

Investment manager



New Star Private Equity Investment Trust PLC

Report and Accounts

for the year ended 31 December 2007

Contents

	Page
Investment Objective	2
Financial Summary	2
Performance Summary	2
Chairman's Statement	3
Investment Review	6
Investment Portfolio	8
Portfolio Analysis	9
Directors	17
Corporate Information	18
Directors' Report	19
Directors' Remuneration Report	27
Corporate Governance	29
Independent Auditors' Report	35
Income Statement	37
Reconciliation of Movement in Shareholders' Funds	38
Balance Sheet	40
Cash Flow Statement	41
Statement of Accounting Policies	42
Notes to the Accounts	44
Shareholder Information	62

Investment Objective

The Company's investment objective, which was adopted in July 2007 following the Company's reconstruction, is to produce capital gains through exposure to a diversified portfolio of private equity investments.

Financial Summary at 31 December 2007

Net Assets	£74.5m
Net Asset Value per share	377.6p
Share price	299.0p

Performance Summary

One Year Performance

	31 December 2007	31 December 2006*	Change
Net Asset Value	£74.5m	£89.5m	N/A
Net Asset Value per share	377.6p	330.4p	+14.3%
Share price	299.0p	286.5p	+ 4.4%
Discount	20.8%	13.3%	N/A
FTSE All-Share Index	3,286.7	3,221.4	+ 2.0%

* The comparative results for 2006 reflect the period prior to the Company's reconstruction which completed on 2 July 2007.

Chairman's Statement

I am pleased to report a total return for the year ended 31 December 2007 of 44.3p per Ordinary Share, with the net asset value at 31 December 2007 being 377.6p per Ordinary Share compared to 330.4p at 31 December 2006.

Corporate activity

As already reported in detail in the interim accounts and circulars sent to shareholders in July 2007, following a reconstruction and merger with Rutland Trust PLC, the Company adopted a fund-of-funds strategy under the management of New Star Asset Management Limited. The net asset value per share rose by 8.7% between the completion of this transaction on 2 July 2007 and 31 December 2007. Further details of the reconstruction and the Company's investment policy can be found under the "Business Review" in the Directors' Report.

Dividend

Following the reconstruction, the Company's policy is to pay dividends only to the extent required to maintain investment trust status. The income received by the Company during the year ended 31 December 2007 has allowed the Company to declare an interim dividend of 0.66p per Ordinary Share. Shareholders should note this level of dividend should not be taken as a guide for the future, as the Company's income is expected to be variable.

The interim dividend will be paid on 20 June 2008 to shareholders on the Company's share register on 9 May 2008.

Valuation

At 31 December 2007 the value of the Company's investments, including cash and treasury bills, was £75.1 million. This included private equity fund interests of £66.2 million at 31 December 2007. The value of the Company's interest in limited partnerships was £53.3 million; 28% of this portfolio is valued at cost and, barring a severe economic downturn, we believe the balance is valued prudently. During the year there were unrealised gains of £19.0 million on the limited partnership interests. Further information on the Company's limited partnership interests and the look-through investments can be found on pages 6 to 16.

Liquidity

Aggregated cash and money market balances were approximately £9.0 million at 31 December 2007. Including listed private equity vehicles, the Company currently has £17.1 million of liquidity. In addition, the Company had undrawn loan facilities of £30.0 million.

The Company's liquidity was driven by some significant realisations in the portfolio, including the sell down of 50% of the interest in August Equity Partners I ("AEP I") in August 2007. The Company's liquid resources of £47.1 million compare to current outstanding commitments to funds still in their initial investment period of £68.5 million; these commitments are expected to be drawn down over the next few years.

Investment activity

As a result of the reconstruction, the year to 31 December 2007 was a period of two distinct halves. Under the previous investment policy and management of August Equity Management Limited, the Company saw six full realisations of £11.6 million and three partial realisations of £2.0 million. There were three new investments totalling £2.3 million and four follow-on investments totalling £4.5 million. The Company increased its investment in Parallel Private

Chairman's Statement *continued*

Equity 2006 Limited Partnership by £4.8 million. The Company invested a further £1.5 million in the Logic Group. Following New Star's appointment there were a further two full realisations of £6.6 million, two partial realisations of £3.8 million and £18.3 million of drawdowns of commitments. In addition, £15.4 million was realised through the 50% sale of the Company's interest in AEP I.

Between 2 July and 31 December 2007 the Company made new limited partnership commitments totalling £48.5 million. Further commitments of £11.1 million were made subsequent to the year-end.

Following the adoption of the new investment policy the Company is permitted to invest in listed private equity funds. This helps reduce the "cash-drag" effect of investing in limited partnerships and also provides improved access to certain niche areas. At 31 December 2007 the Company held 10 investments in listed private equity funds, representing 13% of the portfolio.

In April 2008, Healthcare Homes, a holding via AEP I, was sold at a premium to the 31 December 2007 valuation which, together with other returns, resulted in a 5.1p per share uplift in the net asset value per share.

The Board

Following New Star's appointment, New Star's chairman, John Duffield, was appointed to the Board.

Share price

The Company's share price has witnessed a degree of volatility. During the period, the shares moved from a narrow discount to net asset value around the time of the reconstruction to a discount of approximately 20.8% at 31 December 2007. The widening of the discount was a sector wide phenomenon, with the sector average discount at 31 December 2007 being 17.6%, compared to an 8.7% premium at its 2007 peak.

The Board is conscious of the need to maintain as narrow a discount to net asset value as possible; however, in the volatile market conditions of the second half of 2007 and early 2008 (see below), sentiment and market volatility have been driving prices rather than fundamental value. The Board believes, in the current market environment, that seeking to maintain a discount level broadly in line with the peer group is appropriate.

Market environment

As well as the changes to your Company, the year was a period of two distinct halves as far as the market backdrop was concerned.

Up to July 2007 the level of activity in the private equity arena, both in terms of fund raising and investment activity, was as frenetic as at any time in recent history. This was partly driven by abundantly available leverage, some with little or no covenants attached. In some areas of the market valuations became stretched. Against this was a reasonably buoyant stock market and secondary private equity market, providing exit opportunities for even relatively young investments.

Activity came to a near standstill post August 2007, following the impact of the "credit crunch" and the risk of a macro-economic slowdown. Valuations came under the spotlight, as market valuation metrics lowered and the environment for exits weakened, particularly amongst very large buy-out transactions.

With hindsight, it is obvious that valuations and activity had become stretched. We look forward to a period where markets return to more normal levels of activity; some time may be required for this to occur. In the pan-European mid-market buy-out area, which is the Company's primary focus, we believe that interesting investment opportunities are beginning to emerge. This area of the market has been less affected than larger buy-outs due to lower levels of leverage and more reasonable valuations.

The Company's outstanding commitments provide the opportunity to benefit from these lower valuations and create considerable upside for shareholders over the next few years. In the short term, opportunities to trade listed private equity vehicles and the existing unquoted portfolio provide potential for continued growth in net asset value. The Board is confident that, notwithstanding current volatility in private equity and public markets, your Company is well positioned to meet its new investment objective.

Annual General Meeting

The Annual General Meeting will be held at 12 noon on 26 June 2008 at the offices of New Star Asset Management Limited, 1 Knightsbridge Green, London SW1X 7NE, to which all shareholders are cordially invited.

John Mackie CBE

Chairman

29 May 2008

Investment Review

The year ended 31 December 2007 was an eventful one for the Company; despite the 'credit crunch' that hit financial markets in the second half of 2007 a rise in the net asset value was achieved.

Limited partnership interests

Over the course of the year significant new commitments were made to new limited partnership funds. The most significant of these occurred in the second-half of the year, namely £30 million to August Equity Partners II ("AEP II") in August 2007 and £10 million to Rutland Fund II in July 2007.

In August 2007, the Company, to further diversify the portfolio, sold 50% of its interest in August Equity Partners I ("AEP I") for £15.4 million, a premium to book value at 29 June 2007. The holding was purchased by HarbourVest Partners and Partners Group, following a competitive bid process.

A new commitment of £5.0 million was made to Lyceum Capital Fund II, a UK mid-market buy-out fund. Smaller commitments were also made to Century Capital Partners IV, a specialist US mid-market insurance fund, and Zeus Private Equity Fund, a UK lower-market buy-out fund. After 31 December 2007, commitments of €7.0 million were made to Astorg IV and to Pragma II, which are both French mid-market buy-out funds.

New Investments

Several new investments were made in the second half of 2007 through the Company's limited partnership interests. The largest, via AEP I, was a £5.9 million investment in Lifeways Community Care, a market-leading supplier of supported living for people with complex needs. AEP II made its first investment in 4Projects, a provider of project collaboration software.

Rutland Fund II made two investments, Pulse Home Products and Attends Healthcare. Pulse Home Products is a leading provider of small branded domestic appliances to the UK market and was acquired from Alba in August 2007. Attends Healthcare manufactures and supplies a wide range of branded and own label healthcare products used to assist both users and carers dealing with incontinence and was acquired from 3i in July 2007.

In the latter half of 2007, follow-on investments were also made in a number of the Company's underlying portfolio companies, including Advantage, Chorion, Healthcare Homes, Jerrold Holdings, Logic Group and Notemachine. In February 2008, follow-on investments were made into Healthcare Homes and Lifeways Community Care to fund bolt-on acquisitions.

Realisations

In the first-half of 2007 the most significant realisations were those of InterMed Holdings and Tuja. InterMed is the holding company of Penlon, a UK manufacturer of anaesthesia equipment and was sold to Altaris Capital Partners, by AEP I, in a secondary buy-out for 2.2 times the original investment. Tuja, a temporary employment agency in which Parallel was invested was sold for a consideration of approximately 3.7 times its original investment in March 2006.

There were a number of successful realisations announced during the latter half of the year. In August 2007, Parallel announced the sale of Marken, a pharmaceutical trial logistics company, at an uplift of 2.9 times cost. Also in August 2007, Rutland announced the sale of Svensk Pantbelaning, a Swedish pawnbroker, which was acquired in September 2004. The proceeds represented a return of 1.8 times the original investment made by the Rutland Trust and a slight uplift to the July 2007 take-on value.

In December 2007, August announced that 12 Yard, the 50% owned subsidiary of Hat Trick Productions, had been sold to ITV for £26 million. There is the potential for further payments if 12 Yard, which produces new television formats, meets certain hurdles over the next few years.

In February 2008 Fusion, which was part of Planit Holdings, an investment in AEP I, was sold to 20 20 Technologies for £19 million. In April 2008, August announced the sale of Healthcare Homes to Bowmark in a secondary buy-out. This has been a very successful investment and resulted in a return of 2.7 times the original investment, after taking into account follow-on investments. August backed the management buy-in of Healthcare Homes in August 2005 when the group consisted of only 4 homes and 100 beds which has been expanded through acquisition to 21 homes and over 800 beds by the date of the disposal.

Listed Private Equity

European listed private equity fell by 8.3% over the year as illustrated by the LPX Europe Price Index ("LPX") which compares with a 2.0% return for the broader equity market, as measured by the FTSE All-Share Index. This does, however, mask an extremely challenging period for the second-half of the year with the LPX falling by 18.0% reversing positive returns over the first six months.

This performance though masks some significant divergent returns between listed funds. Although the Company's holdings in Hg Capital and Graphite Enterprise performed well over this period many listed private equity funds have endured a torrid six months, as discounts to net asset values have widened sharply.

Against this backdrop we have been very selective, pending greater clarity on the effect that the credit market turmoil will have on both the wider economy and underlying portfolio companies of listed funds, before increasing exposure to listed vehicles. However, further sharp falls in share prices in the last few months are increasing the opportunities available to create longer-term value for shareholders when the outlook improves.

Outlook

The majority of the underlying companies in the portfolio continue to perform in line with expectations and we believe that the portfolio is positioned to weather market conditions despite its relative concentration and immaturity. Reflecting this, valuations of a majority of the portfolio companies have increased. The largest increases reflect where operational performance has been better than expected or where there has been a value enhancing acquisition or disposal.

However, looking forward the turmoil in financial markets will impact on realisation activity over the near term and thus shareholder returns will not be as good as in recent years. Recent activity though supports the view, as illustrated by the successful sale of Healthcare Homes, that the mid-market will be significantly less effected than that suggested by recent commentary on the private equity sector.

Although the outlook is uncertain we have significant confidence in our managers' ability to create value through varying financial and economic environments over the longer-term. Furthermore, the corollary of a more challenging environment is that it should provide attractive buying opportunities for new investments. On the back of the recent performance we are confident our managers are ideally placed to take advantage of these opportunities.

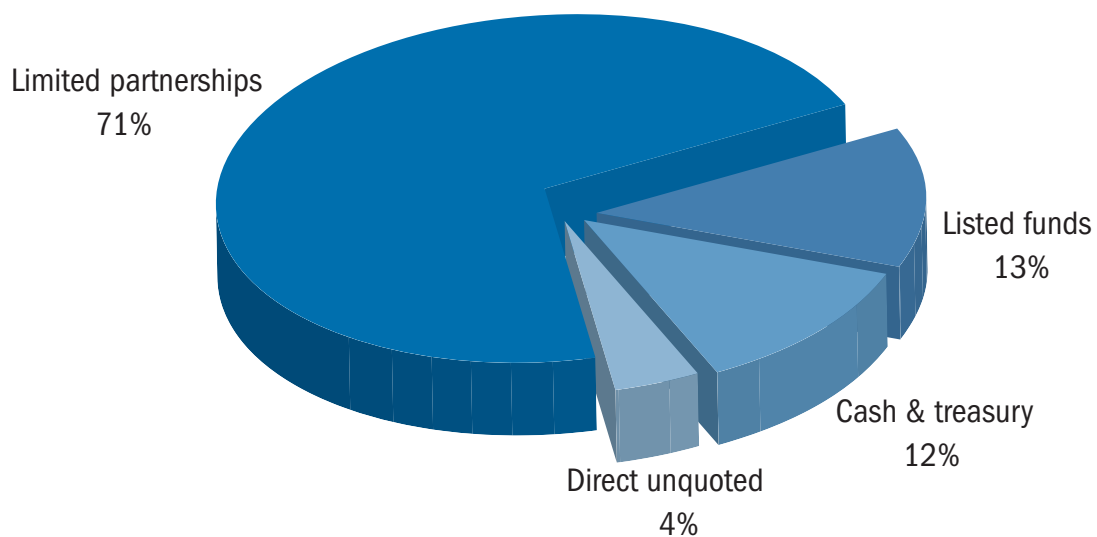
Investment Portfolio

The Company's investments at 31 December 2007 were:

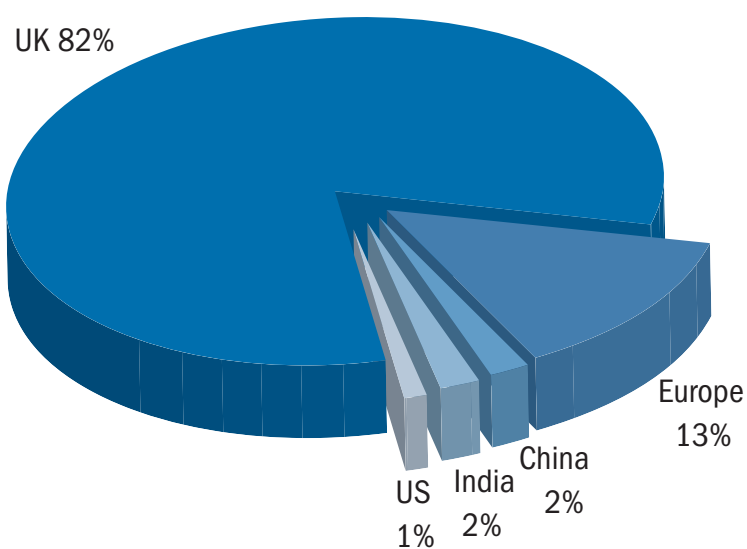
Company	Category	Country	Valuation £000	% of Portfolio
Rutland Fund I	Limited Partnership	UK	20,023	26.7
August Equity Partners I	Limited Partnership	UK	17,704	23.6
Parallel Ventures 2006	Limited Partnership	UK	10,963	14.6
Graphite Enterprise	Listed	UK	2,596	3.5
Logic Group	Direct investment	UK	2,500	3.3
August Equity Partners II	Limited Partnership	UK	1,922	2.6
Rutland Fund II	Limited Partnership	UK	1,462	1.9
Hg Capital Trust	Listed	UK	1,356	1.8
Reconstruction Capital	Listed	UK	1,131	1.5
Evolve India	Listed	UK	1,085	1.4
Ten largest investments			60,742	80.9
ARC Capital	Listed	UK	869	1.2
SVG Capital	Listed	UK	758	1.0
Quorum Oil & Gas Technology	Listed	UK	754	1.0
Century Capital Partners Fund IV	Limited Partnership	US	626	0.8
Wendel Investments	Listed	France	618	0.8
Dinamia	Listed	Spain	481	0.6
London Asia Chinese Private Equity Fund	Listed	UK	476	0.6
Elderstreet Capital Partners	Limited Partnership	UK	280	0.4
Global Telecom & Technology	Direct investment	US	273	0.4
KB Fund III B	Limited Partnership	UK	180	0.2
Twenty largest investments			66,057	87.9
KB Fund III	Limited Partnership	UK	93	0.1
Total investments			66,150	88.0
UK Treasury 5.0% 07/03/2008			5,000	6.7
Cash			3,980	5.3
Total Portfolio			75,130	100.0

Portfolio Analysis

Type of investment

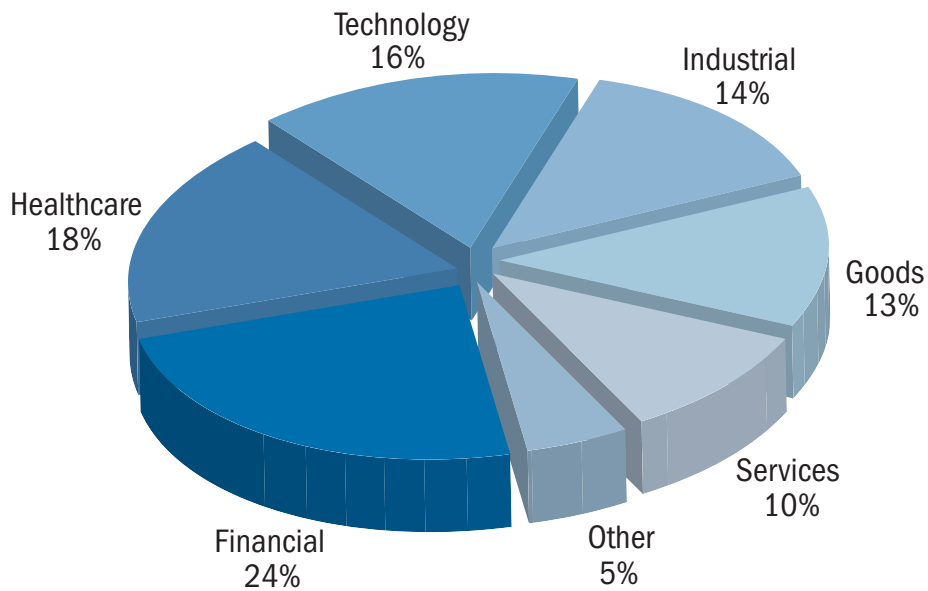


Geographic exposure ("look-through")

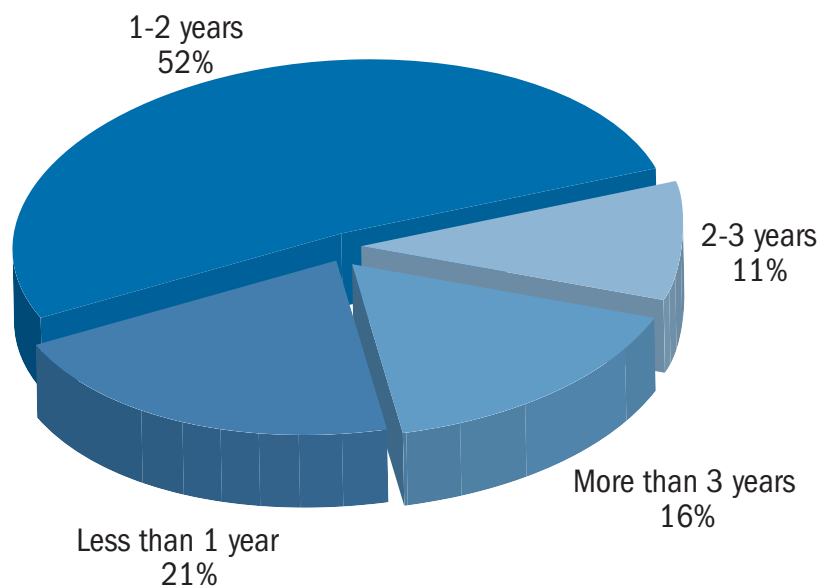


Portfolio Analysis *continued*

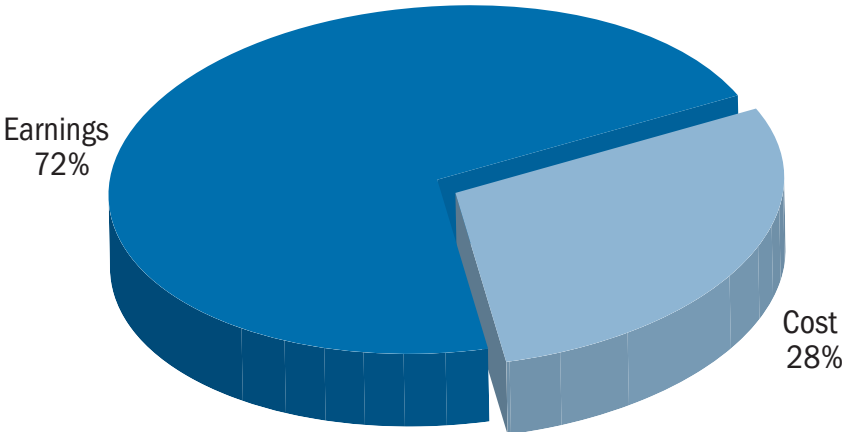
Sector exposure of limited partnerships



Limited partnerships by vintage



Valuation basis of limited partnerships



Limited Partnerships

August Equity

August Equity, formerly Kleinwort Capital which spun-out of Dresdner Kleinwort Wasserstein in 2002, provides equity capital for management buy-outs, buy-ins, development capital and replacement capital in growing businesses. They invest between £10 million and £50 million of equity in UK companies in the healthcare, media and technology, industrial products and services and consumer products and services sectors.

www.augustequity.com

Rutland Partners

Rutland Partners ("Rutland"), founded in 1986, invests in UK companies facing difficult strategic challenges or which may be underperforming, in need of restructuring or entering a period of change. The companies that they invest in will have defensive properties through its market niche, asset management or other forms of competitive advantage. Rutland invests between £10 million and £40 million of equity per investment into UK companies valued at between £20 million and £150 million.

www.rutlandpartners.com

Parallel Private Equity

Established in 1997 Parallel Private Equity operates through a number of formal co-investment agreements with a number of UK and European mid-market private equity managers. In this time they have invested more than £1.2 billion in over 300 deals. In realising over 200 deals to date, in excess of £1.7 billion has been returned to investors. They will invest up to £10 million of equity per transaction in companies valued at between £10 million to £250 million.

www.parallelprivateequity.com

Lyceum Capital

Established in 1999, and formerly known as West Private Equity prior to their buy-out from West LB, Lyceum Capital invests in UK companies valued at between £10 million and £75 million in most segments of the UK business and consumer service industries, where consolidation strategies can be actively pursued. They will invest in companies requiring between £10 million and £40 million in equity.

www.lyceumcapital.co.uk

Zeus Private Equity

Zeus Private Equity (“Zeus”) was formed in 2005 by a team who had previously worked together at Aberdeen Murray Johnstone Private Equity. Zeus provides funding for management buy-outs, buy-ins, equity release and restructuring opportunities for businesses in the UK valued at up to £50 million in a wide range of sectors.

www.zeusprivateequity.co.uk

Century Capital Management

Century Capital Management (“Century”) is a Boston based investment adviser whose origins date back to 1928. It formed its first private equity fund in 1987 and specialises in the middle market financial services industry with a focus on insurance. Century will invest equity of between US\$10 million and US\$30 million in individual transactions.

www.centurycap.com

Elderstreet

Elderstreet is a UK venture capital fund manager investing in early stage businesses within the UK. It typically provides between £0.5 million and £5.0 million funding for MBOs and development capital. Elderstreet invests in a range of industry sectors and have a specialist technology practice investing in the software and computer service market.

www.elderstreet.com

Pragma Capital

Pragma Capital is a French private equity manager founded in 2002, in a spin-out from Credit Agricole and Credit Lyonnais that focuses on the French middle-market. They will typically invest between €10 million to €35 million into companies, valued at between €50 million and €250 million across a wide variety of sectors. A commitment was made post the Company’s year-end.

www.pragma-capital.com

Astorg Partners

Astorg Partners (“Astorg”) is an independent French private equity manager whose origins date back to 1983 when it was created as a joint-venture between SUEZ and state-owned Institut de Développement Industriel. Astorg will invest at least €15 million of equity in companies valued between €30 million and €300 million. A commitment was made post the Company’s year-end.

www.astorg-partners.com

10 Largest “Look-through” Investments

Notemachine

Limited partnership	Rutland Fund I
Valuation	£11.016m
Percentage of Portfolio	14.7%

Rutland formed Notemachine in September 2006 via a recommended offer for AIM-listed Scott Tod, a UK company involved in the provision of ATM services throughout the UK. In January 2007, Rutland acquired TRM (ATM) Limited, a complementary business involved in the deployment of ATMs in the UK and Germany. The combined business currently operates approximately 6,000 ATMs in the UK.

www.notemachine.com

Wolstenholme Group

Limited partnership	Rutland Fund I
Valuation	£4.217m
Percentage of Portfolio	5.6%

Wolstenholme Group was a division of Wolstenholme Rink acquired in July 2000. It is a leading manufacturer of pigments and coatings for the print industry. In June 2007 Rutland announced that Wolstenholme had sold certain assets and goodwill of its metallic effect pigment and metallic printing business to Eckart GmbH and Co. Wolstenholme retains its carbon black dispersions business in the US and Ronald Britton in the UK.

www.wolstenholme-usa.com

Healthcare Homes

Limited partnership	August Equity Partners I
Valuation	£4.029m
Percentage of Portfolio	5.4%

August’s initial investment in Healthcare Homes Group was in August 2005. Healthcare Homes Group is a specialist care home operator in the elderly and frail residential sector with an increasing focus on Elderly Mentally Infirm patients. At the end of the year the group operated 18 homes with over 700 beds. In February 2008 the company completed the acquisition of a 3 home care group comprising a further 87 beds. In April 2008, August announced the sale of Healthcare Homes to Bowmark in a secondary buy-out. The sale represented a return of 2.7 times the original investment, taking into account follow-on investments.

www.healthcarehomes.co.uk

Planit Holdings

Limited partnership	August Equity Partners I
Valuation	£3.375m
Percentage of Portfolio	4.5%

August purchased Planit Holdings in a public-to-private transaction in December 2006. Planit Holdings is a group that develops and supports software and services for Computer Aided Manufacturing for the woodworking, cabinet-making, engineering and stone industries. In February 2008 Planit sold Fusion, its specialist Computer Aided Design business, to 20 20 Technologies.

www.planit.com

Liberty Acquisitions (Lifeways Community Care Group)

Limited partnership	August Equity Partners I
Valuation	£3.129m
Percentage of Portfolio	4.2%

August invested in Lifeways in July 2007. Lifeways is a market leading provider of supported living for people with complex needs and is the only provider offering nationwide coverage. Lifeways offers specialist care to over 900 people in their own home or a community setting with challenging needs, including autism, psychiatric or learning disabilities and acquired brain injuries.

www.lifeways.com

Boat International

Limited partnership	August Equity Partners I
Valuation	£2.837m
Percentage of Portfolio	3.8%

August invested in Boat International Group ("Boat") in December 2006. Boat is an international publisher of market leading magazines and websites and an events organiser targeted at the super yacht and ultra high net worth individual markets. Boat's magazines are published in the UK, Europe, USA and Russia and the titles include Boat International USA, Dockwalk, Sailing Today, Mer & Bateaux and Meer & Yachten.

www.boatinternational.com

Logic Group

Limited partnership	Direct investment
Valuation	£2.500m
Percentage of Portfolio	3.3%

The Logic Group through its software delivers the secure provision of card transaction processing, loyalty and insight programmes as well as IT services consultancy for many of Europe's leading businesses. Logic's customers include Norwich Union, HBOS, Arcadia, BP, B&Q, Comet, Dixons, Fortnum & Mason, RBS, Tesco, Vodafone and Manchester United.

www.the-logic-group.com

Portfolio Analysis *continued*

The Music Group

Limited partnership	Rutland Fund I
Valuation	£1.996m
Percentage of Portfolio	2.7%

The Music Group was formed following the acquisition of the musical instrument manufacturing division of Boosey & Hawkes, a world-leader in the manufacture and distribution of musical instruments and accessories. Since the acquisition a number of the underlying brands have been sold including Rico, Höfner and Buffet Crampon leaving Schreiber as the remaining core business of the company.

4Projects

Limited partnership	August Equity Partners II
Valuation	£1.924m
Percentage of Portfolio	2.6%

4Projects is a leading provider of project collaboration solutions. The solutions are delivered via software principally to the architecture, engineering and construction sector. 4Projects solutions are used to co-ordinate large scale, multiparty construction projects and for the management of complex or diverse property estates. The company has a blue chip customer base and recent projects include the construction of Arsenal's Emirates Stadium and the OCS stand at the Brit Oval.

www.4projects.com

Advantage Healthcare Group

Limited partnership	Rutland Fund I
Valuation	£1.795m
Percentage of Portfolio	2.4%

Advantage Healthcare was formed following the acquisition of a group of healthcare-staffing business from BUPA and specialises in flexible healthcare staffing. It has a significant database of temporary nurses, doctors, allied health professionals and carers which it provides to the NHS, BUPA and other private carers to cover staff shortfalls and fluctuating workloads.

www.advantagehealthcare.com

Directors

John Mackie, CBE (Chairman)*†

John Mackie joined the Board on 1 January 2006 and became Chairman on 11 August 2006. He had an early career in retail management before qualifying as a chartered accountant in 1985 and thereafter started working in the private equity sector, originally with 3i and then with Morgan Grenfell Development Capital. From 2000 to 2005 he was chief executive of the British Venture Capital Association. He is currently an executive director at Parallel Private Equity Limited and is engaged in a non executive capacity with two other companies. Mr Mackie is a member of the Audit Committee, Management Engagement Committee and Nominations Committee. Aged 55.

Terry Connor (Senior Independent Director)*†

Terry Connor was appointed to the Board on 1 November 2004 and became Senior Independent Director with effect from 2 November 2006. He was a media analyst with James Capel before joining Mirror Group plc in 1993, with the new management team appointed to rebuild the company and its finances. Since then, Mr Connor has specialised in consumer and business publishing. He is a non-executive director of the Financial Services Compensation Scheme and treasurer of the Africa Educational Trust. Mr Connor is a member of the Audit Committee, Management Engagement Committee and Nominations Committee. Aged 52.

Barry Dean*†

Barry Dean joined the Board in May 2000. He is a qualified chartered accountant and was formerly managing director of Dresdner Kleinwort Benson Private Equity Limited. He sits on the boards of ProVen VCT plc and Elderstreet VCT plc. He is also on the advisory committee of Parallel Private Equity Limited, acts as a consultant to Elderstreet Private Equity Limited and acts in an advisory capacity to an Italian private equity business. Mr Dean is a member of the Audit Committee, Management Engagement Committee and Nominations Committee. Aged 58.

John Duffield*

John Duffield joined the Board on 2 July 2007. Mr Duffield is Chairman of New Star Asset Management Group PLC and New Star Asset Management Limited. Mr Duffield is a director of other listed closed end companies managed by New Star Asset Management Limited. Aged 68.

Ian Orrock*†

Ian Orrock was appointed to the Board on 1 January 2005. He is a technology-orientated engineer and manager with extensive international experience. He has successfully built his own and other businesses and also turned around engineering, computer and telecom specialists in both the private and public sectors. Between 1992 and 2000 he was the chairman and chief executive officer of Roxspur PLC. He is currently chairman and chief executive officer of Vianet Group plc and is involved with a number of private companies. Mr Orrock is a member of the Audit Committee, Management Engagement Committee and Nominations Committee. Aged 61.

Alternate Director

Ravi Anand

John Duffield appointed Ravi Anand as his alternate with effect from 21 August 2007. Mr Anand is a director at New Star Asset Management Limited. Prior to joining New Star in 2001, Mr Anand, who is a chartered accountant, was a director in HSBC's equity capital markets business. Aged 40.

* *non-executive.*

† *independent of the Investment Manager.*

Corporate Information

Directors

John D Mackie CBE (Chairman)
Terry M Connor
Barry M Dean
John L Duffield (Alternate: Ravi Anand)
Ian J Orrock

Investment Manager and Secretary

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Telephone: 020 7225 9200
Email: closedendfunds@newstaram.com
Website: [www.newstaram.com/
alternative-investments/
closed-end-funds](http://www.newstaram.com/alternative-investments/closed-end-funds)

Authorised and regulated in the UK by the
Financial Services Authority

Registered Office

1 Knightsbridge Green
London SW1X 7NE

Registered Number

Registered in England and Wales: 159836

Company Website

[www.newstaram.com/alternative-
investments/closed-end-funds](http://www.newstaram.com/alternative-investments/closed-end-funds)

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

Registrars

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone (UK): 0871 664 0300*
* Calls cost 10p per minute plus network extras
Telephoning (overseas): +44 208 639 3399.
Email: ss@capitaregistrars.com

Bankers

Bank of Scotland
155 Bishopsgate
London EC2M 3YB

Brokers

Winterflood Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

Custodian

HSBC Bank Plc
8 Canada Square
London E14 5HQ

Independent Auditors

Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR

Solicitors

Herbert Smith LLP
Exchange House
London EC2A 2HS

Directors' Report

Business Review

The Business Review is designed to give shareholders an insight into the operations of the Company. Further information on the Company's activities and prospects may be found in the Chairman's Statement on pages 3 to 5 and the Investment Review on pages 6 and 7.

Strategic review

In March 2007 the Company completed a strategic review on how to optimise shareholder value over both the short and longer term. The proposals arising from the strategic review were approved by shareholders at an Extraordinary General Meeting on 15 June 2007 and are summarised below.

Investment Objective

At the time of the strategic review the Company's investment objective was to invest in unquoted companies with a view to realising substantial capital gains. With effect from 2 July 2007 the Company adopted a new objective to produce capital gains through exposure to a diversified portfolio of private equity investments.

Investment Manager

Prior to the reconstruction the Company's funds were managed by August Equity Management Limited. Following the adoption of the new investment objective, New Star Asset Management Limited was appointed Manager with effect from 2 July 2007. New Star Asset Management Limited is a subsidiary of New Star Asset Management Group PLC, which is listed on the London Stock Exchange. At 31 December 2007 the New Star group of companies had £23.1 billion of assets under management. Details of the contractual arrangements between the Company and New Star Asset Management Limited may be found on page 23.

Change of Name

The Company changed its name from "August Equity Trust plc" to "New Star Private Equity Investment Trust plc" with effect from 2 July 2007.

Merger with Rutland Trust PLC

During the strategic review the Company entered into discussions with Rutland Trust PLC ("Rutland Trust") regarding a merger between the two companies. Under the terms of the merger, which completed on 2 July 2007, Rutland Trust was placed into members' voluntary liquidation, with Rutland Trust shareholders electing to receive either cash or new shares in the Company. On 2 July 2007 a total of 3,534,512 new shares were issued at a price of 349.4747p to Rutland Trust shareholders who elected to rollover their investment into the Company.

Tender Offer

When undertaking the strategic review the Directors became aware that, whilst many shareholders wanted to maintain an exposure to private equity, others wished to realise their interest in the Company at a price near to net asset value. The Company therefore sought shareholder approval for a tender offer of up to 40% of the then issued share capital. On 2 July 2007 the Company repurchased 10,831,800 shares at a price of 331.7588p per share.

Investment Objective and Policy

The Company's investment objective is to produce capital gains through exposure to a diversified portfolio of private equity investments.

Investment Policy

The Company seeks to achieve its investment objective through a policy of investing principally in limited partnership interests and listed vehicles exposed to private equity investments or other similar strategies. The main focus of these investments is mid-market buyout funds in the UK and Europe. The Company may also invest in cash, quoted companies, fixed income securities, debt instruments and other alternative asset funds.

Where the Directors and the Manager believe that it would be beneficial to do so, the Company may make direct investments in unquoted companies. It is expected that any such investments will be co-investments alongside private equity managers with which the Company or Manager has existing investments.

The Company intends to reduce the "cash-drag" effect by investing its uncommitted assets and committed but un-drawn assets in listed private equity funds to gain investment exposure to private equity and also by employing a policy of over-commitment. An over-commitment policy means that the Company may commit more than its available uncommitted assets to limited partnerships on the basis that such commitments can be managed by anticipating future cash flows to the Company and through the use of borrowings where necessary.

It is expected that the portfolio will be fully invested in most market conditions although the Company may maintain a large cash weighting from time to time to manage its over-commitments policy, to protect capital returns or pending identification of appropriate investment opportunities. The Company may enter into derivative transactions for the purpose of efficient portfolio management hedging (for example, interest rate, currency or market exposure).

In order to comply with the requirements for investment trust status, the exposure to any one company will not exceed 15% of total assets at the time of investment. The Company may invest more than 15% of its total assets in other listed closed-ended investment funds.

The Board has established guidelines with a view to spreading investment risk. The principal guidelines are that:

- at least 25% of total assets must be invested in private equity funds which themselves principally invest in the UK and Europe;
- up to 25% of total assets may be invested in private equity funds which principally invest outside of the UK and Europe;
- the total value of investments in listed private equity funds should not exceed 50% of total assets;
- the total value of direct unquoted investments will represent no more than 25% of the Company's net assets at the point of purchase;
- cash should not exceed 30% of total assets; and
- the Company may utilise gearing representing up to 30% of its total assets at the point of drawdown.

Information on how the Company has invested its assets with a view to spreading investment risk in accordance with its investment policy is set out on pages 6 to 16.

Performance

The performance of the Company is reviewed regularly by the Board using the following key performance indicators:

- net asset value movement
- share price movement.

In the year ended 31 December 2007 the Company's NAV per share rose from 330.4p to 377.6p, an increase of 14.3%, whilst the share price climbed by 4.4% from 286.5p to 299.0p; this compares to a rise of 2.0% in the FTSE All-Share Index. Between the appointment of New Star as Manager on 2 July 2007 and 31 December 2007 the NAV per share has increased by 8.7%, whilst the share price fell by 3.5%. In the same period the FTSE All Share Index declined by 3.2%. An analysis of performance during the year can be found in the Chairman's Statement on pages 3 to 5 and the Investment Review on pages 6 and 7.

The Board also monitors the discount of the NAV per share to the share price. At 31 December 2007 the discount was 20.8% compared to 13.3% at 31 December 2006.

Regulatory environment

The Company is an investment trust and is subject to the rules governing investment trust status laid down in the Income and Corporation Taxes Act 1988. The Company has been approved by HM Revenue & Customs as an investment trust for the year ended 31 December 2006. Approval for the year ended 31 December 2006 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment. It is a requirement of investment trust status that no single investment should represent more than 15% of the total investments of the Company at the time such investment is made (the "15% test"). During the year, a matter arose whereby the manager of one of the limited partnerships in which the Company invests made an additional allocation to one of the portfolio holdings, Notemachine, such that the purported holding exceeded 15% of the Company's total investments. Based on legal advice received, the Directors consider that the operation of the relevant agreements mean that, regardless of any initial purported allocation, the Company could never have been the beneficial owner of a stake in Notemachine which caused there to be a breach of the 15% test (see note 17 on pages 60 and 61). In the opinion of the Directors, the Company conducted its affairs so that it qualified as an investment trust during the year ended 31 December 2007 and subsequently.

The Company is listed on the London Stock Exchange. It must therefore conduct its activities in accordance with the Listing Rules and Disclosure and Transparency Rules published by the Financial Services Authority.

Risk Management

The principal risks associated with the Company include the following:

Investment strategy

Inappropriate long-term strategy, asset allocation and manager selection might lead to the underperformance of the Company. During 2006 and 2007 the Company conducted a detailed strategic review and the proposals arising from that review, including a modification of the investment objective, were approved by shareholders in June 2007. The Board regularly monitors the Company's asset allocation, investment selection and performance.

Long-term nature of private equity investments

Private equity investments are long term in nature and it may take several years before they can be realised.

Directors' Report *continued*

Financial risks of private equity

A substantial proportion of the Company's assets are invested in limited partnerships which invest in private companies. These unquoted investments are less readily marketable than quoted securities. In addition, such investments may carry a higher degree of risk than quoted securities.

Valuation uncertainty

In valuing its investments in unlisted private equity funds or limited partnerships and in calculating its net asset value, the Company relies to a significant extent on the accuracy of financial and other information provided by these funds to the Manager. Limited partnerships typically only provide updated valuations on a quarterly or six-monthly basis.

Regulatory risk

Failure to comply with applicable legal and regulatory requirements could lead to the suspension or loss of the Company's Stock Exchange listing or result in financial penalties. Breach of Section 842 of the Income and Corporation Taxes Act 1988 could lead to the loss of the Company's investment trust status, leading to the Company being subject to tax on its capital gains.

Manager

The quality of the management team employed by the Manager is an important factor in delivering good performance and the loss by New Star of key staff could adversely affect investment returns. In addition, the failure of the Manager's core fund management systems might lead to the loss of data or inaccurate reporting. The performance of the Manager is reviewed by the Board on an ongoing basis. In addition, the Board undertakes a formal review each year.

Business conditions and general economy

The Company's investment returns are influenced by general economic conditions in the UK and globally. Factors such as interest rates, inflation, investor sentiment, the availability and cost of credit could adversely affect the performance of both the Company and its underlying investments.

The Company's assets are invested on a fund-of-funds basis. This helps mitigate investment risk by providing access to a range of different private equity funds and private equity managers. In addition, the underlying portfolio is diversified across a spread of different vintages, sectors and countries. The Board regularly monitors the Company's asset allocation, investment selection and performance. A detailed analysis of the portfolio may be found on pages 6 to 16. Further information on how the Company manages risk may be found in the Corporate Governance section on pages 33 and 34 and in note 16 on pages 53 to 60.

Dividends

Following the reconstruction in July 2007 the Company adopted a policy of only paying dividends to the extent necessary to comply with investment trust status. Therefore, to the extent that there is net income within an accounting period, the Directors intend to declare dividends such that no more than 15% of the Company's investment income for the accounting period is retained.

The Directors have declared an interim dividend of 0.66p per share; the dividend will be paid on 20 June 2008 to shareholders registered on 9 May 2008.

Further details of the dividends paid to shareholders during the year may be found in note 6 on pages 46 and 47.

Share capital

At 31 December 2007 there were 19,732,212 5p ordinary shares in issue (31 December 2006: 27,079,500).

On 2 July 2007 the Company undertook a tender offer whereby 10,831,800 shares were repurchased at a price of 331.7588p per share. During the year a further 50,000 shares were repurchased at a price of 310.0p per share. On 2 July 2007 the Company issued 3,534,512 ordinary shares at a price of 349.4747p per share in connection with the reconstruction of the Rutland Trust PLC.

Since the year-end the Company has repurchased a total of 110,000 shares at a price of 255.0p per share; 50,000 of these shares were cancelled, whilst 60,000 shares were placed into treasury. At the date of this report the Company had 19,682,212 shares in issue (including 60,000 shares held in treasury).

Management

In common with most investment trusts, the Company does not have any executive directors or employees. The day-to-day management and administration of the Company, including investment management, is delegated to New Star Asset Management Limited.

Under the terms of the investment management agreement, New Star receives a fee, payable monthly in arrears, equivalent to 1.25% per annum of the Company's assets invested in limited partnerships and direct private equity interests and 0.75% per annum on the remainder of the Company's assets. No management fee is payable by the Company in respect of any asset invested in funds managed by New Star. New Star will also be entitled to an annual performance fee of 10% of any return in excess of 8% per annum. The investment management agreement may be terminated by either party by giving 12 months notice in writing, subject to there being an initial period of 24 months (i.e. from 2 July 2007 to 1 July 2009).

The appointment of New Star Asset Management Limited as Manager was approved by shareholders on 15 June 2007. The Board monitors the performance of the Manager and considers that the continuing appointment of New Star is in the interests of shareholders as a whole.

Employee, environmental and community issues

The Company does not have any employees, with the day-to-day management and administration of the Company being delegated to the Manager. New Star Asset Management Limited manages the Company's portfolio in accordance with the investment objective and policy; environmental, social and community matters are considered to the extent that they impact on the Company's investment returns.

Annual General Meeting

The AGM will be held on Thursday, 26 June 2008 at 12 noon. The notice of meeting may be found in the accompanying circular.

Other Matters

Life of company

The Articles of Association do not contain provisions limiting the life of the Company.

Going concern

The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as they consider that the Company has adequate resources to continue in operational existence for the foreseeable future.

Directors

The Directors of the Company are listed on page 17. All of the Board served throughout the year, with the exception of Mr Duffield who was appointed a Director on 2 July 2007. On 21 August 2007 Mr Anand was appointed an alternative Director to Mr Duffield.

Each Director has a letter of appointment setting out the terms of his engagement as a non-executive Director, copies of which are available on request. No Director has a service contract with the Company. Details of the Directors' shareholdings in the Company may be found below.

All of the Directors are considered to be independent with the exception of Mr Duffield who is chairman of New Star Asset Management Limited. Mr Duffield is excluded from Board discussions on matters to which he is connected. Mr Mackie, whilst considered to be independent, is an executive director at Parallel Private Equity Limited which is the manager of the Parallel fund in which the Company invests. Mr Dean was formerly chairman of InterMed Holdings Limited ("InterMed"), in which the Company had an indirect investment via August Equity Partners I. Mr Dean resigned as a Director of InterMed following its sale in May 2007. Mr Dean is a member of the advisory committee of Parallel Private Equity Limited and acts as a consultant to Elderstreet Private Equity Limited. Given the potential conflict of interest, Mr Mackie and Mr Dean do not take part in decisions regarding the Company's investment in Parallel Ventures 2006 Limited Partnership and Mr Dean does not take part in decisions regarding the Company's investment in Elderstreet Capital Partners. There are no other contracts or arrangements subsisting during the year or at the year-end in which any of the Directors is or was materially interested and which is or was significant in relation to the Company's business.

Mr Duffield was appointed during the year and, in accordance with the Articles of Association, stands for election at the AGM (resolution 3); in accordance with the Listing Rules, Mr Duffield will stand for re-election annually as he is not independent of the Manager. Mr Orrock retires by rotation at the AGM and, being eligible, stands for re-election (resolution 4). The Board considers that both Mr Duffield and Mr Orrock make a valuable contribution to the Board and recommend that shareholders vote in favour of their election/re-election. The notice of AGM may be found in the accompanying circular.

Directors' interests

The beneficial interests of the Directors in the share capital of the Company were as follows:

	Ordinary shares at 31 December 2007	Ordinary shares at 31 December 2006
John Mackie	5,000	Nil
Terry Connor	2,000	Nil
Barry Dean	4,000	Nil
John Duffield	653,692*	N/A
Ian Orrock	5,217	Nil

* Mr Duffield has a non-beneficial interest in the shares of the Company as a result of him being a holder of approximately 59.14% of the issued share capital of New Star Investment Trust plc. New Star Investment Trust plc has an interest in 1,105,329 shares which would ordinarily carry voting rights of 5.63% of the Company. However New Star Asset Management Limited has undertaken to exercise no more than 39.00% of the voting rights of the Company and the voting rights of New Star Investment Trust plc have therefore been scaled back pro rata to 4.93%.

On 13 May 2008 Mr Mackie acquired a further 19,500 shares bringing his total holding in the Company to 24,500. There have been no changes to the holdings of the other Directors since 31 December 2007.

Substantial Shareholders

At 28 May 2008 the Company had been notified of the following substantial interests in the issued share capital of the Company.

	% of issued share capital
New Star Asset Management Limited [†]	44.49%
Advance UK Trust plc	6.88%
East Riding of Yorkshire Council	4.59%

[†] New Star Asset Management Limited has an interest in 44.49% of the issued share capital of the Company. However New Star Asset Management Limited has undertaken to exercise no more than 39.00% of the voting rights of the Company. New Star Investment Trust plc has a holding of 5.63% and this figure is included within the interest of New Star Asset Management Limited disclosed above. In the light of the undertaking by New Star Asset Management Limited not to vote more than 39.00% of the issued share capital, the holding of New Star Investment Trust plc is equivalent to 4.93% of the Company's voting rights.

Payment policy and practice

It is the Company's payment policy to obtain the most advantageous possible terms for all business and therefore there is no single policy as to terms used. The Company agrees with suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. Payment is made on these terms normally within 30 days. At 31 December 2007 there were no outstanding trade creditors (2006: nil).

Political and charitable donations

The Company did not make any political or charitable donations during 2007 (2006: nil).

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare financial statements in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards an applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimate that are reasonable and prudent.
- State whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure

Directors' Report *continued*

that the financial statements comply with the Companies Act 1985. They are also responsible for the safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of Information to Auditors

The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. Each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Independent Auditors

Deloitte & Touche LLP have indicated their willingness to remain in office. Accordingly a resolution proposing the re-appointment of Deloitte & Touche LLP as auditors, and to authorise the Directors to determine their remuneration, will be put to shareholders at the forthcoming AGM.

By Order of the Board
New Star Asset Management Limited, Secretary
29 May 2008

Directors' Remuneration Report

The Directors are pleased to present their report on remuneration which is prepared in accordance with the requirements of Schedule 7A to the Companies Act 1985 (the "Act"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration in the Combined Code. An ordinary resolution to receive this report will be put to members of the Company at the forthcoming Annual General Meeting.

The Act requires the Auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. Where information set out below has been audited, it is clearly indicated. The Auditors opinion is included within the Independent Auditors' Report on pages 35 and 36.

The Board

The Board is comprised entirely of non-executive Directors and the Board as a whole considers the Directors' remuneration. Accordingly, the Board has not appointed a separate remuneration committee. The Board has not relied upon the advice or services of any third party in reaching its decision on remuneration. The Board does, however, carry out reviews from time to time of the fees paid to directors of other investment trusts.

At 31 December 2007, the Board comprised five non-executive Directors. Each Director has a letter of appointment setting out the terms of his engagement as a non-executive Director. No Director has a service contract with the Company. A Director may resign by notice in writing at any time; there are no fixed notice periods, nor any entitlement to compensation for loss of office.

Policy on Directors' Remuneration

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears. Fees payable to the Directors should reflect the time spent on the Company's affairs and the responsibilities borne by the Directors and should be sufficient to enable candidates of high calibre to be recruited. Part of this policy is that the Chairman and Senior Independent Director are paid a higher fee than their fellow Directors to reflect their more onerous roles.

It is the Company's policy that no Director shall be entitled to any benefits in kind, share options, long term incentives, pensions or other retirement benefits or compensation for loss of office. It is considered that no part of the Directors' remuneration should be performance related in the light of their non-executive status. Directors are entitled to claim expenses in respect of duties undertaken in connection with the management of the Company.

The Articles of Association provide that the aggregate fees payable to the Board of Directors should not exceed £125,000 per annum and the Company's policy on Directors' remuneration operates within this restriction. During the year under review, Directors fees were paid at the following rates: the Chairman £25,000, the Senior Independent Director £21,000 and the other Directors £18,000 each.

The Company's Articles of Association allow Directors to receive additional payments above and beyond their fixed fee level if it is considered by the Board to be appropriate, taking into consideration extra time spent on the Company's affairs. During 2007 the Directors undertook a significant amount of additional work in connection with a strategic review of the Company and the merger with Rutland Trust PLC. Accordingly, it was agreed to award the following additional fees: Mr Mackie, £25,000; Mr Connor, £21,000; Mr Dean, £18,000; and Mr Orrock, £18,000.

Directors' Remuneration Report *continued*

During 2006 an additional £17,500 was awarded to Mr Hollidge in connection with additional work in respect of several important matters.

Directors' Fees (audited)

The information in this section has been subject to audit.

The fees (excluding national insurance and VAT) paid in respect of each of the Directors who served during the year ended 31 December 2007 and the year ended 31 December 2006 were as follows:

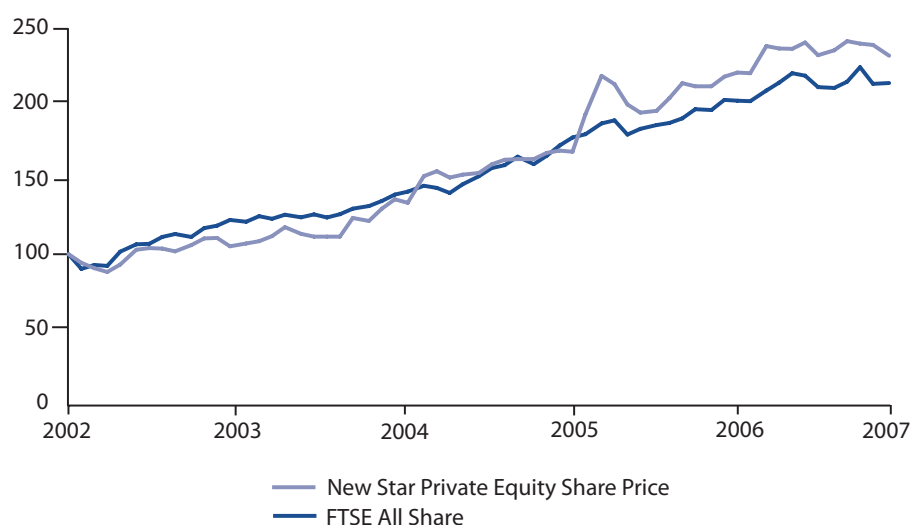
	31 December 2007	31 December 2006
Mr J D Mackie	£50,000	£18,209
Mr T M Connor	£42,000	£16,500
Mr B M Dean	£36,000	£15,750
Mr J L Duffield ¹	£9,025	–
Mr I J Orrock	£36,000	£15,750
Mr R Hollidge ²	–	£29,664
Mr B C R Siddons ³	–	£5,384
Total	<u>£173,025</u>	<u>£101,257</u>

Notes

- ¹ Mr Duffield was appointed a Director with effect from 2 July 2007. Mr Duffield's fees are paid to New Star Asset Management Limited.
- ² Mr Hollidge ceased to be the Chairman and a Director on 11 August 2006.
- ³ Mr Siddons resigned as a Director on 11 May 2006.

Performance graph over a five year period

As required under the Regulations, the performance graph below tracks the share price total return over the last five years in respect of the Company. The share price total return is plotted against the FTSE All-Share Index (total return). The data has been rebased to 100 on 31 December 2002.



31 December 2002 to 31 December 2007 (rebased to 100 at 31 December 2002). Source: Datastream

By order of the Board
New Star Asset Management Limited, Secretary
29 May 2008

Corporate Governance

Corporate governance is concerned with how companies are directed and controlled and in particular with the role of the Board of Directors and the need to ensure a framework of effective accountability.

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code on Corporate Governance (the "Code"), as issued by the Financial Reporting Council in June 2006. In addition, the AIC Code of Corporate Governance (the "AIC Code") was issued by the Association of Investment Companies and provides specific corporate governance guidance to investment trusts.

Corporate Governance Principles

During the year ended 31 December 2007, the Company complied with the provisions of the Code subject to the exceptions explained below and its specific circumstances as an investment trust company.

The Board

The Board determines the strategic direction of the Company. It meets to review the Company's investments, the financial position of the Company and matters of investment policy, strategy and compliance. Matters specifically reserved for decision by the Board have been defined and a procedure is in place for the Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

There is a clear division of responsibility between the Chairman, the Directors, the Manager and other third-party service providers. No one individual has unfettered powers of decision.

The Chairman is responsible for leading the Board and ensuring its effectiveness in all aspects of its role and ensuring that the Directors receive accurate, timely and clear information. The Chairman also ensures there is effective communication with the shareholders. Details of the Chairman's professional commitments are included in his biography on page 17. Whilst the Chairman has been appointed to a number of executive and non-executive roles the Board is satisfied that these do not interfere with the performance of his duties to the Company. The Chairman is considered to be independent of the Manager.

The Board sets the boundaries within which the Manager operates. The Manager takes decisions regarding the making of commitments to limited partnerships and the purchase and sale of listed investments. The Manager also ensures that the Board receives all relevant management and financial information in a timely manner. Representatives of the Manager attend most Board Meetings, enabling the Board to review the Manager's performance against the Company's objective, the portfolio risk and peer group analysis.

The Board meets at least four times a year and convenes ad hoc meetings as and when required. Details of the attendance of the Directors at these meetings may be found on page 31.

The Board has formulated a process to evaluate its own performance and that of its Chairman on an annual basis. This process is based upon a self-assessment of the Board's and each respective Director's strengths and weaknesses. The overall results are discussed with the Board, with the Chairman making recommendations to improve performance where necessary. The Board will annually, in the absence of the Chairman, consider matters pertaining to his own performance.

As agreed by the Board, new appointees are provided with a full induction programme which covers the Company's investment strategy, policies and practices. Thereafter, Directors are given key information on the Company's regulatory and statutory requirements as they arise, including

information on the role of the Board; matters reserved for its decision; the terms of reference for the Board Committees; the Company's corporate governance procedures; and the latest financial information. Directors are encouraged to participate in training courses where appropriate.

The Company Secretary is responsible for good information flows between all parties. The Company Secretary advises the Board on corporate governance matters and is responsible for ensuring compliance with applicable rules, regulations and procedures. The appointment and removal of the Company Secretary is a matter for the whole Board.

Directors

At 31 December 2007 the Board comprised five non-executive Directors. All of the Directors served throughout the year, apart from Mr Duffield who was appointed on 2 July 2007.

The Board annually reviews the continued independence of its Directors. All of the Directors are currently considered to be independent with the exception of Mr Duffield who is chairman of New Star Asset Management Limited, which became the Company's Manager on 2 July 2007. Mr Duffield is excluded from Board discussions on matters to which he is connected. Prior to 2 July 2007, August Equity Management Limited ("AEML") acted as the Company's manager. Until 31 August 2006 Mr Dean was a non-executive director of AEML and was therefore connected to them. However he is fully independent of the new Manager. Mr Dean is a member of the Advisory Committee to Parallel Private Equity Limited and acts as a consultant to Elderstreet Private Equity Limited. Mr Mackie, whilst considered to be independent in accordance with the Code, is an executive director at Parallel Private Equity Limited. Given the potential conflict of interest, Mr Mackie and Mr Dean do not take part in decisions regarding the Company's investment in Parallel Ventures 2006 Limited Partnership and Mr Dean does not take part in decisions regarding the Company's investment in Elderstreet Capital Partners.

Biographies of the Directors appear on page 17 and demonstrate the wide range of skills and experience they bring to the Board. The Board considers that all Directors of the Company are qualified to lead on a full range of issues and to address any concerns conveyed to them. Mr Connor is the Senior Independent Director. In line with most investment trust companies, there is no chief executive position within the Company as the management of the Company is substantially delegated to the Manager.

Non-executive Directors are appointed in accordance with the Company's Articles of Association and upon recommendation of the Nominations Committee (details of which are set out below). New Directors stand for election at the first Annual General Meeting following their appointment. Thereafter Directors are required to retire by rotation, so that over a three year period each Director will stand for re-election. In accordance with the Listing Rules, Mr Duffield will stand for re-election annually as he is not independent of the Manager.

The Board has not implemented a tenure policy for Directors, as they believe that the re-election of Directors should be assessed individually on experience, knowledge and contribution to the running of the Company. Nonetheless, the Company recognises the benefit of periodically refreshing the composition of the Board.

When a vacancy arises on the Board, the Nominations Committee considers the balance of skills and experience represented on the Board. In normal circumstances it is the policy of the Company that an external selection agency will be employed when recruiting a new Director. Mr Duffield's appointment as a Director formed part of the proposals approved at the Extraordinary General Meeting held on 15 June 2007. Accordingly an external selection agency was not employed in this instance.

All the terms and conditions of appointment of non-executive Directors are available for inspection at the registered office of the Company and at the Annual General Meeting.

The following table sets out the times the Board and its committees met during the year and the number of such meetings attended by each Director.

	Quarterly Board Meetings	Ad hoc Board Meetings/ Committee	Audit Committee	Management Engagement Committee	Nominations Committee
No of Meetings	4	16	2	1	1
John Mackie	4	13	2	1	1
Terry Connor	4	11	2	1	1
Barry Dean *	4	8	N/A	N/A	N/A
John Duffield**	1	1	N/A	N/A	N/A
Ian Orrock	4	10	2	1	1

* appointed a member of the Nominations Committee on 28 February 2007 and a member of the Audit Committee on 21 August 2007.

** appointed a Director on 2 July 2007.

Board Committees

In order to enable the Directors to discharge their duties, three standing committees have been established by the Board; the Audit Committee, the Management Engagement Committee and the Nominations Committee. Each Committee is comprised of non-executive Directors independent of the Manager. No one other than the Committee members are entitled to be present at a meeting unless invited to attend. The terms of reference for all three Board Committees are available on request and may be obtained by writing to the Company Secretary at the registered office.

Audit Committee

The Audit Committee operates within clearly defined terms of reference. The Committee provides a forum through which the Company's external Auditors report to the Board. The main work and responsibilities of the Audit Committee include monitoring the integrity of the Company's financial statements and appropriateness of its accounting policies. It also reviews the internal control systems and the risks to which the Company is exposed. The Audit Committee makes recommendations to the Board regarding the appointment and independence of the external Auditors to the Board and the objectivity and effectiveness of the audit process.

The Audit Committee has approved and implemented a policy on the engagement of the Auditors to supply non-audit services, taking into account the recommendations of the Accounting Practices Board. The Auditors objectivity and independence are safeguarded through a requirement to have all non-audit work which incurs a fee greater of £10,000 to be approved by the Audit Committee prior to commencement and the prohibition of the performance of accounting and other services relating to the accounting records of the Company where the Auditors may be required to audit their own work. Details of the amounts paid to the external Auditors during the year under review, for audit and other services are set out in note 3 on page 45.

In accordance with the AIC Code all of the members of the Audit Committee are independent. Mr Mackie, Mr Connor and Mr Orrock have been members throughout the year, whilst Mr Dean was appointed on 21 August 2007. The Audit Committee is chaired by Mr Mackie. It is considered that all of the members of the Audit Committee have recent and relevant financial

experience. The table above shows the number of times the Audit Committee met during the year.

The Company does not have any employees and has delegated most of its operations to third parties. The Audit Committee has therefore determined that there is no need for the Company to have an internal audit function; the need for an internal audit function is reviewed annually.

In common with many investment trusts, the Company does not have a whistle-blowing policy. The main functions of the Company are delegated to third parties and the Audit Committee believes that is appropriate to rely on the whistle-blowing policies operated by those third parties.

Management Engagement Committee

The Management Engagement Committee meets at least annually to review the performance of the Company's third party service providers, including the Manager, and review the terms of their appointment. Mr Mackie (Chairman), Mr Connor and Mr Orrock served on the Committee throughout the year.

Nominations Committee

The Nominations Committee has defined terms of reference and is responsible for identifying and nominating to the Board new Directors and considering whether existing Directors should be recommended for re-election.

During the year the Nominations Committee comprised Mr Mackie, Mr Connor and Mr Orrock. Mr Dean was appointed a member of the Committee with effect from 28 February 2008. The Committee is chaired by Mr Mackie, except on those occasions when the Committee is reviewing the successor to the Chairman. The Nominations Committee meets at least annually.

Directors' Remuneration

The Company does not have any executive Directors or employees and as a consequence does not have a remuneration committee. The Directors' Remuneration Report, which may be found on pages 27 and 28, provides detailed information of the remuneration arrangements of the Directors.

Relations with shareholders

The Board and the Manager are always available to enter into dialogue with shareholders. The Company places a great deal of importance on such communications. During the year, the Manager maintained a dialogue with the Company's major institutional shareholders, brokers and analysts. Discussions with shareholders are reported on at Board meetings.

The annual report contains a detailed review of performance and the investment portfolio. The Company seeks to send the annual report to all shareholders at least 20 business days prior to the Annual General Meeting ("AGM"); this did not prove practicable in respect of the 2007 annual report. At the half-year stage, an interim report, containing updated information in a more abbreviated form, is also sent to shareholders. Updated information may also be found on the Company's webpage.

All shareholders have the opportunity to attend and vote at the AGM, which will be held at 12 noon on Thursday, 26 June 2008. At the AGM the Board and the Manager are available to discuss issues affecting the Company.

Exercise of voting powers

The Board has delegated discretion to the Manager to exercise voting powers on its behalf. The Manager will seek to vote on all issues raised at the general meetings of investee companies.

Internal Control

The Board has overall responsibility for the Company's systems of internal control and for reviewing their effectiveness. These controls aim to ensure that the assets of the Company are safe-guarded, proper accounting records are maintained and the financial information used within the business and for publication are reliable. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed. They are designed to manage rather than eliminate the risk of failure to achieve business objectives and, by their very nature, provide reasonable but not absolute assurance against material misstatement or loss.

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

- New Star Asset Management Limited was approved Manager on 2 July 2007 and provides investment management and administrative services to the Company. These responsibilities are included in the Management Agreement between the Company and New Star Asset Management Limited. The Manager's system of internal control includes organisation arrangements with clearly defined lines of responsibility and delegated authority as well as control procedures and systems which are regularly evaluated by management. New Star Asset Management Limited is authorised and regulated by the FSA. Prior to 2 July 2007 August Equity Management Limited acted as the Company's Manager.
- Accounting services are provided by HSBC Securities Services (UK) Limited. Prior to the Company's reconstruction on 2 July 2007 accounting services were provided by August Equity Management Limited.
- The company secretarial duties are delegated to New Star Asset Management Limited, which was appointed Secretary with effect from 1 September 2007. Prior to that date company secretarial services were provided by BNP Secretarial Services Limited.
- Custody of the Company's direct investments is provided by HSBC Securities Services (UK) Limited. Custody of assets held by the limited partnerships in which the Company invests is undertaken by the general partner of the limited partnership or by their agent or nominee.
- Regular review and control by the Board of performance, asset allocation and any risk implications. Regular reviews by the Board of management accounting information.
- The Board sets investment guidelines limiting the Company's exposure of certain asset classes and regions and is responsible for setting gearing policy.
- Authorisation and exposure limits are set by the Board.
- The Company clearly defines the duties and responsibilities of its agents through their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of parties involved; the Board monitors their ongoing performance and contractual arrangements.

The Board receives regular reports from the Manager on compliance matters including adherence to the Company's investment guidelines. The Board and its committees review business risk, financial risk, operational risk, risk management and the controls that are in place at the Company's third-party service providers. The Management Engagement Committee reviews the performance of the Company's third party service providers on an annual basis. The Audit Committee undertakes a formal risk and control assessment at least once a year. The Company seeks to meet the requirements of investment trust status each year. One of the requirements of investment trust status is that no single investment will represent more than 15%

of the total investments of the Company at the time such investment is made (the “15% test”). The Company has an investment in The Rutland Partnership whose investment manager is Rutland Partners LLP (the “Partnership Manager”). On 6 December 2007 the Partnership Manager increased the Company’s allocation in one of its portfolio holdings, Notemachine, so that the Company’s purported holding in Notemachine represented 15.5% of its total investments. Based on legal advice received, the Directors consider that the operation of the relevant agreements mean that, regardless of any initial purported allocation, the Company could never have been the beneficial owner of a stake in Notemachine that breached the 15% test. The matter is more fully set out in note 17 on pages 60 and 61. If, notwithstanding the legal advice received, the Company is deemed to have had a stake in Notemachine equivalent to more than 15% of total investments it would represent a breach of internal control. The Board has reviewed the circumstances surrounding the purported allocation and are putting in place additional controls to help ensure that a similar situation does not arise in the future.

The Board has reviewed the need for an internal audit function. In common with most investment trusts, the Company’s day-to-day management is delegated to third parties and it is not considered that an internal audit function specific to the Company is necessary.

Statement of Compliance with the Combined Code

The Directors have reviewed the principles outlined in the Code and consider that, subject to the exceptions detailed above, the Company has complied with the provisions of Section 1 of the Code for the year ended 31 December 2007 and up to the date of this report.

Independent Auditors' Report

to the members of New Star Private Equity Investment Trust PLC

We have audited the financial statements of New Star Private Equity Investment Trust PLC (formerly August Equity Trust PLC) for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Reconciliation of Movement in Shareholders' Funds, the Cash Flow Statement, the Statement of Accounting Policies and the related notes 1 to 19. 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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Investment Review that is cross referred from the Business Review section of the Directors' Report.

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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. 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 further information outside the Annual Report.

Independent Auditors' Report *continued*

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London, United Kingdom

29 May 2008

Income Statement

for the year ended 31 December 2007

	Notes	Year ended 31 December 2007			Year ended 31 December 2006		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains from investments held at fair value through profit or loss	8	–	11,212	11,212	–	11,524	11,524
Gains on foreign exchange		–	21	21	–	–	–
Income	1	2,323	–	2,323	3,919	–	3,919
Investment management fee	2	(913)	(323)	(1,236)	(928)	–	(928)
Administrative expenses	3	(553)	(1,018)	(1,571)	(468)	–	(468)
Return on ordinary activities before finance costs and taxation for the financial year		857	9,892	10,749	2,523	11,524	14,047
Interest payable and similar charges	4	(176)	–	(176)	–	–	–
Return on ordinary activities before taxation for the financial year		681	9,892	10,573	2,523	11,524	14,047
Taxation	5	(290)	97	(193)	(741)	–	(741)
Return on ordinary activities after finance costs and taxation for the financial year		391	9,989	10,380	1,782	11,524	13,306
Return per Ordinary Share (based on average number of shares in financial year)	7	1.7p	42.6p	44.3p	6.5p	42.2p	48.7p
Number of Ordinary Shares in issue at year end				19,732,212			27,079,500
Average number of Ordinary Shares in issue during the year				23,436,058			27,312,897

The total columns of this statement are the profit and loss account for the Company and the revenue and capital columns represent supplementary information. The total columns represent all the information required to be disclosed in the Statement of Total Recognised Gains and Losses ('STRGL'). For this reason a STRGL is not presented.

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the current or prior year.

The notes on pages 42 to 61 form an integral part of these accounts.

Reconciliation of Movement in Shareholders' Funds

for the year ended 31 December 2007

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Revaluation capital reserve £'000	Revenue reserve £'000	Shareholders' fund £'000
Balance at 1 January 2007	1,354	5,145	158	70,887	9,271	2,661	89,476
Net loss on listed investments	-	-	-	(1,231)	-	-	(1,231)
Net loss on unlisted investments	-	-	-	(6,680)	-	-	(6,680)
Transfer on disposal of investments	-	-	-	10,358	(10,358)	-	-
Increase in unrealised appreciation on listed investments	-	-	-	-	19	-	19
Increase in unrealised appreciation on unlisted investments	-	-	-	-	19,104	-	19,104
Net gains on foreign exchange	-	-	-	21	-	-	21
Dividends paid	-	-	-	-	-	(1,422)	(1,422)
Revenue attributable to Ordinary Shareholders	-	-	-	-	-	391	391
Share buy-backs	(3)	-	3	(156)	-	-	(156)
Capital reorganisation	(364)	12,176	541	(36,115)	-	-	(23,762)
Performance fee (net of tax relief)	-	-	-	(226)	-	-	(226)
Reconstruction expenses	-	-	-	(1,018)	-	-	(1,018)
Balance at 31 December 2007	<u>987</u>	<u>17,321</u>	<u>702</u>	<u>35,840</u>	<u>18,036</u>	<u>1,630</u>	<u>74,516</u>

Revaluation reserves analysed as follows:

Listed at valuation	15,123
At book value (cost less amounts written off)	<u>(15,104)</u>
	19
Unlisted at valuation	56,027
At book value (cost less amounts written off)	<u>(38,010)</u>
	18,017
Balance at 31 December 2007	<u>18,036</u>

The notes on pages 42 to 61 form an integral part of these accounts.

Reconciliation of Movement in Shareholders' Funds

for the year ended 31 December 2006

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Realised capital reserve £'000	Revaluation capital reserve £'000	Revenue reserve £'000	Shareholders' fund £'000
Balance at 1 January 2006	1,369	5,145	143	62,801	6,709	3,413	79,580
Net loss on listed investments	-	-	-	(310)	-	-	(310)
Net gain on unlisted investments	-	-	-	13,200	-	-	13,200
Transfer on disposal of investments	-	-	-	(3,928)	3,928	-	-
Decrease in unrealised appreciation on listed investments	-	-	-	-	(1,197)	-	(1,197)
Decrease in unrealised appreciation on unlisted investments	-	-	-	-	(169)	-	(169)
Dividends paid	-	-	-	-	-	(2,534)	(2,534)
Revenue attributable to Ordinary Shareholders	-	-	-	-	-	1,782	1,782
Share buy-backs	(15)	-	15	(876)	-	-	(876)
Balance at 31 December 2006	<u>1,354</u>	<u>5,145</u>	<u>158</u>	<u>70,887</u>	<u>9,271</u>	<u>2,661</u>	<u>89,476</u>

Revaluation reserves analysed as follows:

Listed at valuation	45,460
At book value (cost less amounts written off)	(46,530)
	<u>(1,070)</u>
Unlisted at valuation	38,964
At book value (cost less amounts written off)	(28,623)
	<u>10,341</u>
Balance at 31 December 2006	<u>9,271</u>

The notes on pages 42 to 61 form an integral part of these accounts.

Balance Sheet

at 31 December 2007

	Notes	2007 £'000	2006 £'000
Fixed assets			
Investments	8	<u>71,150</u>	<u>84,424</u>
Current assets			
Debtors	10	969	1,612
Cash at bank	10 & 15	<u>5,173</u>	<u>4,195</u>
		<u>6,142</u>	<u>5,807</u>
Creditors			
Amounts falling due within one year	11	<u>(2,776)</u>	<u>(755)</u>
Net current assets			
		<u>3,366</u>	<u>5,052</u>
Net assets			
		<u>74,516</u>	<u>89,476</u>
Capital and reserves			
Called up share capital	12	987	1,354
Share premium		17,321	5,145
Capital redemption reserve		702	158
Capital reserve		53,876	80,158
Revenue reserve		<u>1,630</u>	<u>2,661</u>
Shareholders' funds			
		<u>74,516</u>	<u>89,476</u>
Net asset value per Ordinary Share			
	13	<u>377.6p</u>	<u>330.4p</u>

Approved and authorised for issue by the Board of Directors on 29 May 2008 and signed on its behalf by:

John Mackie Chairman

The notes on pages 42 to 61 form an integral part of these accounts.

Cash Flow Statement

for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Net cash inflow from operating activities	14	1,365	1,176
Taxation			
Tax paid		(313)	(3)
Financial Investment			
Purchase of listed fixed asset investments		(14,849)	(21,708)
Purchase of unlisted fixed asset investments		(49,636)	(29,245)
Sale of listed fixed asset investments		44,727	15,129
Sale of unlisted fixed asset investments		44,997	39,891
Net cash inflow from financial investment		25,239	4,067
Equity dividends paid		(1,422)	(2,534)
Net cash inflow before financing		24,869	2,706
Financing			
Issue of Ordinary Shares		12,353	–
Purchase of Ordinary Shares for cancellation		(36,271)	(876)
Bank interest paid		(169)	–
Reconstruction costs		(1,018)	–
(Decrease)/Increase in cash		(236)	1,830
Net funds at start of the year		4,195	2,365
Gains on foreign exchange		21	–
Net funds at the end of the year	15	3,980	4,195

The notes on pages 42 to 61 form an integral part of these accounts.

Statement of Accounting Policies

at 31 December 2007

- (i) The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments and in accordance with applicable United Kingdom accounting standards.

The Company is not an investment company within the meaning of Section 833, of the Companies Act 2006. However, it conducts its affairs as an investment trust for taxation purposes under Section 842 of the Income and Corporation Taxes Act 1988. As such, the Directors consider it appropriate to present the accounts in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' (the 'SORP') as issued by the Association of Investment Companies in December 2005. Under the SORP, the financial performance of the Company is presented in an Income Statement in which the total column is the profit and loss account of the Company. Additional disclosure of the total revenue is provided by including the revenue and capital column analysis, which the Directors consider better demonstrates revenue profits available for distribution by dividend. The Directors therefore consider that the departures from the specific provisions of Schedule IV of the Companies Act 1985 relating to the format of accounts for companies other than investment companies are appropriate to give a true and fair view. The departures have no effect on total return or on the balance sheet. The reader's attention is drawn to note 17 which explains a matter arising in respect of the Company's compliance with Section 842 during the year. In view of the legal advice received, the Directors consider it remains appropriate to present the accounts in accordance with the SORP.

- (ii) Dividends and interest from unquoted investments are accounted for on a receipts basis unless a realisation is certain and the income is imminent. Dividends receivable from equity shares are included in revenue on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is taken to capital. UK dividends are accounted for net of any tax credits. Interest on quoted fixed interest stocks and deposit interest is accounted for on an accruals basis.
- (iii) The investment management fee is calculated on the basis set out in note 2 and charged in full to the revenue account. The performance fee is calculated on the basis set out in note 2 and charged in full to the capital account. Other expenses and interest payable are accounted for on an accruals basis.
- (iv) Investments are included in the balance sheet at valuation and a capital reserve account is established to reflect differences between value and cost. Investments are designated at fair value through profit or loss in accordance with FRS 26 'Financial Instruments: measurement'. Transaction costs incurred on the purchase and sale of investments are also included when determining realised and revaluation gains and losses. Listed investments are valued at bid prices. Unlisted investments are valued by the Directors based upon latest arms length transaction prices, net asset values, earnings and other known accounting information including valuations advised by third-party fund managers, in accordance with the principles set out in the International Private Equity and Venture Capital Valuation Guidelines ("IPEVC Guidelines") which are endorsed by the British Venture Capital Association. Differences between the value and book cost of investments at the year end are taken to revaluation capital reserve. All fair value movements on investments are taken to the Income Statement and allocated to the capital account. Net gains or losses arising on disposal of investments are taken to the realised capital reserve. Revaluation gains and losses on listed investments are regarded as realised based upon guidance set out in technical release 01/08 ("Tech 01/08"): Guidance on the determination of realised profits and losses in the context of distributions under the

Companies Act 1985. Revaluation gains and losses relating to unquoted investments are not realised under Tech 01/08.

As permitted under FRS 9 'Associated and Joint Ventures', those investments where the Company has significant influence or joint control are accounted for at fair value through profit or loss and not regarded as associated undertakings or joint ventures.

The Company's direct investments in portfolio companies and indirect investments through its participation in limited partnerships are combined for disclosure purposes.

- (v) Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is probable that taxable profits will be available against which those timing differences can be utilised. Tax relief is allocated to expenses charged to capital on the marginal basis. On this basis, if taxable income is capable of being offset entirely by the revenue expenses, then no tax relief is transferred to capital.
- (vi) Dividends payable to equity shareholders are recognised in the Reconciliation of Movements in Shareholders' Funds when they have been approved by shareholders and become a liability of the Company.
- (vii) Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Trade receivables are stated at nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss. Cash comprises current accounts and short term deposits.
- (viii) FRS 29 – 'Financial Instruments: Disclosure' requires entities to disclose narrative and numerical information about the instruments they use. The purpose of these disclosures is to ensure that enough information is provided to investors to enable them to make their own decisions about the risk profile of the entity in instruments which they are invested and to assess for themselves the impact of the use of financial instruments on the performance of the entity.
- (ix) Foreign currencies – Transactions involving foreign currencies are converted at the rate ruling at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Accounts

for the year ended 31 December 2007

1. Income

	2007 £'000	2006 £'000
Income from fixed asset investments		
Franked income:		
Dividends from unlisted UK investments	1	52
	1	52
Unfranked income:		
Listed UK treasury gilts	1,155	2,285
Unlisted UK loan stock investments	723	1,391
	1,878	3,676
	1,879	3,728
Other income		
Deposit interest	347	166
Other income	97	25
	444	191
	2,323	3,919
Income from fixed asset investments		
Listed	1,155	2,285
Unlisted	724	1,443
	1,879	3,728

2. Investment Management Fees

	2007 £	2006 £
Investment management fee – charged to revenue	913	928
Performance fee – charged to capital	323	–
	1,236	928

2. Investment Management Fees *continued*

With effect from 2 July 2007 New Star Asset Management Limited was appointed the Company's Manager. The investment management agreement provides for a management fee of 1.25% per annum of the Company's assets (at valuation) invested in limited partnerships and direct equity private equity interests and 0.75% per annum on the remainder of the Company's assets. In addition, the Company's Manager will be entitled to an annual performance fee of 10% of any return in excess of 8% per annum. The investment management agreement may be terminated by either party by giving 12 months notice in writing, subject to there being an initial period of 24 months. Prior to 2 July 2007, the Company's manager was August Equity Management Limited and a fee of 1.25% of the net asset value of the Company was payable. At 31 December 2007 management fees of £212,000 (2006: £232,000) and performance fees of £323,000 were payable to the Investment Manager (2006: £nil). As the performance fee is expected to be driven by capital appreciation, the Directors have determined that it should be charged to the capital account.

Further details of the terms of the investment management agreement are provided in the Directors' Report.

3. Administrative Expenses

	2007	2006
	£'000	£'000
Directors' emoluments	93	101
Auditors' remuneration for audit services	31	18
Auditors' remuneration for non-audit services	–	15
Professional fees	42	209
Other expenses	387	125
	<u>553</u>	<u>468</u>
Allocated to Capital:		
Directors' emoluments*	85	–
Reconstruction expenses	933	–
	<u>1,018</u>	<u>–</u>

* *Special remuneration to the Directors for additional work undertaken as part of the strategic review and reconstruction.*

All expenses are stated gross of VAT where applicable.

4. Interest Payable

Interest on bank overdraft interest

176	–
<u>176</u>	<u>–</u>

Notes to the Accounts

for the year ended 31 December 2007 *continued*

5. Taxation

a) Analysis of tax charge for the year:

	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
UK corporation tax at 30% (2006: 30%)	205	(97)	108	703	–	703
Adjustment in respect of prior years	85	–	85	38	–	38
Total tax for the year (note 5b)	<u>290</u>	<u>(97)</u>	<u>193</u>	<u>741</u>	<u>–</u>	<u>741</u>

b) Factors affecting tax charge for the year:

The tax assessed for the period is lower than that resulting from applying standard rate of corporation tax in the UK: 30% (2006: 30%). The differences are explained below:

Profit on ordinary activities before taxation	<u>681</u>	<u>9,892</u>	<u>10,573</u>	<u>2,523</u>	<u>11,524</u>	<u>14,047</u>
Tax at 30% thereon	205	2,968	3,173	757	3,457	4,214
Effects of:						
Non taxable UK dividend income	–	–	–	(54)	–	(54)
Expenses not deductible for tax purposes	–	305	305	–	–	–
Non taxable capital losses/gains	–	(3,370)	(3,370)	–	(3,457)	(3,457)
Marginal relief	–	–	–	–	–	–
Prior year adjustment	85	–	85	38	–	38
Current tax charge	<u>290</u>	<u>(97)</u>	<u>193</u>	<u>741</u>	<u>–</u>	<u>741</u>

6. Dividends on Ordinary Shares

Dividends on equity shares deducted from reserves are analysed below:

	2007	2007 £'000	2006	2006 £'000
Dividends paid on Ordinary Shares of 5p each:				
2006 Interim: 15 September 2006	–	–	0.75p	205
2006 Final: 18 May 2007 (2005 Final: 19 May 2006)	5.25p	1,422	3.50p	959
2006 Special: 16 May 2006	–	–	5.00p	1,370
	<u>5.25p</u>	<u>1,422</u>	<u>9.25p</u>	<u>2,534</u>

6. Dividends on Ordinary Shares *continued*

Dividends payable in respect of the accounting period, which is the basis on which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered, are set out below. Since the adoption of FRS 21 'Events after the Balance Sheet date' this differs from the dividends included in the 'Reconciliation of Movement in Shareholders' Funds. The final dividends approved after the year end are not included as a liability in the Financial Statements.

	2007	2007 £'000	2006	2006 £'000
Dividends paid on Ordinary Shares of 5p each:				
2006 Special: 16 May 2006	–	–	5.00p	1,370
2007 interim dividend to be paid on 20 June 2008 (2006: 15 September 2006)	0.66p	130	0.75p	205
2007 Proposed final dividend to be paid 2006 final: 18 May 2007	–	–	5.25p	1,422
	<u>0.66p</u>	<u>130</u>	<u>11.00p</u>	<u>2,997</u>

7. Return per Ordinary Share

	2007 Revenue £'000	2007 Capital £'000	2007 Total £'000	2006 Revenue £'000	2006 Capital £'000	2006 Total £'000
Attributable to Ordinary Shareholders	<u>391</u>	<u>9,989</u>	<u>10,380</u>	<u>1,782</u>	<u>11,524</u>	<u>13,306</u>
Return per Ordinary Share	<u>1.7p</u>	<u>42.6p</u>	<u>44.3p</u>	<u>6.5p</u>	<u>42.2p</u>	<u>48.7p</u>

The return per Ordinary Share is based on the weighted average of 23,436,058 Ordinary Shares of 5p in issue (2006: 27,312,897). At the year end there were 19,732,212 Ordinary Shares of 5p in issue (2006: 27,079,500).

Notes to the Accounts

for the year ended 31 December 2007 *continued*

8. Fixed Asset Investments

	2007 £'000	2006 £'000
Listed at market valuation	15,123	45,460
Unlisted at Directors' valuation	56,027	38,964
Total fixed asset investments	<u>71,150</u>	<u>84,424</u>
Market value of investments brought forward	84,424	76,767
Unrealised gains brought forward	(9,271)	(6,709)
Cost of investments brought forward	75,153	70,058
Acquisitions at cost	65,239	51,153
Disposals at cost	(87,278)	(46,058)
Cost of investments at year end	53,114	75,153
Unrealised gains at the year end	18,036	9,271
Valuation of investments at the year end	<u>71,150</u>	<u>84,424</u>
Net gains on investments based on historical costs:		
Net realised gains based on historical costs	2,447	8,962
Amounts recognised as unrealised in the previous year	(10,358)	3,928
Net realised (losses)/gains based on carrying value at the start of the period	(7,911)	12,890
Net unrealised/gains/(losses) arising in the period	19,123	(1,366)
Net gains on investments	<u>11,212</u>	<u>11,524</u>

The direct transaction costs associated with the purchase of listed investments during 2007 were £30,000 (2006: £13,000) and for unlisted investments £nil (2006: £1,000).

The direct transaction costs associated with the realisations of listed investments during 2007 were £1,000 (2006: £8,000) and for unlisted investments these were insignificant (2006: £654,000). Reconstruction costs in connection with the Company's tender offer and acquisition of Rutland Trust's interest are disclosed in note 3.

Significant holdings in investments

The Statement of Recommended Practise for 'Financial Statements of Investment Trust Companies' (the "SORP") as issued by the Association of Investment Companies in December 2005 requires that certain particulars are given in respect of holdings in investments that are material in the context of the Company's accounts.

8. Fixed Asset Investments *continued*

- (a) As at 31 December 2007, the Company held directly or indirectly 3% or more of any class of share in the following companies that represent material holdings in the context of the accounts:

Company name	% of class held
Notemachine	39.7
Wolstenholme	28.6
Healthcare Homes Group	10.34

- (b) During the year under review the value of the following unquoted investment was written up by a significant extent:

The value of Healthcare Homes increased by £1.5m.

- (c) The significant disposals in unquoted investments during the year were:

Investment	Carrying value at 31 December 2006	Transactions prior to disposal	Cost of disposal	Proceeds
InterMed	2,071	–	25	3,392
Tuja	2,057	–	1,530	5,503
Svensk Pantbelaning	n/a	2,479	2,479	2,516*
Marken	1,645	–	1,677	4,073
Boat International Media	5,169	(83)	2,533	2,653†
Hat Trick Holdings	2,453	–	1,729	1,209†
Healthcare Homes Group	5,112	192	2,140	3,379†
Imagine Publishing	3,052	(1,783)	453	928†
Planit Holdings	5,475	–	2,719	2,815†
Rollfold Holdings	4,270	–	2,017	1,491†
Liberty Acquisitions	–	5,929	2,964	2,923†

* Investment held in Rutland Fund I as taken on at 2 July 2007 in the reorganisation.

† In August 2007 the Company sold £25 million (50%) of its interest in August Equity Partners I. For further information see the Investment Review.

- (d) Kleinwort Capital Partners Limited (“KCPL”) is a wholly owned subsidiary of the company. The Directors have not prepared consolidated accounts, as KCPL is immaterial in the context of the Company’s accounts. KCPL is in members voluntary liquidation.

Notes to the Accounts

for the year ended 31 December 2007 *continued*

9. Commitments

The level of outstanding commitments at the year-end was:

	2007	2006
	£'000	£'000
August Equity Partners I	2,439	11,696
August Equity Partners II	27,888	–
KB Fund III and KB Fund III B	1,791	1,745
The Logic Group Enterprises	–	2,500
Parallel Ventures 2006 Limited Partnership	2,269	6,684
Elderstreet Capital Partners	59	76
Rutland Fund I	9,068	–
Rutland Fund II	8,386	–
Century Capital Partners Fund IV	1,886	–
Lyceum Fund II	5,000	–
Zeus Private Equity Fund	1,000	–
Outstanding commitments	<u>59,786</u>	<u>22,701</u>

10. Current Assets

	2007	2006
	£'000	£'000
Debtors:		
Due from brokers	687	686
Accrued income	103	926
Tax recoverable	146	–
Other debtors	33	–
	<u>969</u>	<u>1,612</u>
Cash at bank:		
Short term deposits	172	773
Current accounts	5,001	3,422
	<u>5,173</u>	<u>4,195</u>

11. Creditors

	2007 £'000	2006 £'000
Creditors: amounts falling due within one year:		
Bank overdraft	1,193	–
Due to brokers	754	–
Other taxation payable	–	228
Performance fee	323	–
Other creditors and deferred income	306	327
Deferred consideration*	200	200
	<u>2,776</u>	<u>755</u>

* This amount is now payable and will be paid during 2008.

12. Share Capital

	2007 £'000	2006 £'000
Authorised		
40,000,000 (2006: 40,000,000) Ordinary Shares of 5p each	<u>2,000</u>	<u>2,000</u>
Issued and fully paid		
19,732,212 (2006: 27,079,500) Ordinary Shares of 5p each	<u>987</u>	<u>1,354</u>

As a result of the tender offer 10,831,800 shares were repurchased at a cost of £36,115,000. In connection with the merger with Rutland Trust PLC 3,534,512 new shares were issued. A further 50,000 shares were repurchased and cancelled at a cost of £156,000. Details of these transactions are contained in the Directors' Report on page 23.

13. Net Asset Value per Ordinary Share

The Net Asset Value per Ordinary Share (which equals the net value attributable to the Ordinary Shares at the year end calculated in accordance with the Articles of Association) was as follows:

	2007	2006
Net Asset Value per Ordinary Share of 5p attributable	377.6p	330.4p
Net Asset Value attributable to Ordinary Shares of 5p	£74,516,000	£89,476,000

Notes to the Accounts

for the year ended 31 December 2007 *continued*

13. Net Asset Value per Ordinary Share *continued*

The movements during the year of the assets attributable to the Ordinary Shares were as follows:

	2007 £'000	2006 £'000
Total net assets attributable to Ordinary Shares of 5p at 1 January 2007	89,476	79,580
Total return on ordinary activities after tax for the year	10,380	13,306
Dividends appropriated in the year	(1,422)	(2,534)
Effect of share buy-backs	(156)	(876)
Capital reorganisation	<u>(23,762)</u>	<u>–</u>
Total net assets attributable to Ordinary Shares of 5p at 31 December 2007	<u>74,516</u>	<u>89,476</u>

The Net Asset Value per Ordinary Share for 2007 is based on 19,732,212 Ordinary Shares in issue at the year end (2006: 27,079,500 Ordinary 5p Shares).

Capital reorganisation comprises £12,352,000 in respect of the acquisition of assets from Rutland Trust PLC less £36,115,000 in respect of the tender offer and share repurchases.

14. Reconciliation of Revenue before Taxation to Net Cash Inflow from Operating Activities

	2007 £'000	2006 £'000
Revenue before finance costs and taxation	857	2,523
Less: UK income tax suffered on investment income at source	<u>(254)</u>	<u>(474)</u>
	603	2,049
Performance fee included in capital	(323)	–
Decrease/(Increase) in other debtors	790	(946)
Increase in other creditors	<u>295</u>	<u>73</u>
Net cash inflow from operating activities	<u>1,365</u>	<u>1,176</u>

15. Analysis of Changes in Cash

	2007 £'000	2006 £'000
Cash and short term deposits	5,173	4,195
Bank overdraft	<u>(1,193)</u>	<u>–</u>
	<u>3,980</u>	<u>4,195</u>

16. Financial Instruments

Risk management policies and procedures

The Company's investment objective is to produce capital gains through exposure to a diversified portfolio of private equity investments. In addition, the Company holds UK gilts, cash and short-term deposits and provides for debtors and creditors that arise directly from its operations. The Company's assets are stated at fair value.

For listed securities, these represent bid prices. For private equity investments the valuation process is judgemental and subject to estimation risk. The Directors rely upon information and valuations provided by the third-party fund managers and apply the IPEVC valuation guidelines.

The holding of securities, investing activities and associated financing undertaken pursuant to this objective involve certain inherent risks. Events may occur that would result in either a reduction in the Company's net assets or a reduction of potential revenue profits available for dividend. As an investment trust, the Company invests in securities for the long term. Accordingly it is, and has been throughout the year under review, the Company's policy that no short-term trading in investments or other financial instruments shall be undertaken.

The main financial instrument risks arising from the Company's pursuit of its investment objective are market risk (comprising price risk, interest rate risk, and currency risk), liquidity risk and credit risk. The Board has reviewed and agreed policies for managing each of these risks, which are unchanged from the previous year, and which are summarised below.

Note 16 (h) sets out a summary of the Company's financial assets and liabilities by category.

The Company's investment objective was adopted with effect from 2 July 2007 following the reconstruction. The comparative disclosures for 2006 reflect the period prior to the Company's reconstruction.

a) Market Risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices or valuations determined by the Directors or General Partners of the Limited Partnerships in which the Company may hold an interest. This market risk comprises three elements – currency risk (see note 16(b)), interest rate risk (see note 16(c)), and other price risk (see note 16(d)). The Board reviews and agrees policies for managing these risks. The Company's Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

b) Currency Risk

Although the majority of the Company's assets are denominated in Sterling, the Company is exposed to some foreign currency risk through its investments in non-Sterling denominated securities.

Management of the risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis, and reports to the board on a regular basis. Due to the current relatively low level of currency exposure, derivative contracts are not presently used to hedge against such exposure.

Notes to the Accounts

for the year ended 31 December 2007 *continued*

16. Financial Instruments *continued*

Foreign currency exposure

The fair values of the Company's monetary items that have foreign currency exposure at 31 December 2007 are shown below.

Where the Company's equity investments (which are not monetary items) are priced in foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

	2007 US Dollars £'000	2007 Euros £'000	2007 Total £'000	2006 US Dollars £'000	2006 Euros £'000	2006 Total £'000
Investments at fair value through profit or loss that are monetary items	-	-	-	-	-	-
Debtors	-	-	-	-	-	-
Cash at bank and short-term deposits	-	-	-	-	-	-
Creditors	(754)	-	(754)	-	-	-
Foreign currency exposure on net monetary items	(754)	-	(754)	-	-	-
Investments at fair value through profit or loss that are equities	3,457	8,317	11,774	333	4,116	4,449
Total net foreign currency exposure	<u>2,703</u>	<u>8,317</u>	<u>11,020</u>	<u>333</u>	<u>4,116</u>	<u>4,449</u>

The Company's investments in India and China are priced in US Dollars.

The fair values of the Company's outstanding commitments to limited partnerships that have foreign currency exposure at 31 December 2007 are shown below.

	2007 US Dollars £'000	2007 Euros £'000	2007 Total £'000	2006 US Dollars £'000	2006 Euros £'000	2006 Total £'000
Total net foreign currency exposure	<u>1,886</u>	-	<u>1,886</u>	-	-	-

Foreign currency sensitivity

During the financial year sterling appreciated by 1.7% against the US Dollar (2006: 14.0%) and depreciated by 8.3% against the Euro (2006: appreciated by 2.0%).

It is not possible to forecast how much exchange rates might move in the next year, but based on the movements in currencies above in the last two years, it appears reasonably possible that rates could change by 10%.

16. Financial Instruments *continued*

b) Currency Risk *continued*

Applying a 10% change in rate to the exposures listed above would affect net assets and capital return as follows:

	2007	2007	2007	2006	2006	2006
	US			US		
	Dollars	Euros	Total	Dollars	Euros	Total
	£'000	£'000	£'000	£'000	£'000	£'000
If exchange rates appreciated by 10%	(314)	(756)	(1,070)	(30)	(374)	(404)
If exchange rates depreciated by 10%	<u>384</u>	<u>924</u>	<u>1,308</u>	<u>37</u>	<u>457</u>	<u>494</u>

It should be noted that the above illustration is based on exposures at the year-end. Exposures may be subject to change during the year as a result of investment decisions.

c) Interest Rate Risk

The Company will be affected by interest rate changes as it holds interest-bearing financial assets and liabilities. Interest rate changes will also have an impact on the valuation of equities, although this forms part of other price risk, which is considered separately below.

Management of the risk

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions and borrowing under the loan facility. The Company has a Revolving Credit Facility of £10 million and an uncommitted overdraft facility of £20 million.

The Company, generally, does not hold significant cash balances, with short-term borrowings being used when required. Cash awaiting investments may be invested in listed fixed interest investments, primarily UK gilts.

Derivative contracts are not used to hedge against the exposure to interest rate risk.

Interest rate exposure

The exposure, at 31 December, of financial assets and liabilities to interest rate risk is shown by reference to:

- floating interest rates (i.e. giving cash flow interest rate risk) – when the rate is due to be re-set;
- fixed interest rates (i.e. giving fair value interest rate risk) – when the financial instrument is due for repayment.

Notes to the Accounts

for the year ended 31 December 2007 *continued*

16. Financial Instruments *continued*

c) Interest Rate Risk *continued*

	2007	2007		2006	2006	
	Within	More than	2007	Within	More than	2006
	one year	one year	Total	one year	one year	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Exposure to floating interest rates:						
Cash at bank and short-term deposits	5,173	–	5,173	4,195	–	4,195
Bank overdraft	(1,193)	–	(1,193)	–	–	–
	<u>3,980</u>	<u>–</u>	<u>3,980</u>	<u>4,195</u>	<u>–</u>	<u>4,195</u>
Exposure to fixed interest rates:						
Investments at fair value through profit or loss	5,000	–	5,000	45,460	–	45,460
	<u>5,000</u>	<u>–</u>	<u>5,000</u>	<u>45,460</u>	<u>–</u>	<u>45,460</u>
Total exposure to interest rates	<u>8,980</u>	<u>–</u>	<u>8,980</u>	<u>49,655</u>	<u>–</u>	<u>49,655</u>

The above year end amounts are not representative of the exposure to interest rates during the year, because the level of exposure changes as borrowings are drawn down and repaid.

Interest receivable and finance cash are at the following rates:

- Interest received on cash balances, or paid on bank overdrafts is at a margin over LIBOR or its foreign currency equivalent (2006: same).
- The nominal interest rates on investments at fair value through profit or loss are shown in the portfolio statement on page 8. The weighted average effective interest rate on these investments is 5.15% (2006: 5.56%).

16. Financial Instruments *continued*

c) Interest Rate Risk *continued*

Interest rate sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and equity to an increase or decrease of 50 (2006: 50) basis points in interest rates in regard to the Company's monetary financial assets which are subject to interest rate risk.

This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at each balance sheet date, with all other variables held constant.

	Increase in rate 2007 £'000	Decrease in rate 2007 £'000	Increase in rate 2006 £'000	Decrease in rate 2006 £'000
Effect on revenue return	<u>20</u>	<u>(20)</u>	<u>21</u>	<u>(21)</u>

Effect on capital return:

Movements in interest rates will have an impact on the market price of a fixed rate investment. At the year-end the Company held a UK Treasury bill paying 5% interest with a maturity of 07/03/2008. Given the nearness to maturity price sensitivity to interest rates is considered to be low.

d) Other price risk

The Company's exposure to other price risk comprises mainly movements in the value of its equity investments.

A detailed breakdown of the investment portfolio is given on page 8. Investments are valued in accordance with the Company's accounting policies. Uncertainty arises as a result of future changes in valuations of the Company's private equity investments, the market prices of the Company's listed equity investments and the effect changes in exchange rates may have on the sterling value of the investments.

Management of the risk

In order to manage this risk the Directors meet regularly with the Manager to compare the performance of the portfolio against market indices and comparable investment trusts. Given the Company's investment objective, the Company does not hedge against the effect of changes in the underlying prices of the investments.

The Company had no derivative instruments at the year end, but, in the event that it had, the value of derivative instruments held at the balance sheet date would be determined by reference to their market value at that date.

The unquoted investments are held at Directors' valuations, which are prepared in accordance with the principles set out by the International Private Equity and Venture Capital Valuation Guidelines. All valuations are reviewed by the Investment Manager, the Company's Audit Committee and subsequently recommended to the board for acceptance. Details of the valuation bases for the limited partnership investments are provided on page 11.

Notes to the Accounts

for the year ended 31 December 2007 *continued*

16. Financial Instruments *continued*

d) Other price risk *continued*

With the unquoted investments, a key control is the spreading of risk across a large number of investments. To this end the Company is currently invested in limited partnerships, which on a look through basis are invested in 45 companies and the top ten unquoted investments amount to 49.4% of net assets. The Manager has stringent investment selection, approval and monitoring procedures. Close monitoring of the General Partners as manager of funds or limited partnerships in which the Company has an interest and the performance of such investments allows the Manager to enter into dialogue with the managers.

Other price risks exposure

The Company's exposure to other changes in market prices at 31 December on its quoted equity investments was as follows:

	2007	2006
	£'000	£'000
Fixed asset quoted equity investments at fair value through profit or loss	<u>10,124</u>	<u>–</u>

The Company's exposure to other changes in prices at 31 December on its unquoted equity investments was as follows:

	2007	2006
	£'000	£'000
Fixed asset unquoted equity investments at fair value through profit or loss	<u>56,027</u>	<u>38,964</u>

An analysis of the Company's portfolio is shown on page 8.

Other price risk sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year and the equity to an increase or decrease of 10% in the fair values of the Company's equities. This level of change is considered to be reasonably possible based on observation of current market conditions. The sensitivity analysis is based on the Company's equities at each balance sheet date, with all other variables held constant.

	Increase in fair value 2007 £'000	Decrease in fair value 2007 £'000	Increase in fair value 2006 £'000	Decrease in fair value 2006 £'000
Effect on revenue return	–	–	–	–
Effect on capital return	<u>6,615</u>	<u>(6,615)</u>	<u>3,896</u>	<u>(3,896)</u>
Effect on total return and on net assets	<u>6,615</u>	<u>(6,615)</u>	<u>3,896</u>	<u>(3,896)</u>

16. Financial Instruments *continued*

e) Liquidity Risk

Liquidity risk is the possibility of failure of the Company to realise sufficient assets to meet its financial liabilities, including outstanding commitments associated with financial instruments. Since a significant proportion of assets are in unquoted investments there is a liquidity risk as these assets cannot often be readily realised without incurring significant loss.

Management of the risk

The liquidity risk is managed by maintaining some cash or cash equivalent holdings in order to meet investment requirements as they fall due. As at the year-end the Company had liquid resources of £49 million. This was made up of £9 million cash and money market instruments, £10 million of listed investments and a £30 million loan facility. The structure of the loan facility is a Revolving Credit Facility of £10 million and an uncommitted overdraft facility of £20 million. This is subject to annual review with the next review date being 5 July 2008. The Directors anticipate that the facility will be renewed. Undrawn commitments at year end were £60 million. The current position is liquid resources of £47 million versus outstanding commitments of £69 million. As the commitments are expected to be drawn down over the next few years, during which time there will also be distributions from existing private equity investments, this is considered to be a manageable balance and is kept under review by the Investment Manager and the Board.

Liquidity risk exposure

A summary of the Company's financial liabilities is provided in note 16(h). The Company has sufficient funds to meet these financial liabilities as they fall due.

f) Credit Risk

Credit risk is the exposure to loss from failure of a counterparty to deliver securities or cash for acquisitions or disposals of investments or to repay deposits.

Management of the risk

This risk is not considered significant. The Company manages credit risk by entering into deals only with brokers pre-approved by a committee of New Star Asset Management Limited.

Credit risk exposure

None of the Company's financial assets is of impaired value or overdue.

g) Fair Values of Financial Assets and Financial Liabilities

The Company's financial instruments are stated at their fair values at the year end. The fair value of listed shares and securities is based on last traded market prices. The fair value of unlisted shares and securities is based on Directors' valuations as detailed in note 16(d).

Notes to the Accounts

for the year ended 31 December 2007 *continued*

16. Financial Instruments *continued*

h) Summary of Financial Assets and Financial Liabilities by Category

The carrying amounts of the Company's financial assets and financial liabilities as recognised at the balance sheet date of the reporting periods under review are categorised as follows:

	2007 £'000	2006 £'000
Financial Assets		
Financial assets at fair value through profit or loss:		
Fixed asset investments – designated as such on initial recognition	71,150	84,424
Current asset investments – designated as such on initial recognition	–	–
Loans and receivables:		
Current assets:		
Debtors (due from brokers, dividends receivable, accrued income and other debtors)	823	1,612
Tax recoverable	146	–
Cash at bank and short-term deposits	5,173	4,195
	<u>77,292</u>	<u>90,231</u>
Financial Liabilities		
Measured at amortised cost:		
Creditors: amounts falling due within one year		
Borrowings under the currency loan facility	–	–
Bank overdraft	1,193	–
Creditors (due to brokers and deferred consideration)	954	200
Other taxation payable	–	228
Accruals	629	327
	<u>2,776</u>	<u>755</u>

17. Contingent Liability

The Company seeks to meet the requirements as an investment trust each year. One of the requirements of investment trust status is that no single investment should represent more than 15% of total investments of the Company at the time such investment is made (the "15% test"). The consequence of breaching the 15% test is that the Company may have to pay capital gains tax on realised gains during any accounting period when such a breach persists.

The Company has an investment in The Rutland Partnership (the "Partnership") whose investment manager is Rutland Partners LLP (the "Partnership Manager"). On 6 December 2007 the Partnership Manager increased the Company's allocation in one of its portfolio holdings, Notemachine, so that the Company's purported holding in Notemachine represented 15.5% of its total investments.

Based on legal advice received, the Directors consider that the operation of the relevant agreements relating to the Partnership mean that, regardless of any initial purported allocation by the Partnership Manager, the Company could never have been the beneficial owner of a stake in Notemachine which causes there to be a breach of the 15% test.

The Directors have been advised by the Manager that, if the Company is deemed to have breached the 15% test, the estimated capital gains tax liability for the period to 31 December 2007 would be approximately £1.3 million. The Company is reviewing any steps that could be taken to mitigate this or any further tax liability.

The Company had no active role in the investment in Notemachine and was only aware of this matter once it was brought to its attention by the Manager, who in turn was informed by the Partnership Manager who had reallocated cash within the Partnership. The Company has received advice that if a liability to tax does arise there would be a cause for a claim against one or more third parties.

18. Contingent Asset

The Association of Investment Companies and JPMorgan Claverhouse Investment Trust lodged a joint appeal in 2004 for the payment of management and performance fees (“fees”) by investment trust to be treated as exempt from VAT. In June 2007 the European Court of Justice (“ECJ”) found in favour of the appellants, declaring that investment trusts should be exempted from VAT on fees. HM Revenue & Customs (“HMRC”) have announced that they will not appeal the ECJ decision.

New Star Asset Management Limited was appointed Manager subsequent to the ECJ judgement. Accordingly the Company has not paid any VAT on fees in respect of the period since 2 July 2007. The amounts recoverable by the former manager on behalf of the Company, and the timing of those recoveries, are dependent upon negotiations between the former manager and HMRC on the one hand, and between the former manager and the Company on the other. At present it is not possible to quantify the amount that will be recovered by the Company with any certainty.

19. Related parties

Mr Duffield, who is a Director of the Company, is Chairman of New Star Asset Management Limited (“New Star”) which was appointed Manager of the Company with effect from 2 July 2007. Details of the contractual arrangements between the Company and New Star may be found in the Directors’ Report on page 23 and in note 2 on pages 44 and 45. As described in the Directors’ Report on page 25, New Star has an interest in 44.49% of the issued share capital of the Company (excluding treasury shares). However, New Star has undertaken not to vote more than 39.00% of the issued share capital. Prior to 2 July 2008 August Equity Management Limited acted as the Company’s manager. Details of the fees paid to August Equity Management Limited during the year may be found in note 2 on pages 44 and 45.

Shareholder Information

Share price and net asset value information

The Company's 5p ordinary shares are traded on the London Stock Exchange.

The price of the Company's shares is listed in The Daily Telegraph, Financial Times and The Times under the Investment Companies section. The Company releases its net asset value on a monthly basis.

Further information on New Star Private Equity Investment Trust PLC may be found on the Company's website: www.newstaram.com/alternative-investments/closed-end-funds.

Savings Scheme

The Company's shares may be purchased via the Alliance Trust Savings Scheme.

Alliance Trust Savings Limited
PO Box 164
Meadow House
64 Reform Street
Dundee DA1 9YP

Telephone: 01382 201900

Email: contact@alliancetrust.co.uk

Website: www.alliancetrust.co.uk/ats.htm

Stock Exchange share codes

SEDOL: 03095531

ISIN: GB0030955313

Ticker: NSPE

Financial Calendar

Annual General Meeting 26 June 2008

Record date for interim dividend 9 May 2008

Interim dividend payable 20 June 2008

