PRIVATE EQUITY INVESTOR PLC

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

Annual Report

For the year ended 31 March 2004

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

£63,968,000 at 31 March 2004.

CAPITAL STRUCTURE

The Company is an investment trust whose authorised 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

	31 March 2004	*31 March 2003*	*% change*
Net assets and shareholders' funds in US dollars	**$117,564,000**	$113,514,000	3.57
Net assets per ordinary share in US cents	**235.13c**	227.03c	3.57
Net assets and shareholders' funds	**£63,968,000**	£71,815,000	(10.92)
Net assets per ordinary share "NAV"	**127.94p**	143.63p	(10.92)
Mid-market price per ordinary share	**99.25p**	87.50p	13.43
Discount to NAV	**22.42%**	39.08%	
Net (deficit)/revenue after taxation	**£(529,000)**	£633,000	(183.57)
Dividend per ordinary share	**–**	0.70p	
Total return per ordinary share	**(15.69)p**	(38.49)p	59.24
Total expense ratio	**1.6%**	1.4%	
Exchange rate (US $/£)	**1.83785**	1.58065	16.27

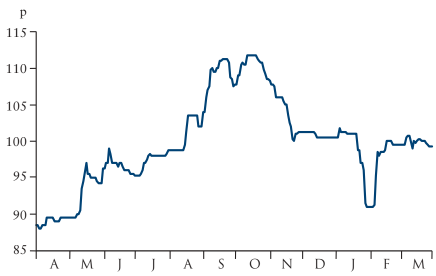
CHAIRMAN'S STATEMENT

I am pleased to present the results for Private Equity Investor PLC ('PEI') for the year ended 31 March 2004.

The past 12 months have been marked by a growing level of positive sentiment about technology businesses in the United States, and this is reflected in the progress of many of the underlying companies in which PEI is invested. We believe that as a result of this improving investment background and sentiment, we received an indicative offer for the Company which, if made, would have represented a modest premium to the then share price, but a substantial discount to our net asset value. Your Board had no hesitation in rejecting this opportunistic approach. We believe that such an offer, if made, would not even have realised the reported value of our underlying portfolio let alone its potential for substantial growth. Your Board believes shareholders should be allowed the opportunity to achieve full value in the future for their investment, rather than being forced to accept a substantially discounted value for their assets today.

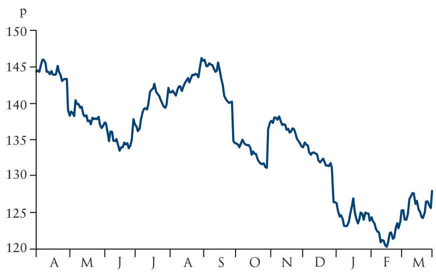
The Company received cash and stock distributions during the period of $8.68 million compared with $1.46 million last year and $1.22 million the year before.

PRIVATE EQUITY INVESTOR SHARE PRICE MOVEMENTS
FROM 4/03 TO 3/04



SOURCE: DATASTREAM

PRIVATE EQUITY INVESTOR NET ASSET VALUE
FROM 4/03 TO 3/04



SOURCE: DATASTREAM

The 4% increase in the US dollar NAV for PEI is consistent with our expectations for the Company at this stage of its investment cycle, and is, we believe, the harbinger of an accelerated positive trend.

In these circumstances the 11% decline in sterling NAV over the period paints a misleading picture of the Company's performance since it is entirely attributable to exchange rate movements. We believe that now is a good time to be investing in growth companies. A strengthening economy, a robust deal flow and a healthier corporate spending environment, all combine to make it so.

Market Overview

The US economy grew at a 4.2% seasonally adjusted annual rate in first quarter of 2004 – the third consecutive quarter of growth. While public market indices have had mixed results in first quarter, the NASDAQ was still up over 48% over the 12 month period ended March 2004, indicating a return of confidence particularly in the technology sector. Venture capital firms predict that attractive areas for investments over the next few years include security, data centre management, digital media, wireless technologies and web services.

The strength in valuations among public companies relative to the market trough of 2002 is beginning, finally, to be reflected in venture capital valuations. After three years of negative returns, venture capital performance is showing marked signs of improvement, with a strengthening in the IPO and merger and acquisition markets. Optimism is growing as opportunities for liquidity events improve, and capital is flowing at a healthy rate.

According to the most recent National Venture Capital Association Money Tree Survey (sponsored by PricewaterhouseCoopers and Thomson Venture Economics) venture capital investment in the first quarter of 2004 totalled $4.6 billion in 618 companies, broadly maintaining the investment level recorded over the past seven quarters.

For the first time in three years, the year to fourth quarter 2003 saw a positive return for venture capital of 8%. Indeed fourth quarter 2003 was the third consecutive quarter of positive performance after two and a half years of decline. Of the 40 US IPOs that took place in fourth quarter 2003, 13 were of venture-backed companies – more than the total for the entire previous twelve months. A further 78 IPOs occurred in the first quarter of 2004.

The average period between funding rounds for investee companies has lengthened and this is evidence, according to Jesse Reyes, Vice President at Thomson Venture Economics, of the improving health of venture investments. Entrepreneurial companies are doing more with less, and for longer periods.

Tim Draper, Managing Director at Draper Fisher Jurvetson says: 'This is a terrific time to be investing in new companies, with a robust deal flow and a healthier corporate spending environment.'

Venture Capital Investment Portfolio

During the year the Company made commitments to two new investment funds, New Enterprise Associates 11 and TCV V, increasing to 20 the number of venture capital Limited Partnerships in which it is invested.

As at 31 March 2004, these partnerships held investments in 429 private and 25 public companies, representing 60.7% of the Company's Net Asset Value (2003: 47.9%). Of these 20 partnerships 7 reported a gain in value over the period.

The rate of new investment remained steady, with 124 new investments compared with 111 in the previous year and there were also 225 follow-on investments (2003: 219), resulting in draw downs by investee funds totalling $24.2 million compared with $18.3 million last year.

Fewer investments were written off or written down, 47 and 115 compared to 55 and 155 last year. Write-ups increased from 33 to 110, based on information provided to us at the date of this report.

Numerous investee companies where no corporate event has yet taken place gained industry accolades and enjoyed noteworthy commercial successes, among them AirPrism, Ember Corporation, DivX Networks and Baidu.

At the period end, commitments to venture funds which had not yet been drawn down totalled $69.3 million.

IPOs and Trade Sales

Private Equity Investor saw four IPOs of our investee companies – Myogen, Pharmion, Atheros and SMI Corporation (2003: 2). At the year end these investments had increased in value to $1.68 million on a mark-to-market basis, a gross return on investment cost of 98%.

In all, direct cash distributions from 7 events totalled $2.90 million compared with less than $119,000 for 2003 and $158,000 for 2002. Similarly, in the year to 31 March 2004, stock distributions totalled $5.78 million compared with $1.34 million and $1.06 million in the two previous years. In addition, during the period there were 9 trade sales (2003:5) of which our share equates to $1.16 million, representing a return on investment cost of 22%.

There have been further encouraging signs from the increasing number of quoted stocks in our portfolio funds, whose shares have in general performed well over the period.

Bond Portfolio and Hedge Fund Investment

Funds awaiting draw down are invested in Dollar denominated investment grade bonds managed by Cazenove, notes issued by BNP Paribas and linked to a hedge fund of funds managed by FRM and cash. At the beginning of the year a total of $40.3 million was held in the bond portfolio and $15.1 million in a note as described above. During the year a further $15.1 million was transferred from the bond portfolio into a note issued by Deutsche Bank and linked to the same hedge fund of funds. The bond portfolio outperformed its benchmark and the hedge fund of funds achieved its return objectives during the period. However, the Dollar/Sterling exchange rate fell from $1.58 at the beginning of the period to $1.84 by the end of March 2004 as the dollar weakened. This 14% depreciation in the Dollar over the twelve months adversely affected the Sterling returns on these investments.

Prospects

It is worth repeating that private equity investments in venture capital funds typically have three phases: investment, holding and realisation. It is in this last phase when substantial returns are normally achieved. Private Equity Investor is now only part of the way through its planned life and we are entering a period in which we anticipate seeing valuation uplifts and liquidity events on a more regular basis.

Technology companies are being financed at a steady pace and mark-ups in valuations from previous rounds of financing are now starting to come through again. The most mature and promising companies are filing registration statements in anticipation of listing, and mergers and acquisitions are increasing.

We are confident that, notwithstanding the recent cooling in general market sentiment, the prospects for the Company remain excellent and that given time for the portfolio to mature, its investment objectives will be handsomely achieved.

HON. BARBARA S. THOMAS
Chairman
21 July 2004

MANAGING DIRECTOR'S REVIEW

Market Background

As the Chairman has stated, the increasing number of positive indicators reported by our investee funds presages a more favourable environment for venture capital investing in US technology companies.

Venture capital investment has kept up a steady pace, with investments in first quarter 2004 totalling $4.6 billion going into 618 companies, according to the PriceWaterhouseCoopers/Thomson Venture/National Venture Capital Moneytree Survey. While this figure is below the $5.2 billion invested in fourth quarter 2003, it is well above the same period last year. Additionally, valuations have returned to their mid-1990s level. The median investment amount for financing rounds remains steady at about $6.5 million.

While software companies received $956 million in the latest quarter, making it the largest industry recipient of funds, life sciences (biotechnology and medical devices) continue to dominate other industries with investment totalling $1.3 billion, representing 27% of the total invested in venture capital. Biotech alone accounted for $943 million, or 20% of all investments made.

Following the 48% rise in the NASDAQ over the period, the IPO window for technology companies has started to open and public markets are beginning to recognise the value of technology companies with significant potential to outperform their peers.

The improvement in valuations among public companies relative to the market trough of 2002 is finally beginning to be reflected in private equity valuations. We believe we are embarking upon a period in which we will see mark-ups and liquidity events on a more regular basis. The business environment has improved noticeably and many of our investee companies are on a steady growth path.

The outlook for information technology spending is improving and observers believe that the next few years will see increased investment in this sector as large corporations seek to improve efficiencies in their infrastructures. Equally, technology companies are now more receptive to strategic acquisitions.

Portfolio Update

As at 31 March 2004, $71.4 million of the Company's net asset value was invested in 429 private and 25 public companies. There was an increase in the rate of investment compared with the previous year from $18.3 million to $24.2 million, as the technology venture partnerships through which the Company is invested showed increasing optimism and reflected this in increased commitments to portfolio companies and new investments.

As the Chairman has reported, there were 225 follow-on investments and 124 new investments. The number of write-ups accelerated from 33 to 110, continuing the trend evident in last year's figures. During the year 47 investments were written off compared with 55 in the previous year, while the number of write downs decreased to 115 compared with 155.

The Company made commitments of $5 million each to two new limited partnerships, NEA 11 and TCV V, both managed by existing investee fund managers – taking to twenty the number of funds in which the Company is now invested. As at 31 March 2004, outstanding commitments to the partnerships not yet drawn down totalled $69.3 million.

Through its investment in 20 venture capital funds, the Company's exposure to the US technology markets is well diversified and the write offs and write downs during the year were more than compensated for by write ups. As a result, the Company's US dollar year end NAV showed a twelve month increase. The weakness of the Dollar contributing to the 14% decline in the dollar exchange rate against Sterling, means that the Company's end-year sterling NAV does not fairly reflect its progress or prospects.

As the Chairman has stated, there have been further encouraging signs from the increasing number of quoted stocks in our portfolio funds, whose shares have in general performed well over the period.

Among the highlights of the year for investee companies where no corporate event has yet taken place, US handheld technology magazine "Planet PDA Magazine" named AirPrism's Mobility Management Suite, which provides a next-generation solution for companies that need to manage their mobile and wireless computing resources, as Product of the Year. PEI holds a 0.26% stake in AirPrism through its investment in DFJ Fund VII.

Ember Corporation won 'top innovator' honours at the Under the Radar conference in January 2004 for its embedded wireless frequency (RF) technology, which was also named one of the most significant technical innovations of 2003 by Control Engineering magazine. PEI holds a 0.02% stake in Ember through its investment in DFJ Fund VI.

Through its investment in Zone Ventures II, PEI holds a 2% interest in DivX Networks, the video technology company whose growing success I referred to at the time of our last interim announcement. The company recently closed a Series C round of funding in March which valued the business at $100 million pre-money, a considerable increase over its last round valuation.

DFJ ePlanet Ventures, in which the Company has a $30 million commitment, owns 23% of Baidu, the most widely used search engine in China, the world's fastest growing internet market. It is interesting to note that, post period, Google, the largest search engine in the world and which has filed for an IPO, has recently invested in Baidu.

IPOs, Trade Sales and Disposals

Four IPOs, all out of New Enterprise Associates Funds 9 and 10, took place during the year.

At the period end, the gross value of these investments was £1.68 million on a mark-to-market basis, exceeding investment costs of $850,000 by 98%.

Pharmion Corporation, based in Boulder, Colorado and founded in 1999, acquires and commercialises speciality pharmaceutical products globally, focusing on licensing and developing products in the areas of hematology and oncology. Pharmion floated in November 2003, raising $84m on the sale of 6 million shares at $14 per share.

Myogen, based in Westminster, Colorado, was founded in 1996 and is a biopharmaceutical company focused on the discovery, development and commercialisation of small molecule therapeutics for the treatment of cardiovascular disorders. Myogen completed its IPO in November 2003 raising approximately $73 million on the sale of 5 million shares at $14 per share.

In February 2004 Atheros Communications Inc, a leading developer of semiconductor solutions for wireless communications products, went public on NASDAQ at $14 per share, valuing the business at $520 million. Based in Sunnyvale, California, Atheros was founded in 1998 and combines its wireless systems expertise with high performance radio frequency, mixed signal and digital semiconductor design skills to provide highly integrated chipsets that are manufacturable on low cost, standard, CMOS processes.

In March 2004 Semiconductor Manufacturing International Corporation, a computer technology company located in Shanghai and focused on the fabrication of semiconductor wafers, raised $1.7 billion on its initial public offering at $17.50 per share, valuing the company at $5.4 billion. SMIC has one of the most advanced foundries in China for integrated circuit manufacturing.

As the Chairman has reported, during the period there were 9 trade sales (2003: 5) of which our share equates to $1.16 million, representing a return on investment cost of 22%.

In all, direct cash distributions from 7 events totalled $2.90 million compared with less than $119,000 for 2003 and $158,000 for 2002. Similarly, in the year to 31 March 2004, stock distributions totalled $5.78 million compared with $1.34 million and $1.06 million in the previous two years.

Bond and Hedge Fund Portfolio

As at 31 March 2004, the Company held $10.2 million in cash and investment rate Dollar denominated bonds, together with $33.2 million in two European Medium Term Notes issued by Bank BNP Paribas and Deutsche Bank, managed by hedge fund of funds manager FRM.

The US bond market was particularly volatile during the reporting period. Ten year yields rose from 3.5% in March 2003 to a peak of 4.6% in August only to finish the period close to where they started at 3.8%.

During 2003, the Iraq war proved to be a turning point for equity markets and investor confidence. The UK equity market produced returns ahead of overseas markets in aggregate for the Sterling investor. The FTSE All-Share's total return was 26.9% for the period against the World ex UK of 23.1%. In dollar terms, the US market was up by 35.1% but once translated into Sterling this reduced to 16.25%. The stock market rallies were driven in the main by the performance of small and medium capitalisation cyclical stocks, particularly in the period between May and June 2003, rather than the larger companies within the FTSE 100 Index.

Corporate bond spreads continued to tighten over the final quarter of 2003 but the portfolio was defensively positioned towards the end of the reporting period as credit spreads widened. AAA bonds had moved to their tightest spread against gilts in the last 5 years by December 2003.

The Dollar/Sterling exchange rate was $1.58 at the beginning of the period but had fallen sharply to $1.84 by the end of March 2004. This represents a 14% depreciation over the twelve months, which has clearly had a material impact on the value of Dollar assets when converted into Sterling.

For the twelve month period the Sterling return of the bond portfolio was down 9.43% against a fall in the composite index (*) of 11.71%.

At the beginning of the year a total of $40.3 million was held in the bond portfolio and $15.1 million in a note as described above. During the year a further $15.1 million was transferred from the bond portfolio into a note issued by Deutsche Bank and linked to the same hedge fund of funds. Absolute Alpha, the underlying hedge fund of funds in which the company is invested, returned 8.46% during the period, thereby meeting its return objective of LIBOR + 6-8%.

Post Period Events

NEA 10 announced 2 IPOs in June 2004, Inhibitex Inc and SalesForce.com Inc. The Company's share in the valuation of these two companies increased from $237,000 at the year end, to $485,000 at the time of writing and represents an overall gain of 133% on the cost of investment.

Post period events continued to reflect an increasing optimism in US market sentiment. Two trade sales, those of Nanogram Devices Corporation by Bay III, and 3Ware by Vantagepoint realised $297,000, a 261% increase over investment cost.

In addition there have been 2 further cash distributions totalling $377,000.

The Company's investment in the BNP Paribas note and linked to a hedge fund of funds managed by FRM, matured after the year end. These funds have been reinvested in our venture capital funds, short-dated bonds and a Royal Bank of Scotland global treasury fund.

The Company's underlying strategy remains unchanged. Although market sentiment has cooled somewhat since the year end, we remain confident that the funds in which we are invested will achieve excellent returns.

* *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%

Summary of Individual Venture Funds Investments:

Name	*Total commitment* $	*Total drawdown 31 March 2004* $
APV Technology Partners III	5,000,000	5,000,000
Bay III	5,000,000	4,000,000
Crescendo IV	10,000,000	7,750,000
Draper Fisher Jurvetson ePlanet Ventures	30,000,000	17,025,000
Draper Fisher Jurvetson Fund VI	2,000,000	1,580,000
Draper Fisher Jurvetson Fund VII	5,000,000	2,325,000
Draper Fisher Jurvetson Gotham Venture Fund	3,000,000	1,740,000
Focus Ventures II	30,000,000	21,450,000
New Enterprise Associates 9	5,000,000	4,919,438
New Enterprise Associates 10	10,000,000	6,250,000
New Enterprise Associates 11	5,000,000	500,000
Oak Investment Partners X	10,000,000	5,388,125
Sprout Capital IX	3,750,000	3,455,986
TCV IV	25,000,000	19,085,000
TCV V	5,000,000	–
Vanguard VII	3,000,000	1,800,000
VantagePoint Venture Partners IV	10,000,000	4,100,000
Dawntreader Fund II	30,000,000	22,050,000
Wit VC Fund I	500,000	500,000
Zone Venture Fund II	10,000,000	9,000,000
	207,250,000	137,918,549

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 3 portfolio companies as at 31 March 2004. 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 200 companies to-date and has over 1 billion Dollars of capital under active management.

Bay III typically invests 2 to 4 million Dollars 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 2004, the Fund had 11 portfolio companies. 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**

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 in the communications enterprise infrastructure markets since 1993. 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. The Fund has a global strategy that includes investment in companies in the US, the UK, Continental Europe and Israel. As at 31 March 2004, Crescendo had 20 portfolio companies. Investors in Crescendo IV include Executives from Nortel, Novell, CISCO, Oracle and Sun.

Total committed capital	**$586m**
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 2004, 39 portfolio companies.

Total committed capital	**$646m**
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. They have created a global network of affiliated venture funds with approximately $3 billion in capital commitments and offices in the major technology centres around the world. Since 1985 the firm has focused on investing in seed or start-up venture capital rounds primarily in information technology companies. The Fund aims to add value by assisting in the 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 41 portfolio companies as at 31 March 2004.

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 2004, the Fund had 37 portfolio companies.

Total committed capital	**$637m**
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 2004, the Fund had 12 portfolio companies.

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

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. Members of the Focus Investment team have over fifty years of collective venture capital experience and have successfully invested $525 million in more than 200 emerging growth technology companies. As at 31 March 2004, the Fund had 24 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 technology and healthcare industries. The combined contributed capital for NEA partnerships to-date is over $6 billion. Over its 26 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 2004, the Fund had 35 portfolio companies. Investors in this Fund include Microsoft, Nortel, JP Morgan, Ford Foundation, INVESCO, BancBoston, Rockefeller Foundation and Walt Disney.

Total committed capital	**$880m**
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 140 have gone public and over 150 have been acquired. As of 2000, NEA had financed companies whose total revenues exceed $50 billion and whose total market value exceeds $100 billion. As at 31 March 2004, the Fund had 91 portfolio companies.

Total committed capital	**$2.3bn**
Private Equity Investor commitment	**$10m**

New Enterprise Associates 11 (www.nea.com)
This fund was formed in December 2003 with $1.11 billion in committed capital. The investment strategy in NEA 11 is very similar to NEA 10's, building companies in their core areas of information technology, about 55%, and healthcare, about 45%. As at 31 March 2004, the Fund had 8 portfolio companies.

Total committed capital	**$1.1bn**
Private Equity Investor commitment	**$5m**

Oak Investment Partners X (www.oakvc.com)
Founded in 1978, Oak has raised ten venture capital funds with aggregate committed capital of over $4.3 billion. 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. In addition to the core investment team, Oak is supported by a network of over 250 affiliates comprised of some of the world's top entrepreneurs, technical minds and industrial experts. 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 34 portfolio companies as at 31 March 2004. Investors in Oak X include JP Morgan, Hewlett Packard, BancBoston, IBJ, TD Capital and General Motors.

Total committed capital	**$1.6bn**
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 $3.0 billion. Since its founding in 1969 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 2004, Sprout IX had 48 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	**$1.08bn**
Private Equity Investor commitment	**$3.75m**

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 $3.3 billion under management and has financed over 140 companies. It has helped those companies and their management teams achieve over 35 IPOs and 20 strategic sales or mergers. The Fund had 28 portfolio companies as at 31 March 2004.

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

TCV V (www.tcv.com)
TCV V is a $900 million venture capital fund. TCV will use this fund to continue executing against its core strategy of expansion and late-stage investing, specifically in the areas of software, communications, infrastructure, services and semiconductors. Some of the leading companies TCV has invested in include Actuate; Alteon Websystems (acquired by Nortel Networks); Altris; Ariba;CNet;Encompass (acquired by Yahoo); Expedia (acquired by InterActiveCorp); MemberWorks; Netflix; RealNetworks; Solect Technology Group (acquired by Amdocs); Ejasent (acquired by Veritas); and Xylan (acquired by Alcatel).

Total committed capital	**$900m**
Private Equity Investor commitment	**$5m**

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 22 years Vanguard Ventures has invested in over 115 companies, 30 of which have had notable success including IPOs. As at 31 March 2004, the Fund had 18 portfolio companies. Investors of Vanguard VII include AXA, Bank of America, Bell Canada, Johnson & Johnson and Vulcan Ventures (Paul Allen).

Total committed capital	**$211m**
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 $2.5 billion of committed capital and financed over 350 technology companies. The Firm seeks investment opportunities that typically require 3 to 30 million Dollars 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 investment focus falls into five key areas: Communication Services, Data Networking, Next-generation Process, Material Technologies, Internet Infrastructure Software and Services and Semiconductors. The Fund had 42 portfolio companies as at 31 March 2004.

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

Wit Dawntreader Fund II (www.dtventures.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 2004, the Fund had 16 portfolio companies.

Total committed capital	**$250m**
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 2004, the Fund had 8 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 2004, the Fund had 14 portfolio companies.

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

TIMOTHY E. CHILDS
Managing Director
21 July 2004

INVESTMENT PORTFOLIO

as at 31 March 2004

Unquoted Funds	*Total commitment US$'000*	*Drawndown book cost* US$'000*	*Market value US$'000*	*Market value £'000*	*% of net assets*
Venture Capital Funds					
APV Technology Partners III	5,000	4,232	1,193	649	1.0
Bay III	5,000	4,250	1,238	673	1.1
Crescendo IV	10,000	7,360	2,277	1,239	1.9
Draper Fisher Jurvetson ePlanet Ventures	30,000	17,025	6,946	3,779	5.9
Draper Fisher Jurvetson Fund VI	2,000	1,567	522	284	0.4
Draper Fisher Jurvetson Fund VII	5,000	2,325	1,641	893	1.4
Draper Fisher Jurvetson Gotham Venture Fund	3,000	1,740	1,113	605	1.0
Focus Ventures II	30,000	20,417	6,371	3,466	5.4
New Enterprise Associates 9	5,000	4,728	1,804	982	1.5
New Enterprise Associates 10	10,000	5,420	5,046	2,746	4.3
New Enterprise Associates 11	5,000	500	484	264	0.4
Oak Investment Partners X	10,000	4,642	3,845	2,092	3.3
Sprout Capital IX	3,750	3,156	2,376	1,293	2.0
TCV IV	25,000	11,908	15,107	8,220	12.9
TCV V	5,000	–	–	–	–
Vanguard VII	3,000	1,800	792	431	0.7
Vantagepoint Venture Partners IV	10,000	4,011	2,742	1,492	2.3
Wit Dawntreader Fund II	30,000	22,050	13,568	7,383	11.5
Wit VC Fund I	500	428	83	45	0.1
Zone Ventures Fund II	10,000	9,000	4,276	2,327	3.6
Total Unquoted Funds	**207,250**	**126,559**	**71,424**	**38,863**	**60.7**

Quoted Loan Stocks					
Fixed Interest Securities					
Agence Francaise De Development 5.875%	–	935	1,049	570	0.9
European Investment Bank 7.125%	–	1,000	1,118	609	1.0
Europaische Hypotheken Luxembourg 3.5%	–	1,998	2,049	1,115	1.7
Landeskreditbank Baden Wurttemberg 3%	–	1,999	2,000	1,088	1.7
Landwirtshafliche Rentenbank 3.875%	–	998	1,040	566	0.9
Rabobank Nederland 4.5%	–	999	1,047	570	0.9
Total Quoted Loan Stocks	**–**	**7,929**	**8,303**	**4,518**	**7.1**

INVESTMENT PORTFOLIO (CONTINUED)

as at 31 March 2004

Other Quoted Investments held directly by the Company	*Total commitment US$'000*	*Drawndown book cost* US$'000*	*Market value US$'000*	*Market value £'000*	*% of net assets*
Common Stock					
Artemis International Solutions	–	1	–	–	–
Bakbone Software Inc	–	99	72	39	0.1
Broadcom Corporation Class A	–	87	15	8	–
Wireless Facility Inc	–	552	375	204	0.3
Total Other Quoted Investments	**–**	**739**	**462**	**251**	**0.4**
Hedge Funds					
BNP Paribas 0% Bonds	–	15,078	16,310	8,876	13.9
Deutsche Bank AG London 0% Bonds	–	15,090	16,885	9,188	14.3
Total Hedge Fund Investment	**–**	**30,168**	**33,195**	**18,064**	**28.2**
Total Investments	**207,250**	**165,395**	**113,384**	**61,696**	**96.4**
Net current assets less convertible unsecured loan notes			**4,180**	**2,272**	**3.6**
Net assets			**117,564**	**63,968**	**100.0**

*Drawndown book cost is adjusted for capital distributions from the unquoted funds. For more details refer to notes 1 and 9 of the notes to the accounts.

DIRECTORS

The following are the Directors of the Company:

Hon. Barbara S. Thomas (appointed 25 January 2000), (Chairman) is aged 57. 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 43. 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 which subsequently became an associate of the Bank of Scotland plc.

M Andrew V. de Candole (appointed 25 January 2000), (Non-Executive Director) is aged 51. 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 61, 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.

Keith Young (appointed 25 January 2000), (Non-Executive Director) is aged 66. 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.

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 May 2004, total funds under management by Cazenove amounted to £7.5 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 2004.

Principal activities and business review

The principal activity of the Company is to carry on business as an investment trust and the Directors do not envisage any change to this activity in the future.

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 16.

Status

The Company has received written approval from the Inland Revenue as an authorised investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the accounting year ended 31 March 2003. In the opinion of the Directors, the Company has subsequently directed its affairs so as to enable it to continue to qualify for and seek such 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 2004 was 127.94p (2003: 143.63p).

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 from the revenue reserve are set out in the statement of total return on page 32. The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2004.

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 a 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.

Part of the Company's unutilised cash resources have been invested in funds investing in hedge funds. The Company invested $15 million through a European Medium Term Note ("EMTN") issued by Bank BNP Paribas and $15 million in a leveraged EMTN issued by Deutsche Bank. The performance of these funds is reviewed regularly at Board meetings. Following the year end the BNP Paribas EMTN investment was sold.

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 19.

Directors' interests

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

	Beneficial and family	
Ordinary shares of 0.01p each:	***2004***	*2003*
Hon. B S Thomas (Chairman)	**12,600**	12,600
T E Childs (Managing Director)	**52,032**	52,032
M A V de Candole (Non-Executive Director)	**52,031**	52,031
P F Dicks (Non-Executive Director)	**–**	–
K Young (Non-Executive Director)	**15,537**	15,537

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 28.

Substantial share interests

At 21 July the holdings representing 3% or more of the ordinary share capital, notified to the Company, were:

	Shares	*%*	*%*
Laxey Partners (VIC) Ltd	13,634,800		27.27
including			
– *The Value Catalyst Fund Ltd*	*8,379,800*	*16.76*	
– *L.P. Value Ltd*	*1,871,250*	*3.74*	
Deutsche Bank AG	2,007,000		4.01
Prudential plc	2,005,000		4.01

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 on Corporate Governance published in June 1998 ("the Code"). The listing rules of the Financial Services Authority require that the Company reports to its shareholders on how the principles of the Code have been applied. 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 2004, subject to the exceptions explained below.

Board of Directors

The Board consists of 2 Executive and 3 Non-Executive Directors, with Mr Dicks acting as Senior Independent Director. Mr Young is interested in the Promoters Incentive arrangement as described on page 28, however his fellow Directors consider this interest is minor and that he has clearly and effectively demonstrated his independence on the Board.

Each of the Directors in office at 31 March 2004 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 third year following their appointment or most recent re-appointment. Mr Andrew de Candole will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Board responsibilities

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 meet, on average, at least once per month during each year to review the Company's investments and all other important issues to ensure that control is maintained over the Company's affairs. Additional meetings are held as required. 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.

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

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.

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

Remuneration Committee
The Remuneration Committee comprises solely the Non-Executive Directors and is chaired by Peter Dicks. The Directors' remuneration report on pages 27 and 28 explains the approach taken by the Committee to the structuring of remuneration for Executive Directors.

Management Engagement Committee
Following the Company's year end, a Management Engagement Committee was established to review the Company's arrangements for managing its investments. The Committee, which comprises the independent Non–Executive Directors, also reviews the performance and contractual arrangements of the Company's other service providers.

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

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

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

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

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

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

- The cost to the Company and benefits related to the Company and third parties operating the relevant controls.

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

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

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

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

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

- Investment management of the fixed interest portfolio is provided by Cazenove Fund Management Limited. The Board is responsible for setting the overall investment policy and monitors the actions of the fixed interest portfolio manager at regular Board meetings.
- 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.

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 is available to discuss issues affecting the Company.

Revised Combined Code
In July 2003 a new Combined Code on Corporation Governance (the "Revised Code") was published by the Financial Reporting Council to be effective for listed companies for reporting years beginning on or after 1 November 2003. Your Board will be taking steps to ensure it is in an appropriate position to report on compliance with the Revised Code for the year ending 31 March 2005.

AITC Code on Corporate Governance
During the year the Association of Investment Trust Companies ("AITC") published its own Code of Corporate Governance which sets out a framework of best practice for AITC member companies. The Board intends to review and, where appropriate, adopt the principles as set out in the AITC Code and will report its reasons for non-compliance in future annual reports.

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 2004 there were no trade creditors (2003: none).

Annual General Meeting
The Notice of Annual General Meeting, which is contained in the circular which accompanies this report, sets out both the Ordinary Business and the Special Business to be conducted at the meeting.

Resolution 5 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
21 July 2004

DIRECTORS' REMUNERATION REPORT

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

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 1 April 2003 this fee has been allocated pursuant to a revised agreement entered into by the Directors on 3 November 2003 as a result of recommendations made by the Remuneration Committee.

Other benefits

Directors receive allowances for travel, parking and incidental expenditure.

Letters of appointment

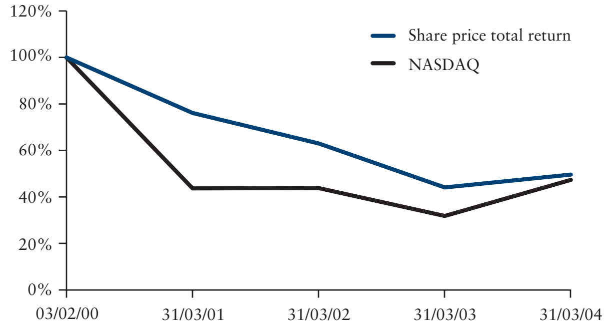
Each of the Directors in office at 31 March 2004 has a letter of appointment with the Company which specifies that the appointment may be terminated by 12 month's notice.

Directors' remuneration (audited)

The remuneration of the Directors for the year ended 31 March 2004 was as follows:

	2004		*2003*	
	Fees	***Travel and general expense allowance***	*Fees*	*Travel and general expense allowance*
	£'000	*£'000*	*£'000*	*£'000*
Hon. Barbara S. Thomas (Chairman)	**78**	**20.4**	87	20.4
Timothy Childs (Managing Director)	**184**	**20.4**	226	20.4
Andrew de Candole (Non-Executive)	**55**	**2.5**	100	2.5
Peter Dicks (Non-Executive)	**25**	**–**	19	–
Keith Young (Non-Executive)	**17**	**2.5**	25	2.5
	359	**45.8**	457	45.8

Your Company's performance



SOURCE: PRIVATE EQUITY INVESTOR

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 27 and 28 was approved by the Board of Directors on 21 July 2004 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 www.peiplc.com, which is a website maintained by the Company and on www.sinclairhenderson.co.uk, which is a website maintained by the Company Secretary. The work carried out by the auditors does not involve consideration of the maintenance and integrity of these websites and accordingly, the auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the websites. Visitors to the websites 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 2004 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.

Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company as at 31 March 2004 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
21 July 2004

STATEMENT OF TOTAL RETURN
(INCORPORATING THE REVENUE ACCOUNT*)

for the year ended 31 March 2004

			Year ended 31 March 2004			*Year ended 31 March 2003*	
		Revenue	***Capital***	***Total***	*Revenue*	*Capital*	*Total*
	Notes	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Losses on investments	9	**–**	**(7,216)**	**(7,216)**	–	(19,959)	(19,959)
Exchange losses on capital items	9	**–**	**(102)**	**(102)**	–	(861)	(861)
Income	2	**552**	**–**	**552**	2,040	–	2,040
Expenses	3	**(1,081)**	**–**	**(1,081)**	(1,102)	–	(1,102)
Return on ordinary activities before taxation		**(529)**	**(7,318)**	**(7,847)**	938	(20,820)	(19,882)
Taxation on ordinary activities	6	**–**	**–**	**–**	(305)	944	639
Return on ordinary activities after taxation for the financial year		**(529)**	**(7,318)**	**(7,847)**	633	(19,876)	(19,243)
Dividend proposed	7	**–**	**–**	**–**	(350)	–	(350)
Transfer (from)/to reserves		**(529)**	**(7,318)**	**(7,847)**	283	(19,876)	(19,593)
Return per ordinary share	8	**(1.06)p**	**(14.63)p**	**(15.69)p**	1.26p	(39.75)p	(38.49)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.

The notes on pages 35 to 47 form part of these accounts.

BALANCE SHEET

as at 31 March 2004

	Notes	*31 March 2004 £'000*	*31 March 2003 £'000*
Fixed assets			
Investments	9	**61,696**	69,414
Current assets			
Debtors	10	**1,094**	1,300
Cash at bank		**1,563**	1,615
		2,657	2,915
Creditors – amounts falling due within one year	11	**380**	509
Net current assets		**2,277**	2,406
Total assets less current liabilities		**63,973**	71,820
Creditors – amounts falling due after one year			
Convertible unsecured loan notes	12	**5**	5
Net assets		**63,968**	71,815
Share capital and reserves			
Called up share capital	13	**5**	5
Share premium account	14	**96,862**	96,862
Capital reserve – realised	14	**11,092**	11,507
– unrealised	14	**(44,946)**	(38,043)
Revenue reserve	14	**955**	1,484
Shareholders' funds – equity interests	15	**63,968**	71,815
Net asset value per ordinary share	18		
– Basic		**127.94p**	143.63p

These accounts were approved by the Board of Directors on 21 July 2004.

HON. BARBARA S. THOMAS
Chairman

The notes on pages 35 to 47 form part of these accounts.

STATEMENT OF CASH FLOWS

for the year ended 31 March 2004

	Notes	*Year ended 31 March 2004 £'000*	*Year ended 31 March 2003 £'000*
Operating activities			
Investment income received		**911**	2,276
Deposit interest received		**68**	127
Secretarial fees paid		**(81)**	(85)
Other cash payments		**(908)**	(1,114)
Net cash (outflow)/inflow from operating activities	16	**(10)**	1,204
Capital expenditure and financial investment			
Purchases of investments		**(29,471)**	(37,338)
Sales of investments		**29,779**	30,885
Deferred gain on capital items		**102**	–
Realised currency losses		**(2)**	(210)
Net cash inflow/(outflow) from capital expenditure and financial investment		**408**	(6,663)
Equity dividends paid		**(350)**	(1,020)
Net cash inflow/(outflow) before and after financing		**48**	(6,479)
Increase/(decrease) in cash	17	**48**	(6,479)

The notes on pages 35 to 47 form part of these accounts.

NOTES TO THE ACCOUNTS

at 31 March 2004

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 January 2003.

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 21 to 26.

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

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

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

Foreign currency

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

Taxation

The payment of taxation is deferred or accelerated because of timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by Financial Reporting Standard No. 19: Deferred Taxation.

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

	2004	2003
	£'000	*£'000*
Income from investments:		
Interest from US fixed interest investments	**–**	82
Interest from European fixed interest investments	**523**	1,821
	523	1,903
Other income:		
Deposit interest	**29**	137
Total income	**552**	2,040
Total income comprises:		
Interest	**552**	2,040

3 EXPENSES

		2004	2003
		£'000	*£'000*
Secretarial services		**81**	79
Auditor's remuneration (also see # on page 37) for:			
– audit		**20**	20
– other services to the Company		**–**	30
Directors' remuneration (see note 5)		**359**	457
Other expenses	– Irrecoverable VAT	**65**	53
	– Operating lease	**35**	35
	– Public relations and advertising	**43**	41
	– Investment manager fees (listed portfolio)	**15**	61
	– Legal and professional fees	**182**	28
	– Office expenditure	**21**	20
	– Staff costs (see note 4)	**43**	42
	– Banking and custody charges	**4**	3
	– Broker's and sponsor's fees	**15**	30
	– Other expenses	**198**	203
		1,081	1,102

3 EXPENSES – continued

	2004 £'000	2003 £'000
# Total fees paid to the Auditor for the year comprised:		
Audit services		
– statutory audit	**20***	20*
Other services		
– general advice relating to investing in hedge funds	**–**	30*
– specific advice relating to hedge funds in which the Company is invested	**27****	–
	47	50

* charged to revenue.
** included within the cost of the relevant investments.

The Directors do not consider that the provision of non-audit work to the Company affects the independence of the Auditor.

4 STAFF COSTS

	2004 £'000	2003 £'000
Salaries and other payments	**39**	38
Social security costs	**4**	4
	43	42

With the exception of the Directors, whose remuneration is shown in note 5, the Company had one member of staff employed during the year (2003: one member of staff).

5 DIRECTORS' REMUNERATION

	2004 £'000	2003 £'000
Hon. B. S. Thomas (Chairman)	**78**	87
T. E. Childs (Managing Director)	**184**	226
M. A. V. de Candole (Non-Executive Director)	**55**	100
P. Dicks (Non-Executive Director)	**25**	19
K. Young (Non-Executive Director)	**17**	25
Total remuneration	**359**	457

No pension contributions were received by the Directors during the year (2003: nil).

The Directors' remuneration report on pages 27 and 28 provides details of the Directors' travel and general expense allowance for the year.

6 TAXATION ON ORDINARY ACTIVITIES

	2004 Revenue £'000	**2004** Capital £'000	**2004** Total £'000	2003 Revenue £'000	2003 Capital £'000	2003 Total £'000
UK corporation tax at 30%	**–**	**–**	**–**	305	(944)	(639)
	–	**–**	**–**	305	(944)	(639)

The Company is subject to corporation tax at 30% (2003: 30%). As at 31 March 2004 the current taxation charge in the Company's revenue account is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £'000	2003 £'000
Reconciliation of the tax charge for the year:		
Return on ordinary activities before taxation	**(529)**	938
Theoretical corporation tax at 30%	**(159)**	281
Effects of:		
– Excess management expenses	**159**	–
– Expenses disallowed for taxation purposes	**–**	24
Current tax charge – revenue account	**–**	305

At 31 March 2004, the Company had no unprovided deferred tax liabilities (2003: £nil). At that date, based on current estimates, the Company had surplus management expenses of approximately £2,511,000 (2003: £2,030,000) 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.

Due to the Company's status as an investment trust, and the intention to continue meeting the conditions required to obtain approval in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

7 DIVIDENDS IN RESPECT OF ORDINARY SHARES

	2004 £'000	2003 £'000
No final dividend is proposed (2003: 0.70p)	**–**	350

8 RETURN PER ORDINARY SHARE

	2004			2003		
	Revenue pence	**Capital pence**	**Total pence**	Revenue pence	Capital pence	Total pence
Basic	**(1.06)**	**(14.63)**	**(15.69)**	1.26	(39.75)	(38.49)

Basic revenue return per ordinary share is based on the net deficit on ordinary activities after taxation of £529,000 (2003: net revenue of £633,000), and on 50,000,000 (2003: 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 £7,318,000 (2003: £19,876,000), and on 50,000,000 (2003: 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 28. At 31 March 2004, nil (2003: nil) shares would have become issuable.

9 INVESTMENTS

a) Investment portfolio summary

	2004 £'000	2003 £'000
USA		
Listed investments		
– common stock	**212**	10
– hedge funds	**18,064**	9,539
Unlisted investments	**38,863**	34,399
Other		
– fixed interest securities	**4,518**	25,466
– common stock	**39**	–
	61,696	69,414

A full listing of the investment portfolio is provided on pages 17 and 18.

9 INVESTMENTS – continued

	Listed loan stock £'000	*Listed equities £'000*	*Listed hedge funds £'000*	*Unlisted equities £'000*	*Unlisted funds £'000*	*Total £'000*
b) Analysis of investment portfolio movements						
Opening book cost	24,024	68	9,429	15	74,112	107,648
Opening unrealised appreciation/ (depreciation)	1,442	(58)	110	(1)	(39,727)	(38,234)
Opening valuation	25,466	10	9,539	14	34,385	69,414
Movements in the year:						
Purchases at cost	6,319	–	9,056	–	–	15,375
Calls at cost	–	–	–	–	14,095	14,095
Sales						
– proceeds	(25,291)	(3,007)	–	(13)	–	(28,311)
– realised losses on sales	(50)	(361)	–	(2)	–	(413)
Book cost adjustments from capital distributions						
– cash distributions	–	–	–	–	(1,661)	(1,661)
– stock distributions	–	3,778	–	–	(3,778)	–
Unrealised (depreciation)/ appreciation	(1,926)	(169)	(531)	1	(4,178)	(6,803)
Closing valuation	**4,518**	**251**	**18,064**	**–**	**38,863**	**61,696**
Closing book cost	5,002	478	18,485	–	82,768	106,733
Closing unrealised depreciation	(484)	(227)	(421)	–	(43,905)	(45,037)
	4,518	**251**	**18,064**	**–**	**38,863**	**61,696**

9 INVESTMENTS – continued

c) Analysis of capital gains and losses

	2004 £'000	*2003* £'000
Realised (losses)/gains on sales of investments	**(413)**	2,333
Increase in unrealised capital depreciation	**(6,803)**	(22,292)
Losses on investments	**(7,216)**	(19,959)
Realised exchange losses on capital items	**(2)**	(210)
Unrealised exchange losses on capital items	**(100)**	(651)
Exchange losses on capital items	**(102)**	(861)

d) Significant holdings

The Company owns 11.86% and 10.33% of the total value of the Limited Partnerships capital drawn in Wit Dawntreader Fund II and Zone Ventures Fund II respectively.

10 DEBTORS – amounts falling due within one year

	2004 £'000	*2003* £'000
Accrued income	**67**	493
Amounts due from brokers	**195**	2
Amounts due in respect of convertible unsecured loan notes	**5**	5
Prepayments and other debtors*	**92**	65
Corporation tax recoverable	**735**	735
	1,094	1,300

* 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

	2004 £'000	*2003* £'000
Accruals	**276**	147
Other taxation and social security	**2**	12
Proposed dividend	**–**	350
Deferred gains on capital items	**102**	–
	380	509

12 CREDITORS – amounts falling due after more than one year

	2004 £'000	*2003* £'000
0.5% convertible unsecured loan notes	**5**	5

The conversion dates of the convertible unsecured loan notes arise at the end of every third financial year of the Company. The terms of conversion are set out on page 28.

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 had not been met.

13 CALLED UP SHARE CAPITAL

	2004 £'000	*2003* £'000
Authorised:		
100,000,000 ordinary shares of 0.01p each	**10**	10
50,000 redeemable preference shares of £1.00 each	**50**	50
	60	60
Allotted, called up and fully paid:		
50,000,000 ordinary shares of 0.01p each	**5**	5

14 RESERVES

	Share premium account £'000	*Capital reserve –realised* £'000	*Capital reserve –unrealised* £'000	*Revenue reserve* £'000
Beginning of year	96,862	11,507	(38,043)	1,484
Movement in unrealised depreciation before transfer on disposal	–	–	(5,552)	–
Transfer on disposal of investments	–	1,251	(1,251)	–
Net losses on realisation of investments	–	(1,664)	–	–
Exchange differences on other capital items	–	(2)	1	–
Exchange differences on currency	–	–	(101)	–
Retained deficit for the year	–	–	–	(529)
End of year	96,862	11,092	(44,946)	955

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £'000	*2003* £'000
Revenue reserve		
Net (deficit)/revenue for the year	**(529)**	633
Dividend proposed	**–**	(350)
	(529)	283
Capital reserve		
Movement in capital reserve	**(7,318)**	(19,876)
Net reduction in shareholders' funds	**(7,847)**	(19,593)
Opening shareholders' funds	**71,815**	91,408
Closing shareholders' funds	**63,968**	71,815

16 RECONCILIATION OF NET (DEFICIT)/REVENUE BEFORE FINANCE COSTS AND TAXATION TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2004 £'000	*2003* £'000
Net revenue before finance costs and taxation	**(529)**	938
Increase/(decrease) in creditors and accruals	**120**	(119)
Decrease in prepayments and accrued income	**399**	385
Net cash (outflow)/inflow from operating activities	**(10)**	1,204

17 RECONCILIATION OF NET CASH FLOW TO NET FUNDS

	2004 £'000	*2003* £'000
Increase/(decrease) in cash in the year	**48**	(6,479)
Effect of foreign exchange rate movements	**(100)**	(647)
Movement in net funds	**(52)**	(7,126)
Net funds at beginning of the year	**1,615**	8,741
Net funds at end of the year	**1,563**	1,615

Net funds are comprised as follows:

	2004 £'000	*2003* £'000
Cash at bank	**1,563**	1,615

18 NET ASSET VALUE PER ORDINARY SHARE

The basic net asset value per ordinary share is based on net assets of £63,968,000 (2003: £71,815,000) and on 50,000,000 (2003: 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 28. At 31 March 2004, nil (2003: 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 2004 there were financial commitments outstanding of £37.7 million (2003: £53.6 million) in respect of outstanding call commitments to limited partnerships.

The Company had annual commitments of £38,250 at 31 March 2004 (2003: £38,250) under an operating lease in respect of premises. The operating lease commitment will expire after more than two years but less 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 17 and 18. The method of valuing the fixed asset investments is discussed in the accounting policies of the Company in note 1 on page 35. Cash and debtors arising from the operations of the Company as at 31 March 2004 amounted to £1,563,000 (2003: £1,615,000) and £1,094,000 (2003: £1,300,000) respectively. There was no material difference between the fair values of the investments as at 31 March 2004 and 31 March 2003 and the values attributable to those investments within the accounts.

20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES – continued

Liquidity risk

The nature of the Company's investment policy of investing in specialist US venture capital funds means that a large proportion of the securities which it owns are less readily marketable than, for example, 'blue-chip' UK equities. 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 two hedge fund investments. The bonds can be converted to cash at short notice and the hedge fund investments can be converted to cash on 30 days notice.

Interest rate risk

The Company invests its surplus cash in triple A Dollar denominated bonds and two hedge fund investments. 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 2004, the average interest rate profile of the Company's financial assets was as follows:

	Fixed rate £'000	*Floating rate £'000*	*No interest associated £'000*	*Weighted average interest rate %*	*Weighted average time to maturity months*
Quoted loan stocks	**4,518**	**–**	**–**	**4.34**	**40**
Quoted equities	**–**	**–**	**251**	**–**	**–**
Quoted hedge funds	**–**	**–**	**18,064**	**–**	**–**
Unquoted equities	**–**	**–**	**–**	**–**	**–**
Unquoted funds	**–**	**–**	**38,863**	**–**	**–**
Cash	**–**	**1,563***	**–**	**–**	**–**
Debtors	**–**	**–**	**1,094**	**–**	**–**
	4,518	**1,563**	**58,272**		

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

	Fixed rate £'000	*Floating rate £'000*	*No interest associated £'000*	*Weighted average interest rate %*	*Weighted average time to maturity months*
Quoted loan stocks	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		

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

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 16 reviews the investments made during the year. The method of valuing the investments is discussed in the accounting policies on page 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 Sterling/Dollar 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 2004, realised exchange losses of £2,000 (2003: losses of £210,000) and unrealised losses relating to currency and other capital items of £100,000 (2003: losses £651,000), have been taken to the capital reserve.

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

At 31 March 2004	***Investment portfolio****	***Cash***	***Other current assets***
	£'000	*£'000*	*£'000*
USA	**61,657**	**1,027**	**262**
UK	**–**	**536**	**832**
Canada	**39**	**–**	**–**
	61,696	**1,563**	**1,094**

At 31 March 2003	*Investment portfolio**	*Cash*	*Other current assets*
	£'000	*£'000*	*£'000*
USA	69,414*	624	468
UK	–	991	832
	69,414	1,615	1,300

* All portfolio stocks are US dollar denominated, with the exception of the Canadian investment.

20 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES – continued

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 2004 and 31 March 2003, 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 2004 and 31 March 2003. Other financial liabilities amount to £380,000 (2003: £509,000) and result from operating activities.

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

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

21 RELATED PARTY TRANSACTIONS

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

For details of loan notes see page 28.

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

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

KEY DATES

March	Company year end
July	Annual results
October	Annual General Meeting
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.

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