



PRIVATE EQUITY INVESTOR PLC

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

Annual Report
For the year ended 31 March 2003

THE COMPANY

INVESTMENT OBJECTIVE

The Company was launched in February 2000 with the following 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

£71,815,000 at 31 March 2003.

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.

THE COMPANY (CONTINUED)

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 Individual Savings Account.

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.

The Company's two investments in hedge fund of funds are governed by the terms of European Medium Term Notes issued through Bank BNP Paribas and Deutsche Bank.

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.

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SUMMARY OF RESULTS AND FINANCIAL HIGHLIGHTS

	<i>31 March 2003</i>	<i>31 March 2002</i>	<i>% change</i>
Total assets and shareholders' funds	£72,165,000	£92,428,000	(21.92)
Net assets and shareholders' funds (after deducting dividend)	£71,815,000	£91,408,000	(21.44)
Net assets per ordinary share	144.33p	184.86p	(21.92)
Net assets per ordinary share (after deducting dividend) "NAV"	143.63p	182.82p	(21.44)
Mid-market price per ordinary share	87.50p	124.00p	(29.44)
Discount to NAV (after deducting dividend)	39.08%	32.17%	
Net revenue after taxation	£633,000	£1,487,000	(57.43)
Total dividend per ordinary share	0.70p	2.04p	(65.69)
Revenue return per ordinary share	1.26p	2.97p	(57.58)
Capital return per ordinary share	(39.75)p	(32.52)p	(22.23)
Total return per ordinary share	(38.49)p	(29.55)p	(30.25)
Total expense ratio	1.4%	1.2%	
Exchange rate (US \$/£)	1.58065	1.4240	11.00

CHAIRMAN'S STATEMENT

We are pleased to present the third annual report for Private Equity Investor PLC. This report covers the twelve months ended 31 March 2003.

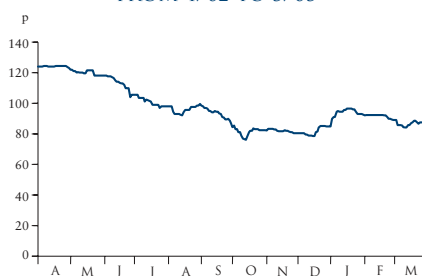
Net asset value

During the year, the net assets attributable to ordinary shareholders declined from £91.41 million to £71.82 million after deducting the dividend of 0.70p per share to be paid on 30 September 2003. Undiluted net asset value per share declined by 21.44% to 143.63p from 182.82p, or to 144.33p before deducting the dividend.

Since flotation in February 2000, the NAV has declined by 25.86%, which compares with the fall in the NASDAQ Composite Index of 68% over the same period. The negative performance of the venture portfolio has been partially offset by positive returns from our cash and bonds. When dividends previously paid of 6.29p and the proposed dividend of 0.70p are added back in, the NAV fell by 22.25%. The NAV rose 4.4% in the first quarter of 2003 compared with the fourth quarter of 2002. We believe that the Company has performed well over the last three years against a background of the most severe downturn in the history of the technology sector.

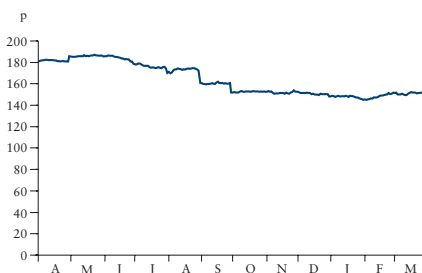
During the year our share price moved as follows:

PRIVATE EQUITY INVESTOR SHARE PRICE MOVEMENTS
FROM 4/02 TO 3/03



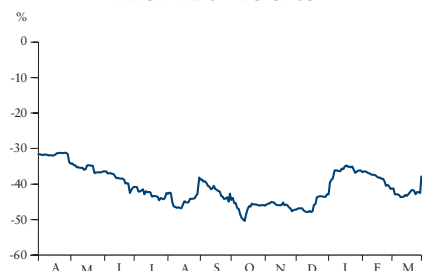
SOURCE: DATASTREAM

PRIVATE EQUITY INVESTOR NET ASSET VALUE
FROM 4/02 TO 3/03



SOURCE: DATASTREAM

PRIVATE EQUITY INVESTOR DISCOUNT TO NET ASSET VALUE
FROM 4/02 TO 3/03



SOURCE: DATASTREAM

CHAIRMAN'S STATEMENT (CONTINUED)

Market Background

According to the MoneyTree Survey*, a survey of the US venture capital market, venture investing in the US totalled \$21.2 billion during 2002, approximately half of 2001 levels and similar to those of 1998. Geopolitical and economic uncertainty has inevitably continued to impact on investment sentiment and in the first quarter of 2003, venture capital investment levels fell further with total investment in the US by venture capitalists in entrepreneurial enterprises of \$3.8 billion down from \$4.3 billion in the previous quarter. In terms of dollars, investment in the first quarter of 2003 was the lowest since the third quarter of 1997, and the number of companies receiving funding, the lowest since the third quarter of 1996. Both IPO and M&A activity remain extremely low, 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. On the other hand, 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 USA's National Venture Capital Association, recently made the point that "As uncertainty dissipates and corporate America feels more comfortable making capital expenditures on new technologies, the venture community will regain its confidence that new companies can find customers for their products."

In our last annual report to shareholders in July 2002, I commented on the expectation shared by some of our portfolio managers that the technology sector was then at or near the bottom of the cycle, and that excellent returns could be expected by investing at or near the trough.

Although this latest reporting period, overshadowed as it was by major accounting scandals and the prospect of war with Iraq, did not see any upturn in sentiment in the public markets, there is a widely held view among our funds that the tide in venture capital is now turning; some fund managers actually believe that 2002 represented the best buying opportunity in this sector cycle.

Investment Portfolio

At the year-end, the eighteen partnerships to which Private Equity Investor is committed, together held investments in 378 private companies and 24 public companies. There were 111 new investments during the 12 months and 219 further funding rounds resulting in draw-downs from Private Equity Investor totalling \$18.30 million and representing a 15.18% slowdown in the rate of draw-down when compared with the same period last year.

During the year, there were two IPOs, five market disposals and 33 write-ups compared with 14 last year. The rate of write-downs increased slightly from 149 to 155, as did the number of write-offs which grew from 52 to 55. Distributions from trade sales and market disposals totalled \$1.34 million.

The bond portfolio grew by 0.14% against a composite benchmark** of -3.56% as the war in Iraq dominated the end of the reporting period and UK bond yields fell to new lows at the beginning of March following the surprise interest rate cut in early February.

Prospects

We consider the Company's venture portfolio to be well diversified across a variety of sectors that are exhibiting promising growth. Companies developing and building wireless platform services, wireless gateways and networks, medical devices, and certain Internet services are doing particularly well.

The financing environment at present enables the Company's venture partnerships to obtain favourable pricing for both new and follow-on investments, resulting in larger equity stakes in their investee companies, at much lower prices than when the Company commenced investing. We believe that many of our portfolio companies are well-positioned and making steady progress.

CHAIRMAN'S STATEMENT (CONTINUED)

Venture capital is largely about picking winners and, increased time horizons aside, our venture partnerships are generally predicting healthy returns on our investments. They are focused on taking advantage of what they perceive to be exceptional investment opportunities at the low point in the cycle, as well as working with their existing investee companies in order to build sustainable enterprise value.

HON. BARBARA S. THOMAS

Executive Chairman

16 July 2003

* *Compiled in association with PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association*

** *Composite Benchmark*

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%

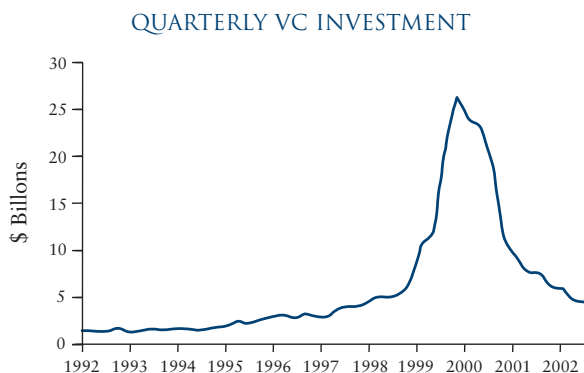
MANAGING DIRECTOR'S REVIEW

Overview

According to the Moneytree Survey*, venture investing continues to fall back to its historic pre-bubble levels. During 2002 investment totalled \$21.2 billion, a level similar to that of 1998. The Survey's first quarter report for 2003 has recorded a continued decline in funding with a total of 623 entrepreneurial companies receiving investment in that period compared to 726 companies in the fourth quarter of last year. As commented by Jesse Reyes, vice president at Thomson Venture Economics, "Given the economic and geopolitical uncertainty of the first quarter, it is not surprising that the industry has extended its investing hiatus. Venture capitalists are lengthening their investment horizon to normative terms of five or six years instead of the accelerated exit models of a few years ago. In that context, they are being more circumspect and diligent in finding the right deals at the right price. In light of current events, it simply requires more time to evaluate an opportunity when looking towards an IPO or exit as far away as 2007–2009".

Venture capitalists have however continued to fund early stage companies at a steady pace. In the first quarter of 2003, these companies attracted \$683 million or 18% of total investment, about the same proportion as in each of the four prior quarters. Such consistency suggests that although absolute investment levels continue to fall, venture capitalists remain committed to balancing new investments with those in existing portfolio companies.

Venture capital investing reached the extraordinary level of \$28.75 billion in the first quarter of 2000 but has now returned to more realistic levels, with the principal benefit being that investment opportunities are available at much more attractive prices. The chart below illustrates that VC investment is back to its 1998 levels.



SOURCE: VENTUREONE

Some venture funds have returned surplus funds to investors and new funds being raised are significantly smaller than in the recent past.

Limited Partnership Portfolio

The venture partnerships in which we are invested continue to report quality new investment opportunities at attractive values, but take up of these opportunities was balanced against the need to support promising businesses in the partnerships' existing portfolios. VentureOne, a leading American venture capital research firm, reported that initial venture investments fell from 37% of deals in 2001 to 30% in 2002.

Our investment pace has slowed, but not dramatically, with \$18.30 million drawn-down by our venture partnerships in the year to 31 March 2003 compared to \$21.58 million in the year to 31 March 2002. We have outstanding financial commitments to 17 of our 18 US technology venture partnerships. The extent to which these commitments have been drawn-down has varied depending on vintage year, stage focus and investment pace and is outlined in the summary of individual venture fund investments below.

As at 31 March 2003 the Company had, through its investment in these technology venture partnerships, 47.88% of its net asset value invested in 378 private companies and 24 public companies. The rate of new investment remained steady, with 111 investments compared with 116 in the previous year and there were 219 follow-on investments. 55 investments were written-

MANAGING DIRECTOR'S REVIEW (CONTINUED)

off, compared to 52 last year, while 155 valuations, compared with 149, were written-down. Write-ups increased to 33 from 14, based on information provided to us at the date of this report. In addition, during the year there were distributions from trade sales and market disposals totalling \$1.34 million.

There have been particularly encouraging signs from some of the quoted stocks in our portfolio funds, which have performed well during the year. Our investment cost in Netflix (NFLX), the largest online entertainment subscription service in the United States, and Alteris (ATRS), a leading provider of systems management software, was a total of \$1.18 million. At flotation in May last year, these holdings were valued at \$2.17 million and as at 31 March 2003, were valued at \$3.01 million. In February 2003, Netflix announced that it had surpassed its one million subscriber mark significantly earlier than expected.

There has also been good news regarding the Company's investment in Expedia, Inc. On 18 March 2003, it was announced that USA Interactive would acquire the Expedia shares which it does not currently own in a stock for stock transaction valued at \$3.3 billion. On 31 March 2003, Private Equity Investor's gross interest in Expedia was valued at approximately \$4.65 million against an investment cost of approximately \$0.69 million.

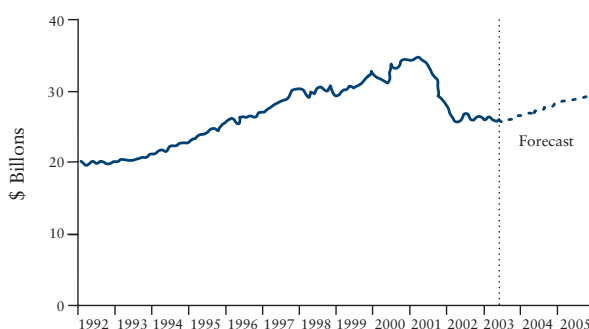
On the downside, our investment in Occam Networks, which went public in May through its merger with Accelerated Networks, Inc., already quoted on the NASDAQ, was valued at \$13,640 at the year-end, compared with an investment cost of \$75,504. Occam Networks develops solutions which help telecommunications carriers profitably deliver high-speed broadband services such as data and video.

It is worth noting that the Company's sterling year-end NAV has been adversely affected by the movement in the \$/£ exchange rate from 1:1.424 on 31 March 2002 to 1:1.581 on 31 March 2003, resulting in a 9.9% reduction in sterling value.

In line with the slowdown in their investment pace, five of the venture partnerships in which we are invested have agreed to reduce their management fees.

Although the current environment is challenging, it presents opportunities. While many private companies are struggling with the difficult climate for information technology spending, highlighted by the graph below, some companies are making good progress, even under these conditions, and enjoying high compound annual revenue growth rates.

MONTHLY US TECHNOLOGY SPENDING



SOURCE: SALOMON SMITH BARNEY

Overall, we remain encouraged about the existing portfolio, the quality of our venture partnerships' deal flow and the prospect of an increase in technology spending which is likely to lead to valuation recovery for successful companies in the sector. Markets permitting, we should at some point relatively soon begin to see the upward slope of the venture "J-curve", although this phenomenon is expected to be stretched out as a consequence of the negative market conditions of the past several years.

MANAGING DIRECTOR'S REVIEW (CONTINUED)

Bond Portfolio

As at 31 March 2003, Private Equity Investor had \$42.81 million in cash and investment grade dollar denominated bonds. The bond portfolio grew by 0.14% against a composite benchmark** of -3.56%. During this period the yield on five year US treasury bonds fell from 4.8% to 2.7% and the high quality corporate bonds held in the portfolio recorded a similar performance. The sterling value of these bonds was negatively affected by the 9.9% fall of the US Dollar against sterling during the year.

Following a more positive end to 2002, higher bond yields had been expected in 2003 but instead, the war in Iraq dominated the end of the reporting year and UK bond yields fell to new lows at the beginning of March. Investors continued to seek the safe haven of fixed income instruments over equities and for a two day period in early March the dividend yield on the All-Share exceeded that of the ten year gilt yield for the first time since 1959. At the end of the year the futures markets of three of the four major economies saw the potential for further easing of global interest rates with only Japanese rates forecast to remain static over the next nine months to the end of 2003.

Widened Investment Policy

As reported last year, your Board has been concerned that the satisfactory performance of fixed interest securities might not continue and undertook an in-depth investigation of appropriate investment alternatives to protect the liquid resources of the Company and to achieve a more satisfactory return, while maintaining the Company's investment trust status. The Company's investment policy has been widened, in accordance with shareholder approval, to permit investment of the Company's unutilised cash resources in funds investing in hedge funds. On 18 December 2002 it was announced that this investment was likely to take the form of structured notes issued by financial institutions.

Following advice from investment consultants Watson Wyatt, the Company has selected a bespoke hedge fund of funds that has since February 2000 consistently demonstrated volatility or risk characteristics substantially below that of the Company's bond portfolio. The Company has accordingly invested an initial \$15 million through a European Medium Term Note ("EMTN") linked to this fund issued by Bank BNP Paribas (Aa2/AA-) and invested an additional \$15 million linked to the same fund through a leveraged EMTN issued by Deutsche Bank (Aa3/AA-). The volatility of these investments combined remains significantly below that of the Company's bond portfolio on a back-tested basis.

Post Period Events

The completion of the sale of Okena Inc. to Cisco Systems Inc. for \$154 million in Cisco stock, against a book value of \$29 million, was announced in April 2003. Private Equity Investor had a 1.06% holding in Okena, a network security software company, through its 4.6% holding in APV Technology Partners III. The proceeds to APV III were approximately \$35 million in Cisco stock which has since been sold. Private Equity Investor's share amounted to approximately \$1.6 million, of which \$892,000 has been distributed to us.

Through the Company's holding in the TCV IV partnership the Company received a distribution during June 2003 of 19,297 shares in Expedia Inc., representing 21% of its remaining beneficial holding. These shares have since been sold for \$1.47 million.

* *Compiled in association with PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association*

** *Composite Benchmark*

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 (CONTINUED)

Summary of Individual Venture Funds Investments:

<i>Name</i>	<i>Total commitment</i>	<i>Total drawdown 31 March 2003</i>
	\$	\$
APV Technology Partners III	5,000,000	4,824,823
Bay III	5,000,000	3,750,000
Crescendo IV	10,000,000	6,750,000
Draper Fisher Jurvetson ePlanet Ventures	30,000,000	13,725,000
Draper Fisher Jurvetson Fund VI	2,000,000	1,420,000
Draper Fisher Jurvetson Fund VII	5,000,000	1,512,500
Draper Fisher Jurvetson Gotham Venture Fund	3,000,000	1,260,000
Focus Ventures II	30,000,000	18,900,000
New Enterprise Associates 9	5,000,000	4,769,438
New Enterprise Associates 10	10,000,000	4,750,000
Oak Investment Partners X	10,000,000	3,222,500
Sprout Capital IX	5,000,000	2,355,986
TCV IV	25,000,000	15,902,500
Vanguard VII	3,000,000	1,500,000
VantagePoint Venture Partners IV	10,000,000	2,400,000
Wit Dawntreader Fund II	30,000,000	18,300,000
Wit VC Fund I	500,000	500,000
Zone Ventures Fund II	10,000,000	8,000,000
	198,500,000	113,842,747

Review of Individual Venture Funds

APV Technology Partners III (www.apvtp.com)

APV's investment objective is long-term capital appreciation through venture capital investment in information technology companies. The Fund's investment focus is early-stage information technology companies processing 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 4 portfolio companies as at 31 March 2003. 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 (www.baypartners.com)

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

Bay III typically invests \$2-4 million in an 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 2003, the Fund had 12 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 \$3-7 million in a typical successful company. Bay III invests primarily in California and the Pacific North West of the United States. Investors in Bay III include NTT, Sears, D.B Alex Brown and AON.

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

MANAGING DIRECTOR'S REVIEW (CONTINUED)

Crescendo IV (www.crescendoventures.com)

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. Crescendo has 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 at 31 March 2003, Crescendo had 24 portfolio companies. 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 (www.dfjeplanet.com)

Founded in 1999, this 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 and present 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 in seed to late-stage investments in Europe, Asia and other parts of the world and had, by 31 March 2003, 30 portfolio companies.

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

Draper Fisher Jurvetson Fund VI (www.dfj.com)

Draper Fisher Jurvetson 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 and as of 31 March 2003 had invested in over 150 high-tech companies. The Fund aims to add value by assisting in the construction 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 29 portfolio companies as at 31 March 2003.

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

Draper Fisher Jurvetson Fund VII (www.dfj.com)

Successor to Draper Fisher Jurvetson 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 2003, the Fund had 31 portfolio companies.

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

Draper Fisher Jurvetson Gotham Venture Fund (www.dfjgotham.com)

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 at 31 March 2003, the Fund had 10 portfolio companies.

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

MANAGING DIRECTOR'S REVIEW (CONTINUED)

Focus Ventures II (www.focusventures.com)

This Partnership focuses on investments in private technology companies that have moved beyond the initial seed or start-up 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. In particular, 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 working relationships 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. Investments are typically in the \$3-15 million range, although they consider larger or smaller amounts for exceptional situations. They serve as lead investor in approximately half of the rounds in which they participate. As at 31 March 2003, the Fund had 19 portfolio companies. Investors in this Fund include General Motors, Sanyo and Mitsubishi.

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

New Enterprise Associates 9 (www.nea.com)

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 25 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, a majority of NEA's portfolio companies are within a 90-minute travel time of an NEA office. As at 31 March 2003, the Fund had 43 portfolio companies. Investors in this Fund include Microsoft, Nortel, JP Morgan, Ford Foundation, INVESCO, BancBoston, Rockefeller Foundation and Walt Disney.

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

New Enterprise Associates 10 (www.nea.com)

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 2000, NEA has financed companies whose total revenues exceed \$50 billion and whose total market value exceeds \$100 billion. As at 31 March 2003, the Fund had 86 portfolio companies.

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

MANAGING DIRECTOR'S REVIEW (CONTINUED)

Oak Investment Partners X (www.oakvc.com)

Founded in 1978, Oak has raised ten venture capital funds with aggregate committed capital of over \$4.2bn. Oak funds have sponsored over 350 companies with aggregate annual revenues in excess of \$100 billion. 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 19 portfolio companies as at 31 March 2003. 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 (www.sproutgroup.com)

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 2003 the twelve funds had total committed capital of nearly \$3.5bn. Through its 34 year history Sprout has invested in over 350 companies whose combined revenues now exceed \$50 billion. The Funds' targeted industry segments are data communications, telecommunications, internet infrastructure, e-commerce, software and healthcare technology. As of 31 March 2003, Sprout IX had 41 portfolio companies. Investors in Sprout Capital IX include AXA, BellSouth, Citibank, Equitable Life Assurance Society of the US, Mellon Bank and TD Investments.

Total committed capital	\$1.6bn
Private Equity Investor commitment	\$5m

TCV IV (www.tcv.com)

TCV was established in 1995. The Fund seeks to invest primarily in companies in which technology risk has been mitigated irrespective of stage. TCV has \$2.5 billion under management and has financed over 130 companies. It has helped those companies and their management teams achieve over 35 IPOs and 20 strategic sales or mergers. The Fund had 27 portfolio companies as at 31 March 2003.

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

Vanguard VII (www.vanguardventures.com)

Vanguard is a Palo Alto, California and Houston, Texas based venture capital investment partnership investing in early-stage companies. The Fund is targeted towards information technology and life science companies and the geographical focus follows previous Vanguard funds with heavy emphasis on Silicon Valley and the West Coast. Over the last 21 years Vanguard Ventures has invested in over 115 companies, 30 of which have had notable success including IPOs. As at 31 March 2003, the Fund had 15 portfolio companies and expects to invest in approximately six additional companies. 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 (www.vpvp.com)

The Fund is the fourth venture capital partnership organised by VantagePoint partners. Since 1996 various VantagePoint funds have raised over \$2.5bn of committed capital. The Firm seeks investment opportunities that typically require \$3-30 million in pre-IPO funding. VantagePoint also prefers to take a position of some substance (typically a minimum of 20%) in its portfolio companies and is usually the lead or sole investor in a given round of financing. 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

MANAGING DIRECTOR'S REVIEW (CONTINUED)

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 27 portfolio companies as at 31 March 2003.

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

Wit Dawntreader Fund II (www.ventures.soundview.com)

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 at 31 March 2003, the Fund had 11 portfolio companies.

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

Wit VC Fund 1 (www.ventures.soundview.com)

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. As at 31 March 2003, the Fund had 15 portfolio companies. Investors in Wit VC1 include Mitsubishi, Goldman Sachs, Capital Z Partners.

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

Zone Ventures Fund II (www.zonevc.com)

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 at 31 March 2003, the Fund had 15 portfolio companies.

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

TIMOTHY E. CHILDS

Managing Director

16 July 2003

INVESTMENT PORTFOLIO

as at 31 March 2003

<i>Unquoted Funds</i>	<i>Sector</i>	<i>Total commitment US\$'000</i>	<i>Drawdown book cost* US\$'000</i>	<i>Market value US\$'000</i>	<i>Market value £'000</i>	<i>% of net assets</i>
APV Technology Partners III	Venture Capital Fund	5,000	4,825	1,849	1,170	1.6
Bay III	Venture Capital Fund	5,000	3,750	1,405	889	1.2
Crescendo IV	Venture Capital Fund	10,000	6,727	1,918	1,213	1.7
Draper Fisher Jurvetson ePlanet Ventures	Venture Capital Fund	30,000	13,725	5,939	3,757	5.3
Draper Fisher Jurvetson Fund VI	Venture Capital Fund	2,000	1,420	538	340	0.5
Draper Fisher Jurvetson Fund VII	Venture Capital Fund	5,000	1,513	857	542	0.8
Draper Fisher Jurvetson Gotham Venture Fund	Venture Capital Fund	3,000	1,260	625	396	0.6
Focus Ventures II	Venture Capital Fund	30,000	17,867	4,776	3,022	4.2
New Enterprise Associates 9	Venture Capital Fund	5,000	4,611	1,693	1,071	1.5
New Enterprise Associates 10	Venture Capital Fund	10,000	4,476	3,428	2,169	3.0
Oak Investment Partners X	Venture Capital Fund	10,000	3,222	1,734	1,097	1.5
Sprout Capital IX	Venture Capital Fund	5,000	2,356	1,492	944	1.3
TCV IV	Venture Capital Fund	25,000	14,677	11,704	7,405	10.3
Vanguard VII	Venture Capital Fund	3,000	1,500	787	498	0.7
Vantagepoint Venture Partners IV	Venture Capital Fund	10,000	2,400	1,167	738	1.0
Wit Dawntreader Fund II	Venture Capital Fund	30,000	18,300	11,580	7,326	10.2
Wit VC Fund I	Venture Capital Fund	500	465	92	58	0.1
Zone Ventures Fund II	Venture Capital Fund	10,000	8,000	2,766	1,750	2.4
<i>Total Unquoted Funds</i>		198,500	111,094	54,350	34,385	47.9
<i>Other Unquoted Investments held directly by the Company</i>						
Alcatel Class A ADSs		–	22	22	14	–
<i>Total Other Unquoted Investments</i>		–	22	22	14	–
<i>Quoted Loan Stocks</i>						
Agence Francaise De Development 5.875%	Fixed Interest Securities	–	4,675	5,409	3,422	4.8
Bank Nederlandse Gemeenten 2.5%	Fixed Interest Securities	–	997	1,007	637	0.9
European Investment Bank 7.125%	Fixed Interest Securities	–	10,003	11,534	7,297	10.2
Europäische Hypotheken 6.875%	Fixed Interest Securities	–	5,219	5,735	3,628	5.0
Europäische Hypothekenbank 4.25%	Fixed Interest Securities	–	2,978	3,156	1,997	2.8
Landwirtschaftliche Rentenbank 4%	Fixed Interest Securities	–	5,000	5,101	3,227	4.5
Nederlandse Waterschapsbank 2.75%	Fixed Interest Securities	–	3,011	3,013	1,906	2.6
Rabobank Nederland 4.5%	Fixed Interest Securities	–	4,995	5,298	3,352	4.7
<i>Total Quoted Loan Stocks</i>		–	36,878	40,253	25,466	35.5

INVESTMENT PORTFOLIO (CONTINUED)

as at 31 March 2003

<i>Other Quoted Investments held directly by the Company</i>	<i>Total commitment US\$'000</i>	<i>Drawdown book cost* US\$'000</i>	<i>Market value US\$'000</i>	<i>Market value £'000</i>	<i>% of net assets</i>
Artemis International Solutions Common Stock	–	1	–	–	–
Broadcom Corporation Class A Common Stock	–	87	5	3	–
Magma Design Automation	–	16	10	7	–
<i>Total Other Quoted Investments</i>	–	104	15	10	–
<i>Hedge Fund</i>					
BNP Paribas 0% Bonds	–	15,078	15,078	9,539	13.3
<i>Total Hedge Fund Investment</i>	–	15,078	15,078	9,539	13.3
Total Investments	198,500	163,176	109,718	69,414	96.7
Net current assets less convertible unsecured loan notes			3,795	2,401	3.3
Net assets			113,513	71,815	100.0

*Drawdown 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:

Hon. Barbara S Thomas (appointed 25 January 2000), (Executive Chairman) is aged 56. 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 £7.5 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 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 42. 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 65. 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. He is a director of two publicly listed companies and two AIM listed companies.

M Andrew V de Candole (appointed 25 January 2000), (Non-Executive Director) is aged 50. 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 is traded on AIM and a number of successful private companies. He has been investing in the private equity sector for several years and has well established contacts at leading venture capital funds.

Peter F Dicks (appointed 20 June 2002), (Non-Executive Director) aged 60, 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 is chairman of Second London American Trust PLC, and a director of Polar Capital Technology Trust, Graphite Enterprise Trust and Standard MicroSystems Corporation (a US Nasdaq listed company) and a number of other companies.

FIXED INCOME SECURITIES MANAGER AND SECRETARY

FIXED INCOME SECURITIES 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 2002, total funds under management by Cazenove amounted to £6.3 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 2003.

Principal activities and business review

The principal activity of the Company is to carry on business as an investment trust.

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.

Status

The Company has applied for investment trust approval for the period ended 31 March 2001 and the Directors have no reason to believe that approval will not be granted.

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 for the accounting year ended 31 March 2003. 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).

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.

Net asset valuation

The net asset value per ordinary share at 31 March 2003, after deducting the proposed dividend, was 143.63p (2002: 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 31. The Directors recommend that a first and final dividend of 0.70p per ordinary share be paid on 30 September 2003 to shareholders on the share register at the close of business on 18 July 2003.

REPORT OF THE DIRECTORS (CONTINUED)

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 either in a portfolio of fixed interest securities or in hedge fund of funds.

The fixed interest securities portfolio is managed by Cazenove Fund Management Limited under an agreement dated 31 January 2000 that may be terminated by either party giving one month's notice. 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.

Following the Annual General Meeting held in 2002, at which a special resolution was passed that permitted investing the Company's unutilised cash resources in funds investing in hedge funds, the Company has invested \$15 million through a European Medium Term Note ("EMTN") issued by Bank BNP Paribas. Following the year end an additional \$15 million was invested in a leveraged EMTN issued by Deutsche Bank. The performance of these funds is reviewed regularly at Board meetings.

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:

<i>Ordinary shares of 0.01p each:</i>	<i>Beneficial and family</i>	
	<i>2003</i>	<i>2002</i>
Hon. 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) appointed 20 June 2002	–	–

Included in the holding of Mr K Young 7,000 shares are held beneficially in the names of his minor children.

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.

REPORT OF THE DIRECTORS (CONTINUED)

Substantial share interests

At 16 July 2003 the holdings representing 3% or more of the ordinary share capital, notified to the Company, were:

	<i>Shares</i>	<i>%</i>
Laxey Partners (VIC) Ltd	6,595,000	13.19
British Empire Securities & General Trust PLC	3,531,056	7.06
Prudential plc	3,235,000	6.47
Aviva plc	2,219,932	4.44
Deutsche Bank AG	2,207,000	4.41

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 ("the 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 2003, subject to the exceptions explained below.

Board of Directors

Following the appointment of Peter Dicks on 20 June 2002 the Board thereafter consisted of 2 Executive and 3 Non-Executive Directors, with Mr Dicks acting as Senior Independent Director. The Board considers a majority of the Non-Executive Directors to be independent in accordance with provision A.3.2 of the Code. 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 2003 has a letter of appointment with the Company. 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 every three years. Hon. Barbara S Thomas and Timothy E Childs retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers themselves for re-election.

Committees

The Company has appointed a number of committees to monitor specific operations, each of which have formal written terms of reference.

Audit committee

The Audit Committee meets to oversee the production of the interim and 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 and is chaired by Peter Dicks. Ernst & Young LLP, the Company's Auditors, attend meetings of the Audit Committee and have direct access to Committee members.

REPORT OF THE DIRECTORS (CONTINUED)

Nomination Committee

A Nomination Committee has been established which comprises solely Non-Executive Directors and is chaired by Keith Young. 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 and is chaired by Keith Young. The Directors' remuneration report 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.

REPORT OF THE DIRECTORS (CONTINUED)

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.
- The directors review the performance of the hedge fund of funds at their 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.

REPORT OF THE DIRECTORS (CONTINUED)

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 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 2003 there were no trade creditors (2002: none).

Annual General Meeting

The Notice of Annual General Meeting on page 49 sets out both the Ordinary Business and the Special Business to be conducted at the meeting.

There is one item of Special Business. Resolution 7 proposes to extend the Directors' powers, subject to certain defined parameters, to purchase the Company's shares in the market for a further year. A similar authority granted at the previous year's Annual General Meeting was not utilised during the year.

Auditors

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

16 July 2003

DIRECTORS' REMUNERATION REPORT

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

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 2003 has a letter of appointment with the Company which may be terminated by 12 month's notice.

Directors' remuneration (audited)

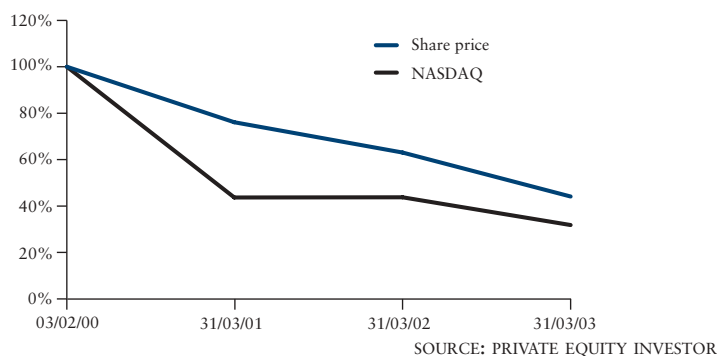
The remuneration of the Directors for the year ended 31 March 2003 was as follows:

	2003		2002	
	<i>Fees</i>	<i>Travel and general expense allowance</i>	<i>Fees</i>	<i>Travel and general expense allowance</i>
	£'000	£'000	£'000	£'000
Executive				
Hon. Barbara S Thomas	87	20.4*	59	18
Timothy Childs	226	20.4*	228	18
Non-Executive				
Andrew de Candole	100	2.5	213	2.5
Keith Young	25	2.5	36	2.5
Peter Dicks (appointed 20 June 2002)	19	–	–	–
	457	45.8	536	41

*Up until 11 February 2003 the travel and general expenses allowance for these Directors was £18,000.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

Your Company's performance



The graph above compares the total return to shareholders (assuming all dividends are reinvested) compared to the total shareholder return on a notional investment made up of shares of the same kind and number as those by reference to which the NASDAQ Composite Index is calculated. This index was chosen for comparison purposes, as it is considered to represent a broad market index against which the performance of the Company's assets may be adequately assessed.

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.

The Directors' remuneration report on pages 26 and 27 was approved by the Board of Directors on 16 July 2003 and signed on its behalf by Hon. Barbara S Thomas (Chairman).

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; and
- 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 accounts are published on peiplc.com, which is a website maintained by the Company. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the accounts may differ from legislation in their jurisdiction.

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 2003 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. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

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

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the 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, the unaudited part of the Directors' remuneration report, Chairman's statement and corporate governance 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 and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the 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 and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' remuneration report to be audited.

REPORT OF THE INDEPENDENT AUDITORS (CONTINUED)

to the members of Private Equity Investor PLC

Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company as at 31 March 2003 and of the net revenue and total return of the Company for the year then ended; and
- the accounts and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

ERNST & YOUNG LLP

Registered Auditor

London

16 July 2003

**STATEMENT OF TOTAL RETURN
(INCORPORATING THE REVENUE ACCOUNT*)**

for the year ended 31 March 2003

	Notes	<i>Year ended 31 March 2003</i>			<i>Year ended 31 March 2002</i>		
		<i>Revenue £'000</i>	<i>Capital £'000</i>	<i>Total £'000</i>	<i>Revenue £'000</i>	<i>Capital £'000</i>	<i>Total £'000</i>
Losses on investments	9	–	(19,959)	(19,959)	–	(17,166)	(17,166)
Exchange (losses)/gains on capital items	9	–	(861)	(861)	–	171	171
Income	2	2,040	–	2,040	3,316	–	3,316
Expenses	3	(1,102)	–	(1,102)	(1,188)	–	(1,188)
Return on ordinary activities before taxation		938	(20,820)	(19,882)	2,128	(16,995)	(14,867)
Taxation on ordinary activities	6	(305)	944	639	(641)	735	94
Return on ordinary activities after taxation for the financial year		633	(19,876)	(19,243)	1,487	(16,260)	(14,773)
Dividend proposed	7	(350)	–	(350)	(1,020)	–	(1,020)
Transfer to/(from) reserves		283	(19,876)	(19,593)	467	(16,260)	(15,793)
Return per ordinary share	8	1.26p	(39.75)p	(38.49)p	2.97p	(32.52)p	(29.55)p

*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.

STATEMENT OF CASH FLOWS

for the year ended 31 March 2003

		<i>Year ended 31 March 2003 £'000</i>	<i>Year ended 31 March 2002 £'000</i>
Operating activities			
Investment income received		2,276	3,624
Deposit interest received		127	175
Secretarial fees paid		(85)	(77)
Other cash payments		(1,114)	(1,068)
Net cash inflow from operating activities	16	1,204	2,654
Taxation			
Taxation paid		–	(517)
Net cash outflow from taxation		–	(517)
Capital expenditure and financial investment			
Purchases of investments		(37,338)	(35,491)
Sales of investments		30,885	39,121
Realised currency losses		(210)	(6)
Net cash (outflow)/inflow from capital expenditure and financial investment		(6,663)	3,624
Equity dividends paid		(1,020)	(2,125)
Net cash (outflow)/inflow before and after financing		(6,479)	3,636
(Decrease)/increase in cash	17	(6,479)	3,636

The notes on pages 34 to 46 form part of these accounts.

NOTES TO THE ACCOUNTS

at 31 March 2003

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") issued in 1995.

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.

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

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.

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	2003 £'000	2002 £'000
Income from investments:		
Interest from US fixed interest investments	82	146
Interest from European fixed interest investments	1,821	3,000
	<hr/> 1,903	<hr/> 3,146
Other income:		
Deposit interest	137	170
	<hr/> 2,040	<hr/> 3,316
Total income	<hr/> <hr/> 2,040	<hr/> <hr/> 3,316
Total income comprises:		
Interest	<hr/> 2,040	<hr/> 3,316

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

3 EXPENSES	2003 £'000	2002 £'000
Secretarial services	79	77
Auditor's remuneration for - audit	20	21
– other services to the Company	35	5
Directors' remuneration (see note 5)	457	536
Other expenses – Irrecoverable VAT	53	58
– Operating lease	35	35
– Public relations and advertising	41	39
– Investment manager fees (listed portfolio)	61	67
– Legal and professional fees	58	79
– Office expenditure	20	21
– Staff costs (see note 4)	42	41
– Banking and custody charges	3	4
– Broker's and sponsor's fees	30	30
– Other expenses	168	175
	1,102	1,188

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 2003 an amount of £30,000 (excluding VAT), was paid to the Company's auditors in respect of advice to the Company regards its intention to invest in a hedge fund. Both of these items are included in the above figures.

4 STAFF COSTS	2003 £'000	2002 £'000
Salaries and other payments	38	37
Social security costs	4	4
	42	41

With the exception of the Directors, whose remuneration is shown in note 5, the Company had one member of staff employed during the year (2002: one member of staff).

5 DIRECTORS' REMUNERATION	2003 £'000	2002 £'000
Hon. B S Thomas (Executive Chairman)	87	59
T E Childs (Managing Director)	226	228
K Young (Non-Executive Director)	25	36
M A V de Candole (Non-Executive Director)	100	213
P Dicks (Non-Executive Director)	19	–
	457	536

No pension contributions were received by the Directors during the year (2002: nil).

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

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

6 TAXATION ON ORDINARY ACTIVITIES	2003			2002		
	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
UK corporation tax at 30%	305	(944)	(639)	639	(735)	(96)
Under provision in respect of prior year	-	-	-	2	-	2
	<u>305</u>	<u>(944)</u>	<u>(639)</u>	<u>641</u>	<u>(735)</u>	<u>(94)</u>

The Company is subject to corporation tax at 30% (2002: 30%). As at 31 March 2003 and 31 March 2002 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:

	2003	2002
	<i>£'000</i>	<i>£'000</i>
Reconciliation of the tax charge for the year: Return on ordinary activities before taxation	<u>938</u>	<u>2,128</u>
Theoretical corporation tax at 30%	281	638
Effects of:		
- Excess management expenses	-	-
- Expenses disallowed for taxation purposes	24	1
- Under provision in respect of prior year	-	2
Current tax charge – revenue account	<u>305</u>	<u>641</u>

At 31 March 2003, the Company had no unprovided deferred tax liabilities (2002: £nil). At that date, the Company had surplus management expenses of £2,030,000 (2002: £439,000) which have not been recognised as a deferred tax asset. This is because the Company is not expected to generate taxable income in future periods in excess of the available deductible expenses and accordingly, the Company is unlikely to be able to reduce future tax liabilities through the use of existing surplus expenses.

7 DIVIDENDS IN RESPECT OF ORDINARY SHARES	2003	2002
	<i>£'000</i>	<i>£'000</i>
Final dividend proposed of 0.70p (2002: 2.04p)	<u>350</u>	<u>1,020</u>

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

8 RETURN PER ORDINARY SHARE	2003			2002		
	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>	<i>Revenue</i>	<i>Capital</i>	<i>Total</i>
	<i>pence</i>	<i>pence</i>	<i>pence</i>	<i>pence</i>	<i>pence</i>	<i>pence</i>
Basic	<u>1.26</u>	<u>(39.75)</u>	<u>(38.49)</u>	<u>2.97</u>	<u>(32.52)</u>	<u>(29.55)</u>

Basic revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £633,000 (2002: £1,487,000), and on 50,000,000 (2002: 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 £19,876,000 (2002: £16,260,000), and on 50,000,000 (2002: 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 2003, nil (2002: nil) shares would have become issuable.

9 INVESTMENTS	2003	2002
	£'000	£'000

a) Investment portfolio summary

USA

Listed investments		
– fixed interest securities	–	8,405
– common stock	10	10
– hedge fund	9,539	–
Unlisted investments	34,399	42,163
 Other		
Listed investments	<u>25,466</u>	<u>32,219</u>
	<u>69,414</u>	<u>82,797</u>

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

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

9 INVESTMENTS – continued

	<i>Listed loan stock £'000</i>	<i>Listed equities £'000</i>	<i>Listed hedge fund £'000</i>	<i>Unlisted equities £'000</i>	<i>Unlisted funds £'000</i>	<i>Total £'000</i>
<i>b) Analysis of investment portfolio movements</i>						
Opening book cost	35,417	58	–	–	63,264	98,739
Opening unrealised appreciation/ (depreciation)	5,207	(48)	–	–	(21,101)	(15,942)
Opening valuation	40,624	10	–	–	42,163	82,797
Movements in the year:						
Purchases at cost	16,099	–	9,429	–	–	25,528
Calls at cost	–	–	–	–	11,810	11,810
Sales						
– proceeds	(29,915)	(770)	–	–	–	(30,685)
– realised gains/(losses) on sales	2,423	(90)	–	–	–	2,333
Book cost adjustments from capital distributions						
– cash distributions	–	–	–	–	(77)	(77)
– stock distributions	–	870	–	15	(885)	–
Unrealised (depreciation)/ appreciation	(3,765)	(10)	110	(1)	(18,626)	(22,292)
Closing valuation	25,466	10	9,539	14	34,385	69,414
Closing book cost	24,024	68	9,429	15	74,112	107,648
Closing unrealised appreciation/ (depreciation)	1,442	(58)	110	(1)	(39,727)	(38,234)
	25,466	10	9,539	14	34,385	69,414

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

9 INVESTMENTS – continued

	2003 £'000	2002 £'000
<i>c) Analysis of capital gains and losses</i>		
Realised gains on sales of investments	2,333	4,622
Increase in unrealised capital depreciation	(22,292)	(21,788)
	(19,959)	(17,166)
Losses on investments	(19,959)	(17,166)
Realised exchange losses on capital items	(210)	(6)
Unrealised exchange (losses)/gains on capital items	(651)	177
	(861)	171
Exchange (losses)/gains on capital items	(861)	171

d) Significant holdings

The Company owns 10.58% and 11.69% of the total value of the Limited Partnerships capital drawn in Zone Ventures Fund II and Wit Dawntreader Fund II respectively.

10 DEBTORS – amounts falling due within one year

	2003 £'000	2002 £'000
Accrued income	493	856
Amounts due from brokers	2	128
Amounts due in respect of convertible unsecured loan note	5	5
Prepayments and other debtors*	65	88
Corporation tax recoverable	735	735
	1,300	1,812

* 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 one year.

11 CREDITORS – amounts falling due within one year

	2003 £'000	2002 £'000
Accruals	159	278
Proposed dividend	350	1,020
UK corporation tax payable	–	639
	509	1,937

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

12 CREDITORS – amounts falling due after more than one year	2003	2002
	<i>£'000</i>	<i>£'000</i>
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 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 arose on 31 March 2003, however no convertible unsecured loan notes were converted since the terms of conversion in order for the shares to be issued have not been met.

13 CALLED UP SHARE CAPITAL	2003	2002
	<i>£'000</i>	<i>£'000</i>
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	<i>Share</i>	<i>Capital</i>	<i>Capital</i>	
	<i>premium</i>	<i>reserve</i>	<i>reserve</i>	<i>Revenue</i>
	<i>account</i>	<i>–realised</i>	<i>–unrealised</i>	<i>reserve</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Beginning of year	96,862	8,440	(15,100)	1,201
Movement in unrealised depreciation before transfer on disposal	–	–	(17,578)	–
Transfer on disposal of investments	–	4,714	(4,714)	–
Net losses on realisation of investments	–	(2,381)	–	–
Exchange differences on other capital items	–	(210)	(4)	–
Exchange differences on currency	–	–	(647)	–
Tax effect of capital items	–	305	–	–
Tax recovered in respect of prior years	–	639	–	–
Retained revenue for the year	–	–	–	283
End of year	96,862	11,507	(38,043)	1,484

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	<i>2003</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>
Revenue reserve		
Net revenue for the year	633	1,487
Dividend proposed	(350)	(1,020)
	283	467
Capital reserve		
Movement in capital reserve	(19,876)	(16,260)
Net reduction in shareholders' funds	(19,593)	(15,793)
Opening shareholders' funds	91,408	107,201
Closing shareholders' funds	71,815	91,408
16 RECONCILIATION OF NET REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES	<i>2003</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>
Net revenue before finance costs and taxation	938	2,128
(Decrease)/increase in creditors and accruals	(119)	71
Decrease in prepayments and accrued income	385	455
Net cash inflow from operating activities	1,204	2,654
17 RECONCILIATION OF NET CASH FLOW TO NET FUNDS	<i>2003</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>
(Decrease)/increase in cash in the year	(6,479)	3,636
Effect of foreign exchange rate movements	(647)	174
Movement in net funds	(7,126)	3,810
Net funds at beginning of the year	8,741	4,931
Net funds at end of the year	1,615	8,741
Net funds are comprised as follows:		
	<i>2003</i> <i>£'000</i>	<i>2002</i> <i>£'000</i>
Cash at bank	1,615	8,741

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

18 NET ASSET VALUE PER ORDINARY SHARE

The basic net asset value per ordinary share is based on net assets of £71,815,000 (2002: £91,408,000) and on 50,000,000 (2002: 50,000,000) ordinary shares, being the number of shares in issue at the year end.

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 2003, no (2002: nil) additional shares would have become issuable and there is therefore no effect on the Company's net asset value per ordinary share.

19 COMMITMENTS AND CONTINGENT LIABILITIES

At 31 March 2003 there were financial commitments outstanding of £53.6 million (2002: £72.3 million) in respect of outstanding call commitments to limited partnerships.

The Company had annual commitments of £38,250 at 31 March 2003 (2002: £38,250) 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 regular 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 and 17. The method of valuing the fixed asset investments is discussed in the accounting policies of the Company in note 1 on pages 34 and 35. Cash and trade debtors arising from the operations of the Company as at 31 March 2003 amounted to £1,615,000 (2002: £8,741,000) and £1,300,000 (2002: £1,812,000) respectively. There was no material difference between the fair values of the investments as at 31 March 2003 and 31 March 2002 and the values attributable to those investments within the accounts.

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES – continued

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 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. The Company holds its surplus cash in triple A \$ denominated bonds and a hedge fund investment. The bonds can be converted to cash at short notice and the hedge fund investment can be converted to cash upon 30 days notice.

Interest rate risk

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

As at 31 March 2003, the average interest rate profile of the Company's financial assets was as follows:

	<i>Fixed rate £'000</i>	<i>Floating rate £'000</i>	<i>No interest associated £'000</i>	<i>Weighted average interest rate %</i>	<i>Weighted average time to maturity months</i>
Quoted loan stocks	25,466	–	–	5.51	45
Quoted equities	–	–	10	–	–
Quoted hedge fund	–	–	9,539	–	–
Unquoted equities	–	–	14	–	–
Unquoted funds	–	–	34,385	–	–
Cash	–	1,615*	–	–	–
Debtors	–	–	1,300	–	–
	25,466	1,615	45,248		

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

	<i>Fixed rate £'000</i>	<i>Floating rate £'000</i>	<i>No interest associated £'000</i>	<i>Weighted average interest rate %</i>	<i>Weighted average time to maturity months</i>
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		

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

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES – continued

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 34 and 35.

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 2003, realised exchange losses of £210,000 (2002: losses of £6,000) and unrealised losses relating to currency and other capital items of £651,000 (2002: gains £177,000), have been taken to the capital reserve.

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

At 31 March 2003	<i>Investment portfolio £'000</i>	<i>Cash £'000</i>	<i>Other current assets £'000</i>
USA	69,414*	624	468
UK	–	991	832
	69,414	1,615	1,300
At 31 March 2002	<i>Investment portfolio £'000</i>	<i>Cash £'000</i>	<i>Other current assets £'000</i>
USA	82,797*	5,574	1,002
UK	–	3,167	810
	82,797	8,741	1,812

* 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 2003 and 31 March 2002, 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 2003 and 31 March 2002. Other financial liabilities amount to £509,000 (2002: £1,937,000) 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.

NOTES TO THE ACCOUNTS (CONTINUED)

at 31 March 2003

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 Juvetson 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 de Beaufort Trust, the Company's financial adviser, performed an independent validation of the consideration.

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 S Thomas (Executive Chairman)
Timothy Childs (Managing Director)
Keith Young (Non-Executive)
Andrew de Candole (Non-Executive)
Peter Dicks (Non-Executive)

SECRETARY AND REGISTERED OFFICE

Sinclair Henderson Limited
23 Cathedral Yard
Exeter EX1 1HB
Tel: 01392 412122
Fax: 01392 253282

MANAGER

Private Equity Investor PLC
33 St James's Street
London SW1A 1HD
Tel: 0207 930 5600
Fax: 0207 930 5344
e-mail: tim@peiplc.com

FIXED INCOME SECURITIES MANAGER

Cazenove Fund Management Limited
12 Moorgate
London EC2R 6DA

SOLICITORS

Eversheds
Senator House
85 Queen Victoria Street
London EC4V 4JL

BANKERS

Lloyds TSB Bank Plc
234 High Street
Exeter EX4 3NL

STOCKBROKERS

Cazenove and Co Limited
20 Moorgate
London EC2R 6DA

AUDITORS

Ernst & Young LLP
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

SPONSOR AND FINANCIAL ADVISERS

Insinger de Beaufort
44 Worship Street
London EC2A 2JT

REGISTRAR & TRANSFER OFFICE

Northern Registrars Limited
Northern House
Woodsome Park
Fenny Bridge
Huddersfield HD8 0LA
Tel: 01484 600900
Fax: 01484 600911

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 Cazenove and Co Limited at 20 Moorgate, London EC2R 6DA at 10.00am on 18 September 2003, for the following purposes:

Ordinary business

1. To receive and, if approved, adopt the accounts for the year ended 31 March 2003, together with the Reports of the Directors and Auditors.
2. To receive the Directors’ remuneration report.
3. To declare a first and final dividend on the ordinary shares of 0.01p each of 0.70p per share.
4. To re-elect Hon. B S Thomas a Director of the Company.
5. To re-elect T E Childs a Director of the Company.
6. To re-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:

7. 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 2004 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.

Registered Office:
23 Cathedral Yard
Exeter EX1 1HB

By Order of the Board
SINCLAIR HENDERSON LIMITED
Secretary
16 July 2003

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 16 September 2003.
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 16 September 2003 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 16 September 2003 (‘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.
5. By attending the Meeting, shareholders (and any proxies or representatives they appoint) agree that they are expressly requesting and that they are willing to receive any communications (including communications relating to the Company’s securities) made at the Meeting.

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 Cazenove and Co Limited at 20 Moorgate, London
 EC2R 6DA at 10.00am on 18 September 2003, and at any adjournment thereof.

Signature

Date 2003

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 2003, together with the Reports of the Directors and Auditors.		
RESOLUTION 2	To receive the Directors’ remuneration report.		
RESOLUTION 3	To declare a first and final dividend on the ordinary shares.		
RESOLUTION 4	To re-elect Hon. B S Thomas a Director.		
RESOLUTION 5	To re-elect T E Childs a Director.		
RESOLUTION 6	To re-appoint Ernst & Young LLP as Auditors to the Company, and to authorise the Directors to determine their remuneration.		
RESOLUTION 7	To approve the passing of Resolution 7 authorising the Company to purchase its shares 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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Fenny Bridge
HUDDERSFIELD HD8 0JQ

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