

**NEW STAR ASSET MANAGEMENT  
LIMITED**

Annual Report and Financial Statements  
For the year ended 31 December 2005

Registered Number 3984658



# NEW STAR ASSET MANAGEMENT LIMITED

## CONTENTS

	<u>Page</u>
Directors' Report	2
Statement of Directors' Responsibilities	5
Independent Auditor's Report	6
Profit and Loss Account	8
Balance Sheet	9
Notes to the Financial Statements	10

## **NEW STAR ASSET MANAGEMENT LIMITED**

### **DIRECTORS' REPORT for the year ended 31 December 2005**

The directors present herewith the annual report and financial statements for the year ended 31 December 2005.

### **BUSINESS ACTIVITIES**

The principal activity of the Company is to provide investment management and advisory services.

### **REGULATION**

The Company is authorised and regulated by the Financial Services Authority (FSA) in the United Kingdom and registered with the Irish Financial Services Regulatory Authority.

### **RESULTS AND DIVIDENDS**

The profit and loss account for the year is set out on page 8.

The profit for the year attributable to shareholders amounted to £2,768,000 (2004: loss £48,000). The Company has not paid any dividends and does not propose any dividends.

### **DIRECTORS AND DIRECTORS' INTERESTS IN SHARES**

The current directors and the directors of the Company who served during the year were:

*JL Duffield (Chairman)	GR Logan
R Anand	AJR Miller
*MRL Astor	J C Mould – Appointed 22 March 2006
M S Beale	*RP Pease
SGF Burgess	PJ Roantree – Appointed 6 June 2005
PA Butt	*RFJH Ruvigny
*HJ Covington	*MG Smith
GCD de Blonay – Appointed 6 June 2005	FK Smith
R J Dossett – Appointed 18 May 2005	GT Steer
PR Evershed	TRK Thompson
JEJ Gledhill	C C Tritton
MJ Groves	S Whittaker
JPB Jay	TM Zemek

All directors denoted with a \*, who held office on 31 December 2005, were directors of the ultimate holding Company, New Star Asset Management Group PLC, and their interests in the share capital of New Star Asset Management Group PLC are as disclosed in that Company's financial statements.

No director has an interest in the shares of the Company.

# NEW STAR ASSET MANAGEMENT LIMITED

## DIRECTORS' REPORT for the year ended 31 December 2005

### DIRECTORS AND DIRECTORS' INTERESTS IN SHARES continued

The following directors were also beneficially interested in the Shares of New Star Asset Management Group PLC at 31 December 2005:

	<b>'A'</b> Ordinary Shares	<b>'B'</b> Redeemable Shares	<b>'D'</b> Ordinary Shares	<b>'I'</b> Ordinary Shares	<b>TOTAL</b>	<b>Ordinary Shares</b>
	<b>1 Jan 2005</b>	<b>1 Jan 2005</b>	<b>1 Jan 2005</b>	<b>1 Jan 2005</b>	<b>1 Jan 2005</b>	<b>31 Dec 2005</b>
R Anand				29,500	29,500	2,950,000
M Beale	10,500	10,500	9,040		30,040	1,808,000
SGF Burgess	10,000				10,000	1,000,000
PA Butt	45,000				45,000	3,800,000
GCD De Blonay*			523	2,000	2,523	254,600
RJ Dossett*			11,000		11,000	1,100,000
PR Evershed			6,267	4,000	10,267	790,050
JEJ Gledhill			12,016	2,500	14,516	1,503,200
MJ Groves	1,100		1,045	900	3,045	309,000
JPB Jay	10,000				10,000	850,000
GR Logan			12,527		12,527	1,305,400
AJR Miller	200,000				200,000	18,750,000
PJ Roantree*			6,267		6,267	1,026,700
FK Smith	1,100		1,045	900	3,045	309,000
GT Steer	27,000				27,000	2,250,000
TRK Thompson			10,444	22,000	32,444	3,288,800
C C Tritton			15,792	4,000	19,792	1,979,200
S Whittaker			10,453	10,000	20,453	2,090,600
TM Zemek			12,016	2,500	14,516	1,363,200
<b>TOTAL</b>	<u><b>304,700</b></u>	<u><b>10,500</b></u>	<u><b>108,435</b></u>	<u><b>78,300</b></u>	<u><b>501,935</b></u>	<u><b>46,727,750</b></u>

\* or date of appointment if later

CC Tritton has options over 400,000 ordinary shares at a price of 190p. The options are exercisable in the period November 2009 to November 2015.

PA Butt has entered into agreements under which an EBT has options to acquire in aggregate 1,687,500 of the ordinary shares held by him at a price of 110p per share. These options are exercisable at any time up to and including 31 December 2007.

AJR Miller has entered into agreements under which an EBT has options to acquire in aggregate 7,500,000 of the ordinary shares held by him at a price of 80p per share. These options are exercisable at any time up to and including 31 December 2006.

Prior to 3 November 2005, New Star Asset Management Holdings Limited (originally named New Star Asset Management Group Limited) was the holding company of the Group. On that day New Star Asset Management Holdings Limited became a wholly owned subsidiary of New Star Asset Management Group PLC pursuant to a Scheme of Arrangement made under section 425 of the Companies Act 1985 and which was approved by Court Order made on 31 October 2005.

## **NEW STAR ASSET MANAGEMENT LIMITED**

### **DIRECTORS' REPORT for the year ended 31 December 2005**

#### **DIRECTORS AND DIRECTORS' INTERESTS IN SHARES**

As part of this Scheme of Arrangement in consideration of the cancellation of New Star Asset Management Holdings Limited shares, shareholders were allotted 100 ordinary shares for every original share so cancelled, other than holders of deferred shares who received £0.01 in cash for all of the deferred shares held by them.

Full details of the shares are given in the Parent Company's financial statements.

The 'B' shares were acquired by the EBT for their original subscription price on 28 January 2005.

#### **FIXED ASSETS**

The Company has no fixed assets.

#### **DIRECTORS AND OFFICERS' INSURANCE**

The Group maintains insurance for the directors of the Company in respect of their duties as directors.

#### **CHARITABLE CONTRIBUTIONS**

During the period the Company made charitable contributions of £468 (2005:£500).

#### **AUDITORS**

A resolution to reappoint KPMG Audit Plc as the Company's auditor will be proposed at the annual general meeting.

#### **BY ORDER OF THE BOARD**

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke extending to the right.

New Star Administration Services Limited  
Secretary

30 March 2006

## **NEW STAR ASSET MANAGEMENT LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

## **NEW STAR ASSET MANAGEMENT LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW STAR ASSET MANAGEMENT LIMITED**

We have audited the financial statements of New Star Asset Management Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditor's 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**

As described in the Statement of Directors' Responsibilities on page 5, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **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. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

**NEW STAR ASSET MANAGEMENT LIMITED**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW STAR ASSET  
MANAGEMENT LIMITED**

**Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
London

30 March 2006



# NEW STAR ASSET MANAGEMENT LIMITED

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Turnover	2	21,844	13,970
Operating Expenses		<u>(18,542)</u>	<u>(14,813)</u>
Operating Profit/ (Loss)		3,302	(843)
Bank interest receivable		130	97
Other income		<u>540</u>	<u>590</u>
Profit / (Loss) on Ordinary Activities before Taxation	3	3,972	(156)
Taxation	4	(1,204)	108
Profit / (Loss) on Ordinary Activities after Taxation		<u>2,768</u>	<u>(48)</u>
Dividends paid		<u>-</u>	<u>-</u>
Retained Profit / (Loss) for the year		2,768	(48)
Retained Profit at the beginning of the year		<u>355</u>	<u>403</u>
Retained Profit at the end of the year		<u>3,123</u>	<u>355</u>

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents and there were no recognised gains and losses other than those included above.

The entire profit on ordinary activities is attributable to continuing operations.

The notes on pages 10 to 15 form part of these financial statements.

**NEW STAR ASSET MANAGEMENT LIMITED****BALANCE SHEET at 31 December 2005**

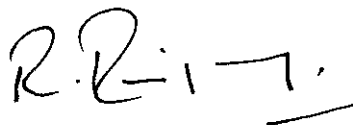
	Notes	2005 £'000	2004 £'000
<b>Current Assets</b>			
Debtors	7	6,736	6,113
Cash and short term deposits		<u>5,253</u>	<u>1,233</u>
		11,989	7,346
<b>Creditors: Amounts falling due within one year</b>	8	<u>(5,366)</u>	<u>(3,291)</u>
<b>Net Current Assets</b>		6,623	4,055
<b>Creditors: Amounts falling due after one year</b>	9	<u>(1,000)</u>	<u>(1,200)</u>
		—	—
<b>Net Assets</b>		<u>5,623</u>	<u>2,855</u>
<b>Capital and Reserves</b>			
Called up share capital	10	2,500	2,000
Share premium	10	-	500
Profit and loss account		3,123	355
<b>Equity Shareholders' Funds</b>	11	<u>5,623</u>	<u>2,855</u>

Approved by the Board on 30 March 2006 and signed on its behalf by:-

HJ COVINGTON (Chief Executive)



RFJH RUVIGNY (Finance Director)



The notes on pages 10 to 15 form part of these financial statements

## **NEW STAR ASSET MANAGEMENT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005**

#### **1 PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards. A summary of the more important accounting policies, which have been applied consistently, is set out below.

**(a) Accounting convention**

The financial statements have been prepared in accordance with the historical cost convention.

**(b) Income**

Management and advisory fees are recognised on an accruals basis net of any commissions payable. Performance fees are recognised at the end of the period they relate to, when they can be determined with certainty.

**(c) Taxation**

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. In accordance with FRS 19 a deferred tax asset is only recognised when there is good evidence that it is more likely than not that the asset will be recoverable against suitable taxable profits from which the underlying timing differences can be deducted.

**(d) Pension scheme arrangements**

The Parent Company has established a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with contractual terms. Details of the scheme are given in the Group's financial statements.

**(e) Foreign currencies**

Transactions denominated in foreign currencies arising during the accounting period are translated into sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date all monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at that date. All exchange gains or losses are taken to the profit and loss account in the period in which they arise.

**(f) Cash flow statement**

The Company is a wholly owned subsidiary of New Star Asset Management Group PLC and the cash flows of the Company are included in the consolidated cash flow statement of that Company. Consequently the Company is exempt under the terms of Financial Reporting Standard No.1 from publishing a cash flow statement.

## **NEW STAR ASSET MANAGEMENT LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **2 TURNOVER**

Turnover comprises net management and gross performance fees earned in respect of investment management and advisory services provided to clients, exclusive of VAT. All turnover is derived from operations in the United Kingdom, however, it is received from clients based in the following geographical locations: -

<b>GEOGRAPHICAL BREAKDOWN</b>	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	7,564	6,975
Bermuda	11,924	6,012
Europe	2,356	983
	<u>21,844</u>	<u>13,970</u>

In the opinion of the directors the Company has one business segment.

#### **3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

The profit on ordinary activities before taxation is stated after charging the following:

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Management Charge	155	-
Auditors' remuneration		
Audit fees	36	39
Other	<u>3</u>	<u>-</u>
	<u>194</u>	<u>39</u>

# NEW STAR ASSET MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 4 TAXATION

<b>Current tax reconciliation</b>	<b>2005 £'000</b>	<b>2004 £'000</b>
(a) Analysis of charge in the year		
United Kingdom Corporation tax	1,204	-
Deferred tax credit	<u>-</u>	<u>(108)</u>
	1,204	(108)
 (b) Factors affecting the tax charge for the year		
Profit/(loss) on ordinary activities before tax	<u>3,972</u>	<u>(156)</u>
 United Kingdom corporation tax at 30% (2004 30%) based on profit/(loss) for the financial year	1,192	(47)
Effects of:		
Expenses not deductible for tax purposes	12	14
Utilisation of tax losses	(108)	-
Deferred tax asset	108	(108)
Carried forward losses	<u>-</u>	<u>33</u>
 Tax charge/(credit) for the year	<u>1,204</u>	<u>(108)</u>

At the end of 2005 the Company had no unutilised tax losses.

### 5 EMPLOYEES

Personnel costs for the year (including directors)

	<b>2005 £'000</b>	<b>2004 £'000</b>
Wages and salaries	6,356	5,468
Performance fees	4,389	1,890
Social security	807	653
Social security on performance fees	562	242
Pension costs	<u>862</u>	<u>911</u>
	<u>12,976</u>	<u>9,164</u>

# NEW STAR ASSET MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 5. EMPLOYEES continued

The average number of persons employed by the Company during the year was as follows:

	2005	2004
Investment professionals	41	36
Sales, marketing and administration staff	<u>38</u>	<u>31</u>
	<u>79</u>	<u>67</u>

### 6 DIRECTORS' EMOLUMENTS

	2005 £'000	2004 £'000
Emoluments and benefits	3,461	2,964
Performance fees	3,109	1,738
Defined contribution pension scheme	<u>486</u>	<u>441</u>
	<u>7,056</u>	<u>5,143</u>
Highest paid director		
Emoluments and benefits	189	181
Performance fee bonus	1,178	1,206
Defined contribution pension scheme	<u>28</u>	<u>27</u>
	<u>1,395</u>	<u>1,414</u>

All directors' retirement benefits are accruing under defined contribution schemes.

### 7 DEBTORS

	2005 £'000	2004 £'000
Trade debtors	41	39
Amounts due from fellow group companies	1,723	1,790
Deferred tax asset	-	108
Other debtors	424	65
Prepayments and accrued income	<u>4,548</u>	<u>4,111</u>
	<u>6,736</u>	<u>6,113</u>

# NEW STAR ASSET MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### 8 CREDITORS (amounts falling due within one year)

	2005 £'000	2004 £'000
Trade creditors	-	74
Taxation and social security	309	225
Amounts due to fellow group companies	1,399	314
Accruals and deferred income	476	391
Other creditors	<u>3,182</u>	<u>2,287</u>
	<u>5,366</u>	<u>3,291</u>

### 9 CREDITORS (amounts falling due after one year)

	2005 £'000	2004 £'000
Subordinated loan	<u>1,000</u>	<u>1,200</u>

The Subordinated loan was made by New Star Asset Management Holdings Limited to the Company. £200,000 has been transferred to creditors due within one year. £500,000 is repayable in 2007 and 2008 providing there is adequate regulatory capital in the Company. No interest is payable.

### 10 CALLED UP SHARE CAPITAL AND SHARE PREMIUM

	2005 £'000	2004 £'000
Authorised 2,500,000 Ordinary shares of £1 each	<u>2,500</u>	<u>2,000</u>
Allotted, called up and issued: 2,500,000 Ordinary shares of £1 each	<u>2,500</u>	<u>2,000</u>
Share premium	<u>-</u>	<u>500</u>

On the 18 March 2005 the company made a bonus issue of 500,000 £1 ordinary shares in the capital of the company. The terms of the bonus issue was one new share for every four shares held.

## NEW STAR ASSET MANAGEMENT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 11 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £'000	Share Premium £'000	Profit / (Loss) £'000	Total £'000
Opening equity shareholder' funds	2,000	500	355	2,855
Shares issued	500	-	-	500
Bonus issue of ordinary shares	-	(500)	-	(500)
Profit for financial year	-	-	2,768	2,768
Closing equity shareholders' funds	<u>2,500</u>	<u>-</u>	<u>3,123</u>	<u>5,623</u>

#### 12 ULTIMATE HOLDING AND CONTROLLING COMPANY

The Company's ultimate and immediate holding Company is New Star Asset Management Group PLC, a Company incorporated in Great Britain and registered in England and Wales. New Star Asset Management Group PLC is the only Company in the Group to prepare consolidated financial statements. Group financial statements are available from Companies House or the secretary at 1 Knightsbridge Green, London SW1X 7NE.

#### 13 RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemption, permitted by Financial Reporting Standards No. 8, not to disclose transactions with the New Star Asset Management Group of Companies.

There are no other material related party transactions.