

3963011

NEW STAR INVESTMENT TRUST PLC

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NEW STAR INVESTMENT TRUST PLC

INVESTMENT POLICY

The Company's objective is to achieve long-term capital growth.

REGISTERED OFFICE

1 Knightsbridge Green, London, SW1X 7NE

Company Number 3969011

COMPANY INFORMATION

DIRECTORS

J K Roe (*Chairman*)
J L Duffield (*Deputy Chairman*)
M Boase
G Howard-Spink

INVESTMENT MANAGER

New Star Asset Management Limited
1 Knightsbridge Green, London SW1X 7NE
(*Regulated by the Financial Services Authority*)

SECRETARY, ADMINISTRATORS AND REGISTERED OFFICE

New Star Asset Management Limited
1 Knightsbridge Green, London SW1X 7NE
Telephone: 020 7225 9200 Facsimile: 020 7225 9300
Website: www.newstaram.com
(*Regulated by the Financial Services Authority*)

SOLICITORS

Olswang
90 High Holborn, London WC1V 6XX

AUDITORS

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

CUSTODIANS

HSBC Global Custody Nominees (UK) Limited
Mariner House, Pepys Street, London EC3N 4DA

REGISTRARS

Lloyds TSB Registrars
The Causeway, Worthing, West Sussex BN99 6DA
Telephone: 01903 502541
Website: www.shareview.co.uk

The Company's shares are traded on the London Stock Exchange and their price is shown in the Financial Times under "Investment Companies".

BOARD OF DIRECTORS

***James K Roe (Chairman)**, aged 71, was a director of N M Rothschild from 1970 until 1992. He is a director of Principle Capital Investment Trust Plc. He was previously a director of Jupiter International Group PLC and other companies and also a member of the Monopolies and Mergers Commission from 1993 to 1999.

John L Duffield (Deputy Chairman), aged 67, is Chairman of New Star Asset Management Group PLC. He is a director of the New Star Absolute Return Fund PCC Limited and a number of investment and other companies and was chief executive of Jupiter International Group PLC until May 2000.

***Martin Boase**, aged 74, formed the advertising agency Boase Massimi Pollitt plc in 1968, which was floated on the London Stock Exchange in 1983. He was Chairman of The Advertising Association from 1987 to 1992. He is currently Chairman of Herald Investment Trust plc, The Maiden Group plc and Jupiter Dividend and Growth Trust PLC.

***Geoffrey Howard-Spink**, aged 62, was one of the founders in 1981 of Lowe Group Limited, one of the UK's biggest advertising groups. He is Chairman of MICE Group plc and a director of Immedia Broadcasting PLC.

** Members of the Audit Committee.*

FINANCIAL HIGHLIGHTS

| | 30th June 2006 | 30th June 2005 (restated) | % Change |
|--|--|---|-------------|
| PERFORMANCE | | | |
| Net assets (£'000) | 104,113 | 80,562 | 29.2 |
| Net asset value per Ordinary share | 146.59p | 113.43p | 29.2 |
| Mid-Market price per Ordinary share | 144.25p | 112.50p | 28.2 |
| Discount of share price to net asset value | 1.6% | 0.8% | – |
| FTSE World Index | 114.10 | 101.10 | 12.9 |
| FTSE All-Share Index | 2,967.58 | 2,560.17 | 15.9 |
| | 1st July 2005 to 30th June 2006 | 1st July 2004 to 30th June 2005 (restated) | |
| REVENUE | | | |
| Earnings per Ordinary share | 0.07p | 0.10p | |
| Dividend per Ordinary share | 0.10p | 0.10p | |
| TOTAL RETURN | | | |
| Total asset total return | 29.2% | 19.9% | |
| FTSE All-Share Index total return | 19.7% | 18.9% | |

CHAIRMAN'S STATEMENT

Your Company's net assets rose by 29.2% to £104.1 million over the year to 30th June 2006. This compares with a 15.9% rise in the FTSE All-Share Index.

From inception in May 2000 to 30th June 2006, the net asset value per share rose 47.5% against a 0.2% fall in the FTSE All-Share Index, with your Company outperforming in each of its six reporting periods. Initially, its high weightings in bonds and hedge funds generated outperformance but gains over the last five years have resulted from the portfolio's exposure to equity markets through investments in retail funds and other quoted securities, particularly the parent of your management company, New Star Asset Management Group.

Net revenue for the year under review was £50,000, which compares with £69,000 during the previous year. Your Directors recommend the payment of a final dividend of 0.1p net per Ordinary share (annual dividend of 0.1p in 2005).

Global equities produced healthy returns during the year, with the MSCI World Index returning 13.9% in sterling terms. Liquidity was abundant, with inflation-adjusted Group of Seven (G7) money supply growth running in excess of industrial output growth, increasing the cash available for financial investment.

Apart from a temporary increase in risk aversion in October, investor sentiment was firm during late 2005 and early 2006. Equities benefited from healthy corporate profits growth, cash takeovers and share buy-backs. There was, however, a setback between the middle of May and the middle of June 2006 in response to fears that the trade-off between economic growth and inflation was deteriorating.

Bonds were also strong in late 2005 but sentiment turned in early 2006 as central banks tightened monetary policies. The US Federal Reserve raised interest rates in eight quarter point moves to 5.25% during the year although this was insufficient to prevent the dollar falling 5.5% against the euro and 3.2% against the pound. The European Central Bank responded to revived eurozone economic growth by raising its repo rate in three quarter point moves to 2.75% while the Japan monetary authorities ended their policy of quantitative easing.

One reason for central bank nervousness about inflation was higher commodity prices. Oil rose 28.2% over the year, copper gained 108.6% and gold rose 39.8%. Another reason for nervousness was the rise in industrial capacity usage above its long-term average, giving manufacturers more scope to pass on higher raw material costs.

Within the G7, Japan made the biggest country contribution to global equity market returns, gaining 31.8% as investors grew increasingly confident about its prospects. The resource-heavy Canadian market gained 28.0% while Germany gained 26.7% and France gained 23.9%. The US, however, underperformed, rising 5.5% in sterling terms.

Among the global sectors, banks gained 18.2%, making the biggest sector contribution to global returns. Other big contributors included materials, up 35.9%, diversified financials, up 23.8%, energy, up 20.6%, and capital goods, up 18.5%. By contrast, semiconductors fell 7.5% and healthcare equipment fell 3.7%.

CHAIRMAN'S STATEMENT

continued

At the year end, economists were predicting a growth slowdown in late 2006 or early 2007. Inflation has edged higher and central banks in Europe and Japan are likely to tighten their monetary policies further although the US Federal Reserve appears to be near to pausing in its programme of interest rate rises. Liquidity conditions have recently become less favourable, with the gap between G7 inflation-adjusted money supply growth and industrial output shrinking. Equity valuations, however, appear reasonable and should provide some support for stockmarkets along with increasing takeover activity. In such an environment, careful stock selection will remain important.

Mr Martin Boase will be retiring as a director of your Company at the forthcoming Annual General Meeting on 16th November 2006. He has served as a director of your Company since its inception in 2000 and your directors would like to thank him on behalf of all shareholders for his services and help during this period.

Your Company's unaudited net asset value at 31st August 2006 was 141.43p.



James Roe
Chairman
4th October 2006

INVESTMENT MANAGER'S REPORT

Your Company's strategy is to invest in funds managed by New Star Asset Management Limited, both long-only and hedge, in New Star Asset Management Group shares and in other retail funds.

Within the portfolio, all but one of the 21 New Star retail funds and hedge funds produced positive returns during the year under review. Eight of the 14 pooled funds were in the top quartile when measured against their respective peer groups while a further two were above the median.

Among the pooled funds, the strongest absolute and relative performance was generated by the New Star Global Financials Fund, which gained 37.5% and outperformed its benchmark by 17.7 percentage points. Other strong absolute performers included the Korean Portfolio, which gained 37.3%, the China Portfolio, which gained 34.5%, the European Growth Fund, which gained 29.2%, and the New Star Global Strategic Capital Unit Trust, which gained 26.6%.

Among the hedge funds, the best performers were New Star Firefly Hedge Fund, which rose 18.2%, New Star Financials Hedge Fund, which rose 18.1%, New Star European Hedge Fund, which gained 14.7%, and New Star Apollo Hedge Fund, which gained 14.2%.

A further significant factor in your Company's outperformance was the shareholding in New Star Asset Management Group, which performed strongly following the admission of the company's shares to the Alternative Investment Market in November 2005. By the end of the year under review, the shares had risen 73.9% from their placing price.

Portfolio activity included the sale of Cox Insurance after a takeover. Your Company also took partial profits on holdings in five larger New Star managed funds: European Growth Fund, UK Alpha Fund, UK Hedge Fund, UK Gemini Hedge Fund and UK Growth Fund.

The proceeds were mostly reinvested in the European Hedge Fund and six younger New Star funds, Accelerator Hedge Fund, Firefly Hedge Fund, Global Financials Fund, Hidden Value Fund, Pan-European Equity Fund and UK Special Situations Fund. In addition, a holding was purchased in Skandia Global Best Ideas Fund.

As a result, your Company ended the year under review with 53.3% of its invested assets in retail funds, 24.9% in hedge funds, 20.5% in its holding in New Star Asset Management Group and 1.3% in other equities and investment trust shares. Geographically, 71.4% of the portfolio was exposed to the UK, 22.1% was exposed to Europe excluding the UK and the balance was invested elsewhere.

After the stockmarket correction from mid-May to mid-June, equity prices recovered in the closing days of the year under review. Liquidity conditions were tightened but price earnings multiples remained modest and takeover and share buyback activity was buoyant. In early 2006, higher risk asset classes were inflated by liquidity flows, pushing valuations in some areas to extremes. Sentiment may, therefore, turn as central banks tighten monetary policy, leading to sector rotation into more defensive areas of the markets.



New Star Asset Management Limited
4th October 2006

SCHEDULE OF INVESTMENTS

| | | 30th June 2006 | |
|---|--------------------------|------------------------|-------------------------|
| Schedule of investments | Activity | Bid-market value £'000 | Percentage of portfolio |
| New Star Asset Management Group | Asset Management Company | 21,105 | 20.42 |
| New Star European Growth Fund | Investment Fund | 9,466 | 9.16 |
| New Star UK Growth Fund | Investment Fund | 8,204 | 7.94 |
| New Star European Hedge Fund | Investment Fund | 6,587 | 6.37 |
| New Star UK Alpha Fund | Investment Fund | 4,721 | 4.57 |
| New Star Accelerator Hedge Fund | Investment Fund | 4,622 | 4.47 |
| New Star Global Financials Fund | Investment Fund | 4,568 | 4.42 |
| New Star Hidden Value Portfolio | Investment Fund | 3,998 | 3.87 |
| New Star International Pan European Equity Fund | Investment Fund | 3,968 | 3.84 |
| New Star UK Special Situations Fund | Investment Fund | 3,792 | 3.67 |
| New Star Financials Hedge Fund | Investment Fund | 3,350 | 3.24 |
| New Star Select Opportunities Fund | Investment Fund | 3,162 | 3.06 |
| Skandia Global Best Ideas Fund | Investment Fund | 3,094 | 2.99 |
| New Star Global Fund – British Lion Portfolio | Investment Fund | 2,950 | 2.85 |
| New Star Hedge Fund | Investment Fund | 2,773 | 2.68 |
| New Star Firefly Hedge Fund | Investment Fund | 2,354 | 2.28 |
| New Star Apollo Hedge Fund | Investment Fund | 2,184 | 2.11 |
| New Star Global Strategic Capital Fund | Investment Fund | 2,144 | 2.07 |
| New Star Global Fund – UK Smaller Companies Portfolio | Investment Fund | 1,902 | 1.84 |
| New Star Asia Renaissance Hedge Fund | Investment Fund | 1,869 | 1.81 |
| Synergy Fund Limited B | Investment Fund | 1,480 | 1.43 |
| New Star Global Fund – China | Investment Fund | 1,043 | 1.00 |
| Arena Leisure | Equity | 942 | 0.91 |
| Sagitta Healthcare Fund | Investment Fund | 885 | 0.86 |
| New Star Global Fund – Korea | Investment Fund | 783 | 0.76 |
| Synergy Fund Limited A | Investment Fund | 538 | 0.52 |
| New Star European Leaders Fund | Investment Fund | 487 | 0.47 |
| Lindsell Train Investment Trust | Investment Trust | 243 | 0.24 |
| Immedia Broadcasting | Equity | 54 | 0.05 |
| Forever Blue Technologies* | Equity | 39 | 0.04 |
| Dublin Synergy Fund | Investment Fund | 30 | 0.03 |
| Shavick Entertainment* | Equity | 27 | 0.03 |
| Total investments | | <u>103,364</u> | <u>100.00</u> |

* Unlisted.

SCHEDULE OF INVESTMENTS

continued

| Schedule of investments | Activity | 30th June 2005 | |
|--|-----------------------------|---------------------------|----------------------------|
| | | Bid-market value £'000 | Percentage of portfolio |
| New Star Asset Management Group* | Asset Management Company | 10,249 | 13.13 |
| New Star European Growth Fund | Investment Fund | 11,798 | 15.11 |
| New Star UK Growth Fund | Investment Fund | 9,411 | 12.06 |
| New Star European Hedge Fund | Investment Fund | 5,523 | 7.08 |
| New Star UK Alpha Fund | Investment Fund | 5,652 | 7.24 |
| New Star Global Financials Fund | Investment Fund | 2,391 | 3.06 |
| New Star Hidden Value Portfolio | Investment Fund | 2,303 | 2.95 |
| New Star UK Special Situations Fund | Investment Fund | 2,143 | 2.75 |
| New Star Financials Hedge Fund | Investment Fund | 2,786 | 3.57 |
| New Star Select Opportunities Fund | Investment Fund | 3,020 | 3.87 |
| New Star Global Fund – British Lion Portfolio | Investment Fund | 2,378 | 3.05 |
| New Star Hedge Fund | Investment Fund | 5,274 | 6.76 |
| New Star Firefly Hedge Fund | Investment Fund | 1,012 | 1.30 |
| New Star Apollo Hedge Fund | Investment Fund | 1,905 | 2.44 |
| New Star Global Strategic Capital Fund | Investment Fund | 1,694 | 2.17 |
| New Star Global Fund – UK Smaller Companies Portfolio | Investment Fund | 1,638 | 2.10 |
| New Star Asia Renaissance Hedge Fund | Investment Fund | 1,774 | 2.27 |
| Synergy Fund Limited B | Investment Fund | 1,350 | 1.73 |
| New Star Global Fund – China | Investment Fund | 801 | 1.03 |
| Arena Leisure | Equity | 977 | 1.25 |
| Sagitta Healthcare Fund | Investment Fund | 934 | 1.20 |
| New Star Global Fund – Korea | Investment Fund | 589 | 0.75 |
| Synergy Fund Limited A | Investment Fund | 500 | 0.64 |
| New Star European Leaders Fund | Investment Fund | 409 | 0.52 |
| Lindsell Train Investment Trust | Investment Trust | 239 | 0.30 |
| Immedia Broadcasting | Equity | 116 | 0.15 |
| Forever Blue Technologies* | Equity | 41 | 0.05 |
| Dublin Synergy Fund | Investment Fund | 44 | 0.06 |
| Shavick Entertainment* | Equity | 28 | 0.04 |
| New Star UK Gemini Hedge Fund | Investment Fund | 1,072 | 1.37 |
| Total investments | | <u>78,051</u> | <u>100.00</u> |

* Unlisted.

REPORT OF THE DIRECTORS

The Directors present their Report and Accounts for the year ended 30th June 2006.

BUSINESS REVIEW

BUSINESS AND STATUS

The Company carries on business as an investment trust investing principally in funds managed by subsidiaries of New Star Asset Management Group PLC. The Company's investment objective is to achieve long-term capital growth. Over the year to 30th June 2006, the Company's total assets rose by 29.2% compared with a 15.9% rise in the FTSE All-Share Index.

The Company is an investment company within the meaning of Section 266 of the Companies Act 1985.

The Company was last approved by HM Revenue & Customs as an investment trust under Section 842 of the Income and Corporation Taxes Act 1988 in respect of the year ended 30 June 2005. This approval is subject to there being no subsequent enquiry under corporation tax self-assessment. Since that date, the Company has directed its affairs so as to be able to continue to qualify for approval by HM Revenue & Customs as an investment trust for tax purposes.

The current portfolio of the Company is such that its shares are qualifying investments for Individual Savings Accounts and it is the intention of the Directors to manage the affairs of the Company so that this eligibility will be maintained. There are no future business developments that the Directors should bring to the attention of the Company's shareholders.

REVIEW OF ACTIVITIES

A review of the Company's activities is contained in the Chairman's Statement on pages 6 and 7 and in the Investment Manager's Report on page 8.

RESULTS AND DIVIDENDS

Results and reserve movements for the year are set out in the Consolidated Income Statement of Total Return on page 23 and in the Notes to the Accounts on pages 29 to 47.

Dividends do not form a central part of the Company's investment policy, however, the Directors have declared a final dividend of 0.1p net per share (2005: final dividend of 0.1p) payable on 20th November 2006 to shareholders on the register on 27th October 2006.

Movements in fixed asset investments are set out in Note 10 to the Accounts.

KEY PERFORMANCE INDICATORS

At each board meeting, the Directors consider a number of performance measures to assess the Company's success in achieving its objectives. The key performance indicators (KPI's) are established industry measures and are as follows:

- Net asset value total return
- Share price total return
- Performance attribution
- Discount to net asset value
- Earnings and Dividend per share

REPORT OF THE DIRECTORS

continued

KEY BUSINESS RISKS

Key business risks are set out in Note 19 to the Accounts.

SUBSIDIARY UNDERTAKINGS

JIT Securities Limited, an investment company, is a wholly owned subsidiary which is registered in England and Wales.

DIRECTORS AND DIRECTORS' INTERESTS

Directors who served during the year were as follows:

| | Date of appointment | Date of resignation |
|----------------|------------------------|------------------------|
| J K Roe | 31st August 2005 | |
| J L Duffield | 13th April 2000 | |
| M Boase | 13th April 2000 | |
| J E Craig CBE | 3rd May 2001 | 31st August 2005 |
| G Howard-Spink | 13th April 2000 | |

None of the Directors has a contract of service with the Company, nor has there been any contract or arrangement between the Group and any Director at any time during the year.

The interests of the Directors, as defined by the Companies Act 1985, and amended by the Companies Act 1989, in the share capital of the Company were as follows:

| | 30th June 2006 Ordinary shares | 1st July 2005 Ordinary shares |
|---------------------------|-----------------------------------|----------------------------------|
| Held beneficially: | | |
| J L Duffield | 42,003,223 | 42,003,223 |
| J E Craig CBE | 2,386,545 | 2,386,545 |
| J K Roe & Dame Marion Roe | 2,290,048 | 2,290,048 |

No other Director has had any interest in the capital of the Company during the year.

There have been no other changes in the Directors' interests in the period to the date of this report.

The Directors' interests in contractual arrangements with the Company are as detailed in Note 20 to the Accounts. Subject to these exceptions, no Director was a party to or had any interest in any contract or arrangement with the Company at any time during the year or subsequently.

REPORT OF THE DIRECTORS

continued

SUBSTANTIAL INTERESTS

The Directors are aware of the following interests, direct or indirect, which represent 3% or more of the Company's issued share capital as at the date of this report.

| | No. of Ordinary shares held | % of issued share capital |
|--|--------------------------------|------------------------------|
| J L Duffield | 42,003,223 | 59.14 |
| Clients of Jupiter Asset Management Limited | 6,179,594 | 8.70 |
| A Miller | 3,341,164 | 4.70 |
| M R L Astor | 2,801,702 | 3.94 |
| Comprised of: | | |
| <i>M R L Astor & D W Astor as co-trustees of</i> | | |
| <i>M R L Astor 1995 Discretionary Trust</i> | 2,386,545 | 3.36 |
| <i>M R L Astor</i> | 415,157 | 0.58 |
| J E Craig | 2,386,545 | 3.36 |
| J K Roe | 2,290,048 | 3.22 |
| Comprised of: | | |
| <i>J K Roe</i> | 2,090,048 | 2.94 |
| <i>Dame Marion Roe</i> | 200,000 | 0.28 |

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

No Directors' and Officers' Liability Insurance was held during the year from 1st July 2005 to 30th June 2006.

MANAGEMENT AGREEMENTS

The Investment Manager and the Investment Management Agreement are described in Note 20 to the Accounts.

The Investment Management Agreement may be terminated by either party giving three months written notice to expire on the last day of any calendar month. Other than payment in respect of this notice period, no compensation is payable to the Investment Manager on the termination of this agreement. The Board keeps under review the performance of its Investment Manager. In the opinion of the Directors, the continuing appointment of New Star Asset Management Limited on the terms agreed is in the interests of shareholders as a whole. The reasons for this opinion are that the investment performance of the Company is satisfactory relative to that of the markets in which the Company invests and because the remuneration of the Manager is reasonable compared to that of comparable investment companies.

Under an agreement which came into effect on 1st July 2005, company secretarial services and general administration of the Company are undertaken by New Star Asset Management Limited for an annual fee of £70,000 (exclusive of value added tax) payable in equal monthly instalments in arrears and reviewed upwards annually by reference to the "all items" Index Figure of the UK Index of Retail Prices. The agreement is subject to termination by not less than six months' notice by either party.

REPORT OF THE DIRECTORS

continued

RISK AND FINANCIAL INSTRUMENTS

The major risks faced by the Company are foreign currency risk, market price risk, interest rate risk and liquidity risk. There is no exposure to credit risk. These risks, together with an explanation of the Company's use of financial instruments, are more fully disclosed in note 19 in the Notes to The Accounts on pages 40 to 42.

PAYMENT OF SUPPLIERS

It is the Company's payment policy to obtain the best possible terms for all business and, therefore, there is no consistent policy as to the terms used. The Company agrees individually with its suppliers the terms on which business will take place and it is the Company's policy to abide by those terms. As the Company is an investment trust it does not have any trade creditors. At 30th June 2006, all suppliers' invoices received had been settled.

GOING CONCERN

After making enquiries the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

ANNUAL GENERAL MEETING - AUDITORS

A resolution will be proposed at the Annual General Meeting that Ernst & Young LLP be re-appointed as Auditors to the Company.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

SPECIAL BUSINESS AT ANNUAL GENERAL MEETING

At the Annual General Meeting held on 23rd November 2005, the Company's shareholders authorised the Directors to allot new shares up to an aggregate nominal value of £236,745. This authority, which expires at this year's Annual General Meeting, was not used up to the date of this report.

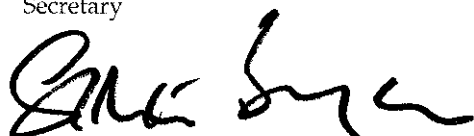
The Directors are seeking a renewal of this authority (in the same amount) and also renewed authority allowing them to allot the shares free from statutory pre-emption rights.

The Directors are also recommending the renewal for a further year of the authority to purchase the Company's own shares in the market. This authority would only be exercised if it was considered by the Directors to be in the best interests of shareholders.

Full details of all the resolutions that it is intended to propose at the Annual General Meeting are set out in the formal Notice of Annual General Meeting on pages 48 and 49.

By Order of the Board
New Star Asset Management Limited
Secretary

1 Knightsbridge Green,
London SW1X 7NE
4th October 2006



CORPORATE GOVERNANCE STATEMENT

STATEMENT OF COMPLIANCE WITH THE CODE

The Directors have reviewed the principles outlined in the Combined Code of Corporate Governance published in 2003 ("the Code") and believe that, insofar as they are relevant to the Company's business, they have complied with the provisions of the Code during the year ended 30th June 2006, subject to the exceptions explained below. The Company is committed to maintaining the highest standards of corporate governance and the Board is accountable to the Company's shareholders for the governance of the Company's affairs.

THE BOARD

INDEPENDENCE

The Board consists of four non-executive directors. The Board has reviewed the independent status of the directors individually and as a whole in accordance with the Listing Rules for Investment Trust Companies. It is the Board's opinion that, with the exception of Mr Duffield, all the directors are considered independent in character and judgement. Directors abstained from the discussion concerning their own status. Brief biographical details of the Directors can be found on page 4. The Company has no executive Directors nor any employees. The structure of the Board is such that it is considered unnecessary to identify a senior non-executive Director and this is not compliant with code provision A.3.3. As at 30th June 2006 there were no Directors' service agreements and no Director had been granted any options to acquire shares in the Company.

APPOINTMENT

Under the Articles of Association, one-third of the Directors are required to retire by rotation in each year. In order to comply with the Code, the Directors have also adopted a policy providing for each Director to be put forward for re-election by shareholders at least every three years. The Board does not therefore consider it appropriate that Directors should be appointed for a specific term. This year, Mr G Howard-Spink is being put forward for re-election at the Annual General Meeting. The Directors recommend that Mr G Howard-Spink be re-elected because of his extensive financial experience. No formal training is given to Directors in corporate governance due to their extensive experience of investment companies. However, training is available to directors should they require it to update their skills and knowledge.

Notwithstanding that the Company's Articles of Association do not preclude a director from continuing in office having attained the age of 70, the Directors have agreed that any Director over the age of 70 wishing to continue in office will submit himself for re-election annually. Therefore Mr J K Roe is being put forward for re-election at the Annual General Meeting. The Directors recommend that he be re-elected because of his extensive financial and investment experience.

Mr J L Duffield will submit himself for re-election at the Annual General Meeting on the grounds that he is not independent. The Directors recommend that he be re-elected because of his extensive financial and investment experience.

RESPONSIBILITIES

There is a formal schedule of matters specifically reserved for decision by the Board. The Board receives monthly reports and meets at least quarterly to review the overall business of the Company and to consider matters specifically reserved for it to decide on. At these meetings the Board monitors the investment performance of the Company. The Directors also review the Company's activities every quarter to ensure that it adheres to its investment strategy and policy or, if appropriate, to recommend changes. The Board delegates decisions regarding the day-to-day management of the Company's portfolio to the Investment Manager.

CORPORATE GOVERNANCE STATEMENT

continued

The number of meetings of the Board and Audit Committee held during the year to 30th June 2006 and the attendance of individual directors is as follows:

| Director's name | Board meetings | Audit Committee meetings |
|-----------------|----------------|--------------------------|
| J L Duffield | 5 (6) | 0 (0) |
| M Boase | 5 (6) | 1 (1) |
| G Howard-Spink | 4 (6) | 0 (1) |
| J E Craig | 1 (1) | 1 (1) |
| J K Roe | 4 (4) | 1 (1) |

Figures in brackets indicate the number of meetings held in the year that the Director was eligible to attend.

PERFORMANCE

For the year ended 30 June 2006 the Board has not conducted a review of its own performance, nor that of the Chairman and each of the individual directors. This is not compliant with code provision A.6.1.

BOARD COMMITTEES

The Company uses a number of Committees consisting of the three independent Directors to control its operations. These include the Audit Committee and an Investment Committee. As the Board consists of only four directors there is no formal Nomination Committee and appointments of any new Directors will be considered by the Board as a whole. Similarly, there is no separate Remuneration Committee and remuneration matters are considered by the Board as a whole.

The Directors seek to ensure that the Board has an appropriate balance of skills, knowledge and experience and believe that the size and composition of the Board is adequate for the effective governance of the Company.

AUDIT COMMITTEE

The Audit Committee consists of the independent directors, Messrs Boase, Howard-Spink and Roe and is chaired by Mr Boase. The Committee will now meet at least twice yearly and operate under formal written terms of reference revised earlier this year. The Committee considers financial reporting by the Company, internal controls and relations with the Company's external auditors. The Committee reviews the Company's internal control and risk management systems as detailed below. It considers the annual report and accounts prior to their publication. The Committee also reviews the appointment, remuneration and terms of engagement for the external auditor and monitors the supply of non-audit services provided. The Board considers the Auditors to be independent since such non-audit work that has been undertaken by them has not given rise to any conflicts that might compromise this independence.

INVESTMENT COMMITTEE

The Investment Committee has been chaired by Mr M Boase and was originally formed to review the valuation of the holding of New Star Asset Management Group Limited. The Committee can instruct independent third parties to assist in any valuation and meets on an ad hoc basis. The Investment Committee did not meet during the year ended 30th June 2006.

REMUNERATION COMMITTEE

The Remuneration Committee is responsible for monitoring the remuneration of the Directors. Details of the Directors' fees are shown in the Directors' Remuneration Report on page 19. Under the Financial Services Authority listing rule 21.20 (i), where an investment trust company has no executive directors, no disclosure is required concerning certain of the Code's principles relating to directors' remuneration.

CORPORATE GOVERNANCE STATEMENT

continued

THE COMPANY SECRETARY

The Board has direct access to the advice and services of the Company Secretary, New Star Asset Management Limited, which is responsible for ensuring that Board and Committee procedures are followed and that the applicable regulations are complied with. The Secretary is also responsible to the Board for ensuring timely delivery of information and reports and also compliance with the statutory obligations of the Company.

A procedure has been adopted for the Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

SHAREHOLDER RELATIONS

All Ordinary shareholders will have the opportunity to attend and vote at the Annual General Meeting during which the Directors and Investment Manager will be available to answer questions regarding the Company. The Company will seek to provide twenty working days notice of that meeting. The Notice of Meeting sets out the business of the Annual General Meeting and any item not of an entirely routine nature is explained in the Report of the Directors. Separate resolutions are proposed for each substantive issue. The Company reports to shareholders twice a year by way of the Interim Report and Annual Report and Accounts. The Company's interim and annual reports are also published on the Administrator's website at www.newstaram.com. In addition, net asset values are published on a monthly basis.

The Company, through its Directors, the Investment Manager and Administrator is constantly available to engage in dialogue with its shareholders. Replies will be sent to all letters received at the registered office.

INTERNAL CONTROLS

The Board is responsible for establishing and maintaining the Company's systems of internal control and for maintaining and reviewing their effectiveness. Internal control systems are designed to meet the particular requirements of the Company and to manage rather than eliminate the risks of failure to achieve its objectives. The systems by their very nature can provide reasonable but not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of the Company's internal control systems including the financial, operational and compliance controls and risk management. The key procedures which have been established with a view to providing effective internal control are as follows:

- Throughout the year under review, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process accords with the guidance in the document "Internal Control: Guidance for Directors on the Combined Code" and will remain in place throughout the Company's life. This process is reviewed on a regular basis by the whole Board in accordance with the Turnbull guidance. The process involves reports from the Company Secretary on risk control and compliance, in conjunction with the Investment Manager's regular reports which cover investment performance and compliance issues. In addition, the Audit Committee receives internal controls statements from all the third parties to which it delegates functions as listed below:
- investment management is performed by New Star Asset Management Limited. The Board is responsible for setting the overall investment policy and monitors the activity of the Investment Manager at regular Board Meetings;
- administration and company secretarial duties are performed by New Star Asset Management Limited who were appointed on 1st July 2005 and will be reporting on internal controls. Accounting duties are performed by HSBC Securities Services (UK) Limited;

CORPORATE GOVERNANCE STATEMENT

continued

- custody of assets is undertaken by HSBC Institutional Fund Services Limited;
- the duties of investment management, accounting and custody of assets are segregated; the procedures of the individual parties are designed to complement one another;
- the Board of the Company clearly defines the duties and responsibilities of their agents and advisers. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board regularly monitors their ongoing performance and contractual arrangements;
- mandates for the authorisation of investment transactions and expense payments are set by the Board;
- the Board reviews financial information produced by the Investment Manager and the Company Secretary in detail on a regular basis.

All of the Company's management functions are delegated to independent third parties whose internal controls are reviewed by the Board. It is therefore felt that there is no need for the Company to have an internal audit facility, although this is reviewed periodically.

New Star Asset Management Limited
Secretary
4th October 2006

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

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

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

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985. An Ordinary Resolution to receive this report will be put to members of the Company at the forthcoming Annual General Meeting.

The law requires your Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on page 21.

REMUNERATION COMMITTEE

The Company has four non-executive Directors. The Board as a whole fulfils the function of a Remuneration Committee. The Board has appointed the Company Secretary to provide advice when the Directors consider the level of Directors' fees.

POLICY ON DIRECTORS' FEES

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that have a similar capital structure (ordinary shares), and have a similar investment objective (long-term capital growth). It is intended that this policy will continue for the year ending 30th June 2007.

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

DIRECTORS' SERVICE CONTRACTS

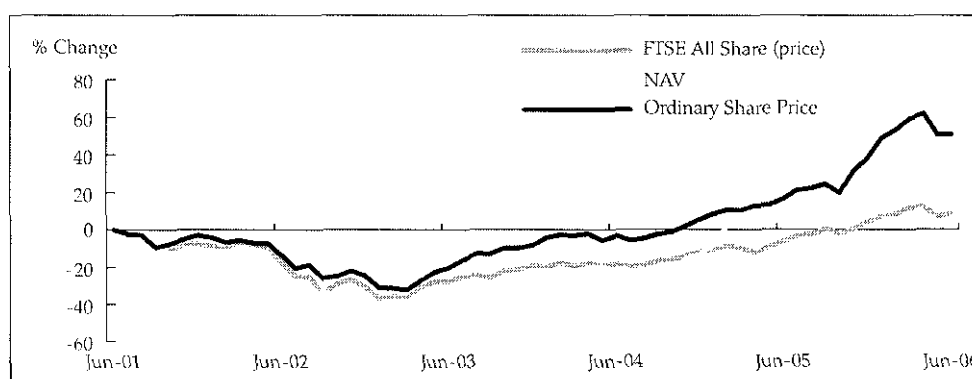
It is the Board's policy that none of the Directors has a service contract. Each Director shall retire and be subject to re-election at the first Annual General Meeting after his appointment, and at least every three years after that. Any Director may be removed without notice and compensation will not be due on leaving office.

DIRECTORS' REMUNERATION REPORT

continued

YOUR COMPANY'S PERFORMANCE

The graph below compares the share price total return (assuming all dividends are reinvested) to Ordinary shareholders compared to the total shareholder return on a notional investment made up of shares of the same kinds and number as those by reference to which the FTSE All-Share Index is calculated. This index was chosen for comparison purposes, as it is an indicator with which to compare investment performance. The graph also shows the net asset value over the same period.




DIRECTORS' EMOLUMENTS FOR THE YEAR (AUDITED)

The Directors who served in the year received the following emoluments in the form of fees:

| | 2006 | 2005 |
|--------------------|---------------|---------------|
| | £ | £ |
| J K Roe (Chairman) | 8,333 | — |
| J E Craig CBE | 1,667 | 10,000 |
| M Boase | 10,000 | 10,000 |
| J L Duffield | 10,000 | 10,000 |
| G Howard-Spink | 10,000 | 10,000 |
| Total | <u>40,000</u> | <u>40,000</u> |

APPROVAL

This Directors' Remuneration Report was approved by the Board of Directors on 4th October 2006.


James Roe
Chairman

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEW STAR INVESTMENT TRUST PLC

We have audited the group and parent company financial statements (the "financial statements") of New Star Investment Trust Plc for the year ended 30th June 2006 which comprise the Consolidated Income Statement, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Balance Sheet, Company Balance Sheet and Consolidated Cash Flow Statements and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the information given in the directors' report is consistent with the financial statements.

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

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Investment Policy, Company Information, Board of Directors, Financial Highlights, Chairman's Statement, Investment Manager's Report, Schedule of Investment, the Report of the Directors, the unaudited part of the Directors' Remuneration Report, the Corporate Governance Statement, Notice of Meeting and Form of Proxy. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEW STAR INVESTMENT TRUST PLC

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 group's and 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30th June 2006 and of its net return for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30th June 2006;
- 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 Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP
ERNST & YOUNG LLP
Registered Auditor
London

10th October 2006

CONSOLIDATED INCOME STATEMENT

for the year ended 30th June 2006

| | | Year ended 30th June 2006 | | | Year ended 30th June 2005 | | |
|--|-------|------------------------------|----------------------------|----------------|------------------------------|----------------------------|----------------|
| | Notes | Revenue return £'000 | Capital return £'000 | Total £'000 | Revenue return £'000 | Capital return £'000 | Total £'000 |
| INVESTMENT INCOME | 2 | 414 | – | 414 | 341 | – | 341 |
| Other operating income | 2 | 84 | – | 84 | 104 | – | 104 |
| Total income | | 498 | – | 498 | 445 | – | 445 |
| GAINS AND LOSSES ON INVESTMENTS | | | | | | | |
| Gains on fair value through profit or loss assets | 10 | – | 23,111 | 23,111 | – | 13,813 | 13,813 |
| Gains on index future contracts | | – | 134 | 134 | – | 271 | 271 |
| Gains/(losses) on forward currency contracts | | – | 308 | 308 | – | (518) | (518) |
| Other exchange gains/(losses) | | – | 22 | 22 | – | (60) | (60) |
| | | 498 | 23,575 | 24,073 | 445 | 13,506 | 13,951 |
| EXPENSES | | | | | | | |
| Management fees | 3 | (208) | | (208) | (140) | – | (140) |
| Other expenses | 4 | (206) | (3) | (209) | (217) | – | (217) |
| PROFIT BEFORE FINANCE COSTS AND TAX | | 84 | 23,572 | 23,656 | 88 | 13,506 | 13,594 |
| Finance costs | | – | | – | – | – | – |
| PROFIT BEFORE TAX | | 84 | 23,572 | 23,656 | 88 | 13,506 | 13,594 |
| Tax | 6 | (34) | | (34) | (19) | – | (19) |
| PROFIT FOR THE YEAR | | 50 | 23,572 | 23,622 | 69 | 13,506 | 13,575 |
| EARNINGS PER SHARE | | | | | | | |
| From continuing operations | | | | | | | |
| Ordinary shares (pence) | 8 | 0.07 | 33.19 | 33.26 | 0.10 | 19.01 | 19.11 |

The total column of this statement represents the Group's Income Statement, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Trust Companies. All items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

All income is attributable to the equity holders of the parent company. There are no minority interests.

The Notes on pages 29 to 47 form an integral part of these Accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June 2006

| | Notes | Share capital £'000 | Share premium £'000 | Special reserve £'000 | Retained earnings £'000 | Total £'000 |
|---------------------|-------|---------------------------|---------------------------|-----------------------------|-------------------------------|----------------|
| AT 30TH JUNE 2005 | 21 | 710 | 21,573 | 56,908 | 1,371 | 80,562 |
| Profit for the year | | – | – | – | 23,622 | 23,622 |
| Dividend paid | 9 | – | – | – | (71) | (71) |
| AT 30TH JUNE 2006 | | <u>710</u> | <u>21,573</u> | <u>56,908</u> | <u>24,922</u> | <u>104,113</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June 2005

| | Notes | Share capital £'000 | Share premium £'000 | Special reserve £'000 | Retained earnings £'000 | Total £'000 |
|---------------------|-------|---------------------------|---------------------------|-----------------------------|-------------------------------|----------------|
| AT 30TH JUNE 2004 | 21 | 710 | 21,573 | 56,908 | (12,027) | 67,164 |
| Profit for the year | | – | – | – | 13,575 | 13,575 |
| Dividend paid | 9 | – | – | – | (177) | (177) |
| AT 30TH JUNE 2005 | | <u>710</u> | <u>21,573</u> | <u>56,908</u> | <u>1,371</u> | <u>80,562</u> |

The Notes on pages 29 to 47 form an integral part of these Accounts.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June 2006

| | Notes | Share capital £'000 | Share premium £'000 | Special reserve £'000 | Retained earnings £'000 | Total £'000 |
|---------------------|-------|---------------------------|---------------------------|-----------------------------|-------------------------------|----------------|
| AT 30TH JUNE 2005 | 21 | 710 | 21,573 | 56,908 | 1,883 | 81,074 |
| Profit for the year | | – | – | – | 23,314 | 23,314 |
| Dividend paid | 9 | – | – | – | (71) | (71) |
| AT 30 JUNE 2006 | | <u>710</u> | <u>21,573</u> | <u>56,908</u> | <u>25,126</u> | <u>104,317</u> |

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June 2005

| | Notes | Share capital £'000 | Share premium £'000 | Special reserve £'000 | Retained earnings £'000 | Total £'000 |
|---------------------|-------|---------------------------|---------------------------|-----------------------------|-------------------------------|----------------|
| AT 30TH JUNE 2004 | 21 | 710 | 21,573 | 56,908 | (12,033) | 67,158 |
| Profit for the year | | – | – | – | 14,093 | 14,093 |
| Dividend paid | 9 | – | – | – | (177) | (177) |
| AT 30TH JUNE 2005 | | <u>710</u> | <u>21,573</u> | <u>56,908</u> | <u>1,883</u> | <u>81,074</u> |

The Notes on pages 29 to 47 form an integral part of these Accounts.

CONSOLIDATED BALANCE SHEET

as at 30 June 2006

| | <i>Notes</i> | 30th June 2006 £'000 | 30th June 2005 £'000 |
|---|--------------|----------------------------|----------------------------|
| NON-CURRENT ASSETS | | | |
| Investments at fair value through profit or loss | 10 | 103,364 | 78,051 |
| CURRENT ASSETS | | | |
| Other receivables | 12 | 707 | 1,196 |
| Cash and cash equivalents | 13 | 229 | 1,928 |
| | | 936 | 3,124 |
| TOTAL ASSETS | | 104,300 | 81,175 |
| CURRENT LIABILITIES | | | |
| Other payables | 14 | (187) | (613) |
| NET ASSETS | | 104,113 | 80,562 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 15 | 710 | 710 |
| Share premium | 16 | 21,573 | 21,573 |
| Special reserve | 16 | 56,908 | 56,908 |
| Retained earnings | 16 | 24,922 | 1,371 |
| TOTAL EQUITY | | 104,113 | 80,562 |
| NET ASSET VALUE PER ORDINARY SHARE (PENCE) | 17 | pence 146.59 | pence 113.43 |

These Accounts were approved by the Board of Directors and authorised for issue on 4th October 2006.



James Roe
Chairman

The Notes on pages 29 to 47 form an integral part of these Accounts.

COMPANY BALANCE SHEET

as at 30th June 2006

| | <i>Notes</i> | 30th June 2006 £'000 | 30th June 2005 £'000 |
|--|--------------|----------------------------|----------------------------|
| NON-CURRENT ASSETS | | | |
| Investments at fair value through profit or loss | 10 | 103,364 | 78,051 |
| CURRENT ASSETS | | | |
| Other receivables | 12 | 920 | 1,199 |
| Cash and cash equivalents | 13 | 220 | 1,919 |
| | | <u>1,140</u> | <u>3,118</u> |
| TOTAL ASSETS | | 104,504 | 81,169 |
| CURRENT LIABILITIES | | | |
| Other payables | 14 | (187) | (95) |
| NET ASSETS | | <u>104,317</u> | <u>81,074</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 15 | 710 | 710 |
| Share premium | 16 | 21,573 | 21,573 |
| Special reserve | 16 | 56,908 | 56,908 |
| Retained earnings | 16 | 25,126 | 1,883 |
| TOTAL EQUITY | | <u>104,317</u> | <u>81,074</u> |

These Accounts were approved by the Board of Directors and authorised for issue on 4th October 2006.



James Roe
Chairman

The Notes on pages 29 to 47 form an integral part of these Accounts.

CONSOLIDATED CASH FLOW STATEMENTS

for the year ended 30th June 2006

| | Note | Year ended 30th June 2006 Group £'000 | Year ended 30th June 2006 Company £'000 | Year ended 30th June 2005 Group £'000 | Year ended 30th June 2005 Company £'000 |
|---|------|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit before tax | | 23,656 | 23,348 | 13,594 | 14,112 |
| Adjustments for: | | | | | |
| (Gains)/losses on investments | | (25,313) | (25,313) | (12,524) | (12,524) |
| Operating cash flows before movements in working capital | | (1,657) | (1,965) | 1,070 | 1,588 |
| Decrease/(increase) in receivables | | 489 | 279 | (1,078) | (1,078) |
| (Decrease)/increase in payables | | (426) | 92 | 517 | (1) |
| Net cash from operating activities before income taxes | | (1,594) | (1,594) | 509 | 509 |
| Income taxes paid | | (34) | (34) | (19) | (19) |
| NET CASH FROM OPERATING ACTIVITIES | | (1,628) | (1,628) | 490 | 490 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Dividend paid | | (71) | (71) | (177) | (177) |
| NET CASH USED IN FINANCING ACTIVITIES | | (71) | (71) | (177) | (177) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (1,699) | (1,699) | 313 | 313 |
| Cash and cash equivalents at beginning of year | | 1,928 | 1,919 | 1,615 | 1,606 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 13 | 229 | 220 | 1,928 | 1,919 |

The Notes on pages 29 to 47 form an integral part of these Accounts.

NOTES TO THE ACCOUNTS

for the year to 30th June 2006

1. ACCOUNTING POLICIES

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The company's financial statements have been prepared in accordance with IFRS. These comprise standards with interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Financial Reporting Interpretations Committee ('IFRIC') that remain in effect, and to the extent that they have been adopted by the European Union. The company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

These are the Group's first audited annual results prepared in accordance with IFRS. Previous accounts were prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP). The Group is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening balance sheet under IFRS. The date of transition for the Group is 1st July 2004.

In preparing these financial statements certain accounting and valuation methods previously applied in UK GAAP accounts have been amended to comply with IFRS as follows:

- Under IAS 39 "Financial Instruments: Recognition and Measurement", the Group has designated its investments as fair value through profit or loss. All investments are designated upon initial recognition as held at fair value, and are measured at subsequent reporting dates at fair value, which is either the bid price or the latest traded price, depending on the convention of the exchange on which the investment is quoted. Investments in unit trusts or OEICs are valued at the closing price, the bid price or the single price as appropriate, released by the relevant investment manager; and
- Under IAS 10 "Events After the Balance Sheet Date", dividends declared or proposed after the balance sheet date are no longer recognised as a liability in the accounts.

The disclosures required by IFRS 1 'First Time Adoption of International Financial Reporting Standards' ('IFRS 1') concerning the transition from UK GAAP to IFRS are set out in note 21.

- (a) *Basis of preparation:* The financial statements have been prepared on a going concern basis. The principal accounting policies adopted are set out below. Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trusts issued by the Association of Investment Trust Companies ('AITC') in January 2003 (revised in December 2005) is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.
- (b) *Basis of consolidation:* The Consolidated Income Statement and Consolidated Balance Sheet include the Accounts of the Company and its subsidiary made up to 30th June 2006. No Revenue Account is presented for the parent company as permitted by Section 230 of the Companies Act 1985.
- (c) *Presentation of income statement:* In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AITC, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement.

NOTES TO THE ACCOUNTS

continued

In accordance with the Company's status as a UK investment company under Section 266 of the Companies Act 1985, net capital returns may not be distributed by way of a dividend. Additionally, the net revenue is the measure the Directors believe appropriate in assessing the Group's compliance with certain requirements set out in Section 842 Income and Corporation Taxes Act 1988.

- (d) *Income:* Dividend income from investments is recognised when the shareholders' rights to receive payment has been established, normally the ex dividend date.

Where the Group has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the capital reserve of the Income Statement.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Stock-lending fees and underwriting commission are recognised as earned.

- (e) *Expenses:* Expenses are accounted for on an accruals basis. Management fees, administration and other expenses, with exception of the transaction charges are charged to the Revenue Account of the Income Statement. Transaction charges are charged to the Capital Account of the Income Statement.

Expenses which are incidental to the purchase or sale of an investment are expensed through the Capital Account of the Income Statement.

- (f) *Investments held at fair value:* Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

All investments are classified as held at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Investments in units of unit trusts or shares in OEICs are valued at the closing price released by the relevant investment manager. The fair value of unquoted investments is based on the market price at the close of business on the balance sheet date where an organised market exists, otherwise, unquoted investments are valued at fair value by the Directors in accordance with the International Private Equity and Venture Capital Valuation Guidelines. The net unrealised revaluation between market value and cost is taken to the unrealised capital reserve of the Income Statement.

- (g) *Taxation:* The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the income statement is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Income Statement, then no tax relief is transferred to the capital return column.

NOTES TO THE ACCOUNTS

continued

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Investment trusts which have approval under Section 842 Income and Corporation Taxes Act 1988 are not liable for taxation on capital gains.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

- (h) *Foreign currency:* Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign currency transactions are translated at the rates of exchange applicable at the transaction date. Foreign currency differences including exchange gains and losses are dealt with in the capital reserve of the Income Statement.
- (i) *Capital reserve:* The following are accounted for in this reserve:
- gains and losses on the realisation of investments together with the related taxation effect;
 - foreign exchange gains and losses, including those on settlement, together with related taxation effect;
 - unrealised gains and losses on investments.

The capital reserve is not available for the payment of dividends.

(j) *New Standards Not Applied*

During the year the IASB have issued the following standards which are effective for periods beginning on or after 31 December 2005;

- Amendments to IAS 39 – Financial Instruments: Measurement (effective 1 January 2006);
- IFRS 7 – Financial Instruments: Disclosures (effective 1 January 2007).

The Directors do not anticipate that the adoption of these standards will have a material impact on the Group's financial statements in the period of initial application.

NOTES TO THE ACCOUNTS

continued

2. INVESTMENT INCOME

| | Year ended 30th June 2006 £'000 | Year ended 30th June 2005 £'000 |
|---------------------------------------|--|--|
| INCOME FROM LISTED INVESTMENTS | | |
| UK net dividend income | 241 | 247 |
| UK unfranked investment income | 173 | 94 |
| | <u>414</u> | <u>341</u> |
| OTHER OPERATING INCOME | | |
| Bank interest receivable | 85 | 104 |
| Futures commission | (1) | – |
| | <u>84</u> | <u>104</u> |
| TOTAL INCOME COMPRISES | | |
| Dividends | 414 | 341 |
| Other income | 84 | 104 |
| | <u>498</u> | <u>445</u> |

3. INVESTMENT MANAGEMENT FEES

| | Year ended 30th June 2006 | | | Year ended 30th June 2005 | | |
|------------------------------|------------------------------|------------------|----------------|------------------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Investment management fee | 177 | – | 177 | 119 | – | 119 |
| Irrecoverable VAT thereon | 31 | – | 31 | 21 | – | 21 |
| | <u>208</u> | <u>–</u> | <u>208</u> | <u>140</u> | <u>–</u> | <u>140</u> |

Details of the investment management agreement are given in Note 20.

NOTES TO THE ACCOUNTS

continued

4. OTHER EXPENSES

| | Year ended 30th June 2006 £'000 | Year ended 30th June 2005 £'000 |
|---|--|--|
| Administrative and secretarial fee | 82 | 84 |
| Auditors' remuneration - audit services | 22 | 20 |
| Auditors' remuneration - non-audit services | 6 | 6 |
| Directors' remuneration (Note 5) | 40 | 40 |
| Legal fees | — | 19 |
| Other | 59 | 48 |
| | <u>209</u> | <u>217</u> |
| Allocated to: | | |
| – Revenue | 206 | 217 |
| – Capital | 3 | — |
| | <u>209</u> | <u>217</u> |

5. DIRECTORS' REMUNERATION

The aggregate emoluments of the Directors for the year ended 30th June 2006 were £40,000 (2005: £40,000). Each of the Directors is paid at a rate of £10,000 per annum. The Company does not have a share option scheme or any incentive scheme. No pension contributions were made in respect of the Directors.

NOTES TO THE ACCOUNTS

continued

6. TAXATION

| | Year ended 30th June 2006 | | | Year ended 30th June 2005 | | |
|--------------------------|------------------------------|------------------|----------------|------------------------------|------------------|----------------|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| Irrecoverable income tax | 34 | – | 34 | 19 | – | 19 |
| | <u>34</u> | <u>–</u> | <u>34</u> | <u>19</u> | <u>–</u> | <u>19</u> |

The Company is subject to corporation tax at 30% (2005: 30%). The current taxation charge in the Company's revenue account is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | Year ended 30th June 2006 £'000 | Year ended 30th June 2005 £'000 |
|--|--|--|
| Reconciliation of the tax charge for the year: | | |
| Return on ordinary activities before taxation | 23,656 | 13,594 |
| Theoretical corporation tax at 30% | 7,097 | 4,078 |
| Effects of | | |
| UK dividends not taxable | (72) | (74) |
| Gains and losses on investments that are not taxable | (7,073) | (4,052) |
| Irrecoverable income tax | 34 | 19 |
| Disallowed expenses | 1 | – |
| Excess expenses in the current year | 47 | 48 |
| Current tax charge – revenue account | <u>34</u> | <u>19</u> |

The Company has not recognised a deferred tax asset of £123,000 (2005: £76,000) arising as a result of excess expenses. The deferred tax asset would only be recovered if the Company were to generate sufficient taxable profits in the future to utilise these expenses. It is considered too uncertain that the Company will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised.

NOTES TO THE ACCOUNTS

*continued***7. NET RETURN FOR THE YEAR**

The net return for the year dealt with in the accounts of the parent company was £50,000 (2005: £69,000).

8. RETURN PER ORDINARY SHARE

Total return per Ordinary share is based on the Group total return on ordinary activities after taxation of £23,622,000 (2005: £13,575,000) and on 71,023,695 (2005: 71,023,695) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

Revenue return per Ordinary share is based on the Group revenue return on ordinary activities after taxation of £50,000 (2005: £69,000) and on 71,023,695 (2005: 71,023,695) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year. Capital return per Ordinary share is based on net capital gains for the year of £23,572,000 (2005: capital gains of £13,506,000) and on 71,023,695 (2005: 71,023,695) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

9. DIVIDENDS ON EQUITY SHARES

We set out below the total dividends paid and proposed in respect of the financial year, which is the basis on which the requirements of Section 842 of the Income and Corporation Taxes Act 1988 are considered. The revenue available for distribution by way of dividend for the year is £50,000 (2005 – £69,000).

| | Year ended 30th June 2006 £'000 | Year ended 30th June 2005 £'000 |
|---|--|--|
| Proposed final dividend for the year ended 30th June 2006 of 0.10p (2005: 0.10p) per share | 71 | 71 |

NOTES TO THE ACCOUNTS

continued

10. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Year ended 30th June 2006 £'000 | Year ended 30th June 2005 £'000 |
|---|--|--|
| GROUP AND COMPANY | | |
| Equity shares | <u>103,364</u> | <u>78,051</u> |
| | 30th June 2006 | |
| | Listed £'000 | Unlisted £'000 |
| | | Total £'000 |
| ANALYSIS OF INVESTMENT | | |
| PORTFOLIO – GROUP AND COMPANY | | |
| Opening book cost | 53,880 | 7,597 |
| Opening unrealised appreciation (restated) | <u>11,960</u> | <u>4,614</u> |
| Opening valuation (restated) | 65,840 | 12,211 |
| Movement in period | | |
| New Star Asset Management Group PLC bookcost* | 4,499 | (4,499) |
| New Star Asset Management Group PLC unrealised appreciation* | 5,750 | (5,750) |
| Purchases at cost | 16,391 | – |
| Sales | | |
| – Proceeds | (14,189) | – |
| – Realised gains on sales | 3,835 | – |
| Increase in unrealised appreciation | <u>19,124</u> | <u>152</u> |
| Closing valuation | <u>101,250</u> | <u>2,114</u> |
| | | |
| Closing book cost | 64,416 | 3,098 |
| Closing unrealised appreciation/(depreciation) | <u>36,834</u> | <u>(984)</u> |
| Closing valuation | <u>101,250</u> | <u>2,114</u> |
| | | |
| | Year ended 30th June 2006 £'000 | Year ended 30th June 2005 (restated) £'000 |
| ANALYSIS OF CAPITAL PROFITS | | |
| Realised gains on sales | 3,835 | 1,437 |
| Increase in unrealised appreciation | <u>19,276</u> | <u>12,376</u> |
| | <u>23,111</u> | <u>13,813</u> |

* New Star Asset Management Group PLC was listed on the London Stock Exchange in November 2005.

NOTES TO THE ACCOUNTS

*continued***11. INVESTMENT IN SUBSIDIARY**

The Company owns the whole of the issued share capital (£1) of JIT Securities Limited, an investment company registered in England and Wales.

12. OTHER RECEIVABLES

| | 30th June 2006 Group £'000 | 30th June 2006 Company £'000 | 30th June 2005 Group £'000 | 30th June 2005 Company £'000 |
|---|-------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|
| Dividends receivable | – | – | 19 | 19 |
| Prepayments and accrued income | 6 | 6 | 8 | 8 |
| Futures Margin | – | – | 440 | 440 |
| Due from brokers | – | – | 729 | 729 |
| Forward currency purchases | 701 | – | – | – |
| Amounts owed by subsidiary undertakings | – | 914 | – | 3 |
| | <u>707</u> | <u>920</u> | <u>1,196</u> | <u>1,199</u> |

13. CASH AND CASH EQUIVALENTS

| | 30th June 2006 Group £'000 | 30th June 2006 Company £'000 | 30th June 2005 Group £'000 | 30th June 2005 Company £'000 |
|--------------|-------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|
| Cash at bank | 229 | 220 | 1,928 | 1,919 |
| | <u>229</u> | <u>220</u> | <u>1,928</u> | <u>1,919</u> |

14. OTHER PAYABLES

| | 30th June 2006 Group £'000 | 30th June 2006 Company £'000 | 30th June 2005 Group £'000 | 30th June 2005 Company £'000 |
|----------------------------|-------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|
| Forward currency purchases | – | – | 518 | – |
| Accruals | 187 | 187 | 95 | 95 |
| | <u>187</u> | <u>187</u> | <u>613</u> | <u>95</u> |

NOTES TO THE ACCOUNTS

continued

15. CALLED UP SHARE CAPITAL

| | 30th June 2006 £'000 | 30th June 2005 £'000 |
|---|----------------------------|----------------------------|
| Authorised | | |
| 305,000,000 (2005: 305,000,000) Ordinary shares of £0.01 each | <u>3,050</u> | <u>3,050</u> |
| Issued and fully paid | | |
| 71,023,695 (2005: 71,023,695) Ordinary shares of £0.01 each | <u>710</u> | <u>710</u> |

16. RESERVES

| | Share premium account £'000 | Special reserve £'000 | Retained Earnings £'000 |
|---|--------------------------------------|-----------------------------|-------------------------------|
| GROUP | | | |
| At 30th June 2005 | 21,573 | 56,908 | 1,371 |
| Increase in unrealised appreciation | — | — | 19,276 |
| Net gains on realisation of investments | — | — | 3,835 |
| Unrealised gains on revaluations of bank accounts | — | — | 7 |
| Realised gains on foreign currency | — | — | 15 |
| Gains on index future contracts | — | — | 134 |
| Gains on forward currency purchases | — | — | 308 |
| Transaction charges charged to capital | — | — | (3) |
| Final dividend | — | — | (71) |
| Retained profit for year | — | — | 50 |
| At 30th June 2006 | <u>21,573</u> | <u>56,908</u> | <u>24,922</u> |
| COMPANY | | | |
| At 30th June 2005 | 21,573 | 56,908 | 1,883 |
| Increase in unrealised appreciation | — | — | 19,276 |
| Net gains on realisation of investments | — | — | 3,835 |
| Unrealised gains on revaluations of bank accounts | — | — | 7 |
| Realised gains on foreign currency | — | — | 15 |
| Gains on index future contracts | — | — | 134 |
| Transaction charges charged to capital | — | — | (3) |
| Final dividend | — | — | (71) |
| Retained profit for year | — | — | 50 |
| At 30th June 2006 | <u>21,573</u> | <u>56,908</u> | <u>25,126</u> |

NOTES TO THE ACCOUNTS

continued

The components of retained earnings are set out below:

| | 30th June 2006 £'000 | 30th June 2005 (restated) £'000 |
|------------------------------|----------------------------|--|
| GROUP | | |
| Capital reserve – realised | (11,595) | (14,694) |
| Capital reserve – unrealised | 36,240 | 15,767 |
| Revenue reserve | 277 | 298 |
| | <u>24,922</u> | <u>1,371</u> |
| COMPANY | | |
| Capital reserve – realised | (10,684) | (14,694) |
| Capital reserve – unrealised | 35,539 | 16,285 |
| Revenue reserve | 271 | 292 |
| | <u>25,126</u> | <u>1,883</u> |

17. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary share is calculated on net assets of £104,113,000 (2005: £80,562,000) and 71,023,695 (2005: 71,023,695) Ordinary shares in issue at the year-end.

18. NOTES TO THE CASH FLOW STATEMENT

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Purchases and sales of investments are considered to be operating activities of the Group, given its purpose, rather than investing activities. However, the cash flows associated with these activities are presented below:

| | 30th June 2006 £'000 | 30th June 2005 £'000 |
|---|----------------------------|----------------------------|
| Proceeds on disposal of fair value through profit and loss investments | 14,918 | 10,621 |
| Purchases of fair value through profit and loss investments | (16,391) | (9,807) |
| | <u>(1,473)</u> | <u>814</u> |

NOTES TO THE ACCOUNTS

continued

19. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Background

The Group's financial instruments comprise securities and other investments, cash balances and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement.

The Group has exposure to credit, cashflow and interest rate risks. Investments in the portfolio can be subject to liquidity risk, particularly unlisted securities. The risk is taken into account by the Directors when arriving at their valuation of these items.

The principal risks the Group faces in its portfolio management activities are:

- Foreign currency risk;
- Market price risks i.e. movements in the value of investment holdings caused by factors other than interest rate or currency movement;
- Interest rate risk.

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

Policy

Each Director monitors financial information on a monthly basis and as a Board, at each quarterly Board meeting. The Investment Manager monitors the financial risks on a daily basis.

(i) Foreign Currency Risk

A proportion of the Group's portfolio is invested in investments denominated in a foreign currency and movements in exchange rates can significantly affect their sterling value.

The Investment Manager does not normally hedge against foreign currency movements affecting the value of the investment portfolio, but takes account of this risk when making investment decisions. In addition, the Directors may authorise the Investment Manager to hedge currency risk in appropriate circumstances. During the year under review, the Investment Manager entered into a forward currency contract within the subsidiary company, JIT Securities Limited. In view of your Company's exposure to the US dollar both directly and indirectly by investing in funds many of whose assets and/or revenues are related to the dollar, it was thought appropriate to hedge a part of this exposure. Therefore, in November 2005 your Company, through its subsidiary, sold approximately US\$10 million for sterling for settlement in one year. This contract resulted in the forward sale of US for sterling and is for one year's duration. At 30th June 2006 the unrealised gain on this contract was £701,000 (2005: Unrealised loss on forward currency contract of £518,000).

NOTES TO THE ACCOUNTS

continued(ii) *Market Price Risk*

Market price risk arises mainly from uncertainty about future prices of the investments comprising the investment portfolio. The risk is the potential loss the Company may suffer through downward price movements of shares within that portfolio. It is the Board's policy to hold an appropriate spread of investments in order to reduce any risk arising from factors specific to particular sectors. In addition stock selection acts to reduce market price risk. The Board meets regularly to consider investment strategy when it also receives reports from the investment managers who actively monitor the portfolio. Further information on the investment portfolio and investment policy are set out in the Chairman's statement and Investment Manager's Report.

(iii) *Interest Rate Risk*

The Investment Manager takes account of this risk when making investment decisions. The Group currently has no gearing. The carrying amount, by the earlier of contractual re-pricing or maturity date, of the Group's financial instruments was as follows:

| | 30th June 2006 | 30th June 2006 | 30th June 2005 | 30th June 2005 |
|--|-------------------------------|--------------------------------------|-------------------------------|--------------------------------------|
| | In 1 year or less £'000 | Greater than one year £'000 | In 1 year or less £'000 | Greater than one year £'000 |
| CASH FLOW INTEREST RATE RISK | | | | |
| Financial assets at fair value through profit and loss | - | - | - | - |
| Financial assets at fair value through profit or loss consist entirely of equities and as such no interest rate risk is attached to these assets | | | | |
| LOANS AND RECEIVABLES | | | | |
| Cash at bank | 229 | - | 1,928 | - |
| NO INTEREST RATE RISK | | | | |
| Financial assets at fair value through profit and loss | - | 103,364 | - | 78,051 |
| LOANS AND RECEIVABLES | | | | |
| Short-term trade receivables | - | - | 729 | - |

The investments are equity based and are not therefore subject to interest rate risk. Cash balances are held on call deposit and earn interest at the bank's daily rate.

(iv) *Liquidity Risk*

The Company's assets mainly comprise securities which can be readily sold to meet future funding commitments, if necessary. Unlisted securities, which carry a higher degree of liquidity risk from only 2% of the investment portfolio.

(v) *Use of Derivatives*

The Group may enter into derivative contracts only after careful assessment of risk. During the year the Group bought FTSE 100 Index futures to increase its equity exposure, realising gains of £134,000. There were no derivative contracts outstanding at 30th June 2006 (2005: unrealised gain of £29,845).

NOTES TO THE ACCOUNTS

*continued**(vi) Financial Assets*

The Group's financial assets comprise equity and other investments, short-term trade receivables and cash balances. The currency cash flow profile of those financial assets was as follows:

| | Sterling 2006 £'000 | US dollars 2006 £'000 | Euros 2005 £'000 | Total 2005 £'000 |
|--|---------------------------|-----------------------------|------------------------|------------------------|
| 30TH JUNE 2006 | | | | |
| Non-current investments at fair value through profit or loss | 86,997 | 10,045 | 6,322 | 103,364 |
| Current asset investments at fair value through profit and loss held for trading | — | — | — | — |
| Loans and receivables | 217 | 1 | 11 | 229 |
| | <u>87,214</u> | <u>10,046</u> | <u>6,333</u> | <u>103,593</u> |
| 30TH JUNE 2005 (RESTATED) | | | | |
| Non-current investments at fair value through profit or loss | 68,195 | 8,844 | 1,012 | 78,051 |
| Current asset investments at fair value through profit and loss held for trading | 729 | — | — | 729 |
| Loans and receivables | 1,916 | 1 | 11 | 1,928 |
| | <u>70,840</u> | <u>8,845</u> | <u>1,023</u> | <u>80,708</u> |

(vii) Currency Exposure

The currency denomination of the Group's financial assets is shown above. The analysis assumes the currency exposure to be the currency in which each financial asset is priced.

(viii) Financial Liabilities

Primarily the Group finances its operations through its issued capital and existing reserves. The only financial liabilities of the Group are other payables which are denominated in sterling and due within one year, as disclosed in Note 14.

(ix) Primary Financial Instruments

Fixed asset investments are included in the Balance Sheet at market values, which represent fair values.

20. RELATED PARTIES

During the year Mr Duffield was Chairman and a shareholder of New Star Asset Management Group PLC, the holding company of New Star Asset Management Limited, which received investment management fees pursuant to the agreement detailed below:

Pursuant to an agreement dated 29th January 2001 the Company's investments are managed by New Star Asset Management Limited. The management fee is payable quarterly in arrears and is calculated at the rate of 3/16% per quarter of the total assets of the Company and its subsidiaries after deduction of the value of any investments managed by subsidiaries of New Star Asset Management Group PLC (as defined in the Management Agreement). Either party may terminate the appointment of the Investment Manager by giving not less than three

NOTES TO THE ACCOUNTS

continued

months' written notice to expire on the last day of any calendar month. The management fee payable for the year ended 30th June 2006 amounted to £208,000 (2005: £140,000) including VAT of which £64,000 (2005: £37,000) was outstanding at the year end. The Company's investments include funds managed by subsidiaries of New Star Asset Management Group PLC.

21. EXPLANATION OF TRANSITION TO IFRSs

This is the first period that the Group has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 30th June 2005, and the date of transition to IFRS was therefore 1st July 2004.

a) Reconciliation of equity at 1st July 2004 (date of transition to IFRS)

| | Notes | Previously reported UK GAAP £'000 | Effect of transition to IFRS £'000 | Restated IFRS £'000 |
|--|-------|--|---|---------------------------|
| GROUP | | | | |
| NON-CURRENT ASSETS | | | | |
| Investments at fair value | 1 | 65,662 | (135) | 65,527 |
| CURRENT ASSETS | | | | |
| Other receivables | | 118 | – | 118 |
| Cash and cash equivalents | | 1,615 | – | 1,615 |
| | | 1,733 | – | 1,733 |
| TOTAL ASSETS | | 67,395 | (135) | 67,260 |
| CURRENT LIABILITIES | | | | |
| Other payables | 2 | (273) | 177 | (96) |
| | | (273) | 177 | (96) |
| NET ASSETS | | 67,122 | 42 | 67,164 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS | | | | |
| Called-up share capital | | 710 | – | 710 |
| Share premium | | 21,573 | – | 21,573 |
| Special reserve | | 56,908 | – | 56,908 |
| Retained earnings: | | | | |
| Capital | 1 | (12,298) | (135) | (12,433) |
| Revenue | 2 | 229 | 177 | 406 |
| TOTAL EQUITY | | 67,122 | 42 | 67,164 |

NOTES TO THE ACCOUNTS

continued

| | Notes | Previously reported UK GAAP £'000 | Effect of transition to IFRS £'000 | Restated IFRS £'000 |
|--|-------|--|---|---------------------------|
| COMPANY | | | | |
| NON-CURRENT ASSETS | | | | |
| Investments at fair value | 1 | 65,662 | (135) | 65,527 |
| CURRENT ASSETS | | | | |
| Other receivables | | 121 | - | 121 |
| Cash and cash equivalents | | 1,606 | - | 1,606 |
| | | 1,727 | - | 1,727 |
| TOTAL ASSETS | | 67,389 | (135) | 67,254 |
| CURRENT LIABILITIES | | | | |
| Other payables | 2 | (273) | 177 | (96) |
| | | (273) | 177 | (96) |
| NET ASSETS | | 67,116 | 42 | 67,158 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS | | | | |
| Called-up share capital | | 710 | - | 710 |
| Share premium | | 21,573 | - | 21,573 |
| Special reserve | | 56,908 | - | 56,908 |
| Retained earnings: | | | | |
| Capital | 1 | (12,298) | (135) | (12,433) |
| Revenue | 2 | 223 | 177 | 400 |
| TOTAL EQUITY | | 67,116 | 42 | 67,158 |

Notes to the reconciliation of equity at 1st July 2004

- Investments are designated as held at fair value under IFRS and are carried at bid prices which total their fair value of £65,527,000. Previously, under UK GAAP they were carried at mid prices. The aggregate differences, being a revaluation downwards of £135,000, also decrease retained earnings.
- No provision has been made for the final dividend on the Ordinary shares for the year ended 30th June 2004 of £177,000. Under IFRS this is not recognised until approved by the shareholders.

NOTES TO THE ACCOUNTS

*continued**b) Reconciliation of equity at 30th June 2005*

| | Notes | Previously reported UK GAAP £'000 | Effect of transition to IFRS £'000 | Restated IFRSs £'000 |
|--|-------|--|---|----------------------------|
| GROUP | | | | |
| NON-CURRENT ASSETS | | | | |
| Investments at fair value | 1 | 78,119 | (68) | 78,051 |
| CURRENT ASSETS | | | | |
| Other receivables | | 1,196 | – | 1,196 |
| Cash and cash equivalents | | 1,928 | – | 1,928 |
| | | 3,124 | – | 3,124 |
| TOTAL ASSETS | | 81,243 | (68) | 81,175 |
| CURRENT LIABILITIES | | | | |
| Other payables | 2 | (684) | 71 | (613) |
| | | (684) | 71 | (613) |
| NET ASSETS | | 80,559 | 3 | 80,562 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS | | | | |
| Called-up share capital | | 710 | – | 710 |
| Share premium | | 21,573 | – | 21,573 |
| Special reserve | | 56,908 | – | 56,908 |
| Retained earnings: | | | | |
| Capital | 1 | 1,141 | (68) | 1,073 |
| Revenue | 2 | 227 | 71 | 298 |
| TOTAL EQUITY | | 80,559 | 3 | 80,562 |

NOTES TO THE ACCOUNTS

continued

| | Notes | Previously reported UK GAAP £'000 | Effect of transition to IFRS £'000 | Restated IFRSs £'000 |
|--|-------|--|---|----------------------------|
| COMPANY | | | | |
| NON-CURRENT ASSETS | | | | |
| Investments at fair value | 1 | 78,119 | (68) | 78,051 |
| CURRENT ASSETS | | | | |
| Other receivables | | 1,199 | – | 1,199 |
| Cash and cash equivalents | | 1,919 | – | 1,919 |
| | | 3,118 | – | 3,118 |
| TOTAL ASSETS | | 81,237 | (68) | 81,169 |
| CURRENT LIABILITIES | | | | |
| Other payables | 2 | (166) | 71 | (95) |
| | | (166) | 71 | (95) |
| NET ASSETS | | 81,071 | 3 | 81,074 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS | | | | |
| Called-up share capital | | 710 | – | 710 |
| Share premium | | 21,573 | – | 21,573 |
| Special reserve | | 56,908 | – | 56,908 |
| Retained earnings: | | | | |
| Capital | 1 | 1,659 | (68) | 1,591 |
| Revenue | 2 | 221 | 71 | 292 |
| TOTAL EQUITY | | 81,071 | 3 | 81,074 |

Notes to the reconciliation of equity at 30th June 2005

- Investments are designated as held at fair value under IFRS and are carried at bid prices which total their fair value of £78,051,000. Previously, under UK GAAP they were carried at mid prices. The aggregate differences, being a revaluation downwards of £68,000, also decrease retained earnings.
- No provision has been made for the final dividend on the Ordinary shares for the year ended 30th June 2005 of £71,000. Under IFRS this is not recognised until approved by the shareholders.

NOTES TO THE ACCOUNTS

*continued**c) Reconciliation of the Statement of Total Return to the Income Statement*

Under IFRS the Income Statement is the equivalent of the Statement of Total Return reported previously.

| | Notes | 30th June 2005 £'000 |
|--|-------|----------------------------|
| Total transfer to reserves per the Statement of Total Return | | 13,437 |
| Revaluation of investments at 1st July 2004 | 1 | 135 |
| Revaluation of investments at 30th June 2005 | 1 | (68) |
| Add back 2005 dividend proposed | 2 | 71 |
| Net profit per the Income Statement | | <u>13,575</u> |

Notes to the reconciliation of profit or loss

1. The portfolio valuations at 1st July 2004 and 30th June 2005 are required to be valued at fair value under IFRS. These values are lower than previous valuations by £135,000 and £68,000 respectively.
2. Ordinary dividends declared and paid during the period are dealt with through the Statement of Changes in Equity.

d) Reconciliation of the Cash Flow Statement as at 30th June 2005

| | Notes | Previously reported UK GAAP £'000 | Effect of transition to IFRS £'000 | Restated IFRSs £'000 |
|--|-------|--|---|----------------------------|
| Net cash from operating activities | 1 | (541) | 1,031 | 490 |
| Net cash from capital expenditure and financial investment | 1 | 1,031 | (1,031) | – |
| Equity dividends paid | 2 | (177) | 177 | – |
| Financing | 2 | – | (177) | (177) |
| Increase in cash | | <u>313</u> | <u>–</u> | <u>313</u> |

1. Investing activities are considered to be operating activities of the company.
2. Ordinary dividends paid are now analysed within financing.

NOTICE OF MEETING

Notice is hereby given that the sixth Annual General Meeting of the Company will be held at 1 Knightsbridge Green, London SW1X 7NE on Thursday, 16th November 2006 commencing at 12 noon for the purpose of considering the following business:

ORDINARY BUSINESS

1. To receive the Report and Accounts for the year ended 30th June 2006 together with the reports of the Directors and the Auditors thereon.
2. To receive the Directors' Remuneration Report for the year ended 30th June 2006.
3. To declare a first and final dividend of 0.1 pence on the Ordinary shares for the year ended 30th June 2006.
4. To re-elect Mr J K Roe, aged 71, a Director of the Company.
5. To re-elect Mr G Howard-Spink a Director of the Company.
6. To re-elect Mr J L Duffield a Director of the Company.
7. To re-appoint Ernst & Young LLP as Auditors and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

8. To consider and, if thought fit, pass the following Ordinary Resolution:
That the Directors be empowered, pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £236,745, representing one third of the total issued Ordinary share capital as at 30 June 2006 provided always that such power expires at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution (unless renewed, varied or revoked by the Company) or 15 months from the passing of this resolution, whichever is earlier, save that the Company may before such expiry, or the expiry of any renewal of the authority, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors of the Company may allot equity securities in pursuance of such offer or agreement as if this power had not expired.
9. To consider and, if thought fit, pass the following Special Resolution:
That, subject to the passing of Resolution 8 set out above, the Directors be empowered, pursuant to Section 95 of the Act 1985, to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by Resolution 8 as if Section 89(1) of the Act did not apply, such power to be limited to:
 - (a) the allotment of equity securities (including any issue of shares for cash out of treasury) in connection with an offer of such securities open for acceptance for a period fixed by the Directors of the Company to holders on the register on a record date fixed by the Directors of Ordinary shares in proportion (as nearly as may be) to their holdings of Ordinary shares but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any legal or practical problems under the laws of any overseas territory or in relation to fractional entitlements or by virtue of shares being represented by depository receipts or otherwise however; or
 - (b) the allotment of equity securities (including any issue of shares for cash out of treasury), otherwise than pursuant to paragraph (a) above, up to an aggregate nominal amount of £35,511 equivalent to 5% of the allotted and fully paid share capital of the Company as at 30th June 2005 provided always that such power expires at the conclusion of the next

NOTICE OF MEETING

continued

Annual General Meeting of the Company following the passing of the resolution (unless renewed, varied or revoked by the Company) or 15 months from the passing of this resolution, whichever is earlier, save that the Company may before such expiry, or the expiry of any renewal of the authority, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors of the Company may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

10. To consider and, if thought fit, pass the following Special Resolution:
That the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Act) of up to 10,646,450 Ordinary shares, or if less, 14.99% of the issued Ordinary share capital of the Company at the date this resolution is passed at a minimum price of 1p per Ordinary share and a maximum price equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of the purchase, such authority to expire at the conclusion of the next Annual General Meeting of the Company or, 15 months from the passing of this resolution, whichever is earlier, unless such authority is renewed prior to such time provided that the Company may make a contract to purchase Ordinary shares under the authority conferred prior to expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary shares pursuant to any such contract.
11. To consider and if thought fit, pass the following Special Resolution:
That, subject to the passing of Resolution 8, the Directors of the Company be authorised, for the purposes of paragraph 21.21 of the Listing Rules of the United Kingdom Listing Authority, to issue Ordinary shares in the capital of the Company at a price below the net asset value per share of the existing Ordinary shares in issue provided always that such issue will be limited to:
 - (i) up to an aggregate nominal amount of £35,511;
 - (ii) the sale of shares which, immediately before such sale, were held by the Company as treasury shares.

Registered office:
1 Knightsbridge Green,
London SW1X 7NE

By order of the Board
New Star Asset Management Limited
Secretary
4th October 2006

Notes

1. Members entitled to attend and vote at the meeting are entitled to appoint one or more proxies, who need not be a member, to attend and vote in their place. A form of proxy for the use of shareholders appears on page 51 of this report which, if required, should be completed and dispatched in accordance with the instructions set out therein.
2. No Director has a contract of service with the Company. The register of Directors' interests will be available for inspection during normal business hours at the registered office of the Company from the date of this notice until the Annual General Meeting and, at the Annual General Meeting for at least 15 minutes prior to the meeting until its conclusion.
3. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company as at the close of business on 14th November 2006 shall be entitled to vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. By attending the meeting, shareholders (and any proxies or representatives they appoint) agree that they are expressly requesting and that they are willing to receive any communications (including communications relating to the Company's securities) made at the meeting.

FORM OF PROXY

I/We, (Full names) (block capitals please)
 of (address).....,
 being (a) member(s) of New Star Investment Trust PLC and entitled to vote,
 hereby appoint the
 Chairman of the meeting

(see note 1 below) to act as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 1 Knightsbridge Green, London SW1X 7NE at 12 noon on 16th November 2006 and at any adjournment thereof. On a poll the proxy is to vote in the manner shown below on the resolutions set out in the Notice of Annual General Meeting.

RESOLUTIONS

| | For/Against | Withheld |
|---|--------------------------|--------------------------|
| 1. To receive the Report and Accounts. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To receive the Directors' Remuneration Report. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To declare a final dividend on the Ordinary shares for the year ended 30th June 2006. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To elect Mr J K Roe as a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To re-elect Mr G Howard-Spink as a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To re-elect Mr J L Duffield as a Director. | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To re-appoint the Auditors, Ernst & Young LLP, and to authorise the Directors to determine their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. To allot shares in accordance with statutory pre-emption provisions. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. To disapply statutory pre-emption provisions. | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. To make market purchases of Ordinary shares. | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. To issue shares previously held in treasury at a discount to net asset value. | <input type="checkbox"/> | <input type="checkbox"/> |

Dated: 2006

Signature or common seal:

Notes

1. Delete the words 'the Chairman of the meeting' if it is desired to appoint any other person and insert the relevant name and address. A shareholder is entitled to appoint a proxy of his/her own choice who need not be a member of the Company.
2. Please indicate by inserting X in the appropriate box how the proxy is to vote. Unless so instructed, the proxy will at his/her discretion vote as he/she thinks fit or abstain from voting.
3. To be valid, this form of proxy must be lodged with Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA not later than 48 hours before the time fixed for the meeting.
4. A corporation should execute this instrument under its common seal or under the hand of an officer, attorney or a duly authorised officer of the corporation.
5. In the case of joint holdings, the vote of the senior joint holder to tender a vote shall be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
6. Completion and return of the proxy will not preclude Ordinary shareholders from attending and voting at the meeting should they subsequently decide to do so.

2nd Fold



Affix
Stamp

LLOYDS TSB REGISTRARS
THE CAUSEWAY
WORTHING
WEST SUSSEX BN99 6DA

1st Fold

3rd Fold and tuck in