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New Star Asset Management Group PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

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9.10.08

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2007 HIGHLIGHTS

- Net revenue – £173.3 million – increased by 29%;
- Operating earnings – £98.1 million – increased by 36%;
- Operating earnings per share – 39.5p – increased by 60%;
- Funds under management – £23.1 billion – increased by £2 billion;
- Profit before taxation – £62.8 million – an increase of £12.8 million;
- Earnings per share – 18.7p increased from 13.5p.

FIVE-YEAR FINANCIAL HIGHLIGHTS

	UK GAAP			IFRS	
AT 31 DECEMBER	**2003**	**2004**	**2005**	**2006**	**2007**
ASSETS UNDER MANAGEMENT AT YEAR END	£5.9bn	£10.7bn	£16.8bn	£21.1bn	£23.1bn
GROWTH IN FUNDS UNDER MANAGEMENT	213%	84%	57%	26%	9%
FTSE ALL-SHARE MARKET PERFORMANCE	21%	13%	22%	17%	4%

	UK GAAP			IFRS	
YEAR ENDED 31 DECEMBER	**2003**	**2004**	**2005**	**2006**	**2007**
NET REVENUE	£45.9m	£69.2m	£95.1m	£133.9m	£173.3m
OPERATING EARNINGS* (earnings before taxation, interest, exceptional items and amortisation of intangibles)	£10.6m	£25.4m	£43.6m	£72.0m	£98.1m
PROFIT/(LOSS) BEFORE TAXATION	(£13.2m)	(£7.3m)	£16.8m	£50.0m	£62.8m
OPERATING EARNINGS* PER SHARE	4.76p	8.57p	14.48p	24.71p	39.51p
BASIC EARNINGS/(LOSS) PER SHARE	(5.93p)	(1.94p)	5.02p	13.54p	18.72p
DIVIDENDS PAID (per share)	–	–	–	4.00p	9.00p

For the years ended 31 December 2005, 2006 and 2007, the Group Financial Statements were prepared under IFRS. For the years ended 31 December 2003 and 2004, the Group Financial Statements were prepared under UK GAAP. The five year historical summaries are not directly comparable.

* *In the opinion of the directors the operating earnings (profit before taxation, interest, exceptional items and amortisation of intangibles) more accurately reflects the underlying profitability of the Group and its ongoing activities.*

COMPANY INFORMATION

EXECUTIVE DIRECTORS
J L Duffield *(Chairman)*
H J Covington *(Chief Executive)*
R F J H Ruvigny *(Finance Director)*
M R L Astor
J P B Jay
R P Pease
D M H Skinner

NON-EXECUTIVE DIRECTORS
J E Craig CBE
D J Gamble
M G Smith

COMPANY SECRETARY AND REGISTERED OFFICE
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Company No: 06047952

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AUDITORS
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PRINCIPAL BANKERS
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SOLICITORS
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REGISTRARS
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The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

CHAIRMAN'S STATEMENT

2007 was a year of significant growth for New Star Asset Management. During the second half of the year, however, trading conditions became increasingly challenging. Our net revenue during the 12 months to 31 December 2007 rose 29% to £173.3 million while our operating earnings before tax, interest, exceptional items and amortisation of intangible assets rose 36% to £98.1 million. Over the year, our total funds under management rose 9% to £23.1 billion.

Most of New Star's businesses expanded their assets under management, with the most significant fund inflows occurring within our UK retail funds operations. Our European mutual funds and some UK mutual funds were, however, poorly positioned for the stockmarket impact of the credit squeeze and high commodity prices in the second half of 2007. This affected performance and fund flows. In addition, we suffered from the UK commercial property market downturn, which affected the performance and fund flows within our UK property fund. Our US institutional fund managers generated returns significantly ahead of their benchmark. A number of our specialist funds, including our award-winning funds of funds, and our hedge fund products performed well.

UK RETAIL FUNDS

While there were relative performance issues within some funds, 2007 was a year of achievement across much of our retail business, reflected in the ratings and awards for our funds, our fund managers and the group as a whole. At the end of 2007, 21 of our UK retail funds were rated 'A' or better by one or both of the leading independent rating agencies, Standard & Poor's and OBSR. During the year, our funds were also named as winners in awards ceremonies organised by Lipper, Standard & Poor's and Citywire and well-respected publications such as Professional Adviser, Investment Week and Global Investor Magazine.

The achievements of our fund of funds team, in particular, resulted in us being named Best Multi-Manager Group in Professional Adviser's Multi-Manager Awards for 2007 and 2008 while Global Investor Magazine named the company as the Asset Management Firm of the Year for 2007. In Citywire's All Stars Awards for 2007, we were placed second overall and were named as winner in the UK Equity Income and Cautious Managed sectors. Further details of our awards are given within the Operating and Financial Review.

During the year, we took further steps to broaden our product offering, which now spans a diverse range of asset classes from mainstream UK and overseas equities, fixed income and commercial property, both domestic and international, through to funds of funds and more specialist areas such as financials, technology and emerging markets. We also maintained our investment in sales, marketing and client service, building our brand awareness among investors and financial intermediaries, enhancing our distribution capabilities and focusing on efficient client service.

As a result of the efforts of our sales and marketing staff, gross retail sales within the UK retail business grew by 31% to £3.8 billion. Net retail sales declined 21% to £1.4 billion principally as a result of more challenging market conditions in the second half and in particular outflows from our UK commercial property fund. Over 2007 as a whole, our share of net retail sales in the UK was 14.1%, a percentage that we believe placed us in the top two fund providers during 2007 as measured by net retail sales.

The sales highlight of 2007 was the launch of the New Star International Property Fund as a complementary fund to the New Star UK Property Unit Trust. The first of its kind to offer retail investors access to international direct bricks and mortar commercial property investment, the fund was the UK's biggest-selling fund of 2007 as measured by net retail sales according to the Investment Management Association. This is the second year in a row that the IMA has named a New Star fund as the UK's biggest selling fund by net retail sales.

While the International Property Fund contributed the most to fund inflows, we maintained our record in offering innovative specialist funds alongside more mainstream products through the launch in October of the New Star Heart of Africa Fund. The fund, designed to offer sophisticated investors access to sub-Saharan Africa excluding South Africa, raised £34 million during its three-week offer period and by 18 March 2008 sales had totalled £52 million. During the course of the year, there were also significant net inflows into our income products, including bond funds, our European funds, our fund of funds and our specialist equity growth funds.

CHAIRMAN'S STATEMENT

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INTERNATIONAL RETAIL FUNDS

2007 was a difficult year for our international retail sales business, where we have made a long-term investment in building up sales, marketing and administration resources in Continental Europe and selectively in Asia, selling mainly through "open architecture" banks and insurers. While the gross retail sales of our Dublin-domiciled funds were strong at £1.4 billion, redemptions were higher as investors responded to turbulent market conditions and underperformance within some of our funds, with the result that these funds suffered a net outflow of £96 million over the year.

INSTITUTIONAL, ALTERNATIVE FUNDS AND PRIVATE CLIENTS

In the institutional marketplace, New Star Institutional Managers made further progress in 2007. Our North American institutional business has spent the last two years focusing on meeting existing clients' needs and building its team of fund managers. The results of this measured approach came through in performance, with the team's core Europe, Australasia and the Far East (EAFE) mandates comfortably beating the MSCI EAFE Total Return Index and achieving returns that placed us in the top quartile relative to the peer group. In the UK, our focus on developing relationships with leading investment consultants led to us being awarded a number of specialist UK equity mandates. Towards the year end, we broadened our marketing approach, offering institutions access to our growing expertise in international direct property investment and in emerging markets equity mandates.

Within our alternative investments business, which includes our leveraged Global Property Fund, assets grew 33% to £1.6 billion. We continued to recruit long-short equity fund managers and launched new long-short strategies in areas such as pan-European equities, real estate securities and technology. In addition, we made secondary issues of shares in our closed-end fund that tracks the RBC Hedge 250 Index, the most representative global index of hedge fund performance.

Assets under management in our private client business grew 6% to £321 million. In difficult market conditions, existing and new clients drew comfort from our focus on absolute returns and capital preservation.

RETURN OF CAPITAL AND RECONSTRUCTION

During 2007, New Star graduated from the Alternative Investment Market (AIM) of the London Stock Exchange to a Full Listing in line with the commitment made at the time of our AIM admission in 2005. We also returned £364 million of capital to our shareholders by way of a capital reduction, with shareholders receiving four new shares and 625p in cash for every five old shares. As a result, our net indebtedness was £270 million at 30 June 2007. At 31 December 2007, cashflow had enabled us to reduce our net debt to £246 million.

NEW INCENTIVE SCHEME

Long-term incentives are at the heart of our culture because we believe that such incentives are critical in building and developing a fund management business. Almost all our staff are shareholders or option holders. This means their interests are aligned with those of our clients and our public shareholders.

To maintain this culture, we plan to introduce a new employee incentive scheme. This is primarily intended to replace the lock-in provisions that apply to existing shares and options owned by our employees and expire in August 2009.

Historically New Star has not paid cash bonuses to its employees. The new incentive scheme will consist of cash bonuses for the majority of employees together with participation in a long-term share incentive plan (LTIP) for approximately 35 of the Group's most senior employees. The new LTIP is not expected to mature until December 2012 at the earliest. Awards from the LTIP will be earned primarily through the satisfaction of investment performance, sales and profit targets. We are well advanced in preparing the scheme and expect to put proposals to shareholders during the current half year.

CHAIRMAN'S STATEMENT

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CURRENT TRADING

As we forecast at the time of our pre-close trading statement in January, New Star has had a difficult start to 2008, with our sales momentum affected adversely by depressed investment market conditions and the poor relative investment performance of some of our principal products.

In January, we anticipated net outflows of assets during the first half of the current financial year and this has been confirmed by our experience during the first 11 weeks. Redemptions have continued from our international mutual funds and we have also experienced redemptions from our UK mutual funds as UK retail investors have sought to reduce their exposure to mutual fund products as a result of concerns about the longer-term consequences of the credit crunch. This is in line with general net redemptions across the industry.

Assets under management at 18 March were £20.3 billion compared with £23.1 billion at 31 December 2007. Within this total, UK mutual fund assets were £9.5 billion, down from £10.6 billion after net outflows of £0.3 billion, and international mutual fund assets were £0.6 billion, down from £1 billion after net outflows of £0.3 billion.

While the trading environment remains challenging, there are early signs that at least conditions are no longer deteriorating.

The UK commercial property market, whose difficulties during the second half of 2007 affected our business significantly, has started the year with a healthier tone at the prime end, where our UK Property fund specialises. Buyers have returned to the property investment market and the value of the properties in this fund's portfolio has not changed significantly this year. Although still experiencing modest net redemptions, the fund is highly liquid and well-positioned to benefit from any upturn in the UK commercial property market. Our International Property Fund has attracted strong investor interest since its inception and continues to sell well.

In equities, while outflows from our European equity funds continue, the investment performance of our principal fund, European Growth, has improved. We are recruiting some additional fund managers to broaden and strengthen our UK team, where the investment performance of some of our UK funds remains unsatisfactory. In other parts of our business, such as our specialist mutual funds, our fund of funds business, our North American institutional arm and our hedge funds, we continue to make healthy progress overall.

In the face of the more challenging environment we have taken measures to keep our costs under firm control with the aim of protecting our profitability as far as possible. A number of cost-saving initiatives have already been taken and we will see the benefit of these and other measures during the second half of 2008 and during 2009. As we signalled in January, we intend to use our cashflow principally to reduce further the debt we incurred to fund last summer's capital repayment to shareholders.

We continue to expect, in line with our January trading statement, that operating profits will be significantly lower in 2008 than in 2007.

DIVIDENDS

In response to these market conditions and in the interests of maintaining our financial position, the board believes it is prudent to reduce the 2007 dividend from the level of 9p per share forecast in April 2007. As we announced in January, the board is, therefore, recommending to shareholders a final dividend of 1p per share in respect of the year ended 31 December 2007, leaving the total dividend in respect of the year at 5p per share.

CHAIRMAN'S STATEMENT

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PROSPECTS

The second half of 2007 and the start of 2008, have been the most difficult period for New Star since we began trading in 2001 and we expect 2008 as a whole to be a year of consolidation for our business.

Our company has entered this more challenging environment with a diversified mix of funds covering a broad range of asset classes and a wide range of retail, high net worth individual and institutional clients, both in the UK and overseas.

In this difficult environment, we will maintain our product development drive, both in the UK and in international markets, so that we continue to offer our clients investment products tailored to the needs of today's retail and institutional investors.

We remain confident that through a combination of investment performance, marketing and service we can return over the medium term to generating significant value for shareholders in our company.

BOARD APPOINTMENT

We are delighted to announce that John Tiner has agreed to join the Board as a non-executive director.

John Tiner retired as chief executive of the Financial Services Authority (FSA) in July 2007 having held the position since September 2003. He joined the FSA in June 2001 as managing director – consumer, insurance and investment business. Prior to joining the FSA, he was a managing partner at Andersen responsible for the worldwide financial services practice. He joined Andersen in 1976, where his clients were in the banking, capital markets and fund management industries. He is 51 years old and a chartered accountant. John is a member of the global advisory board of the Oxford University Centre for Corporate Reputation.

His extensive experience of the financial services industry will bring welcome additional strength to our Board.

CONCLUSION

Our various teams have responded effectively to the more volatile and uncertain environment prevailing in recent months and to the problems we have faced. I would, therefore, like to pay tribute to the dedication and efforts of our staff and thank them all on behalf of our shareholders.

J L Duffield
19 March 2008

OPERATING AND FINANCIAL REVIEW

FINANCIAL RESULTS

New Star's operating earnings (profit before taxation, interest, exceptional items and amortisation of intangibles) were £98.1 million in 2007 compared to £72.0 million in 2006, an increase of 36%. In last year's operating and financial review, we said the full impact on our revenue of the significant growth in assets in the second half of 2006 would be seen in our 2007 results. This proved to be the case. Strong organic growth, mainly from sales in the first half of 2007, combined with the annualisation impact of the 2006 growth in assets, led to a 29% increase in revenue. Investments were made in people, the product range and systems, resulting in a 21% increase in costs. Revenue increased at a higher rate than costs. As a result, operating earnings increased by 36% and the operating margin increased from 54% to 57%.

Assets under management rose 9% from £21.1 billion to £23.1 billion. UK retail assets under management rose 9% from £9.7 billion to £10.6 billion, institutional assets rose by 8% to £8.7 billion, international retail assets fell by 8% to £1.0 billion while alternative assets and other assets increased by 33% and 12% respectively.

Net revenue increased in all major business areas, rising from £133.9 million to £173.3 million. Net revenue from retail products increased by £31.6 million to £115.7 million, reflecting strong sales of UK and international funds mainly in the first half of the year. Institutional net revenue increased by £2.9 million to £23.7 million. Alternative investment revenue increased from £24.8 million to £26.9 million.

Net performance fees for the year remained constant at £12.4 million. At the year end, New Star had 26 different funds or accounts with different strategies on which performance fees are capable of being earned. The diversity of strategies on which performance fees are capable of being earned has demonstrated the increasing quality of the Group's performance fees.

Operating expenses before amortisation increased by 21% to £75.2 million. The Group's largest costs remain employee-related costs, which represented 51% of total costs. Direct employee costs increased by 26%, in line with the increase in average staff numbers. We continued to invest in our people, both in new fund managers and support staff. At the end of 2007, we decided to start paying some small bonuses to ensure that key staff were appropriately incentivised. Non-staff costs increased by £5.1 million or 16%, reflecting the investment in our systems and infrastructure and the renting of additional space.

The £2.4 million exceptional item represents costs incurred in connection with the June capital reorganisation and the cost of obtaining a Full Listing on the London Stock Exchange.

Following taking on £300 million of debt in the middle of June 2007, the Group had net interest payable of £9.6 million. The Group generated operating cash of £97 million during the year. This was used to fund the

OPERATING AND FINANCIAL REVIEW

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capital repayment to shareholders, to repay some of the debt taken out in June and to make two dividend payments totalling £23.1 million.

The tax charge at 17% of operating earnings reflects the allowability of interest payable and the amortisation of intangible assets together with increased overseas earnings. At the end of the year, the Group had approximately £30 million of intangible assets to be utilised against future operating earnings. As a result of this and overseas earnings, the Group will continue in 2008 to have a tax charge below the UK corporate rate of 28%.

Operating earnings per ordinary share increased by 60% from 24.71p per share to 39.51p per share. The operating earnings per share calculation has been arrived at before taxation, interest, exceptional items and amortisation of intangible assets. We have adopted this measure because we believe it reflects our underlying profitability. After taxation, interest, exceptional items and amortisation of intangible assets, the earnings per share were 18.72p compared with 13.54p in 2006. The capital repayment and four-for-five share reorganisation has been treated as part of a business combination using the weighted average number of shares in issue for the year.

The Group's balance sheet shows negative net assets of £211 million. This negative position arose as a result of the capital repayment to shareholders in June and the decision to use reverse acquisition accounting principles. Under this method of accounting, goodwill and intangible assets are not recognised on the balance sheet. If they had been, at the end of December the Group would have had significant net assets.

KEY PERFORMANCE INDICATORS

The Group's key performance indicators are the growth in operating earnings and operating earnings per share. These can be summarised as follows:

	2005	**2006**	**2007**
Operating earnings (£'million)	43.6	72.0	98.1
Operating earnings per share (pence)	14.48	24.71	39.51

The key financial indicators that are important in achieving the operating earnings are the level and mix of assets under management, net sales of investment products, the retained management fee margin by product area, including performance fees, and the overall operating profit margin. These are covered in more detail in the rest of the operating and financial review.

Over the medium and longer term, investment performance is the most important factor in keeping existing business and delivering new business. Key information on performance is provided in each business unit sector review.

INVESTMENT REPORT

Global economic growth slowed during 2007, with the slowdown intensifying as the year progressed. Consensus Economics estimates world economic growth during 2007 at 3.7%, down from 4.0% in 2006, while United Nations figures calculated on a purchasing power parity basis show growth at 5.3%, down from 5.4% the previous year.

China, once again, generated the fastest economic growth among the major economies at 11.4% according to International Monetary Fund (IMF) estimates. This was the country's fifth successive year of double-digit expansion. Emerging Asia as a whole grew at 9.6%, according to the IMF, surpassing growth in other emerging market areas. Russia generated 8.2% economic growth, the Middle East and Africa grew at 6%, Eastern Europe grew at 5.5% while Latin America grew at 5.4%. Within the Group of Seven (G7) developed economies, the momentum of growth declined significantly in 2007 from the buoyant conditions of 2006.

OPERATING AND FINANCIAL REVIEW

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The most serious slowdown was in the US, where growth fell from 2.9% to 2.2%, and in Japan, where there was a decline from 2.4% to 1.9%. Within Europe, the pace of growth in the eurozone declined from 2.8% to 2.6%. By contrast, UK growth increased from 2.8% to 3.1%.

Equity markets generated modest positive returns over the year for UK-based investors, with the MSCI World Total Return Index rising 7.7% in sterling terms. Higher equity values were partly the result of healthy corporate profits growth and an active takeover market. In addition, share prices were bolstered by abundant liquidity, with the inflation-adjusted money supply growth in the G7 remaining above the level of industrial output growth, freeing cash for financial investment.

The positive returns from equities did, however, mask increased volatility and there were periods when increased risk aversion resulted in cash being switched from riskier securities into "safe haven" assets such as government bonds. The first correction began in February, when US sub-prime mortgage defaults heightened concerns that the US would experience a significant economic growth slowdown or recession.

The second period of nervousness occurred over the summer amid growing evidence that contagion was spreading out from the US sub-prime mortgage sector, affecting leveraged investors in riskier fixed interest securities such as hedge funds and banks and resulting in a significant deterioration in the previously benign conditions in global credit markets.

There was a recovery in the autumn as central banks pumped liquidity into the system and the US Federal Reserve eased its monetary policy but there was further weakness towards the end of 2007 amid fears that the financial market problems would hinder economic growth in the US and other interest rate sensitive economies such as the UK, Spain and Ireland.

In the fixed income markets, government bond returns were weak initially, with investors concerned about inflationary pressures. The flight to quality in response to the credit crunch, however, generated a recovery, with G7 government bonds returning 8.7% in sterling terms over 2007 as a whole. Such trends were reversed for more risky fixed income securities. Emerging market sovereign debt returns were weaker than G7 returns at 4.7% while high-yield corporate bonds initially outperformed but then retreated in response to credit market turmoil, declining 0.1% over the year.

In sterling terms, the best-performing large stockmarkets were India, up 92.1%, Brazil, up 86.9%, Turkey, up 67.1%, and China, up 43.3%. Within the G7, Germany returned 27.5%, followed by the resource-heavy Canadian market, up 27.4%. France gained 13.7%, the UK gained 5.6% and the US gained 5.3%. The weakest markets were Italy, up 4.2%, and Japan, down 6.3%.

Among the broad global sectors, energy made the biggest contribution to overall returns, rising 28.2% in response to the 56.1% rise in the oil price to $94.92 per barrel. Other outperformers included materials, up 31.5%, aided by the 31.8% rise in the gold price to $836.15 per ounce, while telecommunications and utilities both gained 20.2%. The biggest drag on performance was the financial sector, which fell 9.2%, while consumer discretionary stocks fell 4.5%.

At the turn of the year, there was increasing evidence that economic conditions were deteriorating in the US and the more interest rate sensitive economies of Europe. This was reflected in a de-rating of equities, which were trading at the end of 2007 on a trailing earnings multiple of 15.67 as measured by the MSCI World Index against more than 30 in 2002. The dividend yield on the MSCI World Index, meanwhile, had risen to a four-year high of 2.30%.

Momentum in the emerging markets and positive money supply trends may result in a soft landing but the credit crunch has increased the risks of more serious dislocation. Central banks have responded with looser monetary policies, with the US Federal Reserve being the most aggressive in its interest rate cuts, but the room for further interest rate cuts may be constrained by increased inflationary pressures. This is particularly the case in Europe, where the Bank of England moved only modestly to ease monetary policy in late 2007 and the European Central Bank was on hold.

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Such conditions may affect the government bond markets negatively. The central bankers' shifting focus from bearing down on prices towards addressing financial market dislocation could, however, result in rotation back into equities and corporate bonds. Both asset classes look modestly valued, assuming the world economy avoids a full-scale recession. The high dispersion of returns between sectors and individual stocks is likely to continue over the coming months in response to the challenging economic circumstances. In such an environment, careful stock selection will remain vital.

UK RETAIL FUNDS

Assets under management within New Star's UK unit trusts and open-ended investment companies increased by 9% from £9.7 billion to £10.6 billion during 2007. Investment performance was mixed. Some of the best relative returns were generated by the portfolios run by New Star's fund of funds team. Funds in specialist areas such as mid-cap UK equities, financial stocks and technology also generated benchmark-beating returns. In other areas, the investment styles of some of our larger equity funds and fixed income funds were ill-suited for the market conditions prevailing during the second half of 2007, in particular the credit squeeze and the rise in commodity prices.

Notwithstanding the performance issues within some of our funds, the strong relative returns within our funds of funds and our specialist funds and the longer-term track records of our fund managers gained recognition in a series of investment awards during 2007.

In addition to enabling us to win the award for Best Multi-Manager Group of Professional Adviser's Multi-Manager Awards for 2007, the New Star fund of funds team picked up a series of individual awards. The New Star Tactical Portfolio won the Best International Multi-Manager Fund award while the New Star American Portfolio won the Best Specialist Multi-Manager Fund award. In the Standard & Poor's 2007 UK fund awards, the New Star Active Portfolio came top in the asset allocation global flexible sector over 10 years.

A number of other funds within our retail range also received investment awards. In the S&P 2007 UK fund awards, the New Star Extra High Yield Bond Unit Trust came top in the fixed income high yield sector over one year while the New Star Sterling Bond Unit Trust came top in the fixed income corporate sector over 10 years.

In Lipper's 2007 UK fund awards, the Extra High Yield Bond Unit Trust was named the best global bond high yield fund over three years, the New Star Fixed Interest Unit Trust was named the best sterling corporate bond fund over three years and the New Star Sterling Bond Unit Trust was named the best sterling corporate bond fund over 10 years. The New Star Pacific Growth Unit Trust was named the best Asia Pacific excluding Japan equity fund over 10 years. The New Star Global Financials Fund was named the best banks and other financials equity fund over three and five years while the New Star UK Strategic Income Unit Trust was named the best UK equity income fund over three years.

In the Portfolio Adviser 2007 fund awards, the New Star Global Financials Fund won the specialist equities category while the New Star European Growth Fund won the European category in Investment Week's Fund Manager of the Year Award.

The longer-term records of our fund managers, our committed sales and marketing efforts and effective client service resulted in a 32% rise in gross retail sales from £2.9 billion to £3.8 billion. Mixed performance and market turbulence over the second half of the year led to increased redemptions, however, with the result that net retail sales fell 21% from £1.8 billion to £1.4 billion. Of our equity and bond funds, the New Star Sterling Bond Unit Trust raised a net £181 million during the year, the New Star European Growth Fund raised £181 million and the New Star Managed Distribution Fund raised £123 million. Among our more specialist funds, the New Star Global Financials Fund raised £83 million. We strengthened our European management team and, as a result, we added to our funds through a £172 million transfer of assets from Tilney.

OPERATING AND FINANCIAL REVIEW

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Within our fund of funds business, the strongest-selling portfolio was the New Star Active Portfolio, which raised a net £61 million. The range as a whole benefited from net inflows of £105 million, taking the total assets of the eight portfolios within the range to £1.2 billion at the year end. Since we moved into the multi-manager sector in 2003, we have grown to be the second largest non-life company provider in the UK market. The multi-manager sector is an area of strong growth potential over the coming years as financial advisers seek to invest in multi-asset class best-of-breed portfolios on behalf of their clients and we are committing significant sales and marketing resources to the further expansion of our fund of funds operation.

Within the specialist funds area, the launch of the New Star Heart of Africa Fund was one of the most interesting marketing initiatives for New Star during the second half of 2007. In response to strong economic growth trends and reduced political risks, UK investors are likely to invest increasing sums in emerging markets, including areas that had previously been perceived as particularly risky and to be avoided.

To satisfy this increasing appetite, New Star is committed to building a significant emerging markets investment presence in the UK funds marketplace. The Heart of Africa Fund is intended to be the first of a series of initiatives. Launched in October, it is one of the first UK OEICs to invest in sub-Saharan markets excluding South Africa. With a high minimum investment level in recognition of the risks of investing in Africa, the fund aims to offer sophisticated investors access to such markets at an early stage of their economic development. The fund raised £34 million during its three-week initial launch period and sales had reached £52 million by 18 March 2008. Heart of Africa has two unusual features for New Star retail funds. The fund's charges include a performance fee to enhance the alignment of New Star's interests with those of the fund's investors. Secondly, mindful of the liquidity constraints of investing in Africa, we have decided to limit the size of the strategy once it reaches £100 million for a minimum of two years.

PROPERTY

The sales and marketing highlight of the year within our UK retail fund operations was the launch and subsequent growth of the New Star International Property Fund as a complementary fund to the New Star UK Property Unit Trust. The fund was created to respond to the growing interest among investors and financial advisers in property, making it a third core asset class within the retail funds market alongside equities and bonds. It is the first fund of its kind to offer UK retail investors access to direct commercial property on an international basis.

Providing both geographic and asset class diversification for investors with traditional equity and fixed income portfolios, it quickly established its position in the marketplace. Inflows during its initial offer period enabled it, we believe, to set a new record for a UK retail fund launch. By the end of the year net inflows had totalled £583 million, making it the best-selling fund in the UK for 2007 according to the IMA. Sales were also strong in early 2008 and the fund had increased in size to £661 million by 18 March 2008.

The UK Property Unit Trust also experienced strong inflows during the first half of last year, with net retail sales totalling £379 million. The position was, however, reversed during the second half, with the full-year total for net retail sales shrinking to £110 million. The main reason for this was that there was a significant deterioration in the UK commercial property market from the summer onwards as a result of previous interest rate rises and the impact of the global credit squeeze. In response to such conditions and following a period in which outflows exceeded inflows, the pricing of units was switched from an offer to a bid basis in July. This change reduced the price at which unitholders sell units by 4.1%.

Over the subsequent months, transactions within the UK property market declined, with leveraged buyers withdrawing from the market as a result of unwillingness by banks to advance funds. In the absence of transactions, property valuers had to take increasing account of weakening sentiment in making valuations, with the result that direct property was marked down significantly. In order to reflect the deteriorating sentiment towards commercial property, a special mid-month reduction to the value of the fund's direct property was made by its valuer, CB Richard Ellis, in December and we announced at the same time that the

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continued

fund's property would be valued at least twice a month until the market returned to a more stable state. Our aim has been to keep property values as current as possible so that all unitholders are treated fairly, both those redeeming and those remaining as long-term holders.

At the same time, we have concentrated on maintaining the fund's liquidity and daily trading during a period in which a number of life company and institutional property funds have closed to redemptions. A warehouse complex at Heathrow was sold towards the end of the year and the fund's largest building, a City of London office block, was sold in February 2008. The result was that the fund's liquidity position rose to in excess of 24% of its assets, one of the highest liquidity positions in the industry.

While the downturn in values since the middle of 2007 has been distressing for investors, we continue to believe in the importance of taking a long-term view of commercial property, with its key benefits being a relatively secure income stream capable of growing at least with inflation and its excellent diversification credentials.

So far in 2008, there has been a slowdown in the rate of decline in values and it is entirely possible that the market will bottom at some stage later this year. Overall commercial property returns are likely to remain subdued over the rest of the year, however, with significant improvements possible in 2009. Much will depend on broader UK economic trends but, if the UK economy does remain reasonably strong, the high-quality well-let prime properties that figure prominently in our UK fund's portfolio should be among the first to show increases in capital values.

The International Property Fund is focusing its acquisition strategy on the Far East because economic growth trends are throwing up attractive opportunities within the region's direct commercial property markets. The fund has maintained a cautious start towards acquisitions in Continental Europe in response to the credit squeeze affecting western economies.

INTERNATIONAL RETAIL FUNDS

In what was a difficult year for our international retail sales business, the assets under management within our range of Dublin-domiciled equity and fixed income funds fell 8% to £1 billion. Gross retail sales of the Dublin funds were strong at £1.4 billion, a reflection of our investment in building up our sales, marketing and administrative operations in Continental Europe, where the typical distribution channels for our products are "open architecture" banks and insurers. During the year, we bolstered our Continental operations by moving into the Italian market and we also strengthened our team in Hong Kong. We did, however, suffer from redemptions during the second half of the year as investors and intermediaries reacted negatively to volatile market conditions and the underperformance within our European funds.

In addition to providing marketing and operational support for our Dublin funds, the international sales team made further progress in extending the range of New Star funds available to international investors. Our aim is to broaden the base of our international retail business. Among recent initiatives, we have gained approval from the Singapore regulator to market the New Star International Property Fund, the New Star European Value Fund and the New Star Heart of Africa Fund to sophisticated investors. The New Star Diversified Absolute Return Fund, the New Star European Value Fund, New Star Global Equity Fund and the New Star UK Alpha Fund have been registered in France, Italy and Spain while the New Star Global Financials Fund and the New Star Hidden Value Fund have been registered in Italy and Spain.

The long-term track records of our fund managers were recognised in various international awards for our funds last year. The New Star European Growth Fund was named best Europe excluding the UK equity fund over three years in Lipper's 2007 awards in France, Hong Kong, Luxembourg and Switzerland. In Lipper's French awards, the New Star Global Financials Fund was named best banks and other financials equity fund over three and five years while the New Star Hidden Value Fund was named the best UK equity fund over three years.

OPERATING AND FINANCIAL REVIEW

continued

INSTITUTIONAL PORTFOLIOS

New Star's institutional assets under management increased 8% during 2007 from £8.1 billion to £8.7 billion. In performance terms, the highlight of the year was our Europe, Australasia and the Far East (EAFE) business, the majority of whose clients are North American pension funds and endowments. In managing EAFE mandates, the institutional team takes a growth-oriented approach, focusing on larger, higher-growth companies. This growth style enabled us comfortably to outperform the benchmark MSCI EAFE Total Return Index and generate returns that placed us within the first quartile of our peer group.

After the rapid growth of our EAFE business earlier in the decade, we spent 2006 and 2007 consolidating the operation, focusing on the needs of our existing clients and increasing the strength and depth of our institutional management team. This measured approach, we believe, has yielded good returns, providing a sound base from which we can continue to build the business. During 2008, we will actively seek new EAFE mandates.

In addition, our international institutional fund managers have built up considerable experience in recent years in investing in emerging market equities and we have been appointed to run a number of emerging market equity mandates. Performance was strong in 2007, with our emerging markets equity portfolios comfortably outperforming the benchmark MSCI Emerging Markets Total Return Index over the year. Following this achievement, the team's emerging markets returns have also come in ahead of the benchmark on an annualised basis over two, three, four and five years. We are currently focusing on marketing this capability because we believe there are attractive opportunities to build a complementary emerging markets business to sit alongside our core EAFE business.

In the UK, our investment in developing relationships with the main investment consultants led to significant growth of our business, with fund inflows totalling £429 million over the year. Our principal product to date has been the management of specialist equity mandates mainly on behalf of pension funds and insurance companies. We are, however, seeking to broaden the business. One avenue of growth is to market the institutional team's emerging markets expertise to UK institutions. Another is to offer UK institutions that lack their own in-house international direct commercial property arms the opportunity to gain international direct property exposure through the New Star International Property Fund.

ALTERNATIVE ASSETS

Assets under management within New Star's alternative investments business grew by 33% to £1.6 billion during 2007. The business comprises our hedge fund operation and our leveraged global property fund.

Within the New Star range of single-strategy hedge funds, assets under management grew from £958 million to £1.1 billion, of which £445 million was invested by the group's multi-strategy managed hedge funds. The most significant growth was within the New Star UK Gemini Hedge Fund strategy, whose assets grew from £121 million to £263 million. Among more-recently launched funds, the New Star Aurora Hedge Fund expanded its assets from £14 million to £42 million.

Single-strategy fund launches during the year included the New Star European Opportunities Fund, an opportunistic long-short equity fund with a concentrated portfolio, and the New Star Real Estate Hedge Fund, a global long-short real estate equity fund with a European bias. A third new strategy, a long-short technology equity strategy, was launched within the multi-strategy funds while four of the group's smaller hedge funds were closed.

Outside the group's single-strategy funds, there was growth in Hedge ETS, New Star's unique investment product providing exposure to the RBC Hedge 250 Index, the most representative global index of hedge fund performance. Assets within Hedge ETS grew from £77 million to £155 million predominantly as a result of a series of share issues through the year.

OPERATING AND FINANCIAL REVIEW

continued

Our global property fund, which has been designed for institutions and high net worth individuals, grew its invested assets from £203 million to £436 million during 2007. By the year end, the fund had invested in 12 properties in seven countries.

During the year, we added private equity as a further alternative asset class when we organised the merger of two closed-end private equity funds to create the New Star Private Equity Investment Trust. The merger was completed in July, with the enlarged fund being reconstituted as a fund of private equity funds, investing in limited partnerships and listed vehicles. At the year end, following a series of successful realisations, the trust's net asset value stood at £70 million.

CLOSED-END FUNDS

Assets within our closed-end funds business, which comprises a range of funds to suit diverse investment objectives, grew during 2007, with the number of funds increasing from five to six. In addition to the New Star Private Equity Investment Trust and the expansion of Hedge ETS, a second tranche was issued of the Connor, Clark & Lunn Global Financials Fund. The New Star Financial Opportunities Fund was successfully reconstructed in December, with its zero dividend preference shares repaid, ending its split capital status. Now categorised as a conventional investment company, it benefits from gearing provided through low-cost borrowings under a prime broker agreement.

PRIVATE CLIENTS

Funds under management within New Star's private client department grew from £303 million to £321 million, mainly as a result of new mandates. Managing the assets within self-invested personal pensions was a significant growth area and the private client team built up its business managing assets within private OEICs.

Further progress was made in early 2008, when Intrinsic Financial Services, one of the most successful new multi-tie networks, appointed New Star to launch and manage a range of multi-manager multi-asset class funds designed specifically to meet the needs of Intrinsic's clients.

RISKS

As with all fund management groups, New Star is exposed to a range of risks. Some of these risks are inherent in the business undertaken by the Group while others need to be managed. Risk management is the responsibility of the Board and senior management. The Board has established a Risk Management Committee to oversee the risks being run by the Group. Responsibility for risk management, however, lies within each operational area and with senior management.

The main risks faced can be summarised into five main categories – strategic and business risk, financial risk, investment risk, employee risk and operational risk.

STRATEGIC AND BUSINESS RISK

Strategic and business risk represents the risk of pursuing an inappropriate strategy or implementing poorly an appropriate strategy. Any strategy needs to be amended to take into consideration changes in the dynamic market conditions.

Strategic and business risks include the following: having an inappropriate or out-of-date product range; particular asset classes losing their appeal; pressure on margins caused by competition and changes to distribution channels; loss of business reputation or negative publicity; failure to attract new assets under management and/or loss of existing assets under management; loss of access to specific distribution channels; and becoming overly reliant on one client, product, fund or employee.

OPERATING AND FINANCIAL REVIEW

continued

FINANCIAL RISKS

The Group is not only operationally geared but also financially geared. The Group had net debt of approximately £246 million at 31 December 2007. Accordingly, we have had to manage our interest rate risk and banking covenants. The Group also has some limited exposure to currency movements on short-term debtors and on seed capital investments. The main financial risks include the impact of gearing on profitability, the existence of borrowing covenants and interest rate exposure.

INVESTMENT RISK

The Group is paid by its clients to take investment risk and to outperform over the medium and long term. Any sustained period of poor performance reduces the value of the assets under management and could lead to withdrawals by investors. Investment risk, therefore, includes sustained poor performance and market falls negatively affecting investment sentiment.

EMPLOYEE RISK

The Group's success depends on its ability to attract, motivate and retain highly-skilled senior fund managers and asset management sales, marketing and customer support personnel. Loss of key personnel could either impact on the management of the Group or lead to a loss of assets under management. Ensuring that there is a good culture and working environment together with the establishment of appropriate incentive packages are key to attracting and retaining the best personnel. Employee risk, therefore, includes the loss of key management, the loss of key personnel and incentive packages that do not encourage the performance necessary to develop the business.

OPERATIONAL RISK

Operational risk is inherent in all of the Group's activities and inadequate planning, processes or controls could result in financial risk or loss. While New Star outsources a number of key functions to third parties, which usually have financial responsibilities for operational losses, a number of operational risks remain.

Operational risks include the following: a process failure, such as a breach of a prospectus or investment management agreement; a material regulatory breach; a key systems failure; a business continuity/disaster recovery failure; the failure of an outsourced provider; a dealing or other administrative error; project risk, especially information technology-related projects; and fraud, whether external or internal.

BOARD OF DIRECTORS

JOHN DUFFIELD

EXECUTIVE CHAIRMAN (AGE 68)

John Duffield is executive chairman of New Star, having founded the Company in June 2000. Previously he was chief executive and founder of Jupiter Asset Management. He is also a director of New Star Investment Trust PLC and a number of other investment companies.

HOWARD COVINGTON

CHIEF EXECUTIVE (AGE 55)

Howard Covington joined New Star as a non-executive in August 2000, becoming chief executive in January 2001. Previously he was chief executive of the European investment banking business of Wasserstein Perella from 1996 to 2001. Prior to this he was a director of SG Warburg, where he was a corporate financier for 10 years. He is a director of a number of investment companies.

RUPERT RUVIGNY

FINANCE DIRECTOR (AGE 48)

Rupert Ruvigny joined New Star in October 2000. Previously he was deputy chairman of PricewaterhouseCoopers' financial services regulatory practice. He qualified as a chartered accountant with Price Waterhouse in 1984. He was made a partner in 1992 and specialised in investment management and regulation. While at Price Waterhouse he was seconded to IMRO as the Director of Monitoring and Head of Investigations from 1993 to 1994.

MICHAEL ASTOR

TECHNICAL DIRECTOR (AGE 61)

Michael Astor joined New Star in February 2001. Before joining New Star, he was a director of Jupiter International Group Plc with IT responsibilities. He joined Jupiter from the electronics industry having studied engineering and economics.

JOHN JAY

BUSINESS DEVELOPMENT DIRECTOR (AGE 50)

John Jay joined New Star in January 2001. He became a financial journalist in 1981 and joined The Sunday Telegraph in 1984. He became City editor of The Sunday Times in 1986, became City and business editor of The Sunday Telegraph in 1989 and was appointed managing editor of The Sunday Times' business section in 1995. He was appointed a director in 2007.

BOARD OF DIRECTORS

continued

RICHARD PEASE

DIRECTOR OF EUROPEAN EQUITIES (AGE 49)

Richard Pease joined New Star in June 2001. Previously he was head of European investment at Jupiter Asset Management and manager of its European fund. He joined Jupiter as a fund manager in 1990, having previously been a fund manager at the Central Board of Finance for the Church of England.

MARK SKINNER

MANAGING DIRECTOR, RETAIL SALES AND MARKETING (AGE 51)

Mark Skinner joined New Star in May 2001. Previously he was sales and marketing director at Norwich Union, where he was responsible for developing the investment fund business. After working for the Financial Times and Save and Prosper, he became sales director for Baring Fund Managers, being appointed managing director in 1992. He joined the board of Baring Asset Management in 1996.

JOHN CRAIG CBE

NON-EXECUTIVE DEPUTY CHAIRMAN AND SENIOR NON-EXECUTIVE DIRECTOR (AGE 75)

John Craig became a non-executive director of New Star in October 2005, and until August 2005 was a director of New Star Investment Trust PLC. During his career he was managing director of N.M. Rothschild & Sons Limited, a director of Standard Chartered plc, chairman of the executive committee of the British Bankers Association and a member of the Deposit Protection Board. He has been a director of several other companies, including Jupiter International Group PLC, and of several investment trusts.

DAVID GAMBLE

NON-EXECUTIVE DIRECTOR (AGE 64)

David Gamble became a non-executive director of New Star in October 2005. Until 2004, he was chief executive of British Airways Pension Investment Management Limited, which he joined in 1993. Prior to this he was deputy chief executive of County Natwest Investment Management Limited, after working at N.M. Rothschild & Sons Limited and GEC Pension Fund. He is a director of IBM United Kingdom Pensions Trust Limited and of four investment trusts and a number of other companies.

MARTIN SMITH

NON-EXECUTIVE DIRECTOR (AGE 65)

Martin Smith joined New Star as deputy chairman in October 2000. He was a founder of Phoenix Securities, a private investment banking firm. Following the acquisition of Phoenix in 1997 by Donaldson Lufkin and Jenrette, he chaired DLJ's European Investment Banking Group. Previously he worked at Citicorp and Bankers Trust. He is also a director and advisor to a number of other companies.

DIRECTORS' REPORT

For the year ended 31 December 2007

The directors present their report together with the financial statements of New Star Asset Management Group PLC for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the Group are the provision of asset management products and services to retail and institutional investors.

REVIEW OF ACTIVITIES

The Directors' Report should be read in conjunction with the Chairman's Statement and the Operating and Financial Review on pages 5 to 17. Together these contain commentary on the Group's business, its financial performance during the year and likely future developments.

RESULTS AND DIVIDENDS

The Consolidated Income Statement for the year is set out on page 38.

The Group's profit for the year attributable to shareholders amounted to £46.5 million (2006: profit £39.4 million). The directors recommend a final dividend for 2007 of £2.3 million representing 1.0p (2006: 5.0p) per share to be paid on 22 May 2008, to members on the register at the close of business on 4 April 2008. An interim dividend of 4.0p (2006: 4.0p) per share was paid on 31 October 2007. The total dividend paid and to be paid in respect of 2007 is 5.0p per share (2006: 9.0p).

POST BALANCE SHEET EVENTS

The Board of Directors are not aware, as at 19 March 2008 being the date on which these financial statements were approved, of any information concerning significant conditions in existence at the balance sheet date that have not been reflected in the financial statements as presented.

SHARE CAPITAL

On the 12 June 2007, following a Court-Approved scheme of arrangement ("2007 scheme") under section 425 of the Act, a new Company, previously called New Star AM PLC, became the holding company of the New Star Group. All the existing New Star shares were cancelled and New Star shareholders who were on New Star's register of members at the Scheme Record Time received four new ordinary shares and £6.25 of cash for every five New Star shares then held. On 13 June 2007 the Company's ordinary shares were listed on the Official List and traded on the London Stock Exchange's main market for listed securities. At the same time the Company, New Star AM PLC, changed its name to New Star Asset Management Group PLC.

As part of the Group's admission to the Alternative Investment Market (AIM) in November 2005 certain of the New Star shares that were held by directors and employees of the Company became subject to restrictions on disposal. Under the 2007 Scheme those shares continued to be subject to the same restrictions on disposal by way of the Lock-In Arrangements that expire in November 2008 and 2009 or, if earlier, the announcement of the Company's interim results in each of these years. The Board has the right to waive these Lock-In Arrangements in whole or in part.

Dealings in the Company's ordinary shares by directors, employees or their connected persons are subject to the Group's share dealing code.

The Company's authorised and issued share capital as at 31 December 2007, together with details of movements in issued share capital during the year, are shown in notes 19 and 20.

DIRECTORS' REPORT

For the year ended 31 December 2007 continued

PURCHASE OF OWN SHARES

The Company, until the date of the next annual general meeting, has the authorisation to buy back up to 35,000,000 ordinary shares at a maximum price of no more than 5% above the average of the middle market quotations of a share for the five dealing days proceeding any such purchase and the minimum authorised price for any such purchase is 25p per share.

Any share purchased by the Company pursuant to this authority will either be cancelled and the number of shares in issue will be reduced accordingly, or if purchased out of distributable profits may be held as treasury shares, which may then be cancelled, sold for cash or used to meet the Company's obligations under its employee share plans.

POWER TO ISSUE AND ALLOT SHARES

The directors are authorised to issue new ordinary shares up to a maximum nominal amount of £19,462,500.

The directors have the authority to issue ordinary shares for cash, otherwise than by an issue of new shares offered pro-rata to existing shareholders, up to a maximum nominal amount of £2,919,300. In addition the directors are permitted to deal with fractional entitlements and any practical problems arising in any overseas territory on any offer of new shares to be made to shareholders on a pro-rata basis.

DIRECTORS AND THEIR INTERESTS IN SHARES

The names and biographical details of the current directors of the Company are set out on pages 18 and 19. All directors served throughout the year with the exception of John Jay, who was appointed on 15 March 2007. Sir Dominic Cadbury, previously Non-Executive Deputy Chairman, resigned as of 15 March 2007.

Details of the directors' remuneration and the interests of the directors and their connected persons in the Company's shares are set out in the Directors' Remuneration Report on pages 31 to 34.

During the period covered by this report, no director had any material interest in a contract to which the Company or any of its subsidiary undertakings was a party, requiring disclosure pursuant to section 317 Companies Act 1985.

RETIREMENT AND RE-ELECTION OF DIRECTORS

The Company's Articles of Association require any director appointed by the Board to retire at the first Annual General Meeting following his or her appointment. Accordingly, each director having been appointed by the Board (and not by the shareholders in general meeting) offers himself for election at the Annual General Meeting.

The Company's Articles of Association provide that at each annual general meeting, following the first, one-third of the directors (or the number nearest to, but not exceeding, one-third if their number is not a multiple of three) must retire 'by rotation'. The retiring directors may offer themselves for re-election if they so wish.

DIRECTORS' REPORT

For the year ended 31 December 2007 continued

MATERIAL SHAREHOLDINGS

At 14 March 2008, the Company had been notified of the following material shareholdings in the Company's ordinary shares. The directors' interests are set out on page 33:

	Number of ordinary shares in which interested	Percentage of issued share capital
New Star Nominees (1) Limited*	28,018,518	12.0%
Deutsche Bank AG	14,132,296	6.05%
New Star Nominees (4) Limited*	13,100,149	5.61%
New Star Nominees (2) Limited*	9,820,719	4.20%
Lansdowne Partners Limited	9,486,111	4.06%
New Star Nominees (3) Limited*	9,467,612	4.05%
Credit Suisse Securities (Europe) Limited	8,765,904	3.75%
Hermes Pensions Management Limited	8,134,961	3.48%
Legal & General Group Plc	7,299,325	3.12%

* *The beneficial owners of the ordinary shares held by New Star Nominees (1), (2), (3) and (4) are the directors and employees of the Group.*

EMPLOYMENT POLICIES

The Board recognises that the continuing success of the Group depends on its employees and continues to adopt policies designed to attract, train, develop and retain the high calibre of staff employed.

The Board recognises the need to keep employees informed of all matters that affect them and communication is achieved through a variety of media, including regular staff meetings, e-mail and the Group's intranet site.

The Group implements a performance appraisal process for all staff that encourages feedback and aids in the development and progress of all staff. Within this process any training requirements are highlighted to encourage the individual's career development and progression in line with personal and group goals.

The Group is committed to equal opportunities for both existing employees and prospective employees. The Group gives appropriate consideration to applications for employment from disabled persons. Where existing employees become disabled, the Group's policy is to provide, wherever possible, continuing employment, training and career opportunities where appropriate.

All permanent staff are offered shares or share-related incentives in the Company. The directors consider that share ownership is an important part of aligning employee and shareholder interests.

CREDITOR PAYMENT POLICY

The Group's main trade creditors arise from the role of authorised corporate director of open-ended investment companies and as a unit trust manager. Share and unit creations are paid four days after the transaction and repurchase creditors are paid within four days of the receipt of correctly completed documentation. Other expense creditors are paid in accordance with stated terms in the normal course of business. The Group aims to obtain the best terms it can for all its business. The Group agrees with its suppliers the terms on which it will undertake business and its policy is to abide by these terms.

DIRECTORS' REPORT

For the year ended 31 December 2007 continued

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year, the Group made charitable contributions of £71,286 (2006: £46,739) and no political contributions (2006: nil).

CORPORATE GOVERNANCE

A statement on Corporate Governance appears on pages 24 to 30.

FINANCIAL INSTRUMENTS

Details of financial instruments and financial risk management are given in notes 12 and 24 and on pages 54 and 62.

GOING CONCERN

The directors consider that the Group and the Company have adequate resources to continue in operational existence in the foreseeable future. Consequently the financial statements have been prepared on a going concern basis.

ANNUAL GENERAL MEETING

The 2008 Annual General Meeting will take place at 12 noon on Thursday 15 May 2008 at 1 Knightsbridge Green, London SW1X 7NE. The notice of the Annual General Meeting is set out on pages 79 to 88 and explains the business to be dealt with at that meeting.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and 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.

AUDITORS

In accordance with the recommendation of the Audit Committee, it is proposed that KPMG Audit Plc will be re-appointed auditors of the Company. They have signified their willingness to continue in office and a resolution proposing their re-appointment will be put to the Annual General Meeting.

By order of the Board

John Mould
Secretary

19 March 2008

CORPORATE GOVERNANCE REPORT

On 13 June 2007, the Company graduated from the Alternative Investment Market (AIM) of the London Stock Exchange to the Official List of the UK Listing Authority in line with the commitment made at the time of its AIM admission in November 2005. This is, therefore, the first period in which the Company has been required to apply the Listing Rules of the Financial Services Authority ("FSA") and to include a statement of corporate governance in its Annual Report relating to its compliance with the principles and provisions set out in the Combined Code (2006) on Corporate Governance.

The Board recognises that it is accountable to the Company's shareholders for corporate governance. This statement describes how the Company has applied the provisions of the Combined Code on Corporate Governance throughout the year ended 31 December 2007, and up to the date of this report, and provides explanations of those areas where it has not complied.

THE BOARD OF DIRECTORS

The Group is controlled through its board of directors. The Board's main roles are to create value for shareholders, to provide entrepreneurial leadership of the Group, to approve the Group's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet these objectives and review performance; as a consequence, it is responsible for the success of the Group.

At 31 December 2007, the board comprised of 10 directors of whom seven are executive, including the executive chairman, and three are non-executive. The directors are aware that this does not meet the Combined Code requirement for a majority of the board to be independent non-executives, including a non-executive Chairman, but consider, that the composition of the Board is appropriate, having regard to the size and current stage of development of the Company combined with the fact that a significant amount of the equity is owned by employees and their related interests. The posts of chairman and chief executive are held by different directors. On the resignation of Sir Dominic Cadbury as senior independent non-executive director on 15 March 2007, the Board appointed John Craig as a senior independent non-executive director. The senior independent non-executive director meets the non-executive directors at least once a year to assess the performance of the Chairman. He is available to shareholders if they have concerns that have not or cannot be resolved through discussions with the chairman or the executive directors. The names of the directors at the date of this report, together with their biographical details, are set out on pages 18 and 19.

The Board met six times during the year. The Board has a formal schedule of matters reserved for its decision and approval. These include responsibility for the Group's overall management, its long-term objectives and commercial strategy, the approval of its accounts and dividends, the Group budget, the maintenance and effective regulation of the Group's framework of internal control, risk management and corporate governance and the delegation of authority to committees and individual directors.

The Board has delegated certain responsibilities to the Executive Committee to cover the day-to-day application of: the Group's strategy and management policy; the financial reporting, internal controls and day-to-day running of the business.

The directors are aware of the risks inherent in the Group's business and understand the importance of identifying and evaluating these risks. The Board has adopted procedures and controls that enable it to manage these risks. The Group's principal regulator is the Financial Services Authority of the United Kingdom.

The Board is supplied with appropriate and timely information to allow it to perform its duties. All directors receive a monthly board pack on the financial performance of the Group including profitability, key performance indicators, assets under management and fund performance data. All directors have access to the advice and services of the company secretary and have access to independent professional advice, if required, at the Company's expense.

In order to ensure that all Board decisions are taken in the interests of the Group, Directors are required to disclose their interests and cannot vote on any matter in which they have a material interest.

CORPORATE GOVERNANCE REPORT

continued

PERFORMANCE EVALUATION

The Board has established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its Committees and each director, to ensure that they continue to act effectively and efficiently and to fulfil their respective duties.

After the year-end, an evaluation, taking into account developments over the year and specific references to the objectives of the Board and its Committees, was completed by each director. The responses were analysed and the results were discussed at a meeting between the Chairman and the directors. Led by the senior independent director, the non-executive directors met without the presence of the Chairman to discuss the results of the evaluation of the Chairman's performance.

NON-EXECUTIVE DIRECTORS

The Board includes non-executive directors who bring independent judgement, knowledge and experience to the Board's deliberations.

In compliance with the Combined Code, the Board has determined that two of the non-executive directors who served throughout the year and as at the date of this report, John Craig and David Gamble, were regarded as independent for the purposes of the Combined Code. Martin Smith, the third non-executive director, has a sufficient interest in a number of ordinary shares (as set out on page 33) such that he is not considered by the Board to be independent for the purposes of the Combined Code.

The non-executive directors each have letters of appointment, which set out the terms of their appointment and their expected time commitment.

INSURANCE AND INDEMNIFICATION

The Company maintains appropriate directors and officers' liability insurance.

BOARD COMMITTEES

The Board has appointed an Executive Committee, an Audit Committee, a Remuneration Committee, a Nomination Committee and a Risk Management Committee to assist in the execution of its duties. All of these Committees operate with written terms of reference, which are reviewed annually and the chairman of each Committee reports regularly to the Board. Details of each committee, its membership and terms of reference are shown in the relevant sections below.

Each Committee is authorised, at the Company's expense, to obtain external legal or other professional advice to assist in carrying out its duties. Only the members of each Committee are entitled to attend its meetings but others, such as senior management and external advisers, may be invited to attend.

CORPORATE GOVERNANCE REPORT

continued

BOARD AND COMMITTEE ATTENDANCE

The table below sets out the number of meetings of the Board and its committees and individual attendance by directors.

	Board (7 meetings)	Audit Committee (3 meetings)	Remuneration Committee (4 meetings)	Risk Management Committee (4 meetings)	Nomination Committee (1 meeting)
EXECUTIVE					
John Duffield	7	–	4	–	1
Michael Astor	6	–	–	–	–
Howard Covington	7	–	–	–	–
John Jay*	5	–	–	–	–
Richard Pease	6	–	–	–	–
Rupert Ruvigny	7	–	–	4	–
Mark Skinner	6	–	–	–	–
NON-EXECUTIVE					
John Craig	7	3	4	3	–
David Gamble	7	3	–	4	1
Martin Smith	6	2	3	–	1
Dominic Cadbury*	1	1	1	–	–

* *appointed/resigned as a member of the Board and relevant Committees on 15 March 2007.*

EXECUTIVE COMMITTEE

The Executive Committee is chaired by John Duffield and membership comprises the other six executive directors, together with John Mould (company secretary and chief operating officer), Gregor Logan (joint chief investment officer), Stephen Whittaker (joint chief investment officer), Ravi Anand (head of corporate finance and structured products), Mark Beale (deputy chief investment officer) and Roger Dossett (head of property). The Executive Committee meets on a fortnightly basis and oversees and supervises the business and strategy of the Group.

The Executive Committee is authorised by the Board of Directors to take decisions or investigate any matter within its terms of reference, to report and make recommendations to the Board, through the executive chairman or the chief executive, on any management issue relating to the Group's operations. It is accountable to the Board of Directors on the implementation of strategy, the performance of the Company and its subsidiary companies and ensuring that day-to-day operations are conducted in accordance with the relevant regulatory and statutory requirements.

The Executive Committee's purpose is to support the chairman and chief executive in their oversight of the Group's affairs and the pursuit of the Group's corporate objectives by interpreting and implementing the Group Strategy and monitoring business performance in pursuit of this. The Committee may make decisions on the day-to-day running of the business within the authorities delegated to it, establish priorities and discuss and agree responses to issues. Its principal responsibilities are: Strategy and Management; Corporate Structure and Capital; Financial Reporting and Controls; Internal Controls and Corporate Governance; Remuneration; Communication; Approval of Group Policies and other administrative policy decisions.

CORPORATE GOVERNANCE REPORT

continued

AUDIT COMMITTEE

The Audit Committee is chaired by John Craig and its other members during the year were David Gamble, Martin Smith and Dominic Cadbury up to his resignation. All of the members of the committee are non-executive directors. The Board is aware that the audit committee does not meet the requirements of the Combined Code as it includes Martin Smith, who is not considered to be independent for the purposes of the Combined Code. The Board is satisfied that at least one member, John Craig, has recent and relevant financial experience.

The Audit Committee meets at least three times a year and senior management, including the finance director, may be invited to attend for all or part of the meetings. The external auditors of the Company will attend the meetings on a regular basis and have unrestricted access to the committee and its chairman.

The Audit Committee monitors the integrity of the Group's financial statements and the half year and preliminary announcements relating to the Group's performance. The Committee is responsible for monitoring the external audit process and making recommendations to the Board in relation to the appointment, re-appointment and remuneration and cost-effectiveness of the external auditor and discusses annually the proposed nature and scope of their work. It is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees. The Committee when reviewing the non-audit services provided by the external auditor seeks to balance the maintenance of objectivity and value for money. The Committee reviews its terms of reference annually and recommends to the Board any changes required as a result of the review. The Committee's terms of reference are available on the Company's website.

The Committee met three times during the year, with representatives from senior management and KPMG Audit PLC in attendance at each meeting. One meeting held early in the year reviewed the principles of governance and the effectiveness of internal controls and agreed the scope and planning of the audit. Subsequent meetings reviewed the year-end financial statements, the Group's trading statements prior to release, the interim financial statements, the continued appropriateness of the Group's accounting policies and the external auditors' year-end report. The Committee also considered and made the recommendation to the Board as to the appointment of the external auditors and approved their remuneration and terms of engagement.

The Group does not currently have an independent internal audit department. During the year, the Committee considered the need for an internal audit department. The internal compliance and risk department carries out a number of functions similar to an internal audit department as well as being responsible for ensuring compliance with the different regulatory rules. In addition, where it is considered necessary or appropriate, third parties may be asked to undertake reviews.

The Audit Committee Chairman reports formally to the board on the Committee's proceedings after each meeting on all matters within its remit.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by John Duffield and its other members during the year were John Craig and Martin Smith. The Board is aware that the Remuneration Committee does not meet the requirements of the Combined Code as it is chaired by the executive chairman. The Group believes that for its size and stage of its development that this is appropriate. In January 2008, Martin Smith resigned as a member of the Committee and David Gamble was nominated to join the Remuneration Committee, ensuring that the two other members were both independent non-executive directors.

CORPORATE GOVERNANCE REPORT

continued

REMUNERATION COMMITTEE *continued*

The Remuneration Committee meets at least three times a year. The chief executive and other senior management and external advisers may be invited to attend meetings as the Remuneration Committee considers appropriate. The Committee's terms of reference are available on the Company's website.

The Remuneration Committee will consider all material elements of remuneration policy, remuneration and incentives of executive directors and senior employees with reference where necessary to independent remuneration research and professional advice in accordance with the Combined Code and will make recommendations to the Board on the framework for executive remuneration and its cost. The Committee granted options to new employees under the 2007 Discretionary Share Option Scheme. The Committee is also responsible for ensuring that new share incentive plans or major changes to existing share plans are put to the Board and to the shareholders for approval.

Further details of the scope of the committee are given in the Directors' Remuneration Report on pages 31 to 34.

NOMINATION COMMITTEE

During the year, a Nomination Committee was established. The Committee is chaired by John Duffield and its other members during the year were David Gamble and Martin Smith. In January 2008, Martin Smith resigned as a member of the Committee and John Craig was nominated to join the Nomination Committee, ensuring that the two other members were both independent non-executive directors. The Committee meets at least once a year, and as and when required. The Committee's terms of reference are available on the Company's website.

The Committee is responsible for reviewing the structure, size and composition of the Board and for recommending new members for appointment to the Board. In carrying out this responsibility, the Committee is responsible for evaluating the balance of skills, knowledge and experience of the Board and to ensure an appropriate process is in place to consider new appointments and also succession planning. The Board as a whole has responsibility for the appointment of new Directors and for nominating them for election by shareholders following their appointment.

RISK MANAGEMENT COMMITTEE

The Risk Management Committee is chaired by Rupert Ruvigny and its other members are John Craig and David Gamble, both of whom are independent non-executive Directors. The Risk Management Committee meets as required and at least four times a year. The head of compliance and operational risk and the head of performance and investment risk may be invited to attend meetings as the Risk Management Committee considers appropriate. The Risk Management Committee reports to the Board.

The Risk Management Committee assists the Board in ensuring that the Group has effective controls over performance and investment risk, compliance, operational and counter party risk. It receives the reports of the monthly meetings of the Portfolio Review Committee reviewing investment risk and the reports on compliance issues and forthcoming regulatory changes and initiatives and reviews counterparty and credit risk. It is responsible for the review of operational risk procedures and internal controls and to ensure that the risk management requirements of the Group's principal regulator, the Financial Services Authority of the United Kingdom, and its other regulators around the world are met.

Performance and investment risk analysis is undertaken by a team that monitors and reviews portfolios. The team concentrates its analysis on the risk exposure within each portfolio and its suitability compared to its investment objectives. They provide quantitative risk measurement to enable the fund managers to monitor their risk exposures as well as providing detailed performance attribution to enable the managers to see the contribution to return from asset allocation and stock selection. Various third-party performance and risk engines such as Style Research, Portfolio Analyser and BarraOne are utilised to support this analysis.

CORPORATE GOVERNANCE REPORT

continued

RISK MANAGEMENT COMMITTEE *continued*

A Portfolio Review Committee chaired by one of the joint chief investment officers meets monthly to review performance and investment risks and to institute appropriate action in the event of breaches of internal or external guidelines. It includes the Head of Performance Risk, the Compliance Director, the Sales and Marketing Director and senior investment officers. In addition, there are sub-committees that meet at least quarterly, each responsible for derivatives, UK property and international property. Reports from the various sub-committees are reviewed by the Risk Management Committee.

A compliance and operational risk team is responsible for ensuring that appropriate procedures and controls are in place throughout the business and that the Group complies with relevant UK and overseas regulatory rules. The compliance and operational risk team also monitors the risk management and control procedures of outsourced service suppliers in conjunction with the relevant operational area.

The Compliance and Operational Risk team produces quarterly compliance reports to the Risk Management Committee and the Board covering compliance and regulatory matters, operational risk for each area of the business and the effectiveness of the internal controls, including an operational risk heat map, which concentrates on the operational risk within the key business areas.

INTERNAL CONTROL

In accordance with the "Internal Control: Guidance for Directors on the Combined Code" (the "Turnbull Guidance"), the Board has overall responsibility for the Group's systems of internal control and the management of significant risks. The Board sets appropriate polices on internal control; seeks regular assurance that enable it to satisfy itself that the system is functioning effectively; and ensures that the system of internal control is effective in managing risks. The Directors have continued to review the effectiveness of the Group's system of internal controls, including operational and compliance controls, risk management and the Group's high-level internal control arrangements. Such a system of internal controls is designed to manage, rather than eliminate, risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material misstatements or loss.

Much of the Group's work in the area of risk management is facilitated by the Risk Management Committee. Its role is advisory and is to assist the Board in ensuring that the Group has effective control of the compliance, operational, performance, investment and credit risks within the business.

THE COMPANY SECRETARY

The company secretary is responsible for advising the Board, through the Chairman, on all governance matters. The Directors have access to the advice and services of the company secretary.

CORPORATE SOCIAL RESPONSIBILITY

New Star promotes high ethical standards amongst employees to ensure all clients are treated fairly and has in place a code of ethics including personal trading rules. New Star's operations have minimal direct environmental impact given the nature of its business.

CORPORATE GOVERNANCE REPORT

continued

RELATIONS WITH SHAREHOLDERS

Where practicable throughout the year, the Company meets and makes presentations to institutional investors and analysts. These include meetings following the announcement of the interim and annual results with the Company's largest institutional shareholders. The senior independent director is available on request to meet shareholders should they have concerns that contact through the normal channels may not have resolved, or for which such contact is inappropriate.

The Annual General Meeting is normally attended by all directors and the chairmen of the Audit, Nomination and Remuneration Committees are all available to answer questions. Shareholders are encouraged to attend the Annual General Meeting, at which they have the opportunity to ask questions. The Notice of the Annual General Meeting is posted to shareholders at least 20 working days prior to the meeting. The Company will announce the number of proxy votes cast on each resolution at the Annual General Meeting and any other general meetings and will publish the results of the votes on the Company's website.

The Group maintains a corporate website, **www.newstaram.com**, containing a wide range of information of interest to investors, including presentations. The website is updated with all formal communications to the investment community immediately following their release through a recognised news service.

FINANCIAL REPORTING

The Directors have acknowledged their responsibilities in the Statement of Directors' Responsibilities in relation to the Financial Statements on page 35.

DIRECTORS' REMUNERATION REPORT

This report describes the Group's overall remuneration policy and gives details of the compensation and contractual arrangements for directors. The report has been prepared in compliance with the Directors' Remuneration Report Regulations 2002 and meets the requirements of the Listing Rules and the Combined Code. Legislation requires the Group's auditors to audit certain disclosures within this report. Where disclosures have been audited they are indicated as such.

The members of the Remuneration Committee are disclosed in the Corporate Governance Report on page 27.

Employee compensation is based currently on the principle that equity participation is offered to all its employees, thereby ensuring that all staff work towards the same goals and there is an alignment of interests between employees and external shareholders. The Group attracts and motivates high-calibre management and employees throughout the organisation who are incentivised by, amongst other things, this equity participation.

EXECUTIVE DIRECTORS' REMUNERATION

Executive directors' salaries are reviewed annually by the Remuneration Committee. Consideration is given to the full compensation package inclusive of equity incentives.

The directors do not participate under the Company's approved and unapproved share incentive schemes or any other scheme, with the exception of Richard Pease, who manages hedge funds where there is an entitlement, in line with market practice, to a percentage of any performance fee received from the funds he manages.

With the exception of John Duffield, the executive directors receive healthcare membership, life and permanent health insurance cover and membership of the Group's pension scheme. The New Star Pension Scheme is a HM Revenue and Customs (HMRC) approved occupational defined contribution scheme open to all permanent employees who have been in service for three months.

The employer's contribution to this scheme on behalf of all employees, including executive directors, is 15% of basic salary. The Group life insurance cover provides death in service benefits, currently amounting to four times basic salary.

The executive directors are employed under continuing contracts of employment that can be terminated by either party under notice provisions of up to three months, with no provision for compensation payable by the Company on early termination.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The non-executive directors have each been appointed for three-year terms with one-month notice periods. The letters of appointment do not contain a provision for termination payments other than the unexpired period of the appointment. The non-executive directors received the fees disclosed on page 32 and do not receive any other group benefits, with the exception of Martin Smith, who receives healthcare membership.

DIRECTORS' REMUNERATION REPORT

continued

STATEMENT OF DIRECTORS' REMUNERATION (audited)

The remuneration of the directors who held office during the year ended 31 December 2007 is set out below:

	Salary/ Fees £'000	Performance Fees £'000	Benefits in kind £'000	Total 2007 £'000	Total 2006 £'000	Pension 2007 £'000	Pension 2006 £'000
NON EXECUTIVE							
Sir Dominic Cadbury	14	–	–	14	65	-	-
John Craig	60	–	–	60	45	-	-
David Gamble	51	–	–	51	45	-	-
Martin Smith	45	–	1	46	46	–	–
	170		1	171	201		
EXECUTIVE							
John Duffield	361	–	–	361	350	–	–
Michael Astor	124	–	4	128	124	19	18
Howard Covington	464	–	13	477	461	70	68
John Jay*	135	–	4	139	–	20	-
Richard Pease	197	5,512	5	5,714	4,712	30	29
Rupert Ruvigny	412	–	11	423	409	62	60
Mark Skinner	220	–	10	230	209	33	30
	2,083	5,512	48	7,643	6,466	234	205

* *Excludes the period prior to being a director.*

DIRECTORS' SERVICE CONTRACTS

The Directors have current service contracts as summarised below:

	Date of contract(s)	Notice period from Company	Notice period from director	Provision for compensation payable by the Company on early termination
Executive directors				
John Duffield	7 November 2005	3 months	3 months	Nil
Michael Astor*	7 November 2005	3 months	3 months	Nil
Howard Covington*	7 November 2005	3 months	3 months	Nil
John Jay*	15 March 2007	3 months	3 months	Nil
Richard Pease*	7 November 2005	3 months	3 months	Nil
Rupert Ruvigny*	7 November 2005	3 months	3 months	Nil
Mark Skinner*	7 November 2005	3 months	3 months	Nil
Non-executive directors				
John Craig	7 November 2005	1 month	1 month	Nil
David Gamble	7 November 2005	1 month	1 month	Nil
Martin Smith	7 November 2005	1 month	1 month	Nil

* *The employment will terminate automatically on achieving the 65th birthday.*

DIRECTORS' REMUNERATION REPORT

continued

SHARE SCHEME (audited)

John Duffield, Mark Skinner and Richard Pease have received loans from the Group's Employee Benefit Trusts (EBTs) in connection with the acquisition of shares in the Company. These loans have been provided by the EBTs on the same terms as employees and total £5.0 million (2006: £11.0 million).

The EBTs have made loans to directors and employees to meet certain tax liabilities relating to the Group's shares. John Duffield and Mark Skinner have loans outstanding at 31 December 2007, including rolled up interest totalling £1,728,187 (2006: £2,148,446) and £287,603 (2006: £357,542) respectively.

DIRECTORS' SHARE INTERESTS (audited)

The directors who held office on 31 December 2007 were interested in ordinary shares of New Star Asset Management Group PLC at 31 December 2007 as set out below.

	AIM			FULL LISTING*	
	1 January 2007	No of shares sold	12 June 2007	13 June 2007	31 December 2007
John Duffield	33,894,300	11,818,460	22,075,840	17,660,672(1)	17,660,672(1)
Michael Astor	2,576,400	1,000,560	1,575,840	1,260,672(2)	1,260,672(2)
Howard Covington	9,500,000	3,500,000	6,000,000	4,800,000	4,800,000
John Craig	–	–	–	–	–
David Gamble	–	–	–	–	–
John Jay	840,000	240,000	600,000	479,999	479,999
Richard Pease	9,250,000	3,250,000	6,000,000	4,800,000	4,800,000
Rupert Ruvigny	9,000,000	3,000,000	6,000,000	4,800,000	4,800,000
Mark Skinner	1,241,160	–	1,241,160	992,928	992,928
Martin Smith	3,000,000	2,100,000	900,000	720,000(3)	720,000(3)
	69,301,860	24,909,020	44,392,840	35,514,271	35,514,271

* *On 12 June 2007, as described in the Directors' report, the ordinary New Star Shares were cancelled and all current shareholders received four new ordinary shares and £6.25 of cash for every five New Star Shares then held.*

(1) Of these shares, John Duffield has a non-beneficial interest in the 3,980,672 ordinary shares held by New Star Investment Trust PLC as a result of him being the holder of approximately 60 per cent of the issued share capital of that company.

In addition, John Duffield has a non-beneficial interest in 600,000 ordinary shares that are held by a trust for the benefit of a former employee of the Group in his capacity as one of the trustees of that trust and is also entitled to the profit realised in respect of 4,000,000 ordinary shares held by one of the EBTs.

(2) Of these shares, 804,000 ordinary shares are held in Michael Astor's own name and he has a non-beneficial interest in the remaining 456,672 ordinary shares, which are held by discretionary trusts for the benefit of his dependent children.

(3) Of these shares, 400,000 ordinary shares are held in Martin Smith's own name and he has a non-beneficial interest in the remaining 320,000 ordinary shares, which are held by a discretionary trust for the benefit of his children and grandchildren.

After excluding the shares disclosed in (1) above the remaining shares held by the directors are subject to the lock-in provisions detailed on page 20. Of the shares held at 31 December 2007 25% of the shares became free of the lock-in arrangements on 27 September 2007 when the share price was £4.20. None of these shares, however, have been sold by the directors. A further 25% will become free of the lock-in arrangements at the end of August 2008 and the final 50% at the end of August 2009.

DIRECTORS' REMUNERATION REPORT

continued

DIRECTORS' SHARE INTERESTS (audited) *continued*

These figures exclude the 4,612,724 (2006: 4,494,515 ordinary shares of 5p each) ordinary shares of 25p each held by the Group's EBTs in which each of the executive directors have a non-beneficial interest as a result of being amongst the class of potential beneficiaries of the EBTs.

SHARE OPTION SCHEME

The Company has adopted an HMRC-approved and an unapproved option scheme, The New Star 2007 Discretionary Share Option Scheme. Options may be granted to employees and executive directors subject to the discretion of the Remuneration Committee. The share option scheme operates over all ordinary shares. Options issued under the scheme may normally only be exercised between the third and tenth anniversary of the date on which the option was granted. No options have been granted to the directors in the year and no directors hold any share options in the Company.

TOTAL SHAREHOLDER RETURN

The Regulations require the inclusion of a graph that illustrates the total shareholders' return for a holding in the Company's shares against a broad equity market index for a period of five years. As New Star only gained admission to the AIM market in November 2005, the graph shows the performance for the Company since admission. The New Star share performance has been adjusted for the June 2007 Capital repayment and share reorganisation.

The FTSE 250 Total Return Index of companies has been used as the comparator index as it is the index that included the Company at the year end and contains similar-sized companies in a variety of sectors including a number of asset management companies.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the Annual Report and the Group and Parent Company Financial Statements

The directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law, the directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the European Union (EU) and have elected to prepare the Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

In preparing each of the Group and Parent Company financial statements, the directors are required:

- to select suitable accounting policies and then apply them consistently;
- to make judgments and estimates that are reasonable and prudent;
- for the Group financial statements to state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- for the Parent Company financial statements to state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements.
- to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

INDEPENDENT AUDITORS' REPORT

To the members of New Star Asset Management Group PLC

We have audited the Group and Parent Company Financial Statements (the "financial statements") of New Star Asset Management Group PLC for the year ended 31 December 2007, which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. 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 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

The directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company Financial Statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 35.

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. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Directors' Report.

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

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

INDEPENDENT AUDITORS' REPORT

To the members of New Star Asset Management Group 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 EU, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2007;
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Date: 19 March 2008

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
REVENUE		263,221	200,710
FEES AND COMMISSIONS		(89,952)	(66,764)
NET REVENUE		173,269	133,946
OPERATING EXPENSES	4	(75,194)	(61,934)
OPERATING EARNINGS*		98,075	72,012
INTANGIBLE AMORTISATION	9	(23,244)	(23,252)
EXCEPTIONAL IPO COSTS	3	(2,388)	-
OPERATING PROFIT		72,443	48,760
FINANCE REVENUE		3,048	1,890
FINANCE EXPENSE		(12,679)	(631)
PROFIT BEFORE TAXATION		62,812	50,019
TAXATION	6	(16,351)	(10,577)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	20	46,461	39,442
OPERATING EARNINGS PER SHARE (PENCE)*	8	39.51	24.71
BASIC EARNINGS PER SHARE (PENCE)	8	18.72	13.54
DILUTED EARNINGS PER SHARE (PENCE)	8	18.45	13.54

* *In the opinion of the directors, the operating earnings (profit before taxation, interest, exceptional items and amortisation of intangibles) more accurately reflect the underlying profitability of the Group and its ongoing activities.*

The notes on pages 42 to 66 form part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Profit for the year	20	46,461	39,442
Exchange movement on translation of foreign operations		(91)	(265)
Fair value movement on available-for-sale assets		285	(1,469)
Fair value movement on hedge instruments after taxation		(4,872)	–
Net expense recognised directly in equity	20	(4,678)	(1,734)
Total recognised income and expense for the year		41,783	37,708
Attributable to:			
Equity holders of the parent company		41,783	37,708

The notes on pages 42 to 66 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2007

	Notes	2007 £'000	2006 £'000
Non-current assets			
Intangible assets	9	30,518	53,762
Property and equipment	10	4,531	3,312
Financial assets	12	5,260	11,815
Deferred tax assets	13	2,479	1,421
Trade and other receivables	14	6,655	9,292
		49,443	79,602
Current assets			
Trade and other receivables	14	106,020	95,661
Financial assets	12	681	3,900
Cash and cash equivalents	15	29,237	19,237
		135,938	118,798
TOTAL ASSETS		185,381	198,400
Current liabilities			
Trade and other payables	16	(112,987)	(85,559)
Current tax		(5,866)	(4,793)
		(118,853)	(90,352)
Non-current liabilities			
Long-term borrowings	17	(266,249)	–
Trade and other payables	16	(11,038)	(2,335)
Provisions	18	(66)	(129)
		(277,353)	(2,464)
TOTAL LIABILITIES		(396,206)	(92,816)
Net (Liabilities)/Assets		(210,825)	105,584
Equity			
Share capital	19	58,395	14,541
Share premium	20	–	257
Capital redemption reserve	20	–	1,119
Retained earnings	20	134,830	110,933
Other reserves	20	(410,847)	(407)
Own shares	20	6,797	(20,859)
Equity attributable to equity holders of the parent	20	(210,825)	105,584

Approved by the Board and authorised for issue on 19 March 2008 and signed on its behalf by:

JOHN DUFFIELD (Chairman) RUPERT RUVIGNY (Finance Director)

The notes on pages 42 to 66 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Cash flow from operating activities			
Profit after taxation		46,461	39,442
Depreciation charges	10	1,150	791
Amortisation of intangible assets	9	23,244	23,252
Profit on sale of tangible fixed assets	4	(7)	-
Profit on sale of financial assets		(320)	-
Share-based element of remuneration	22	521	1,689
Net finance expenses/(revenue)		9,631	(1,259)
Taxation expense	6	16,351	10,577
		97,031	74,492
Changes in operating assets and liabilities			
Decrease/(increase) in financial assets		3,219	(2,805)
Increase in trade and other receivables		(10,359)	(37,345)
Increase in trade and other payables		28,628	28,511
Decrease in provisions	18	(63)	(36)
		118,456	62,817
Taxation paid		(14,442)	(5,857)
Net cash flow from operating activities		104,014	56,960
Cash flow from investing activities			
Purchase of investments	12	(8,190)	(6,000)
Proceeds from the sale of investments		16,086	-
Purchase of property and equipment	10	(2,373)	(1,504)
Proceeds from sale of tangible fixed assets		12	5
Net cash flow from investing activities		5,535	(7,499)
Cash flow from financing activities			
Proceeds from the issue of share capital		1,686	274
Movement in EBTs		27,656	(2,837)
Loans repaid by/(paid to) employees		2,637	(586)
Receipts from long-term borrowing		300,000	-
Repayment of long-term borrowing		(30,000)	(9,298)
Repayment of short-term borrowing		-	(9,758)
Finance income received		3,048	2,442
Finance expense paid		(16,430)	(526)
Repayment of capital to shareholders		(364,970)	-
Purchase and cancellation of shares	20	-	(19,422)
Dividends paid	7	(23,085)	(11,340)
Net cash flow from financing activities		(99,458)	(51,051)
Net change in cash and cash equivalents		10,091	(1,590)
Cash and cash equivalents at start of year		19,237	21,092
Exchange movements		(91)	(265)
Cash and cash equivalents at end of year	15	29,237	19,237

The notes on pages 42 to 66 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

1 ACCOUNTING POLICIES

New Star Asset Management Group PLC is a company incorporated and domiciled in the United Kingdom under the Companies Act 1985. The parent (formally EaglePilot PLC) was incorporated on 10 January 2007, changed its name to New Star AM PLC on 5 April 2007 and on 12 June 2007 changed its name to New Star Asset Management Group PLC.

The Group financial statements are presented in pounds sterling (rounded to the nearest thousand), the currency of the parent company.

The consolidated financial statements of the Group for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the Group). Foreign operations are included in accordance with the policies set out in note 1e (ii).

a) **Statement of compliance**

The consolidated financial statements of the Group have been prepared and approved by the directors in accordance with IFRS, as adopted by the EU, and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

b) **Basis of preparation**

The financial statements of the Group have been prepared under the historical cost convention, except that the following assets are stated at their fair values; derivative financial instruments, financial instruments held for trading and financial assets that are designated as available-for-sale.

The following accounting policies have been applied consistently to all periods presented in the Group's financial statements.

As the June 2007 scheme of arrangement did not result in any change in shareholders of the Group, the Group financial statements have been prepared adopting reverse acquisition accounting principles and section 131 merger relief to account for the scheme of arrangement and introduction of New Star Asset Management Group PLC as the new holding company as if it had always been the parent company of the Group. Accordingly the Group financial statements do not recognise any goodwill on acquisition and include the costs of the Group prior to the scheme of arrangement.

As permitted by section 230 of the Companies Act 1989, a separate income statement account has not been presented for the Company.

c) **New standards and interpretations not applied**

During the year, the IASB and IFRIC have issued a number of new standards and interpretations with an effective date after the date of these financial statements. The directors do not anticipate that the adoption of these standards will impact the Group's reported earnings in the period of initial application. The Group plans to apply these standards in the reporting periods when they become effective. The new standards include IFRS 8 "Operating Segments" which is effective for accounting periods after 1 January 2008. The Group is reviewing the criteria for segmental information and its current position of one investment management segment.

d) **Basis of consolidation**

The consolidated financial statements include the accounts of New Star Asset Management Group PLC and each of its subsidiaries. Subsidiaries are entities that are controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control begins to the date that control ceases.

The Group's Employee Benefit Trusts are included in the consolidated financial statements.

Intra-group balances and any unrealised gains and losses or income and expenses are eliminated in preparing these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

1 ACCOUNTING POLICIES *continued*

e) **Foreign currency**

(i) *Foreign currency transactions*

Transactions denominated in foreign currencies arising during the accounting period are translated into sterling at the foreign exchange rate ruling at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the rate ruling at that date. All exchange gains or losses are taken to the income statement in the period in which they arise. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the dates of the transactions. Non-monetary assets and liabilities that are measured in terms of fair value in a foreign currency are translated using the exchange rate ruling at the date of the measurement of fair value.

(ii) *Financial statements of foreign operations*

Revenues and expenses of foreign operations are translated into sterling at average rates of exchange. Assets and liabilities of foreign operations are translated into sterling at the rate ruling at the balance sheet date. Exchange differences arising from the translation of the assets and liabilities of foreign operations are shown as a separate component of equity.

f) **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost represents purchase cost, together with any directly attributable expenses of acquisition. Subsequent expenditure on property and equipment is only capitalised when it is probable that there will be future economic benefit. All other expenditure is recognised as an expense in the income statement.

The costs of purchasing and implementing software, together with associated relevant expenditure, are capitalised where the relevant conditions in IAS16 are met. Software is recorded initially at cost and then depreciated on a straight line basis over its estimated useful life. The depreciated cost of the software is reviewed each year end to determine whether there is an indication of impairment. Any depreciation or impairment is charged in the income statement.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives are as follows:

Leasehold improvements	Period of the lease
Computer equipment	3 years
Software	3 years
Furniture and equipment	5 years
Motor vehicles	3 years

The residual values and useful lives of the assets are reviewed at least annually. If there is evidence of impairment then the asset is written down to its recoverable amount. Any depreciation or impairment is charged in the income statement as an expense.

g) **Intangible assets – management contracts**

The cost of the rights to manage assets is capitalised as an intangible asset. Where the management contracts do not have a defined life, an estimate of the useful life is made and the costs are amortised on a straight line basis over their useful lives. Where the management contracts have a defined useful life, the cost is amortised over the period of the contract. The amortised cost of these management contracts is reviewed annually to ensure no impairment has occurred. Any amortisation or impairment is charged in the income statement as an expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

1 ACCOUNTING POLICIES *continued*

g) Intangible assets – management contracts *continued*

The estimated useful lives for the retail contracts acquired in 2003 was 6 years and for the Family Assurance and Exeter Financials Fund was based on the finite life of the contract, which is 4 years and 33 months respectively.

h) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss on available-for-sale financial assets is recognised only when the carrying amount of an asset exceeds its recoverable amount and it is considered very unlikely that the carrying amount will be recovered. Impairment losses are recognised in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement for an impaired asset is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

i) Financial instruments

(i) Derivatives

The Group uses derivative financial instruments to manage its exposure to interest rate risk. These contracts are designated as effective cash flow hedges and changes in fair value are recognised directly in equity. Any ineffective part of the hedge is recognised in the income statement immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivative instruments are not used for trading or speculative purposes.

(ii) Investments

Non current investments are designated as available-for-sale and are stated at fair value, with any movement in fair value being recognised in the fair value reserve, except for impairment losses and, in the case of monetary items, foreign exchange gains and losses. When the investment is sold or written off, the cumulative gain or loss dealt with through this reserve is recognised in the income statement.

(iii) Stock of shares/units

The stock of shares/units represents shares held in the Group's open-ended investment companies and unit trusts. They are held for trading and are stated at fair value, with any movement in fair value being recognised immediately in the income statement.

j) Trade and other receivables

Trade and other receivables are initially recorded at fair value and subsequently at amortised cost less impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

1 ACCOUNTING POLICIES *continued*

k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short-term deposits with an original maturity of three months or less.

l) Trade and other payables

Trade and other payables are recognised at amortised cost.

m) Borrowings

Borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, borrowings are held at amortised cost with any difference between amortised cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

n) Employee benefits defined contribution plans

The Group operates a defined contribution pension scheme. Contributions are charged to the income statement as they become payable in accordance with contractual terms.

o) Share-based payments

The Group operates schemes that allow employees, including Directors, to purchase shares in the Company. The employee purchases the shares with a loan advanced by one of the Group's EBTs. The employees have charged the relevant shares held by them in favour of an EBT by way of security for their obligations to the EBT. The employees' obligations to pay or repay sums to the EBT are of a limited recourse nature as the employees' liability is capped at the proceeds of sale of the shares charged by them. The Group calculates the fair value of these awards using a Black-Scholes model. The fair value is recognised as an employee cost in the income statement over the period during which the employees become unconditionally entitled to the shares, being the period from the date of grant. The amount recognised is adjusted to reflect the expected and actual numbers of shares that the employees become unconditionally entitled to.

The Group also operates share option schemes that allow employees, including Directors, to purchase shares in the Company. The fair value of the options is measured on the grant date and spread over the period during which the employees become unconditionally entitled to the underlying shares. The fair value of the options granted is determined using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised in the income statement is adjusted to reflect the expected and actual number of options that vest.

All schemes are classified as being equity settled.

Surpluses in the Group's EBTs are recognised in the income statement when paid.

p) Provisions

A provision is recognised in the balance sheet when there is a current obligation as a result of a past event and it is probable that a future outflow of economic benefits will be required to settle the obligation.

A property provision for lease obligations is recognised where the expected benefits to be derived by the Group from the lease are lower than the unavoidable costs of meeting its obligations under the lease.

q) EBT reserve

The EBT reserve represents realised profits, shares at cost held by the Group's EBTs less loans secured by shares sold by the Group's EBTs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

1 ACCOUNTING POLICIES *continued*

r) Revenue

Revenue comprises management and advisory fees, gross performance fees, gains (or losses) arising on the Group's holdings in shares of open-ended investment companies (OEICs) and unit trusts and property acquisition fees. Revenue is recognised when it is probable that economic benefit will flow to the Group and it can be reliably measured. To the extent that the Group collects (and pays) amounts in respect of the services provided to investors by intermediaries upon the sale of units, then the amounts received (and paid) are not included in the Income Statement.

The following specific recognition criteria have been adopted:

(i) Management and advisory fees
Management and advisory fees are recognised over the period in which the service is provided.

(ii) Front-end fees
Where front-end fees are received for the sale of OEICs and unit trusts the net retained fee is recognised on sale.

(iii) Performance fees
Performance fees are recognised when the quantum of the fee can be estimated reliably and it is probable that the fee will crystallise. This is at the end of the performance period.

(iv) Gains (or losses) arising on the Group's holdings in shares of open-ended investment companies and unit trusts
Where holdings are classified as held for trading then any movement in fair value is recognised immediately.

(v) Property acquisition fees
Property acquisition fees are recognised using the percentage completion method.

s) Expenses

(i) Fees and commissions
Fees and commissions in respect of the management of investment management contracts are recognised over the period the service is provided. Included in fees and commissions is the share of the management and performance fees received payable to third parties including fund managers.

(ii) Operating leases
Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised on a straight line basis over the lease term.

(iii) Exceptional items
An item is considered to be an exceptional item if it does not usually occur in the normal course of the business and, or it is unusually large as to mislead a reader if it is not shown separately in the consolidated income statement.

t) Finance income and finance cost

Interest income and expense are calculated using the effective yield basis. Finance income comprises interest on short-term deposits and finance cost comprises interest paid on borrowings and the amortised transaction costs on borrowings.

u) Taxation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

1 ACCOUNTING POLICIES *continued*

u) Taxation ***continued***

Current tax is the expected tax payable on the taxable income for the year, using rates enacted, or substantively enacted, at the balance sheet date, and any adjustments in respect of prior years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is only recognised when it is probable that there will be future taxable profits available against which to offset the asset. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

v) Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

w) Accounting estimates, assumptions and judgements

The preparation of the financial statements necessitates the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's knowledge and best judgement of information and financial data, the actual outcome may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant estimates and judgements in drawing up the Group's consolidated financial statements are in connection with any impairment and the principal assumptions underlying the valuation of the Group's share-based payments.

x) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

(ii) Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which they are declared.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2 REVENUE – SEGMENTAL AND GEOGRAPHICAL ANALYSIS

The Group operates as a single asset management business, and the directors do not consider the different sources of revenue and geographic regions within the business as separate business segments within the meaning of IAS 14 Segment Reporting.

The risks and returns to the Group across the different income sources and geographic regions are not significantly different and it is the clients themselves who have the different risk/return profiles. All of the Group's clients are consuming the same service – asset management and the fund managers may manage funds across two or more different income sources and geographic regions. On this basis New Star considers itself to be a single segment investment management business.

3 EXCEPTIONAL IPO COSTS

Exceptional IPO costs in 2007 totalling £2,388,000 relate to the costs incurred in respect of the admission of the shares in New Star Asset Management Group PLC to the Official List and to trading on the London Stock Exchange's main market for listed securities and the costs of the capital reorganisation.

4 OPERATING EXPENSES

	2007 £'000	2006 £'000
Operating leases	4,124	2,479
Employee costs (excluding performance fee bonuses)	36,051	28,533
Other operating charges	33,668	29,131
Foreign exchange loss	208	1,000
Depreciation of tangible fixed assets	1,150	791
Profit on sale of tangible fixed assets	(7)	-
	75,194	61,934
Other operating charges include:		
Auditor's remuneration:		
Fees payable to the Company's auditors for the audit of these financial statements	59	53
Fees payable to the Company's auditors and its associates for other services		
– statutory audit of the Company's subsidiaries pursuant to legislation and regulation	96	87
– other services pursuant to legislation	125	119
– tax services	69	17
– all other services (see below)	472	84
Fees paid in respect of the Group's pension scheme		
– audit	10	9

Fees paid to the Company's auditors

In 2007 other services pursuant to legislation and regulation includes work in connection with a controls report ("AAF"), regulatory reporting and the interim review.

The total for all other services in 2007 includes work in connection with other professional services, IT Systems Review, property management advice and IPO related costs, which are included in note 3.

Various fees including significant audit, tax and structuring fees borne by funds managed by the New Star Group are not included above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

5 EMPLOYEES

	2007 £'000	2006 £'000
Personnel costs for the year (including directors):		
Wages and salaries	38,543	32,281
Social security	4,470	4,053
Pension costs	3,317	2,883
Share-based payments	521	1,689
	46,851	40,906

These costs include directors' remuneration. Disclosures on directors' remuneration are given on page 32 within the Directors' Remuneration Report and form part of these Financial Statements.

Included within employees' costs are £10,800,000 (2006: £12,193,000) paid in respect of performance fees, which are shown as fees and commission in the Consolidated Income Statement.

The average number of persons, including contractors, employed by the Group during the year was as follows:

	2007	2006
Investment professionals	79	69
Sales, marketing and administration staff	317	245
	396	314

6 TAXATION

(a) The major components of the tax expense are as follows:

	2007 £'000	2006 £'000
Recognised in the consolidated income statement		
Current tax		
– UK	15,400	8,385
– Overseas	530	253
Adjustment in respect of prior periods	(415)	–
Current tax charge	15,515	8,638
Deferred tax (note 13)		
Recognition of tax losses	362	2,500
IFRS 2 Share-based payments	463	(463)
Deferred tax on temporary differences	(30)	(98)
Deferred tax resulting from a reduction in tax rate	41	–
Tax expense in the consolidated income statement	16,351	10,577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

6 TAXATION *continued*

(b) Factors affecting the tax expense for the year

A reconciliation between the actual tax expense and the accounting profit multiplied by the Group's domestic tax rates for the years ended 31 December 2007 and 2006 is as follows:

	2007 %	2007 £'000	2006 %	2006 £'000
Profit before tax		62,812		50,019
Income tax using the domestic corporation tax rate of 30% (2006: 30%)	30%	18,844	30%	15,006
Impact of profit arising in countries with different tax rates	(6%)	(3,559)	(5%)	(2,535)
Adjustment in respect of prior periods	(1%)	(415)		
Expenses not deductible for tax purposes	2%	965	1%	745
Recognition of unused losses		(362)	(9%)	(4,593)
Deferred tax reversal on losses carried forward		362	5%	2,500
Depreciation in excess of capital allowances		42		15
Deferred tax on IAS 17 leases		(30)		(98)
Deferred tax on IFRS 2 share based payments		463	(1%)	(463)
Reduction in closing deferred tax balances, as a result of a reduction in tax rate		41		–
Tax expense reported in the consolidated income statement	25%	16,351	21%	10,577

At the end of 2007 the Group had no tax losses carried forward (2006: £1.2 million). Deferred tax details are shown in note 13.

7 DIVIDENDS

	2007 £'000	2006 £'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2006 of 5.0p (2005: nil) per share	14,076	-
Interim dividend for the year ended 31 December 2007 of 4.0p (2006: 4.0p) per share	9,009	11,340
	23,085	11,340

The directors have proposed a final dividend for the year ended 31 December 2007 of £2.3 million, representing 1.0p (2006: 5.0p) per share. The proposed dividend is subject to approval by shareholders at the Annual General Meeting on 15 May 2008 and has not been included as a liability in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

8 EARNINGS PER SHARE

The calculations of operating earnings per share are based on the following profits and numbers of shares.

EARNINGS	**2007 £'000**	**2006 £'000**
Profit for the year attributable to equity holders of the parent	46,461	39,442
Amortisation of intangibles	23,244	23,252
Exceptional IPO costs	2,388	-
Net interest	9,631	(1,259)
Taxation	16,351	10,577
Operating earnings	98,075	72,012

	Basic earnings per share p	**Basic earnings per share p**
Profit for the year attributable to equity holders of the parent	18.72	13.54
Amortisation of intangibles	9.36	7.98
Exceptional IPO costs	0.96	-
Net interest	3.88	(0.44)
Taxation	6.59	3.63
Operating earnings	39.51	24.71

The calculation of basic earnings per share at 31 December 2007 was based on the profit attributable to ordinary shareholders of £46,461,303 (2006: £39,442,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 248,211,395 (2006: 291,393,680).

The diluted earnings per share are 18.45p (2006: 13.54p).

In the opinion of the directors the profit before taxation, interest, exceptional items and amortisation of intangibles, more accurately reflect the underlying profitability of the Group and its ongoing activities.

SHARES IN ISSUE	**2007**	**2006**
Basic weighted average number of ordinary shares	248,211,395	291,393,680
Employee share options dilution	3,637,214	(5,209,135)
	251,848,609	286,184,545

The basic weighted average number of shares has been arrived at after excluding 1,996,580 shares (2006: 6,111,480) that have been treated as contingently issuable shares where the contingency conditions have not been met at the year end and 9,221,489 shares (2006: 6,028,718) held by the Group's EBTs.

There were 4,914,736 options outstanding at the year end (2006: 3,250,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

9 INTANGIBLE ASSETS

	£'000
COST	
At 1 January and 31 December 2006	137,335
Additions	–
At 31 December 2007	137,335
AMORTISATION	
At 1 January 2006	60,321
Amortisation for the year	23,252
At 31 December 2006	83,573
Amortisation for the year	23,244
At 31 December 2007	106,817
NET BOOK VALUES	
At 31 December 2007	30,518
At 31 December 2006	53,762

The intangible assets arise from acquisitions of the right to manage investment contracts.

10 PROPERTY AND EQUIPMENT

	Leasehold improvements £'000	Computer equipment & software £'000	Furniture & equipment £'000	Motor vehicles £'000	Total £'000
COST					
At 1 January 2006	2,098	1,754	985	41	4,878
Additions	51	1,301	152	–	1,504
Disposals	–	(7)	–	–	(7)
At 31 December 2006	2,149	3,048	1,137	41	6,375
Additions	980	1,183	180	30	2,373
Disposals	–	–	–	(41)	(41)
At 31 December 2007	3,129	4,231	1,317	30	8,707
DEPRECIATION					
At 1 January 2006	(389)	(1,203)	(666)	(16)	(2,274)
Charge for the year	(146)	(479)	(151)	(15)	(791)
Disposals	–	2	–	–	2
At 31 December 2006	(535)	(1,680)	(817)	(31)	(3,063)
Charge for the year	(168)	(836)	(135)	(11)	(1,150)
Disposals	–	–	–	37	37
At 31 December 2007	(703)	(2,516)	(952)	(5)	(4,176)
NET BOOK VALUES					
At 31 December 2007	2,426	1,715	365	25	4,531
At 31 December 2006	1,614	1,368	320	10	3,312

There are no restrictions on the Group's title to the above assets and none are pledged as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

11 PRINCIPAL SUBSIDIARIES

THE COMPANY'S PRINCIPAL DIRECT AND INDIRECT SUBSIDIARIES ARE:

	Country of Incorporation and operation	% of Issued Ordinary shares held by Group	Activity
New Star Asset Management Group Holdings Ltd	England	100%	Intermediate holding company
New Star Asset Management Holdings Ltd	England	100%	Intermediate holding company
New Star Asset Management Ltd	England	100%	Fund management
New Star Investment Funds Ltd	England	100%	Unit trust manager and authorised corporate director for open-ended investment companies
New Star Institutional Managers Ltd	England	100%	Fund management
New Star Property Asset Management Limited	England	100%	Property asset management
New Star Asset Management (Bermuda) Ltd	Bermuda	100%	Fund management and distribution
New Star Investment Funds (Ireland) Ltd	Ireland	100%	Manager for offshore open-ended investment company
New Star International Investment Products (Asia) Ltd	Hong Kong	100%	Offshore fund promotion
New Star International Investment Products Ltd	Bermuda	100%	Administration company
New Star Asset Management Services Ltd	Ireland	100%	Marketing & support company

A full list of group companies can be found in the Company's annual return. New Star Asset Management Group Holdings Limited is the only directly-owned subsidiary.

The results, assets and liabilities of the Group's EBTs have been consolidated within the results of the Group. At the year end the EBTs held 8,612,724 (2006: 9,494,515) ordinary shares in the Company and employees held 35,730,549 (2006: 54,049,979) ordinary shares in the Company financed through the EBTs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

12 FINANCIAL ASSETS

	2007 £'000	2006 £'000
Non-current investments		
At the beginning of the year	11,815	7,284
Purchases	8,190	6,000
Unrealised profit/(loss) on movement in fair value	285	(1,191)
Disposal	(15,766)	-
Exchange difference	-	(278)
	4,524	11,815
Derivative financial instruments	736	-
At the end of the year	5,260	11,815
Current investments		
Equity investment	-	3,237
Stock of shares	681	663
	681	3,900

All the investments are in funds managed by a Group company. The derivative financial instrument is an interest rate cap measured at its fair value.

Further disclosures are included within the financial instruments note 24.

13 DEFERRED TAX ASSETS

Deferred tax assets and liabilities and amounts recognised in the year are attributable to the following:

	Balance 1 Jan 2007	Recognised in income	Recognised in equity	Balance 31 Dec 2007
IAS 17 Leases	596	(11)	-	585
IFRS 2 Share based payments	463	(463)	-	-
Tax value of loss carry forwards	362	(362)	-	-
Tax on fair value hedging reserve	-	-	1,894	1,894
	1,421	(836)	1,894	2,479

	Balance 1 Jan 2006	Recognised in income	Recognised in equity	Balance 31 Dec 2006
IAS 17 Leases	498	98	-	596
IFRS 2 Share based payments	-	463	-	463
Tax value of loss carry forwards/(utilised)	2,862	(2,500)	-	362
	3,360	(1,939)	-	1,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 TRADE AND OTHER RECEIVABLES

	2007 £'000	2006 £'000
Non-current assets		
EBT loans to directors and employees (see note 22)	6,655	9,292
	6,655	9,292
Current assets		
Debtors for OEIC shares/unit trust units	55,312	53,486
Trade debtors	16,885	10,388
Other debtors	15,091	9,553
Prepayments and accrued income	18,732	22,234
	106,020	95,661

Except for the EBT loans, trade receivables are non interest bearing.

15 CASH AND CASH EQUIVALENTS

	2007 £'000	2006 £'000
Bank balances	8,226	5,391
Short term deposits	21,011	13,846
Cash and cash equivalents	29,237	19,237

Cash and cash equivalents are held by the Group for the purpose of meeting short-term cash commitments rather than for investment or other purposes. All items above are readily convertible to a known amount of cash and are not subject to significant risk of changes in value.

Included in short term deposits is £5 million held by an EBT and not for the use of the Group as it was not paid out under the 2007 scheme but has been allocated for one director, as described in the Director's Remuneration Report (2006: nil).

16 TRADE AND OTHER PAYABLES

	2007 £'000	2006 £'000
Current liabilities		
Creditors for OEIC shares/unit trust units	64,253	56,576
Trade payables	5,236	3,264
Other payables	18,428	6,916
Accruals	25,070	18,803
	112,987	85,559
Non-current liabilities		
Deferred income	3,536	2,335
Interest rate swap	7,502	–
	11,038	2,335

Trade and other payables are non interest bearing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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17 INTEREST BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 24.

	2007 £'000	2006 £'000
Non-current liabilities		
Bank loan	266,249	–

On 19 April 2007, New Star Asset Management Group PLC entered into a loan facility agreement with the Governor and Company of the Bank of Scotland for a facility of £350 million to enable the Company to make the payments to New Star shareholders under the 2007 scheme. The term loan is repayable in full on 30 June 2013. £300 million was drawn down on the term loan in June 2007 and the balance at the end of the year was £270 million. The loan is charged at a floating rate of LIBOR plus up to 1.50%.

The costs of arranging the financing, £4,120,000, have been offset against the debt in accordance with IAS 39 and are being amortised over the life of the debt.

The Company has entered into a reducing balance interest rate swap (IRS) on £300 million and an interest rate cap on £50 million. The purpose of the IRS is to exchange floating for fixed interest payments.

The Company also has a revolving credit facility of £35 million available for the Group's general working capital requirement. At 31 December 2007 the Company had not drawn down under this latter facility.

The loan facility made available under this agreement is unsecured but is guaranteed by New Star Asset Management Group Holdings Limited, New Star Asset Management Holdings Limited and New Star Institutional Managers Holdings Limited.

18 PROVISIONS

	2007 £'000	2006 £'000
Non-current liabilities		
At 1 January	129	165
Charge to the income statement	(63)	(36)
At 31 December	66	129

The provision relates to a property provision for premises at Princes Gate calculated on the basis of the known sublease income until the end of the lease in 2011.

19 SHARE CAPITAL

	2007 Number of Shares	£'000	2006 Number of Shares	£'000
Authorised				
Ordinary Shares of £0.25 (2006: £0.05) each	336,000,000	84,000	420,000,000	21,000
Redeemable preference shares of £1.00 each	50,000	50	–	–
Allotted, issued and fully paid				
Ordinary Shares of £0.25 (2006: £0.05) each	233,580,859	58,395	290,816,230	14,541

Ordinary shares in the Company rank pari passu. All of the ordinary shares in issue carry the same right to receive dividends and other distributions declared, made or paid by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19 SHARE CAPITAL *continued*

Changes in authorised share capital

The Company was incorporated as a private limited company on 10 January 2007 with an authorised share capital of £100,000 divided into 100,000 ordinary shares of £1.00 each.

On 18 April 2007, the existing 100,000 ordinary shares of nominal value £1.00 each in the capital of the Company were sub-divided and reclassified into 400,000 ordinary shares of nominal value £0.25 in the Company.

On 18 April 2007, the authorised share capital of the Company was increased to £84,000,000 by creating 335,600,000 further ordinary shares of £0.25 each.

On 12 June 2007, as part of the scheme of arrangement and as described in the Directors' Report, the Company issued 233,580,859 ordinary shares of £0.25 each to the shareholders of New Star Asset Management Group Holdings Limited in consideration for the transfer to the Company of the above issued share capital of 291,976,231 ordinary shares of £0.05 each in that company.

On 18 April 2007 the Company issued 50,000 redeemable preference shares of £1.00 each. These shares were redeemed and cancelled on 21 December 2007.

20 RECONCILIATION OF MOVEMENT IN RESERVES

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Retained earnings £'000	Other reserves £'000	Own shares £'000	Total £'000
Balance at 1 January 2006	15,643	–	–	100,564	1,327	(18,090)	99,444
Total recognised income and expense				39,442	(1,734)		37,708
Dividends paid in year				(11,340)			(11,340)
Share capital allotted and issued (including share premium)	17	257					274
Movement in the EBT						(2,769)	(2,769)
Purchase and cancellation of shares	(1,119)		1,119	(19,422)			(19,422)
Share based payments				1,689			1,689
Balance at 31 December 2006	14,541	257	1,119	110,933	(407)	(20,859)	105,584
Share capital allotted and issued (including share premium)	83	1,603					1,686
Purchase and cancellation of shares	(25)		25				–
Reverse acquisition accounting	(14,599)	(1,860)	(1,144)		(405,762)		(423,365)
	–	–	–	110,933	(406,169)	(20,859)	(316,095)
Shares issued in relation to scheme of arrangement	58,445						58,445
Purchase and cancellation of preference shares	(50)						(50)
Total recognised income and expense				46,461	(4,678)		41,783
Dividends paid in year				(23,085)			(23,085)
Movement in EBT						27,656	27,656
Share based payments				521			521
Balance at 31 December 2007	58,395	–	–	134,830	(410,847)	6,797	(210,825)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

20 RECONCILIATION OF MOVEMENT IN RESERVES *continued*

Other reserves

i) *Translation reserve (2007: £170,000; 2006: £261,000)*
The translation reserve comprises differences on exchange arising from the translation of the opening balance sheets of subsidiaries whose reporting currency is not pounds sterling, and the differences between the results of these subsidiaries translated at average rates for the reporting year and year end rates. The translation reserve also includes unrealised foreign exchange gains and losses on available-for-sale financial assets.

ii) *Revaluation reserve (2007: (£383,000); 2006: (£668,000))*
The revaluation reserve comprises the amount of any gain or loss recognised directly in equity in relation to available-for-sale financial assets. Upon realisation of a gain or loss previously recognised in the translation or revaluation reserve in respect of available-for-sale financial assets, the amount previously recognised is reversed out and the full amount of any gain or loss is taken to the income statement.

iii) *Hedging reserve (2007: (£4.9 million); 2006: £nil)*
The hedging reserve comprises the amount of any gain or loss recognised directly in equity on the fair value relating to the effective portion of interest rate hedges.

iv) *Reverse acquisition accounting reserve (2007: (£405.7 million); 2006: £nil)*
The reverse acquisition accounting reserve comprises the cash paid under the scheme of arrangement plus the additional capital issued.

Own shares reserve

Own shares are included in the retained earnings reserve and comprise the cost of the purchase and sale of own shares held by the EBTs, realised gains in the EBTs and the cost of the loans secured by the shares in the EBTs. This reserve is a non-distributable reserve.

Capital redemption reserve

The capital redemption reserve was a non-distributable reserve created when the Company's shares were redeemed or purchased other than from the proceeds of a fresh issue of shares.

21 COMMITMENTS

Operating leases

The Group had the following future minimum rentals payable in respect of non-cancellable property operating leases at the year end.

	Property	
	2007 **£'000**	**2006** **£'000**
Within one year	5,652	2,547
Two to five years	22,606	9,989
After five years	28,258	14,152
	56,516	26,688

The Group has entered into certain property leases. The leases typically run for a period of 15 to 20 years, with an option to renew the lease after that date and a break clause after 10 to 15 years. None of the leases includes contingent rentals.

During the year, the Group entered into a non-cancellable short-term property sublease agreement with a third party; the future minimum rental receivable for this is £2,918,000.

The Group has capital commitments for settlement after 31 December 2007 of £700,000 in relation to leasehold improvements (2006: £nil) other than those already disclosed in note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22 EMPLOYEE BENEFITS

Pension scheme

The Group operates a defined contribution scheme. The pension charge for the year represents contributions payable by the Group to the fund and amounted to £3,316,591 (2006: £2,883,309). Contributions amounting to £353,995 (2006: £236,998) were payable to the scheme at the year end and are included in creditors.

Share-based payments

Pre 1 November 2005 Share Scheme

The Group operates an employee share scheme involving the Group's EBTs, the trustee of which is New Star Limited, a wholly-owned subsidiary of the Company.

The EBTs have subscribed in cash for shares and then sold those shares to employees at market value on terms that require employees to pay £0.01 per share initially, with any balance due being payable on disposal of the underlying shares or, if earlier, 18 November 2009 or the date on which the Group's interim results for the period to 30 June 2009 are announced.

Alternatively employees have subscribed in cash for shares, with the EBTs having made cash loans available to the employees to enable them to discharge their subscription obligations. These cash loans are repayable on disposal of the underlying shares or, if earlier, 18 November 2009 or the date on which the Group's interim results for the period to 30 June 2009 are announced.

Of the shares held by employees, a certain number are subject to redemption or repurchase by the EBTs if performance criteria are not met. All shares held by employees, to the extent they have not vested, are forfeited on the employee leaving the Group in circumstances rendering them a "bad leaver" although the Board has discretion to waive this provision in whole or part.

In all cases, employees have charged the relevant shares held by them in favour of an EBT by way of security for their obligations to that EBT. The employees' obligations to pay or repay sums to the EBTs are of a limited recourse nature as each employee's liability is capped at the proceeds of sale of the shares charged by him.

At the year end, the EBTs were owed approximately £15.3 million (2006: £28.4 million) by way of deferred purchase price or subscription loans. As a result of the limited recourse nature of the employee's liability, the shares sold and related loans provided by the EBTs have not been recognised but rather the cost of these shares has been deducted from capital employed in other reserves.

The facility extended to the EBTs by the Group has been repaid during the year (2006: £30.2 million). Provided that employees are able to sell shares at varying prices up to 177p per share, the EBTs should recover the sums owed to them.

The EBTs made loans to directors and employees to meet certain tax liabilities relating to shares in the Company. The total loans outstanding together with interest accrued at the year end amounted to £6.6 million (2006: £9.3 million).

On Admission to AIM various restrictions were imposed on the directors and employees for the disposal of their shares. These restrictions were transferred to the ordinary shares as part of the Scheme and as at 31 December 2007 45% of the original ordinary shares are subject to restrictions. On 18 November 2008 (or if earlier the announcement of the Company's interim results for the period to 30 June 2008) a further 15% of the individual's original holding will become free of the restrictions on disposal; and on 18 November 2009 (or if earlier the announcement of the Company's interim results for the period to June 2009) the remaining 30% of such ordinary shares will become free of restrictions on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

22 EMPLOYEE BENEFITS *continued*

If an employee ceases to be employed by the Group their shares still under the above restrictions are forfeited unless the employee is deemed a good leaver, that is if the employee ceases to be employed by the Group due to death or redundancy. The Board has general discretion to waive these restrictions.

Under IFRS 2 there is a requirement to spread the fair value of these arrangements as a charge to the income statement. The fair value of the shares issued has been calculated using the Black Scholes pricing model to estimate the fair value of the share incentive at grant, taking into account any market based performance conditions and expected vesting of shares issued.

	Share scheme 2007	Share scheme 2006
Weighted average share price (£)	1.49	1.01
Weighted average exercise price (£)	1.11	0.63
Expected volatility (%)	30%	30%
Expected life (years)	3-4	4-5
Risk-free interest rate (%)	5.5%	4.5%

The Group gained admission to AIM in November 2005 and gained a full listing in June 2007 and does not have a sufficient history of price movements for its own volatility calculation to be made. Therefore, volatility has been calculated by taking the discounted average of the volatility of a number of relevant quoted companies.

New Star 2007 Discretionary Share Option Scheme
On 18 April 2007 the Group replaced the New Star 2005 Discretionary Share Option Scheme with the 2007 Discretionary Share Option Scheme.

Options over ordinary shares can be granted to all employees including full-time executive directors. The Share Option Scheme is divided into two parts, an HMRC-approved scheme and an unapproved scheme.

The acquisition price payable on the option will be the mid-market price per ordinary share on the dealing day immediately preceding the date of the grant. Options will be exercisable between three and 10 years and based on the individual remaining in employment by the Company.

The following share options granted under the Scheme were in place at 31 December 2007:

Date option granted	Option price per share	Number of options Total
7 November 2005[1]	£2.095	542,320
3 April 2006[1]	£3.934	448,351
25 September 2006[1]	£3.753	330,226
3 April 2007[1]	£4.280	894,022
19 July 2007	£4.435	2,226,317
2 October 2007	£3.533	473,500

(1) The option price has been rebased for the four-for-five share reorganisation as part of the scheme.

The period of exercise for the 2005 and 2006 options is the earlier of 18 November 2009 or the publication of New Star's interim results for the six months ending 30 June 2009 and the tenth anniversary of grant. The options issued on 3 April 2007, 19 July 2007 and 2 October 2007 are exercisable between three and 10 years from the date of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22 EMPLOYEE BENEFITS *continued*

Share options outstanding

The total number and weighted average prices of share options outstanding are as follows:

	Weighted average exercise price £ 2007	Number of options No 2007	Weighted average exercise price £ 2006	Number of options No 2006
Pre re-organisation				
Outstanding at the beginning of the year	2.16	3,250,000	1.37	2,470,000
Granted in period	4.60	842,500	4.14	950,000
Exercised in period	1.14	(1,730,000)	0.80	(92,500)
Forfeited	4.19	(60,000)	2.72	(77,500)
Balance before capital re-organisation	3.76	2,302,500	–	–
Existing options exchanged in June 2007	3.76	(2,302,500)	–	–
Post re-organisation				
Options exchanged in June 2007	3.50	2,472,655	–	–
Granted on 19 July 2007 & 2 October 2007	4.28	2,764,817	–	–
Forfeited	3.01	(322,736)	–	–
Outstanding at the end of the year	3.97	4,914,736	2.16	3,250,000

In June 2007 following the "2007 scheme", as described in the Directors' report, existing options were exchanged for new options.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black-Scholes option pricing model.

Expectations of early exercise are incorporated into the Black-Scholes option pricing model. The inputs into the Black-Scholes option pricing model are as follows:

2007 **Date option granted**	**3 Apr 2007**	**19 Jul 2007**	**2 Oct 2007**
Share price (£)	£4.28	£4.43	£3.53
Exercise price (£)	£4.28	£4.43	£3.53
Expected volatility (%)	30%	30%	30%
Expected option life (years)	3.5	3	3
Risk-free interest rate (%)	5.5%	5.5%	5.5%

2006 **Date option granted**	**3 Apr 2006**	**25 Sep 2006**
Share price (£)	£4.23	£4.03
Exercise price (£)	£4.23	£4.03
Expected volatility (%)	30%	30%
Expected option life (years)	3-4	3-4
Risk-free interest rate (%)	4.5%	4.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23 RELATED PARTIES

In the ordinary course of business, the Company has a related party relationship, as defined by IAS 24 "Related Party Disclosures", with its subsidiaries and its directors. The principal subsidiary undertakings of the Company are shown in note 11.

Transactions between the parent and its subsidiaries, which are related parties, are disclosed below.

a) **Transactions with key personnel**

Loans to directors

Unsecured loans to directors repaid during the year ended 31 December 2007 amounted to £6,458,809 net of interest expense (2006: interest expense £122,181) in connection with loans on shares in the Company. The loans are expected to be repaid by 2009. At 31 December 2007, the balance outstanding was £7,026,068 (2006: £13,484,877).

Key management personnel compensation

Key management personnel are considered to be the executive and non-executive directors of the Company and details of their compensation and shares are disclosed within the Directors' Remuneration Report on pages 31 to 34.

b) **Pension scheme and use of New Star funds**

The Group operates and participates in a defined contribution post-employment benefit plan.

The New Star Occupational Pension Scheme invests into funds managed by New Star.

c) **Seed capital into New Star funds**

During the year, the Group invested seed capital into its funds of £8,190,000 (2006: £10,000,000). At the year end, the Group had £4,524,000 (2006: £15,052,000) seed capital, excluding the stock of shares/units, in funds managed by a Group Company (note 12).

All amounts outstanding from related parties are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of any amounts owed by related parties.

24 FINANCIAL INSTRUMENTS

The Group's financial instruments comprise fixed asset investments, cash, borrowings and various items such as trade debtors and creditors that arise directly from its operations.

The carrying value of these financial instruments are as follows:

	2007 £'000	2006 £'000
Assets		
Financial assets – Non-derivative investments (available for sale)	4,524	15,052
Derivative financial assets (hedge accounting)	736	-
Stock of shares (available for sale)	681	663
Cash and cash equivalents (loans and receivables)	29,237	19,237
Trade and other receivables (loans and receivables)	99,006	103,255
Liabilities		
Derivative financial liabilities (hedge accounting)	7,502	-
Trade and other payables (liabilities at amortised cost)	101,074	80,832
Long-term borrowings (liabilities at amortised cost)	266,249	-
Other non-interest bearing liabilities (liabilities at amortised cost)	66	129

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

24 FINANCIAL INSTRUMENTS *continued*

The fair value of the above financial instruments equates to its carrying amounts, with the exception of long-term borrowings, where its fair value is the amount due to the bank of £270 million compared to the carrying value recorded at amortised cost.

The Group's non-derivative investments are entered into for the purposes of seeding newly-launched New Star funds.

The Group's income is derived mainly from funds managed for third parties. The value of those funds is mainly dependent on market levels, the performance of the funds, net new business and exchange rates on overseas assets. The Group's main risk arises from the level of the markets in which it invests and to a lesser extent credit risk, foreign currency, liquidity and interest rate risk.

Fair value of financial instruments
The fair values of the Group's financial assets and liabilities are not materially different from their carrying values. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

a) **Available-for-sale securities**
Fair value is based on quoted market prices from financial institutions at the balance sheet date without any deduction for transaction costs.

b) **Interest rate hedges**
The fair value of the interest rate derivatives is based on the quoted market price from the bank at the balance sheet date.

c) **Trade and other receivables/payables**
For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Asset valuation risk
Asset valuation risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group, either as a result of an asset not meeting its expected value or through the decline of assets under management generating lower fees. The principal exposures of the Group are in respect of its seed investments in its own funds. Lower management fee revenues could result from a reduction in asset values. This risk is partially mitigated by asset class diversification.

The market value of the Group's available-for-sale investments on the balance sheet at 31 December 2007 was £4.5 million (2006: £11.8 million).

Liquidity risk
Liquidity risk is the risk that the Group may be unable to meet its payment obligations. This would be the risk of insufficient cash resources and liquid assets, including bank facilities, being available to meet liabilities as they fall due.

The cash generated from its operations during the year has been managed to ensure all regulatory capital requirements are met while continuing to repay the bank debt. Given the cash generative nature of the Group's operations and the availability of short-term facilities, the Group has been able to ensure that any short-term requirements have been easily covered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

24 FINANCIAL INSTRUMENTS *continued*

Credit risk

The Group's exposure to credit risk is the risk that arises from the default of the counterparty.

The Group's principal financial assets are bank and cash balances, trade and other receivables. The Group trades with only recognised creditworthy third parties. These represent the Group's maximum exposure to credit risk in relation to financial assets and are represented by the carrying amount of each financial asset in the consolidated balance sheet. The majority of trade debtors relate to the group's open-ended products, where the risk is reduced to a market risk. The exposure to credit risk is monitored on an ongoing basis. At the balance sheet date there were no significant concentrations of credit risk.

Interest rate and currency risk profiles

The interest rate profiles of the Group's financial assets and liabilities at 31 December 2007 were as follows:

	Floating rate 2007 £'000	Fixed rate 2007 £'000	Not directly exposed to interest rate risk 2007 £'000	Total 2007 £'000
Financial assets				
Financial asset investments	–	–	4,524	4,524
Cash and cash equivalents	29,237	–	–	29,237
Derivatives financial instruments	–	–	736	736
	29,237	–	5,260	34,497
Financial liabilities				
Borrowings	(270,000)	–	–	(270,000)
Hedging derivative	275,000	(275,000)	–	–
Net	34,237	(275,000)	5,260	(235,503)

The interest rate profiles of the Group's financial assets and liabilities at 31 December 2006 were as follows:

	Floating rate 2006 £'000	Not directly exposed to interest rate risk 2006 £'000	Total 2006 £'000
Financial assets			
Financial asset investments	–	15,715	15,715
Cash and cash equivalents	19,237	–	19,237
	19,237	15,715	34,952

The floating rate financial liabilities comprise interest bearing loans and borrowings, further details of which are included in note 17.

As a result of its bank loan, the Company entered into an interest rate swap and an interest rate cap as described in note 17. In order to reduce the Group's exposure to fluctuations in market interest rates (LIBOR) the interest rate swap was taken out to exchange the floating for fixed interest rate payments.

The derivative hedging instrument was based on the initial value of the loan (£300 million) with a quarterly reducing hedge amount based on an estimated repayment schedule to 30 March 2012.

The interest rate cap was taken out to protect the downside risk of the cashflow being less than expected. The interest rate cap allows the Group to protect £50 million of debt at a rate of 6.25% effective from June 2008 with a maturity date of 30 March 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 FINANCIAL INSTRUMENTS *continued*

Interest rate and currency risk profiles ***continued***

The hedges are deemed effective under the requirements of IAS 39 and are held at fair value in equity.

The main interest rate risk for the Group is the borrowings, which the Group has covered by the interest rate hedges. Any surplus cash will be used to repay the debt.

The financial assets not directly exposed to interest rate risk do not have a maturity date and principally comprise available-for-sale investments and financial assets. The floating rate financial assets principally comprise cash and deposit balances, which earn interest at rates that fluctuate according to money market rates.

Foreign exchange risk

Foreign exchange risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates.

The Group is subject to short-term foreign exchange movements between the calculation date of fees in currencies other than sterling and the actual date of receipt. The Group holds cash balances in US dollars, euros and Canadian dollars as a result of earning revenues in these currencies. Foreign exchange risk is managed by converting surplus overseas currency into sterling, ensuring that regulatory capital requirements and foreign currency expenditure requirements are met.

The currency profiles of the Group's net foreign currency monetary assets at 31 December were as follows:

Functional currency of the operating company	USD £'000	Euro £'000	Sterling £'000	Other £'000	Total £'000
2007					
Sterling	5,967	677	–	439	7,083
US Dollar	–	1,321	929	15	2,265
Euro	852	–	5,048	–	5,900
	6,819	1,998	5,977	454	15,248
2006					
Sterling	6,339	1,642	–	822	8,803
US Dollar	–	1,514	789	3	2,306
Euro	519	–	281	–	800
	6,858	3,156	1,070	825	11,909

If sterling were to strengthen/weaken by 5% against all other operating currencies the exposure at the 31 December 2007 would be a profit/loss to the income statement of approximately £726,000 (2006: £567,000).

Capital risk requirement

The Group's objectives when managing capital are to ensure it can continue as a going concern and to manage the individual regulated companies' capital requirements whilst providing sufficient returns for shareholders.

During the year, the Company utilised the Group's surplus capital and raised additional debt for the purposes of the scheme of arrangement and return of capital.

The debt is due to be repaid in June 2013, although there is the ability to repay earlier. This ensures that significant cash resources generated can be utilised on business opportunities where required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 FINANCIAL INSTRUMENTS *continued*

The individual subsidiary companies all maintain sufficient net assets and all regulated subsidiaries meet their capital adequacy requirements. The Group regularly reviews its forecasted regulatory capital position to ensure that it has sufficient headroom to enable this to be maintained under various scenarios.

The total movement in equity for the year is shown in note 20.

25 POST BALANCE SHEET EVENTS

Dividends

The board of directors has proposed a final dividend in respect of the year ended 31 December 2007 of 1.0p per share (2006: 5.0p) amounting to £2.3 million. The proposed dividend was proposed after the year end and has not been included as a liability in these financial statements.

26 CONTINGENCIES

The Group has no contingent liabilities as at 31 December 2007 (2006: nil).

27 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that could have a risk of causing material adjustment to the carrying amounts of assets and liabilities relate to intangible and financial assets. The Group tests annually to ascertain whether the intangible and financial assets have suffered an impairment in accordance with the accounting policy stated in note 1(g).

28 CONSOLIDATED FINANCIAL SUPERVISION

The Group has received a waiver from the consolidated capital requirements of the Financial Services Authority.

COMPANY FINANCIAL STATEMENTS

CONTENTS

These financial statements have been prepared in accordance with UK GAAP.

COMPANY BALANCE SHEET

at 31 December 2007

	Notes	2007 £'000
Fixed assets		
Investment in subsidiary undertakings	4	423,587
Financial assets	5	736
Deferred tax assets	6	1,894
		426,217
Current assets		
Debtors	7	62
Cash		58
		120
Creditors: Amounts falling due within one year	8	(44,957)
Net current liabilities		(44,837)
Total assets less current liabilities		381,380
Non current liabilities		
Bank borrowings	9	(266,249)
Creditors: Amounts falling due after one year	8	(7,502)
		(273,751)
Total net assets		107,629
Capital and reserves		
Called up share capital	12	58,395
Profit and loss account	13	54,106
Other reserves	13	(4,872)
Equity shareholders' funds		107,629

Approved by the Board and authorised for issue on 19 March 2008 and signed on its behalf by:

JOHN DUFFIELD (Chairman) RUPERT RUVIGNY (Finance Director)

The notes on pages 69 to 72 form part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards of UK Generally Accepted Accounting Policies.

The principal accounting policies adopted are as set out below:

a) **Basis of accounting**
The Company (formally EaglePilot PLC) was incorporated on 10 January 2007, and on 12 June 2007 changed its name to New Star Asset Management Group PLC, therefore no comparative information has been prepared. The profit before tax dealt with in the accounts of the Company was £62,894,000. As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account has not been presented for the Company. The Company prepared initial audited financial statements for the period 10 January 2007 to 30 June 2007.

b) **Dividends**
Dividends are recorded in the Company's financial statements in the period in which they are approved.

c) **Share-based payments**
The cost relating to the group share-based payment plans are reflected in the subsidiary companies which employ the staff.

d) **Borrowings**
Borrowings are recognised, at amortised cost.

e) **Investments**
Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

f) **Deferred Taxation**
Except where otherwise required by accounting standards, full provision, without discounting, is made for all temporary differences, which have arisen but not reversed, at the balance sheet date.

g) **Foreign currencies**
The Company's financial statements are presented in pounds sterling (rounded to the nearest thousand), the Company's functional and presentation currency.

h) **Financial Instruments**
The company uses derivative financial instruments to manage its exposure to interest rate risk. These contracts are designated as effective cash flow hedges and changes in fair value are recognised directly in equity. Any ineffective part of the hedge is recognised in the profit and loss account immediately.

When the financial instrument expires, is terminated or no longer qualifies for hedge accounting then the policy is discontinued. At that time the change in fair value is recognised in the profit and loss account immediately.

Derivative instruments are not used for trading or speculative purposes.

i) **Cash flow statement**
The Company has taken advantage of the exemption in FRS 1 (revised) "Cash Flow Statements" and has elected not to prepare its own Cash Flow Statement as it is included within the Consolidated Cash Flow Statement in the Group financial statements of New Star Asset Management Group PLC.

j) **Related party disclosures**
The Company has taken advantage of the exemption, permitted by Financial Reporting Standard No. 8, as a 90 per cent or more subsidiary, not to disclose transactions with the New Star Asset Management Group of Companies that eliminate on consolidation.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

2 OPERATING PROFIT

Operating profit is stated after charging the following:

Amounts received by the Company's auditors in respect of services to the Company have not been disclosed as the information is disclosed on page 48 of the consolidated financial statements.

The Company has no employees other than directors, all employees being employed by one of its subsidiary companies.

Directors' remuneration is disclosed in the Directors' Remuneration Report on pages 31 to 34.

3 DIVIDENDS PAID

Ordinary dividends paid on equity shares amounted to £9,009,000. The directors have proposed a final dividend for 2007 of £2.3 million representing 1.0p per share. The proposed dividend is subject to approval by shareholders at the Annual General Meeting on 15 May 2008 and has not been included as a liability in these financial statements.

4 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

COMPANY

	Shares at cost £'000	Share based payments £'000	Re-stated Total £'000
At Incorporation	–	–	–
Additions	423,366	221	423,587
At 31 December 2007	423,366	221	423,587

The principal subsidiary undertakings of the Company are given in note 11 to the consolidated financial statements on page 53.

Share based payments details are disclosed in note 22 of the consolidated financial statements on pages 59 to 61.

5 FINANCIAL ASSETS

	2007 £'000
Derivative financial instruments	736

The derivative financial instrument is an interest rate cap measured at its fair value. Further disclosures are included within note 12 to the consolidated financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

6 DEFERRED TAX ASSETS

Deferred tax assets and amounts recognised in equity during the year are attributable to the following:

	2007 £'000
Tax on fair value hedging reserve	1,894

7 DEBTORS

	2007 £'000
Prepayments	50
Amounts owed by subsidiary undertakings	12
	62

8 CREDITORS

	2007 £'000
Amounts falling due within one year	
Amounts owed to subsidiary undertakings	44,957
Amounts falling due after one year	
Interest rate swap	7,502

The subsidiary undertakings have agreed not to seek repayment of balances owed by the ultimate parent company until the Company has sufficient cash resources to repay the balances.

9 LONG TERM BORROWINGS

	2007 £'000
Bank borrowings	266,249

Details of the loan facility is in note 17 of the consolidated financial statements.

10 COMMITMENTS

There are no operating leases held by the Company (2006: nil).

The Company has no capital commitments for settlement after 31 December 2007 (2006: £nil).

11 CONTINGENT LIABILITIES

The Company has no contingent liabilities as at 31 December 2007 (2006: £nil).

12 SHARE CAPITAL

Details of the Company's share capital are given in note 19 to the consolidated financial statements on pages 56 and 57.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

continued

13 RESERVES

	Share Capital £'000	Profit and Loss account £'000	Other reserves £'000	Total £'000
Share capital allotted and issued	58,395			58,395
Profit for the financial year		62,894		62,894
Dividends paid		(9,009)		(9,009)
Share based payments		221		221
Hedge valuation reserve			(4,872)	(4,872)
At 31 December 2007	58,395	54,106	(4,872)	107,629

14 FINANCIAL INSTRUMENTS

The Company's financial instruments comprise fixed asset investments, cash, borrowings and hedging instruments.

The carrying value of these financial instruments are as follows:

	2007 £'000
Assets	
Derivative financial assets (hedge accounting)	736
Cash and cash equivalents (loans and receivables)	58
Trade and other receivables (loans and receivables)	1,211
Liabilities	
Derivative financial liabilities (hedge accounting)	7,502
Long-term borrowings (liabilities at amortised costs)	266,249

The fair value of the above financial instruments equates to its carrying amounts, with the exception of long-term borrowings, where its fair value is £270 million compared to the carrying value recorded at amortised cost. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Debtors and creditors
For debtors and creditors with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

Interest rate risk
The interest rate profiles of the Company's financial assets are mainly related to the long-term borrowings of £266,249,000 which are utilised by the Company and disclosed in note 24 of the consolidated financial statements along with the Group's interest rate profile.

As a result of its bank loan, the Company entered into an interest rate swap and an interest rate cap in order to reduce the Group's exposure to fluctuations in market interest rates. Further details of the instruments are disclosed in note 24 of the consolidated financial statements.

15 PARENT UNDERTAKING AND CONTROLLING PARTY

The smallest group of which the Company is a member and for which the Group financial statements are prepared is New Star Asset Management Group PLC. No other group financial statements include the results of the Company.

DIRECTORS OF PRINCIPAL SUBSIDIARIES

NEW STAR ASSET MANAGEMENT LIMITED
Fund management company in the UK

Directors are:
J L Duffield (Chairman)
G R Logan (Joint Chief Investment Officer)
S Whittaker (Joint Chief Investment Officer)
M S Beale (Deputy Chief Investment Officer)
R S Anand
M R L Astor
H J Covington
G C de Blonay
P Craig
R J Dossett
P R Evershed
J E J Gledhill
M J Groves
M A Harris
J P B Jay
J C Mould
R P Pease
P J Roantree
R F J H Ruvigny
F K Smith
M G Smith
G T Steer
T R K Thompson
C C Tritton
S J Ward

DIRECTORS OF PRINCIPAL SUBSIDIARIES

continued

NEW STAR INVESTMENT FUNDS LIMITED
Retail marketing company in the UK

Directors are:
J L Duffield (Chairman)
D M H Skinner (Managing Director)
S Cazier (Managing Director Retail Business Development)
K J Coxford
H J Covington
J Franklin
S Hillenbrand
J M Hilliam
J C Hodesdon
M B Hutson
G O Jones
M W D Little
A G McRobert
J S Mettrick
R F J H Ruvigny
R S D Wilson
G Whitefield

NEW STAR INSTITUTIONAL MANAGERS LIMITED
Fund management company in the UK

Directors are:
J L Duffield (Chairman)
M S Beale (Managing Director)
R D Lewis (Chief Investment Officer)
I J Beattie
T J Bray
K C Brown
H J Covington
A E Kirk
R F J H Ruvigny
D J Weekes

DIRECTORS OF PRINCIPAL SUBSIDIARIES

continued

NEW STAR ADMINISTRATION SERVICES LIMITED
Administration services company in the UK

Directors are:
H J Covington (Chairman)
G R Allan
K C Brown
A J Duncan
C S Hornung
A E Kirk
J C Mould
R F J H Ruvigny
S M Shore
D J Weekes
K D Zachary

WORLDINVEST MANAGEMENT LIMITED
Fund management company In the UK

Directors are:
K C Brown (Chairman)
M J Beale
H J Covington
R D Lewis
R F J H Ruvigny

NEW STAR PROPERTY ASSET MANAGEMENT LIMITED
Property Investment

Directors are:
J L Duffield
R C L Carr
H J Covington
R J Dossett
M A E B Langlands Pearse
K D Malone
G H Potts
R F J H Ruvigny

DIRECTORS OF PRINCIPAL SUBSIDIARIES

continued

NEW STAR ASSET MANAGEMENT (BERMUDA) LIMITED
Fund management company in Bermuda

Directors are:
J L Duffield
J C R Collis
P M Goldsmith
T P MacNeil
J E McLean (alternate)

NEW STAR INTERNATIONAL INVESTMENT PRODUCTS LIMITED
Offshore fund administration company in Bermuda

Directors are:
J L Duffield
H J Covington
J C R Collis
P M Goldsmith
T P MacNeil
J E McLean (alternate)

NEW STAR INVESTMENT FUNDS (IRELAND) LIMITED
Offshore manager of investment Irish funds

Directors are:
P M D'Alton
H J Covington
D W Dillon
T P MacNeil
R F J H Ruvigny

NEW STAR ASSET MANAGEMENT SERVICES LIMITED
Offshore administration & services company in Ireland

Directors are:
P M Goldsmith
G MacMillan
R F J H Ruvigny

NEW STAR INTERNATIONAL INVESTMENT PRODUCTS (ASIA) LIMITED
Offshore fund promotion company in Hong Kong

Directors are:
P M Goldsmith
T MacNeil
R F J H Ruvigny

OFFICES

LONDON
New Star Asset Management Group PLC
1 Knightsbridge Green
London SW1X 7NE

www.newstaram.com

Tel: 020 7225 9200
Fax: 020 7225 9300

BERMUDA
New Star Asset Management (Bermuda) Limited
New Star International Investment Products Limited
31 Queen Street
3rd Floor, Boyle Building
PO Box HM1871
Hamilton HM HX
Bermuda

www.newstarhedge.com

Tel: 001 441 295 9295
Fax: 001 441 295 9221

IRELAND
New Star Investment Funds (Ireland) Limited
New Star Asset Management Services Limited
Fleming Court
Fleming Place
Dublin 4
Ireland

www.newstarint.com

Tel: 00 353 1 4758000
Fax: 00 353 1 4758005

HONG KONG
New Star International Investment Products (Asia) Limited
Suite 1502
York House, The Landmark
15 Queen's Road Central
Hong Kong

www.newstarint.com

Tel: 00 852 2521 4900
Fax: 00 852 2521 4990

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continued

SPAIN

New Star Investment Funds (Ireland) Limited Oficinade Representacion en Espana
Pinar 5,
28006 Madrid
Spain

www.newstaram.com

Tel: 00 34 91 745 5906
Fax: 00 34 91 745 6699

SWITZERLAND

New Star Asset Management (Bermuda) Limited, Zurich Branch
Stampfenbachstrasse 7,
8001 Zürich

www.newstaram.com

Tel: 41 44 287 38 00
Fax: 41 44 287 38 01

ITALY

New Star Investment Funds (Ireland)
Ufficio Di Rappresenlanza Milano
Via Monte Di Pieta 21
20121 Milano

www.newstarint.com

Tel: 00 390 286 337 539
Fax: 00 390 286 337 400

NOTICE OF MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, solicitor, accountant or other professional adviser.

If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so he or she can pass these documents to the person who now holds the shares.

NOTICE is hereby given that the first Annual General Meeting of New Star Asset Management Group PLC (the "Company") will be held at 1 Knightsbridge Green, London SW1X 7NE on Thursday 15 May 2008 at 12 noon on the 7th Floor. You will be asked to consider and pass the resolutions below. Resolutions 1 to 16 (inclusive) will be proposed as ordinary resolutions and resolutions 17 to 20 (inclusive) will be proposed as special resolutions.

ORDINARY RESOLUTIONS

1. To receive the accounts for the year ended 31 December 2007 together with the reports of the directors and the auditors thereon.
2. To approve the directors' remuneration report for the year ended 31 December 2007 together with the auditors' report thereon.
3. To declare a final dividend of 1.0 pence per share on the ordinary shares of the Company for the year ended 31 December 2007.
4. To elect John Duffield as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.
5. To elect Michael Astor as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.
6. To elect Howard Covington as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.
7. To elect John Craig as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.
8. To elect David Gamble as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.
9. To elect John Jay as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.
10. To elect Richard Pease as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.
11. To elect Rupert Ruvigny as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.

NOTICE OF MEETING

continued

12. To elect Mark Skinner as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.

13. To elect Martin Smith as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.

14. To elect John Tiner as a director of the Company who, having been appointed by the Board, would in accordance with the Company's articles of association vacate office at the conclusion of the Annual General Meeting unless elected.

15. To re-appoint KPMG Audit Plc as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the meeting and to authorise the directors to determine their remuneration.

16. THAT in substitution for any existing general authority granted to the directors of the Company pursuant to section 80 of the Companies Act 1985 (the "Act"), the directors of the Company be generally and unconditionally authorised in accordance with section 80 of the Act to exercise all the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal value of £19,896,352, such authority to expire at the conclusion of the next Annual General Meeting of the Company (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) or, if earlier, on 14 August 2009 (provided that the Company may before such expiry make offers or enter into agreements which would or might require relevant securities (as so defined) to be allotted after this authority expires and the directors of the Company may allot relevant securities (as so defined) in pursuance of any such offer or agreement as if this authority had not expired).

SPECIAL RESOLUTIONS

17. THAT, subject to the passing of resolution 16 above, the directors of the Company be given power pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 16 above as if section 89(1) of the Act did not apply to any such allotment, such power to expire at the conclusion of the next Annual General Meeting of the Company (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) or, if earlier, on 14 August 2009 (provided that the Company may before such expiry make offers or enter into agreements which would or might require equity securities (as so defined) to be allotted after this power expires and the directors of the Company may allot equity securities (as so defined) in pursuance of any such offer or agreement as if this power had not expired). The power granted by this resolution shall be limited to:

    (a) the allotment of equity securities in connection with an offer or issue of those securities in favour of the holders of ordinary shares on the register on a date fixed by the directors of the Company, whether by way of rights issue, open offer or otherwise, in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on that date save in relation to fractional entitlements and subject to such exclusions and other arrangements as the directors of the Company deem necessary or expedient to deal with either legal problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

    (b) the allotment (other than pursuant to (a) above) of equity securities up to a maximum nominal amount of £2,987,440.

NOTICE OF MEETING

continued

18. THAT in substitution for the authority granted to the Company for the purposes of section 163(3) of the Act on 18 April 2007, the Company be generally and unconditionally authorised for the purposes of section 166 of the Act to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 25 pence each in the capital of the Company upon such terms and in such manner as the directors of the Company shall determine, subject to the following restrictions and provisions:

    (a) the maximum aggregate number of ordinary shares to be purchased pursuant to the authority granted by this resolution shall be 35,013,770;

    (b) the minimum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to the nominal value of an ordinary share;

    (c) the maximum price (exclusive of expenses) which may be paid for an ordinary share cannot be more than an amount equal to the higher of:

        (i) an amount equal to 105 per cent. of the average of the closing middle market price for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately prior to the day the purchase is made; and

        (ii) the price stipulated by Article 5(1) of Commission Regulation (EC) No 273/2003 (the Buy-back and Stabilisation Regulation);

    (d) unless previously revoked or varied, this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on 14 August 2009; and

    (e) the Company may make a contract or contracts to purchase ordinary shares before the expiry of this authority, which will or may be executed wholly or partly after the expiry of this authority, and may make a purchase of ordinary shares pursuant to any such contract or contracts.

19. THAT each of the 50,000 redeemable preference shares of £1.00 each in the authorised but unissued share capital of the Company be and is hereby sub-divided and reclassified such that, following such sub-division and reclassification, each such redeemable preference share of £1.00 each shall be represented by four ordinary shares of 25 pence each, such ordinary shares to rank pari passu in all respects with the existing ordinary shares of 25 pence each forming part of the share capital of the Company.

20. THAT the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

By order of the Board
John Mould
Secretary

Dated: 11 April 2008

Registered office:
1 Knightsbridge Green
London
SW1X 7NE

Registered in England and Wales, No: 6047952

NOTICE OF MEETING

continued

NOTES

1. Shareholders are entitled to appoint a proxy to exercise on their behalf all or any of their rights to attend and to speak and vote at the Annual General Meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact Capita Registrars on 0871 664 0300 (calls cost 10 pence per minute plus network extras).
2. To be valid, any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Capita Registrars (Proxies), The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 12 noon on 13 May 2008.
3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
4. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
6. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the Register of Members of the Company at 6 p.m. on 13 May 2008 (or, in the event of any adjournment, at 6 p.m. on the date that is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
7. At 18 March 2008 (being the latest practicable date prior to the publication of this Notice) the Company's issued share capital consists of 233,580,859 ordinary shares, carrying one vote each. Therefore, the total number of voting rights in the Company at 18 March 2008 (being the latest practicable date prior to the publication of this Notice) is 233,580,859.
8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

NOTICE OF MEETING

continued

9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 12 noon on 13 May 2008. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

13. The following documentation, which is available for inspection during business hours at the registered office of the Company on any weekday (public holidays excluded) until the close of the meeting, will also be available for inspection at the place of the Annual General Meeting from 9.30 a.m. on the day of the meeting until the conclusion of the meeting:

    (a) copies of all service contracts and contracts of appointment between the directors and the Company;

    (b) printed copies of this Notice and the annual report of the Company for the year ended 31 December 2007; and

    (c) copy of the articles of association of the Company marked to show the changes being proposed by resolution 20.

NOTICE OF MEETING

continued

EXPLANATION OF BUSINESS TO BE CONDUCTED AT THE ANNUAL GENERAL MEETING

The notes on the following pages give an explanation of the proposed resolutions.

Resolutions 1 to 16 inclusive are proposed as ordinary resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 17 to 20 inclusive are proposed as special resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

The directors consider that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole. Those members of your Board who hold shares will be voting in favour of them and your Board unanimously recommends that you do so as well.

ORDINARY RESOLUTIONS

Resolution 1 - accounts and reports
Company law requires the directors to present to the meeting these accounts and reports, copies of which are contained in the Annual Report in which this Notice is incorporated.

Resolution 2 - directors' remuneration report
This resolution proposes that the directors' remuneration report for the year ended 31 December 2007 be approved by the meeting. The report is set out in pages 31 to 34 in the Annual Report in which this Notice is incorporated.

Resolution 3 - declare a dividend
This resolution proposes to declare a final dividend of 1.0 pence per share on the ordinary shares of the Company for the year ended 31 December 2007.

Resolutions 4 to 14 - election of directors
The Company's Articles of Association require any director appointed by the Board to retire at the first Annual General Meeting following his or her appointment. Accordingly, each director having been appointed by the Board (and not by the shareholders in general meeting) offers himself for election at the Annual General Meeting. For the avoidance of doubt, Mr Tiner was appointed by the Board (and not by the shareholders in general meeting) prior to the date of this notice of Annual General Meeting but after 19 March 2008.

John Duffield, Howard Covington, Rupert Ruvigny, Michael Astor, John Jay, Richard Pease and Mark Skinner are standing for election as executive directors. John Craig, David Gamble, Martin Smith and John Tiner are standing for election as non-executive directors.

Biographical details of all the directors standing for election other than John Tiner appear on pages 18 and 19 of the Annual Report in which this Notice is incorporated. Biographical details of John Tiner appear under the heading "Board Appointment" on page 8 of the Annual Report in which this Notice is incorporated. The Board recommends that you support the election of each of the directors standing for election as each individual's performance continues to be effective and they continue to demonstrate commitment to their roles.

Resolution 15 - re-appointment of auditors
The Company must appoint auditors at each general meeting at which accounts are presented to shareholders to hold office until the conclusion of the next such meeting. This resolution seeks shareholder approval to re-appoint KPMG Audit Plc as the Company's auditors and seeks authority for the Company's directors to fix their remuneration.

NOTICE OF MEETING

continued

Resolution 16 - authority to allot shares
Under section 80 Companies Act 1985, the directors are prevented, subject to certain exceptions, from allotting relevant securities without the authority of the shareholders in general meeting. Relevant securities are defined in the Companies Act 1985 to include the Company's ordinary shares or securities convertible into the Company's ordinary shares. This resolution is proposed as an ordinary resolution to authorise the directors to allot relevant securities up to an aggregate nominal value of £19,896,352 (representing approximately 33.3% of the share capital of the Company in issue at 18 March 2008 (being the latest practicable date prior to the publication of this Notice) assuming for this purpose full exercise of all outstanding options at that date). The directors' authority will expire on the earlier of 14 August 2009 and the conclusion of the next Annual General Meeting. The directors have no immediate plans to make use of this authority. At 18 March 2008 (being the last practicable date prior to the publication of this Notice) the Company did not hold any ordinary shares in the capital of the Company in treasury.

SPECIAL RESOLUTIONS

Resolution 17 - disapplication of pre-emption rights
Under section 89 of the Companies Act 1985, when new shares are allotted, they must first be offered to existing shareholders pro rata to their holdings. This special resolution renews, for the period ending on 14 August 2009 or, if earlier, the date of the next Annual General Meeting, the authorities previously granted to the directors to: (a) allot shares of the Company in connection with a rights issue or other pre-emptive offer; and (b) otherwise allot shares of the Company up to a maximum nominal value of £2,987,440 (representing approximately 5% of the share capital of the Company in issue at 18 March 2008 (being the latest practicable date prior to the publication of this Notice) assuming for this purpose full exercise of all outstanding options at that date) as if the pre-emption rights of section 89 did not apply.

In addition, the resolution permits the directors to deal with fractional entitlements and any legal or regulatory problems arising in any territory on any offer of new shares to be made to shareholders on a pro rata basis.

The directors believe that it is in the best interests of the Company for the Board to have limited power to issue new shares for cash without first having to offer such shares to existing shareholders.

Resolution 18 - power for the Company to make market purchases of its own shares
This resolution which is being proposed as a special resolution renews the directors' current authority to make limited market purchases of the Company's ordinary shares. The power is limited to a maximum aggregate number of 35,013,770 ordinary shares (representing 14.99% of the share capital of the Company in issue at 18 March 2008 (being the latest practicable date prior to publication of this Notice)) and details the minimum and maximum prices that can be paid, exclusive of expenses. This resolution authorises the Company to pay a maximum price for an ordinary share that is an amount equal to the higher of (i) 105% of the average middle market price for an ordinary share for the five dealing days preceding any such purchase and (ii) the price stipulated by Article 5(1) of Commission Regulation (EC) No 2273/2003 (the Buy-back and Stabilisation Regulation), being the higher of the last independent trade for an ordinary share or the highest current independent bid for an ordinary share as derived from the trading venue where the purchase is carried out. The authority conferred by this resolution will expire at the conclusion of the Company's next Annual General Meeting or 14 August 2009, whichever is the earlier.

Any shares repurchased by the Company under the renewed authority may be cancelled. There is currently no intention to hold such shares in treasury. The Company did not hold any ordinary shares in the capital of the Company in treasury at 18 March 2008 (being the latest practicable date prior to the publication of this Notice).

NOTICE OF MEETING

continued

The directors have no present intention of exercising on behalf of the Company the authority to purchase the Company's ordinary shares. The directors would only cause the Company to purchase shares if, in their opinion, the expected effect would be to result in an increase in earnings per share and would benefit shareholders generally. The directors are making no recommendation as to whether shareholders should sell their shares in the Company.

At 18 March 2008, being the last practicable date prior to the publication of this Notice, there were options outstanding over 5,414,365 ordinary shares in the capital of the Company which represent approximately 2.32% of the share capital of the Company in issue at that date. If the authority to purchase the Company's ordinary shares was exercised in full, the shares issued pursuant to these options would represent approximately 2.73% of the Company's issued share capital.

Resolution 19 - sub-division and reclassification of redeemable preference shares
On 21 December 2007, each of the 50,000 redeemable preferences shares of £1.00 each in the share capital of the Company then in issue (the "Redeemable Preference Shares") were redeemed. These shares, although no longer in issue, combine to form part of the authorised share capital of the Company. The directors have no intention of re-issuing the Redeemable Preference Shares. Accordingly, the opportunity is being taken to sub-divide and reclassify each of the Redeemable Preference Shares into four ordinary shares of 25 pence each, such ordinary shares to rank pari passu with the existing ordinary shares of 25 pence each forming part of the authorised and issued share capital of the Company.

Resolution 20 - amendment to the articles of association of the Company
It is proposed in resolution 20 to adopt new articles of association (the "**New Articles**") in order to update the Company's current articles of association (the "**Current Articles**") primarily to take account of changes in English company law brought about by the Companies Act 2006. Further provisions of the Companies Act 2006 are expected to be brought into effect in 2009 and we therefore expect that further amendments to the Company's articles of association will be required at the Annual General Meeting in 2009 and possibly even in 2010.

The principal changes introduced in the New Articles are summarised in the subsequent section of this Notice entitled "Explanatory Notes Of Principal Changes To The Company's Articles Of Association". Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted. The New Articles showing all the changes to the Current Articles are available for inspection, as noted on page 83 of this document.

NOTICE OF MEETING

continued

EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

1. **Articles that duplicate statutory provisions**
Provisions in the Current Articles that replicate provisions contained in the Companies Act 2006 are, in the main, to be removed in the New Articles. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights and the requirement to keep accounting records. The main changes made to reflect this approach are detailed below.

2. **Form of resolution**
The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed and certain other provisions amended as the concept of extraordinary resolutions has not been retained under the Companies Act 2006.

3. **Variation of class rights**
The Current Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the Companies Act 2006. The relevant provisions have therefore been amended in the New Articles.

4. **Convening extraordinary and Annual General Meetings**
The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular, a general meeting to consider a special resolution can be convened on 14 clear days' notice whereas previously 21 clear days' notice was required. Annual General Meetings still must be called on at least 21 clear days' notice (save as permitted or provided by statute).

5. **Votes of members**
Under the Companies Act 2006, proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The New Articles reflect all these provisions.

6. **Conflicts of interest**
It is currently anticipated that on 1 October 2008 new provisions in the Companies Act 2006 will come into force relating to conflicts of interest that a director may have with respect to the Company. In anticipation of these changes to the legislation, the New Articles include new provisions dealing with the new statutory regime for directors' conflicts of interest. These new provisions will only apply from 1 October 2008, or such later date as the relevant Companies Act 2006 provisions come into force. In the intervening period the existing provisions in the Current Articles relating to directors' conflicts of interest will continue to apply.

   The Companies Act 2006 sets out directors' general duties that largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. Once the relevant statutory provisions of the Companies Act 2006 come into force, the New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in an appropriate manner.

NOTICE OF MEETING

continued

There are safeguards that will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

7. **Records to be kept**
The provision in the Current Articles requiring the Board to keep accounting records has been removed as this requirement is contained in the Companies Act 2006.

8. **Directors' indemnities and loans to fund expenditure**
The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. This is reflected in the New Articles. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and also applies to subsidiary companies.

9. **Redeemable Preference Shares**
On 21 December 2007, the Company redeemed each of the 50,000 redeemable preference shares of £1.00 each in the capital of the Company then in issue. The opportunity is therefore being taken to remove the references to redeemable preference shares from the articles of association. As noted above, it is proposed that each of the redeemable preference shares be sub-divided and reclassified as four ordinary shares of 25 pence each, each such ordinary share to rank pari passu with the existing ordinary shares.

10. **General**
Generally, the opportunity has been taken to introduce clearer language into the New Articles.

PROXY FORM FOR ANNUAL GENERAL MEETING

I/We*, ...

of ....,

being a holder of ordinary shares in the capital of the Company,

hereby appoint .... [ ]#

of ....

[the chairman of the meeting]* as my/our* proxy to vote on my/our* behalf at the Annual General Meeting of the Company to be held at the Company's offices on the 7th Floor at 1 Knightsbridge Green, London SW1X 7NE at 12 noon on 15 May 2008 and at any adjournment thereof. Please mark 'X' to indicate how you wish to vote.

☐ Please tick here if this proxy appointment is one of multiple appointments being made#

 # For the appointment of more than one proxy please refer to Explanatory Note 2.
** Delete as necessary.*

RESOLUTIONS	For	Against	Vote Withheld
1. To receive the accounts and the report of the directors and auditors thereon for the year ended 31 December 2007.	☐	☐	☐
2. To approve the directors' remuneration report for the year ended 31 December 2007.	☐	☐	☐
3. To declare a final dividend of 1.0 pence per share on the ordinary shares of the Company for the year ended 31 December 2007.	☐	☐	☐
4. To elect John Duffield as a director of the Company.	☐	☐	☐
5. To elect Michael Astor as a director of the Company.	☐	☐	☐
6. To elect Howard Covington as a director of the Company.	☐	☐	☐
7. To elect John Craig as a director of the Company.	☐	☐	☐
8. To elect David Gamble as a director of the Company.	☐	☐	☐
9. To elect John Jay as a director of the Company.	☐	☐	☐
10. To elect Richard Pease as a director of the Company.	☐	☐	☐
11. To elect Rupert Ruvigny as a director of the Company.	☐	☐	☐
12. To elect Mark Skinner as a director of the Company.	☐	☐	☐
13. To elect Martin Smith as a director of the Company.	☐	☐	☐
14. To elect John Tiner as a director of the Company.	☐	☐	☐
15. To re-appoint KPMG Audit Plc as auditors of the Company, and to authorise the directors to determine their remuneration.	☐	☐	☐
16. To grant the directors authority to allot relevant securities pursuant to section 80 of the Companies Act 1985.	☐	☐	☐
17. To disapply statutory pre-emption rights.	☐	☐	☐
18. To grant the directors authority to make market purchases of shares.	☐	☐	☐
19. To sub-divide and reclassify the redeemable preference shares.	☐	☐	☐
20. To adopt new articles of association.	☐	☐	☐

Date: 2008

Signature or common seal: ....

Name (please print): ....

2nd Fold

Affix
Stamp

CAPITA REGISTRARS PROXIES

PO BOX 25

BECKENHAM

KENT

BR3 4BR

1st Fold

3rd Fold and tuck in

NOTES TO THE PROXY FORM

NOTES

1. All holders have the right to appoint some other person(s) of their choice, who need not be a shareholder, as their proxy to exercise all or any of their rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
2. To appoint more than one proxy you may photocopy this form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which he or she is authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
3. The "Vote Withheld" option is provided to enable you to abstain on any particular resolution. It should be noted, however, that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "For" and "Against" a resolution.
4. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes that may be cast thereat will be determined by reference to the Register of Members of the Company at 6pm on the day that is two days before the day of the meeting or adjourned meeting. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
5. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number RA10) not later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. Please indicate by inserting 'X' in the appropriate box how the proxy is to vote. Unless so instructed, the proxy will at his/her discretion vote as he/she thinks fit or abstain from voting.
7. To be valid, this form of proxy must be lodged with Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 12 noon on 13 May 2008.
8. A body corporate should execute this instrument under its common seal or under the hand of an officer, attorney or a duly authorised officer of the body corporation.
9. If the proxy form is signed by someone else on your behalf, his or her authority to sign must be returned with the proxy form. In the case of joint holdings, the vote of the senior joint holder shall be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
10. Completion and return of the proxy will not preclude members from attending and voting at the meeting should they subsequently decide to do so.

RECENT AWARDS

PROFESSIONAL ADVISER AWARDS 2008
NEW STAR ASSET MANAGEMENT
Best Multi-Manager Group

LIPPER FUND AWARDS UK 2008
NEW STAR GLOBAL FINANCIALS FUND
Best fund over three years – Equity Sector Banks and Other Financials

NEW STAR GLOBAL FINANCIALS FUND
Best fund over five years – Equity Sector Banks and Other Financials

NEW STAR UK STRATEGIC INCOME UNIT TRUST
Best fund over five years – Equity UK Income

NEW STAR PACIFIC GROWTH UNIT TRUST
Best fund over ten years – Equity Asia Pacific Ex Japan

NEW STAR ACTIVE PORTFOLIO
Best fund over ten years – Equity Global

LIPPER FUND AWARDS HONG KONG 2008
NEW STAR UK DYNAMIC FUND
Best fund over five years – Equity UK

LIPPER FUND AWARDS NETHERLANDS 2008
NEW STAR GIF UK DYNAMIC FUND
Best fund over five years – Equity UK

LIPPER FUND AWARDS UK 2007
NEW STAR EXTRA HIGH YIELD BOND UNIT TRUST
Best Fund over three years – Bond Global – High Yield

NEW STAR FIXED INTEREST UNIT TRUST
Best Fund over three years – Bond Pound Sterling – Corporates

NEW STAR STERLING BOND UNIT TRUST
Best Fund over ten years – Bond Pound Sterling – Corporates

NEW STAR PACIFIC GROWTH UNIT TRUST
Best Fund over ten years – Equity Asia Pacific Ex Japan

NEW STAR GLOBAL FINANCIALS FUND
Best Fund over five years – Equity Sector Banks and Other Financials

NEW STAR GLOBAL FINANCIALS FUND
Best Fund over three years – Equity Sector Banks and Other Financials

NEW STAR UK STRATEGIC INCOME UNIT TRUST
Best Fund over three years – Equity UK Income