PRIVATE EQUITY INVESTOR PLC

Opening the door to world class IT opportunities at the venture stage...

Annual Report
For the year ended 31 March 2002

THE COMPANY

INVESTMENT OBJECTIVE

The Company was floated in February 2000 with an investment objective to seek long-term capital growth for the holders of ordinary shares in a sector of the market which has shown considerable growth over recent years. The Company will seek to achieve substantial capital appreciation by investing in emerging growth companies through specialised venture capital funds focused on the information technology sector.

INVESTMENT POLICY

It is the aim of the Directors to invest in:

- unlisted IT companies, primarily via specialised venture funds in the US
- a maximum of 20% of the assets in any one fund
- a broad range of top venture capital funds with differing focuses to obtain exposure from early, through expansion stage to pre-IPO companies

Venture funds are selected according to:

- track record of management
- strength of deal flow
- investment strategy

NET ASSETS AND SHAREHOLDERS' FUNDS

£91,408,000 at 31 March 2002.

CAPITAL STRUCTURE

The Company is an investment trust whose share capital comprises 100,000,000 ordinary shares of 0.01p each of which 50,000,000 are in issue.

WINDING – UP

The Board does not intend that the Company should have a fixed life, but considers it desirable that shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, at the Annual General Meeting of the Company in 2014 an ordinary resolution will be proposed that the Company should continue as an investment trust. A similar resolution shall be proposed at every fifth Annual General Meeting thereafter.

VOTING

On a show of hands every member who is present in person at a general meeting of the Company shall have one vote and on a poll every member who is present, in person or by proxy, shall have one vote for each share of which he/she is the holder.

ISA STATUS

The Directors intend to manage the affairs of the Company in order to maintain the eligibility of the ordinary shares for inclusion in an ISA.

AITC

The Company is a member of The Association of Investment Trust Companies.

REGISTERED OFFICE

23 Cathedral Yard, Exeter, Devon EX1 1HB.

REGISTERED NUMBER

3912487 – England and Wales.

MANAGEMENT

The Company is managed by the Directors who do not receive any salary, but are entitled in aggregate to receive directors' fees annually equal to 0.5 per cent (exclusive of VAT) of the net assets of the Company calculated in accordance with the Articles of Association.

The Company's fixed income securities portfolio is managed by Cazenove Fund Management Limited.

INVESTMENT COMPANY STATUS

The Company has given notice to the Registrar of Companies of its intention to carry on business as an investment company pursuant to Section 266 of the Companies Act 1985.

CONTENTS

SUMMARY OF RESULTS AND FINANCIAL HIGHLIGHTS

	31 March 2002	*31 March 2001*	*% change*
Total assets and shareholders' funds	**£92,428,000**	£109,326,000	(15.45)
Total assets and shareholders' funds (after deducting dividend)	**£91,408,000**	£107,201,000	(14.73)
Net assets per ordinary share	**184.86p**	218.65p	(15.45)
Net assets per ordinary share (after deducting dividend) "NAV"	**182.82p**	214.40p	(14.73)
Mid-market price per ordinary share	**124.00p**	148.00p	(16.22)
Discount to NAV (after deducting dividend)	**32.17%**	30.97%	1.2
Net revenue after taxation	**£1,487,000**	£2,859,000	(47.99)
Total dividend per ordinary share	**2.04p**	4.25p	(52.00)
Revenue return per ordinary share	**2.97p**	5.72p	(48.08)
Capital return per ordinary share	**(32.52)p**	19.20p	(269.38)
Total return per ordinary share	**(29.55)p**	24.92p	(218.58)
Total expense ratio	**1.2%**	1.4%	–
Exchange rate (US $/£)	**1.4240**	1.4217	0.16

CHAIRMAN'S STATEMENT

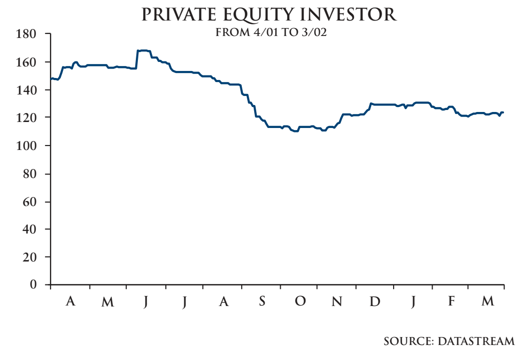
We are pleased to present the second annual report for Private Equity Investor. This report covers the twelve months ended 31 March 2002.

Results

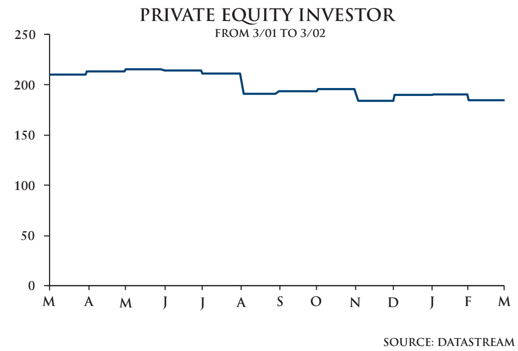
During the period, the undiluted net asset value per share declined 15% to 182.82p from 214.4p, or to 184.86p before deducting the 2.04p dividend. The net assets attributable to ordinary shareholders declined from £107.2 million to £91.41 million, after deducting the dividend of 2.04p per share to be paid on 30 September 2002. Once again, the negative performance of the venture portfolio was mitigated by the positive return from bond investments and cash.

The period end net asset value per share of 182.82p together with the 4.25p dividend paid last year and the 2.04p dividend to be paid on 30 September, represents a negative return for investors on the net asset value per share of 193.73p at flotation in February 2000 of only 2.4%. In an extremely hostile environment for the technology sector over the last two years, the value of the Company's assets has been substantially maintained.

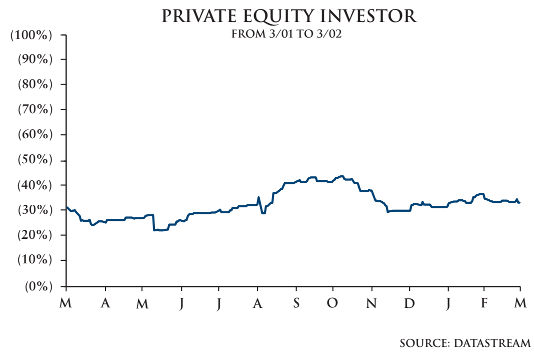
During the year our share price moved as follows:



Our net asset value as reported to the AITC moved as follows:



Our discount to net asset value moved as follows:



Market Background

The reporting period was a time of great economic and market uncertainty contributing to considerable volatility in public company valuations. The Nasdaq Composite Index swung from 1845 at the beginning of the period, down to 1423 after the events of September 11 last year, then up to 2059 in January this year and back down to 1840 at period end. Significantly, both IPO and M & A activity remained extremely weak throughout, resulting in few liquidity opportunities for venture portfolios. The general move for private company valuations was negative with few write-ups to relieve an otherwise downward trend. In the US, $6.2 billion was invested by venture capitalists in entrepreneurial enterprises in the first quarter of 2002, continuing the two year downturn in venture capital investing from a peak of $29 billion in Q1 of 2000, despite a brief period of stability in late 2001. The amount invested in Q1 of 2002 represented a further 24% decline from the amount invested in Q4 2001 and brought venture capital investment back to the pre-bubble levels of late 1998.

Lower investment levels are now contributing to a less competitive investment environment, and to one that is far more conducive to creating long-term sustainable value for investors. Mark Heesen, president of the National Venture Capital Association, recently stated "The venture capital industry is cyclical, and it's important to put today's environment into perspective. During the last downturn in the early 1990s it took the industry several years to fully recover. Today, venture capitalists are back to their normal modus operandi, which is being extremely selective about new investment opportunities and working to build companies that offer sustainable value." Most investment banks, angels and corporate investors have substantially withdrawn from venture investing leaving venture capital funds in a strong position to price and structure deals on much more favourable terms than in recent years. In some cases, where companies require further funding, venture capital firms are leveraging their cash-rich positions to achieve re-pricings and restructurings of previous financing rounds.

Investment Portfolio

During the period the bond portfolio gained 6.42% compared to a gain of 3.92% from the composite index (*). The investment focus of the portfolio moved towards shorter dated maturities in order to hedge against possible higher US interest rates that may occur later in the year in response to stronger than expected US economic data.

Valuations of the Company's private equity positions, including partnership management fees, fell by 23% since our last annual report. At period-end, the underlying portfolio held by the limited partnerships in which the Company invests, consisted of 414 private companies, including 116 new investments made during the period, and 17 public companies. During the period there were 14 write-ups, 149 write-downs and 52 write-offs. In addition, 13 companies had their valuations for previous financings re-priced in our favour, based on information provided to us at the date of this report.

Proposed Investment Policy Change

The Company's primary investment focus is in venture capital funds which, typically, only call or draw down funds when required for investment. With the decline in the market for early to pre-IPO information technology companies over the last twelve months, the rate of draw down by VC managers has slowed. As a result, your Company has had substantial funds invested in a portfolio of fixed interest securities since flotation awaiting draw down. This portfolio of mainly US$ denominated investment grade bonds, which has been managed by Cazenove Fund Management Limited, has performed satisfactorily and met your Board's expectations.

Your Board is concerned that the satisfactory performance of fixed interest securities to date may not continue in the future, particularly as there seems to be a general expectation that interest rates both in the USA and the UK will begin to move higher next year. As a result of these concerns, your Board has undertaken an in depth investigation of appropriate investment alternatives, and consulted with its professional advisors to confirm its conclusions, that certain actions should be taken to protect the liquid resources of the Company, whilst at the same time maintaining a satisfactory return and the Company's investment trust status. Your Board has established that certain listed fund of funds employing alternative investment strategies (often known as funds investing in hedge funds) meet the Company's investment criteria and your Board's objectives.

It is accordingly proposed to widen the Company's investment policy so as to permit investment of the Company's unutilised cash resources in funds investing in hedge funds. A Resolution amending the investment policy of the Company will be proposed at the next Annual General Meeting to be held on 12 September 2002.

If this Resolution is approved, investment in such funds would only be undertaken if they met certain rigorous, pre-determined criteria set by your Board. In selecting such funds, setting a benchmark of fund attributes, and generally advising on the advisability or not of pursuing such a strategy, your Board has been advised by Watson Wyatt, leading investment consultants.

The Resolution to widen the Company's investment policy is set out in the Notice of Annual General Meeting on page 47 of this report. Your Board unanimously recommend that you vote in favour of this Resolution.

Prospects

Since our last annual report, the weak IPO and M & A markets have contributed to keeping valuations low for companies with whom the limited partnerships in which the Company invests, have been negotiating investment. However, we are encouraged that, during the second quarter of 2002, there has been some renewed interest in technology companies in the IPO market. Companies such as NetScreen, PayPal, Netflix, and Orbitz, among others, have completed or filed IPOs in the United States. We are pleased to be able to report that two portfolio companies floated during the quarter; Netflix (NFLX) and Altiris (ATRS) both went public during May 2002, raising new money of $82.5 million and $50 million respectively. Our investment cost in these two companies was a total of $1.18 million and at flotation the holdings were valued at $2.17 million.

Despite the extremely challenging background, generally, managers of our partnerships are predicting a positive return on investment. Not surprisingly, managers who began investing more recently, some of whom remain substantially un-invested today, are particularly optimistic about delivering significant returns for investors because they believe that they are now investing at, or near, the bottom of the technology cycle.

I would like to take this opportunity to welcome to our Board, Peter Dicks, who is a respected figure in the venture capital industry, having been an investor and participant for over 20 years. We are looking forward to him making a valuable contribution.

BARBARA S. THOMAS
Executive Chairman
10 July 2002

* Composite index
JP Morgan 3 months US$ Cash Index (Sterling) 50%
JP Morgan 1-5 year US Treasury Bond Index (Sterling) 30%
JP Morgan 5-7 year US Treasury Bond Index (Sterling) 20%

MANAGING DIRECTOR'S REVIEW

Overview

The PricewaterhouseCooper's Moneytree survey recently reported that despite a brief period of stability at the end of 2001, US venture capital investment continued its two year decline during Q1 2002, with only $6.2 billion of new investment compared to $29 billion during Q1 2000, and is now back to the pre-bubble investment levels of Q4 1998. The Company's experience closely tracked the sector's with a marked decline in investment pace during the period.

According to Venture Economics and the National Venture Capital Association, 44 venture capital funds secured $2.2 billion in commitments during Q1 2002. This is a 56% decline from the previous quarter, when 65 funds raised $5 billion, and brings fundraising back to levels seen in the mid 1990s.

Mark Heesen, president of the National Venture Capital Association, reflected, "These fundraising levels are absolutely appropriate given the existing reserve of funds and the overall investment pace of the industry. We expect to remain at these sustainable levels for the foreseeable future as venture capitalists distribute the capital that has been raised during the last three years."

Technology venture fund managers generally believe that now is a good time to be putting money to work, as they see it, at or near the bottom of the technology cycle. However, the rate of investment is only likely to increase significantly when fund managers perceive that the major world economies, and in particular the US economy, have decisively turned the corner.

Limited Partnership Portfolio

WIT VCI has been fully drawn down and accordingly the Company has remaining financial commitments to 17 of its 18 US technology venture partnerships. These commitments have been drawn down by the fund managers to varying degrees depending on vintage year, stage focus and investment pace (see table on page 10).

In line with the venture capital industry, our investment pace slowed dramatically during the period to less than $1.8 million per month. This trend is expected to reverse once clear signs of economic recovery emerge, particularly in the US. In the meantime fund managers are spending more time managing their existing companies, persuading entrepreneurs to reduce rates of cash burn, re-pricing deals where possible, analysing target markets and preparing detailed competitive analyses.

As at 31 March 2002 the Company had, through its investment in 18 US technology venture partnerships, 46% of its net asset value invested in 414 private companies, including 116 new investments made in the period, and 17 public companies. During the period 52 companies were written-off, 149 were written-down, 14 were written-up and 13 companies had their valuations for previous rounds of financing restructured in our favour, based on information provided to us at the date of this report. In addition, there were distributions from trade sales and market disposals totalling $1.04m yielding a gross profit of 30.4%.

Fund managers continued to focus their attention on companies within their portfolios that they deemed to be potentially "market disruptive" and that were meeting milestones. Generally, companies that failed to meet these criteria have been allowed to fail in order to preserve cash for investments that offered the prospects of greatest return. Fund managers are generally more at ease investing in this far less frantic environment than during the bubble of 1999/2000. Most investment banks, angels and corporate investors have substantially withdrawn from venture investing leaving the cash-rich venture funds in a position to price and structure deals on much more favourable terms.

Although the IPO and M&A markets remain weak, we are encouraged that in recent months, there has been some renewed interest in technology companies in the IPO market. Companies such as NetScreen, PayPal, Netflix and Orbitz, among others, have completed or filed IPOs in the United States.

We are pleased to be able to report that two portfolio companies floated during the quarter; Netflix (NFLX) and Altiris (ATRS) both went public during May 2002, raising new money of $82.5m and $50m respectively. Our investment cost in these two companies was a total of $1.18m and at flotation these holdings were valued at $2.17m. In addition, two portfolio companies were acquired by other public companies during the second quarter.

Bond Portfolio

At period end the Company had over $70.2 million in cash and investment grade dollar denominated bonds. As a hedge against possible higher US interest rates, the investment focus of the bond portfolio shifted to shorter dated maturities. The portfolio returned a satisfactory 6.42% during the period against a yield of 3.92% for the composite index (*).

Recently, the strength of US growth caught many observers by surprise with the June ISM survey coming in close to previous highs. While most economists continue to forecast lower core consumer prices, inflation seems to be remarkably reluctant to fall below 2.5%. Core goods price inflation was down to minus 1% year on year but the total was held up by core services inflation which was growing at +4% year on year. The "prices paid" component of the ISM survey, often a good lead indicator for the direction of inflation, jumped considerably in recent months.

As at June 2002 the financial markets were expecting that US interest rates would increase to 2.3% by April 2003.

Partnership Management Fees

As you may be aware, there has been comment in the press recently regarding the level of management fees being charged by the general partners of venture capital firms. This issue has arisen primarily because firms have generally cut back their investment pace in response to poor economic conditions and liquidity prospects. The perception is that certain large funds, particularly those focused on early stage investments, will find it difficult to put their capital to work within the originally envisaged timeframe. In such circumstances, it may be appropriate for fees to be reduced or restructured to align more closely the interests of general partners to limited partners. We have been in discussion with a number of firms in this regard and certain funds have agreed to lower or restructure their partnership fees to the benefit of limited partners.

* Composite index
JP Morgan 3 months US$ Cash Index (Sterling) 50%
JP Morgan 1-5 year US Treasury Bond Index (Sterling) 30%
JP Morgan 5-7 year US Treasury Bond Index (Sterling) 20%

Summary of Individual Venture Funds Investments:

Name	*Total commitment* $	*Total drawdown 31 March 2002* $
APV Technology Partners III	5,000,000	4,499,823
Bay III	5,000,000	3,375,000
Crescendo IV	10,000,000	6,250,000
Draper Fisher Jurvetson ePlanet Ventures	30,000,000	10,500,000
Draper Fisher Jurvetson Fund VI	2,000,000	1,185,000
Draper Fisher Jurvetson Fund VII	5,000,000	1,012,500
Draper Fisher Jurvetson Gotham Venture Fund	3,000,000	840,000
Focus Ventures II ‡	30,000,000	16,800,000
New Enterprise Associates 9	5,000,000	4,769,438
New Enterprise Associates 10	10,000,000	2,750,000
Oak Investment Partners X	10,000,000	1,799,375
Sprout Capital IX	5,000,000	1,705,986
TCV IV	25,000,000	13,402,500
Vanguard VII	3,000,000	1,200,000
VantagePoint Venture Partners IV	10,000,000	1,600,000
Wit Dawntreader Fund II	30,000,000	16,350,000
Wit VC Fund I	500,000	500,000
Zone Ventures Fund II	10,000,000	7,000,000
	198,500,000	95,539,622

‡ Formerly Charter Growth Capital II

Review of Individual Venture Funds

APV Technology Partners III

APV's investment objective is long-term capital appreciation through venture capital investments in information technology companies. The Fund's investment focus is early-stage information technology companies possessing proprietary intellectual property that addresses substantial existing market opportunities and which can benefit from the formation of strategic alliances with large technology corporations. The Fund primarily aims to secure positions in information technology companies where it can obtain a Board seat or significantly influence the portfolio company's business and corporate partnering strategy. The Fund had 5 portfolio companies at 31 March 2002. Co-investors in this Fund include Goldman Sachs Private Equity, Blackboard Ventures and Vulcan Ventures (Paul Allen, co-founder of Microsoft)

Total committed capital	**$109m**
Private Equity Investor commitment	**$5m**

Bay III

Bay Partners has been active in early-stage technology investment since 1976, funding over 150 companies to-date.

Bay III typically invests $2–4m in initial financing and provides additional support to its portfolio companies in later rounds. The Fund also participates in selected seed round financings of $250,000 to $500,000. As at 31 March 2002, the Fund had 14 portfolio companies and anticipates a further 12–17 investments to complete the portfolio. This model, based on strong follow-on participation where warranted, will result in an average investment range of $5–6 million in a typical successful company. Bay III invests primarily in California and the Pacific North West of the United States. Co-investors in Bay III include NTT, Sears, Deutsche Bank Alex Brown and AON.

Total committed capital	**$180m**
Private Equity Investor commitment	**$5m**

Crescendo IV

The Fund is managed by experienced venture capitalists who have originated and managed investments in more than 100 early stage companies since 1989. The Fund primarily focuses on seed and early-stage investment opportunities together with some later stage companies where there is potential for early liquidity and returns. The focus on early stage investing is based on the belief that early-stage investments depend less on the strength of the IPO market for the successful realisation of investments. Principals have been wary of late-stage deals where pre-money valuations have been correlated to recently lofty public market comparable companies. The Fund has a global strategy that includes investment in companies in the US, the UK, Continental Europe and Israel. As of 31 March 2002 Crescendo had 28 portfolio companies. Co-investors in Crescendo IV include Executives from Nortel, Novell, CISCO, Oracle and Sun.

Total committed capital	**$646m**
Private Equity Investor commitment	**$10m**

Draper Fisher Jurvetson ePlanet Ventures

The Fund invests in information technology businesses on a global basis. The general partner believes that the European, Asian and other international markets for technology investing are significantly behind that of the US, presenting attractive growth opportunities, and that in these developing markets the ability to understand and anticipate business trends, identify companies to become market leaders and adapt successful ideas to new countries and markets will be crucial factors of success. The Fund franchises successful US technology concepts, re-engineers legacy businesses using internet strategies and makes seed to late-stage investments in Europe, Asia and other parts of the world and had, by 31 March 2002, 26 portfolio companies.

Total committed capital	**$662m**
Private Equity Investor commitment	**$30m**

Draper Fisher Jurvetson Fund VI

DFJ is firmly established as one of the most prominent firms in the venture capital industry. Since 1985 the firm has focused on investing in seed or start-up venture capital rounds primarily in information technology companies. The Fund aims to add value by assisting in the build out of management teams, completing product development, refining strategies and tactics and generally reducing investment risk before portfolio companies seek larger rounds of follow-on funding from later-stage investors. The Fund had 25 portfolio companies as of 31 March 2002.

Total committed capital	**$375m**
Private Equity Investor commitment	**$2m**

Draper Fisher Jurvetson Fund VII

Successor to DFJ VI. The Fund maintains the same investment strategy and geographical focus targeting seed and early-stage information technology companies in the Bay Area of San Francisco. As at 31 March 2002, the Fund had 24 portfolio companies.

Total committed capital	**$650m**
Private Equity Investor commitment	**$5m**

Draper Fisher Jurvetson Gotham Venture Fund

The Fund invests in companies located throughout the US, primarily along the East Coast, as well as companies of Israeli origin as they enter the US market. The Fund's mission is to achieve superior returns for its investors by discovering innovative companies which serve large markets and by working closely with entrepreneurs to build successful enterprises. As of 31 March 2002 the Fund had 11 portfolio companies.

Total committed capital	**$100m**
Private Equity Investor commitment	**$3m**

Focus Ventures II (formerly Charter Growth Capital II)
The Partnership focuses on investments in private technology companies that have moved beyond the initial seed or startup phase of their development and are beginning to expand the marketing of their products or services. These expansion stage companies will usually have finished their initial product development, begun to build their customer base and generated some level of revenue. The Partnership targets companies that are beginning to build clear momentum in the market place and have the potential to emerge as leaders in their industry segments. The general partners believe that investing at this expansion stage reduces risk while still providing an excellent opportunity for attractive returns.

The Partnership targets expansion stage companies that have received their initial financing from the top-tier early stage venture capital firms. The top-tier firms have established a pre-eminent position within the venture industry that provides them access to the highest quality start-up investment opportunities. Furthermore, the general partners of these firms usually have superior expertise and contacts that enable them to add substantial value to their investments. The general partners of Focus Ventures have long established relationships working with these firms. These relationships create a network that provides superior access to later stage investment opportunities in some of the very best venture capital backed companies. As of 31 March 2002 the Fund had 30 portfolio companies. Co-investors in this Fund include General Motors, Sanyo and Mitsubishi.

Total committed capital	**$465m**
Private Equity Investor commitment	**$30m**

New Enterprise Associates 9
New Enterprise Associates was set up in 1978 and invests primarily in the information technology and medical and life sciences. The combined contributed capital for NEA partnerships to-date is over $5bn. Over its 24 year history NEA has established a record of management continuity, the average tenure of its partners exceeds 14 years, far in excess of the industry average. NEA is a classic early-stage venture capital firm. Although most investments are in companies in the seed and start-up stages of development, the Fund opportunistically invests in expansion and mezzanine financings. With offices in Menlo Park, California, Reston, Virginia and Baltimore, Maryland, it is within a 90-minute travel time of the majority of NEA's portfolio and potential portfolio companies throughout the US. As of 31 March 2002 the Fund had 54 portfolio companies. Co-investors in this Fund include Microsoft, Nortel, JP Morgan, Ford Foundation, INVESCO, BancBoston, Rockefeller and Walt Disney.

Total committed capital	**$875m**
Private Equity Investor commitment	**$5m**

New Enterprise Associates 10
This is a follow-on fund to NEA 9 and has similar objectives, strategies and geographical focus. Since inception, the NEA partnerships have invested in more than 500 companies, of which over 135 have gone public and over 150 have been acquired. As of 31 March 2002 the Fund had 50 portfolio companies.

Total committed capital	**$2.2bn**
Private Equity Investor commitment	**$10m**

Oak Investment Partners X

Founded in 1978, Oak has raised 10 venture capital funds with aggregate committed capital of over $3.2bn. As of Q1 2002, Oak funds have sponsored over 350 companies with aggregate annual revenues in excess of $100bn. Over 166 Oak backed companies have become public or been acquired by other companies. The Fund invests in rapidly growing companies that address large, dislocating or expanding new markets and takes positions in seed to later-stage companies. The Fund had 16 portfolio companies as of 31 March 2002. Co-investors in Oak X include JP Morgan, Hewlett Packard, BancBoston, IBJ, TD Capital and General Motors.

Total committed capital	**$1.5bn**
Private Equity Investor commitment	**$10m**

Sprout Capital IX

Sprout IX is the 11th venture capital fund originated and managed by the Sprout group, the venture capital affiliate of Credit Suisse First Boston. As of 31 March 2002 the twelve funds had total committed capital of over $3bn. Through its 33 year history Sprout has invested in over 350 companies. The Fund's targeted industry segments are data communications, telecommunications, internet infrastructure, e-commerce, software and healthcare technology. As of 31 March 2002 Sprout IX had 34 portfolio companies. Co-investors in Sprout Capital IX include AXA, BellSouth, Citibank, Equitable Life Assurance Society of the US, Mellon Bank and TD Investments.

Total committed capital	**$1.44bn**
Private Equity Investor commitment	**$5m**

TCV IV

TCV was established in 1995. The Fund seeks to invest primarily in companies in which technology risk has been mitigated irrespective of stage. The Fund had 38 portfolio companies as of 31 March 2002.

Total committed capital	**$1.7bn**
Private Equity Investor commitment	**$25m**

Vanguard VII

Vanguard is a Palo Alto, California and Houston, Texas based venture capital investment partnership investing in early-stage companies. The Fund is targeted towards both information technology and life science companies and the geographical focus follows previous Vanguard funds with heavy emphasis on Silicon Valley and the West Coast. As of 31 March 2002 the Fund had 14 portfolio companies. Co-investors of Vanguard VII include AXA, Bank of America, Bell Canada, Johnson & Johnson and Vulcan Ventures (Paul Allen).

Total committed capital	**$240m**
Private Equity Investor commitment	**$3m**

VantagePoint Venture Partners IV

The Fund is the 4th venture capital partnership organised by VantagePoint partners. Since 1996 various VantagePoint funds have raised over $2.5bn of committed capital. The Fund focuses on investments in entrepreneurial companies developing or applying leading edge information technologies with particular emphasis on the following areas: network and data services, which increase bandwidth over the Internet, manage the deployment or operation of public or private networks and service systems, or provide new capabilities for Internet-centric businesses; Next Generation Software and Services, either on-premises or delivered as a service over a public or private network, which perform mission-critical operations for an enterprise; Enabling Technologies, which are the underlying optical, electronic or semiconductor technologies or subsystems that provide some foundational improvement in a major information technology sector of interest to the Fund; IP-based Network Equipment, which provide faster bandwidth or new capabilities for the transmission of data, voice and video; E-commerce, the software applications or services which facilitate economic transactions over the public or private IP networks. The Fund had 19 portfolio companies as of 31 March 2002.

Total commitment capital	**$1.4bn**
Private Equity Investor commitment	**$10m**

Wit Dawntreader Fund II

Wit Dawntreader II is a follow-on fund to Wit VC I and has similar objectives and strategies. Robert H Lessin is Chairman of the Investment Committee of the Fund and has been Chairman and Co-CEO of Wit Capital since Spring 1998. Since 1997, Mr. Lessin has been one of the most active venture capital investors based in Silicon Alley in New York City. Mr. Lessin began his career at Morgan Stanley, where he became its youngest partner ever in 1987, Vice Chairman of the Investment Banking Operating Committee in 1990, and Chairman of the Investment Bank's Strategy Committee in 1993. In 1993, Mr. Lessin left Morgan Stanley to become Vice Chairman, member of the Executive Committee and Head of Investment Banking at Smith Barney. As of 31 March 2002 the Fund had 17 portfolio companies.

Total committed capital	**$270m**
Private Equity Investor commitment	**$30m**

Wit VC Fund I

Wit VC Fund I LP is a $40 million venture capital fund formed in August 1999. Wit VC Fund I LP invests in early, expansion and late-stage private companies. The Fund looks to identify companies that have strong and experienced management teams that are successfully navigating through their early stages of development and are on their way towards executing their business plan. The Fund focuses its investments on technology companies that enhance digital businesses, especially in key market sectors such as Internet Enabling Technologies, Software, Infrastructure, Photonics and Wireless. The Fund looks to leverage the strategic relationships of Wit SoundView's investment banking professionals and its research analysts to generate a significant deal flow of investment opportunities. The mission of the Fund is to provide high net-worth individuals with access to investment opportunities that have historically been made available strictly to institutional investors. As of 31 March 2002 the Fund had 14 portfolio companies. Co-investors in Wit VC1 include Mitsubishi, Goldman Sachs and Capital Z Partners.

Total commitment capital	**$40m**
Private Equity Investor commitment	**$0.5m**

Zone Venture Fund II

The Fund is the Southern California affiliate to Draper Fisher Jurvetson and follows a similar early-stage technology venture investing methodology. The Fund invests throughout the US with a particular focus on the Southern California region. As of 31 March 2002 the Fund had 22 portfolio companies.

Total committed capital	**$98m**
Private Equity Investor commitment	**$10m**

TIMOTHY E. CHILDS
Managing Director
10 July 2002

INVESTMENT PORTFOLIO

as at 31 March 2002

Unquoted Funds	*Sector*	*Total commitment US$'000*	*Drawndown book cost** US$'000*	*Market value US$'000*	*Market value £'000*	*% of net assets*
APV Technology Partners III	Venture Capital Fund	5,000	4,500	2,103	1,477	1.6
Bay III	Venture Capital Fund	5,000	3,375	2,128	1,494	1.6
Crescendo IV	Venture Capital Fund	10,000	6,227	2,602	1,827	2.0
Draper Fisher Jurvetson ePlanet Ventures	Venture Capital Fund	30,000	10,500	5,982	4,201	4.6
Draper Fisher Jurvetson Fund VI	Venture Capital Fund	2,000	1,185	627	440	0.5
Draper Fisher Jurvetson Fund VII	Venture Capital Fund	5,000	1,013	805	566	0.6
Draper Fisher Jurvetson Gotham Venture Fund	Venture Capital Fund	3,000	840	550	386	0.4
Focus Ventures II*	Venture Capital Fund	30,000	15,968	9,121	6,406	7.0
New Enterprise Associates 9	Venture Capital Fund	5,000	4,682	4,175	2,932	3.2
New Enterprise Associates 10	Venture Capital Fund	10,000	2,542	2,317	1,627	1.8
Oak Investment Partners X	Venture Capital Fund	10,000	1,799	1,396	981	1.1
Sprout Capital IX	Venture Capital Fund	5,000	1,706	1,383	971	1.1
TCV IV	Venture Capital Fund	25,000	13,269	11,170	7,845	8.6
Vanguard VII	Venture Capital Fund	3,000	1,200	916	643	0.7
Vantagepoint Venture Partners IV	Venture Capital Fund	10,000	1,600	779	547	0.6
Wit Dawntreader Fund II	Venture Capital Fund	30,000	16,350	11,551	8,111	8.9
Wit VC Fund I	Venture Capital Fund	500	497	186	130	0.1
Zone Venture Fund II	Venture Capital Fund	10,000	7,000	2,249	1,579	1.7
Total Unquoted funds		**198,500**	**94,253**	**60,040**	**42,163**	**46.1**
Quoted Loan Stocks						
Agence Francaise De Development 5.875%	Fixed Interest Securities	–	9,350	10,247	7,196	7.9
Bank Nederlandse Gemeenten 7.875%	Fixed Interest Securities	–	7,642	8,117	5,700	6.2
Bayerische Landesbank 5.75% Bonds	Fixed Interest Securities	–	3,015	3,056	2,146	2.4
European Investment Bank 7.125% Bonds	Fixed Interest Securities	–	10,003	10,777	7,568	8.3
Europe (Council of) 7.625%	Fixed Interest Securities	–	3,309	3,247	2,280	2.5
Finland (Republic of) 5.875% Bonds	Fixed Interest Securities	–	4,704	5,165	3,627	4.0
KFW International Finance Inc. 5.75% Bonds	Fixed Interest Securities	–	6,327	7,060	4,958	5.4
Rabobank Hypthekenbank 4.5%	Fixed Interest Securities	–	4,991	4,908	3,447	3.8
Rheininische Hypthekenbank 6.875%	Fixed Interest Securities	–	5,219	5,271	3,702	4.0
Total Quoted Loan Stocks		–	**54,560**	**57,848**	**40,624**	**44.5**

INVESTMENT PORTFOLIO (CONTINUED)

as at 31 March 2002

Other quoted Investments held directly by the Company	*Total commitment US$'000*	*Drawndown book cost** US$'000*	*Market value US$'000*	*Market value £'000*	*% of net assets*
Artemis International Solutions Common Stock	–	1	–	–	–
Broadcom Corporation Class A Common Stock	–	87	14	10	–
Total Other Quoted Investments	–	**88**	**14**	**10**	–
Total Investments	**198,500**	**148,901**	**117,902**	**82,797**	**90.6**
Net current assets less convertible unsecured loan notes			**12,262**	**8,611**	**9.4**
Net assets			**130,164**	**91,408**	**100.0**

*Formerly Charter Growth Capital II

**Drawndown book cost is adjusted for capital distributions from the unquoted funds. For more details refer to note 9 of the notes to the accounts.

DIRECTORS

The following are the Directors of the Company:

Barbara S Thomas (appointed 25 January 2000), (Executive Chairman) is aged 55. She is a past Commissioner of the US Securities and Exchange Commission and is a US qualified lawyer with extensive senior international experience of financial services, legal and media organisations, now resident in London. In 1996, she became a director of London American Growth Trust PLC and subsequently became a director of its successor company, Second London American Trust PLC, an investment trust with assets of some £30 million specialising in US investments. A substantial part of this company's business is conducted through participation in a venture capital partnership whose manager is based in California. She is non-executive chairman of Axon Group PLC, a London listed computer systems and e-commerce company, and is deputy chairman of Friends Provident Life Office PLC where she is a member of its investment committee. She was a director of News International PLC from 1993 to 1994. Between 1984 and 1986 she held senior positions at Samuel Montagu & Co Limited and from 1986 to 1990 she was senior vice president at Bankers Trust Company where she was responsible, inter alia, for investment and asset management business.

Timothy E Childs (appointed 25 January 2000), (Managing Director) is aged 41. He is an experienced investor and entrepreneur across a range of sectors including technology companies. He was a founder and chairman and chief executive of Gatehouse Leasing Limited, the Dublin based lease finance company which became one of Ireland's most profitable start-up leasing companies and subsequently became an associate of the Bank of Scotland plc.

Keith Young (appointed 25 January 2000), (Non-Executive Director) is aged 63. He is an experienced businessman with considerable expertise in the publishing, communications and new technology industries. His publishing interests include Parliamentary Communications Plc, the publisher of Parliament's "House Magazine" and European Parliament's "Parliament Magazine". He was a founder shareholder in Easynet plc, a leading UK based internet service provider and is a founder investor in Real Names Inc, USA. He is a director of two publicly listed companies and two AIM's listed companies.

M Andrew V de Candole (appointed 25 January 2000), (Non-Executive Director) is aged 49. He has a track record of establishing and building successful businesses. The companies which he has founded or co-founded include City Gate Estates plc which joined the Unlisted Securities Market in 1988 and was sold in 1990 for over £22 million, Pathfinder Properties PLC which traded on AIM, Private Equity Investor PLC and a number of successful private companies. He has been investing in the US private equity sector for several years and has well established contacts at leading US venture capital funds.

Peter F Dicks (appointed 20 June 2002), (Non-Executive Director) aged 59, was co-founder of Abingworth PLC in 1974, having previously pursued a career in stockbroking. He specialised in the selection and management of North American unquoted securities. He left Abingworth in 1991, after it went into planned members' voluntary liquidation. He is Chairman of Second London American Trust PLC, Polar Capital Technology Trust, and Graphite Enterprise Trust and a non-executive director of Standard MicroSystems Corporation (a US listed company) and a number of other quoted and unquoted companies.

INVESTMENT MANAGER AND SECRETARY

INVESTMENT MANAGER

The Company's fixed income securities are managed by Cazenove Fund Management Limited who provide investment portfolio management and advice to private clients, pension funds, charities, unit trusts and other institutional clients in domestic and overseas markets. As at 31 December 2001, total funds under management by Cazenove amounted to £9.7 billion.

SECRETARY

Sinclair Henderson Limited provides company secretarial and administrative services for the Company. It provides similar services for a number of other investment trusts. Sinclair Henderson Limited is a subsidiary undertaking of Exeter Investment Group plc.

REPORT OF THE DIRECTORS

The Directors present their report and the accounts for the year ended 31 March 2002. The Company, which was incorporated under the name of Net Investor PLC on 19 January 2000, commenced business on 3 February 2000. At the Annual General Meeting of the Company held on 19 July 2001 a special resolution was passed to change the Company's name from Net Investor Plc to Private Equity Investor PLC.

The Articles of Association provide for the shareholders to consider the continuation of the Company as an investment trust at the Annual General Meeting to be held in 2014 and at every fifth subsequent Annual General Meeting thereafter.

Status and principal activity of Company

The principal activity of the Company is to carry on business as an investment trust. In the opinion of the Directors, the Company has conducted its affairs so as to enable it to obtain approval as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988. The Company has subsequently directed its affairs so as to continue to receive approval.

The Company is an investment company as defined under Section 266 of the Companies Act 1985. The Company's shares are qualifying investments for inclusion in Individual Savings Accounts (ISAs).

Activities

The Company has two subsidiary undertakings, Private Equity International Limited and Net Investor Limited. These companies have £1 of share capital and were incorporated to register company names. Neither traded during the year and they have not been consolidated into the accounts of Private Equity Investor PLC.

A review of the Company's activities is given in the Chairman's statement on pages 5 to 7 and in the Managing Director's review on pages 8 to 15.

Net asset valuation

The net asset value per ordinary share at 31 March 2002, after deducting the proposed dividend, was 182.82p.

Limited partnership interests are valued in accordance with the valuations provided by the managers of those funds, on a quarterly basis. The valuation methodology normally used by these funds is that the underlying investments are valued at cost (written down in the case of underperforming investments) or at the latest fund raising valuation or at fair market value determined in accordance with the relevant limited partnership agreement. In the case of marketable securities, the valuations are based on a mark to market basis.

Results

The results for the year and the proposed transfer to the revenue reserve are set out in the statement of total return on page 30. The Directors recommend that a first and final dividend of 2.04p per ordinary share be paid on 30 September 2002 to shareholders on the share register at the close of business on 19 July 2002.

Management arrangements

The Board comprises five Directors who are responsible, inter alia, for implementing the investment policy of the Company and for monitoring its investments. As the underlying investments made by the Company will substantially be in managed venture capital funds, the Company does not employ an investment manager but is self managed by the Directors. Pending investment in suitable venture capital funds, the cash resources of the Company have been invested in a portfolio of fixed interest securities.

This portfolio is managed by Cazenove Fund Management Limited under an agreement dated 31 January 2000. The management fee in respect of these investments is payable quarterly in arrears and is calculated at an incremental rate based on the value of the fixed interest portfolio, but subject to a minimum fee of £2,500 each quarter. Representatives from Cazenove Fund Management Limited periodically attend the Board meetings.

Custody of the Company's fixed interest portfolio is undertaken by Cazenove & Co, the terms of which are also incorporated in the agreement dated 31 January 2000. The fee for providing safe custody is included within the management fee as detailed above.

Under an agreement dated 31 January 2000 company secretarial and administrative services are provided by Sinclair Henderson Limited. The administration agreement may be terminated by giving not less than twelve months' notice.

Directors

The Directors are as shown on page 18.

Directors' interests

The interests of the Directors, their families and any beneficial trusts in the share capital of the Company at 31 March were:

	Beneficial and family	
Ordinary shares of 0.01p each:	***2002***	*2001*
B S Thomas (Executive Chairman)	**12,600**	12,600
T E Childs (Managing Director)	**52,032**	52,032
K Young (Non-Executive Director)	**15,537**	15,537
M A V de Candole (Non-Executive Director)	**52,031**	52,031
P F Dicks (Non-Executive Director)	**–**	–

At the date of this report there had been no further changes in the above holdings.

Details of the Directors' interests in the Promoters' Incentive arrangements are described on page 27.

Substantial share interests

At 10 July 2002 the holdings representing 3% or more of the ordinary share capital, notified to the Company, were:

	Shares	*%*
Prudential plc	3,235,000	6.47
Aviva plc	2,697,515	5.40
British Empire Securities	2,498,000	5.00

Corporate governance

The Company is committed to high standards of corporate governance and to the principles of good governance set out in the Combined Code. The Board is accountable to shareholders for the governance of the Company's affairs.

Directors' statement of compliance with the combined code ("Code")
The Directors have reviewed the principles outlined in the Code and believe that, insofar as they are relevant to the Company's business as an investment trust, they have complied with the provisions of the Code during the year ended 31 March 2002, subject to the exceptions explained below.

Board of Directors
During the year under review, the Board consisted of 2 Executive and 2 Non-Executive Directors, with Keith Young acting as Senior Independent Director. On 20 June 2002, the Board appointed Peter Dicks as a Non-Executive Director. Following the appointment of Mr Dicks, the Board considers a majority of the Non Executive Directors to be independent in accordance with Code provision A.3.2. Brief biographical details of the Directors can be found on page 18.

The Board is responsible for all matters of direction and control of the Company, including its investment policy, and no one individual has unfettered powers of decision. The Directors regularly review the Company's investments and all other important issues to ensure that control is maintained over the Company's affairs. These procedures have been formalised in a schedule of matters specifically reserved for the decision of the Board, which has been adopted for all meetings.

Each of the Directors in office at 31 March 2002 has a letter of appointment with the Company. These letters provide for an initial period that was subject to 12 months' notice expiring on the date of the Annual General Meeting to be held in 2002. Thereafter, the appointment may be terminated by 12 months' notice. This is in accordance with Code provision B.1.8 which recommends that longer notice periods should be reduced to one year or less after the initial period.

Under the Articles of Association, all Directors are subject to retirement and re-election by shareholders.

Committees
The Company has appointed a number of committees to monitor specific operations, each of which have formal written terms of reference and are chaired by Keith Young.

Audit committee
The Audit Committee meets to oversee the production of the annual accounts, compliance with Accounting Standards and regulatory requirements, to deal with conflicts of interest and to keep the procedures and controls of the Company constantly under review. The Audit Committee comprises solely the Non-Executive Directors. Ernst & Young LLP, the Company's Auditors, attend meetings of the Audit Committee and have direct access to Committee members.

Nomination Committee
A Nomination Committee has been established which comprises solely Non-Executive Directors. The Committee is convened as and when necessary for the purpose of considering the appointment of new directors.

Independent professional advice
The Board has formalised arrangements under which the Directors, in the furtherance of their duties, may seek independent professional advice.

Directors' remuneration
The Remuneration Committee comprises solely Non-Executive Directors. The report on Directors' remuneration on pages 26 and 27 explains the approach taken by the Committee to the structuring of remuneration for Executive Directors.

Going concern
After due consideration, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal control review
The Directors acknowledge that they are responsible for the Company's system of internal control and for reviewing its effectiveness.

Throughout the year under review and up to the date of this report there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process accords with the guidance in the document 'internal controls: Guidance for Directors on the Combined Code". This process is reviewed on a regular basis by the whole Board. Key procedures established with a view to providing effective financial control have been in place for the full financial year and up to the date the accounts were approved.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, not absolute assurance against material misstatement or loss.

Internal control assessment process
Risk assessment and the review of internal controls are undertaken by the Board in the context of the Company's overall investment objective. The review covers the key business, operational, compliance and financial risks facing the Company. In arriving at its judgement of what risks the Company faces, the Board has considered the Company's operations in the light of the following factors:

- The nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective;
- The threat of such risks becoming a reality;
- The Company's ability to reduce the incidence and impact of risk on its performance; and
- The cost to the Company and benefits related to the Company and third parties operating the relevant controls.

Against this background, the review of risk and associated controls the Board has split the review into four sections reflecting the nature of the risks being addressed. These sections are as follows:

- Corporate strategy
- Published information, compliance with laws and regulations
- Relationship with service providers
- Investment and business activities

Given the nature of the Company's activities and the fact that certain functions are subcontracted the Directors have obtained information from key third party suppliers regarding the controls operated. To enable the Board to make an appropriate risk and control assessment the information and assurances sought from third party suppliers include the following:

- Details of the control environment operated by the third party suppliers.
- Identification and evaluation of risks and control objectives by third party suppliers.

- Assessment of the communication procedures with third party suppliers.
- Assessment of the control procedures operated by third party suppliers.

The key procedures that have been established with a view to providing effective internal financial control are as follows:

- Investment management of the fixed interest portfolio is provided by Cazenove Fund Management Limited. The Board is responsible for setting the overall investment policy and monitors the actions of the fixed interest portfolio manager at regular Board meetings.
- Investment decisions regarding the limited partnership portfolio are undertaken by the Board of Directors after due consideration of the investment policy of the Company.
- The provision of administration, accounting and company secretarial duties is the responsibility of Sinclair Henderson Limited.
- Custody of the fixed interest securities element of the Company's portfolio is undertaken by Cazenove & Co.
- Copies of the limited partnership agreements are held by Eversheds.
- The duties of investment management, accounting and custody of assets are segregated. The procedures of the individual parties are designed to complement one another.
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board monitors their ongoing performance and contractual arrangements.
- Mandates for authorisation of investment transactions and expense payments are set by the Board.

The Board reviews financial information produced by the Company Secretary on a regular basis.

In accordance with guidance issued to directors of listed companies, the Directors have carried out a review of the effectiveness of the systems of internal control as they have operated during the year.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Sinclair Henderson Limited, who is responsible for ensuring that Board and Committee procedures are followed and that applicable regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and also the statutory obligations of the Company.

Relations with shareholders

Communication with shareholders is given a high priority by the Board and the Directors are available to enter into dialogue with shareholders. All shareholders are encouraged to attend and vote at the Annual General Meeting during which the Board and Investment Manager are available to discuss issues affecting the Company.

Payment of suppliers

It is the Company's payment policy to obtain the best possible terms for all business and, therefore, there is no consistent policy as to terms used. The Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by those terms.

As at 31 March 2002 there were no trade creditors (2001: none).

Annual General Meeting

The Notice of Annual General Meeting on page 47 sets out both the Ordinary Business and the Special Business to be conducted at the meeting.

There are two items of Special Business. Resolution 6 proposes to extend the Directors' powers, subject to certain defined parameters, to purchase the Company's shares in the market for a further year. Resolution 7 proposes to authorise the Directors to invest in funds investing in hedge funds. The background for this proposed Investment Policy Change, which is unanimously recommended by the Board, is given on page 6.

Auditors

Arthur Andersen resigned as auditors on 10 April 2002 and was replaced by Ernst & Young LLP. Ernst & Young LLP has expressed its willingness to continue in office as auditor and a resolution proposing its re-appointment will be proposed at the Annual General Meeting.

By order of the Board
SINCLAIR HENDERSON LIMITED
Secretary
10 July 2002

REMUNERATION COMMITTEE REPORT

During the year under review, the Remuneration Committee comprised solely Non-Executive Directors: Keith Young (Chairman) and Andrew de Candole.

The role of the committee

The role of the Committee is to establish Board policy in respect of terms of employment, including remuneration packages, in detail for each Executive Director. The Committee seeks to encourage the enhancement of the Company's performance and to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate Executive Directors of the right calibre. In setting both the policy related to and levels of remuneration and benefits for Executive Directors, the Committee may take account of market data and independent professional advice.

Review of remuneration structure

The current remuneration structure is as set out in the Prospectus which states that the Company will be managed by the Directors, who will not receive a salary, but will be entitled to receive directors' fees annually equal to 0.5 per cent.(exclusive of VAT) of the net assets of the Company calculated in accordance with the Articles of Association. For the period to 14 February 2002 this fee was allocated between the Company's individual Directors pursuant to an agreement entered into by the Directors prior to the Company's incorporation. With effect from 14 February 2002 this fee has been allocated pursuant to a revised agreement entered into by the Directors as a result of recommendations made by the Remuneration Committee.

Other benefits

Directors receive allowances for travel, parking and incidental expenditure.

Letters of appointment

Each of the Directors in office at 31 March 2002 has a letter of appointment with the Company. These letters provide for an initial period that was subject to 12 months notice expiring on the date of the Annual General Meeting to be held in 2002. Thereafter, the appointment may be terminated by 12 months notice.

Directors' remuneration

The remuneration of the Directors for the year ended 31 March 2002 was as follows:

	Fees *£'000*	*Travel and general expense allowance* *£'000*
Executive		
Barbara Thomas	59	18
Timothy Childs	228	18
Non-Executive		
Andrew de Candole	213	2.5
Keith Young	36	2.5
	536	**41**

Pre-flotation expenses

At a Board Meeting held on 20 March 2000 approval was given to the payment of £10,000 (plus VAT) to Blenheim Asset Management Limited of which Mr M A V de Candole is a director and £10,000 to Spread Trustee Company Limited, trustee to the Timothy Childs Life Interest Settlement. The payments were made in recognition of the pre-flotation expenses.

Directors' interests in the promoters' incentive arrangements

In consideration for its promotion of the concept and launch of the Company, Chamelle Limited ("Chamelle"), a company incorporated in the British Virgin Islands and owned as to 10% by Barbara S Thomas, 41.625% by a company owned by the trustee of the Timothy Childs Life Interest Settlement, 41.625% by M Andrew V de Candole and 6.75% by Keith Young, all of whom have entered into certain incentive arrangements ("the Promoters' Incentive Arrangement"). Under these arrangements, Chamelle, has subscribed at par for £5,000 nominal value of convertible unsecured loan notes of Private Equity Investor which will automatically be converted into new ordinary shares in the Company on the following terms:

> Conversion of convertible unsecured loan notes will take place at the end of every third financial year of the Company and on the day immediately preceding the winding-up of the Company and on any takeover. The number of the new ordinary shares issued to Chamelle on each such conversion will depend on the amount (if any) by which the net asset value (as shown in the audited accounts of the Company) plus the value of all the gross distributions by the Company exceeds an amount equal to the gross proceeds of the Placing increased at a compound annual growth rate of 8 per cent. over the period from Admission to the date at which the relevant conversion is calculated ("the Hurdle"). The conversion formula entitles Chamelle to receive on each conversion of the convertible unsecured loan notes that number of ordinary shares calculated by dividing the monetary value of 20 per cent. of the amount by which the increase in the Company's net asset value plus the value of all gross distributions by the Company over that period exceeds the Hurdle by the grossed-up net asset value per share (calculated in accordance with the formula) at the end of that period and deducting the aggregate number of shares issued on all previous conversions.

At the end of the relevant three year period the number of new ordinary shares arising on conversion will be calculated and the relevant ordinary shares will be issued at par. Application will be made for the ordinary shares so issued to be admitted to the Official List of the London Stock Exchange. If all the convertible unsecured loan notes are converted under these arrangements the noteholders have the right to subscribe for further loan notes on the same terms.

If any person obtains control of the Company as a result of making a general offer and subsequently the Company is wound-up, the noteholders are entitled to compensation based on a genuine pre-estimate of their loss for the period from the commencement of the winding-up to 31 August 2014 calculated by reference to the average historic net internal rate of return of the managers of the venture capital funds and limited partnerships in which the Company has invested.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of its profit or loss for that year.

In preparing those accounts, 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They also have responsibility for safeguarding the assets of the Company and for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

The Directors are responsible for ensuring that the Report of the Directors and other information included in the annual report is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

The maintenance and integrity of this PDF file is the responsibility of the Directors of Private Equity Investor PLC. 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 have occurred to the financial statements since they were initially presented on the website.

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

The definitive version of the Company's Annual Accounts is as filed at Companies House, a copy of which is obtainable from Sinclair Henderson Limited.

REPORT OF THE INDEPENDENT AUDITORS

to the members of Private Equity Investor PLC

We have audited the Company's accounts for the year ended 31 March 2002 which comprise the statement of total return, balance sheet, statement of cash flows and the related notes 1 to 21. These accounts have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the accounts 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 accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

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

We read other information contained in the annual report and consider whether it is consistent with the audited accounts. This other information comprises the Report of the Directors and Chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 March 2002 and of the net revenue and total return of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG LLP
Registered Auditor
London
10 July 2002

STATEMENT OF TOTAL RETURN
(INCORPORATING THE REVENUE ACCOUNT*)

for the year ended 31 March 2002

		Year ended 31 March 2002			19 January 2000 to 31 March 2001		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	9	**–**	**(17,166)**	**(17,166)**	–	8,373	8,373
Exchange gains on capital items	9	**–**	**171**	**171**	–	1,227	1,227
Income	2	**3,316**	**–**	**3,316**	5,667	–	5,667
Expenses	3	**(1,188)**	**–**	**(1,188)**	(1,497)	–	(1,497)
Return on ordinary activities before taxation		**2,128**	**(16,995)**	**(14,867)**	4,170	9,600	13,770
Taxation on ordinary activities	6	**(641)**	**735**	**94**	(1,311)	–	(1,311)
Return on ordinary activities after taxation for the financial year		**1,487**	**(16,260)**	**(14,773)**	2,859	9,600	12,459
Dividend proposed	7	**(1,020)**	**–**	**(1,020)**	(2,125)	–	(2,125)
Transfer to/(from) reserves		**467**	**(16,260)**	**(15,793)**	734	9,600	10,334
Return per ordinary share	8	**2.97p**	**(32.52)p**	**(29.55)p**	5.72p	19.20p	24.92p

*The revenue column of this statement is the revenue account of the Company.

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

No operations were acquired or discontinued during the year.

The notes on pages 33 to 44 form part of these accounts.

BALANCE SHEET

as at 31 March 2002

	Notes	*31 March 2002 £'000*	*31 March 2001 £'000*
Fixed assets			
Investments	9	**82,797**	103,718
Current assets			
Debtors	10	**1,812**	2,200
Cash at bank		**8,741**	4,931
		10,553	7,131
Creditors – amounts falling due within one year	11	**1,937**	3,643
Net current assets		**8,616**	3,488
Total assets less current liabilities		**91,413**	107,206
Creditors – amounts falling due after one year	12		
Convertible unsecured loan notes		**5**	5
Total net assets		**91,408**	107,201
Share capital and reserves			
Called up share capital	13	**5**	5
Share premium account	14	**96,862**	96,862
Capital reserve – realised	14	**8,440**	3,089
– unrealised	14	**(15,100)**	6,511
Revenue reserve	14	**1,201**	734
Shareholders' funds – equity interests	15	**91,408**	107,201
Net asset value per ordinary share	18		
– Basic		**182.82p**	214.40p

These accounts were approved by the Board of Directors on 10 July 2002.

BARBARA S. THOMAS
Executive Chairman

The notes on pages 33 to 44 form part of these accounts.

STATEMENT OF CASH FLOWS

for the year ended 31 March 2002

	Notes	*Year ended 31 March 2002 £'000*	*Period ended 31 March 2001 £'000*
Operating activities			
Investment income received		**3,624**	2,899
Deposit interest received		**175**	634
Secretarial fees paid		**(77)**	(83)
Other cash payments		**(1,068)**	(1,268)
Net cash inflow from operating activities	16	**2,654**	2,182
Taxation			
Taxation paid		**(517)**	–
Net cash outflow from taxation		**(517)**	–
Capital expenditure and financial investment			
Purchases of investments		**(35,491)**	(123,809)
Sales of investments		**39,121**	28,464
Realised currency (losses)/gains		**(6)**	562
Net cash inflow/(outflow) from capital expenditure and financial investment		**3,624**	(94,783)
Equity dividends paid		**(2,125)**	–
Net cash inflow/(outflow) before financing		**3,636**	(92,601)
Financing			
Proceeds of share issue		**–**	100,000
Expenses of share issue		**–**	(3,133)
Proceeds of issue of redeemable preference shares		**–**	50
Payment to redeem preference shares		**–**	(50)
Net cash inflow from financing		**–**	96,867
Increase in cash	17	**3,636**	4,266

The notes on pages 33 to 44 form part of these accounts.

NOTES TO THE ACCOUNTS

at 31 March 2002

1 ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention as modified by the revaluation of fixed asset investments, and in accordance with applicable accounting standards and with the Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies ('SORP'). All the Company's activities are continuing.

Gains and losses on fixed asset investments and currencies, whether realised or unrealised, are taken to the capital reserve (note 14).

Accounting period

The Company was incorporated on 19 January 2000 and commenced business on 3 February 2001. The comparative results are therefore for the period from 19 January 2000 to 31 March 2001.

Income recognition

Dividends receivable on quoted equity and non-equity shares are included in the accounts when the investments concerned are quoted 'ex-dividend'. Dividends receivable on equity and non-equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security. Interest receivable is included on an accruals basis.

Expenses

All expenses are accounted for on an accruals basis and are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

Investments

Unquoted fixed asset investments are stated at Directors' valuation, further details of which can be found in the Report of the Directors on pages 20 to 25.

Quoted investments are valued at the mid-market price on the relevant stock exchange.

Any unrealised profits and losses are taken directly to the capital reserve. Any realised profits and losses arising on the disposal of investments are also taken directly to the capital reserve.

Capital distributions received from investments are accounted for on a reducing cost basis; cash and stock distributions received are first applied to reducing the historical cost of an investment; a realised gain will be recognised only when the cost has been reduced to nil.

Subsidiary undertakings

Net Investor Limited and Private Equity International Limited are two nominee companies incorporated with share capital of £1 each issued and fully paid. They were incorporated to register the business names of Private Equity Investor and Private Equity International. They have not traded during the year and have not been consolidated as they are, in the Directors' opinion, immaterial to the accounts.

Foreign currency

Transactions denominated in foreign currencies are converted to sterling at the actual exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rate of exchange at the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or the revenue account depending on whether the gain or loss is of a capital or revenue nature.

Taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by Financial Reporting Standard No. 19: Deferred Taxation. Previously under Statement of Standard Accounting Practice 15, provision for deferred taxation was necessary only to the extent that it was probable that the tax would be payable in the forseeable future.

Any tax relief obtained in respect of limited partnership management fees is allocated to the Company's capital reserve to reflect the amount by which corporation tax payable is reduced as a result of these capital expenses.

2 INCOME

	2002	*2001*
	£'000	*£'000*
Income from investments:		
Interest from US fixed interest investments	**146**	1,057
Interest from European fixed interest investments	**3,000**	3,939
	3,146	4,996
Other income:		
Deposit interest	**170**	671
Total income	**3,316**	5,667
Total income comprises:		
Interest	**3,316**	5,667

3 EXPENSES

		2002	*2001*
		£'000	*£'000*
Secretarial services		**77**	89
Auditor's remuneration for - audit		**21**	20
– other services to the Company		**5**	25
Directors' remuneration (see note 5)		**536**	574
Other expenses	– Irrecoverable VAT	**58**	130
	– Public relations and advertising	**39**	54
	– Investment manager fees (listed portfolio)	**67**	98
	– Legal and professional fees	**79**	50
	– Office expenditure	**21**	123
	– Staff costs (see note 4)	**41**	39
	– Banking and custody charges	**4**	14
	– Broker's and sponsors fees	**30**	35
	– Other expenses	**210**	246
		1,188	1,497

During the year ended 31 March 2002 an amount of £5,000 (excluding VAT) was paid to the Company's former auditors in respect of tax services provided to the Company.

During the year ended 31 March 2001 an amount of £10,000 (excluding VAT) was paid to the Company's former auditors in respect of work performed in revaluing the Company's limited partnership portfolio. In addition, during the year ended 31 March 2001 an amount of £15,000 (excluding VAT) was paid to the Company's former auditors in respect of the development of a business model on behalf of the Company.

In addition to the above, the Company's former auditors were paid £45,000 plus VAT in the period ended 31 March 2001 for services in connection with the formation of the Company. These expenses were charged to the share premium account.

4 STAFF COSTS

	2002	*2001*
	£'000	*£'000*
Salaries and other payments	**37**	35
Social security costs	**4**	4
	41	39

With the exception of the Directors, whose remuneration is shown in note 5, the Company had one member of staff employed during this year and in the previous accounting period.

5 DIRECTORS' REMUNERATION

	2002	*2001*
	£'000	*£'000*
Remuneration to Directors:		
B S Thomas (Executive Chairman)	**59**	57
T E Childs (Managing Director)	**228**	239
K Young (Non-Executive Director)	**36**	39
M A V de Candole (Non-Executive Director)	**213**	239
Total fees	**536**	574

No pension contributions were received by the Directors during the year (2001: nil).

The Remuneration Committee report on pages 26 and 27 provides details of the Directors' travel and general expense allowance for the year.

6 TAXATION ON ORDINARY ACTIVITIES

		2002		*2001*
	Revenue	***Capital***	***Total***	*Total*
	£'000	*£'000*	*£'000*	*£'000*
UK corporation tax at 30%	639	(735)	(96)	1,311
Under provision in respect of prior year	2	–	2	–
	641	**(735)**	**(94)**	1,311

The Company is subject to corporation tax at 30% (2001: 30%). The current taxation charge in the Company's revenue account is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002	*2001*
	£'000	*£'000*
Reconciliation of the tax charge for the year:		
Return on ordinary activities before taxation	**2,128**	4,170
Theoretical corporation tax at 30%	**638**	1,251
Effects of:		
– Expenses disallowed for taxation purposes	**1**	60
– Under provision in respect of prior year	**2**	–
Current tax charge – revenue account	**641**	1,311

7 DIVIDENDS IN RESPECT OF ORDINARY SHARES

	2002 *£'000*	*2001* *£'000*
Final dividend proposed of 2.04p (2001: 4.25p)	**1,020**	2,125

8 RETURN PER ORDINARY SHARE

	2002			*2001*		
	Revenue *pence*	***Capital*** *pence*	***Total*** *pence*	*Revenue* *pence*	*Capital* *pence*	*Total* *pence*
Basic	**2.97**	**(32.52)**	**(29.55)**	5.72	19.20	24.92

Basic revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £1,487,000 (2001: £2,859,000), and on 50,000,000 (2001: 50,000,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Basic capital return per ordinary share is based on net capital losses for the year of £16,260,000 (2001: £9,600,000), and on 50,000,000 (2001: 50,000,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

On 26 March 2001 the Company issued £5,000 of 0.01p convertible unsecured loan notes which on conversion would lead to a dilution of the Company's return per share. The terms of this conversion are set out on page 27. At 31 March 2002, nil (2001: 1,844) shares would have become issuable. In the period ended 31 March 2001 the dilutive effect of the loan notes led to an increase in the weighted average number of shares of 22 in respect of the Company's diluted computation which had an immaterial effect on the Company's return per ordinary share.

9 INVESTMENTS

a) Investment portfolio summary

	2002 *£'000*	*2001* *£'000*
USA		
Listed investments		
– fixed interest securities	**8,405**	10,581
– common stock	**10**	–
Unlisted investments	**42,163**	45,052
Other		
Listed investments	**32,219**	48,085
	82,797	103,718

A full listing of the investment portfolio is provided on page 16 and 17.

9 INVESTMENTS – continued

b) Analysis of investment portfolio movements

	Listed loan stock £'000	*Listed equities £'000*	*Unlisted £'000*	*Total £'000*
Opening book cost	48,830	–	49,042	97,872
Movements in the year:				
Purchases at cost	20,403	–	–	20,403
Calls at cost	–	–	15,088	15,088
Sales				
– proceeds	(38,463)	(672)	–	(39,135)
– realised gains/(losses) on sales	4,647	(25)	–	4,622
Book cost adjustments from capital distributions				
– cash distributions	–	–	(111)	(111)
– stock distributions	–	755	(755)	–
Unrealised appreciation/(depreciation)	5,207	(48)	(21,101)	(15,942)
Closing valuation	40,624	10	42,163	82,797
Closing book cost	35,417	58	63,264	98,739
Closing unrealised appreciation/(depreciation)	5,207	(48)	(21,101)	(15,942)
	40,624	10	42,163	82,797

c) Analysis of capital gains and losses

	***2002* £'000**	*2001 £'000*
Realised gains on sales of investments	**4,622**	2,527
(Decrease)/increase in unrealised capital appreciation	**(21,788)**	5,846
(Losses)/gains on investments	**(17,166)**	8,373
Realised exchange (losses)/gains on capital items	**(6)**	562
Unrealised exchange gains on capital items	**177**	665
Exchange gains on capital items	**171**	1,227

10 DEBTORS – amounts falling due within one year

	2002	*2001*
	£'000	*£'000*
Accrued income	**856**	1,338
Amounts due from broker	**128**	–
Amounts due in respect of convertible unsecured loan note	**5**	5
Prepayments and other debtors*	**88**	61
Corporation tax recoverable	**735**	–
Income tax recoverable	**–**	796
	1,812	2,200

* Included in prepayments and other debtors is £25,000 in respect of a rental deposit which is held as security for the due observance and performance of the covenants contained in an operating lease in respect of the premises and, provided these terms and conditions are adhered to, is refundable in two years.

11 CREDITORS – amounts falling due within one year

	2002	*2001*
	£'000	*£'000*
Accruals	**278**	207
Proposed dividend	**1,020**	2,125
UK corporation tax payable	**639**	1,311
	1,937	3,643

12 CREDITORS – amounts falling due after more than one year

	2002	*2001*
	£'000	*£'000*
0.5% convertible unsecured loan notes	**5**	5

The conversion dates of the convertible unsecured loan notes arise at the end of every third financial year of the Company. The terms of conversion are set out on page 27.

As soon as practicable following a conversion date a proportion of the notes calculated in accordance with a formula set out in the loan note issue document shall automatically be converted into ordinary shares of 0.01p each in the capital of the Company to be issued by the Company to the noteholders pro rata to their holdings of notes credited as fully paid up at par.

The first such conversion date will arise on 31 March 2003, however if the convertible unsecured loan notes were converted at 31 March 2002, no (2001: 1,844) ordinary shares would have been issued.

13 CALLED UP SHARE CAPITAL

	2002 £'000	2001 £'000
Authorised:		
100,000,000 ordinary shares of 0.01p each	**10**	10
50,000 redeemable preference shares of £1.00 each	**50**	50
	60	60
Allotted, called up and fully paid:		
50,000,000 ordinary shares of 0.01p each	**5**	5

14 RESERVES

	Share premium £'000	Capital reserve –realised £'000	Capital reserve –unrealised £'000	Revenue reserve £'000
Beginning of year	96,862	3,089	6,511	734
Movement in unrealised appreciation before transfer on disposal	–	–	(16,857)	–
Transfer on disposal of investments	–	4,931	(4,931)	–
Net losses on realisation of investments	–	(309)	–	–
Exchange differences on other capital items	–	(6)	–	–
Exchange differences on currency	–	–	177	–
Tax recoverable in respect of prior years	–	735	–	–
Retained revenue for the year	–	–	–	467
End of year	96,862	8,440	(15,100)	1,201

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Revenue reserve		
Net revenue for the year	**1,487**	2,859
Dividend proposed	**(1,020)**	(2,125)
	467	734
Share capital and premium		
Proceeds of share issue	**–**	100,000
Expenses of share issue	**–**	(3,133)
	–	96,867
Capital reserve		
Movement in capital reserve	**(16,260)**	9,600
Net (reduction)/addition to shareholders' funds	**(15,793)**	107,201
Opening shareholders' funds	**107,201**	–
Closing shareholders' funds	**91,408**	107,201

16 RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 £'000	2001 £'000
Net revenue before finance costs and taxation	**2,128**	4,170
Increase in creditors and accruals	**71**	207
Decrease/(increase) in prepayments and accrued income	**455**	(1,399)
Tax deducted on unfranked investment income	**–**	(796)
	2,654	2,182

17 RECONCILIATION OF NET CASH FLOW TO NET FUNDS

	2002 £'000	2001 £'000
Increase in cash in the year	**3,636**	4,266
Effect of foreign exchange rate movements	**174**	665
Movement in net funds	**3,810**	4,931
Net funds at beginning of the year	**4,931**	–
Net funds at end of the year	**8,741**	4,931

Net funds are comprised as follows:

	2002 £'000	2001 £'000
Cash at bank	**8,741**	4,931

18 NET ASSET VALUE PER ORDINARY SHARE

The basic net asset value per ordinary share is based on net assets of £91,408,000 (2001: £107,201,000) and on 50,000,000 (2001: 50,000,000) ordinary shares, being the number of shares in issue at the year end.

The fully diluted net asset value per ordinary share is calculated on the assumption that the convertible unsecured loan notes in issue are fully converted into ordinary shares of 0.01p each. The terms of the loan notes are detailed on page 27. At 31 March 2002, no (2001: 1,844) additional shares would have become issuable and there is no effect on the Company's net asset value per ordinary share.

19 COMMITMENTS AND CONTINGENT LIABILITIES

At 31 March 2002 there were financial commitments outstanding of £72.3 million (2001: £87.6 million) in respect of outstanding call commitments to limited partnerships.

The Company had annual commitments of £38,250 at 31 March 2002 under an operating lease in respect of premises. The operating lease commitment will expire after more than five years from the balance sheet date.

20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

As detailed on page 1, the primary investment objective of the Company is to seek to provide long-term capital growth for shareholders. This is principally achieved by investing in unquoted, specialist US venture capital funds.

The Company's financial instruments comprise securities and other investments and bank deposits which are held to achieve its investment objective as well as debtors and creditors that arise from its operations, for example sales and purchases of securities awaiting settlement and debtors for accrued income.

The principal risks the Company faces through the holding of financial instruments are:

- liquidity/marketability risk;
- interest rate risk;
- market price risk; and
- foreign currency risk.

The Directors do not consider that the Company has significant exposure to credit risk. The Managing Director monitors the financial risks affecting the Company on a daily basis. The Directors receive financial information on a monthly basis which is used to identify and monitor risk.

As required by Financial Reporting Standard No.13: Derivatives and other financial instruments, an analysis of financial assets and liabilities, which identifies the risk to the Company of holding such items, is given below.

Financial assets

Full analysis of the Company's investment portfolio is given on pages 16 to 17. The method of valuing the fixed asset investments is discussed in the accounting policies of the Company in note 1 on pages 33 and 34. Cash and trade debtors arising from the operations of the Company as at 31 March 2002 amounted to £8,741,000 (2001: £4,931,000) and £1,812,000 (2001: £2,200,000) respectively. There was no material difference between the fair values of the investments as at 31 March 2002 and 31 March 2001 and the values attributable to those investments within the accounts.

Liquidity risk

Due to the nature of the Company's investment policy, of investing in specialist US venture capital funds, it means that a large proportion of the securities are a lot less readily marketable than, for example, 'blue-chip' UK equities. However, in order to reduce risk, research and due diligence work is performed before any commitment is made to a fund manager.

Interest rate risk

The Company invests its surplus cash in Triple A $ denominated bonds. However, these are held with a short to medium term maturity and changes in interest rates have little effect on the portfolio.

20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES – continued

As at 31 March 2002, the average interest rate profile of the Company's financial assets was as follows:

	Fixed rate £'000	*Floating rate £'000*	*No interest associated £'000*	*Weighted average interest rate %*	*Weighted average time to maturity months*
Quoted loan stocks	40,624	–	–	6.44	47
Quoted equities	–	–	10	–	–
Unquoted funds	–	–	42,163	–	–
Cash	–	8,741*	–	–	–
Debtors	–	–	1,812	–	–
	40,624	8,741	43,985		

As at 31 March 2001, the average interest rate profile of the Company's financial assets was as follows:

	Fixed rate £'000	*Floating rate £'000*	*No interest associated £'000*	*Weighted average interest rate %*	*Weighted average time to maturity months*
Quoted loan stocks	58,666	–	–	6.42	50
Unquoted funds	–	–	45,052	–	–
Cash	–	4,931*	–	–	–
Debtors	–	–	2,200	–	–
	58,666	4,931	47,252		

*Exposure to floating interest rate risk is based on an adjusted LIBOR rate.

Market price risk

Since the Company invests in financial instruments, market price risk is inherent. The Company will always face uncertainty as to the future price of the financial instruments in which it is invested. This risk represents the potential loss the Company may suffer in the light of adverse market price movements.

The Managing Director's review on pages 8 to 15 reviews the investments made during the year. The method of valuing the investments is discussed in the accounting policies on pages 33 and 34.

Foreign currency risk

Due to the Company's holdings being wholly overseas, the Company is also exposed to the risk of movement in the £/$ exchange rate. The Company does not nor does it intend to hedge the portfolio against any movement in the exchange rate.

The Company settles its transactions from its bank accounts at an agreed rate of exchange on the date on which any bargain was made. As at 31 March 2002, realised exchange losses of £6,000 (2001: gains of £562,000) and unrealised gains relating to currency of £177,000 (2001: £665,000), have been taken to the capital reserve.

20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES – continued

Details of the foreign currency exposure are detailed in the table below.

At 31 March 2002	*Investment portfolio £'000*	*Cash £'000*	*Other current assets £'000*
USA	82,797*	5,574	1,002
UK	–	3,167	810
	82,797	8,741	1,812

At 31 March 2001	*Investment portfolio £'000*	*Cash £'000*	*Other current assets £'000*
USA	103,718*	4,900	1,338
UK	–	31	862
	103,718	4,931	2,200

* All portfolio stocks are dollar denominated

Financial liabilities

The Company finances its operations primarily through equity, retained profits and convertible unsecured loan notes although trade creditors and accruals arise from its operations. At 31 March 2002 and 31 March 2001, all financial liabilities were due within one year with the exception of the Company's share capital and the loan notes which are convertible at the end of every third financial year of the Company as described further in note 12 and totalled £5,000 at 31 March 2002 and 31 March 2001. Other financial liabilities amount to £1,937,000 (2001: £3,643,000) and result from operating activities.

Interest on the convertible unsecured loan notes accrues at a rate of 0.5% per annum, payable twice yearly in arrears in respect of the interest periods ending on those dates.

There were no borrowing facilities either drawn or undrawn at any time during the year.

21 RELATED PARTY TRANSACTIONS

Immediately following admission, the Company purchased from Chamelle Limited, a company then wholly owned by Andrew de Candole and by a company owned by the trustee of the Timothy Childs Life Interest Settlement, the assets of Chamelle Limited comprising its investment in Draper Fisher Jurvetson Fund VI LP and Wit VC Fund I LP described above, which were subscribed by Chamelle Limited on the launch of those funds, at original cost, for an aggregate consideration of $655,000 plus expenses. Insinger English Trust, the Company's financial adviser, performed an independent validation of the consideration.

For details of payments of pre-flotation expenses see the Remuneration Committee Report on pages 26 and 27.

For details of loan notes see page 27.

GLOSSARY OF TERMS

Net asset value ("NAV")

The NAV is the shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of all the Company's assets, at current market value, having deducted all prior charges at their par value (or at their asset value).

Discount

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, the shares are said to be trading at a premium.

Total return

The combined effect of any dividends paid, together with the rise or fall in the NAV. Total return statistics enable the investor to make performance comparisons between trusts with different dividend policies. Any dividends (after tax) received by a shareholder are assumed to have been reinvested in either additional shares of the trust at the time the shares go ex-dividend (the share price total return) or in the assets of the trust at its NAV per share (the NAV total return).

Total expenses ratio

The total expenses incurred by the Company (excluding interest costs) as a percentage of total assets less current liabilities.

COMPANY INFORMATION

DIRECTORS
Hon. Barbara Thomas (Executive Chairman)
Timothy Childs (Managing Director)
Keith Young (Non-Executive)
Andrew de Candole (Non-Executive)
Peter Dicks (Non-Executive)

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SOURCES OF FURTHER INFORMATION
The Company's share price is listed in the Financial Times under "Investment Companies".

KEY DATES

March	Company year end
July	Annual results
September	Annual General Meeting
	Dividend payable
December	Interim results

FREQUENCY OF NAV PUBLICATION
The Company's net asset value is released to the Stock Exchange on a monthly basis and is updated on the Company's web page:- www.peiplc.com.

Further copies of the annual report may be obtained from the Company Secretary.

NOTICE OF ANNUAL GENERAL MEETING OF PRIVATE EQUITY INVESTOR PLC ("THE COMPANY")

Notice is hereby given that the Annual General Meeting of Private Equity Investor PLC will be held at the offices of KBC Peel Hunt Limited, 62 Threadneedle Street, London EC2R 8HP at 10am on Thursday, 12 September 2002, for the following purposes:

Ordinary business

1. To receive and, if approved, adopt the accounts for the year ended 31 March 2002, together with the Reports of the Directors and Auditors.
2. To declare a first and final dividend on the ordinary shares of 0.01p each of 2.04p per share.
3. To re-elect Mr K Young a Director of the Company.
4. To elect Mr P F Dicks a Director of the Company.
5. To appoint Ernst & Young LLP as Auditors to the Company, to hold office from the conclusion of this Meeting until the next General Meeting, and to authorise the Directors to determine their remuneration.

Special business

To propose as a Special Resolution the following:

6. THAT the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of its issued shares of 0.01p each in the capital of the Company ("shares").

   provided always that

   (i) the maximum number of shares hereby authorised to be purchased shall be 7,495,000;

   (ii) the minimum price which may be paid for a share shall be 0.01p;

   (iii) the maximum price which may be paid for a share shall be an amount equal to 105 per cent of the average of the middle market quotations for a share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is purchased;

   (iv) any purchase of shares will be made in the market for cash at prices below the prevailing net asset value per share (as determined by the Directors);

   (v) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2003 unless the authority is renewed at any other general meeting prior to such time; and

   (vi) the Company may make a contract to purchase shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of shares pursuant to any such contract.

Special business

To propose as an Ordinary Resolution the following:

7. That the Directors be authorised to invest funds held by the Company pending investment in accordance with its investment policy (as set out in Paragraph 3 of Part I of the Company's Listing Particulars dated 31 January 2000), in funds investing in hedge funds in addition to or instead of investment in fixed interest securities as referred to in such Listing Particulars.

Registered Office:
23 Cathedral Yard
Exeter EX1 1HB

By Order of the Board
SINCLAIR HENDERSON LIMITED
Secretary
10 July 2002

NOTICE OF ANNUAL GENERAL MEETING OF PRIVATE EQUITY INVESTOR PLC ("THE COMPANY") (CONTINUED)

NOTES:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not also be a member of the Company. Lodgement of the form of proxy will not preclude a shareholder from attending the Meeting and voting in person.
2. A form of proxy is attached for use in connection with the business set out above. This form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, to reach the Registrar at the address printed on the form of proxy not later than 10am on 10 September 2002.
3. The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 10am on 10 September 2002 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 10am on 10 September 2002 ('the specified time') shall be disregarded in determining the rights of any person to attend or vote at the Meeting. If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned Meeting, or if the Company gives notice of the adjourned Meeting, at the time specified in that notice.
4. The Articles of Association and register of Directors' interests in the ordinary shares of the Company will be available for inspection at the Registered Office of the Company during normal business hours (Saturdays and Public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the Meeting.

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NOTES

FORM OF PROXY

FOR USE AT THE ANNUAL GENERAL MEETING OF PRIVATE EQUITY INVESTOR PLC

I/We (Block Capitals please) ....

....

being a member/members of Private Equity Investor PLC ("the Company"), hereby appoint the Chairman of the Meeting/

....

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 the offices of KBC Peel Hunt Limited, 62 Threadneedle Street, London EC2R 8HP at 10am on Thursday, 12 September 2002, and at any adjournment thereof.

Signature ....

Date 2002

Please indicate with an X in the spaces below how you wish your votes to be cast.

		FOR	AGAINST
RESOLUTION 1	To adopt the accounts for the year ended 31 March 2002, together with the Reports of the Directors and Auditors.		
RESOLUTION 2	To declare a first and final dividend on the ordinary shares.		
RESOLUTION 3	To re-elect Mr K Young a Director.		
RESOLUTION 4	To elect Mr P F Dicks a Director.		
RESOLUTION 5	To appoint Ernst & Young LLP as Auditors to the Company, and to authorise the Directors to determine their remuneration.		
RESOLUTION 6	To approve the passing of Resolution 6 authorising the Company to purchase its shares as set out in the Notice of Annual General Meeting.		
RESOLUTION 7	To approve the passing of Resolution 7 authorising the Directors to invest funds in investing in hedge funds as set out in the Notice of Annual General Meeting.		

NOTES:

1. A member may appoint a proxy of his/her own choice. If such an appointment is made, delete the words 'the Chairman of the Meeting' and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated.
4. If this form is returned without any indication as to how the person appointed proxy shall vote, and on any other business which comes before the meeting, the proxy will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.
5. To be valid, this form must be completed and deposited at the office of the Company's Registrar not less than 48 hours before the time fixed for holding the Meeting or adjourned Meeting.

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