SL486027

Strategic Equity Capital plc

Report & Financial Statements

for the year ended 30 june 2007

Investment objective

The investment objective of the Company is to achieve absolute returns (i.e. growth in the value of investments) rather than relative returns (i.e attempting to outperform selected indices) over a medium-term period, principally through capital growth.

Investment policy

The Company invests primarily in securities quoted on any securities market operated by the London Stock Exchange that the Investment Manager believes are undervalued and could benefit from strategic, operational or management initiatives The Company also has the flexibility to invest up to 20% of the Company's gross assets at the time of investment in securities listed or traded on other recognised stock exchanges and up to 20% of the Company's gross assets at the time of investment in unlisted securities and in any class of debt or equity related instrument.

Contents

Capital structure

Issued share capital

72,626,000 Ordinary shares of 10p each: £7,262,600

The Company has been incorporated with an indefinite life

Financial summary

	Year to 30 June 2007	Six months to 31 December 2006	Period ended 30 June 2006
Total return			
Total return	**£8,045,000**	£3,116,000	£4,049,000
Return per Ordinary share*	**11 08p**	4 29p	5 62p
Revenue			
Net revenue after taxation	**£123,000**	£224,000	£1,210,000
Revenue return per Ordinary share*	**0 17p**	0 31p	1 68p

	As at 30 June 2007	Six months to 31 December 2006	As at 30 June 2006
Assets (investments valued at bid-market prices)			
Net assets	**£82,752,000**	£77,824,000	£75,623,000
Net asset value per Ordinary share	**113 94p**	107 16p	104 13p
Middle market quotation			
Ordinary shares	**105 50p**	96 25p	101 50p
Discount to NAV	**(7 41)%**	(10 18)%	(2 53)%

* Return per Ordinary share is calculated based on 72,626,000 (Period to 30 June 2006 71,982,647), being the weighted average number of Ordinary shares in issue throughout the year

Chairman's report

I am pleased to report that significant progress has been made since the publication of the last interim report

The performance of the investment portfolio since inception is now reaching the level anticipated by the Manager over the long term, having achieved an internal rate of return ("IRR") in excess of 15% To date realisations have delivered returns well in excess of the Manager's target, realising a combined IRR of over 28% The Company's investment portfolio is maturing and we are beginning to see the benefits of the strategic, operational and management initiatives within the portfolio and the subsequent re-rating of a number of portfolio companies' share prices

Secondly, from an operating perspective the Company has continued to develop A banking facility has been established which will enable the Company to become geared and I expect the Manager to take advantage of this over the next 12 months

Finally the Company intends to maintain its active investor marketing programme which was initiated during the second half of the year

Performance
At 30 June 2007 Strategic Equity Capital had net assets of £82 8 million which equates to a net asset value per share of 113 9p, an increase of 9 4% since June 2006 (net asset value of 104 1p per share) and a 6 3% increase over the six months (net asset value of 107 2p per share) The unaudited net asset value per share as at 31 August 2007 was 109 4p

Investment manager
The Company's portfolio is managed by SVG's Public Equity Team Their investment processes and techniques are modelled on that of successful private equity investors, focusing on companies that can benefit from strategic, operational and management initiatives

Investment strategy
The Company's investment strategy remains to achieve absolute returns for shareholders through a strategy of using private equity techniques and a practice of constructive corporate engagement

The Board
Full details relating to the Company's operations can be found on page 8 of the Report of the Directors, in addition to the Statement on Corporate Governance Within the Report of the Directors we have presented a review of the business which looks at the principal risks and uncertainties it faces, an analysis of its performance during the financial period and its position at the year end The Board regrets that Jonathan Morgan has decided to stand down as a Director at the next AGM and would like to thank him for his resolute and invaluable contribution since the Company's launch We are however, delighted to welcome Michael Phillips as a non-executive Director of the Company with effect from 9 August 2007 Michael is Chief Executive of iimia Investment Group plc and is also non-executive Director of iimia Investment Trust plc We believe his experience and knowledge of the financial services sector will be of considerable value to the Board

Dividend
The Directors expect that any returns for shareholders will derive primarily from the capital appreciation of the Ordinary shares rather than from dividends The Directors intend only to declare final dividends and then to the extent necessary to maintain investment trust status Accordingly the Board does not intend to declare a final dividend to shareholders for the year ended 30 June 2007

Annual General Meeting
The AGM for the Company will be held at 11 30am on 6 November 2007 at 111 Strand, London, WC2R OAG In addition to the formal business of the meeting, the Investment Manager will provide an update on the Company's investment portfolio and answer any questions from Shareholders

Discount management
The Board has a policy of active discount management

Outlook
Recent volatility in the stock market has reinforced the need for the Manager's selective and focused investment approach

The performance of the Company over the last twelve months has increased the Board's belief that there is a significant investment opportunity in applying private equity techniques to public markets, an opportunity that we will continue to exploit

J Hodson
26 September 2007

Directors

The Directors, all of whom are non-executive, are as follows

John Hodson (Chairman) (61)
Mr Hodson joined Singer & Friedlander Limited in 1969, he became a director in 1984 and in 1993, he was appointed chief executive of Singer & Friedlander Group PLC From 2000 to 2003 he served both as chairman and chief executive of the Group He is also chairman of Cenkos Securities plc and UBC Media Group plc, and a director of Domino's UK & IRL plc

Sir Clive Thompson (Deputy Chairman) (64)
Sir Clive Thompson served as chairman of Rentokil Initial plc between 2002 and 2004, having been chief executive for 20 years to 2002 He is a former president of the CBI, member of the Committee on Corporate Governance and deputy chairman of the Financial Reporting Council He is also a former director of J Sainsbury plc, Wellcome PLC, Seeboard plc, Caradon PLC and BAT Industries plc

John Cornish (63)
Mr Cornish was formerly an audit partner at Deloitte & Touche where he led the firm's investment trust team until his retirement in 2004 He is currently chairman of Framlington Innovative Growth Trust PLC and a director of RCM Technology Trust PLC

Jonathan Morgan (49)
Mr Morgan joined ICFC (now 3i plc) in 1980 and joined the private equity division of the Prudential group in 1985 He became the managing director in 1995 and retired from Prudential in February 2005

Michael Phillips (45)
Mr Phillips co-founded Christows Limited in 1991 and in a period of nine years built Christows into a group with funds under management of over £500 million on behalf of approximately 3,000 clients He was responsible for the day-to-day operations of Christows until January 2001 when, following the acquisition of Christows by the Evolution Group plc, he left to form iimia plc He is a Fellow of the Securities Institute

Manager, Secretary and Advisers

Investment Manager
SVG Investment Managers Limited
111 Strand
London WC2R OAG

Secretary and registered office
Capita Sinclair Henderson Limited
Beaufort House
51 New North Road
Exeter EX4 4EP

Registrar and transfer office
Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS13 8AE

Sponsor and brokers
Close Brothers Securities
The Atrium Buildings
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Custodian
HSBC Global Services
Level 27
8 Canada Square
London E14 5HQ

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

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

An investment company as defined under Section 266 of the Companies Act 1985
REGISTERED IN ENGLAND No 5448627

Investment Manager's report

Portfolio review
At 30 June 2007 Strategic Equity Capital had net assets of £82 8 million (113 9p per share) and was 104% invested with a portfolio of 27 companies The investment strategy remained highly focused, with the top 10 holdings accounting for 65% of the portfolio at the end of the financial year

As the Company has matured, the mix of activity has begun to move from a focus on new investment to a more balanced mix of investment, execution and realisation We are beginning to see the benefit of the strategic, operational and management initiatives which were put in place over the last two years, leading to some material increases in the value of several portfolio holdings As a result, the net asset value of the Company increased by 9 4% over the year

A detailed review of the Company's investment activity over the first six months of the period was presented in the interim report of 31 December 2006 The following comments relate to investment activity over the first half of 2007

Performance
A large number of portfolio companies have made a major positive contribution to performance since 31 December 2006 The top five contributors were **Redstone, Mecom, Ora Capital, Vintage 1** and **Spirent**

The Manager remains the largest shareholder of Redstone, a provider of telecoms and IT solutions and is supporting an acquisition led growth strategy To date this strategy has worked well, with the company completing the acquisition of Symphony Telecom and has subsequently won a number of major contracts As a result the share price of Redstone has continued to rise A similar strategy is being followed in the case of Mecom, where management is successfully executing a roll-up of continental European newspaper publishers

The Manager has stated that the Company will take stakes in private companies where there is a clear intention to achieve public market status within a reasonable time period This strategy was adopted with Ora Capital, where pre-IPO development capital was provided at 65 pence per share in March 2006 Ora was floated in April 2007 at a price of 120 pence Its share price has continued to rise and at 30 June 2007 was 148 pence

The Company also has the capability to invest a limited amount in private equity orientated investments where SVG's private equity expertise leads the manager to believe that the investment returns will be of a high level Vintage 1, a collateralised fund of private equity funds, is an example of this The Company made a €3 0 million commitment to this fund, of which €840,000 has been called At 30 June 2007, the Company's investment in this fund was valued at €2 3 million

Spirent announced the conclusions of its strategic review following the replacement of the board at an EGM called by shareholders in December 2006 The cost savings identified by the new board, along with the improving outlook for the company, have led to a rally in the company's shares

The other five meaningful contributors were **Pinewood Shepperton**, which continued to appreciate as analysts highlighted the value of its property portfolio, **Intec, Renold** and **Thorntons**, whose results statements confirmed solid progress in their turnaround plans and finally **Alpha Airports**, which received a takeover approach from Autogrill, a trade buyer

There were three major negative contributors to performance over the period, **Communisis, SMG** and **Filtronic**
Communisis has experienced a number of board changes in the last twelve months and has undergone a strategic review commenced by the new CEO, Steve Vaughan Operating performance for the company has been in line with expectations however the company has announced significant impairment charges leading to a fall in its share price

SMG completed its 100 day business review following the restructuring of the board and appointment of Rob Woodward as CEO The review highlighted significant cost savings and a clear corporate strategy, however the shares fell over concerns on the short term earnings outlook

Finally Filtronic continued to suffer from market uncertainty surrounding the medium term strategy for the group We believe the company is working through its disposal and restructuring programme in an orderly fashion

Investment Manager's report (continued)

Top 10 holdings

A summary of the top 10 investments, which represent approximately 65% of the invested portfolio, is given below

Company	Sector classification	Cost £'000	Valuation £'000	% of invested portfolio	% of net assets
Redstone	Telecoms	6,949	12,574	14 6	15 2
Pinewood Shepperton	Media	4,849	7,208	8 4	8 7
Melrose	Industrial engineering	4,929	5,798	6 7	7 0
Evolution Group	Investment services	5,155	4,752	5 5	5 7
Spirent	Telecoms	3,531	4,732	5 5	5 7
Cardpoint	Support services	4,286	4,600	5 3	5 6
Mecom Group	Media	2,648	4,523	5 3	5 5
Renold	Industrials	3,125	3,895	4 5	4 7
Intec Telecom System	Telecoms	2,962	3,783	4 4	4 6
Thorntons	Retail	3,137	3,705	4 3	4 5

New investments

It is part of the Manager's strategy to make small "toe-hold" investments in companies where doing so may aid due diligence or open up the possibility of participating in, or leading, future corporate activity Since the interim results the Company has made eight such toe-hold investments In aggregate, they represented 8 8% of the invested portfolio at the year end

Finally, in June 2007 the Company made a small additional investment in **Watermark** by participating in the issue of 15 5% secured convertible bonds as part of a broader refinancing arranged by SVG In July 2006 the value of Watermark's shares had fallen, following a profits warning and the termination of takeover talks This had a significant impact on the Company's NAV Subsequently Graham Bird, a fund manager of SVG's Public Equity Team, was appointed as a non-executive Director Wholesale changes were also made to Watermark's management team to coincide with the refinancing

Realisations

Since the publication of the interim report there have been three disposals, **Computer Software Group, Alpha Airports** and **Hampson**

The Company was building a stake in Computer Software Group ("CSG") when the group was approached by a private equity buyer, who made a takeover offer for the group at a significant premium The Manager believed that CSG was materially undervalued, and that corporate engagement could lead to a significant increase in shareholder value Given the widespread shareholder support for the private equity offer, the stake was realised for a multiple of 1 3x cost over four months

Alpha Airports was sold following an approach for the group by Autogrill Spa, a trade buyer The Manager had been encouraging management to create value by separating the retail and aircraft servicing sides of the business, however in our opinion Autogrill's offer represented fair value for the business and the Company's position was sold at a multiple of 1 5x cost and an IRR of 47%

The Manager has been an investor in Hampson since early 2004 and contributed significantly to the development of the company in subsequent years through the provision of growth capital, helping the company to quadruple its market value from under £30 million to over £120 million It is the Manager's belief that this development stage is now largely complete and that Hampson no longer fitted the Company's mandate of investing in companies benefiting from strategic, operational or management initiatives The strategy enacted by Hampson's management has created substantial value for shareholders and the Manager wishes the team further success in the future The holding was sold for a 1 2x multiple of cost, and an IRR of 18%

Outlook

Recent figures for M&A activity showed there were over 400 European private equity deals representing over €50 billion of invested capital over the first quarter of 2007, a 26% increase on the prior year The average size of private equity deals also continued to increase, exceeding US$400 million for the first time The focus of private equity investors targeting larger companies may increase the number of opportunities for the Manager to apply private equity techniques to smaller companies which should remain publicly quoted

Interestingly, 33% of UK buyouts in the first quarter of 2007 were led by non-private equity players such as hedge funds and high net worth individuals We expect this blurring of private equity style activity to continue and believe SVG's Public Equity Team will be in the forefront of this change

SVG Investment Managers Limited
26 September 2007

All statements of opinion and/or belief contained in this Investment Manager's report and all views expressed and all projections, forecasts or statements relating to expectations regarding future events or the possible future performance of the Company represent SVG Investment Managers Limited's own assessment and interpretation of information available to it at the date of this report As a result of various risks and uncertainties, actual events or results may differ materially from such statements, views, projections or forecasts No representation is made or assurance given that such statements, views, projections or forecasts are correct or that the objectives of the Company will be achieved

Report of the Directors

The Directors present their report and financial statements for the year to 30 June 2007

The Company has been incorporated with an indefinite life

Business review

Review of the business of the Company
The principal business of the Company is to conduct business as an investment trust The Company is currently an investment company in accordance with the provisions of Section 266 of the Companies Act 1985 The Directors do not envisage any change in the Company's activity in the future

The Company has received approval from HM Revenue & Customs as an authorised investment trust under Section 842 of the Income & Corporation taxes Act 1998 for the year ended 30 June 2006 Under Section 842 companies can obtain 'approved' status for tax purposes, meaning that such companies do not pay capital gains tax on any profits arising on disposals of their investments and in turn shareholders are only subject to capital gains tax on the disposal of their shares in the investment trust The principal requirements for retaining 'approved' status are no single holding, at the time of investment, may exceed 15% of gross assets, 70% of total income must constitute investment income from securities, and no more than 15% of such investment income may be retained

It is the opinion of the Directors that the Company has directed its affairs so as to enable it to continue to qualify for such approval and the Company will continue to seek approval under Section 842 each year Accordingly the Company will not retain more than 15% of eligible investment income

Investment objective
The investment objective of the Company is to achieve absolute returns (i e growth in the value of investments) rather than relative returns (i e attempting to out-perform selected indices) over a medium-term period, principally through capital growth

Investment policy
At the Extraordinary General Meeting held on 23 March 2007, shareholders passed the resolution amending the Investment Policy of the Company which is as set out below

"The Company invests primarily in securities quoted on any securities market operated by the London Stock Exchange that the Investment Manager believes are undervalued and could benefit from strategic, operational and management initiatives The Company also has the flexibility to invest up to 20% of the Company's gross assets at the time of investment in securities listed or traded on other recognised stock exchanges and up to 20% of the Company's gross assets at the time of investment in unquoted securities and in any class of debt or equity-related instrument"

It is anticipated that the Company will predominantly invest in securities quoted on the London Stock Exchange

The maximum investment in any single investee company will be no more than 15% of the Company's gross assets at the time of investment The Company expects the majority of the portfolio to be invested in 10 to 15 companies operating in a number of industries At 30 June 2007, the Company's top 10 holdings accounted for 65% of the portfolio The Investment Manager expects that the Company will typically hold an investment for a period of two to five years

Investment Manager
The Investment Manager appointed by the Company is SVG Investment Managers Limited ("SVGIM") Established in 2002, the Public Equity Team of SVGIM were one of the first in the UK to invest in publicly traded equities using private equity techniques The team now consists of seven investment professionals who combine a number of complementary skill sets, including corporate finance, traditional fund management, research and private equity disciplines The Public Equity Team of SVGIM currently has funds under management of over £400 million

Performance
Over the year to 30 June 2007, net assets have increased by 9 4% to £82 8 million Further information on the performance of the Company's portfolio is contained in the Investment Manager's report on pages 5 to 7

As stated in the Chairman's report, the Company's investment objective is one of capital growth and it is anticipated that returns for shareholders will derive primarily from capital gains The Board only intend to declare final dividends and then to the extent necessary to maintain investment trust status Accordingly, the Board does not intend to declare a final dividend to shareholders for the year ended 30 June 2007

Performance analysis using key performance indicators
At each quarterly Board meeting the Directors consider a number of key performance indicators ("KPIs") to assess the Company's success in achieving its objectives, for example, the NAV, the movement in the Company's share price and the discount of the share price in relation to the NAV

- The Company's Income statement is set out on page 19
- The NAV per Ordinary share at 30 June 2007 was 113 94p
- The mid market share price at 30 June 2007 was 105 50p
- The discount to NAV at 30 June 2007 was (7 41%)

Principal risks and uncertainties associated with the business

General
Changes in economic conditions (including, for example, interest rates, foreign exchange rates and rates of inflation), industry conditions, competition, changes in the law, political and diplomatic events and trends, tax laws and other factors can substantially affect the value, adversely or positively, of investments made by the Company and, therefore, the Company's performance and prospects, in addition to the value of the shares

Market risk
The Company's investments are subject to normal market fluctuations and the risks inherent in the purchase, holding or selling of equity securities and related instruments, and there can be no guarantee that the quoted value of the Company's investments will be realisable in the event of a sale

Market price and discount volatility
The market price of the shares, as well as being affected by the net asset value, also takes into account prevailing interest rates, supply and demand for the shares, market conditions and general investor sentiment As a result, the total market value of the shares in the portfolio may vary considerably from the net asset value per share of the Company In addition, other factors such as a concentrated shareholder base may contribute to infrequent trading or volatile share price movements

Reliance on the Investment Manager
The Investment Manager has the right to resign as the Investment Manager under the Investment Management Agreement The Investment Manager must give 12 months written notice to the Company Such a resignation could have an adverse effect on the Company's performance and prospects

Nature of investee companies
The investment portfolio is focused towards small and mid sized companies These companies may involve a higher degree of risk than larger sized companies In addition, while the investment policy of the Company is to identify and invest in companies that the Investment Manager believes are undervalued there is a risk that the Investment Manager may be unable to deliver on the strategic, management and operational initiatives identified at the time of initial investment and as such, companies may not prove to be capable of generating additional value for shareholders and so would not assist in achieving the Company's investment objective

Concentrated portfolio
Once fully invested, the majority of the Company's portfolio will be invested in 10 to 15 companies operating in a number of industries As a result the portfolio could carry a higher degree of risk than a more diversified portfolio

As the Company's objective is to achieve absolute returns rather than returns relative to a particular index or benchmark over a medium term period, the portfolio is managed without comparison to any stockmarket index As a result there will be periods when the Company's performance will not correlate with such indices

Borrowing and gearing
At 30 June 2007, the Company had £1,000,000 drawndown under a revolving credit facility of £17,500,000 with The Royal Bank of Scotland, details of which can be found in note 11 of the accounts The use of gearing can cause both gains and losses in the asset value of the Company, dependent on the value of the portfolio at the time

Unlisted investments
The Company may invest up to 20% of its gross assets in companies that are not listed or admitted to trading upon any recognised stock exchange These investments may be illiquid and difficult to realise, more volatile than investments of larger, longer-established businesses, and will not for the purposes of the net asset value calculation be valued more than once every six months

Overseas investments
The Company may invest up to 20% of its gross assets in companies listed or traded on other recognised stock exchanges In any instances where the Company does not hedge its currency exposure, the movement of exchange rates between sterling and any other currencies in which the Company's investments are denominated may have a material effect, unfavourable as well as favourable, on the return otherwise experienced on the investments made by the Company Although the Investment Manager will seek to manage any foreign exchange exposure in relation to the Company, there is no assurance that this can be performed effectively Currency hedging may force the Investment Manager to realise underlying investments as well as affecting the overall value of the portfolio and the net asset value per share

Movements in the foreign exchange rate between sterling and the currency applicable to a particular shareholder may have an impact upon that shareholder's returns in its own currency of account

Debt investments
Any debt securities that may be held by the Company will be affected by any changes to interest rates

Charges against capital
The Company's current accounting policy is to charge its operational costs to revenue, with the exception of any performance fee which will be charged wholly to capital In the event of the Company making a revenue loss or becoming liable to a performance fee, it may need to liquidate some of its investments to pay operational costs or the performance fee or both

Regulatory risks
A breach of Companies Act regulations and FSA/London Stock Exchange rules may result in the Company being liable to fines or the suspension of the Company from the London Stock Exchange

The Board, with its advisers, monitors the Company's regulatory obligations both on an ongoing basis and at quarterly Board meetings

If the Company did not comply with the provisions of Section 842, it would lose investment trust status In order to minimise this risk, the Directors, the Investment Manager and the Company Secretary monitor the Company's compliance with the key criteria of Section 842 on a monthly basis At quarterly Board Meetings, compliance with these provisions is discussed in detail between the Board, the Investment Manager and the Company Secretary

Report of the Directors (continued)

Financial risks
The financial situation of the Company is reviewed in detail at each Board meeting, monitored and approved by the Board and the Audit Committee

Directors
The Directors in office during the year were

	Date of appointment	Date of resignation
J Hodson	1 July 2005	–
Sir C M Thompson	1 July 2005	–
J W Morgan	1 July 2005	–
J S Binnie	1 July 2005	1 November 2006
J E Cornish	6 September 2006	–

Mr Michael Phillips was appointed a non-executive Director of the Company on 9 August 2007 Under the Articles of Association, Directors appointed during the year will stand for election at the Annual General Meeting after their appointment, accordingly Mr Phillips will stand for election at the Company's Annual General Meeting to be held on 6 November 2007 Also under the Articles of Association one third of the Directors are required to retire annually by rotation, accordingly Mr Hodson will offer himself for re-election Mr Morgan has informed the Board of his intention to resign as a Director at the Annual General Meeting and in addition Mr Binnie resigned on 1 November 2006 The Board has taken this opportunity to review its composition and assess each Director individually The Board believes its composition provides a diversity of specialist knowledge and expertise relevant to the Company's affairs The Board recommends that shareholders vote for the Directors detailed above and standing for election, as it believes that their individual performance is effective and that they demonstrate commitment to their roles as non-executive Directors of the Company and have actively contributed during meetings throughout the year

None of the Directors has a contract of service with the Company nor has there been any other contract or arrangement between the Company and any Director at any time during the year An agreement exists between the Company and Storm Financial Limited for the provision to the Company of the services of Sir Clive Thompson as a Director

Directors' beneficial and family interests
The interests of the Directors and their families in the Ordinary shares of the Company are set out below

	At 30 June 2007	At 1 July 2006 or date of appointment if later
J Hodson	**50,000**	50,000
Sir Clive Thompson	**3,000,000**	3,000,000
J W Morgan	**100,000**	100,000
J S Binnie (retired 1 November 2006)	**70,000**	70,000
J E Cornish (appointed 6 September 2006)	–	–
M Phillips (appointed 9 August 2007)	–	–

There have been no changes to any of the above holdings between 30 June 2007 and the date of this report

Substantial shareholdings

The Directors had been notified of the following voting rights in the shares of the Company at 31 August 2007

	Number of Ordinary shares	% of voting rights
SVG Capital plc	15,000,000	20 65
Schroders & Co	12,768,802	17 58
East Riding Pension Fund	5,625,000	7 75
NCL Smith & Williamson	3,987,750	5 49
The Alliance Trust PLC	3,511,376	4 83
Sir Clive Thompson	3,000,000	4 13
Reliance Mutual Insurance Society	2,500,000	3 44
Scottish Value Trust	2,500,000	3 44
Progressive Asset Management	2,250,000	3 10

Net asset value

The net asset value at 30 June 2007 was 113 94p per Ordinary share

Investment Management agreement

The Company's investments are managed by SVG Investment Managers Limited ("SVGIM") under an agreement dated 12 July 2005

The Manager's appointment was for an initial term of two years, subject to termination by the Company on twelve months' notice given at any time thereafter Similarly the Manager can terminate the agreement on twelve months' notice

There are no specific provisions contained within the Investment Management Agreement relating to compensation payable in the event of termination of the agreement other than entitlement to fees, including performance fees which would be payable within any notice period

At regular Board meetings the Directors keep under review the performance of the Investment Manager In the opinion of the Directors the continuing appointment of SVG Investment Managers Limited as Investment Manager is in the best interests of shareholders as a whole During the year the Investment Manager has added professional staff to its team to further enhance its expertise and operates a robust investment process, which the Board believes will serve in delivering the Company's investment objective of capital growth

Investment Manager's fees

The Manager is entitled to receive from the Company a basic fee together, where applicable, with a performance fee

Basic fee

A basic management fee is payable to the Manager at the annual rate of one per cent of the net asset value of the Company (adjusted, for the period from Admission to 30 June 2007, so that the lower rate of 0 5 per cent is payable in respect of cash amounts raised in the Placing until those amounts are applied in acquiring an interest in investee companies) together with an amount equal to any VAT thereon The basic management fee accrues daily and is payable quarterly in arrears

Performance fee

In addition, the Manager will be entitled to a performance fee in certain circumstances This fee is payable by reference to the increase in adjusted net asset value per share over the course of a 'performance period' The first performance period begins on Admission and ends on 30 June 2007, each subsequent performance period is a period of six months The Manager will become entitled to a performance fee in respect of a performance period only if two criteria are met

First, a performance hurdle test must be met The performance hurdle is that the adjusted net asset value per share at the end of the relevant performance period exceeds a target adjusted net asset value per share for that performance period of an amount equal to the net asset value per share on the date of Admission, increased at a rate of seven per cent per annum on a compounding basis

The second test to be met (a 'high watermark' test) is that the adjusted net asset value per share at the end of the relevant performance period is higher than the highest previously recorded adjusted net asset value per share at the end of a performance period in relation to which a performance fee was earned (or if no performance fee has been earned since Admission, is higher than the net asset value per share on the date of Admission)

If the performance hurdle is met, and the high watermark exceeded, the performance fee will be an amount equal to 15 per cent of the increase, since the performance period in respect of which a performance fee was last earned (or since Admission, if no performance fee has yet been earned), in the adjusted net asset value per share of the time weighted average of the total number of shares in issue (together with an amount equal to the VAT thereon)

Report of the Directors (continued)

Payment of a performance fee that has been earned and accrued will be deferred to the extent that making payment would cause the performance hurdle or high watermark not to be met – amounts deferred will be payable when, and to the extent that, following any later performance period(s) with respect to which a performance fee is payable, it is possible to pay the deferred amounts without causing the performance hurdle or high watermark test not to be met A performance fee of £2,209,000 has been accrued and is payable in respect of the year ended 30 June 2007 (2006 nil)

Administration agreement
Under an agreement dated 12 July 2005, company secretarial services and the general administration of the Company are undertaken by Capita Sinclair Henderson Limited ("CSH") for a fee for the year to 30 June 2007 of £62,123 The fee is subject to annual review based on the UK Retail Price Index In the event that there is an increase in the issued share capital of the Company, the fee will be adjusted upwards by agreement between the Company and CSH The agreement may be terminated by either party giving to the other not less than six months' notice at any time

Payment of suppliers
It is the Company's policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used The Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by those terms There were no trade creditors at 30 June 2007

Annual General Meeting
At the Annual General Meeting to be held on 6 November 2007, the Notice of which is set out on page 35, resolutions will be proposed as items of special business set out below

(i) To authorise the allotment of shares (Resolution 6)
The purpose of Resolution 6 is to grant the Directors' power to allot shares The Directors have no present intention of exercising the authority conferred by this resolution and will only do so on the basis that the allotment and issue of shares does not dilute the net asset value per existing share

Section 80 of the Companies Act 1985 provides that the Directors may not allot new shares (other than for employee share schemes) without shareholder approval Resolution 6 empowers the Directors to allot shares with an aggregate nominal value of up to £2,420,867 being approximately one third of the Company's issued Ordinary share capital (excluding treasury shares) as at 26 September 2007 (being the latest practicable date prior to publication of this document) The authority would last until the earlier of the Annual General Meeting in 2008 and 6 February 2009

(ii) To disapply Section 89 of the Companies Act 1985 (Resolution 7)
Under Section 89 of the Companies Act 1985, if the Directors wish to allot any equity securities, or sell any treasury shares (should they elect to hold any), for cash (other than in connection with an employee share scheme), they must first offer them to existing shareholders in proportion to their shareholdings The purpose of Resolution 7 is to allow the Directors to allot shares, or sell any treasury shares, for cash other than in accordance with Section 89 in connection with

(a) rights issues and other pre-emptive offers, or

(b) otherwise up to a maximum aggregate nominal amount of £363,130, representing approximately 5 per cent of the Company's issued Ordinary share capital as at 26 September 2007 (being the latest practicable date prior to publication of this document)

The Directors consider the authority referred to in paragraph (a) is appropriate in order to give the Company flexibility to deal with legal or other difficulties should it decide to offer further shares to shareholders by way of a rights issue or other pre-emptive offer

The Directors consider the authority referred to in paragraph (b) above desirable in order to have the flexibility to issue shares, for example to take advantage of further investment/business opportunities as they arise

These authorities will last until the earlier of the Annual General Meeting in 2008 and 6 February 2009

(iii) To authorise the Directors to purchase the Company's own ordinary shares (Resolution 8)
The purpose of Resolution 8 is to authorise the Company to purchase its own shares As stated in the prospectus issued by the Company in connection with its listing on the London Stock Exchange in July 2005, the Company may purchase shares in the market in order to address any imbalance between the supply of and demand for shares and to increase the net asset value per share Subject to any applicable insider dealing rules, if the market price of the shares has been (and continues to be) at a discount of more than 10 per cent to net asset value per share for a continuous period of six months, and if sufficient cash resources are available, the Directors would expect the Company to seek to reduce the discount to a level of 10 per cent or less through the purchase of its own shares Since the Company is now fully invested, the Directors consider that it is no longer appropriate to prevent such purchases being made with borrowed monies Accordingly the Company may, in the future, use borrowed monies to finance purchases of its own shares The Company may also purchase shares in other circumstances at the discretion of the Directors

The Company would make such purchases only where the Directors believed that to do so would result in an increase in total return per Ordinary share and is in the best interests of shareholders generally

The authority is limited to 10,886,637 Ordinary shares, representing approximately 14 99% of the Company's issued Ordinary share capital as at 26 September 2007 (being the latest practicable date prior to publication of this document)

The Company may purchase Ordinary shares at prices which are above the last published net asset value per Ordinary share The maximum price (exclusive of expenses) payable per Ordinary share under this authority is the higher of (i) 5 per cent over the average of the middle market prices of the Ordinary shares according to the Daily Official List of the London Stock Exchange for the five business days immediately before the date on which the Company agrees to buy the shares, and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC No 2273/2003) The minimum price payable per Ordinary share under this authority is the nominal value of that Ordinary share Any purchases of Ordinary shares made pursuant to this authority will be market purchases

Any such purchases would be made during the period commencing at the close of the Annual General Meeting and ending on the earlier of the date of the Company's Annual General Meeting in 2008 and 6 May 2009

The Company is allowed to purchase its own shares either for holding in "treasury", or for subsequent cancellation Shares held in treasury will have no voting, dividend or other rights The Directors consider that the purchase of shares into treasury could be beneficial to shareholders in the long term Consequently, of the £7,262,600 of issued Ordinary share capital of the Company at the date of this proposed Resolution which may be bought back by the Company pursuant to this Resolution, up to £726,260 (being approximately 10% of the issued ordinary share capital) may be used for the Company to buy back its shares into treasury As stated in the prospectus issued by the Company in connection with its listing on the London Stock Exchange, shares held in treasury may be resold by the Company at a narrower discount to net asset value per share than the discount at which they were purchased The disapplication of pre-emption provisions pursuant to the proposed Resolution 7 above, if approved by shareholders, will also apply to shares held in treasury which are to be sold

As at 26 September 2007 (being the latest practicable date prior to publication of this document), the Company did not hold any shares in treasury

Details of any Ordinary shares purchased pursuant to this authority will be notified to a Regulatory Information Service of the London Stock Exchange Details will also be included in the Company's Annual Report and Accounts in respect of the financial period in which any such purchase takes place

International Financial Reporting Standards ("IFRS")
The Company has prepared its financial statements in accordance with IFRS

Financial instruments
As part of its normal operations, the Company holds financial assets and financial liabilities Full details of the role of financial instruments in the Company's operations are set out in Note 17 to the financial statements

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

Disclosure of information to Auditors
As far as the Directors are aware

- there is no relevant audit information of which the Company's Auditors are unaware, and
- they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any 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
26 September 2007

Statement on Corporate Governance

The Company is committed to high standards of corporate governance The Board is accountable to the Company's shareholders for good corporate governance This statement describes how the principles of corporate governance will be applied to the Company and the Company's compliance with the Code provisions

Compliance with the 2003 Combined Code ("the Code")
The Board has reviewed the principles as set out in the Code as published in July 2003 by the Financial Reporting Council and considers that the Company has established procedures to ensure that it complies in all material respects with the Code, subject to its special status as an Investment Trust

As an investment trust, the Company has also taken into account the 2006 Code of Corporate Governance produced by the Association of Investment Companies ("the AIC Code"), which is intended as a framework of best practice specifically for AIC member companies

The Listing Rules require the Board to report on compliance with the forty-eight Combined Code provisions throughout the accounting period With the exception of the limited items outlined below, the Company has complied throughout the accounting period ended 30 June 2007 with the provisions set out in Section 1 of the Combined Code

- Given the size and nature of the Board it is not appropriate to appoint a senior independent Director and this is non-compliant with the Code Provision A 3 3

- No formal induction for the Board was deemed necessary due to the wide range of skills and experience of the Directors selected (Code provision A 5 1)

- The Directors do not have service contracts, but all are required to retire and seek re-election at least every three years The recommendation of the Code is for fixed term renewable contracts (B 1 6)

- As the Company has had no staff, other than Directors, there are no procedures in place in relation to whistle-blowing (C 3 4)

Board responsibilities
The Board consists of five Directors, all of whom are non-executive and with the exception of Sir Clive Thompson are independent of the Investment Manager Biographies of the Directors appear on page 3 Sir Clive Thompson is deemed non-independent by virtue of his position on the Strategic Advisory Board

The Directors review at each Board Meeting the Company's investments and all other important issues to ensure that control is maintained over the Company's affairs The procedures were formalised in July 2005 in a schedule of matters specifically reserved for the Board's approval, which has been adopted since then for all Meetings

During the year ended 30 June 2007 the Board held quarterly Board Meetings All Directors were in attendence with the exception of one meeting where Sir Clive Thompson was unable to attend Two Audit Committee Meetings were held with all committee members present Members of the Board also meet with representatives of the Investment Manager on an informal and regular basis

The Board is responsible for all matters of control and direction of the Company, including its investment policy The Directors possess a wide range of financial, business and legal expertise relevant to the direction of the Company and consider that they commit sufficient time to the Company's affairs

The Company does not have a chief executive officer, but by appointing a management company the roles of Chairman and chief executive officer are effectively separated

Board responsibilities and relationship with the Investment Manager
The Board is responsible for the determination and implementation of the Company's investment policy and for monitoring compliance with the Company's objectives The Company's main functions have been subcontracted to a number of service providers, each engaged under separate legal agreements At each Board meeting the Directors follow a formal agenda, which is circulated in advance by the Company Secretary The Board's main roles are to create value to shareholders, to provide leadership to the Company and to achieve the Company's strategic objectives Specific responsibilities of the Board include reviewing the performance of the Company's Investment Managers, in particular in relation to asset allocation, gearing policy, cash management, investment outlook and revenue forecasts In order to meet these objectives the Company Secretary and Investment Manager provide financial information, on a regular basis together with briefing notes and papers in relation to changes in the Company's economic and financial environment, statutory and regulatory changes and corporate governance best practice

The Investment Manager is able, as part of the investment process, to make use of industry experts such as utilising the Strategic Advisory Board The Strategic Advisory Board was established to provide advice to SVG in relation to the strategy, operations and management of potential investee companies (Note 18)

The management of the Company's assets is delegated to SVG Investment Managers Limited who have discretion to manage the assets of the Company in accordance with the Company's objectives and policies At each Board meeting, a representative from the Investment Manager will be in attendance to present verbal and written reports covering its activity, portfolio and investment performance over the preceding period Ongoing communication with the Board is maintained between formal meetings The Board and the Investment Manager operate in a supportive, co-operative and open environment

Committees
An Audit Committee has been established under the Chairmanship of Mr Cornish comprising all the independent Directors and operates within clearly written defined terms of reference It provides a forum through which the Company's external Auditors report to the Board of Directors The primary responsibilities of the Audit Committee are to review the effectiveness of the internal control environment of the Company and monitor adherence to best practice in corporate governance, to make recommendations to the Board in relation to the re-appointment of the Auditors and to approve the remuneration and terms of engagement, to review and monitor the Auditors independence and objectivity and the effectiveness of the audit process The Committee undertakes a formal assessment of the Auditors' independence each year, which includes a review of non-audit services provided to the Company and related fees, discussion with the Auditors of a written report detailing all relationships with the Company and any other parties that could affect independence or the perception of independence, and obtaining written confirmation from the Auditors that, in their professional judgement, they are independent The Audit Committee also has responsibility for monitoring the integrity of the financial statements and accounting policies of the Company and for reviewing the Company's financial reporting and internal control policies and procedures

The Audit Committee has direct access to the Company's Auditors, Ernst & Young LLP, and representatives of Ernst & Young LLP attend the year end Audit Committee meeting

The Board recommends to shareholders that the Auditors, Ernst & Young LLP, be re-appointed at the Annual General Meeting as set out in Resolution 5 of the Notice of Meeting

A Management Engagement Committee has been established under the Chairmanship of Mr Hodson comprising all of the independent Directors and operates within clearly defined terms of reference The Committee is responsible for reviewing the performance of the Investment Manager and other service providers This committee met once during the year with all members present

Review of new Board appointments is a subject for the whole Board to monitor and consider The Board meet as and when required for this purpose and to ensure planned and progressive refreshing of the Board At 30 June 2007 there were no Directors' service agreements and no Director had been granted any options to acquire shares in the Company

The Board as a whole act as a Remuneration Committee with Mr Morgan as Chairman Further details are given in the Directors' remuneration report on page 17

Terms of reference for each Committee are available for inspection at the Company's registered office During the year two Audit Committee meetings were held All members were present

In addition, the Board has formalised the arrangements under which Directors, in the furtherance of their duties, may take independent professional advice

The Company has arranged Directors' and Officers' Liability Insurance which provides cover for legal expenses under certain circumstances

Directors' service contracts
It is the Board's policy that none of the Directors has a service contract The terms of appointment provide that a Director shall retire and be subject to election at the first Annual General Meeting after his/her appointment, and at least every three years after that unless a Director has been in office more than nine years in which case they will stand for election every year The terms also provide that a Director may resign or be removed without notice and that compensation will not be due on leaving office

Going concern
The Directors are of the opinion that the Company has adequate resources to continue in operational existance for the foreseeable future and accordingly have adopted the going concern basis in preparing the accounts

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

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing risks faced by the Company This process is regularly reviewed by the Board

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

Statement of changes in equity for the year ended 30 June 2007

	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve –realised £'000	Capital reserve –unrealised £'000	Revenue reserve £'000	Total £'000
For the year to 30 June 2007							
01 July 2006	7,262	2,042	62,282	383	2,456	1,198	75,623
Return for the year	–	–	–	3,170	4,752	123	8,045
Dividend paid	–	–	–	–	–	(944)	(944)
Write back of share issue expenses	–	28	–	–	–	–	28
30 June 2007	7,262	2,070	62,282	3,553	7,208	377	82,752
For the period ended 30 June 2006							
20 July 2005	7,040	62,282	–	–	–	(12)	69,310
Return for the period	–	–	–	383	2,456	1,210	4,049
Transfer to special reserve	–	(62,282)	62,282	–	–	–	–
Issue of share capital	222	2,042	–	–	–	–	2,264
30 June 2006	7,262	2,042	62,282	383	2,456	1,198	75,623

The notes on pages 23 to 33 form part of these financial statements

Statement on Corporate Governance (continued)

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 considers the Company's objectives in 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 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

Against this backdrop the Board has split the review into four sections reflecting the nature of the risks being addressed The sections are as follows

- corporate strategy,
- published information and 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 most functions are subcontracted, the Directors obtain information from key third party suppliers regarding the controls operated by them To enable the Board to make an appropriate risk and control assessment, the information and assurances sought from third parties include the following

- details of the control environment,
- identification and evaluation of risks and control objectives,
- assessment of the communication procedures, and
- assessment of the control procedures

The key procedures which have been established to provide effective internal controls are as follows

- investment management is provided by SVG Investment Managers Limited The Board is responsible for the implementation of the overall investment policy and monitors the action of the Manager at regular meetings,
- the provision of administration, accounting and company secretarial duties is the responsibility of Capita Sinclair Henderson Limited,
- Custody of assets is undertaken by HSBC Bank plc,
- 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 non-executive 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 agreements,
- mandates for authorisation of investment transactions and expense payments are set by the Board, and
- the Board reviews detailed financial information produced by the Manager and the Secretary on a regular basis

The Company does not have an internal audit function All of the Company's management functions are delegated to independent third parties whose controls are reviewed by the Board It is therefore felt that there is no need for the Company to have an internal audit function However, this need is reviewed annually

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 Secretary is also responsible to the Board for ensuring timely delivery of the information and reports and that statutory obligations of the Company are met

Dialogue with Shareholders
Communication with shareholders is given a high priority by both the Board and the Manager Major shareholders of the Company are offered the opportunity to meet with the Investment Manager and the Directors in order to ensure that their views are understood All shareholders are encouraged to attend and vote at the Annual General Meeting, during which the Board and the Investment Manager are available to discuss issues affecting the Company and shareholders have the opportunity to address questions to the Investment Manager, the Board and the Chairmen of the Board's standing committees

Statement of Directors' responsibilities in respect of the accounts

The Directors are responsible for preparing this Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards adopted by the European Union

The Directors are required to prepare financial statements for each financial period which present fairly the financial position of the Company and the financial performance and cash flows of the Company for that period In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- state that the Company has complied with IFRS, 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 enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' remuneration report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985 An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting

The law requires your Company's Auditors to audit certain of the disclosures provided Where disclosures have been audited, they are indicated as such The Auditors' opinion is included in their report on page 18

Remuneration Committee
The Board has resolved that, in view of the size of the Board, it is most appropriate for matters of remuneration to be dealt with by the Board as a whole sitting as a Remuneration Committee with Mr Morgan as the Committee's Chairman

Policy on Directors' fees
The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that are similar in size, have a similar capital structure and have a similar investment objective It is intended that this policy will continue for the year ending 30 June 2008

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association The Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits

Director's service contracts
None of the Directors has a contract of service with the Company, nor has there been any contract or arrangement between the Company and any Director at any time during the year The terms of their appointment provide that a Director shall retire and be subject to election at the first annual general meeting after their appointment, and at least every three years after that

Your Company's performance
The Companies Act 1985 requires this report to include a performance graph comparing the Company's total shareholder return performance against that of a broad equity market index The performance comparison presented is just to satisfy legal requirements and comparison against an index is not the objective of the fund The graph opposite compares the total shareholder return to the FTSE All-Share Total Return Index This index has been selected for comparison of the Company's performance for its generic qualities as no listed index directly comparable to the Company's portfolio exists

Directors' emoluments for the period (audited)
The Directors who served in the year were paid the following emoluments in the form of fees

	Year ended 30 June 2007 £	Period ended 30 June 2006 £
J Hodson (Chairman)	25,000	23,723
Sir C M Thompson*	17,500	16,606
J W Morgan	17,500	16,606
J E Cornish**	14,340	–
J S Binnie***	5,883	16,606

* Sir Clive Thompson's fees are paid to Storm Financial Limited
** Appointed 6 September 2006
*** J S Binnie retired on 1 November 2006

Approval
The Directors' remuneration report on this page was approved by the Board of Directors on 26 September 2007 and signed on its behalf by the Chairman

J L Hodson

Independent Auditors' report
to the members of Strategic Equity Capital plc

We have audited the financial statements of Strategic Equity Capital plc for the year ended 30 June 2007 which comprise the Income statement, the Statement of Changes in Equity, the Balance sheet, the Statement of cash flows, and the related notes 1 to 18 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' responsibilities for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are 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 and whether 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 We also report to you whether the information given in the Report of the Directors is consistent with the financial statements

In addition we 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 read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Capital structure, the Financial summary, the Chairman's report, Directors, Manager, Secretary and Advisers, the Investment Manager's report, the Report of the Directors, the Statement on Corporate Governance, the unaudited part of the Directors' remuneration report, the Shareholder 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 judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 IFRSs as adopted by the European Union, of the state of the Company's affairs as at 30 June 2007 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 Report of the Directors is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
26 September 2007

Income statement for the year ended 30 June 2007

	Note	Year ended 30 June 2007 Revenue return £'000	Capital return £'000	Total £'000	Period ended 30 June 2006* Revenue return £'000	Capital return £'000	Total £'000
Investments							
Gains on investments at fair value through profit or loss		–	10,558	10,558	–	2,839	2,839
Net investment result		–	10,558	10,558	–	2,839	2,839
Income							
Dividends	2	866	–	866	569	–	569
Interest	2	426	–	426	1,788	–	1,788
Underwriting commission	2	7	–	7	2	–	2
Total income		1,299	–	1,299	2,359	–	2,359
Expenses							
Investment Manager's fee	3	(892)	–	(892)	(595)	–	(595)
Investment Manager's performance fee	3	–	(2,596)	(2,596)	–	–	–
Other expenses	4	(297)	(40)	(337)	(280)	–	(280)
Total expenses		(1,189)	(2,636)	(3,825)	(875)	–	(875)
Net return before finance costs and taxation		110	7,922	8,032	1,484	2,839	4,323
Finance costs							
Interest payable		(4)	–	(4)	–	–	–
Total finance costs		(4)	–	(4)	–	–	–
Net return before taxation		106	7,922	8,028	1,484	2,839	4,323
Taxation	6	17	–	17	(274)	–	(274)
Net return after taxation for the year	7	123	7,922	8,045	1,210	2,839	4,049
		pence	pence	pence	pence	pence	pence
Return per Ordinary share							
Basic	7	0 17	10 91	11 08	1 68	3 94	5 62

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 Companies All items in the above statement derive from continuing operations No operations were acquired or discontinued during the year

* Period from 20 July 2005 to 30 June 2006

The notes on pages 23 to 33 form part of these financial statements

Balance sheet
as at 30 June 2007

	Note	30 June 2007 £'000	30 June 2006 £'000
Non-current assets			
Fair value through profit or loss			
– Investments	8	**86,100**	55,022
Current assets			
Other receivables	10	**640**	989
Cash and cash equivalents		**918**	20,458
		1,558	21,447
Total assets		**87,658**	76,469
Current liabilities			
Other payables	11	**4 906**	846
		4,906	846
Total assets less current liabilities		**82,752**	75,623
Net assets		**82,752**	75,623
Capital and reserves			
Share capital	12	**7,262**	7,262
Share premium account	13	**2,070**	2,042
Special reserve	13	**62,282**	62,282
Capital reserve	13	**10,761**	2,839
Revenue reserve	13	**377**	1,198
Total shareholders' equity		**82,752**	75,623
		pence	pence
Net asset value per share			
Basic	15	**113 94**	104 13
		number	number
Shares in issue			
Ordinary shares		**72,626,000**	72,626,000

The financial statements were approved by the Board of Directors and authorised for issue on 26 September 2007 They were signed on its behalf by

J Hodson
Chairman
26 September 2007

The notes on pages 23 to 33 form part of these financial statements

Statement of cash flows for the year ended 30 June 2007

	Note	Year ended 30 June 2007 £'000	Period ended 30 June 2006 £'000
Operating activities			
Net return before tax		8,028	4,323
Adjustment for gains on investments		(10,518)	(2,839)
Operating cash flows before movements in working capital		(2,490)	1,484
Decrease/(increase) in receivables		218	(250)
Increase in payables		2,631	245
Tax paid		(282)	–
Purchases of portfolio investments		(41,236)	(59,885)
Sales of portfolio investments		21,535	7,250
Net cash outflow from operating activities		(19,624)	(51,156)
Financing activities			
Equity dividend paid		(944)	–
Drawdown of revolving credit facility		1,000	–
Writeback of share issue expenses		28	–
Redemption of redeemable shares		–	(50)
Proceeds of ordinary share issue		–	71,614
Net cash inflow from financing activities		84	71,564
(Decrease)/increase in cash and cash equivalents for the year	14	(19,540)	20,408
Cash and cash equivalents at start of the year		20,458	50
Cash and cash equivalents at 30 June 2007		918	20,458

The notes on pages 23 to 33 form part of these financial statements

Notes to the Financial Statements for the year ended 30 June 2007

1 1 Corporate information

Strategic Equity Capital plc is a public limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded

The financial statements of Strategic Equity Capital plc for the year ended 30 June 2007 were authorised for issue in accordance with a resolution of the Directors on 26 September 2007

1 2 Basis of preparation/statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (as adopted by the EU), interpretations issued by the International Financial Reporting Interpretations Committee, and applicable requirements of United Kingdom company law, and reflect the following policies which have been adopted and applied consistently Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in January 2003 and revised December 2005 is consistent with the requirements of IFRS the Directors have sought to prepare financial statements on a basis compliant with the recommendations of the SORP

Convention

The financial statements are presented in Sterling, being the currency of the primary environment in which the Company operates, rounded to the nearest thousand

Segmental reporting

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business

1 3 Accounting policies

Investments

All investments in the scope of IAS 39 held by the Company are classified as "fair value through profit or loss" As the entity's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increase in fair value, listed equities and fixed income securities are designated as fair value through profit or loss on initial recognition The entity manages and evaluates the performance of these investments on a fair value basis in accordance with its investment strategy Investments are initially recognised at cost, being the fair value of the consideration given, excluding transaction costs associated with the investment that are charged to the Income statement and allocated to capital

After initial recognition, 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

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 adjustment for transaction costs necessary to realise the asset

In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using recognised valuation methodologies, in accordance with International Private Equity and Venture Capital ("IPEVC") Valuation Guidelines New investments are initially carried at cost, for a limited period, being the price of the most recent investment in the investee This is in accordance with IPEVC Guidelines as the cost of recent investments will generally provide a good indication of fair value Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction

Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the "trade date" i e the day that the entity commits to purchase or sell the asset Regular way purchases, or sales, are purchases or sales of financial assets that require delivery of the asset within a time frame generally established by regulation or convention in the market place

Notes to the Financial Statements for the year ended 30 June 2007 (continued)

1 3 Accounting policies (continued)

Income

Dividends receivable on quoted equity shares are taken into account on the ex-dividend date Where no ex-dividend date is quoted, they are brought into account when the Company's right to receive payment is established Other investment income and interest receivable are included in the financial statements on an accruals basis Dividends received from UK registered companies are accounted for net of imputed tax credits

Expenses

All expenses are accounted for on an accruals basis Transaction costs and other expenses incurred on the acquisition of an investment classified as fair value through profit or loss are not included within the cost of that investment but are charged separately through the Income statement and allocated to capital The Company's investment management and administration fees, finance costs (including interest on the bank facility) and all other expenses are charged through the Income statement These expenses are allocated 100% to the revenue column of the Income statement The Investment Manager's performance fee is allocated 100% to the capital column of the Income statement In the opinion of the Directors the fee is awarded entirely for the capital performance of the portfolio

Cash and cash equivalents

Cash in hand and in banks and short-term deposits which are held to maturity are carried at cost Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value Bank overdrafts that are repayable on demand which form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of cash flows

Bank loans and borrowings

All bank loans and borrowings are initially recognised at cost, being the fair value of the consideration received, less issue costs where applicable After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost, any difference between cost and redemption value being recognised in the Income statement over the period of the borrowings on an effective interest basis

Taxation

Income tax on the profit or loss for the year comprises current and deferred tax Income tax is recognised in the Income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the Balance sheet date, and any adjustment to tax payable in respect of previous years The tax effect of different items of expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, using the Company's effective rate of tax, as applied to those items allocated to revenue, for the accounting year

Deferred income tax is provided on all temporary differences at the Balance sheet date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes Deferred income tax liabilities are measured on an undiscounted basis at the tax rates that are expected to apply to the year when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the Balance sheet date

Dividends payable to shareholders

Interim dividends to shareholders are recognised as a liability in the period in which they are paid Final dividends to shareholders are recognised as a liability in the year in which they have been declared and approved by the shareholders Dividends are charged to the Statement of changes in equity

Foreign currancy transactions

The currency of the Primary Economic Environment in which the Company operates is pounds Sterling (Sterling) which is also the presentational currency Transactions denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the date of the transaction

Investments are converted to Sterling at the rates of exchange ruling at the Balance sheet date Exchange gains and losses relating to investments are taken to the capital column of the Income statement

1 3 Accounting policies (continued)

New standards not applied

The IASB have issued the following standard with an effective date of periods beginning on or after 31 December 2006

IFRS 7 – Financial Instruments Disclosures (effective 1 January 2007)

The Directors do not anticipate that the adoption of this standard will have a material impact on the Company's financial statements in the period of initial application

2 Income

	30 June 2007 £'000	30 June 2006 £'000
Income from investments		
UK dividend income	866	569
Liquidity fund income	389	1,634
	1,255	2,203
Other income		
Bank interest receivable	37	154
Underwriting commission	7	2
	44	156
	1,299	2,359
Total income comprises		
Dividends	866	569
Interest	426	1,788
Underwriting commission	7	2
	1,299	2,359

3 Investment Manager's fee

	30 June 2007			30 June 2006		
	Revenue return £'000	Capital return £'000	Total £'000	Revenue return £'000	Capital return £'000	Total £'000
Management fee	759	–	759	506	–	506
Irrecoverable VAT thereon	133	–	133	89	–	89
Performance fee	–	2,209	2,209	–	–	–
Irrecoverable VAT thereon	–	387	387	–	–	–
	892	2,596	3,488	595	–	595

A basic management fee is payable to the Investment Manager at the annual rate of 1 per cent of the net asset value of the Company together with an amount equal to any VAT thereon The basic management fee accrues daily and is payable quarterly in arrears Details can be found on page 11

The Investment Manager is also entitled to an performance fee, details of which are given in the Report of the Directors on page 11

Notes to the Financial Statements for the year ended 30 June 2007 (continued)

4 Other expenses

	30 June 2007			30 June 2006		
	Revenue return £'000	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000
Secretarial services	73	–	73	69	–	69
Auditor's remuneration for Audit services	17	–	17	15	–	15
Directors' remuneration (see the Directors' remuneration report)	80	–	80	74	–	74
Other expenses	127	40	167	122	–	122
	297	40	337	280	–	280

5 Dividend

The Company paid a final dividend of 1 30p per Ordinary share on 8 November 2006 to shareholders on the register at 13 October 2006 which absorbed £944,000 of retained reserves The Directors do not propose a dividend in respect of the year ended 30 June 2007

6 Taxation

	30 June 2007			30 June 2006		
	Revenue return £'000	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000
Corporation tax at 30%	–	–	–	274	–	274
Adjustment relating to prior period	(17)	–	(17)	–	–	–
	(17)	–	(17)	274	–	274

The taxation charge for the year is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below

	30 June 2007			30 June 2006		
	Revenue return £'000	**Capital return £'000**	**Total £'000**	Revenue return £'000	Capital return £'000	Total £'000
Return on ordinary activities before taxation	106	7,922	8,028	1,484	2,839	4,323
Theoretical tax at UK corporation tax rate of 30%	32	2,377	2,409	445	852	1,297
Effects of						
– UK dividends that are not taxable	(260)	–	(260)	(171)	–	(171)
– Gains on investment	–	(3,167)	(3,167)	–	(852)	(852)
– Unrelieved expenses	226	790	1,016	–	–	–
– Expenses not deductible for tax purposes	2	–	2	–	–	–
– Adjustment relating to prior period	(17)	–	(17)	–	–	–
	(17)	–	(17)	274	–	274

Factors that may affect future tax charges

The Company has £3,308,000 management expenses (2006 nil) that are available to offset future taxable revenue

Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an investment trust company

7 **Return per Ordinary share**

	30 June 2007 Net return £'000	30 June 2007 Weighted average number of Ordinary shares	30 June 2007 Per share pence	30 June 2006 Net return £'000	30 June 2006 Weighted average number of Ordinary shares	30 June 2006 Per share pence
Total						
Return per share	8,045	72,626,000	11 08	4,049	71,982,647	5 62
Revenue						
Return per share	123	72,626,000	0 17	1,210	71,982,647	1 68
Capital						
Return per share	7,922	72,626,000	10 91	2,839	71,982,647	3 94

8 **Investments**

	30 June 2007 £'000	30 June 2006 £'000
Investment portfolio summary		
Listed investments at fair value through profit or loss	83,861	54,223
Unlisted investments at fair value through profit or loss	2,239	799
	86,100	55,022

	Listed £'000	Unlisted £'000	30 June 2007 Total £'000	30 June 2006 Total £'000
Analysis of investment portfolio movements				
Opening book cost	51,767	799	52,566	–
Opening unrealised appreciation	2,456	–	2,456	–
Opening valuation	54,223	799	55,022	–
Movements in the year				
Purchases at cost	40,633	1,266	41,899	60,172
Sales – proceeds	(21,386)	–	(21,386)	(7,989)
– realised gains on sales	5,813	–	5,813	383
Movement from unlisted to listed	799	(799)	-	-
Increase in unrealised appreciation	3,779	973	4,752	2,456
Closing valuation	83,861	2,239	86,100	55,022
Closing book cost	77,626	1,266	78,892	52,566
Closing unrealised appreciation	6,235	973	7,208	2,456
	83,861	2,239	86,100	55,022

Notes to the Financial Statements for the year ended 30 June 2007 (continued)

8 Investments (continued)

A list of the top ten portfolio holdings by their aggregate market values is given in the Investment Manager's report on page 6

Transaction costs incidental to the acquisitions of investments totalled £167,000 (2006 £367,000) and disposals of investments totalled £42,000 (2006 £10,000) for the year

	30 June 2007 Total £'000	30 June 2006 Total £'000
Analysis of capital gains		
Realised gains on sales	5,813	383
Foreign exchange losses	(7)	–
Movement in unrealised appreciation	4,752	2,456
	10 558	2,839

9 Significant interests

The Company had holdings of 3% or more that is material in the context of the accounts in the following companies' securities

Name of investment	Class of Share	30 June 2007 Percentage held
Watermark Group	Ordinary	15 37
Redstone	Ordinary	9 15
Pinewood Shepperton	Ordinary	5 83
Cardpoint	Ordinary	4 40
Renold	Ordinary	4 23
Western & Oriental	Ordinary	4 09
Filtronic	Ordinary	3 44

10 Other receivables

	30 June 2007 £'000	30 June 2006 £'000
Amounts due from brokers	583	739
Dividends receivable	21	164
Accrued Income	6	79
Corporation tax	25	–
Prepayments	5	7
	640	989

11 Other payables

	30 June 2007 £'000	30 June 2006 £'000
Bank loan	1,000	–
Share issue expenses	–	28
Amounts due to brokers	990	287
Corporation tax	–	274
Other creditors and accruals	2,916	257
	4,906	846

The bank loan, which is a £17,500,000 revolving credit facility, with The Royal Bank of Scotland, bears interest at the rate of 1 0% over LIBOR or EURIBOR on any drawn down balance and 0 175% on any undrawn balance The facility may be drawn down in Sterling, US Dollars or Euros The bank loan facility is available until 4 June 2008 and is subject to the following covenant

Gross borrowings shall not be more than 20% of the adjusted portfolio valuation at any time

At 30 June 2007 the Company had £1,000,000 drawn down under the facility

12 Called up share capital

	30 June 2007 £'000	30 June 2006 £'000
Authorised		
120,000,000 Ordinary shares of 10p each	12,000	12,000
Allotted, called up and fully paid		
72,626,000 (2006 72,626,000) Ordinary shares of 10p each	7,262	7,262

13 Reserves

	Share premium £'000	Special reserve £'000	Capital reserve (realised) £'000	Capital reserve (unrealised) £'000	Revenue reserve £'000
Opening balance	2,042	62,282	383	2,456	1,198
Net gains on realisation of investments	–	–	3,912	–	–
Exchange difference	–	–	(7)	–	–
Increase in unrealised appreciation	–	–	–	6,653	–
Transfer on disposal	–	–	1,901	(1,901)	–
Costs allocated to capital	–	–	(2,636)	–	–
Write back of share issue expenses	28	–	–	–	–
Dividend paid	–	–	–	–	(944)
Retained net revenue for the period	–	–	–	–	123
As at 30 June 2007	2,070	62,282	3,553	7,208	377

Notes to the Financial Statements for the year ended 30 June 2007 (continued)

14 Reconciliation of net cash flow to net debt

	30 June 2007 £'000	30 June 2006 £'000
Opening net funds	**20,458**	50
(Decrease)/increase in cash and cash equivalents in year	**(19,540)**	20,408
Drawdown of bank loan	**(1,000)**	–
Closing net debt	**(82)**	20,458

	At 30 June 2006 £'000	Net cashflow £'000	At 30 June 2007 £'000
Cash at bank	1,458	(840)	**618**
Liquidity funds	19,000	(18,700)	**300**
Debt due within one year	–	(1,000)	**(1,000)**
	20,458	(20,540)	**(82)**

15 Net asset value per Ordinary share

The net asset value per Ordinary share is based on net assets of £82,752,000 (2006 £75,623,000) and on 72,626,000 (2006 72,626,000) Ordinary shares, being the number of shares in issue at the year end

16 Capital commitments and contingent liabilities

The Company has a commitment to invest €2,160,000 in Vintage I

17 Analysis of financial assets and liabilities

The Company's financial instruments comprise securities, cash balances (including amounts held in liquidity funds) and debtors and creditors that arise from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income

The Company has little exposure to credit and cash flow risk

The Company finances its operations through its issued capital, existing reserves and a £17,500,000 revolving credit facility

The principal risks the Company faces in its investment portfolio management activities are

- Market price risk, i e the movements in value of investment holdings caused by factors other than interest rate movement,
- Interest rate risk, and
- Liquidity risk

17 Analysis of financial assets and liabilities (continued)

The Investment Manager's policies for managing these risks are summarised below and have been applied throughout the year

Policy

(i) **Market price risk**
The Company's investment portfolio is exposed to market price fluctuations which are monitored by the Investment Manager

Adherence to the investment objectives and the limits on investment set by the Company mitigates the risk of excessive exposure to any one particular type of security or issuer

(ii) ***Cash flow interest rate risk exposure***
The Investment Manager is permitted to borrow up to 20% of the Company's adjusted portfolio valuation, and uses a £17,500,000 revolving credit facility for this purpose, at variable rates to be determined prior to any drawdown

The Company's bank accounts earn interest at a variable rate which is subject to fluctuations in interest rates

The Company holds cash in liquidity funds Income from these funds is dependent on the performance of the funds

Non-interest rate risk exposure
The remainder of the Company's portfolio and current assets are not subject directly to interest rate risk

Details of the risk profile of the Company are shown in the following tables

(iii) **Liquidity risk**
The Investment Manager may invest on behalf of the Company in securities which are not readily tradable, which can lead to volatile share price movements It may be difficult for the Company to sell such investments

(iv) **Foreign currency risk**
The Company invests in a private equity fund denominated in Euros In addition the Company's loan may be drawn down in US Dollars or Euros as well as Sterling The Company is, therefore, subject to foreign currency risk

The interest rate risk profile of the Company's financial assets at 30 June 2007 was

	Total £'000	No interest rate risk financial assets £'000	Cash flow interest rate risk financial assets £'000
Sterling			
Ordinary shares	84,561	84,561	-
Liquidity funds	300	-	300
Cash	618	-	618
Receivables*	635	635	-
	86,114	85,196	918
Euros			
Other investments	1,539	1,539	-
	1,539	1,539	-
Total	87,653	86,735	918

Notes to the Financial Statements for the year ended 30 June 2007 (continued)

17 Analysis of financial assets and liabilities (continued)

The interest rate risk profile of the Company's financial assets at 30 June 2006 was

	Total £'000	No interest rate risk financial assets £'000	Cash flow interest rate risk financial assets £'000
Sterling			
Ordinary shares	55,022	55,022	–
Liquidity funds	19,000	–	19,000
Cash	1,458	–	1,458
Receivables*	982	982	–
	76,462	56,004	20,458

* Receivables exclude prepayments which under IAS 32 are not classed as financial assets

The interest rate risk profile of the Company's financial liabilities at 30 June 2007 was

	Total £'000	No interest rate risk financial liabilities £'000	Cash flow interest rate risk financial liabilities £'000
Sterling			
Creditors	3,906	3,906	–
Bank loan	1,000	–	1,000
Total	4,906	3,906	1,000

All amounts are due in one year or less

The interest rate risk profile of the Company's financial liabilities at 30 June 2006 was

	Total £'000	No interest rate risk financial liabilities £'000	Cash flow interest rate risk financial liabilities £'000
Sterling			
Creditors	846	846	–

All amounts are due in one year or less

The bank loan, which is a £17,500,000 revolving credit facility with The Royal Bank of Scotland, bears interest at the rate of 1 0% over LIBOR or EURIBOR The facility at 30 June 2007 bore interest at the rate of 6 72975% The undrawn balance bears interest at the rate of 0 175%

Fair values of financial assets and financial liabilities

All of the financial assets and liabilities of the Company are held at fair value

18 *Related party transactions*

The Manager SVG Investment Managers Limited is regarded as a related party of the Company The Manager may draw upon advice from the Strategic Advisory Board of which Sir Clive Thompson, a Director of the Company, is a member The Strategic Advisory Board was established to provide advice to SVG in relation to the strategy, operations and management of potential investee companies

The amounts paid to the Manager are disclosed in the Report of the Directors on page 11 and in Note 3 on page 25

The amount due to the Manager at 30 June 2007 was £2,828,000 (30 June 2006 £195,000)

Shareholder information

Financial calendar

Company's year-end	30 June
Annual results announced	September
Annual General Meeting	November
Company's half-year	31 December
Interim results announced	February

Share price
The Company's Ordinary shares are listed on the London Stock Exchange The mid-market price is quoted daily in the Financial Times under 'Investment Companies'

Share dealing
Shares can be traded through your usual stockbroker

Share register enquiries
The register for the Ordinary shares is maintained by Computershare Investor Services plc In the event of queries regarding your holding, please contact the Registrar on 0870 702 0100 Changes of name and/or address must be notified in writing to the Registrar, whose address is shown on page 4

NAV
The Company's net asset value is announced weekly to the London Stock Exchange

Website
Further information on the Company can be accessed via the Company's website www strategicequitycapital com

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Strategic Equity Capital plc will be held at the offices of SVG Investment Managers Limited at 111 Strand, London WC2R 0AG at 11 30am on 6 November 2007 for the following purposes

Ordinary business

1 To receive and adopt the audited Financial Statements for the year ended 30 June 2007, together with the Reports of the Directors and Auditors thereon

2 To receive and approve the Directors' remuneration report

3 To re-elect Mr Hodson as a Director

4 To elect Mr Phillips as a Director

5 To re-appoint Ernst & Young LLP as Auditors to the Company, to hold office from the conclusion of this Meeting until the next General Meeting, at which Financial Statements are laid, and to authorise the Directors to determine their remuneration

Special business

To consider and if thought fit to pass the following Resolutions

Ordinary Resolution

6 THAT the Board be and it is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £2,420,867 which authority shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company after the passing of this resolution and 6 February 2009 (unless previously revoked or varied by the Company in general meeting) save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired

Special Resolutions

7 THAT the Board be and it is hereby empowered, pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution and/or where such allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the said Act, as if sub section (1) of Section 89 of the said Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to

(A) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer or a scrip dividend alternative in favour of ordinary shareholders (excluding any shareholder holding shares as treasury shares) and in favour of holders (excluding any holder holding shares as treasury shares) of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of such persons on a fixed record date are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever), and

(B) the allotment (otherwise than pursuant to sub-paragraph (A) above) of equity securities or sale of shares out of treasury up to an aggregate nominal value of £363,130,

and shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company after the passing of this resolution and 6 February 2009, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired

Notice of Annual General Meeting (continued)

8 THAT the Company be generally and unconditionally authorised, in accordance with Article 7 of the Company's Articles of Association, to make market purchases (as defined in Section 163(3) of the Companies Act 1985 of its ordinary shares PROVIDED THAT

(A) the Company does not purchase under this authority more than 10,886,637 ordinary shares,

(B) the Company does not pay for each such ordinary share less than the nominal amount of such ordinary share at the time of purchase, and

(C) the Company does not pay for each such ordinary share more than the higher of (i) 5 per cent over the average of the middle market prices of the ordinary shares according to the Daily Official List of the London Stock Exchange for the five business days immediately before the date on which the Company agrees to buy the shares, and (ii) the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (EC No 2273/2003)

This authority shall continue for the period ending on the date of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, 6 May 2009, provided that if the Company has agreed, before this authority expires, to purchase ordinary shares where the purchase will or may be executed after this authority expires (wither wholly or in part), the Company may complete such purchase as if this authority had not expired

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

By Order of the Board
Capita Sinclair Henderson Limited
Secretary
26 September 2007

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 Registrars at the address printed on the form of proxy not later than 6 pm on 4 November 2007

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 6 pm on 4 November 2007 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 6 pm on 4 November 2007 (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 Shareholders (and any proxies or representatives they appoint) agree, by attending this Meeting, 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

Strategic Equity Capital plc
Registered Office
Capita Sinclair Henderson Limited
Beaufort House
51 New North Road
Exeter EX4 4EP
Tel +44 (0)1392 412122
Fax +44 (0)1392 253282

www strategicequitycapital com