

NEW STAR INVESTMENT TRUST PLC

3969011

REPORT AND ACCOUNTS
for the year ended 30th June 2002



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INVESTMENT POLICY

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

Company Registration Number 3969011

COMPANY INFORMATION

DIRECTORS

J L Duffield (*Chairman*)

M Boase

J E Craig CBE

G Howard-Spink

INVESTMENT MANAGER

New Star Asset Management Limited

1 Knightsbridge Green, London SW1X 7NE

Telephone: 020 7225 9200 Facsimile: 020 7225 9300

(Regulated by the Financial Services Authority)

SECRETARY AND REGISTERED OFFICE

Sinclair Henderson Limited

23 Cathedral Yard, Exeter EX1 1HB

SOLICITORS

Olswang

90 Long Acre, London WC2E 9FT

AUDITORS

Ernst & Young LLP

Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH

CUSTODIANS

The Bank of New York Limited

One Canada Square, London E14 5AL

REGISTRARS

Lloyds TSB Registrars

The Causeway, Worthing, West Sussex BN99 6DA

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

BOARD OF DIRECTORS

John L Duffield (Chairman), aged 63, is Chairman of New Star Asset Management Group Limited. He is a director of a number of investment companies and other companies and was Chief Executive of Jupiter International Group PLC until May 2000.

***Martin Boase**, aged 70, formed the advertising agency Boase Massimi Pollitt plc in 1968, which was floated on the London Stock Exchange in 1983. He was Chairman of The Advertising Association from 1987 to 1992. He is currently Chairman of Herald Investment Trust plc, The Maiden Group plc, The Investment Trust of Investment Trusts PLC, Heals plc and Jupiter Dividend and Growth Trust PLC. Previous directorships include EMAP plc and Matthew Clark PLC.

***John Craig CBE**, aged 70, was for many years a Managing Director of N M Rothschild & Sons Ltd. He was also Chairman of the British Bankers Association and has been a director of a number of companies, including Standard Chartered plc, and he is currently a director of European Growth & Income Trust plc.

***Geoffrey Howard-Spink**, aged 58, was one of the founders in 1981 of Lowe Group Limited, one of the UK's biggest advertising groups. He is Chairman of Jupiter Split Trust PLC and a director of Chrysalis Group plc and other companies.

Details of other Directors who served during the period are shown in the Report of the Directors on page 12.

*Members of the Audit Committee.

FINANCIAL HIGHLIGHTS

	30th June 2002	30th June 2001	% Change
PERFORMANCE			
Total assets (£'000)	£91,714	£107,699	(14.8)
Net asset value per Ordinary share	83.5p	98.1p	(14.8)
Mid-Market price per Ordinary share	80p	105p	(23.8)
(Discount)/premium of price to net asset value	(4.2)%	7.1%	(11.3)
FTSE World Index	250.44	298.60	(16.1)
FTSE All-Share Index	2,263.11	2,728.12	(17.0)
	1st July 2001 to 30th June 2002	6th May 2000 to 30th June 2001	
REVENUE			
Earnings per Ordinary share	1.18p	2.89p	(59.2)
Dividend per Ordinary share	1.80p	2.20p	(18.2)
TOTAL RETURN			
Total assets total return*	(13.0)%	(0.7)%	
FTSE All-Share total return	(14.8)%	(5.8)%	

* Adding back dividends distributed for the period

CHAIRMAN'S STATEMENT

The total assets of your Company fell by 14.8% to £91.7 million during the year to 30th June 2002. This compares with a fall in the FTSE All-Share Index of 17.0% over the same period. This out-performance has been achieved by continuing to have a high exposure to gilts in the portfolio, reflecting a cautious stance.

Net revenue for the period was £1,301,000 which compares to £3,144,000 for the previous period. Your Directors have declared an interim dividend of 1.8p net per Ordinary Share (final dividend of 2.2p in 2001). As last year, the level of revenue has been boosted by the level of liquidity so the dividend should not be taken as an indication of future dividends. Also, because of the reconstruction mentioned below, the revenue reserve was utilised to pay this dividend.

At the start of the year under review, the London stock market had already experienced many months of decline as investors retreated from technology, media and telecommunications shares whose valuations had been inflated by exaggerated expectations that the internet would transform their prospects.

After lacklustre trading over the summer with investors increasingly concerned by falling capital spending, the 11th September atrocities delivered a severe blow to confidence. Led by the US Federal Reserve, central banks around the world responded by cutting official interest rates and this partly restored investor confidence. The result was that shares traded broadly sideways in the early months of 2002 with the themes of 2000 and early 2001 reasserting themselves. Shares in old economy sectors rose strongly while shares in new economy sectors fell sharply.

At the end of the period under review there was a further bout of serious weakness as investors responded to scandals in America involving boardroom excess, insider dealing and accounting manipulation. Such scandals, involving some of the biggest names in corporate America, came at a time of increasing worries about imbalances within the American economy, in particular its widening trade deficit. The result was a flight into quality with investors selling shares and investing instead in government bonds and gold.

The short-term investment climate looks difficult. Yet there are indications of an improving global economic outlook. Business confidence surveys have been upbeat, suggesting an improving climate for manufacturing at a time when monetary policies are loose and government spending is increasing in the US and in the UK.

At the end of the year under review the price-earnings ratio of the US market, adjusted for cyclical swings in profitability, had dropped to its lowest level for six years. Yet the monetary and fiscal stimulus on both sides of the Atlantic is expected to feed through into higher corporate profits. This suggests share prices could recover once investors become confident that the worst of the corporate and accounting scandals have been dealt with. The shorter term outlook, however, remains nervous and uncertain.

CHAIRMAN'S STATEMENT

continued

Shareholders will know that agreement has been reached between Jupiter, the Board and myself as to the terms of a reconstruction of your Company. This is subject to Court consent, which is expected to be received on or around 25th September 2002, for the cancellation of the shares at which time the reconstruction will be complete. I am pleased to say that Jupiter finally – and after much argument – agreed to meet all the costs of this reconstruction if completed, up to a maximum of £450,000 excluding VAT and stamp duty. On that basis the reconstruction has had no adverse financial effect on those shareholders who are not participating in it. The reconstruction was unanimously approved at the EGM on 22nd August 2002. This is exactly the outcome that your Board, including myself, has always wanted and we are therefore delighted that it has finally been achieved, albeit after totally unnecessary delays and expense caused by the litigation which Jupiter initiated. I am also pleased that Jupiter was ordered to make a substantial payment towards my own costs of this litigation.

On other outstanding matters referred to in previous reports to shareholders, it has also been agreed that the legal expenses claimed by Mr Baker and Mr Stevenson will not be paid by your Company and that no further action will be taken regarding Mr Stevenson's disclosure of confidential information.

Subject to the Court's consent being received, the transfer of assets (representing the proportion of assets attributable to the exiting shares) to the Jupiter unit trust will take place on 26th September 2002.

The investment policy of the Company following successful implementation of the Proposals will be unchanged from the Company's current investment objective, which is to achieve long term capital growth.

It is expected that an important proportion of the Company's assets will be represented by investments in pooled investment vehicles. A significant proportion may be represented by shares or units in other investment companies managed by associates of New Star Asset Management Group Limited, the parent company of the Manager. In this way it is intended that the management of a significant proportion of the Company's assets will be devolved to the specialist individuals within the Manager's group who have produced good historic performance. Asset allocation can be facilitated by this process, both in making structural changes and in targeting specific market sectors. To the extent that any fees are payable to the Manager or its associates from any pooled vehicles in that portfolio, the fees payable to the Manager by the Company will be waived on that portion of the assets.

The unaudited net asset value of your Company at 21st August 2002 was 79.39p. This shows a fall since inception of 20.3% compared to a fall of 30.4% in the FTSE All-Share Index over the same period. Despite difficult conditions, I believe that your Company has performed well.

J L Duffield
Chairman

28th August 2002

INVESTMENT MANAGER'S REPORT

Equity investors suffered poor returns in the year to 30th June 2002. In the United Kingdom, the FTSE All-Share Index fell 17.0%. In the United States, the Standard & Poor's Composite fell 19.2% and the technology-heavy Nasdaq Composite fell 33.3%. Continental European markets, as measured by the FTSE Europe ex UK Index, fell 23.1%. Your Company's total assets fell by 14.8%.

For the year under review, there was a striking disparity between the performance of the strongest and weakest sectors within the London market, repeating the pattern of the previous year with old economy stocks rising, but not sufficiently to compensate for the falls in new economy stocks. The worst performing sectors were IT hardware, down 76.2%, software and computer services, down 59.5%, insurance, down 45.8%, and telecommunications services, down 44.3%. By contrast the steel and other metals sector rose 38.3%, tobacco rose 37.8%, forestry and paper rose 24.7% and personal care and household products rose 13.6%.

Mid-cap companies proved more resilient than large and small ones. The FTSE 250 Index fell 12.7% while the FTSE 100 Index fell 17.4% and the FTSE Small Cap Index fell 21.0%. The worst performing of the main indices was the FTSE techMark Index, which fell 46.2%.

If the markets, beset by concerns about corporate scandals and accounting manipulation, failed to draw lasting benefit from interest rate cuts, the monetary easing did underpin economic activity. The US Federal Reserve cut its Federal Funds rate from 3.75% in June to 1.75% in November and then held rates steady; the Bank of England's monetary policy committee cut its rates from 5.25% to 4%, the lowest since 1964.

Such rate cuts added to the strength of consumer spending in the UK at a time when demand was also being inflated by the surge in government spending. UK retail sales growth began the year at 5.75% per annum and fluctuated between 4.75% and 7%, fuelled by accelerating house price rises. The Halifax house price index showed a rise in the rate of house price inflation from 9.7% per annum in June 2001 to 18.2% in May 2002. Unemployment remained low with the headline count easing from 3.2% of the labour force to 3.1%.

Yet the buoyancy of consumer demand did not produce higher inflation. Underlying inflation, excluding mortgage interest, rose from 2.4% at the start of the year under review to 2.6% in August 2001 but then fell back below the Bank of England's 2.5% target rate for most of the rest of the year.

The effect of interest rate cuts on industrial activity was more muted with manufacturing suffering from the global decline in industrial confidence. Manufacturing activity declined in the first nine months of the year under review, with the most severe decline, 1.9%, occurring in the three months to 31st December. Such weakness was reflected in gross domestic product, which was flat between October and March. Only in the last three months of the year under review were there signs of a return to growth in industrial production and GDP.

When your Company was launched in April 2000 a cautious view was taken of markets. It was feared the late 1990s euphoria and the soaring valuations of TMT stocks would not be sustained. As a result more than half the portfolio was invested in short-term gilts helping to shield the Company from stock market weakness and during the period approximately one third of the assets were retained in gilts and cash. During the year under review the return from gilts was 7.0% and the return on cash was 4.3%.

INVESTMENT MANAGER'S REPORT

continued

In addition, your Company chose to invest in hedge funds, such as the New Star Hedge Fund and the HSBC European Absolute fund of hedge funds, and these investments have also helped to preserve value. The New Star Hedge Fund out-performed the market with its fall limited to 8% while the HSBC European Absolute Return fund limited its fall to 4%. During the year, your Company bought holdings in the New Star European Hedge Fund, which produced a positive return of 3% from the date of purchase, and the New Star Asia Renaissance Hedge Fund, which fell just 4%.

Holdings were also purchased in a series of New Star retail funds, such as the New Star European Growth, UK Growth and UK Aggressive and most recently the Select Opportunities Fund. Since launch all but one of the established funds have out-performed their respective benchmarks.

Following the fall in share prices after 11th September, your Company increased its exposure to equities at the expense of bonds through the futures market, through funds and through a number of individual stocks.

Since then, investment in shares that are geared to the stock market, such as Aberdeen Asset Management and Jupiter Split Trust capital shares, have been disappointing, falling by 35% and 29% respectively. Another financial stock, Abbey National, also performed badly, falling by 38%.

At the year-end, 37% of the portfolio was invested in UK equities, both direct and through futures and pooled funds, 31% was in gilts and cash, 9% was in hedge funds, 9% was in European equities and pooled funds, 6% was in unlisted securities, 4% was in a global technology pooled fund and 4% was in Far East pooled funds.

Short-term prospects look unexciting with investors concerned there will be further revelations about corporate excess and accounting manipulation. In such circumstances auditors are likely to take a conservative approach in auditing accounts this year with the result that reported profits for some companies for 2002 may be lower than had been expected.

Yet the consensus is that UK corporate profits will still advance modestly this year and grow more rapidly in 2003. At share values prevailing at 30th June, the UK market was trading on a prospective price-earnings multiple of 13 for 2003, a modest rating relative to the late 1990s. Once confidence is restored in corporate accounting and governance, such a valuation may prove attractive to investors and produce a recovery in share prices.

The strategy of your Company will be to continue to invest in undervalued listed companies and attractive pooled funds and hedge funds and possibly to use New Star's expertise in the management of financial companies to invest in unlisted financial businesses capable of long-term growth.

New Star Asset Management

28th August 2002

SCHEDULE OF INVESTMENTS

at 30th June 2002

Twenty Largest Holdings	Activity	Market Value £'000	% of Portfolio
6 $\frac{1}{2}$ % Treasury 2003	UK Gilts	15,396	17.26
5% Treasury 2004	UK Gilts	12,573	14.09
New Star European Growth Fund	Investment Company	7,552	8.47
New Star UK Growth Fund	Investment Company	7,028	7.88
New Star Asset Management Group*	Other Financial	4,688	5.26
New Star Hedge Fund	Investment Company	4,217	4.73
New Star Euro Hedge Fund	Investment Company	4,134	4.63
New Star UK Aggressive Fund	Investment Company	3,972	4.45
Synergy Fund – A & B Shares	Investment Company	3,745	4.20
Jupiter Split Trust – Capital Shares	Investment Company	2,675	3.00
New Star Global British Lion Portfolio	Investment Company	2,493	2.79
New Star Asia Renaissance Fund	Investment Company	1,914	2.15
New Star Select Opportunities Retail Amersham	Investment Company Health	1,880 1,616	2.11 1.81
Jupiter Far Eastern Fund	Investment Company	1,328	1.49
Aberdeen Asset Management	Other Financial	1,251	1.40
PHS Group	Miscellaneous	1,104	1.24
Abbey National	Banks	1,034	1.16
New Star Global Fund			
UK Smaller Companies Portfolio	Investment Company	1,004	1.13
HSBC Euro Absolute	Investment Company	966	1.08
		<hr/>	<hr/>
		80,570	90.33
Balance held in 23 holdings		<hr/>	<hr/>
		8,640	9.67
		<hr/>	<hr/>
		89,210	100.00
		<hr/> <hr/>	<hr/> <hr/>

* New Star Asset Management Group Limited is an unlisted investment management company of which the Company owns approximately 1.7% of the issued share capital, which was acquired at a cost of £2,500,000.

REPORT OF THE DIRECTORS

The Directors present their Report and Accounts for the period to 30th June 2002.

BUSINESS AND STATUS

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

The Company operates as an investment trust and has been approved by the Inland Revenue as an authorised investment trust under Section 842 of the Income and Corporation Taxes Act 1988 for the periods up to and including 30th June 2001, and has subsequently directed its affairs so as to enable it to continue to seek such approval.

The current portfolio of the Company is such that its shares are qualifying investments for Individual Savings Accounts and it is the intention of the Directors to manage the affairs of the Company so that this eligibility will be maintained.

REVIEW OF ACTIVITIES

A review of the Company's activities is contained in the Chairman's Statement on pages 6 to 7 and in the Investment Manager's Report on pages 8 to 9.

RESULTS AND DIVIDENDS

Results and reserve movements for the period are set out in the Consolidated Statement of Total Return on page 21 and in the Notes to the Accounts on pages 25 to 38.

The Directors have declared an interim dividend of 1.8p net per share (2001: final dividend of 2.2p) which was paid on 12th August 2002 to shareholders on the register on 19th July 2002.

REPORT OF THE DIRECTORS

continued

FIXED ASSETS

Movements in fixed asset investments are set out in Note 11 to the Accounts.

SUBSIDIARY UNDERTAKINGS

JIT Securities Limited is a wholly owned subsidiary which is incorporated in England and Wales. Grovewish Limited (formerly Hartgrade Limited) was dissolved pursuant to Section 652A of the Companies Act 1985 on 2nd April 2002.

DIRECTORS AND DIRECTORS' INTERESTS

Directors who served during the period were as follows:

	Date of Appointment	Date of Resignation
J L Duffield	13th April 2000	
S J D Baker	22nd November 2000	17th July 2001
M Boase	13th April 2000	
J E Craig CBE	3rd May 2001	
G Howard-Spink	13th April 2000	
J C Stevenson	22nd November 2000	17th July 2001

Under the Articles of Association, one third of the Directors are required to retire by rotation. Accordingly, Mr Duffield shall retire from office and, being eligible, offer himself for re-election. None of the Directors has a contract of service with the Company, nor has there been any contract or arrangement between the Group and any Director at any time during the period.

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

Held beneficially:	30th June 2002 or at date of resignation Ordinary shares
J L Duffield	42,003,223
S J D Baker	205,126
J E Craig CBE	2,386,545
J C Stevenson	713,353

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

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

The Directors' interests in contractual arrangements with the Company are as detailed in Note 21 to the Accounts. Subject to these exceptions, no Director was a party to or had any interest in any contract or arrangement with the Company at any time during the period or subsequently.

REPORT OF THE DIRECTORS

continued

SUBSTANTIAL INTERESTS

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

	% of issued share capital
J L Duffield	38.25
Nortrust Nominees Limited	32.11
<i>C W Crowther and B S Crowther</i>	11.73
<i>M F Heathcoat Amory</i>	7.51
<i>R P Pease</i>	3.04
J K Roe	3.48
E Bonham Carter	3.11
A Miller	3.04

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the period the Company purchased and maintained liability insurance for its Directors and Officers as permitted by Section 310(3) of the Companies Act 1985.

MANAGEMENT AGREEMENTS

The Investment Managers and the Investment Management Agreement are referred to in Note 21 to the Accounts.

Under an agreement dated 1st March 2001, company secretarial services and general administration of the Company are undertaken by Sinclair Henderson Limited for an annual fee of £60,000 (exclusive of value added tax) payable in equal monthly instalments in arrears. The agreement is subject to termination by not less than six months' notice by either party expiring on or after 1st March 2003.

CORPORATE GOVERNANCE THE COMBINED CODE OF PRACTICE

STATEMENT OF COMPLIANCE WITH THE COMBINED CODE ("CODE")

The Directors have reviewed the principles outlined in the Code and believe that, insofar as they are relevant to the Company's business, they have complied with the provisions of the Code during the period ended 30th June 2002, subject to the exceptions explained below. The Company is committed to maintaining the highest standards of corporate governance and the Board is accountable to the Company's shareholders for the governance of the Company's affairs.

The Board

The Board of Directors consists entirely of non-executive Directors all of whom, with the exception of Mr Duffield, the Chairman, were independent of the Investment Manager during the period. Brief biographical details of the Directors can be found on page 4. The Company has no executive Directors nor any employees. The structure of the Board is such that it is considered unnecessary to identify a senior non-executive Director. As the Board is small there is no formal Nomination Committee and appointments of any new Directors will be considered by the Board

REPORT OF THE DIRECTORS

continued

as a whole. Under the Articles of Association, one-third of the Directors are required to retire by rotation in each year. In order to comply with the Code, the Directors have adopted a policy providing for each Director to be put forward for re-election by shareholders at least every three years. The Board does not therefore consider it appropriate that Directors should be appointed for a specific term. No formal training is given to Directors in Corporate Governance.

The Board will receive monthly reports and will meet at least quarterly to review the overall business of the Company and to consider matters specifically reserved for it to decide on. At these meetings the Board will monitor the investment performance of the Company. The Directors will also review the Company's activities every quarter to ensure that it adheres to its investment policy or, if appropriate, to recommend any changes to that policy.

The Company also uses a number of Committees consisting of the three independent Directors to control its operations. These include the Audit Committee and an Investment Committee.

The Company Secretary

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

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

Directors' Remuneration

At 30th June 2002 no Director had a service contract with the Company and details of the Directors' fees are shown in Note 5 to the Accounts. Under the Financial Services Authority listing rule 21.20 (i), where an investment trust company has no executive directors no disclosure is required concerning certain of the Code's principles relating to directors' remuneration.

Shareholder Relations

All Ordinary shareholders will have the opportunity to attend and vote at the Annual General Meeting (AGM) during which the Directors and Investment Manager will be available to answer questions regarding the Company. The Company will seek to provide twenty working days notice of that meeting. The Notice of Meeting sets out the business of the AGM and any item not of an entirely routine nature is explained in the Report of the Directors. Separate resolutions are proposed for each substantive issue. At the AGM held during the year proxy votes lodged were not disclosed as required by the Code. It is the intention of the Directors that such information about proxy votes will be available to shareholders attending any future AGM. The Company reports to shareholders twice a year by way of the Interim Report and Annual Report and Accounts. In addition net asset values are published on a monthly basis. The net asset value per Ordinary share, including revenue reserve at 30th June 2002 was 83.5p.

REPORT OF THE DIRECTORS

continued

Internal Controls

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

- Throughout the period under review, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process accords with the guidance in the document "Internal Control: Guidance for Directors on the Combined Code" and will remain in place throughout the Company's life. This process is reviewed on a regular basis by the whole Board in accordance with the Turnbull guidance. The process involves reports from the Company Secretary on risk control and compliance, in conjunction with the Investment Manager's regular reports which cover investment performance and compliance issues. In addition, the Audit Committee receives internal controls statements from all the third parties to which it delegates functions as listed below:
 - investment management is performed by New Star Asset Management. The Board is responsible for setting the overall investment policy and monitors the activity of the Investment Manager at regular Board Meetings;
 - administration and company secretarial duties are performed by Sinclair Henderson Limited;
 - custody of assets is undertaken by The Bank of New York Limited;
 - the duties of investment management, accounting and custody of assets are segregated; the procedures of the individual parties are designed to complement one another;
 - the non-executive Directors of the Company clearly define the duties and responsibilities of their agents and advisers. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved; the Board regularly monitors their ongoing performance and contractual arrangements;
 - mandates for the authorisation of investment transactions and expense payments are set by the Board;
 - the Board reviews financial information produced by the Investment Manager and the Company Secretary in detail on a regular basis.

REPORT OF THE DIRECTORS

continued

Audit

The Board has established and approved the terms of reference of an Audit Committee of the three independent Directors which will meet to consider the financial reporting by the Company, the internal controls and relations with the Company's external auditors. Having regard to the role of its external auditors the Board does not consider that there is a need for the Company to establish its own internal audit function.

Going Concern

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

Compliance with the Combined Code

The Board believes that subject to any exception explained above and the nature of the Company as an investment trust, the Company will comply with the provisions set out in Section 1 of the Combined Code throughout the year ended 30th June 2003.

PAYMENT OF SUPPLIERS

It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company agrees individually with its suppliers the terms on which business will take place, and it is the Company's policy to abide by those terms. As the Company is an investment trust it does not have any trade creditors. At 30th June 2002, all suppliers' invoices received had been settled.

ANNUAL GENERAL MEETING

The Directors are proposing as special business at the Annual General Meeting to renew the authority granted to them at the Annual General Meeting held on 24th October 2001 to allot new Ordinary shares for cash without first offering them to existing shareholders in proportion to their holdings. The Directors believe that it would be beneficial for them to be able to allot a limited number of new Ordinary shares up to an aggregate nominal value of £54,910, equivalent to 5% of the Company's existing issued Ordinary share capital, otherwise than pro rata to existing shareholders. It is the Directors' intention to use this authority where it would be in the best interests of the Company to issue shares for cash at not less than the net asset value per share.


The Directors are also proposing to renew the authority for the Company to make purchases of up to 14.99% of the issued share capital. Such purchases will only be made within guidelines established from time to time by the Board and in circumstances in which the Board believes that such purchases will result in an increase in the net asset value of the remaining Ordinary shares.

REPORT OF THE DIRECTORS

continued

AUDITORS

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



AP By Order of the Board
Sinclair Henderson Limited
Secretary

23 Cathedral Yard
Exeter
EX1 1HB
28th August 2002

DIRECTORS' RESPONSIBILITIES FOR THE ACCOUNTS

Company law requires the Directors to prepare Accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the revenue of the Company for that period.

In preparing those Accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Accounts.
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the Accounts comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Accounts comply with generally accepted accounting principles. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the Group's Accounts for the year ended 30th June 2002 which comprise Consolidated Statement of Total Return, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and the related Notes 1 to 22. These Accounts have been prepared on the basis of the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Accounts in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' Responsibilities for the Accounts on page 18.

Our responsibility is to audit the Accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the Accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited Accounts. This other information comprises the Report of the Directors, Chairman's Statement and the Investment Manager's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Accounts. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

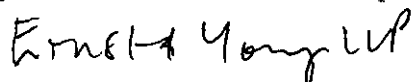
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or other irregularity or error.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

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

continued

Opinion

In our opinion the Accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30th June 2002 and of the net revenue and total return of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG LLP
Registered Auditor
London

28th August 2002

CONSOLIDATED STATEMENT OF TOTAL RETURN (INCORPORATING THE REVENUE ACCOUNT)

for the year ended 30th June 2002

	Notes	1st July 2001 to 30th June 2002			6th May 2000 to 30th June 2001		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Losses on investments	11	—	(12,400)	(12,400)	—	(2,992)	(2,992)
Income	2	2,643	—	2,643	5,476	—	5,476
Losses on index futures contracts		—	(2,791)	(2,791)	—	(921)	(921)
Investment Management fees	3	(520)	—	(520)	(761)	—	(761)
Other expenses	4	(398)	—	(398)	(388)	—	(388)
Other exchange gains		—	17	17	—	—	—
<hr/>							
RETURN ON ORDINARY ACTIVITIES BEFORE FINANCE COSTS AND TAXATION		1,725	(15,174)	(13,449)	4,327	(3,913)	414
Bank interest	6	—	—	—	(9)	—	(9)
<hr/>							
RETURN ON ORDINARY ACTIVITIES BEFORE TAXATION		1,725	(15,174)	(13,449)	4,318	(3,913)	405
Taxation on ordinary activities	7	(424)	(135)	(559)	(1,174)	—	(1,174)
<hr/>							
RETURN ON ORDINARY ACTIVITIES AFTER TAXATION		1,301	(15,309)	(14,008)	3,144	(3,913)	(769)
Dividends proposed	10	(1,977)	—	(1,977)	(2,416)	—	(2,416)
Transfer (from)/to reserves		(676)	(15,309)	(15,985)	728	(3,913)	(3,185)
<hr/>							
		pence	pence	pence	pence	pence	pence
RETURN PER ORDINARY SHARE	9	1.18	(13.94)	(12.76)	2.89	(3.60)	(0.71)

The revenue column of this statement is the Revenue Account of the Group.

All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued in the year.

The notes on pages 25 to 38 form an integral part of these Accounts.

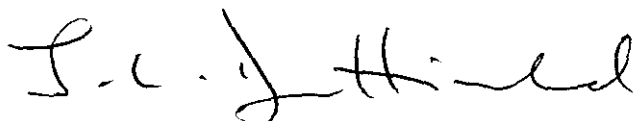
CONSOLIDATED BALANCE SHEET

as at 30th June 2002

	Notes	30th June 2002 £'000	restated 30th June 2001 £'000
FIXED ASSETS			
Investments	11	89,210	106,934
CURRENT ASSETS			
Debtors	12	2,266	3,101
Cash at bank	20	2,985	710
		5,251	3,811
CREDITORS: amounts falling due within one year			
Creditors	13	(770)	(630)
Dividend payable		(1,977)	(2,416)
Net current assets		2,504	765
Total assets less current liabilities		91,714	107,699
CAPITAL AND RESERVES			
Called up share capital	14	1,098	1,098
Share premium	15	21,573	21,573
Capital reserve — unrealised	15	(6,060)	(3,219)
Capital reserve — realised	15	(12,273)	195
Special reserve	15	87,290	87,290
Revenue reserve	15	86	762
EQUITY SHAREHOLDERS' FUNDS	16	91,714	107,699
		pence	pence
Net Asset Value per Ordinary share	17	83.51	98.07

These Accounts were approved by the Board of Directors on 28th August 2002 and signed on its behalf by

John Duffield *Chairman*



The notes on pages 25 to 38 form an integral part of these Accounts.

COMPANY BALANCE SHEET

as at 30th June 2002

	Notes	30th June 2002 £'000	restated 30th June 2001 £'000
FIXED ASSETS			
Investments	11	89,210	106,934
CURRENT ASSETS			
Debtors	12	2,269	3,101
Cash at bank		2,976	710
		5,245	3,811
CREDITORS: amounts falling due within one year			
Creditors	13	(776)	(643)
Dividend payable		(1,977)	(2,416)
Net current assets		2,492	752
Total assets less current liabilities		91,702	107,686
CAPITAL AND RESERVES			
Called up share capital	14	1,098	1,098
Share premium	15	21,573	21,573
Capital reserve — unrealised	15	(6,060)	(3,219)
Capital reserve — realised	15	(12,273)	195
Special reserve	15	87,290	87,290
Revenue reserve	15	74	749
EQUITY SHAREHOLDERS' FUNDS		91,702	107,686

These Accounts were approved by the Board of Directors on 28th August 2002 and signed on its behalf by

John Duffield *Chairman*



The notes on pages 25 to 38 form an integral part of these Accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30th June 2002

	Notes	1st July 2001 to 30th June 2002 £'000	6th May 2000 to 30th June 2001 £'000
OPERATING ACTIVITIES			
Net cash inflow from operating activities	19	481	3,138
SERVICING OF FINANCE			
Interest paid		—	(9)
Net cash outflow from servicing finance		—	(9)
TAXATION			
Taxation paid		(341)	(739)
Total taxation paid		(341)	(739)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of fixed asset investments		(45,105)	(174,436)
Proceeds from the sale of fixed asset investments		52,494	62,831
Losses on index futures contracts		(2,791)	(921)
Revaluation of foreign currency		17	—
Exchange losses on settlements		(64)	—
Net cash inflow/(outflow) from capital expenditure and financial investment		4,551	(112,526)
Equity dividends paid		(2,416)	—
Net cash inflow/(outflow) before financing		2,275	(110,136)
FINANCING			
Issue of shares		—	17,222
Costs of share issue		—	(419)
Net cash inflow from financing		—	16,803
Increase/(decrease) in cash	20	2,275	(93,333)

The notes on pages 25 to 38 form an integral part of these Accounts.

NOTES TO THE ACCOUNTS

for the period to 30th June 2002

1. ACCOUNTING POLICIES

The Accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies". The particular accounting policies adopted by the Directors are described below. The Accounts have been prepared in accordance with the historical cost convention except as described in Note 1(d).

- (a) *Basis of consolidation:* The Consolidated Statement of Total Return and Balance Sheet include the Accounts of the Company and its subsidiary made up to 30th June 2002. No Revenue Account is presented for the parent Company as permitted by Section 230 of the Companies Act 1985.
- (b) *Prior year adjustment:* A special reserve was created when the share premium account was partially cancelled by court order on 28th June 2000. This was not disclosed in the Accounts for the period ended 30th June 2001 and the comparative figures for that period have therefore been amended by way of a prior year adjustment.
- (c) *Revenue:* Dividends on investments are credited to the Revenue Account in the period in which they are quoted ex-dividend. Interest on fixed interest securities and deposits is accounted for on a time apportionment basis. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is credited to the capital reserve.
- (d) *Expenses:* Expenses are accounted for on an accruals basis. Management fees, administration and other expenses are charged wholly to the Revenue Account. Expenses which are incidental to the purchase or sale of an investment are included in the cost or deducted from the proceeds of the investment.
- (e) *Valuation of investments:* Fixed asset investments are valued at closing mid-market prices. Unlisted fixed asset investments are valued at Directors' valuation which takes into account third party valuations, latest dealing prices and other information as appropriate. The net unrealised revaluation between market value and cost is taken to the unrealised capital reserve.
- (f) *Taxation:* The charge for taxation is based on taxable income for the year. Withholding tax deducted from income received is treated as part of the taxation charge against income. Taxation deferred or accelerated can arise due to timing differences between the treatment of certain items for accounting and taxation purposes. Full provision is made for deferred taxation under the liability method on all timing differences not reversed by the Balance Sheet date.

Previously under Statement of Standard Accounting Practice No. 15 provision for deferred taxation was necessary only to the extent that it was probable that the tax would be payable in the foreseeable future.

NOTES TO THE ACCOUNTS

continued

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

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

2. INCOME

	1st July 2001 to 30th June 2002 £'000	6th May 2000 to 30th June 2001 £'000
INCOME FROM LISTED INVESTMENTS		
UK net dividend income	374	402
UK unfranked investment income	2,080	4,592
	<u>2,454</u>	<u>4,994</u>
OTHER INCOME		
Bank interest receivable	189	482
	<u>189</u>	<u>482</u>
TOTAL INCOME COMPRISES:		
Dividends	374	402
Interest	2,269	5,074
	<u>2,643</u>	<u>5,476</u>

NOTES TO THE ACCOUNTS

continued

3. INVESTMENT MANAGEMENT FEES

	1st July 2001 to 30th June 2002			6th May 2000 to 30th June 2001		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	443	—	443	648	—	648
Irrecoverable VAT thereon	77	—	77	113	—	113
	<u>520</u>	<u>—</u>	<u>520</u>	<u>761</u>	<u>—</u>	<u>761</u>

At 30th June 2002 there were amounts outstanding of £114,000 (2001: £151,000).

Details of the investment management agreement are given in Note 21.

4. OTHER EXPENSES

	1st July 2001 to 30th June 2002 £'000	6th May 2000 to 30th June 2001 £'000
Administrative and secretarial fee	68	48
Auditor's remuneration	16	19
Auditor's non-audit remuneration	6	23
Directors' remuneration (Note 5)	41	49
Legal fees	205	172
Other	62	77
	<u>398</u>	<u>388</u>

5. DIRECTORS' REMUNERATION

The aggregate emoluments of the Directors for the year ended 30th June 2002 were £40,870 (2001: £48,475). Each of the Directors is paid at the rate of £10,000 per annum. The Company does not have a share option scheme or any incentive scheme. No pension contributions were made in respect of the Directors.

6. INTEREST PAYABLE

	1st July 2001 to 30th June 2002	6th May 2000 to 30th June 2001
On bank overdraft	<u>—</u>	<u>9</u>
	<u>—</u>	<u>9</u>

NOTES TO THE ACCOUNTS

continued

7. TAXATION

	1st July 2001 to 30th June 2002			6th May 2000 to 30th June 2001		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Corporation tax at 30%	405	135	540	1,174	—	1,174
Under provision in respect of prior year	19	—	19	—	—	—
	<u>424</u>	<u>135</u>	<u>559</u>	<u>1,174</u>	<u>—</u>	<u>1,174</u>

The Company is subject to corporation tax at 30% (2001: 30%). The current taxation charge in the Company's revenue account is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £'000	2001 £'000
Reconciliation of the tax charge for the year:		
Return on ordinary activities before taxation	1,725	4,318
Theoretical corporation tax at 30%	<u>518</u>	<u>1,295</u>
Effects of		
— UK dividends not taxable	(113)	(121)
— Underprovision in respect of prior year	<u>19</u>	<u>—</u>
Current tax charge — revenue account	<u>424</u>	<u>1,174</u>

The corporation tax charge in the capital account relates to taxable income included in the capital account.

8. NET REVENUE FOR THE PERIOD

The net revenue for the period dealt with in the accounts of the parent company was £1,302,000 (2001: £3,138,000).

9. RETURN PER ORDINARY SHARE

Revenue return per Ordinary share is based on the Group revenue return on ordinary activities after taxation of £1,301,000 (2001: £3,144,000) and on 109,820,026 (2001: 108,788,593) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year. Capital return per Ordinary share is based on net capital losses for the year of £15,309,000 (2001: £3,913,000) and on 109,820,026 (2001: 108,788,593) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

NOTES TO THE ACCOUNTS

continued

10. DIVIDENDS PROPOSED

	1st July 2001 to 30th June 2002 £'000	6th May 2000 to 30th June 2001 £'000
Per Ordinary share		
Interim dividend declared of 1.8p (2001: nil)	1,977	—
Final dividend proposed of nil (2001: 2.2p)	—	2,416
	<u>1,977</u>	<u>2,416</u>

11. FIXED ASSET INVESTMENTS

	30th June 2002 £'000	30th June 2001 £'000
GROUP AND COMPANY		
Equity shares	60,227	56,274
Preference shares	1,014	1,367
Convertibles	—	2,058
Bonds	27,969	47,235
	<u>89,210</u>	<u>106,934</u>

	Listed £'000	Unlisted £'000	30th June 2002 Total £'000
ANALYSIS OF INVESTMENT PORTFOLIO – GROUP AND COMPANY			
Opening book cost	105,409	4,157	109,566
Opening unrealised depreciation	(1,709)	(923)	(2,632)
Opening valuation	<u>103,700</u>	<u>3,234</u>	<u>106,934</u>
Movement in period			
Purchases at cost	43,134	3,971	47,105
Sales — proceeds	(52,429)	—	(52,429)
— realised losses on sales	(9,222)	—	(9,222)
Increase in unrealised (depreciation)/appreciation	(4,486)	1,308	(3,178)
Closing valuation	<u>80,697</u>	<u>8,513</u>	<u>89,210</u>

NOTES TO THE ACCOUNTS

continued

11. FIXED ASSET INVESTMENTS (CONTINUED)

	Listed £'000	Unlisted £'000	30th June 2002 Total £'000
Closing book cost	86,892	8,128	95,020
Closing unrealised (depreciation)/appreciation	(6,195)	385	(5,810)
Closing valuation	<u>80,697</u>	<u>8,513</u>	<u>89,210</u>
		1st July 2001 to 30th June 2002 £'000	6th May 2000 to 30th June 2001 £'000
ANALYSIS OF CAPITAL LOSSES			
Realised losses on sales		(9,222)	(62)
Increase in unrealised depreciation		(3,178)	(2,930)
		<u>(12,400)</u>	<u>(2,992)</u>

12. DEBTORS

	30th June 2002 Group £'000	30th June 2002 Company £'000	30th June 2001 Group £'000	30th June 2001 Company £'000
Dividends receivable	103	103	515	515
Prepayments and accrued income	10	10	19	19
Futures margin	2,153	2,153	567	567
Payment in advance for investments	—	—	2,000	2,000
Amounts owed by subsidiary undertakings	—	3	—	—
	<u>2,266</u>	<u>2,269</u>	<u>3,101</u>	<u>3,101</u>

NOTES TO THE ACCOUNTS

continued

13. CREDITORS: amounts falling due within one year

	30th June 2002 Group £'000	30th June 2002 Company £'000	30th June 2001 Group £'000	30th June 2001 Company £'000
Corporation tax	568	568	350	350
Accruals	202	202	280	280
Amounts owed to subsidiary undertakings	—	6	—	13
	<u>770</u>	<u>776</u>	<u>630</u>	<u>643</u>

14. CALLED UP SHARE CAPITAL

	30th June 2002 £'000	30th June 2001 £'000
Authorised		
300,000,000 Ordinary shares of £0.01 each	3,000	3,000
50,000 Redeemable shares of £1 each	50	50
	<u>3,050</u>	<u>3,050</u>
Issued and fully paid		
109,820,026 (2001: 109,820,026)		
Ordinary shares of £0.01 each	<u>1,098</u>	<u>1,098</u>

NOTES TO THE ACCOUNTS

continued

15. RESERVES

	Share premium account £'000	Capital reserve— realised £'000	Capital reserve— unrealised £'000	Special reserve £'000	Revenue reserve £'000
GROUP					
At 30th June 2001 as previously reported	108,863	195	(3,219)	—	762
Prior year adjustment (Note 22)	(87,290)	—	—	87,290	—
At 30th June 2001 restated	21,573	195	(3,219)	87,290	762
Increase in unrealised depreciation	—	—	(5,942)	—	—
Transfer on disposal of investments	—	(2,764)	2,764	—	—
Net losses on realisation of investments	—	(6,458)	—	—	—
Tax of gains on realisation of investments	—	(135)	—	—	—
Losses on index futures contracts	—	(3,111)	320	—	—
Unrealised gains on revaluation of bank accounts	—	—	17	—	—
Retained net revenue for the year	—	—	—	—	(676)
At 30th June 2002	21,573	(12,273)	(6,060)	87,290	86
COMPANY					
At 30th June 2001 as previously reported	108,863	195	(3,219)	—	749
Prior year adjustment (Note 22)	(87,290)	—	—	87,290	—
At 30th June 2001 restated	21,573	195	(3,219)	87,290	749
Increase in unrealised depreciation	—	—	(5,942)	—	—
Transfer on disposal of investments	—	(2,764)	2,764	—	—
Net losses on realisation of investments	—	(6,458)	—	—	—
Tax of gains on realisation of investments	—	(135)	—	—	—
Losses on index futures contracts	—	(3,111)	320	—	—
Unrealised gains on revaluation of bank accounts	—	—	17	—	—
Retained net revenue for the year	—	—	—	—	(675)
At 30th June 2002	21,573	(12,273)	(6,060)	87,290	74

NOTES TO THE ACCOUNTS

continued

16. RECONCILIATION OF MOVEMENTS IN CONSOLIDATED SHAREHOLDERS' FUNDS

Funds attributable to shareholders are analysed as follows:

	30th June 2002 £'000	30th June 2001 £'000
Profit attributable to shareholders	1,301	3,144
Dividends proposed	(1,977)	(2,416)
End of period	(676)	728
Recognised capital losses	(15,309)	(3,913)
	(15,985)	(3,185)
Issue of share capital	—	17,221
Share issue expenses	—	(29)
Net (decrease)/increase in shareholders' funds	(15,985)	14,007
Opening shareholders' funds	107,699	93,692
Closing shareholders' funds	91,714	107,699

17. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary share is based on net assets of £91,714,000 (2001: £107,699,000) and on 109,820,026 (2001: 109,820,026) Ordinary shares, being the number of Ordinary shares in issue at the year end.

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

Background

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

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

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

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

NOTES TO THE ACCOUNTS

continued

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

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

Policy

(i) Foreign Currency Risk

The Group does not normally hedge against foreign currency movements affecting the value of the investment portfolio, but takes account of this risk when making investment decisions.

(ii) Market Price Risk

By the very nature of its activities, the Group's investments are exposed to market price fluctuations. Further information on the investment portfolio and investment policy are set out in the Chairman's Statement and Investment Manager's Report.

(iii) Interest Rate Risk

The Group takes account of this risk when making investment decisions.

(iv) Use of Derivatives

The Group may enter into derivative contracts only after careful assessment of risk. The Group has bought FTSE 100 Index futures to increase its equity exposure. The unrealised gain on these futures at the year end was £320,000 (2001: loss £587,000).

NOTES TO THE ACCOUNTS

continued

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Financial Assets

	Total	Financial assets which no interest is paid	Floating rate financial assets	Fixed rate financial assets	Weighted average interest rate	Weighted average years to maturity
30th June 2002	£'000	£'000	£'000	£'000	%	
STERLING						
Equity shares	54,520	54,520	—	—		
Bonds and fixed interest securities	27,969	—	—	27,969	5.83	1.64
Cash and debtors	4,821	2,266	2,555	—		
	<u>87,310</u>	<u>56,786</u>	<u>2,555</u>	<u>27,969</u>		
US DOLLARS						
Equity shares	6,721	6,721	—	—		
Cash and debtors	420	—	420	—		
	<u>7,141</u>	<u>6,721</u>	<u>420</u>	<u>—</u>		
EUROS						
Cash and debtors	10	—	10	—		
	<u>10</u>	<u>—</u>	<u>10</u>	<u>—</u>		
TOTAL						
Equity shares	61,241	61,241	—	—		
Bonds and fixed interest securities	27,969	—	—	27,969		
Cash and debtors	5,251	2,266	2,985	—		
	<u>94,461</u>	<u>63,507</u>	<u>2,985</u>	<u>27,969</u>		

NOTES TO THE ACCOUNTS

continued

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

30th June 2001	Total £'000	Financial assets on which no interest is paid £'000	Floating rate financial assets £'000	Fixed rate financial assets £'000	Weighted average interest rate %	Weighted average years to maturity
STERLING						
Equity shares	54,552	54,552	—	—		
Bonds and fixed interest securities	47,235	—	—	47,235	6.61	1.62
Cash and debtors	3,801	3,101	700	—		
	<u>105,588</u>	<u>57,653</u>	<u>700</u>	<u>47,235</u>		
US DOLLARS						
Equity shares	5,147	5,147	—	—		
	<u>5,147</u>	<u>5,147</u>	<u>—</u>	<u>—</u>		
EUROS						
Cash and debtors	10	—	10	—		
	<u>10</u>	<u>—</u>	<u>10</u>	<u>—</u>		
TOTAL						
Equity shares	59,699	59,699	—	—		
Bonds and fixed interest securities	47,235	—	—	47,235		
Cash and debtors	3,811	3,101	710	—		
	<u>110,745</u>	<u>62,800</u>	<u>710</u>	<u>47,235</u>		

The floating rate assets consist of cash deposits at call.

The non-interest bearing assets represent the equity element of the investment portfolio.

Currency Exposure

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

Financial Liabilities

Primarily the Group finances its operations through its issued capital and existing reserves. The only financial liabilities of the Group are creditors which are due within one year, as disclosed in Note 13.

NOTES TO THE ACCOUNTS

continued

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Primary Financial Instruments

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

19. RECONCILIATION OF CONSOLIDATED REVENUE TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1st July 2001 to 30th June 2002 £'000	6th May 2000 to 30th June 2001 £'000
Revenue before interest payable and taxation	1,725	4,327
Decrease/(increase) in prepayments and accrued income	378	(447)
(Decrease)/increase in accruals	(80)	256
Increase in other debtors	(1,542)	(622)
Dividends reinvested	—	(23)
Tax on investment income	—	(353)
Net cash inflow from operating activities	<u>481</u>	<u>3,138</u>

20. ANALYSIS OF CHANGES IN NET FUNDS

	As at 30th June 2001 £'000	Cash flow £'000	As at 30th June 2002 £'000
Cash at bank	710	2,275	2,985
	<u>710</u>	<u>2,275</u>	<u>2,985</u>

NOTES TO THE ACCOUNTS

continued

21. RELATED PARTIES

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

Pursuant to an agreement dated 29th January 2001 the Company's investments are managed by New Star Asset Management Limited. The management fee is payable quarterly in arrears and is calculated at the rate of $\frac{3}{16}\%$ per quarter of the total assets of the Company and its subsidiaries after deduction of the value of any Jupiter managed investments and any New Star managed investments (as defined in the Management Agreement). Either party may terminate the appointment of the Investment Manager by giving not less than three months' written notice to expire on the last day of any calendar month.

The management fee payable for the year ended 30th June 2002 amounted to £520,000 including VAT.

The Company invests in other funds managed by Jupiter International Group PLC or its subsidiaries and New Star Asset Management Group Limited or its subsidiaries.

22. PRIOR YEAR ADJUSTMENT

A special reserve was created when the share premium account was partially cancelled by court order on 28th June 2000. This was not disclosed in the Accounts for the period ended 30th June 2001 and the comparative figures for that period have therefore been amended by way of a prior year adjustment.

NOTICE OF MEETING

Notice is hereby given that the third Annual General Meeting of the Company will be held at 1 Knightsbridge Green, London SW1X 7NE on 10th October 2002 commencing at 12 noon for the purpose of considering the following business:

ORDINARY BUSINESS

1. To receive the Report and Accounts for the period ended 30th June 2002 together with the reports of the Directors and the auditor thereon.
2. To re-elect J Duffield, a Director of the Company.
3. To re-appoint the auditor Ernst & Young LLP and to authorise the Directors to determine its remuneration.

SPECIAL BUSINESS

4. To consider and, if thought fit, pass the following Special Resolution:
That the Directors be empowered, pursuant to Section 95 of the Companies Act 1985 (the "Act"), to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by the ordinary resolution passed at the Extraordinary General Meeting of the Company held on 13th April 2000 as if Section 89(1) of the Act did not apply, such power to be limited to:
 - (a) the allotment of equity securities in connection with an offer of such securities open for acceptance for a period fixed by the Directors of the Company to holders on the register on a record date fixed by the Directors of Ordinary shares in proportion (as nearly as may be) to their holdings of Ordinary shares but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any legal or practical problems under the laws of any overseas territory or in relation to fractional entitlements or by virtue of shares being represented by depository receipts or otherwise however; or
 - (b) the allotment of equity securities (otherwise than pursuant to paragraph (a) above) up to an aggregate nominal amount of £54,910 representing 5% of the allotted and fully paid share capital of the Company

provided always that such power expires at the conclusion of the next Annual General Meeting of the Company following the passing of the resolution (unless renewed, varied or revoked by the Company) or 31st December 2003, if earlier, save that the Company may before such expiry, or the expiry of any renewal of the authority, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors of the Company may allot equity securities in pursuance of such offer or agreement as if this power had not expired.

NOTICE OF MEETING

continued

5. To consider and, if thought fit, pass the following Special Resolution:
- That the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Act) of up to 14.99% of the issued Ordinary share capital of the Company at a minimum price of 1p per Ordinary share and a maximum price equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of the purchase, such authority to expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, on 31st December 2003, unless such authority is renewed prior to such time provided that the Company may make a contract to purchase Ordinary shares under the authority conferred prior to expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary shares pursuant to any such contract.

Registered office:
23 Cathedral Yard
Exeter
EX1 1HB

By Order of the Board
Sinclair Henderson Limited
Secretary

28th August 2002

Notes:

1. Members entitled to attend and vote at the meeting are entitled to appoint one or more proxies, who need not be a member, to attend and vote in their place. A form of proxy for the use of shareholders appears on page 43 of this report which, if required, should be completed and dispatched in accordance with the instructions set out therein.
2. No Director has a contract of service with the Company. The register of Directors' interests will be available for inspection during normal business hours at the registered office of the Company from the date of this notice until the Annual General Meeting and, at the Annual General Meeting for at least 15 minutes prior to the meeting until its conclusion.
3. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company as at the close of business on 8th October 2002 shall be entitled to vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

FORM OF PROXY

I/We, (Full names) (block capitals) please

of (address)

being (a) member(s) of New Star Investment Trust PLC and entitled to vote, hereby appoint the

Chairman of the meeting

(see note 1 below) to act as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 1 Knightsbridge Green, London SW1X 7NE at 12 noon on 10th October 2002 and at any adjournment thereof. On a poll the proxy is to vote in the manner shown below on the resolutions set out in the Notice of Annual General Meeting.

RESOLUTIONS

	For	Against
1. To receive the Report and Accounts.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect J Duffield as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint the auditor Ernst & Young LLP and to authorise the Directors to determine its remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
4. To disapply statutory pre-emption provisions.	<input type="checkbox"/>	<input type="checkbox"/>
5. To purchase Ordinary shares.	<input type="checkbox"/>	<input type="checkbox"/>

Dated 2002 Signature
or common
seal

Notes:

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



2nd Fold

┌ ┐
Affix
Stamp
└ ┘

LLOYDS TSB REGISTRARS
THE CAUSEWAY
WORTHING
WEST SUSSEX BN99 6DA

1st Fold

3rd Fold and tuck in