity interests (ordinary shares)			150,925
Non-equity interests (founder shares)			<u>35</u>
			<u>150,960</u>
NET ASSET VALUE PER EQUITY SHARE	20		94.33p

The financial statements on pages 20 to 30 were approved by the Board on 30 November 2001 and were signed on its behalf by:

SCOTT DOBBIE CBE, Chairman



Cashflow Statement

for the period 9 March 2001 to 30 September 2001

	Notes	£000	£000
NET CASH INFLOW			
FROM OPERATING ACTIVITIES	18		1,023
NET CASHFLOW			
FROM SERVICING OF FINANCE			—
NET CASHFLOW FROM TAXATION			—
FINANCIAL INVESTMENT			
Purchase of investments		(84,082)	
Disposal of investments		7,238	
NET CASH OUTFLOW			
FROM FINANCIAL INVESTMENT			(76,844)
ORDINARY DIVIDENDS PAID			—
NET CASH OUTFLOW BEFORE			
USE OF LIQUID RESOURCES AND FINANCING			(75,821)
FINANCING			
Issue of ordinary shares	12	79,255	
Issue of founder shares	12	35	
Expenses of issue	13	(854)	
NET CASH INFLOW FROM FINANCING			78,436
INCREASE IN CASH	19		2,615

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, 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' on the assumption that approval as an investment trust will be granted.

(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' valuation 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 fund 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 also 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 at 30 September 2001 were:

Euro	1.6138
US dollar	1.4697

Transactions in overseas currencies 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 are accounted for in 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 is allocated 90% to the realised capital reserve and 10% to the revenue account.

(f) Taxation – Deferred taxation is provided on all timing differences to the extent that liabilities are likely to arise in the foreseeable future.

Notes to the Accounts

Period 9 March 2001 to
30 September 2001
£000

2 Investment income

Income from 'AAA' rated money market funds	1,233
Other income from unquoted investments	35
	<u>1,268</u>

3 Investment management fee

Investment management fee	217
Charged against capital reserve – realised	(195)
	<u>22</u>

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 is 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	29
Directors' fees	43
Auditors' remuneration	12
Printing and postages	8
Irrecoverable VAT	12
Other expenses	12
	<u>116</u>

The secretarial and administration fee payable to Edinburgh Fund Managers plc is £65,000 per annum (excluding VAT) adjusted annually in line with the Retail Prices Index plus 0.035% per annum of net assets in excess of £100 million. 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 £12,500 (£25,000 per annum). The emoluments of each of the other Directors were £7,500 (£15,000 per annum).

The auditors received non-audit fees of £20,000, excluding VAT, in connection with the launch of the Company, which are included in the expenses of the share issue (note 13).

In addition to the above expenses charged to revenue, £16,000 has been charged to the realised capital reserve in respect of the legal fees incurred in connection with the cancellation of part of the share premium account.

Notes to the Accounts

Period 9 March 2001 to
30 September 2001
£000

5 Taxation

UK corporation tax charge	369
Relief to capital reserve – realised	(57)
	<u>312</u>

6 Dividend on ordinary shares

Final dividend of 0.45p per ordinary share payable on 5 February 2002	<u>720</u>
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7 Return per ordinary share

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

Weighted average number of ordinary shares in issue since commencement of business	160,000,000
Revenue return	£866,000
Capital return	(£7,156,000)

8 Fixed asset investments

	'AAA' Rated Money Market Funds £000	Unlisted £000	Total £000
Transferred from Standard Life (note 12)	—	80,745	80,745
Additions at cost	79,000	5,756	84,756
Disposal of investments	—	(7,912)	(7,912)
	<u>79,000</u>	<u>78,589</u>	<u>157,589</u>
Realised gains on investments	—	1,151	1,151
	<u>79,000</u>	<u>79,740</u>	<u>158,740</u>
Closing unrealised depreciation	—	(8,141)	(8,141)
	<u>79,000</u>	<u>71,599</u>	<u>150,599</u>

9 Debtors

Amounts falling due within one year:	
Accrued income	299
Prepayment	4
	<u>303</u>

Notes to the Accounts

Period 9 March 2001 to
30 September 2001
£000

10 Creditors: amounts falling due within one year

Taxation	312
Management fee	217
Secretarial fee	29
Broker's fee (note 11)	606
Sundry creditors	56
Proposed final dividend	720
	<u>1,940</u>

11 Creditors: amounts falling due after more than one year

Broker's fee	<u>605</u>
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An agreement exists between the Company and its broker, UBS Warburg Ltd, to pay UBS Warburg Ltd a fee on the 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 thereafter.

12 Called up share capital

	£
Authorised:	
160,000,000 ordinary shares of 0.2p	320,000
17,500,000 founder A shares of 0.2p	35,000
17,500,000 founder B shares of 0.2p	35,000
	<u>390,000</u>
Issued:	
160,000,000 ordinary shares of 0.2p – fully paid	320,000
17,500,000 founder A shares of 0.2p – partly paid	17,687
17,500,000 founder B shares of 0.2p – partly paid	17,686
	<u>355,373</u>

On 9 March 2001, two ordinary shares of 25p each were issued. These were sub-divided into 250 ordinary shares of 0.2p each on 2 May 2001. On 29 May 2001, 79,254,282 ordinary shares of 0.2p each were issued at 100p per share and a consideration of £79,254,282 was received. On the same day a further 80,745,468 ordinary shares were issued at 100p per share to acquire 19 European private equity fund interests from Standard Life.

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 0.107p 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 with the first such dividend being payable on 30 September 2002. 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 conversion, in certain circumstances. Details of the conversion price and rights of the founder shares are set out on page 14.

Notes to the Accounts

Period 9 March 2001 to
30 September 2001
£000

13 Share premium

Premium arising on issue of ordinary shares	159,680
Transfer to special reserve	(79,840)
Expenses of share issue	(2,065)
	<u>77,775</u>

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 14).

14 Special reserve

Transfer from share premium	<u>79,840</u>
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15 Capital reserve – realised

Net realised gain on sale of investments	1,151
Management fee charged to capital	(195)
Tax relief	57
Professional fees charged to capital	(16)
Currency losses on cash balances	(12)
	<u>985</u>

16 Capital reserve – unrealised

Unrealised depreciation on investments	<u>(8,141)</u>
--	----------------

17 Revenue reserve

Return before dividends	866
Final dividend	(720)
	<u>146</u>

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

Net revenue on ordinary activities before taxation	1,235
Increase in accrued income	(299)
Increase in prepayment	(4)
Increase in creditors	302
Expenses charged to capital reserve – realised	(211)
	<u>1,023</u>

Notes to the Accounts

19 Analysis of changes in net funds during the period

	Currency movement £000	Cashflows £000	At 30 September 2001 £000
Cash and short term deposits	(12)	2,615	2,603

20 Net asset value per ordinary share

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

Ordinary shareholders' funds	£150,925,000
Number of ordinary shares in issue	160,000,000
Net asset value per ordinary share	94.33p

21 Reconciliation of movement in shareholders' funds

	Period 9 March 2001 to 30 September 2001 £000
Revenue return before dividends	866
Capital losses	(7,156)
Total recognised gains and losses	(6,290)
Dividend in respect of ordinary shares	(720)
Issue of shares	157,970
Closing shareholders' funds	150,960

22 Commitments and contingencies

Outstanding calls on investments	117,433
----------------------------------	---------

This represents commitments made to fund investments remaining undrawn at 30 September 2001.

23 Parent undertaking and related party transactions

The ultimate parent undertaking is The Standard Life Assurance Company ('Standard Life'). The accounts of the ultimate parent undertaking are the only group accounts incorporating the accounts of this 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.

23 Parent undertaking and related party transactions—contd

The Manager is a wholly owned subsidiary of Standard Life and is therefore a related party of the Company. During the period to 30 September 2001 the Manager charged management fees totalling £217,000 to the Company in the normal course of business.

During the period, founder shares were allotted to Standard Life Investments Limited, a wholly-owned subsidiary of Standard Life, and to members of the Manager's investment team. Details of these allotments and the rights of the founder shares are set out on page 14.

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 the EVCA or the 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 or written off. *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 for credit risk and interest rate. The Directors consider that the valuation of the assets on the Company's balance sheet represents their fair value.

Currency risk

The Company has assets and fund commitments in currencies other than in sterling, primarily in euros. The Manager takes account of the balance of assets and liabilities in each currency and over time it is expected that the majority of the Company's investments and commitments will be denominated in euros and that a larger proportion of liquidity will be held in that currency. No currency swaps or forwards were used during the period. The table overleaf sets out the currency exposure at 30 September 2001.

Notes to the Accounts

24 Risk management, financial assets and liabilities—contd

	Interest Rate %	Local Currency 000s	Foreign Exchange Rate	Sterling Equivalent £000
Investments:				
Sterling		45,900	—	45,900
Euro		41,473	1.6138	25,699
'AAA' rated money market funds		79,000	—	79,000
Cash and liquidity:				
Sterling	4.01	1,534	—	1,534
US dollar	1.71	1,572	1.4697	1,069
Euro	2.13	—	1.6138	—
Total				<u>153,202</u>
Commitments:				
Sterling		28,220	—	28,220
US dollar		37,984	1.4697	25,845
Euro		102,263	1.6138	63,368
Total				<u>117,433</u>

Liquidity risk

The Company holds its uninvested assets in the form of cash balances and deposits which are repayable on demand. Cash balances are maintained with the Company's custodian. Deposits are placed and monitored by the Treasury team of Standard Life. No dealing in derivatives was undertaken in the period.

Interest rate risk

Cash and short term deposits are held in floating rate accounts. The benchmark that determines the interest received or paid on the sterling balances is the bank base rate which was 4.75% on 30 September 2001. Interest on US dollar and euro balances is based on variable interest rates. Interest rates earned at the period end are detailed in the table above.

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 changes.

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 net asset value per ordinary share will be announced twice yearly in the preliminary announcement of the Company's annual and interim results and subsequently in the relevant published report to shareholders.

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 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.

Notice of Meeting

Notice is hereby given that the first Annual General Meeting of Standard Life European Private Equity Trust PLC will be held at 1 George Street, Edinburgh on 28 January 2002 at 12 noon, for the following purposes:

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

1. That the report and accounts for the period to 30 September 2001 be received.
2. To approve a final dividend of 0.45p per ordinary share.
3. That Mr Dobbie, who retires from office at the first Annual General Meeting, be re-elected as a Director.
4. That Mr Buchan, who retires from office at the first Annual General Meeting, be re-elected as a Director.
5. That Mr Edwards, who retires from office at the first Annual General Meeting, be re-elected as a Director.
6. That Mr Kershaw, who retires from office at the first Annual General Meeting, be re-elected as a Director.
7. That Mr Tyndall, who retires from office at the first Annual General meeting, be re-elected as a Director.
8. That PricewaterhouseCoopers be re-appointed as auditors and that the Directors be authorised to determine their remuneration.

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

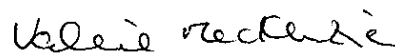
9. That the Company be authorised, in accordance with section 166 of the Companies Act 1985 (the "Act"), to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 0.2p each ("ordinary shares") in the share capital of the Company, provided that:

- (i) the maximum number of ordinary shares hereby authorised to be purchased shall be 14.99 per

cent of the issued ordinary shares on the date on which the resolution is passed;

- (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 28 July 2003 or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2003, 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, 20 December 2001

Notice of Meeting

Notes:

The final dividend, if approved, will be paid on 5 February 2002 to ordinary shareholders on the register of members at the close of business on 11 January 2002.

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 be a member of the Company.

A form of proxy for use by ordinary shareholders is enclosed with this report. Proxies must be lodged with Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1ZF not later 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.

To have the right to attend and vote at the meeting, an ordinary shareholder must first have their name entered in the register of members not later than 48 hours before the time appointed for the meeting. Changes or entries to the register of members after that time shall be disregarded in determining the rights of any holder of ordinary shares to attend and vote at the meeting.

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.

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 first Annual General Meeting will be held at
1 George Street, Edinburgh on Monday 28 January 2002
at 12 noon.

Form of Proxy

Standard Life European Private Equity Trust PLC

I/We _____

of _____

BLOCK
CAPITALS
PLEASE

being (a) member(s) of the Standard Life European Private Equity Trust PLC, hereby appoint the Chairman of the Meeting (see note 1) _____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 1 George Street, Edinburgh EH2 2LL on 28 January 2002 at 12 noon, on the following Resolutions to be submitted to the meeting and at any adjournment thereof.

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast. Unless otherwise instructed, the proxy will vote as he/she thinks fit or abstain.

Resolution	For	Against
1. To receive the report and accounts for the period to 30 September 2001		
2. To approve a final dividend of 0.45p per ordinary share		
3. To re-elect Mr Dobbie as a Director		
4. To re-elect Mr Buchan as a Director		
5. To re-elect Mr Edwards as a Director		
6. To re-elect Mr Kershaw as a Director		
7. To re-elect Mr Tyndall as a Director		
8. To re-appoint PricewaterhouseCoopers as auditors and to authorise the Directors to determine their remuneration		
9. To renew the Directors' authority to purchase the Company's ordinary shares		

Signed _____ Date _____

Notes:

1. If you wish to appoint as your proxy some person other than the Chairman of the Meeting please insert in block capitals the full names of the person of your choice, delete the words 'the Chairman of the Meeting' and initial the alteration. A proxy need not be a member of the Company.
2. In the case of a Corporation, this Form of Proxy must be executed under seal or signed by a duly authorised officer or attorney.
3. To be valid, this Form of Proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney, must be deposited at the offices of the Company's registrars, Lloyds TSB Registrars Scotland, PO Box 28448, Finance House, Orchard Brae, Edinburgh EH4 1ZF, not later than 48 hours before the time appointed for the Meeting.
4. In the case of joint holders, the signature of any one joint holder is sufficient. If more than one joint holder tenders a vote in person or by proxy, the vote of the person whose name stands first in the register will be accepted to the exclusion of the votes of the other joint holders.
5. Completion of this Form of Proxy will not prevent a member from attending the Meeting and voting in person should he so wish.

First Fold

Second fold

RESPONSE LICENCE No
SCO4281



LLOYDS TSB REGISTRARS SCOTLAND
PO BOX 28448
FINANCE HOUSE
ORCHARD BRAE
EDINBURGH EH4 1ZF

Third fold and tuck in

Standard Life European Private Equity Trust PLC

Registered in Scotland no. 216638

1 George Street
Edinburgh EH2 2LL
United Kingdom

Managed by Standard Life (Private Equity) Limited

1 George Street
Edinburgh EH2 2LL
United Kingdom