NEW STAR INVESTMENT TRUST PLC

3469011

NEW
STAR

REPORT AND ACCOUNTS
for the year ended 30th June 2008

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INVESTMENT OBJECTIVE

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)*
G Howard-Spink
M J Gregson

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

Equiniti Limited
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 73, 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 69, is Chairman of New Star Asset Management Group PLC He is a director of a number of investment and other companies and was chief executive of Jupiter International Group PLC until May 2000

***Marcus Gregson**, aged 62, was formerly head of HSBC Private Bank (UK) Limited and is a director of a number of other investment companies

***Geoffrey Howard-Spink**, aged 64, was one of the founders in 1981 of Lowe Group Limited, one of the UK's biggest advertising groups He is Chairman of Immedia Broadcasting PLC and a director of Chrysalis Group plc

* *Members of the Audit Committee*

FINANCIAL HIGHLIGHTS

	30th June 2008	30th June 2007	% Change
PERFORMANCE			
Net assets (£'000)	96,405	123,689	(22 1)
Net asset value per Ordinary share	135 74p	174 15p	(22 1)
Mid-market price per Ordinary share	105 50p	156 25p	(32 5)
Discount of price to net asset value	22 3%	10 3%	-
FTSE World Index	116 42	129 72	(10 3)
FTSE All-Share Index	2,855 69	3,404 14	(16 1)

	1st July 2007 to 30th June 2008	1st July 2006 to 30th June 2007
REVENUE		
Return per Ordinary share	0 94p	1 22p
Dividend per Ordinary share	0 73p	1 00p
TOTAL RETURN		
Net assets total return	(22 1%)	18 8%
FTSE All-Share total return	(13 0%)	18 4%

CHAIRMAN'S STATEMENT

Results

The year to 30 June 2008 was a disappointing one for your Company, with net assets falling 22 1% to £96 4 million This compares with a 16 1% decline in the FTSE All-Share Index From its inception in May 2000 to 30 June 2008, your Company has delivered a 41 3% total NAV return against a return of 22 8% for the FTSE All-Share

Net revenue for the year under review was £671,000, which compares with £865,000 the previous year Your Directors recommend the payment of a final dividend of 0 73p net per Ordinary share This compares with a dividend of 1 00p in 2007 This should not be taken as an indication of future dividends, however, because the policy of your Company is to achieve capital growth and earnings per Ordinary share may fluctuate

Your Company's unaudited net asset value per share at 31st August 2008 was 133 51p

Market background

Global equities were weak and volatile during the year, with the MSCI World Total Return Index declining 9 4% in sterling terms The main reason for the equity market weakness was the increase in investors' risk aversion in response to the US sub-prime mortgage crisis and fears that the US economy would go into recession The leading central banks responded by pumping liquidity into the system, fearing that increased nervousness among banks could cause economic conditions to deteriorate significantly The Federal Reserve initiated a significant programme of monetary loosening, cutting its Fed funds target rate by 3 25 percentage points to 2% while the Bank of England, having initially raised its bank rate by a quarter point to 5 75%, proceeded to cut by three quarters of a point to 5% by the year end The European Central Bank left its repo rate unchanged at 4% but it joined other central banks in supplying liquidity to the money markets

A low point came in early March 2008 as counterparties began to withdraw funds from Bear Stearns, the US investment bank, on fears that it was facing bankruptcy The Federal Reserve responded by financing a takeover by JP Morgan Chase, helping to restore confidence in the markets

Sentiment deteriorated, however, in the closing weeks of the Company's year in response to rising commodity prices and heightened inflationary pressures, leading to fears that the central banks would tighten policy, putting further pressure on already lacklustre economic growth trends In response, cash was switched again from riskier, more volatile securities, such as higher-yielding corporate bonds and the shares of small and medium-sized companies, into "safe haven" assets such as government bonds and large defensive companies Over the year as a whole, Group of Seven (G7) government bonds returned 17 3% in sterling terms while high-yield corporate bonds fell 2 2%

Within the Group of Seven (G7) major industrial countries, Italy was the weakest country during the year under review, falling 15 0% in sterling terms, followed by France, down 13 3%, the UK, down 12 7%, Japan, down 11 1%, and the US, down 10 5% The resources-heavy Canadian market gained 11 6%, however, while Germany proved relatively resilient as a result of the strength of its exports to industrialising emerging markets and fell only 3 0% Outside the G7, the weakest countries included Ireland, down 31 4%, the Philippines, down 30 6%, and New Zealand, down 23 5% By contrast, resources-heavy emerging markets were strong, with Brazil up 53 2% and Russia up 27 2% while currency strength lifted Czech shares 50 5% in sterling terms

CHAIRMAN'S STATEMENT

continued

Among the global sectors, financial stocks were the weakest, falling 23 6% Other weak sectors included consumer services, down 17 8%, and industrials, down 12 0% By contrast, basic materials gained 27 5%, energy gained 25 8% and utilities returned 5 1%

Over the summer of 2008, Western economic conditions were deteriorating, with the trade-off between economic growth and inflation worsening significantly This was reflected in a de-rating of global equities, which were trading at 30th June 2008 on a trailing earnings multiple of 14 0 against 31 0 in April 2000 The market's dividend yield, meanwhile, rose to a 15-year high of 2 74%

Momentum in the emerging markets and positive money supply trends may still yet result in a soft landing but the credit crunch has increased the risk of more serious dislocation, partly because the scope for further monetary loosening may be constrained by increased inflationary pressures In such an environment, stock selection will be crucial in generating outperformance

Investment policy

Pursuant to changes in the UK Listing Rules, listed investment companies are now subject to additional requirements in respect of their published investment policies To comply with the new standards and to address certain additional proposed amendments to the investment policy, the Board are proposing a revised investment policy to be formally adopted, subject to approval of resolution II, at the Annual General Meeting

The Company's investment objective is to achieve long-term capital growth New Star Asset Management Limited (the Manager) implements this objective through a policy of investing a significant proportion of the Company's assets in pooled investment vehicles, with a significant proportion represented by shares or units in other investment companies managed by associates of New Star Asset Management Group PLC (New Star), the parent company of the Manager

With effect from July 2008, the Company's assets have been managed by Mark Harris, head of investment for the Manager's fund of funds range, which had funds under management of £1 1 billion at 2nd September 2008 Mark Harris has worked in the investment industry for more than 20 years and joined New Star in 2003 New Star's fund of funds team is currently rated A by Citywire and its achievements resulted in New Star being named "Best Multi-Manager Group" in the 2007 and 2008 Professional Adviser awards

Mark Harris is manager of New Star Tactical Portfolio, an open-ended unconstrained global investment fund For the five-year period to 31st August 2008, this fund generated a total return of 64 35% (source Lipper) compared to 63 94% for the FTSE All-Share Total Return Index

As set out in the circular that accompanies this annual report and accounts, a shareholder resolution is proposed at the Company's annual general meeting to amend the Company's investment policy Until the appropriate resolution has been passed the Company's portfolio will be managed in accordance with the current investment policy

The revised investment policy will be to allocate its assets actively to global investment opportunities while spreading investment risk through investment in equity, bond, commodity, real estate, currency and other asset classes The complete investment policy is set out on pages 12-13

Your Directors recommend that shareholders vote in favour of the resolutions at the annual general meeting

CHAIRMAN'S STATEMENT

continued

Manager's fee arrangements

The Company currently pays the Manager an investment management fee of 0 1875% per quarter i e 0 75% per annum, of total assets of the Company and its subsidiaries, payable quarterly in arrears To the extent that any fees are payable to the Manager or its associates from any pooled vehicles in the Company's portfolio, the fees payable to the Manager by the Company are waived on that portion of the assets

With effect from 1st September 2008, in addition to the investment management fee, the Company will pay the Manager a performance fee of 15% of the growth in net assets over a hurdle of three-month sterling LIBOR plus 1% per annum, payable six monthly in arrears, subject to a high water mark The aggregate of the Company's management fee and performance fee are subject to a cap of 4 99% of net assets in any financial year (with any performance fee in excess of this cap capable of being earned in subsequent periods) The performance fee will be charged 100% to capital, in accordance with the Board's long term expectation of how any outperformance will be generated

James Roe
Chairman
5th September 2008

INVESTMENT MANAGER'S REPORT

The year under review was a difficult one for the majority of the funds within the portfolio, with global equity and bond markets suffering in the wake of the credit crunch amid fears among investors of a significant slowdown in economic growth

There were, however, some bright spots particularly among funds invested in asset classes with only weak or negligible correlation to mainstream equity markets The Investec Africa Fund gained 28 64%, the New Star Heart of Africa, which was launched part way through the year, gained 10 6% and the New Star International Property Fund gained 4 92%

Other positive contributors within this difficult environment included the New Star Euro High Yield Fund, which gained 8 97% as a result of the euro's strength against sterling, and the Skandia UK Strategic Best Ideas Fund, a long-short equity fund whose fund managers include New Star, which gained 2 00%

Within the mainstream long-only funds, the New Star UK Alpha Fund was relatively resilient, falling 9 01% against a 13 03% fall in the FTSE All-Share Total Return Index It was, however, a disappointing year for a number of the long-only funds in the portfolio, with below-benchmark performance being delivered by funds such as New Star European Growth and New Star UK Growth

The year under review was also a disappointing one for the holding in the New Star Asset Management Group, whose shares fell 77 43% Following the group's capital repayment to shareholders in June 2007, New Star entered the recent equity market downturn with significant debt in its balance sheet This had the effect of magnifying the negative impact of financial market dislocation on New Star's equity valuation

There were various changes to the portfolio during the year Your Company sold its holdings in Arena Leisure, the New Star Apollo Hedge Fund, the New Star Firefly Hedge Fund and the New Star Select Opportunities Fund and reduced its holdings in the New Star European Growth Fund, the New Star European Hedge Fund, the New Star Pan-European Equity Fund, and the New Star UK Growth Fund The proceeds were invested in the New Star Euro High Yield Fund, the New Star Financial Opportunities Fund, the New Star Heart of Africa Fund, the New Star Private Equity Trust, the Skandia UK Strategic Best Ideas Fund and Midas Capital

As a result of these changes and market movements, your Company ended the year under review with 63 7% of its invested assets in retail funds, 16 6% in hedge funds, 4 7% in its holding in New Star Asset Management Group and 15 0% in other equities and investment trust shares Geographically, 65 9% of the portfolio was exposed to the UK, 16 4% was exposed to Europe excluding the UK and the balance was invested elsewhere

At the year end of the year under review, global equity markets were 12 64% off their October 2007 peak in sterling terms, with some markets having suffered more severe setbacks The weakest emerging markets included Turkey, down 38 29% between October and the year end, the Philippines, down 34 48%, and India, down 33 23%, among the smaller developed markets Sweden was down 25 55% and Ireland was down 23 89% while Italy and the UK were the weakest Group of Seven markets, down 16 65% and 14 94% respectively

June 2008 was a particularly weak month and was followed by further selling in July as investors became increasingly concerned about the threats posed by the rising prices of oil and other commodities Corporate profit margins appeared vulnerable while the increase in inflationary pressures limited the freedom of central banks to respond to weaker economic growth with monetary easing This suggests that over the coming months there will be further shifts by investors into more defensive areas of the financial markets and into asset classes that offer some diversification away from mainstream equities

New Star Asset Management Limited
5th September 2008

SCHEDULE OF TWENTY LARGEST INVESTMENTS

at 30th June 2008

Holding	Activity	30th June 2008 Bid-market value £'000	Percentage of portfolio
New Star UK Alpha Fund	Investment Fund	8,463	9 89
Investec Africa Fund	Investment Fund	4,556	5 32
New Star Global Financials Fund	Investment Fund	4,514	5 28
New Star Accelerator Hedge Fund	Investment Fund	4,450	5 20
New Star Hidden Value Portfolio	Investment Fund	4,107	4 80
New Star European Hedge Fund	Investment Fund	4,098	4 79
New Star Asset Management Group	Asset Management Company	4,040	4 72
Global Property Fund	Investment Fund	3,995	4 67
New Star European Growth Fund	Investment Fund	3,719	4 35
New Star Euro High Yield Fund	Investment Fund	3,640	4 25
New Star Financials Hedge Fund	Investment Fund	3,417	3 99
Skandia Global Best Ideas Fund	Investment Fund	3,292	3 85
Skandia UK Strategic Best Ideas Fund	Investment Fund	3,041	3 55
New Star International Property Fund	Investment Fund	2,976	3 48
New Star Private Equity Investment Trust	Investment Company	2,896	3 38
New Star UK Growth Fund	Investment Fund	2,715	3 17
New Star Global Fund – British Lion Portfolio	Investment Fund	2,652	3 10
New Star Heart of Africa Fund	Investment Fund	2,211	2 58
New Star Global Strategic Capital Fund	Investment Fund	2,031	2 37
Midas Capital	Equity	1,955	2 29
		72,768	85 03
Balance held in 17 investments		12,800	14 97
		85,568	100 00

All the Company's investments are unlisted with the exception of New Star Asset Management Group, New Star Private Equity Investment Trust, Midas Capital, New Star Financial Opportunities Fund, Lindsell Train Investment Trust and Immedia Broadcasting

SCHEDULE OF TWENTY LARGEST INVESTMENTS

at 30th June 2007

Schedule of investments	Activity	30th June 2007 Bid value £'000	Percentage of portfolio
New Star Asset Management Group	Asset Management Company	17,993	15 23
New Star European Growth Fund	Investment Fund	9,413	7 97
New Star UK Growth Fund	Investment Fund	7,983	6 76
New Star European Hedge Fund	Investment Fund	7,979	6 75
New Star UK Alpha Fund	Investment Fund	5,850	4 95
New Star Global Financials Fund	Investment Fund	5,706	4 83
New Star Hidden Value Fund	Investment Fund	5,309	4 49
Global Property Fund	Investment Fund	5,155	4 36
New Star International Pan European Equity Fund	Investment Fund	4,912	4 16
New Star Accelerator Hedge Fund	Investment Fund	4,875	4 13
New Star UK Special Situations Fund	Investment Fund	4,350	3 68
Skandia Global Best Ideas Fund	Investment Fund	3,722	3 15
New Star Financials Hedge Fund	Investment Fund	3,701	3 13
Investec Africa Fund	Investment Fund	3,650	3 09
New Star Global Fund – British Lion Portfolio	Investment Fund	3,476	2 94
New Star Select Opportunities Fund	Investment Fund	3,298	2 79
New Star International Property Fund	Investment Fund	2,750	2 33
New Star Firefly Hedge Funds	Investment Fund	2,489	2 11
New Star Global Strategic Capital	Investment Fund	2,487	2 10
New Star Global Fund – UK Smaller Companies Portfolio	Investment Fund	2,232	1 89
		107,330	90 84
Balance held in 13 investments		10,838	9 16
Total investments		118,168	100 00

DIRECTORS' REPORT

The Directors present their Report and Accounts for the year ended 30th June 2008

BUSINESS REVIEW

The Business Review is designed to give shareholders an insight into the operations of the Company Further information on the Company's activities and prospects may be found in the Chairman's Statement on pages 6 to 8 and the Investment Manager's Report on page 9

INVESTMENT OBJECTIVE

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

INVESTMENT POLICY

Current investment policy

The investment objective is implemented through a policy of investing a significant proportion of the Company's assets in pooled investment vehicles, with a significant proportion represented by shares or units in other investment companies managed by associates of New Star Asset Management Group PLC, the parent company of the Manager

The Company takes a global view of investment opportunities and invests in sectors or geographic areas which are considered by the Manager to offer good prospects for growth, taking into account economic trends and business developments

The Company seeks to enhance returns from each asset class, sector or market by active stock selection and by a continuous review of the portfolio's asset allocation between equities, bonds and money market instruments as well as between industries, countries and regions

Information on how the Company has invested its assets with a view to spreading investment risk in accordance with its investment policy is set out on pages 10 and 11

Proposed investment policy

The Board considers that it would be beneficial to shareholders for the investment policy to be broadened Accordingly, a resolution will be put to the Annual General Meeting amending the Company's investment policy Until the appropriate resolution has been passed the Company's portfolio will be managed in accordance with the current investment policy

The revised investment policy will be to allocate its assets actively to global investment opportunities while spreading investment risk through investment in equity, bond, commodity, real estate, currency and other asset classes The Company's assets may have significant weightings to any one asset class or geographic market, including cash

The Company will invest in pooled investment vehicles, exchange traded funds, futures, options and limited partnerships The Company may also invest up to 15% of its net assets in direct investments in relevant markets

The Company will not follow any index with reference to asset classes, countries, sectors or stocks Aggregate asset class exposure to any one of the United States, United Kingdom, Europe ex-UK, Asia ex Japan, Japan or Emerging Markets and to any individual industry sector will be limited to 50% of the Company's net assets, such values being assessed at the time of investment and for funds by reference to their published investment policy, where appropriate, the underlying investment exposure

The Company may invest up to 20% of its net assets in unlisted securities (excluding unquoted pooled investment vehicles), such values being assessed at the time of investment

DIRECTORS' REPORT

continued

The Company will not invest more than 15% of its net assets in any single investment, such values being assessed at the time of investment

Derivative instruments and forward foreign exchange contracts may be used for the purposes of efficient portfolio management and currency hedging Derivatives may also be used outside of efficient portfolio management to meet the Company's investment objective The Company may take outright short positions in relation to up to 30% of its net assets, with a limit on short sales of individual stocks of up to 5% of its net assets, such values being assessed at the time of investment

The Company may borrow up to 30% of its net assets for short term funding or long term investment purposes

No more than 10%, in aggregate, of the value of the Company's total assets may be invested in other closed-ended investment funds except where such funds have themselves published investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds

PERFORMANCE

A review of the Company's activities and performance may be found in the Chairman's Statement on pages 6 to 8 and in the Investment Manager's Report on page 9

The following Key Performance Indicators are used by the Board to monitor the progress of the Company

	30 June 2008	30 June 2007	% Change
Net assets (£000)	96,405	123,689	(22 1)
Net asset value per share	135 74p	174 15p	(22 1)
Share price	105 50p	156 25p	(32 5)
Discount	22 3%	10 3%	-
Earnings per share	(37 42)p	27 66p	-

REGULATORY ENVIRONMENT

The Company is an investment trust and is subject to the rules governing investment trust status laid down in the Income and Corporation Taxes Act 1988 The Company has been approved by HM Revenue & Customs as an investment trust for the year ended 30th June 2007 Approval for the year ended 30th June 2007 is subject to review should there be any subsequent enquiry under Corporation Tax Self Assessment

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

DIRECTORS' REPORT

continued

RISK MANAGEMENT

The principal risks associated with the Company include the following

Investment strategy

Inappropriate long-term strategy, asset allocation and manager selection might lead to the underperformance of the Company The Company's strategy is kept under regular review by the Board and the accompanying Notice of AGM includes a proposal to adopt a new investment policy The Board considers that the new investment policy will enhance the ability of the company to achieve its objective of achieving long-term capital growth Investment performance is discussed at every Board meeting and the Directors receive a monthly report which details the Company's asset allocation, investment selection and performance

Regulatory risk

Failure to comply with applicable legal and regulatory requirements could lead to the suspension or loss of the Company's Stock Exchange listing or result in financial penalties Breach of Section 842 of the Income and Corporation Taxes Act 1988 could lead to the loss of the Company's investment trust status, leading to the Company being subject to tax on its capital gains The Board employs New Star Asset Management Limited as Investment Manager and Secretary to help manage the Company's legal and regulatory obligations

Manager

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

Business conditions and general economy

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

The portfolio may be found on pages 10 to 11 Further information on how the Company manages risk may be found in the Corporate Governance section on pages 22 and 23 and in note 18 on pages 45 to 52

RESULTS AND DIVIDENDS

Results and reserve movements for the year are set out in the Consolidated Income Statement on page 28 and in the Notes to the Accounts on pages 34 to 53

Dividends do not form a central part of the Company's investment policy However the Directors have declared a final dividend of 0 73p net per share (2007 final dividend of 1 0p) payable to shareholders on 10th October 2008 to shareholders on the register on 19th September 2008

DIRECTORS' REPORT

continued

SHARE CAPITAL

At 30th June 2008 there were 71,023,695 1p ordinary shares in issue (30 June 2007 71,023,695)

MANAGEMENT

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

Under the terms of the investment management agreement, New Star receives a fee, payable quarterly in arrears, equivalent to 3/16% of total assets of the Company and its subsidiaries after the deduction of the value of any Jupiter managed investments and any New Star managed investments (as defined in the management agreement) The investment management agreement may be terminated by either party giving three months written notice to expire on the last calendar day of any month The Board monitors the performance of the Manager and considers that the continuing appointment of New Star is in the interests of shareholders as a whole With effect from 1st September 2008, the Manager will also be entitled to a performance fee of 15% of the growth in net assets over a hurdle of 3 month Sterling LIBOR plus 1% per annum, payable six monthly in arrears, subject to a high water mark The aggregate of the Company's management fee and performance fee are subject to a cap of 4 99% of net assets in any financial year (with any performance fee in excess of this cap capable of being earned in subsequent periods) The performance fee will be charged 100% to capital, in accordance with the Board's long term expectation of how any outperformance will be generated

Secretarial services and general administration of the Company is undertaken by New Star Asset Management Limited for an annual fee of £70,000 (exclusive of VAT) payable in equal monthly instalments in arrears and reviewed annually by reference to the UK Index of Retail Prices The agreement is terminable by not less than six months' notice by either party

SUBSIDIARY UNDERTAKING

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

EMPLOYEE, ENVIRONMENTAL AND COMMUNITY ISSUES

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

DIRECTORS' REPORT

continued

OTHER MATTERS

LIFE OF COMPANY

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

DIRECTORS

The Directors who served during the year were as follows

	Date of appointment
J K Roe	31st August 2005
J L Duffield	13th April 2000
M J Gregson	1st December 2006
G Howard-Spink	13th April 2000

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

DIRECTORS' INTERESTS

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

Held beneficially	30th June 2008 Ordinary shares	1st July 2007 Ordinary shares
J L Duffield	42,003,223	42,003,223
M J Gregson	10,000	10,000
G Howard-Spink	–	–
J K Roe & Dame Marion Roe	2,290,048	2,290,048

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

The Directors' interests in contractual arrangements with the Company are detailed in Note 20 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

DIRECTORS' REPORT

continued

SUBSTANTIAL SHAREHOLDERS

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

	No of Ordinary shares held	% of issued share capital
J L Duffield	42,003,223	59 1
Clients of Jupiter Asset Management Ltd	5,254,585	7 4
M R L Astor	2,801,702	3 9
Comprised of		
M R L Astor & D W Astor as co trustees of M R L Astor 1995 Discretionary Trust	*2,386,545*	*3 4*
M R L Astor	*415,157*	*0 5*
J E Craig	2,386,545	3 4
Comprised of		
J E Craig	*1,193,273*	*1 7*
Mrs P Craig	*1,193,272*	*1 7*
J K Roe	2,290,048	3 2
Comprised of		
J K Roe	*2,090,048*	*2 9*
Dame Marion Roe	*200,000*	*0 3*

ANNUAL GENERAL MEETING

The AGM will be held on Wednesday, 1st October 2008 at 11 00 a m The notice of meeting may be found in the accompanying circular

GOING CONCERN

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

PAYMENT POLICY AND PRACTICE

It is the Company's payment policy to obtain the most advantageous possible terms for all business and therefore there is no single policy as to terms used The Company agrees with suppliers the terms on which business will take place and it is the Company's policy to abide by such terms As the Company is an investment trust it does not have any trade creditors All suppliers' invoices received to 30th June 2008 have been settled, save for three invoices (2007 nil)

DIRECTORS' REPORT

continued

POLITICAL AND CHARITABLE DONATIONS

The Company did not make any political or charitable donations during 2008 (2007 nil)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 ("IFRS") 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 the financial statements, the Directors are required to

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

The Directors are responsible for keeping proper accounting records that 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 the safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors, who are listed on page 4 of this report, confirm that to the best of their knowledge that

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces

DISCLOSURE OF INFORMATION TO AUDITORS

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

DIRECTORS' REPORT

continued

INDEPENDENT AUDITORS

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

By Order of the Board
New Star Asset Management Limited
Secretary
5th September 2008

For and on behalf of
New Star Asset Management
Limited, Secretary

CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE PRINCIPLES

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

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

During the year ended 30th June 2008, the Company complied with the provisions of the Code subject to the exceptions explained below and its specific circumstances as an investment trust company the Company does not have a Senior Independent Director (Code provision A 3 3), no performance appraisal was carried out during the year (Code provision A 6), and the Notice of Annual General Meeting was sent to shareholders less than 20 working days before the meeting (Code provision D 2 4)

THE BOARD

RESPONSIBILITIES

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

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

The Chairman is responsible for leading the Board and ensuring its effectiveness in all aspects of its role and ensuring that the Directors receive accurate, timely and clear information Details of the Chairman's professional commitments are included in his biography on page 4 In accordance with the AIC Code the Chairman is considered to be independent of the Manager

The Board sets the boundaries within which the Investment Manager operates The Investment Manager also ensures that the Board receives all relevant management and financial information in a timely manner Representatives of the Investment Manager attend most Board Meetings, enabling the Board to review the Manager's performance

DIRECTORS

The Board consists of four non-executive directors, all of whom served throughout the year The Board has reviewed the independent status of the directors individually and as a whole in accordance with the Code and the AIC Code It is the Board's opinion that, with the exception of Mr Duffield, all the directors are considered independent in character and judgement Directors abstain from any discussion concerning their own status

The Company does not have any executive Directors or any employees The structure of the Board is such that it is considered unnecessary to identify a senior non-executive Director At 30th June 2008 there were no Directors' service agreements and no Director had been granted any options to acquire shares in the Company

CORPORATE GOVERNANCE STATEMENT

continued

Biographies of the Board members, including their relevant experience, appear on page 4, which demonstrate that each Director has the requisite high level and range of business, investment and financial experience and enables the Board to provide clear and effective leadership and proper stewardship of the Company

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

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 Mr G Howard-Spink retires by rotation at the Annual General Meeting and, being eligible, stands for re-election In accordance with the Listing Rules Mr J L Duffield will submit himself for re-election annually as he is not independent of the Investment Manager The Board considers that Mr Howard-Spink and Mr Duffield each make a valuable contribution to the Board and recommend that shareholders vote in favour of their re-election

The Board meets at least four times a year and convene ad hoc meetings as and when required

The number of meetings of the Board and Audit Committee held during the year to 30th June 2008 and the attendance of individual directors is as follows

	Board meetings	Audit Committee meetings
No of meetings	5	2
J L Duffield	4	N/A
M Gregson	5	2
G Howard-Spink	4	2
J K Roe	5	2

New appointees are provided with an induction programme, which covers the Company's investment strategy, policies and practices Thereafter, Directors are given key information on the Company's regulatory and statutory requirements as they arise

Given the very considerable financial and investment experience of all of the directors it was not considered necessary to conduct a review of the performance of the Board during the year ended 30 June 2008 Nonetheless it has been agreed that an annual performance review will be conducted in future years

BOARD COMMITTEES

As the Board consists of only four directors there is no formal Nominations Committee and appointments of any new Directors will be considered by the Board as a whole The Company does not have any executive Directors or employees and as a consequence does not have a remuneration committee The Directors' Remuneration Report, which may be found on pages 23 and 24, provides detailed information of the remuneration arrangements of the Directors

AUDIT COMMITTEE

The Audit Committee consists of the independent Directors Mr Gregson, Mr Howard-Spink and Mr Roe, all of whom served throughout the year The Audit Committee is chaired by Mr Howard-Spink It is considered that each of the members of the Audit Committee have recent and relevant financial experience

CORPORATE GOVERNANCE STATEMENT

continued

The Audit Committee, which met twice during the year, operates within clearly defined terms of reference The Committee provides a forum through which the Company's external Auditors report to the Board The main work and responsibilities of the Audit Committee include monitoring the integrity of the Company's financial statements and appropriateness of its accounting policies It also reviews the internal control systems and the risks to which the Company is exposed The Audit Committee makes recommendations to the Board regarding the appointment and independence of the external Auditors to the Board and the objectivity and effectiveness of the audit process Details of the amounts paid to the external Auditors during the year under review, for audit and other services are set out in note 4 on page 37

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

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 generally seek to provide at least twenty working days notice of the Annual General Meeting at meeting However, this did not prove possible in respect of the 2008 Annual General Meeting, this was due to the need to amend the Articles of Association to reflect the Companies Act 2006 by 1 October 2008 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 has overall responsibility for the Company's systems of internal control and for 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 provide reasonable but not absolute assurance against material misstatement or loss The Board has reviewed the effectiveness of the

CORPORATE GOVERNANCE STATEMENT

continued

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
- The duties of investment management, accounting and custody of assets are segregated, the procedures of the individual parties are designed to complement one another
- 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 The responsibilities of the Investment Manager are included in the Management Agreement between the Company and New Star Asset Management Limited The Investment Manager's system of internal control includes organisation arrangements which clearly define lines of responsibility and delegated authorities as well as control procedures and systems which are regularly evaluated by management New Star Asset Management is authorised and regulated by the Financial Services Authority
- Custody of assets is undertaken by HSBC Bank plc Until 1st June 2008 custody was provided by HSBC Institutional Fund Services Limited
- Administration and company secretarial duties are performed by New Star Asset Management Limited Accounting duties are performed by HSBC Securities Services (UK) Limited
- Authorisation and exposure limits are set by the Board
- The Company clearly defines the duties and responsibilities of its agents through their contracts The appointment of agents and advisers is conducted by the Board after consideration of the quality of parties involved, the Board monitors their ongoing performance and contractual arrangements
- The Board 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 function, although this is reviewed periodically

New Star Asset Management Limited
Secretary

5th September 2008

DIRECTORS' REMUNERATION REPORT

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

The Act requires the Auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act Where information set out below has been audited, it is clearly indicated The Auditors opinion is included within the Independent Auditors' Report on pages 26 and 27

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 2009

The fees for the non-executive Directors are determined within the limits set out in the Company's Articles of Association The Chairman receives a fee of £20,000 p a , whilst the other Directors receive fees of £15,000 p a It is the Company's policy that no Director shall be entitled to any benefits in kind, share options, long term incentives, pensions or other retirement benefits or compensation for loss of office It is considered that no part of the Directors' remuneration should be performance related in the light of their non-executive status Directors are entitled to claim expenses in respect of duties undertaken in connection with the management of the Company

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 election at the first Annual General Meeting after his appointment, and be subject to re-election 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) and the net asset value (total return) over the last five years in respect of the Company The Company's performance is plotted against the FTSE All-Share Index (total return) over the same period, as this is the Company's benchmark. The data has been rebased to 100 on 30th June 2003

Source Datastream 30th June 2003 to 30th June 2008 (rebased to 100 at 30 June 2003)

DIRECTORS FEES (AUDITED)

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

	2008 £	2007 £
J K Roe (Chairman)	£20,000	£15,000
J L Duffield	£15,000	£12,500
M J Gregson	£15,000	£8,333
G Howard-Spink	£15,000	£12,500
M Boase	–	£3,787
Total	£65,000	£52,120

Notes
1 With effect from 1st January 2007 the fee received by the Chairman increased from £15,000 p a to £20,000 p a and the fees received by the other Directors increased from £10,000 p a to £15,000 p a
2 Mr M J Gregson was appointed a Director on 1st December 2006
3 Mr M Boase resigned as a Director on 16th November 2006

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

5th September 2008

For and on behalf of
New Star Asset Management
Limited, Secretary

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 30 June 2008 which comprise Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Balance Sheet, the Company Balance Sheet, the Group and Company Cash Flow Statements and the related notes 1 to 20 These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

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

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

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the 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 Objective, Company Information, Board of Directors, Financial Highlights, Chairman's Statement, Investment Manager's Report, Schedule of Twenty Largest Investments, Directors' Report, Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report, 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 30 June 2008 and of its loss for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs 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 30 June 2008,
- 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, as regards the group financial statements, 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

5th September 2008

CONSOLIDATED INCOME STATEMENT

for the year ended 30th June 2008

	Notes	Year ended 30th June 2008 Revenue Return £'000	Capital Return £'000	Total £'000	Year ended 30th June 2007 Revenue Return £'000	Capital Return £'000	Total £'000
INVESTMENT INCOME	2	1,029	–	1,029	1,224	–	1,224
Other operatıng ıncome	2	376	–	376	93	–	93
Total ıncome		1,405	–	1,405	1,317	–	1,317
GAINS AND LOSSES ON INVESTMENTS							
(Losses)/gaıns on ınvestments at faır value through profıt or loss	9	–	(27,203)	(27,203)	–	18,432	18,432
(Losses)/gaıns on forward currency contracts		–	(24)	(24)	–	708	708
Other exchange gaıns/(losses)		–	191	191	–	(27)	(27)
		1,405	(27,036)	(25,631)	1,317	19,113	20,430
EXPENSES							
Investment Management fees	3	(263)	–	(263)	(265)	–	(265)
Other expenses	4	(241)	(1)	(242)	(222)	–	(222)
PROFIT/(LOSS) BEFORE FINANCE COSTS AND TAX		901	(27,037)	(26,136)	830	19,113	19,943
Fınance costs		(60)	–	(60)	(39)	–	(39)
PROFIT/(LOSS) BEFORE TAX		841	(27,037)	(26,196)	791	19,113	19,904
Tax	5	(170)	(208)	(378)	74	(331)	(257)
PROFIT/(LOSS) FOR THE YEAR		671	(27,245)	(26,574)	865	18,782	19,647
EARNINGS PER SHARE							
Ordınary shares (pence)	7	0.94	(38.36)	(37.42)	1 22	26 44	27 66

The total column of thıs statement represents the Group's profıt and loss account, prepared ın accordance wıth IFRS The supplementary revenue return and capıtal return columns are both prepared under guıdance publıshed by the Assocıatıon of Investment Companıes All ıtems ın the above statement derıve from contınuıng operatıons No operatıons were acquıred or dıscontınued durıng the year

All ıncome ıs attrıbutable to the equıty holders of the parent company There are no mınorıty ınterests

The Notes on pages 34 to 53 form an ıntegral part of these Accounts

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June 2008

	Notes	Share capital £'000	Share premium £'000	Special reserve £'000	Retained earnings £'000	Total £'000
AT 30 JUNE 2007		**710**	**21,573**	**56,908**	**44,498**	**123,689**
Loss for the year		–	–	–	**(26,574)**	**(26,574)**
Dividend paid	*8*	–	–	–	**(710)**	**(710)**
AT 30 JUNE 2008		**710**	**21,573**	**56,908**	**17,214**	**96,405**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June 2007

	Notes	Share capital £'000	Share premium £'000	Special reserve £'000	Retained earnings £'000	Total £'000
AT 30TH JUNE 2006		710	21,573	56,908	24,922	104,113
Profit for the year		–	–	–	19,647	19,647
Dividend paid	*8*	–	–	–	(71)	(71)
AT 30TH JUNE 2007		710	21,573	56,908	44,498	123,689

The Notes on pages 34 to 53 form an integral part of these Accounts

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June 2008

	Notes	Share capital £'000	Share premium £'000	Special reserve £'000	Retained earnings £'000	Total £'000
AT 30 JUNE 2007		**710**	**21,573**	**56,908**	**44,114**	**123,305**
Loss for the year		–	–	–	**(26,654)**	**(26,654)**
Dividend paid	8	–	–	–	**(710)**	**(710)**
AT 30 JUNE 2008		**710**	**21,573**	**56,908**	**16,750**	**95,941**

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30th June 2007

	Notes	Share capital £'000	Share premium £'000	Special reserve £'000	Retained earnings £'000	Total £'000
AT 30TH JUNE 2006		710	21,573	56,908	25,126	104,317
Profit for the year		–	–	–	19,059	19,059
Dividend paid	8	–	–	–	(71)	(71)
AT 30 JUNE 2007		710	21,573	56,908	44,114	123,305

The Notes on pages 34 to 53 form an integral part of these Accounts

CONSOLIDATED BALANCE SHEET

at 30th June 2008

	Notes	30th June 2008 £'000	30th June 2007 £'000
NON-CURRENT ASSETS			
Investments at fair value through profit or loss	*9*	**85,568**	118,168
CURRENT ASSETS			
Other receivables	*11*	**118**	1,392
Cash and cash equivalents	*12*	**11,834**	4,883
		11,952	6,275
TOTAL ASSETS		**97,520**	124,443
CURRENT LIABILITIES			
Other payables	*13*	**(1,115)**	(754)
NET ASSETS		**96,405**	123,689
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS			
Called-up share capital	*14*	**710**	710
Share premium	*15*	**21,573**	21,573
Special reserve	*15*	**56,908**	56,908
Retained earnings	*15*	**17,214**	44,498
TOTAL EQUITY		**96,405**	123,689
		pence	pence
NET ASSET VALUE PER ORDINARY SHARE (PENCE)	*16*	**135.74**	174 15

These Accounts were approved by the Board of Directors and authorised for issue on 5th September 2008

James Roe
Chairman

The Notes on pages 34 to 53 form an integral part of these Accounts

COMPANY BALANCE SHEET

at 30th June 2008

	Notes	30th June 2008 £'000	30th June 2007 £'000
NON-CURRENT ASSETS			
Investments at fair value through profit or loss	9	**85,568**	118,168
CURRENT ASSETS			
Other receivables	11	**993**	2,083
Cash and cash equivalents	12	**10,156**	3,655
		11,149	5,738
TOTAL ASSETS		**96,717**	123,906
CURRENT LIABILITIES			
Other payables	13	**(776)**	(601)
NET ASSETS		**95,941**	123,305
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS			
Called-up share capital	14	**710**	710
Share premium	15	**21,573**	21,573
Special reserve	15	**56,908**	56,908
Retained earnings	15	**16,750**	44,114
TOTAL EQUITY		**95,941**	123,305

These Accounts were approved by the Board of Directors and authorised for issue on 5th September 2008

James Roe
Chairman

The Notes on pages 34 to 53 form an integral part of these Accounts

CASH FLOW STATEMENTS

for the year ended 30th June 2008

	Notes	**Year ended 30th June 2008 Group £'000**	**Year ended 30th June 2008 Company £'000**	Year ended 30th June 2007 Group £'000	Year ended 30th June 2007 Company £'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before finance costs and tax		**(26,136)**	**(26,183)**	19,943	19,202
Adjustments for Losses/(gains) on investments		**32,600**	**32,600**	(14,804)	(14,804)
Operating cash flows before movements in working capital		**6,464**	**6,417**	5,139	4,398
Decrease/(increase) in receivables		**1,324**	**1,106**	(685)	(1,163)
Increase in payables		**514**	**175**	207	54
Net cash from operating activities before finance costs and income taxes		**8,302**	**7,698**	4,661	3,289
Taxation		**(221)**	**(67)**	(257)	(104)
NET CASH FROM OPERATING ACTIVITIES		**8,081**	**7,631**	4,404	3,185
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		**(710)**	**(710)**	(71)	(71)
Interest paid		**(60)**	**(60)**	(39)	(39)
NET CASH USED IN FINANCING ACTIVITIES		**(770)**	**(770)**	(110)	(110)
NET INCREASE IN CASH AND CASH EQUIVALENTS	17	**7,311**	**6,861**	4,294	3,075
Cash and cash equivalents at beginning of year		**4,523**	**3,295**	229	220
CASH AND CASH EQUIVALENTS AT END OF YEAR		**11,834**	**10,156**	4,523	3,295

The Notes on pages 34 to 53 form an integral part of these Accounts

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

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, rounded to the nearest thousand

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRS') These comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), together with interpretations of the International Accounting Standards and Standing Interpretations Committee ('IASC') that remain in effect, and to the extent that they have been adopted by the European Union

(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 Companies ('AIC') in January 2003 (revised 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 Balance Sheet include the Accounts of the Company and its subsidiary made up to 30th June 2008 No Income Statement 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 AIC, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement

In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, 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) *Revenue* Dividends on investments are credited to the revenue column of the Income Statement on the day in which they are quoted ex-dividend Interest on fixed interest securities and deposits is accounted for on a time apportionment basis Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income Any excess in the value of the shares received over the amount of cash dividend is credited to the capital reserve

(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 column of the Income Statement Transaction charges are charged to the capital column of the Income Statement

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

(f) *Investments held at fair value* All "regular way" purchases and sales of 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 bid 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 by the Directors at the balance sheet date based on recognised valuation methodologies in accordance with International Private Equity and Venture Capital ("IPEVC") Valuation Guidelines such as dealing prices or third party valuations where available, net asset values and other information as appropriate

(g) *Taxation* The charge for taxation is based on taxable income for the year Withholding tax deducted from income received is treated as part of the taxation charge against income Taxation deferred or accelerated can arise due to temporary differences between treatment of certain items for accounting and taxation purposes Full provision is made for deferred taxation under the liability method on all temporary differences not reversed by the Balance Sheet date

(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

(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 payment of dividends

(j) *Cash and cash equivalents* Cash and cash equivalents comprises current deposits, overdrafts with banks and bank loans These are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose

(k) *Dividends payable* Dividends are recognised from the date on which they are irrevocably committed to payment

(l) *Segmental Reporting* The Directors consider that the Group is engaged in a single segment of business with the primary objective of investing in securities to generate long term capital growth for its shareholders Consequently no business segmental analysis is provided

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

(m) *Accounting developments* The following standards, amendments and interpretations have been published by IASB and are effective for the year ended 30th June 2008

- IFRS 7, Financial instruments Disclosures The additional disclosures in accordance with the standard are set out in note 18 to the Accounts

The following standards, amendments and interpretations have been published by IASB and are effective for the year ended 30th June 2008 but do not apply to the Group or Company

- IFRS 4, Insurance contracts
- IFRIC 7, Applying the restatement approach under IAS29, Financial reporting in hyper-inflationary economies
- IFRIC 9, Reassessment of embedded derivatives

The following standards, amendments and interpretations to existing standards will become effective in future accounting periods

- IAS 23 (amendment), Borrowing costs
- IAS 32 (amendment), Financial instruments
- IFRS 8, Operating segments

They have not been adopted early by the Group or Company

2 INVESTMENT INCOME

	Year ended 30th June 2008 £'000	Year ended 30th June 2007 £'000
INCOME FROM LISTED INVESTMENTS		
UK net dividend income	460	721
UK unfranked investment income	569	503
	1,029	1,224
OTHER OPERATING INCOME		
Interest on convertible loan stock	2	–
Bank interest receivable	374	93
	376	93
TOTAL INCOME COMPRISES		
Dividends	1,029	1,224
Other income	376	93
	1,405	1,317

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

3 INVESTMENT MANAGEMENT FEES

	Year ended 30th June 2008			Year ended 30th June 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	263	–	263	226	–	226
Irrecoverable VAT thereon	–	–	–	39	–	39
	263	–	263	265	–	265

At 30 June 2008 there were amounts outstanding of £147,000 (2007 £70,000) Details of the investment management agreement are given in Note 20

Following a decision made by HM Revenue and Customs (HMRC) in November 2007, management fees invoiced after this date have not incurred a VAT charge

4 OTHER EXPENSES

	Year ended 30th June 2008 £'000	Year ended 30th June 2007 £'000
Administrative and secretarial fee	82	82
Auditors' remuneration		
– Audit	26	24
– Fee for review of interim report	2	2
Directors' remuneration	65	52
Legal fees	3	5
Other	64	57
	242	222
Allocated to		
– Revenue	241	222
– Capital	1	–
	242	222

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

5 TAXATION

(a) ***Analysis of tax charge for the year***

	Year ended 30th June 2008			Year ended 30th June 2007		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax	12	(6)	6	–	153	153
Adjustments in respect of prior periods		(27)	(27)	–	–	–
Irrecoverable income tax	39	–	39	38	–	38
Total current tax for the year	51	(33)	18	38	153	191
Deferred tax	119	241	360	(112)	178	66
Total tax for the year (note 5b)	170	208	378	(74)	331	257

(b) ***Factors affecting tax charge for the year.***

The charge for the year can be reconciled to the profit per the income statement as follows

	Year ended 30th June 2008 £'000	Year ended 30th June 2007 £'000
(Loss)/profit before tax	(26,196)	19,904
Tax at the UK corporation tax rate of 30% (2007 30%)	(5,894)	5,971
Tax at the UK corporation tax rate of 28% (2007 30%)	(1,834)	–
Effects of		
Tax effect of non-taxable UK dividends	(136)	(216)
Gains and losses on investments that are not taxable	7,969	(5,521)
Unrealised gains on non-qualifying offshore funds	241	178
Irrecoverable income tax	39	38
Utilisation of excess expenses from prior periods	–	(187)
Deferred tax prior year movement	27	–
Adjustments in respect of prior periods	(27)	–
Small companies' rate on investment trust	(6)	–
Marginal small companies relief on subsidiary	(1)	(6)
Total tax for the year	378	257

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

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

5 TAXATION CONTINUED

(c) ***Provision for deferred tax.***

	Year ended 30th June 2008 £'000	Year ended 30th June 2007 £'000
Provision at start of year	66	-
Deferred tax charge for the year	360	66
Provision at end of year	426	66

The deferred tax charge in the capital account of £241,000 (2007 £178,000) of the investment trust relates to an unrealised gain on a non-distributing offshore fund The deferred tax charge of £119,000 in the revenue account (2007 £(112,000)) relates to the reversal of the prior year tax credit for utilisation of revenue expenses on this unrealised offshore gain and £7,000 (2007 nil) arising on income taxable in the subsequent accounting period

There is no unrecognised deferred tax asset (2007 nil) as a result of excess expenses

6 REVENUE RETURN FOR THE YEAR

The revenue return for the year dealt with in the accounts of the parent company was £598,000 (2007 £832,000)

7 RETURN PER ORDINARY SHARE

Total return per Ordinary share is based on the Group total return on ordinary activities after taxation of £(26,574,000) (2007 £19,647,000) and on 71,023,695 (2007 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 £671,000 (2007 £865,000) and on 71,023,695 (2007 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 losses for the year of £27,245,000 (2007 capital gains of £18,782,000) and on 71,023,695 (2007 71,023,695) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

8 DIVIDENDS ON EQUITY SHARES

Amounts recognised as distributions in the year

	Year ended 30th June 2008 £'000	Year ended 30th June 2007 £'000
Dividends paid for the year ended 30 June 2007 of 1 00p (2006 0 10p) per share	710	71
	710	71

The total dividend payable in respect of the financial year, which is the basis on which the requirement of Section 842 Income and Corporation Taxes Act 1988 are considered, is set out below

	Year ended 30th June 2008 £'000	Year ended 30th June 2007 £'000
Proposed Final dividend for the year ended 30 June 2008 of 0 73p (2007 1 00p) per share	518	710
	518	710
Revenue available for distribution by way of dividend	671	865

9 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 30th June 2008 £'000	Year ended 30th June 2007 £'000
GROUP AND COMPANY	85,568	118,168

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

9 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS CONTINUED

	30th June 2008		
	Listed* £'000	Unlisted £'000	Total £'000
ANALYSIS OF INVESTMENTS PORTFOLIO – GROUP AND COMPANY			
Opening book cost	68,249	3,098	71,347
Opening unrealised appreciation/(depreciation)	47,724	(903)	46,821
Opening valuation	115,973	2,195	118,168
Movement in period			
Purchases at cost	17,054	–	17,054
Sales			
– Proceeds	(22,451)	–	(22,451)
– Realised gains on sales	7,275	–	7,275
Increase in unrealised appreciation	(34,575)	97	(34,478)
Closing valuation	83,276	2,292	85,568
Closing book cost	70,127	3,098	73,225
Closing unrealised appreciation/(depreciation)	13,149	(806)	12,343
Closing valuation	83,276	2,292	85,568

* Listed investments include the unit trust and OEIC funds shown on pages 10 to 11 – schedule of investments

	Year ended 30th June 2008 £'000	Year ended 30th June 2007 £'000
ANALYSIS OF CAPITAL PROFITS		
Realised gains on sales	7,275	7,461
(Decrease)/increase in unrealised appreciation	(34,478)	10,971
	(27,203)	18,432

The purchases and sales proceeds figures above included transaction costs of £nil (2007 £nil)

10 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

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

11 OTHER RECEIVABLES

	30th June 2008 Group £'000	30th June 2008 Company £'000	30th June 2007 Group £'000	30th June 2007 Company £'000
Prepayments and accrued income	68	63	14	9
Due from brokers	–	–	1,160	1,160
Taxation	50	16	–	–
Forward currency purchases	–	–	218	–
Amounts owed by subsidiary undertakings	–	914	–	914
	118	993	1,392	2,083

12 CASH AND CASH EQUIVALENTS

	30th June 2008 Group £'000	30th June 2008 Company £'000	30th June 2007 Group £'000	30th June 2007 Company £'000
Cash at bank	11,834	10,156	4,883	3,655
	11,834	10,156	4,883	3,655

13 OTHER PAYABLES

	30th June 2008 Group £'000	30th June 2008 Company £'000	30th June 2007 Group £'000	30th June 2007 Company £'000
Bank overdraft	–	–	360	360
Accruals	350	350	175	175
Forward currency purchases	339	–	–	–
Corporation tax payable	–	–	153	–
Deferred tax payable	426	426	66	66
	1,115	776	754	601

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

14 CALLED UP SHARE CAPITAL

	30th June 2008 £'000	30th June 2007 £'000
Authorised		
305,000,000 (2007 305,000,000) Ordinary shares of £0 01 each	3,050	3,050
Issued and fully paid		
71,023,695 (2007 71,023,695) Ordinary shares of £0 01 each	710	710

15 RESERVES

	Share premium account £'000	Special reserve £'000	Retained Earnings £'000
GROUP			
At 30th June 2007	21,573	56,908	44,498
Decrease in unrealised appreciation	–	–	(34,478)
Net gains on realisation of investments	–	–	7,275
Unrealised gains on revaluations of bank accounts	–	–	204
Realised losses on foreign currency	–	–	(13)
Losses on forward currency purchases	–	–	(24)
Expenses charged to capital	–	–	(1)
Corporation tax charge in capital	–	–	33
Deferred tax charge in capital	–	–	(353)
Relief on taxable income in capital	–	–	112
Final dividend	–	–	(710)
Retained profit for year	–	–	671
At 30th June 2008	21,573	56,908	17,214

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

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15 RESERVES CONTINUED

	Share premium account £'000	Special reserve £'000	Retained earnings £'000
COMPANY			
At 30th June 2007	21,573	56,908	44,114
Decrease in unrealised appreciation	–	–	(34,478)
Net gains on realisation of investments	–	–	7,275
Unrealised gains on revaluations of bank accounts	–	–	159
Realised gains on foreign currency	–	–	34
Expenses charged to capital	–	–	(1)
Deferred tax charge in capital	–	–	112
Relief on taxable income in capital	–	–	(353)
Final dividend	–	–	(710)
Retained profit for year	–	–	598
At 30th June 2008	21,573	56,908	16,750

The components of retained earnings are set out below

	30th June 2008 £'000	30th June 2007 £'000
GROUP		
Capital reserve-realised	4,269	(3,318)
Capital reserve-unrealised	11,913	46,745
Revenue reserve	1,032	1,071
	17,214	44,498
COMPANY		
Capital reserve-realised	3,623	(3,444)
Capital reserve-unrealised	12,207	46,526
Revenue reserve	920	1,032
	16,750	44,114

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

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16 NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary share is calculated on net assets of £96,405,000 (2007 £123,689,000) and 71,023,695 (2007 71,023,695) Ordinary shares in issue at the year end

17 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 2008 £'000	30th June 2007 £'000
Proceeds on disposal of fair value through profit and loss investments	23,611	16,454
Purchases of fair value through profit and loss investments	(17,054)	(13,986)
	6,557	2,468

Analysis of changes in net cash balances

	30th June 2008 £'000	Cash flow £'000	30th June 2007 £'000
Cash at bank	4,883	6,951	11,834
Bank overdraft	(360)	360	–
	4,523	7,311	11,834

18 FINANCIAL INSTRUMENTS

The Group's investment objective is to achieve long term capital growth It invests in funds managed by New Star Asset Management, both long-only and hedge, in New Star Asset Management Group shares and in other retail funds and special situations In addition, the Group holds cash and short-term deposits and provides for debtors and creditors that arise directly from its operations The Group's assets are stated at fair value

For listed securities, these represent bid prices, or for unit trusts and OEICs, the closing bid 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 by the Directors at the balance sheet date based on recognised valuation methodologies, in accordance with International Private Equity and Venture Capital ('IPEVC') Valuation Guidelines such as dealing prices or third party valuations where available, net asset values and other information as appropriate

The holding of securities, investing activities and associated financing undertaken pursuant to this objective involve certain inherent risks Events may occur that would result in either

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

18 FINANCIAL INSTRUMENTS CONTINUED

a reduction in the Group's net assets or a reduction of potential revenue profits available for dividend As an investment trust, the Group invests in securities for the long term Accordingly it is, and has been throughout the year under review, the Group's policy that no short-term trading in investments or other financial instruments shall be undertaken

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

Note 18 (h) sets out a summary of the Group's financial assets and liabilities by category

(a) Market Risk

The fair value or future cash flows of a financial instrument held by the Group may fluctuate because of changes in market prices in funds managed by New Star Asset Management, in which the Group invests This market risk comprises three elements – currency risk (see note 18 (b)), interest rate risk (see note 18 (c)), and other price risk (see note 18 (d)) The Board reviews and agrees policies for managing these risks The Group's Investment Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis

(b) Currency Risk

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

Management of the risk

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

Foreign currency exposure

During the year under review, the Investment Manager entered into a forward currency contract within the subsidiary company, JIT Securities Limited In view of the Group'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 2007, the Group, through its subsidiary, sold approximately US$20 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 2008 the unrealised loss on this contract was £339,000 (2007 unrealised gain of £218,000)

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

18 FINANCIAL INSTRUMENTS CONTINUED

The fair values of the Group's monetary items that have foreign currency exposure at 30th June 2008 are shown below

	2008 US Dollars £'000	2008 Euros £'000	2008 Total £'000	2007 US Dollars £'000	2007 Euros £'000	2007 Total £'000
Investments at fair value through profit or loss	12,780	5,349	18,129	12,532	7,401	19,933
Debtors	–	–	–	–	–	–
Cash at bank and short-term deposits	–	2,957	2,957	(360)	10	(350)
Creditors	–	–	–	–	–	–
Total net foreign currency exposure	12,780	8,306	21,086	12,172	7,411	19,583

Foreign currency sensitivity

During the financial year sterling depreciated by 0 8% against the US Dollar (2007 appreciated by 8 5%) and depreciated by 15 0% against the EURO (2007 appreciated by 2 7%)

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

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

	2008 US Dollars £'000	2008 Euros £'000	2008 Total £'000	2007 US Dollars £'000	2007 Euros £'000	2007 Total £'000
If exchange rates appreciated by 10%	(1,162)	(755)	(1,917)	(1,107)	(674)	(1,781)
If exchange rates depreciated by 10%	1,420	923	2,343	1,353	823	2,176

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

(c) Interest Rate Risk

The Group will be affected by interest rate changes as it holds convertible loan stock assets The majority of the Group's investments are equity based and are not therefore subject to interest rate risk However interest rate changes will have an impact on the valuation of equities, although this forms part of other price risk, which is considered separately below

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

18 FINANCIAL INSTRUMENTS CONTINUED

(c) Interest Rate Risk continued

Management of the risk
The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions The Group currently has no gearing The Group, generally, does not hold significant cash balances, with short-term borrowings being used when required Cash balances are held on call deposit and earn interest at the bank's daily rate

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

Interest rate exposure
The exposure, at 30th June of financial assets and liabilities to interest rate risk is shown by reference to

- floating interest rates – when the rate is due to be re-set,
- fixed interest rates – when the financial instrument is due for repayment

	2008 In 1 year or less £'000	2008 Greater than one year £'000	2008 Total £'000	2007 In 1 year or less £'000	2007 Greater than one year £'000	2007 Total £'000
Exposure to floating interest rates						
Cash at bank	11,834	–	11,834	4,883	–	4,883
Bank overdraft	–	–	–	(360)	–	(360)
Total net foreign currency exposure	11,834	–	11,834	4,523	–	4,523

	2008 In 1 year or less £'000	2008 Greater than one year £'000	2008 Total £'000	2007 In 1 year or less £'000	2007 Greater than one year £'000	2007 Total £'000
Exposure to fixed interest rates						
Investments at fair value through profit and loss	–	458	458	–	–	–
	–	458	458	–	–	–
Total exposure to interest rates	11,834	458	12,292	4,523	–	4,523

The above year end amounts are not representative of the exposure to interest rates during the year, since the level of cash held during the year will be affected by the strategy being followed in response to the Board and Investment Manager's perception of the market prospects and the investment opportunities available at any particular time

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

18 FINANCIAL INSTRUMENTS CONTINUED

(c) Interest Rate Risk continued

Interest receivable and finance cash are at the following rates

- Interest received on cash balances, or paid on bank overdrafts is at a margin over LIBOR or its foreign currency equivalent (2007 same)
- The nominal and weighted average interest rate on Cordon Limited 12% Loan Notes is 12% (2007 nil)

Interest rate sensitivity
The following table illustrates the sensitivity of the profit after taxation for the year and equity to an increase or decrease of 50 (2007 50) basis points in interest rates in regard to the Group's monetary financial assets which are subject to interest rate risk

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

	Increase in rate 2008 £'000	Decrease in rate 2008 £'000	Increase in rate 2007 £'000	Decrease in rate 2007 £'000
Effect on revenue return and equity	59	(59)	23	(23)

(d) Other price risk

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

A Schedule of Twenty Largest Investments is given on page 10 Investments are valued in accordance with the Group's accounting policies Uncertainty arises as a result of future changes in valuations of the Group's investments, the market prices of the Group's listed equity investments and the effect changes in exchange rates may have on the sterling value of the investments

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

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

The unquoted investments are held at Directors' valuations All valuations are reviewed by the Investment Manager, the Group's Audit Committee and subsequently recommended to the Board for acceptance

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

18 FINANCIAL INSTRUMENTS CONTINUED

(d) Other price risk continued

Other price risk exposure

The Group's exposure to other changes in market prices at 30th June on its quoted investments was as follows

	2008 £'000	2007 £'000
Fixed asset quoted investments at fair value through profit or loss	83,276	115,973

The Group's exposure to other changes in prices at 30th June on its unquoted investments was as follows

	2008 £'000	2007 £'000
Fixed asset unquoted investments at fair value through profit or loss	2,292	2,195

A schedule of the Group's twenty largest investments may be found on page 10

Other price risk sensitivity

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

	Increase in fair value 2008 £'000	Decrease in fair value 2008 £'000	Increase in fair value 2007 £'000	Decrease in fair value 2007 £'000
Effect on revenue return	–	–	–	–
Effect on capital return	8,557	(8,557)	11,817	(11,817)
Effect on total return and on net assets	8,557	(8,557)	11,817	(11,817)

(e) Liquidity Risk

Liquidity risk is the possibility of failure of the Group to realise sufficient assets to meet its financial liabilities, including outstanding commitments associated with financial instruments The Group'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 form only 2 7% (2007 1 9%) of the investment portfolio

Management of the risk

The liquidity risk is managed by maintaining some cash or cash equivalent holdings in order to meet investment requirements as they fall due At the year end the Group had liquid resources of £97 4 million

This was made up of £11 8 million cash and money market instruments and £85 6 million of listed investments

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

18 FINANCIAL INSTRUMENTS CONTINUED

(e) Liquidity Risk continued

Liquidity risk exposure
A summary of the Group's financial liabilities is provided in note 18 (h) The Group has sufficient funds to meet these financial liabilities as they fall due

(f) Credit Risk

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

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

Credit risk exposure
The maximum exposure to credit risk at 30 June 2008 was £115,000 (2007 £1,389,000), comprising

	2008 £'000	2007 £'000
Balances due from brokers	–	1,160
Accrued income	65	11
Forward currency purchases	–	218
Tax recoverable	50	–
	115	1,389

All of the above financial assets are current, their fair values are considered to be the same as the values shown and the likelihood of a material credit default is considered to be low

(g) Fair Values of Financial Assets and Financial Liabilities

The Group's financial instruments are stated at their fair values at the year end The fair value of listed shares and securities is based on last traded market prices The fair value of unlisted shares and securities is based on Directors' valuations as detailed in note 1(f)

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

18 FINANCIAL INSTRUMENTS CONTINUED

(h) Summary of Financial Assets and Financial Liabilities by Category

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

	2008 £'000	2007 £'000
Financial Assets		
Financial assets at fair value through profit or loss		
Fixed asset investments - designated as such on initial recognition	85,568	118,168
Loans and receivables		
Current assets		
Debtors (due from brokers, dividends receivable, accrued income and other debtors)	68	1,174
Forward currency purchases	–	218
Tax recoverable	50	–
Cash and cash equivalents	11,834	4,883
	97,520	124,443
Financial Liabilities		
Measured at amortised cost		
Creditors amounts falling due within one year		
Bank overdraft	–	360
Creditors (due to brokers and deferred consideration)	426	66
Forward currency purchases	339	–
Other taxation payable	–	153
Accruals	350	175
	1,115	754

(i) Capital Management

The Group and the Company's capital is as disclosed in the Balance Sheets and is managed on a basis consistent with its investment objective and policies, as disclosed in the Report of the Directors on page 13 The principal risks and their management are disclosed above

19 CONTINGENT ASSET

In November 2007 HM Revenue & Customs ('HMRC') declared its acceptance that fund management services to investment trusts are exempt from VAT From that time the Group has ceased to be charged VAT on management fees The Manager has confirmed that it has lodged claims with HMRC to recover VAT paid from January 2001

NOTES TO THE ACCOUNTS

for the year ended 30th June 2008

continued

19 CONTINGENT ASSET CONTINUED

There are still uncertainties surrounding both the quantum and timing of the potential repayment Until these uncertainties are resolved there will be no recognition of an asset in the accounts However, the Group currently estimates that it may in due course recover approximately £140,000 in respect of claims submitted by the Manager for the period from 2001

20 RELATED PARTIES

During the year Mr Duffield was Chairman and 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 Group'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 Jupiter managed investments and any New Star managed investments (as defined in the Management Agreement) Either party may terminate the appointment of the Investment Manager by giving not less than three months' written notice to expire on the last day of any calendar month

The total management fee payable for the year ended 30th June 2008 amounted to £263,000 (2007 £265,000) of which £147,000 (2007 £70,000) was outstanding at the year end

With effect from 1st September 2008, the Manager will also be entitled to a performance fee of 15% of the growth in net assets over a hurdle of 3 month Sterling LIBOR plus 1% per annum, payable six monthly in arrears, subject to a high water mark The aggregate of the Company's management fee and performance fee are subject to a cap of 4 99% of net assets in any financial year (with any performance fee in excess of this cap capable of being earned in subsequent periods) The performance fee will be charged 100% to capital, in accordance with the Board's long term expectation of how any outperformance will be generated

The Group's investments include funds managed by subsidiaries of New Star Asset Management Group PLC