PRIVATE EQUITY INVESTOR PLC

Annual Report

For the year ended 31 March 2006

INVESTMENT OBJECTIVE AND POLICY

The Company was launched in February 2000 and provides both private and institutional investors with a means to participate in specialised venture capital funds in the USA, a category of funds that is not otherwise accessible to many investors.

The Company's objective is to achieve substantial capital appreciation for shareholders over the long-term. The Company's policy has been to invest in high quality venture capital funds, managed by several different management groups, focused on various stages of growth from early stage to pre-IPO, so as to obtain exposure to a diversified underlying portfolio of investments in unlisted companies in the IT and other technology sectors. Such funds have been selected with regard to the experience and track record of the managers, their investment strategy and their strength and quality of deal flow.

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SUMMARY OF RESULTS AND FINANCIAL HIGHLIGHTS

	31 March 2006	*31 March 2005*	*% change*
Net assets and shareholders' funds in US dollars	**$148,115,000**	$108,960,000	35.94
Net assets per ordinary share in US$ "NAV"	**296.23c**	217.92c	35.94
Net assets and shareholders' funds	**£85,391,000**	£57,663,000	48.08
Net assets per ordinary share "NAV"	**170.78p**	115.33p	48.08
Mid-market price per ordinary share	**164.75p**	104.00p	58.41
Discount to NAV	**3.53%**	9.82%	
Net revenue return after taxation	**£(248,000)**	£(843,000)	70.58
Net total return	**£27,728,000**	£(6,305,000)	
Total return per ordinary share	**55.45p**	(12.61)p	
Total expense ratio	**0.8%**	1.9%	
Exchange rate at year end (US $/£)	**$1.73455**	$1.88960	

CHAIRMAN'S STATEMENT

I am pleased to present the results for Private Equity Investor PLC ("PEI" or "the Company") for the year ended 31 March 2006.

Results

The Company's year-end net asset value was 170.78p (296.23c) per share compared with 115.33p (217.92c) a year earlier, an increase of 48.1% in sterling terms. This increase was principally due to the performance of investments made by DFJ ePlanet in Baidu, Skype and Focus Media as well as an increase in the value of investments held by other Limited Partnerships in which the Company has invested. Over the same period the NASDAQ composite index rose by 16.9% (from 2001.57 to 2339.79).

During the year under review the Company saw a significant increase in the value of distributions, which amounted to $31.4 million. Of this sum, $13.8 million was received as a result of the sale of Skype, a DFJ ePlanet holding, to eBay. Following the Initial Public Offering of Baidu, also a DFJ ePlanet holding, PEI received a stock distribution in March 2006 which it subsequently sold, realising $4.9 million. The acquisition of Wily Technologies, a Focus Ventures II holding, by Computer Associates resulted in a cash distribution to PEI of $1.6 million. The sale by DFJ ePlanet of 50% of its holding in Focus Media resulted in a further distribution of $1.4 million to PEI.

These four distributions totalled $21.7 million out of the year's total of $31.4 million with the balance of $9.7 million being received from a number of smaller realisations during the year. In the case of the Skype sale, a small number of shares remain in escrow for a period of up to three years with their release subject to certain targets. The Baidu distribution represented 35% of the total amount held by DFJ ePlanet. In August 2006 the Company received and subsequently sold a further 146,000 shares in Baidu, arising from the distribution of a further 55% of the shares of this stock held by ePlanet. These shares were sold at a small premium to the distribution price of $76.70 per share, raising $11.3 million. Subsequent to year-end, the remaining shares held in Focus Media (DFJ ePlanet) were distributed to the Company and have been sold, realising proceeds of $1.6 million.

As reported previously, the Company's sale of its holdings in NEA 11, TCV V and Oak XI raised a total of $6.48 million and reduced the Company's commitment to future drawdowns by $9.0 million. The sale of the holding in the FRM Absolute Alpha Diversified US Dollar Hedge Fund raised a further $17.54 million.

As a result of these distributions and sales, the Company's year-end cash and readily realisable assets totalled $43.8 million, compared with outstanding commitments of $23.8 million and the Company's year-end realisable assets exceeded its commitments by $20.0 million.

During the year the Company's share price increased from £1.04 to £1.65, or 58.4%, and the discount to NAV at which the Company's shares trade narrowed from 9.8% to 3.5%. Over the period, the Company benefited from a favourable movement in the dollar/sterling exchange rate from $1.89 to $1.73. I am also pleased to report that the Company's administrative expenses showed a significant decrease to £555,000, being just over 50% lower than the previous year's figure of £1,155,000.

Market overview

US private equity fundraising maintained its strong momentum with venture capital groups raising $26.1 billion in 2005 compared with $17.9 billion in 2004 and $10.7 billion in 2003.

In the twelve months to 31 March 2006 there were 56 venture backed Initial Public Offerings (IPOs), raising $4.3 billion, compared with 90 IPOs raising $9.0 billion in the previous year. Only ten venture-backed companies undertook IPOs in the first quarter of 2006, raising $540.8 million. Whilst the first quarter is typically the lowest of the year for IPOs, the first quarter's average offer amount of $54.1 million is the lowest average since the third quarter of 2002. The M&A market for venture backed companies continued to perform strongly with 95 companies being acquired during the first quarter of 2006 with a disclosed value of $4.8 billion, the highest disclosed value in five years.

Portfolio review

As at 31 March 2006, the Company's partnerships held investments in 459 private and 62 public companies, representing 70.4% of the Company's net asset value (2005: 77.5%). Of the 19 partnerships that make up the portfolio, 14 reported a gain in value over the period. There were 82 new investments (2005: 172), and 247 follow-on investments (2005: 226) which resulted in draw downs by investee funds totalling $18.4 million (2005: $23.6 million). A total of 62 investments were written off (2005: 56), 83 were written down (2005: 117) and 116 portfolio companies were written up (2005: 87).

Distributions of $31.4 million received during the period compared with $5.7 million for 2005 and $8.7 million for 2004. Cash distributions accounted for $20.3 million compared with $4.3 million for 2005 and $2.9 million for 2004. The balance was in the form of stock distributions amounting to $11.1 million compared with $1.4 million for 2005 and $5.8 million for 2004. It is not the Company's policy to retain stock distributions but to realise them promptly. Accordingly, all the stock distributions received by the Company in the year were sold at or very close to the distribution price.

The twelve months under review saw the IPOs of seven (2005: nine) investee companies. These were:

Longcheer; (DFJ ePlanet) – a Shanghai-based mobile handset design house which specialises in providing design solutions for telecommunications customers in China, the largest handset market in the world.

Focus Media; (DFJ ePlanet) – sells out-of-home television advertising time slots on their network of flat-panel television screens located in high traffic areas in commercial locations throughout China.

Baidu; (DFJ ePlanet) – the leading Chinese internet search engine. The company went public in August 2005 at $27 per share reaching a high of $158.98 on its first day of trading and closing at $122.54. The company's first quarter to 31 March 2006, showed year-on-year revenues up 197% to $16.9 million, net income up 1309% to $4.4 million and active online customers up 17.5% over the previous quarter to 74,000.

NxStage Medical; (Sprout IX) – provides innovative technologies and product designs that simplify the delivery of renal therapies to patients with both acute and chronic kidney failure.

Cbeyond; (VantagePoint IV) – a voice and broadband Internet provider built exclusively to serve smaller businesses.

Iomai Corporation; (NEA 10) – a biopharmaceutical company focused on the discovery, development and commercialisation of vaccines and immunostimulants delivered through the skin.

Alexza Pharmaceuticals; (NEA 10) – an emerging pharmaceutical company focused on the development and commercialisation of novel, proprietary products for the treatment of acute and intermittent conditions, such as migrane headaches.

Outlook

I believe that 2006 will be seen as the year in which PEI turned the corner. We expect that the Company's portfolio will continue to deliver a steady flow of distributions as the remaining companies in its portfolio of partnerships mature. As anticipated last year there has been a trend for smaller companies to be sold rather than to undertake IPOs. Given the lacklustre IPO market and burdensome requirements of the Sarbanes Oxley regulations we expect that this trend will continue. This should strengthen the Company's cash position as many of these acquisitions are made for cash. The substantial improvement in the Company's cash position means the Board is now able to consider options for the Company's future. Once we have completed this process I will be in touch with shareholders to review our conclusions.

PETER DICKS
Chairman
22 August 2006

THE COMPANY'S TOP 25 UNDERLYING INVESTMENTS

as at 31 March 2006

Company	*Business*	*Carrying Valuation (US$ million)*
Baidu	Chinese search engine	11.39
NetFlix.com	Online DVD rentals	3.95
Xora	Mobile field service solutions	2.98
Redback Networks	Broadband network equipment	2.81
DivxNetworks	Video technology company	2.74
Conversagent (Active Buddy)	Conversational software provider	2.36
Focus Media Holdings Ltd	Out-of-home TV advertising	1.68
netForensics	Security software provider	1.49
Alteris Inc	Medical discovery	1.48
Tutor.com, Inc	Online learning services	1.33
ProactiveNet, Inc	Real-time software provider	1.30
KongZhong Corporation	Wireless interactive services	1.25
HNW, Inc	Marketing services	1.13
PureDigital Technologies	Digital imaging technology provider	1.05
TeleAtlas	Geographic database provider	0.97
Wage Works, Inc	Employee benefit administration	0.94
Visto Corporation	Wireless email solutions provider	0.93
Massive Inc	In-game advertising company	0.87
Skype Technologies	Peer to peer voice service provider	0.77
DeepNines Tech	Security software provider	0.75
Intrapace	Obesity treatment devices	0.74
Fiberlink Communicataions	Mobile solutions	0.73
Liquidnet Holdings Inc	Broker-dealer trading system	0.73
Vonage Holdings Corp	Broadband technology services	0.72
InPhonic Inc	Wireless services/device provider	0.72

Summary of Individual Venture Funds Investments:

Name	*Total commitment US$*	*Total drawdown 31 March 2006 US$*
APV Technology Partners III	5,000,000	5,000,000
Bay III	5,000,000	4,900,000
Crescendo IV	10,000,000	9,750,000
Draper Fisher Jurvetson ePlanet Ventures	30,000,000	23,700,000
Draper Fisher Jurvetson Fund VI	2,000,000	1,840,000
Draper Fisher Jurvetson Fund VII	5,000,000	3,625,000
Draper Fisher Jurvetson Gotham Venture Fund	3,000,000	2,700,000
Focus Ventures II	30,000,000	28,050,000
New Enterprise Associates 9	5,000,000	4,919,438
New Enterprise Associates 10	10,000,000	8,500,000
Oak Investment Partners X	10,000,000	8,481,881
Sprout Capital IX	3,750,000	3,380,986
Technology Crossover Ventures IV	25,000,000	21,360,000
Vanguard VII	3,000,000	2,250,000
VantagePoint Venture Partners IV	10,000,000	8,000,000
Wit Dawntreader Fund II	30,000,000	27,000,000
Zone Venture Fund II	10,000,000	9,500,000
Zone Venture Fund II Annex	400,000	347,333
	197,150,000	173,304,638

Review of Individual Venture Funds

APV Technology Partners III (www.apvtp.com)
APV invests primarily in early stage, privately held information technology companies. APV works with companies that have experienced management, address substantial growing markets and which possess proprietary or innovative technology. The Fund had 5 portfolio companies as at 31 March 2006.

Total committed capital	**$109m**
Private Equity Investor commitment	**$5m**
Total Drawdown (31 March 2006)	**$5m**

Bay III (www.baypartners.com)
Bay Partners has been active in early stage technology investment for more than 28 years, funding over 200 technology start-up companies to date with over one billion dollars of capital under active management. Bay looks for companies with real technology differentiation with the aim of building large, substantial companies.

Bay III invests primarily in California and the Pacific North West, typically investing between one to ten million dollars in seed to early stage companies. As at 31 March 2006, the Fund had 8 portfolio companies.

Total committed capital	**$180m**
Private Equity Investor commitment	**$5m**
Total Drawdown (31 March 2006)	**$4.9m**

Crescendo IV (www.crescendoventures.com)
Crescendo is an internationally focused venture capital firm with offices in Palo Alto, California, London and Minneapolis. The Group has managed investments in over 100 early stage companies, concentrating on the communications and enterprise infrastructure markets in areas ranging from software, storage and security to semiconductors, networking equipment and electronic and optical components. Investments have been made in the US, the UK, Continental Europe and Israel. Since 1997, 23 of their portfolio companies have successfully been acquired while nine portfolio companies completed initial public offerings. As at 31 March 2006, Crescendo had 27 portfolio companies.

Total committed capital	**$586m**
Private Equity Investor commitment	**$10m**
Total Drawdown (31 March 2006)	**$9.75m**

Draper Fisher Jurvetson ePlanet Ventures (www.dfjeplanet.com)
Draper Fisher Jurvetson ePlanet Ventures (DFJ ePlanet) is a joint venture with Draper Fisher Jurvetson and is a global venture capital firm that operates offices in Silicon Valley, California, Singapore, Beijing and Shanghai, Hong Kong, London, Tokyo and New Delhi.

Founded in 1999 to take advantage of the growing trend towards the globalisation of technology, DFJ ePlanet, with over $650 million under management, focuses on a broad range of interests in the information technology, life sciences and medical device sectors. In the US the company focuses on expansion and later stage investments and in seed to late stage investments in Europe, Israel and Asia. DFJ ePlanet's investments are currently focused primarily on wireless, semiconductor, consumer internet, life sciences, VOIP, broadband and other emerging services sectors. At 31 March 2006, DFJ ePlanet had 45 portfolio companies.

Total committed capital	**$646m**
Private Equity Investor commitment	**$30m**
Total Drawdown (31 March 2006)	**$23.7m**

Draper Fisher Jurvetson Fund VI & Fund VII (www.dfj.com)
Founded in 1985, Draper Fisher Jurvetson has created a global network of affiliated venture funds with over $3.5 billion in capital commitments and has offices in major technology centres around the world. Since 1985 the firm has focused on investing in seed or start-up venture capital rounds primarily in a broad range of information technology companies. Fund VI had 37 portfolio companies as at 31 March 2006 while Fund VII had a total of 46.

Total committed capital (Fund VI)	**$375m**
Private Equity Investor commitment (Fund VI)	**$2m**
Total Drawdown (31 March 2006)	**$1.84m**
Total committed capital (Fund VII)	**$637m**
Private Equity Investor commitment (Fund VII)	**$5m**
Total Drawdown (31 March 2006)	**$3.625m**

Draper Fisher Jurvetson Gotham Venture Fund (www.dfjgotham.com)
This fund is a DFJ affiliate fund investing in early stage technology companies located throughout the US, primarily along the East Coast, as well as companies of Israeli origin intending to enter the US market. The fund's objective is to achieve superior returns for its investors through investing in innovative companies which serve large markets. As at 31 March 2006, the fund had 16 portfolio companies.

Total committed capital	**$100m**
Private Equity Investor commitment	**$3m**
Total Drawdown (31 March 2006)	**$2.7m**

Focus Ventures II (www.focusventures.com)
This partnership focuses on investments in expansion stage private technology companies that have moved beyond the initial seed or start-up phase of their development, have completed initial product development and are beginning to expand the marketing of their products or services. The partnership concentrates on making investments in the software, communications and semiconductor sectors at a stage where it believes the technical risk has been largely resolved. Investments are typically in the $3–15 million range, with Focus serving as lead investor in approximately half of the rounds in which they participate. As at 31 March 2006, the fund had 25 portfolio companies.

Total committed capital	**$465m**
Private Equity Investor commitment	**$30m**
Total Drawdown (31 March 2006)	**$28.05m**

New Enterprise Associates 9 & 10 (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. NEA is a classic early stage venture capital firm and, while many of its investments are in the seed and start-up stages of development, it also 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 close to an NEA office. NEA has invested in over 500 companies, of which more than 150 have gone public and more than 200 have successfully merged or been acquired. As at 31 March 2006, fund 9 had 29 portfolio companies, and Fund 10 had 92.

Total committed capital (NEA 9)	**$880m**
Private Equity Investor commitment (NEA 9)	**$5m**
Total Drawdown (31 March 2006)	**$4.919m**

Total committed capital (NEA 10)	**$2.3b**
Private Equity Investor commitment (NEA 10)	**$10m**
Total Drawdown (31 March 2006)	**$8.5m**

Oak Investment Partners Fund X (www.oakvc.com)
Oak Investment Partners is a multi stage venture capital firm with a total of $5.9 billion in committed capital. Investments are primarily focused on growth opportunities in enterprise application and infrastructure software, communication equipment and services, data storage, financial services technology, outsourced services, healthcare services and retail. For over 28 years, Oak has achieved a strong track record funding more than 427 companies at various points in their lifecycle. Oak seeks ownership levels of at least 15% with many positions greater than 30%. Investments will typically range from $15 – 100 million. At 31 March 2006 Oak X had 41 portfolio companies.

Total committed capital (Oak X)	**$1.6b**
Private Equity Investor commitment (Oak X)	**$10m**
Total Drawdown (31 March 2006)	**$8.482m**

Sprout Capital IX (www.sproutgroup.com)
Originally founded in 1969, Sprout invests in emerging technology companies and is the venture capital affiliate of Credit Suisse First Boston. The Sprout Group has raised total committed capital of nearly $3 billion and invested in over 360 companies. The fund's targeted industry segments are communications, software and healthcare technology and in industries with rapid long-term growth or that are experiencing significant structural changes. Sprout Group seeks existing or potential market leaders within these sectors and will invest in companies at all stages from start-up through to buyout. As at 31 March 2006, the fund had 49 portfolio companies.

Total committed capital	**$1.08b**
Private Equity Investor commitment	**$3.75m**
Total Drawdown (31 March 2006)	**$3.381m**

Technology Crossover Ventures IV (www.tcv.com)
TCV invests in expansion and late stage companies in a broad range of sectors including software, communications, infrastructure, services and semiconductors. The group also invests in public companies through private (PIPE) and public transactions. TCV has $4.7 billion under management and has financed over 150 companies. It has helped companies and their management teams achieve over 35 IPOs and 25 strategic sales or mergers. TCV IV had 24 portfolio companies as at 31 March 2006.

Total committed capital (TCV IV)	**$1.7b**
Private Equity Investor commitment (TCV IV)	**$25m**
Total Drawdown (31 March 2006)	**$21.36m**

Vanguard VII (www.vanguardventures.com)
Founded in 1981, Vanguard is an early stage venture capital firm specialising in the communications, life sciences and information technology fields with offices in Palo Alto, California, and Houston, Texas. Over the last 25 years Vanguard has invested in over 120 companies, 30 of which have had notable success including public companies such as Advanced Fibre Communications, Cobalt Networks, Ciena, Endotherapeutics, Network Appliance, Digital Island and ZipRealty. As at 31 March 2006, the fund had 18 portfolio companies.

Total committed capital	**$211m**
Private Equity Investor commitment	**$3m**
Total Drawdown (31 March 2006)	**$2.25m**

VantagePoint Venture Partners IV (www.vpvp.com)
Since 1996 VantagePoint has raised over $28 billion of committed capital and is an active multi-stage investor with offices in San Bruno, California, New York and Montreal. The fund seeks investment opportunities that typically require $20 to $100 million ranging from start-ups to pre-IPO funding. VantagePoint prefers to take a position of some substance in its portfolio companies and is usually the lead or sole investor. The investment focus falls into five key areas: CleanTech (the application of technology to energy, water and materials), communications and systems, healthcare, semiconductors and components and software, internet and media. The fund had 57 portfolio companies as at 31 March 2006.

Total committed capital	**$1.4b**
Private Equity Investor commitment	**$10m**
Total Drawdown (31 March 2006)	**$8m**

Wit Dawntreader Fund II (www.dtventures.com)
Formed in 1998, Dawntreader Ventures is a New York-based venture capital firm, managing $270 million, focusing primarily on early stage information technology companies investing in software, internet and digital media companies. The group has made some 30 investments and achieved a number of successful exits. As at 31 March 2006, the fund had 12 portfolio companies.

Total committed capital	**$250m**
Private Equity Investor commitment	**$30m**
Total Drawdown (31 March 2006)	**$27m**

Zone Ventures Fund II (www.zonevc.com)*
Zone has $135 million under management and focuses on early stage technology investments and is the Southern California affiliate to Draper Fisher Jurvetson. Zone has built strong relationships with universities, R&D labs, entrepreneurs and financial institutions and aims to bridge the gap between new technology and investment capital. Zone has concentrated on making investments in the southern California area but does consider investments outside California. As at 31 March 2006, the fund had 12 portfolio companies.

Total committed capital	**$98m**
Private Equity Investor commitment*	**$10m**
Total Drawdown (31 March 2006)*	**$9.5m**

Portfolio summary

Total Commitment	**$197,150,000**
Total Drawdown at 31 March 2006	**$173,304,638**

* Does not include the Company's investment in the Annex Fund of $400,000.

PETER DICKS
Chairman
22 August 2006

INVESTMENT PORTFOLIO

as at 31 March 2006

	Total commitment US$'000	Drawndown book cost* US$'000	Market value US$'000	Market value £'000	% of net assets 2006	% of net assets 2005
Unquoted Venture Capital Funds						
APV Technology Partners III	5,000	4,232	1,106	638	0.8	1.2
Bay III	5,000	4,737	972	560	0.7	0.7
Crescendo IV	10,000	9,360	3,717	2,143	2.5	2.6
Draper Fisher Jurvetson ePlanet Ventures	30,000	2,633	21,371	12,321	14.4	10.3
Draper Fisher Jurvetson Fund VI	2,000	1,827	621	358	0.4	0.6
Draper Fisher Jurvetson Fund VII	5,000	3,388	2,949	1,700	2.0	2.1
Draper Fisher Jurvetson Gotham Venture Fund	3,000	2,288	2,289	1,320	1.5	1.3
Focus Ventures II	30,000	25,055	12,845	7,405	8.7	8.1
New Enterprise Associates 9	5,000	4,337	1,753	1,010	1.2	1.2
New Enterprise Associates 10	10,000	5,271	6,577	3,792	4.4	5.7
New Enterprise Associates 11	–	–	–	–	–	1.8
Oak Investment Partners X	10,000	6,417	6,457	3,723	4.4	4.8
Oak Investment Partners XI	–	–	–	–	–	0.8
Sprout Capital IX	3,750	2,801	2,431	1,402	1.6	2.0
Technology Crossover Ventures IV	25,000	10,678	14,253	8,217	9.6	11.0
Technology Crossover Ventures V	–	–	–	–	–	2.4
Vanguard VII	3,000	2,198	941	542	0.6	0.9
VantagePoint Venture Partners IV	10,000	5,461	6,041	3,483	4.1	3.7
Wit Dawntreader Fund II	30,000	24,493	15,327	8,836	10.4	12.3
Zone Ventures Fund II	10,000	9,500	4,224	2,435	2.9	3.8
Zone Ventures Fund II Annex	400	347	333	192	0.2	0.2
Total Unquoted Venture Capital Funds	**197,150**	**125,023**	**104,207**	**60,077**	**70.4**	**77.5**
Open-ended Investment Funds & Hedge Funds						
Global Treasury Funds plc	–	17,207	17,207	9,920	11.6	5.6
Merrill Lynch Institutional USD Fund	–	17,500	17,500	10,089	11.8	–
Deutsche Bank AG London 0% Bonds	–	–	–	–	–	16.1
Total Open-ended Investment Funds & Hedge Funds	**–**	**34,707**	**34,707**	**20,009**	**23.4**	**21.7**
Other Investments held directly by the Company						
Common Stock**						
Artemis International Solutions	–	1	–	–	–	–
UK BakBone Software Inc	–	99	25	15	–	–
Broadcom Corporation Class A	–	87	25	15	–	–
Wireless Facility Inc	–	552	136	78	0.1	0.2
Total Other Investments	**–**	**739**	**186**	**108**	**0.1**	**0.2**
Total Investments	**197,650**	**160,469**	**139,100**	**80,194**	**93.9**	**99.4**
Net current assets			**9,015**	**5,197**	**6.1**	**0.6**
Net assets			**148,115**	**85,391**	**100.0**	**100.0**

* Drawndown book cost is adjusted for capital distributions from the unquoted funds. For more details refer to notes 2 and 8 of the notes to the accounts.

** These were acquired as distributions from the portfolio of Venture Funds.

DIRECTORS AND SECRETARY

The following are the Directors of the Company:

Peter F. Dicks (appointed to the Board on 20 June 2002 and appointed Chairman on 28 July 2004) (Non-Executive Director) is aged 63. He 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 Sportingbet plc; Daniel Stewart Securities Plc and Forsight 2 VCT plc and a director of Polar Capital Technology Trust, Graphite Enterprise Trust Plc and Standard MicroSystems Corporation (a US Nasdaq listed company) and a number of other companies.

Colin Kingsnorth (appointed 22 October 2004), (Non-Executive Director) is aged 42. He has, since October 1999, been director and fund manager of Laxey Partners Limited. He co-founded Regent Fund Management (UK) Ltd in March 1995 and served as fund manager and chief executive officer until January 1999, when he left Regent to work on the establishment of Laxey. Prior to this, he was at Buchanan Partners Limited, where he managed emerging market funds from 1991. He holds a BSc in Economics and is an associate member of the Institute of Investment Management and Research. Laxey Partners Limited are managers of funds which own 27.72% of the Company.

Rory Macnamara (appointed 22 October 2004), (Non-Executive Director) is aged 51. He qualified as a chartered accountant with Price Waterhouse and worked in merchant banking with Morgan Grenfell for 17 years (during which time it was acquired by Deutsche Bank AG). He was a director in corporate finance, head of mergers and acquisitions and vice chairman of Morgan Grenfell & Co Limited. In 1999, he joined Lehman Brothers, where he was a managing director in UK Investment Banking until 2001. He is currently chairman of Izodia PLC and Goshawk Insurance Holdings PLC, a director of Raven Mount PLC and Dunedin Income Growth Investment Trust PLC.

Hon. Barbara S. Thomas (appointed 25 January 2000), (Non-Executive Director; was formerly the Executive Chairman of the Company until 28 July 2004) is aged 59. She is a past Commissioner of the US Securities and Exchange Commission, a US qualified lawyer with extensive senior international experience of financial services, legal and media organisations and is now resident in London. From 1996 until 2006 she was 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 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 PLC where she is a member of its investment committee. She is also a director of Quintain Estate & Development Plc, Hardy Underwriting Group Plc, Portmeirion Group Plc, Victory Corporation and chairman of Eaglet Investment Trust Plc.

David Quysner (appointed 22 October 2004), (Non-Executive Director) is aged 59. He has spent more than 30 years in venture capital with 3i and subsequently with Abingworth, of which he is currently non-executive chairman. He has wide experience of making and managing investments in technology companies in both the USA and the UK. He served on the Stock Exchange Smaller Companies Working Party, which led to the creation of London's AIM market. More recently, he was a member of the Treasury Working Party on the Financing of High Technology Companies. He was chairman of British Venture Capital Association in 1996/97. He is non-executive chairman of the Finsbury Technology Trust plc and a director of ANGLE plc, Foresight 2 VCT plc and Prelude Trust plc.

SECRETARY

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

DIRECTORS' REPORT AND BUSINESS REVIEW

The Directors of Private Equity Investor Plc ("PEI" or "the Company") present their Report and Business Review for the year ended 31 March 2006.

Business review

Introduction

In keeping with regulations which came into force on 12 January 2006, the Directors' Report now includes a Business Review intended to present a balanced and comprehensive analysis of the development and performance of the business of the Company during the financial year and the position of the Company at the year end, together with a description of the principal risks and uncertainties facing the Company and an indication of the likely future developments in its business. The Directors also include an analysis using key performance indicators to aid understanding of the above.

Business of the Company

The principal activity of the Company is to carry on business as an investment trust. 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 4 and 5 and in the Financial review on pages 7 to 11.

Results and Dividends

The results for the year are set out in the Income statement on page 29. The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2006.

Status

The Company is an investment company as defined under Section 266 of the Companies Act 1985, and was incorporated and registered in England on 19 January 2000. Its shares are listed on the London Stock Exchange.

The Company has received written approval from HM Revenue and Customs as an authorised investment trust under Section 842 of the Income and Corporation taxes Act 1988 for the accounting year ended 31 March 2005. 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 Articles of Association provide for 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.

The Company's shares qualify as investments in Individual Savings Accounts ("ISAs").

Investment objective

The Company's objective is to achieve substantial capital appreciation for shareholders over the long-term.

Investment policy

The Company's policy has been to invest in high quality venture capital funds, managed by several different management groups, focused on various stages of growth from early stage to pre-IPO, so as to obtain exposure to a diversified underlying portfolio of investments in unlisted companies in the IT and other technology sectors. US-based venture capital funds have been selected with regard to the experience and track record of the managers, their investment strategy and their strength and quality of deal flow.

Net asset valuation

The net asset value per ordinary share at 31 March 2006 was 170.78p (2005: 115.33p)

Limited Partnership ("LP") interests are valued in accordance with the valuations provided by the managers of those funds which are received by the Company at least quarterly. The valuation methodology normally used by these funds is that the underlying investments are valued 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 after applying a discount to reflect liquidity and market conditions.

Key performance indicators

Benchmark

The Company's underlying portfolio consists of quoted and unquoted stocks both in North America and Asia and an appropriate benchmark is not available for direct comparison. The Company has selected the NASDAQ composite index as its most appropriate index against which to monitor the Company's performance. This index is a reliable, publicly available and consistently updated measure of the share performance of a broad spread of companies (albeit quoted) representative of the businesses into which PEI has invested. However, neither the NASDAQ composite index nor the Company's NAV has yet returned to the levels prevailing when the Company floated.

Investment trust status

The Directors seek to qualify and meet the requirements of Section 842 of the Income and Corporation Taxes Act 1988 which has been achieved in each year since launch up to 31 March 2005.

Total expense ratio

The Directors maintain an objective to run the Company efficiently and monitor its operational expenses on an ongoing basis. The total expense ratios are highlighted on page 3.

Principal risks and uncertainties, and their mitigation

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 of operating the relevant controls.

The principal risks and uncertainties identified by the Board are discussed below, together with an outline of how the Board recognises and seeks to control these risks. Mitigation of the principal risks is sought and achieved as far as possible.

Stock market performance

The funds in which the Company is invested seek to realise their own investment objectives by selling or floating their investee companies. Consequently a proportion of the Company's underlying investments is in publicly quoted stocks (listed primarily on the NASDAQ) – either as a result of IPOs or as a result of trade sales in which the consideration has been by way of equity in the acquirer.

When such shareholdings are distributed, it is the Company's policy to sell them, ideally close to the distribution price, as soon as possible. There are and will continue to be instances, however, where the Company is unable to do so and will remain exposed to market risk for a period of time. The details of the Company's investment portfolio given on page 12 show that directly held publicly quoted investments amounted to 0.1% of the Company's net assets as at 31 March 2006.

Company and fund performance
By their nature, investments in new and unlisted companies often present greater risk than those in more established enterprises. In addition, the venture capital funds themselves may be subject to variable performance or investment selection. The Company seeks to mitigate this risk through the diversification of its investment across a range of LP venture funds (currently 19) which are themselves invested in over 500 underlying companies.

Over commitment risk
To optimise its capital returns to shareholders, the Company's policy during its initial investment period was to make commitments to the venture funds in which it invested in excess of the funds at its disposal, in the expectation that realisations during the life of the Company would fund this over-commitment.

During the financial year in question, the Board decided that it would be prudent to sell the Company's holdings in NEA 11, TCV V, and Oak XI, raising a total of $6.48 million and reducing the over commitment to LPs by $15 million. As a result of these sales and cash receipts of $31.4 million from stock distributions, the over-commitment has been eliminated. The Company does not expect to be over-committed again.

Exchange rate risk
The majority of the Company's assets are held in US dollar denominated securities and, therefore, shareholders investing in the Company's shares quoted in sterling are exposed to currency fluctuations between these currencies.

Discount
The Directors regularly monitor the level of discount at which the Company shares are trading. On 31 March 2006 the Company's share price stood at a discount of 3.53% to net asset value compared to 9.82% twelve months earlier.

Future outlook
The Company was launched in February 2000 at what subsequently proved to be a distinctly unpropitious time for the IT and technology sectors. Taking this into account, the Directors consider the performance of the Company is satisfactory.

The Company is not due to vote on continuation until 2014. However, an increasing proportion of the Company's assets are now held as cash and the Directors are in the process of considering whether the interests of shareholders are best served by the progressive return of such cash to shareholders, by further investments in accordance with the Company's investment objective and policies, or by raising new funds or by a combination of these and other alternatives.

The Directors are aware of opportunities to invest both in new funds being set up by the managers of some of its existing venture partnerships and in other new funds managed by General Partners to which the Company has not previously had access but which are now potentially available.

Since the year-end the Company has made commitments to invest in three new LPs, two of which are follow-on funds and one of which is with a new General Partner. These investments have been made to maintain the Company's position in the market pending the outcome of the review of the investment policy, which is currently taking place.

The issue of whether and to what extent to make new venture fund investments will be a principal focus of attention for the Directors during the next few months and once they have completed this process the Chairman will report to shareholders on their conclusions.

The Company is self-managed. Since the reorganisation, which took place in October 2004, the Company has had one full-time employee and five Non-Executive Directors, and the management costs of the Company have been considerably reduced. In the Board's opinion, however, if a more active investment policy were adopted going forward, a strong case would exist for the reintroduction of an executive management function. Whether the Company should continue to be self-managed under those circumstances is an issue which the Board will be considering and reporting on to shareholders.

Environmental and Socially Responsible Investment

The Company is self-managed and with only one employee. The Company is fully aware of each General Partner's investment policy at the time it commits to a new fund. Limited Partners such as the Company, however, are not consulted on individual investments made by the General Partner in their particular funds. Subject to this, the Company attempts to conform to best practice on environmental and other social responsibility issues.

Financial Instruments

The policy and practice of the Company with regard to financial instruments is set out in note 16 of the Notes to the Accounts.

Management arrangements

The Board currently comprises five non-executive Directors who are collectively 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 Board. The Board reviews the quarterly reports received from the LPs and discusses performance with the General Partners. Pending investment in suitable venture capital funds, the cash resources of the Company have been invested in open-ended investment funds. The Board considers that, as the Company is fully committed and the management function is one of active monitoring, it is in shareholders' interests to remain self-managed rather than employ an investment manager at this time.

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

Directors

The Directors are as shown on page 13.

Directors' interests

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

	Beneficial and family	
Ordinary shares of 0.01p each:	***31 March 2006***	*1 April 2005*
P F Dicks	**50,000**	50,000
C Kingsnorth	**–**	–
R Macnamara	**–**	–
D W Quysner	**–**	–
Hon. B S Thomas	**25,100**	12,600

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

Substantial share interests

At 22 August 2006 the holdings representing 3% or more of the ordinary share capital, notified to the Company, were:

	Shares	**Shares**	*%*	**%**
Laxey Partners (VIC) Ltd		**13,859,800**		**27.72**
including				
– *The Value Catalyst Fund Ltd*	*8,379,800*		*16.76*	
– *L.P. Value Ltd*	*1,871,250*		*3.74*	
Deutsche Bank AG		**7,544,268**		**15.09**
QVT Fund LP		**5,932,000**		**11.86**
Prudential plc		**2,305,000**		**4.61**
Bank of England Pension Fund		**1,500,000**		**3.00**

Statement of Compliance with the 2006 AITC Code of Corporate Governance© and Guide ("the 2006 AITC Code")

The Board has noted the Financial Reporting Council ("FRC")'s announcement on 3 February 2006 endorsing the 2006 AITC Code. The terms of the FRC's endorsement mean that AITC Members who report against the 2006 AITC Code meet fully their obligations under the Combined Code and the related disclosure requirements of paragraph 9.8.6 of the Listing Rules. As a member of the AITC, the Company had previously taken careful account of the 2003 AITC Code and its 2004 updates and had adopted its recommendations where deemed appropriate. The Company now elects to report on its corporate governance arrangements in accordance with the 2006 AITC Code, as it recognises it as the code of best practice for the investment trust sector and the most relevant statement of principles for the Company to follow when formulating its corporate governance arrangements.

The Board considers that it has managed its affairs in compliance with the 2006 AITC Code, its predecessor and the Combined Code on Corporate Governance, as applicable, throughout the year ended 31 March 2006, except where it has concluded that adherence or compliance with any particular principle or recommendation of any of the Codes would not have been appropriate to the Company's circumstances. Like the Combined Code, the 2006 AITC Code specifies a "comply or explain" basis and the Board's report under this section explains any deviation from its recommendations. As set out in the AITC Guide accompanying the 2006 AITC Code, the Board considers that the Combined Code's recommendations with respect to the role of the chief executive, executive directors' remuneration (there are no executive directors) and the need for an internal audit function are not relevant to the Company's circumstances.

Board of Directors

Throughout the year under review the Board comprised five Non-Executive Directors with Peter Dicks as Chairman.

The Board decided that given the size and operation of the Board it was not appropriate to appoint a Senior Independent Director. Nor is there a Chief Executive as the Board feels that such an appointment is unnecessary. All current Directors are considered independent with the exception of the Hon Barbara S Thomas, a former Executive Director of the Company, and Colin Kingsnorth by virtue of his connections to Laxey Partners, a major shareholder. Biographies appear on page 13.

The Chairman, Peter Dicks, is deemed by his fellow Directors to be independent in character and judgement and free from conflicts of interest. He has a common cross directorship with David Quysner which is not deemed to affect the independent judgement of either party. Additional remuneration paid to Peter Dicks, as laid out on page 24, is not deemed to affect his independence. He has no significant commitments other than those disclosed in his biography on page 13.

Each of the Directors in office at 31 March 2006 has a letter of appointment with the Company. The appointment may be terminated by 12 months' notice.

The Board notes the AITC reccomendation on tenure of office and Directors serving more than nine years would be required to seek annual re-election. 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-election. The Hon Barbara S Thomas will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offers herself for re-election.

As noted below, the Board recently carried out an evaluation process by individual interview from which it concluded that all the current Directors contribute effectively, and demonstrate a high level of commitment to their role, and that together they provide the skills and experience that are relevant and necessary to the leadership and direction of the Company. Accordingly, the continuing appointment of The Hon Barbara S Thomas, a Director retiring in accordance with the Articles of Association, is recommended as she has wide experience of venture capital, investment management and financial markets in the UK and the USA and has experience of serving on the boards and being chairman of a number of public companies, including investment trusts. She also has a strong knowledge of corporate governance as she is deputy chairman of the Financial Reporting Council and was a Commissioner of the US Securities and Exchange Commission.

The attendance of individual Directors and the number of Board meetings and committee meetings each Director could have attended during the year ended 31 March 2006 is shown in the table below:

	Board Meetings	*Audit*	*Remuneration*	*Nomination*	*Management Engagement*
Peter Dicks	10 (10)	2 (2)	1 (1)	1 (1)	1 (1)
Colin Kingsnorth	7 (10)	N/A	N/A	N/A	N/A
Rory Macnamara	9 (10)	2 (2)	1 (1)	1 (1)	1 (1)
David Quysner	8 (10)	2 (2)	1 (1)	1 (1)	1 (1)
Hon Barbara S Thomas	9 (10)	N/A	N/A	N/A	N/A

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 Board is ultimately responsible for the appointment of all service providers, including the Company's bankers, determining the level of gearing, selecting suitable accounting policies and the publication of annual and interim reports and other forms of shareholder communication. The Directors meet at least six times a 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. The Company Secretary and Chairman liaise over the drafting of agendas to fully cover the Board's responsibilities. 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 Company has in place Directors' and Officers' liability insurance for the reimbursement of legal defence costs. The Board has formalised arrangements under which Directors, in the futherance of their duties, may seek independent professional advice.

Performance of the Board

The Board has implemented a procedure for reviewing its effectiveness on both an individual and collective basis through a formal appraisal process. The Chairman was responsible for undertaking the appraisal of each of the Directors and David Quysner co-ordinated the appraisal of the Chairman. Where appropriate Directors receive induction training on joining the Board and regularly review the need to update and refresh their skills and knowledge.

Committees

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

Audit Committee
The Audit Committee meets at least twice a year to oversee the production of the interim and annual accounts and compliance with accounting standards and regulatory requirements. It operates within clearly defined terms of reference, a copy of which is available from the Company, which delegate specific responsibility for making recommendations to the Board as regards the appointment, re-appointment and remuneration of the Auditor. The Committee has considered the independence and objectivity of the Auditor, including a review of any non audit services that the Auditor has provided, and has advised the Board that it is satisfied in these respects that the Auditor has fulfilled its obligations to the Company. It also reviews the effectiveness of the Company's financial reporting and internal control policies. The Audit Committee comprises solely the independent Non-Executive Directors and is chaired by Rory Macnamara, a chartered accountant. Ernst & Young LLP, the Company's Auditor, attends meetings of the Audit Committee and has direct access to Committee members between meetings.

Nomination Committee
A Nomination Committee has been established which comprises Peter Dicks and David Quysner and is chaired by Rory Macnamara. The Committee is convened as and when necessary for the purpose of considering the appointment of new Directors and operates under defined terms of reference.

Remuneration Committee
The Remuneration Committee comprises Peter Dicks and David Quysner and is chaired by Rory Macnamara. The Directors' remuneration report on pages 24 and 25 explains the approach taken by the Committee to the structuring of remuneration for Directors. The Committee operates under clearly defined terms of reference.

Management Engagement Committee
A Management Engagement Committee chaired by Rory Macnamara has been established to review the Company's arrangements for managing its investments including reviewing the decision to be self-managed by the Board of Directors. 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 Turnbull 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 Board has split the review of risk and associated controls 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; and

- 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; and

- 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 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 Capita Sinclair Henderson Limited.

- Copies of the LP 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.

The Audit Committee has reviewed the "whistle blowing" procedures of the Administrator and Company Secretary to ensure that concerns of staff at Capita Sinclair Henderson Limited may be raised in a confidential manner.

In accordance with guidance issued to directors of listed companies, the Directors confirm that they 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, Capita Sinclair Henderson Limited, which 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.

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 Directors and the Chairman of the Audit Committee will be available to discuss issues affecting the Company.

The Board invites major shareholders and analysts to presentations of its interim and annual results. Copies of the interim and annual reports are dispatched to shareholders by mail and are also available for download from both the Company's and Secretary's websites, being www.peiplc.com and www.sinclairhenderson.co.uk respectively. The net asset values are released on a monthly basis to the London Stock Exchange and to the AITC for posting into its website www.aitc.co.uk. The Board is directly responsible for all corporate activity that may affect the Company.

Shareholders may address any communication with the Chairman or other Directors through its offices at 33 St James's Street, London or through the Company Secretary, Capita Sinclair Henderson Limited.

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 2006 there were no trade creditors (2005: none).

Annual General Meeting

The Notice of Annual General Meeting on page 46 sets out both the Ordinary Business and the Special Business to be conducted at the meeting.

There is one item of Special Business. Resolution 5 proposes to extend the Company's powers, subject to certain defined parameters, to purchase the Company's shares in the market for a further year. A similar authority granted at last year's Annual General Meeting was not utilised during the year.

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as Auditor and a resolution proposing their re-appointment will be proposed at the Annual General Meeting.

Directors' statement as to disclosure of information to Auditor

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 13. Having made enquiries of fellow Directors and of the Company's Auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's Auditor are unaware; and

- each Director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors are aware of that information.

By order of the Board
CAPITA SINCLAIR HENDERSON LIMITED
Secretary
22 August 2006

DIRECTORS' REMUNERATION REPORT

The Board has prepared this Report in accordance with Schedule 7A to the Companies Act 1985 which applies to companies quoted on the official list. An Ordinary Resolution will be put to members seeking approval of the Report at the forthcoming Annual General Meeting.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited they are so indicated. The Auditor's opinion is included in their Report in pages 27 and 28.

Throughout the year under review the Remuneration committee has been chaired by Rory Macnamara with Peter Dicks and David Quysner as members.

The role of the Committee

The role of the Committee is to establish Board policy in respect of terms of employment and remuneration and to agree contractual terms for each Director and employee of the Company. 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 Directors and employees of the right calibre. In setting both the policy related to and levels of remuneration and benefits for Directors, the Committee may take account of market data and independent professional advice. It is the Committee's intention to continue this current policy regarding levels.

Review of remuneration structure

Peter Dicks, Colin Kingsnorth, Rory Macnamara and David Quysner each entered into a letter of appointment on 22 October 2004 and Barbara Thomas agreed revised terms in a new letter of appointment on 25 October 2004. Peter Dicks is paid additional remuneration in respect of management of the Company's office and corporate affairs.

The Directors are entitled to claim out of pocket expenses incurred in carrying out their duties. The new letters of appointment include the following fixed fees:

Name	*Fees per annum*
Peter Dicks	£75,000
Colin Kingsnorth	£20,000
Rory Macnamara	£20,000
David Quysner	£20,000
Hon. Barbara S. Thomas	£20,000

Each of the Directors is entitled to a 12 month notice period and is entitled to compensation for loss of office calculated by reference to the unexpired period of his or her appointment.

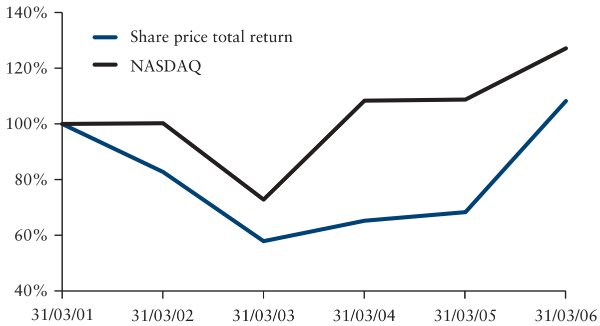
Directors' remuneration (audited)

The remuneration of the Directors for the year ended 31 March 2006 was as follows:

	2006		2005	
	Fees £'000	*Travel and general expense allowance £'000*	*Fees £'000*	*Travel and general expense allowance £'000*
Peter Dicks*	75	–	27	–
Colin Kingsnorth**	20	–	9	–
Rory Macnamara**	20	–	9	–
David Quysner**	20	–	9	–
Hon. Barbara S. Thomas***	20	–	51	12.6
Andrew de Candole****	–	–	22	1.4
Timothy Childs****	–	–	95	14.0
Keith Young****	–	–	8	1.4
	155	–	230	29.4

* Appointed Chairman from 28 July 2004.
** Appointed 22 October 2004.
*** The Hon Barbara S Thomas has entered into a new letter of appointment effective from 25 October 2004.
**** Resigned 25 October 2004.

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.

The Directors' remuneration report on pages 24 and 25 was approved by the Board of Directors on 22 August 2006 and signed on its behalf by Peter Dicks (Chairman).

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements 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 financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 financial statements 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 Directors' report 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 financial statements 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 financial statements 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 financial statements may differ from legislation in their jurisdiction.

REPORT OF THE INDEPENDENT AUDITOR

to the members of Private Equity Investor PLC

We have audited the financial statements of Private Equity Investor PLC for the year ended 31 March 2006 which comprise the Income statement, the Reconciliation of movement in shareholders' funds, the Balance sheet, the Statement of cash flows and the related notes 1 to 17. These financial statements have been prepared under 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 are responsible for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' report is consistent with the financial statements.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or 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 financial statements. The other information comprises only Investment objective and policy, Summary of results and financial highlights, Chairman's statement, The Company's top 25 underlying investments, Financial review, Investment portfolio, Directors and Secretary, the Directors' report and business review, the unaudited part of the Directors' remuneration report, Glossary of terms, Company information and the Notice of Annual General Meeting. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the 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 financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006 and of its net return for the year then ended;

- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the financial statements.

ERNST & YOUNG LLP
Registered Auditor
London
22 August 2006

INCOME STATEMENT

for the year ended 31 March 2006

	Notes	Revenue £'000	Capital £'000	Total £'000 (Year ended 31 March 2006)	Revenue £'000	Capital £'000	Total £'000 (Year ended 31 March 2005)
Gains/(losses) on investments at fair value through profit or loss	8	–	27,789	27,789	–	(4,113)	(4,113)
Exchange gains/(losses) on capital items	8	–	187	187	–	(54)	(54)
Income	3	307	–	307	297	–	297
Expenses	4	(555)	–	(555)	(1,155)	–	(1,155)
Net return before finance costs and taxation		(248)	27,976	27,728	(858)	(4,167)	(5,025)
Premium paid on repurchase of convertible unsecured loan notes		–	–	–	–	(1,295)	(1,295)
Net return before taxation		(248)	27,976	27,728	(858)	(5,462)	(6,320)
Taxation	6	–	–	–	15	–	15
Net return after taxation		(248)	27,976	27,728	(843)	(5,462)	(6,305)
Return per ordinary share – basic and diluted	7	(0.50)p	55.95p	55.45p	(1.69)p	(10.92)p	(12.61)p

The total column of this statement is the profit and loss account of the Company. The supplementary revenue and capital return columns are both prepared under guidance published by the Association of Investment Trust Companies.

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

No operations were acquired or discontinued during the year.

For details of the changes to the accounting standards and policies adopted please refer to note 1.

No statement of total recognised gains and losses is shown separately, since all such gains and losses are included within the income statement above.

The notes on pages 33 to 43 form part of these accounts.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 March 2006

	Called up share capital £'000	Share premium account £'000	Capital reserve – realised £'000	Capital reserve – unrealised £'000	Revenue reserve £'000	Total equity shareholders' funds £'000
Year ended 31 March 2006						
as at 1 April 2005	5	96,862	7,971	(47,287)	112	57,663
Decrease in unrealised depreciation on investments before transfer on disposal	–	–	–	27,148	–	27,148
Transfer on disposal of investments	–	–	(164)	164	–	–
Net gain on realisation of investments	–	–	649	–	–	649
Commission realised on disposal in respect of hedge fund	–	–	264	–	–	264
Breakage cost on disposal in respect of hedge fund	–	–	(272)	–	–	(272)
Exchange differences on capital items	–	–	(17)	14	–	(3)
Exchange differences on currency	–	–	–	190	–	190
Retained net deficit for the year	–	–	–	–	(248)	(248)
as at 31 March 2006	5	96,862	8,431	(19,771)	(136)	85,391
Year ended 31 March 2005						
as at 1 April 2004	5	96,862	11,092	(44,946)	955	63,968
Increase in unrealised depreciation on investments before transfer on disposal	–	–	–	(3,736)	–	(3,736)
Transfer on disposal of investments	–	–	(1,291)	1,291	–	–
Net loss on realisation of investments	–	–	(415)	–	–	(415)
Commission realised on disposal in respect of hedge fund	–	–	38	–	–	38
Premium paid on repurchase and cancellation of convertible unsecured loan notes	–	–	(1,295)	–	–	(1,295)
Exchange differences on capital items	–	–	(158)	7	–	(151)
Exchange differences on currency	–	–	–	97	–	97
Retained net deficit for the year	–	–	–	–	(843)	(843)
as at 31 March 2005	5	96,862	7,971	(47,287)	112	57,663

The notes on pages 33 to 43 form part of these accounts.

BALANCE SHEET
as at 31 March 2006

	Notes	*31 March 2006 £'000*	*31 March 2005 £'000*
Fixed assets			
Investments at fair value through profit or loss	8	**80,194**	57,341
Current assets			
Debtors	9	**4,373**	628
Cash at bank		**937**	9
		5,310	637
Creditors – amounts falling due within one year	10	**113**	315
Net current assets		**5,197**	322
Net assets		**85,391**	57,663
Share capital and reserves			
Called up share capital	11	**5**	5
Share premium account		**96,862**	96,862
Capital reserve – realised		**8,431**	7,971
– unrealised		**(19,771)**	(47,287)
Revenue reserve		**(136)**	112
Total equity shareholders' funds		**85,391**	57,663
Net asset value per ordinary share – Basic and diluted	14	**170.78p**	115.33p

These accounts were approved and authorised for issue, by the Board of Directors on 22 August 2006.

PETER DICKS
Chairman

The notes on pages 33 to 43 form part of these accounts.

STATEMENT OF CASH FLOWS

for the year ended 31 March 2006

	Notes	*Year ended 31 March 2006 £'000*	*Year ended 31 March 2005 £'000*
Operating activities			
Investment income received		**176**	268
Deposit interest received		**15**	96
Secretarial fees paid		**(85)**	(76)
Other cash payments		**(510)**	(1,190)
Net cash outflow from operating activities	12	**(404)**	(902)
Servicing of finance			
Premium paid on repurchase and cancellation of convertible unsecured loan notes		**–**	(1,295)
Net cash outflow from servicing of finance		**–**	(1,295)
Taxation			
Tax recovered		**–**	750
Net cash inflow from taxation		**–**	750
Capital expenditure and financial investment			
Purchases of investments		**(35,621)**	(24,138)
Sales of investments		**36,676**	24,033
Deferred gain on capital items		**104**	59
Realised currency losses		**(17)**	(158)
Net cash inflow/(outflow) from capital expenditure and financial investment		**1,142**	(204)
Increase/(decrease) in cash		**738**	(1,651)

The notes on pages 33 to 43 form part of these accounts.

NOTES TO THE ACCOUNTS

at 31 March 2006

1 BASIS OF PREPARATION

Accounting convention

The accounts are prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice regarding the Financial Statements of Investment Trust Companies ("SORP") issued in January 2003, revised in December 2005.

With effect from 1 April 2005 the Company has adopted the following Financial Reporting Standards and considered the impact on comparative figures, if applicable:

FRS 25: Financial Instruments: Disclosure and Presentation; and
FRS 26: Financial Instruments: Measurement

All investments held by the Company are designated as 'fair value through profit or loss'.

All investments other than the Venture Capital Funds are listed. For such investments traded in active markets, fair value is generally determined by reference to stock exchange quoted market bid prices at the close of business on the Balance sheet date. Previously all listed investments were valued using closing mid market prices at the Balance sheet date. The Venture Capital Funds are valued at Directors' valuation with reference to IPEVC guidelines. The Directors consider these valuations represent the fair value of such funds.

There is no material financial effect on the comparative figures calculated as a result of adopting these new accounting standards. Accordingly, the comparative figures have not been restated.

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

2 ACCOUNTING POLICIES

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 for expenses which are incidental to the sale or purchase of an investment, which are charged through the capital account (see note 8).

Investments

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the time frame established by the market concerned, and are initially measured at cost.

All investments held by the Company are designated upon initial recognition as held at fair value through profit or loss. Investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Income statement and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and cost.

The Venture Capital Funds are stated at Directors' valuation which is in accordance with the valuations provided by the managers of those funds. These valuations are updated as and when received quarterly. The valuation methodology used by these funds is that the underlying investments are valued at fair value determined in accordance with the relevant limited partnership agreement.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the Balance sheet date, without any deduction for transaction costs necessary to realise the asset.

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

Subsidiary undertaking

Private Equity International Limited is incorporated with share capital of £1 issued and fully paid. It was incorporated to register the business name of Private Equity International. It has not traded during the year and has not been consolidated as it is, in the Directors' opinion, immaterial to the accounts. Net Investor Limited, a dormant non trading subsidiary was dissolved on 28 March 2006.

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 charge for taxation is based on the net revenue for the year. Deferred taxation is provided in accordance with FRS 19: 'Deferred taxation', on all timing differences that have originated but not reversed by the Balance sheet date. Deferred taxation assets are only being recognised to the extent that they are regarded as recoverable.

3 INCOME

	2006 £'000	2005 £'000
Income from investments:		
Interest from US fixed interest investments	–	23
Interest from European fixed interest investments	–	165
Interest from open-ended investment funds	254	16
	254	204
Other income:		
Deposit interest	53	43
Interest received on tax recovered	–	50
Total income	307	297
Total income comprises:		
Interest	307	297

4 EXPENSES

	2006 £'000	2005 £'000
Secretarial services	85	83
Auditor's remuneration for:		
– audit	22	21
– other services to the Company	–	2
Directors' remuneration		
(see Directors' remuneration report on page 25)	155	230
Other expenses – irrecoverable VAT	32	76
– operating lease	35	35
– public relations and advertising	15	37
– investment manager fees (listed portfolio)	–	11
– legal and professional fees	24	384
– office expenditure	15	17
– staff costs (see note 5)	52	64
– banking and custody charges	4	5
– broker's and sponsor's fees	–	13
– other expenses	116	177
	555	1,155

5 STAFF COSTS

	2006 £'000	*2005* £'000
Salaries and other payments	**45**	57
Social security costs	**7**	7
	52	64

With the exception of the Directors, whose remuneration is shown in the Directors' remuneration report on page 25, the Company had one member of staff employed during the year (2005: one member of staff).

6 TAXATION ON ORDINARY ACTIVITIES

		2006			*2005*	
	Revenue *£'000*	***Capital*** *£'000*	***Total*** *£'000*	*Revenue* *£'000*	*Capital* *£'000*	*Total* *£'000*
UK corporation tax at 30%	**–**	**–**	**–**	–	–	–
Over provision in previous years	**–**	**–**	**–**	(15)	–	(15)
	–	**–**	**–**	(15)	–	(15)

The Company is subject to corporation tax at 30% (2005: 30%). As at 31 March 2006 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:

	2006 £'000	*2005* £'000
Reconciliation of the tax charge for the year:		
Net return before finance costs and taxation	**27,728**	(6,320)
Theoretical corporation tax at 30%	**8,319**	(1,896)
Effects of:		
– excess management expenses	**69**	159
– expenses disallowed for taxation purposes	**5**	98
– adjustment in respect of prior years	**–**	(15)
– non-taxable items in capital	**(8,393)**	1,639
Current tax charge – revenue account	**–**	(15)

At 31 March 2006, the Company had no unprovided deferred tax liabilities (2005: £nil). At that date, based on current estimates and including the accumulation of net allowable management expenses deriving from its partnership interests in its Venture Capital Funds, the Company had surplus management expenses of approximately £7,376,000 (2005: £5,210,000) 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 RETURN PER ORDINARY SHARE

	2006 Revenue pence	2006 Capital pence	2006 Total pence	2005 Revenue pence	2005 Capital pence	2005 Total pence
Return per ordinary share – basic and diluted	**(0.50)**	**55.95**	**55.45**	(1.69)	(10.92)	(12.61)

Revenue return per ordinary share is based on the net deficit on ordinary activities after taxation of £248,000 (2005: net deficit of £843,000), and on 50,000,000 (2005: 50,000,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Capital return per ordinary share is based on net capital gains for the year of £27,976,000 (2005: losses of £5,462,000), and on 50,000,000 (2005: 50,000,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Total return per ordinary share is based on net return for the year of £27,728,000 (2005: losses of £6,305,000), and on 50,000,000 (2005: 50,000,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

8 INVESTMENTS

a) Investment portfolio summary

	2006 £'000	2005 £'000
USA		
Listed investments		
– common stock	**93**	118
Unlisted investments	**60,077**	44,729
Other listed investments		
– hedge funds	**–**	9,259
– open-ended investment funds	**20,009**	3,222
– common stock	**15**	13
	80,194	57,341

A full listing of the investment portfolio is provided on page 12.

8 INVESTMENTS – continued

b) Analysis of investment portfolio movements	*Listed equities £'000*	*Listed hedge funds £'000*	*Listed open-ended investment funds £'000*	*Unlisted funds £'000*	*Total £'000*
Opening book cost	478	9,056	3,228	92,061	104,823
Opening unrealised (depreciation)/appreciation	(347)	203	(6)	(47,332)	(47,482)
Opening valuation	131	9,259	3,222	44,729	57,341
Movements in the year:					
Purchases at cost	–	–	25,317	–	25,317
Calls at cost	–	–	–	10,304	10,304
Sales					
– proceeds	(6,331)	(9,931)	(8,785)	(3,541)	(28,588)
– realised (losses)/gains on sales	(1,080)	875	148	270	213
Book cost adjustments from capital distributions					
– cash distributions	–	–	–	(11,705)	(11,705)
– stock distributions	7,411	–	–	(7,411)	–
Unrealised (depreciation)/ appreciation	(23)	(203)	107	27,431	27,312
Closing valuation	**108**	**–**	**20,009**	**60,077**	**80,194**
Closing book cost	478	–	19,908	79,978	100,364
Closing unrealised (depreciation)/appreciation	(370)	–	101	(19,901)	(20,170)
	108	**–**	**20,009**	**60,077**	**80,194**

8 INVESTMENTS – continued

	2006 £'000	2005 £'000
c) Analysis of capital gains and losses		
Realised gains/(losses) on sales of investments	**213**	(1,706)
Commission realised on disposal in respect of hedge fund	**264**	38
Decrease/(increase) in unrealised capital depreciation	**27,312**	(2,445)
Gains/(losses) on investments	**27,789**	(4,113)
Realised exchange losses on capital items	**(17)**	(158)
Unrealised exchange gains on capital items	**204**	104
Exchange gains/(losses) on capital items	**187**	(54)

d) Significant holdings

The Company owns 11.87% and 10.22% of the total value of the called capital of the Limited Partnerships in Wit Dawntreader Fund II and Zone Ventures Fund II respectively.

e) Transaction costs

During the year the Company incurred no transaction costs (2005: £nil) in relation to purchases of investments and £13,000 (2005: £3,000) in relation to sales of investments. These amounts are included within gains and losses on investments at fair value within the Income statement.

9 DEBTORS – amounts falling due within one year

	2006 £'000	2005 £'000
Amounts due from brokers	**4,177**	549
Prepayments and other debtors*	**79**	79
Accrued income	**117**	–
	4,373	628

* 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 on the expiration or sooner determination of the lease.

10 CREDITORS – amounts falling due within one year

	2006 £'000	2005 £'000
Accruals	**112**	151
Other taxation and social security	**1**	3
Deferred gains on capital items	**–**	161
	113	315

11 CALLED UP SHARE CAPITAL

	2006 £'000	2005 £'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

12 RECONCILIATION OF NET RETURN/(DEFICIT) BEFORE FINANCE COSTS AND TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2006 £'000	2005 £'000
Net return/(deficit) before finance costs and taxation	27,728	(5,025)
Net (gain)/loss on investments	(27,976)	5,462
Premium paid on repurchase of convertible unsecured loan notes	–	(1,295)
Decrease in creditors and accruals	(39)	(124)
(Increase)/decrease in prepayments and accrued income	(117)	80
Net cash outflow from operating activities	(404)	(902)

13 RECONCILIATION OF NET CASH FLOW TO NET FUNDS

	2006 £'000	2005 £'000
Increase/(decrease) in cash in the year	738	(1,651)
Effect of foreign exchange rate movements	190	97
Movement in net funds	928	(1,554)
Net funds at beginning of the year	9	1,563
Net funds at end of the year	937	9

Net funds are comprised as follows:

	2006 £'000	2005 £'000
Cash at bank	937	9

14 NET ASSET VALUE PER ORDINARY SHARE

The basic and diluted net asset value per ordinary share is based on net assets of £85,391,000 (2005: £57,663,000) and on 50,000,000 (2005: 50,000,000) ordinary shares, being the number of shares in issue at the year-end.

15 COMMITMENTS AND CONTINGENT LIABILITIES

At 31 March 2006 there were financial commitments outstanding of £13.7 million (2005: £27.1 million) in respect of outstanding call commitments to limited partnerships.

The Company had annual commitments of £38,250 at 31 March 2006 (2005: £38,250) under an operating lease in respect of premises. The operating lease commitment will expire within one year of the Balance sheet date.

Subsequent to the year-end the Company has committed to the following new venture funds: Francisco Partners Fund, VantagePoint 2006 Fund and New Enterprise Associates Fund 12. These funds represent capital commitments of $5m, $5m and $3m respectively.

16 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

As detailed on page 1, the primary investment objective of the Company is to seek to achieve substantial long-term capital appreciation 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, i.e. the risk that the Company has difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments;
- interest rate risk;
- market price risk, i.e. movements in the value of investment holdings caused by factors other than interest rate or currency movement; and
- foreign currency risk.

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

As required by FRS 25: Financial Instruments: Disclosure and Presentation, 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 page 12. The method of valuing the fixed asset investments is discussed in the accounting policies of the Company in note 1 on page 33. Cash and debtors arising from the operations of the Company as at 31 March 2006 amounted to £937,000 (2005: £9,000) and £4,373,000 (2005: £628,000) respectively. There were no material differences between the fair values of the investments as at 31 March 2006 and 31 March 2005 and the values attributable to those investments within the accounts.

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 open-ended investment funds. These funds can be converted to cash at short notice.

16 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES – continued

Interest rate risk

The Company invests its surplus cash in open-ended investment funds. 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 2006, 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*
Open-ended investment funds	–	20,009*	–	–	–
Quoted equities	–	–	108	–	–
Unquoted funds	–	–	60,077	–	–
Cash	–	937**	–	–	–
Debtors	–	–	4,373	–	–
	–	20,946	64,558		

As at 31 March 2005, 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*
Open-ended investment funds	–	3,222*	–	–	–
Quoted equities	–	–	131	–	–
Quoted hedge funds	–	–	9,259	–	–
Unquoted funds	–	–	44,729	–	–
Cash	–	9**	–	–	–
Debtors	–	–	628	–	–
	–	3,231	54,747		

* The objective of the fund is to achieve a wholesale money market rate of return.
** Exposure to floating interest rate risk is based on an adjusted LIBOR rate.

Market price risk

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

The Financial review on pages 7 to 11 provides information in respect of the investments. The method of valuing the investments is discussed in the accounting policies note on page 33.

16 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES – continued

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. For the year ended 31 March 2006, realised exchange losses of £17,000 (2005: losses of £158,000) and unrealised gains relating to currency and other capital items of £204,000 (2005: gains of £104,000), have been taken to the capital reserve.

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

At 31 March 2006	***Investment portfolio**** £'000	***Cash*** £'000	***Other current assets*** £'000
USA	**80,179**	**889**	**4,177**
UK	**–**	**48**	**196**
Canada	**15**	**–**	**–**
	80,194	**937**	**4,373**

At 31 March 2005	*Investment portfolio** £'000	*Cash* £'000	*Other current assets* £'000
USA	57,328	–	–
UK	–	9	628
Canada	13	–	–
	57,341	9	628

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

Financial liabilities
The Company finances its operations primarily through equity and retained revenue although trade creditors and accruals arise from its operations. At 31 March 2006 and 31 March 2005, all financial liabilities were due within one year. Other financial liabilities amount to £113,000 (2005: £315,000) and result from operating activities.

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

17 RELATED PARTY TRANSACTIONS
There have been no related party transactions in the year to 31 March 2006.

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 fair 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 average of total assets less current liabilities.

COMPANY INFORMATION

DIRECTORS
Peter Dicks (Non-Executive Chairman)
Colin Kingsnorth (Non-Executive)
Rory Macnamara (Non-Executive)
David Quysner (Non-Executive)
Hon. Barbara S. Thomas (Non-Executive)

SECRETARY AND REGISTERED OFFICE
Capita Sinclair Henderson Limited
Beaufort House
51 New North Road
Exeter EX4 4EP
Tel: 01392 412122
Fax: 01392 253282

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

BANKERS
Lloyds TSB Bank Plc
234 High Street
Exeter EX4 3NL

STOCKBROKERS
Cazenove and Co Limited
20 Moorgate
London EC2R 6DA

AUDITORS
Ernst & Young LLP
1 More London Place
London SE1 2AF

REGISTRAR & TRANSFER OFFICE
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA
Tel: 01484 600900
Fax: 01484 600911

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

KEY DATES

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

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

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Private Equity Investor PLC will be held at the offices of Tavistock Communications, 131 Finsbury Pavement, London EC2A 1NT at 10 am on Friday, 29 September 2006, for the following purposes:

Ordinary business

1. To adopt the accounts for the year ended 31 March 2006, together with the Reports of the Directors and Auditors.
2. To receive the Directors' remuneration report.
3. To re-elect Hon Barbara S Thomas as a Director of the Company.
4. To re-appoint Ernst & Young LLP as Auditor to the Company, and to authorise the Directors to determine their remuneration.

Special business

To propose as a Special Resolution the following:

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

   provided always that

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

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

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

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

   (v) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2007 unless the authority is renewed at any other general meeting prior to such time; and

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

Registered Office:
Beaufort House
51 New North Road
Exeter EX4 4EP

By Order of the Board
CAPITA SINCLAIR HENDERSON LIMITED
Secretary
22 August 2006

NOTICE OF ANNUAL GENERAL MEETING
(CONTINUED)

NOTES:

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not also be a member of the Company. Lodgement of the form of proxy will not preclude a shareholder from attending the Meeting and voting in person.
2. A form of proxy is attached for use in connection with the business set out above. This form of proxy should be completed and sent, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, to reach the Registrar at the address printed on the form of proxy not later than 10 am on 27 September 2006.
3. The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 10 am on 27 September 2006 shall be entitled to attend or vote at the aforesaid Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 10 am on 27 September 2006 ('the specified time') shall be disregarded in determining the rights of any person to attend or vote at the Meeting. If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at the time which is 48 hours before the time fixed for the adjourned Meeting, or if the Company gives notice of the adjourned Meeting, at the time specified in that notice.
4. The Articles of Association and register of Directors' interests in the ordinary shares of the Company will be available for inspection at the Registered Office of the Company during normal business hours (Saturdays and Public holidays excepted) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting for 15 minutes prior to and during the Meeting.
5. By attending the Meeting, shareholders (and any proxies or representatives they appoint) agree that they are expressly requesting and that they are willing to receive any communications (including communications relating to the Company's securities) made at the Meeting.

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FORM OF PROXY

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

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

....

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

....

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Tavistock Communications, 131 Finsbury Pavement, London EC2A 1NT at 10 am on Friday, 29 September 2006, and at any adjournment thereof.

Signature ....

Date 2006

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

		FOR	AGAINST	VOTE WITHHELD
RESOLUTION 1	To adopt the accounts for the year ended 31 March 2006, together with the Reports of the Directors and Auditors.			
RESOLUTION 2	To receive the Directors' remuneration report.			
RESOLUTION 3	To re-elect the Hon Barbara S Thomas as a Director of the Company.			
RESOLUTION 4	To re-appoint Ernst & Young LLP as Auditor to the Company, and to authorise the Directors to determine their remuneration.			
RESOLUTION 5	To approve the passing of Resolution 5 authorising the Company to purchase its shares as set out in the Notice of Annual General Meeting.			

NOTES:

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

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First
fold

Capita Registrars
The Proxy Department
P.O. Box 25
Beckenham
Kent
BR3 4BR

Second fold