

NEW STAR INVESTMENT TRUST PLC

REPORT AND ACCOUNTS  
for the year ended 30th June 2010



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## INVESTMENT OBJECTIVE

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

THIS DOCUMENT IS IMPORTANT and, if you are a holder of Ordinary shares requires your attention. If you are in doubt as to what action to take you should seek advice from your own independent personal financial advisor. If you have sold or otherwise transferred all of your Ordinary shares in the capital of the Company you should send this document and the accompanying Form of Proxy immediately to the purchaser or transferee; or to the stockbroker, bank or other agent through whom the sale or transfer was affected.

### REGISTERED OFFICE

1 Knightsbridge Green, London, SW1X 7QA

Company Number 3969011

## COMPANY INFORMATION

### DIRECTORS

G Howard-Spink (Chairman)  
J L Duffield (Deputy Chairman)  
M J Gregson

### INVESTMENT MANAGER

Brompton Asset Management LLP  
1 Knightsbridge Green, London SW1X 7QA  
*(Authorised and Regulated by the Financial Services Authority)*

### SECRETARY AND ADMINISTRATOR

Phoenix Administration Services Limited  
Springfield Lodge, Colchester Road, Chelmsford, Essex CM2 5PW  
*Telephone: 01245 398950 Facsimile: 01245 398952*

### SOLICITORS

Olswang  
90 High Holborn, London WC1V 6XX

### AUDITORS

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

### CUSTODIAN

Brown Brothers Harriman & Co  
Veritas House, 125 Finsbury Pavement, London EC2A 1PN

### REGISTRARS

Equiniti Limited  
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA  
*Telephone: 01903 502541 Website: [www.shareview.co.uk](http://www.shareview.co.uk)*

### WEBSITE

[www.nsitplc.com](http://www.nsitplc.com)

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

**\*Geoffrey Howard-Spink (Chairman)**, aged 66, was one of the founders in 1981 of Lowe Group Limited, one of the UK's biggest advertising groups. He is Chairman of Immedia Broadcasting PLC. Mr Howard-Spink was appointed Chairman of the Company with effect from 13th May 2009.

**John L Duffield (Deputy Chairman)**, aged 71, is the Senior Partner of Brompton Asset Management Group LLP. Mr Duffield was Chairman of New Star Asset Management Group PLC between 2000 and April 2009. Prior to founding New Star, Mr Duffield was the founder and chief executive of Jupiter International Group from 1985 to 2000.

**\*Marcus Gregson**, aged 64, is deputy chairman of Sand Aire, a leading family office. Formerly he was chief executive of HSBC Private Bank (UK) for over 16 years. Mr Gregson was appointed chairman of the Company's Audit Committee with effect from 2nd September 2009.

*\* Members of the Audit Committee.*

## FINANCIAL HIGHLIGHTS

	<b>30th June 2010</b>	30th June 2009	%
			Change
<b>PERFORMANCE</b>			
Net assets (£'000)	<b>67,972</b>	58,746	15.7
Net asset value per Ordinary share	<b>95.70p</b>	82.71p	15.7
Mid-market price per Ordinary share	<b>70.00p</b>	58.00p	20.7
Discount of price to net asset value	<b>26.9%</b>	29.9%	N/A
FTSE World Index (total return, sterling adjusted)	<b>510.67</b>	415.61	22.9
FTSE All-Share Index (total return)	<b>3,370.06</b>	2,781.88	21.1
	<b>1st July 2009 to 30th June 2010</b>	1st July 2008 to 30th June 2009	
<b>REVENUE</b>			
Return per Ordinary share	<b>(0.40)p</b>		0.92p
Dividend per Ordinary share	-		0.70p
<b>TOTAL RETURN</b>			
Net assets	<b>16.6%</b>		(38.6%)
FTSE All-Share Index	<b>21.1%</b>		(20.5%)

## CHAIRMAN'S STATEMENT

### MARKET BACKDROP AND PERFORMANCE

Your Company generated positive returns during the year to 30th June 2010, with net assets rising 15.7% to £68.0 million although this gain marginally lagged the FTSE All-Share Price Index, which rose 17.1%. This underperformance did, however, mask a significant relative recovery over the second half of the year, when net assets rose 1.9% while the FTSE All-Share Price Index declined 7.9%. At the year end, the net asset value per Ordinary share was 95.70p. This compares with the launch price of 100p in May 2000. The FTSE All-Share Price Index over the same period fell 15.3%.

The net revenue loss for the year under review was £281,000 against a £655,000 revenue profit the previous year mainly as a result of a strategic move to lower income producing investments principally in emerging markets. Your Directors do not recommend the payment of a final dividend. A 0.70p dividend per Ordinary share was paid in 2009.

Global equities recovered strongly over the year, with the FTSE World Total Return Index rising 22.9% in sterling terms although there was a 2.5% retreat during the second half. Having bounced from their March 2009 bear-market low, shares maintained their upward momentum for most of the year in response to central bank quantitative easing, the rebuilding of bank balance sheets through share issues and evidence of a global economic recovery from the third quarter of 2009, fuelled by strong emerging markets growth. The UK economy lagged, staying in recession during the summer, but it returned to growth in the fourth quarter and that growth was maintained in the first quarter of 2010. Stronger growth was generated by the US and developing economies in Asia and investors were cheered by central bank signals that the priority was to restore monetary expansion to entrench economic growth, and official short-term interest rates were held at historically low levels.

There were, however, renewed bouts of nervousness during the second half of the year under review, particularly in the final quarter. Investors grew concerned that the US economic recovery was insufficiently strong to generate the levels of job creation that would sustain it. In the eurozone, meanwhile, Greece's parlous economic and fiscal situation led to a joint European Central Bank/International Monetary Fund rescue package. The Greek crisis led savers to withdraw deposits from domestic banks and sell Greek government bonds amid signs that the country's planned austerity package was producing social instability. Contagion spread to other peripheral eurozone economies with weak economic and fiscal conditions such as Spain, Portugal, Italy and Ireland. The eurozone fiscal crisis took its toll of the euro, which fell 12.6% against the dollar over the year and 4.1% against the pound.

As a result of the revival in investors' risk appetites, riskier, more volatile equities such as small and medium-sized companies outperformed larger stocks. In the US, the Russell 2000 Index of smaller companies rose 32.0% in sterling terms while the larger stocks in the Russell 1000 Index rose 24.3%. The revival in risk appetite was also apparent in bond markets. As a result, sterling-denominated high-yield bonds returned 62.8% and emerging market government bonds returned 29.3% while government bonds in the Group of Seven (G7) major economies returned 15.7%.

Within the G7, the resource-heavy Canadian market was the strongest, returning 34.6% principally as a result of the Canadian dollar's rise, while US equities returned 27.0% and UK equities returned 21.1%. By contrast, Japan generated losses in local currency terms, producing an 11.7% positive return for sterling investors solely as a result of yen strength. The eurozone's G7 members also underperformed, with Italy, France and Germany, up 1.9%, 13.7% and 14.6% respectively.



## CHAIRMAN'S STATEMENT

*continued*

The strongest sectors were those that stood to benefit most from global economic recovery and Asian expansion. Basic materials rose 35.1%, industrial stocks returned 32.6% and consumer goods and services rose 31.6% and 31.2% respectively. By contrast, defensive areas underperformed, with utilities, telecommunications and healthcare up 13.2%, 17.6% and 22.1% respectively. The other notable underperformer was energy, which returned 14.8%, dragged down by BP's oil spill in the Gulf of Mexico; over the year BP shares fell 30.1%.

Over the summer of 2009, the pace of global economic recovery was slowing and leading indicators such as analysts' profit expectations and forward-looking business surveys suggested that the pace of expansion would continue to slacken. In the eurozone, sentiment was particularly fragile, with contagion spreading from Greece's deepening crisis. The world did not, however, appear to be facing a "double dip" recession. Monetary conditions still favoured economic growth albeit at a slower pace while US corporate capital spending and consumer sentiment were continuing to improve. The impact of such trends on markets is likely to depend on liquidity conditions, which were tightening in early 2010. Sentiment may also be negatively affected by investors' perceptions about the timing of the abandonment of ultra-loose central bank monetary policies. In such an environment, asset selection will be critical in generating returns.

Your Company's unaudited net asset value at 31st August 2010 was 97.90p.

### **BOARD**

On 30th October 2009 James Roe retired as a director due to ill health. The Board will miss his guidance and we thank him for his valuable contribution over a number of years.

Geoffrey Howard-Spink  
*Chairman*  
24th September 2010

## INVESTMENT MANAGER'S REPORT

*for the year ended 30th June 2010*

Your Company's strategy is to invest in a diversified portfolio of open-ended funds, investment trusts, exchange-traded funds (ETFs) and hedge funds selected from across the market place as well as certain selected special situations. The portfolio is spread across diverse asset classes from UK and overseas equities and bonds to commercial property, commodities and private equity.

A number of changes were made to the portfolio during the year under review. Your Company participated in two fund launches: Henderson European Special Situations, a retail fund, and Aberforth Geared Income Trust, a split capital investment trust, in which ordinary shares were purchased. In addition, holdings were taken in Atlantis China, M&G Optimal Income, Polar Capital Global Technology and the Aquilus Inflection Fund, a deep value long/short equity fund with a European bias.

Disposals included Henderson International Property, Loomis Sayles Multisector Income, Skandia Global Best Ideas and Skandia UK Strategic Best Ideas. In addition the holdings in the Gold Bullion Securities ETF and Prusik Asia were reduced.

A significant number of the holdings generated strong positive returns over the year under review. In the commodities area, Gold Bullion Securities rose 45.9% while BlackRock Gold & General rose 41.6%. In emerging markets, GWI Brazil Fund, which had fallen sharply the previous year, recovered 49.6%, Neptune Russia returned 44.85% and Investec Africa returned 29.98%. Of the funds purchased during the year, Atlantis China and Polar Global Technology, which were both purchased in August 2009, had gained 36.4% and 24.5% respectively by the year end. The weak areas within the portfolio included Prusik Asia, which fell 4.6%, Artemis UK Special Situations, which rose 11.9% and the investment in Corndon.

As a result of the portfolio changes and market movements, your Company ended the year with 53.1% of its assets in retail funds, 6.4% in ETFs, 5.2% in investment trusts, 3.7% in hedge funds, 4.3% in other securities and 27.3% in cash. Geographically, the biggest non-cash exposures were emerging markets, at 17.3%, the UK, at 13.6%, Europe excluding the UK, at 8.6%, and the Pacific excluding Japan, at 7.2%. In asset class terms, the biggest non-cash holdings were in equities, at 45.5%, commodities, at 12.2%, and private equity, at 4.8%.

By the year end, global stock markets had retreated 12.5% from their mid-April peak in sterling terms, with some markets suffering sharp falls in response to renewed investor nervousness. Sentiment was particularly fragile in the eurozone and on the eastern periphery of the European Union, with Portuguese and Spanish banks needing increased levels of central bank support as contagion spread from the deepening economic crisis in Greece. Within the Group of Seven (G7), the weakest countries were Italy, down 21.8%, and France, down 18.8%. Among smaller developed markets, Greece and Spain were down 31.2% and 23.5% respectively while the weakest emerging markets included Romania, down 30.9%, Hungary, down 28.4% and Poland, down 22.8%.

There were fears among some investors that the global economy might soon fall back into recession but monetary indicators such as the inflation-adjusted money supply in the G7 implied that a growth slowdown rather than a return to economic contraction was likely in the short-term. Positive factors included reduced nervousness in the interbank markets, improved trends in the US jobs market, reduced risk aversion among bank lending officers and fairly firm data from forward-looking business sentiment indicators.

## INVESTMENT MANAGER'S REPORT

*for the year ended 30th June 2010*

*continued*

The slowdown in the rate of growth in the inflation-adjusted G7 money supply when combined with maintained economic growth, albeit at more lacklustre level, may result in a less benign liquidity environment for financial markets. After the strong gains from the bottom of the bear market in March 2009, this implies that market conditions are likely to be more challenging over the coming months.

Brompton Asset Management LLP  
*Investment Manager*  
24th September 2010

## SCHEDULE OF TWENTY LARGEST INVESTMENTS

at 30th June 2010

Holding	Activity	30th June 2010	
		Bid-market value £'000	Percentage of portfolio
BlackRock Gold & General Income Fund	Investment Fund	6,066	12.40
New Star European Special Situations Fund	Investment Fund	5,828	11.92
Investec Africa Fund	Investment Fund	4,256	8.70
Occam Umbrella Asia Focus Fund	Investment Fund	3,900	7.98
Atlantis China Fund	Investment Fund	2,729	5.58
M&G Optimal Income Fund	Investment Fund	2,519	5.15
Polar Capital Global Technology Fund	Investment Fund	2,483	5.08
Trojan Investment Fund	Investment Fund	2,469	5.05
Lyxor Gold Bullion Securities ETF	Exchange Traded Fund	2,250	4.60
Artemis UK Special Situations Fund	Investment Fund	2,227	4.55
iShares FTSE/Xinhua China 25 ETF	Exchange Traded Fund	2,111	4.32
Aquilus Inflection Fund	Investment Fund	1,919	3.92
Neptune Russia & Greater Russia Fund	Investment Fund	1,574	3.22
Henderson Private Equity Investment Trust	Investment Company	1,404	2.87
The Sierra Investment Fund	Investment Fund	1,300	2.66
BH Global Investment Limited	Investment Company	1,174	2.40
GWJ Brazil Fund	Investment Fund	1,060	2.17
Aberforth Geared Income Trust	Investment Company	958	1.96
Prusik Asia Fund	Investment Fund	951	1.94
Corndon Limited 12% Convertible	Convertible Security	570	1.17
		47,748	97.64
Balance held in 12 investments		1,154	2.36
Total investments		48,902	100.00

The investment portfolio can be further analysed as follows:

	£'000
Equities (including Investment Companies)	4,074
Convertible securities	570
Other investments	44,258
	48,902

*All the Company's investments are either unlisted or are unit trusts/OEIC funds with the exception of Henderson Private Equity Investment Trust, iShares FTSE/Xinhua China 25 ETF, BH Global Investment Limited, Midas Capital, Lyxor Gold Bullion Securities ETF, Immedia Broadcasting and Hanson Westhouse Holdings.*

## SCHEDULE OF TWENTY LARGEST INVESTMENTS

at 30th June 2009

Holding	Activity	30th June 2010	
		Bid-market value £'000	Percentage of portfolio
BlackRock Gold & General Income Fund	Investment Fund	4,284	10.92
Natixis Loomis Sayles Multisector Income Fund	Investment Fund	3,305	8.42
Investec Africa Fund	Investment Fund	3,275	8.35
Lyxor Gold Bullion Securities ETF	Exchange Traded Fund	3,053	7.78
Occam Umbrella Asia Focus Fund	Investment Fund	3,032	7.73
Skandia UK Strategic Best Ideas Fund	Investment Fund	2,610	6.65
M&G Optimal Income Fund	Investment Fund	2,139	5.45
Prusik Asia Fund	Investment Fund	2,013	5.13
Artemis UK Special Situations Fund	Investment Fund	1,990	5.07
Trojan Investment Fund	Investment Fund	1,985	5.06
iShares FTSE/Xinhua China 25 ETF	Exchange Traded Fund	1,835	4.68
Henderson Private Equity Investment Trust	Investment Company	1,183	3.02
Neptune Russia & Greater Russia Fund	Investment Fund	1,087	2.77
The Sierra Investment Fund	Investment Fund	1,000	2.55
Corndon Limited	Equity	1,000	2.55
BH Global Investment Limited	Investment Company	992	2.53
New Star International Property Fund	Investment Fund	893	2.28
Synergy Fund Limited	Investment Fund	817	2.08
Skandia Global Best Ideas Fund	Investment Fund	726	1.85
GWJ Brazil Fund	Investment Fund	711	1.82
		<u>37,930</u>	<u>96.69</u>
Balance held in 11 investments		<u>1,298</u>	<u>3.31</u>
Total investments		<u><u>39,228</u></u>	<u><u>100.00</u></u>

The investment portfolio can be further analysed as follows:

	£'000
Equities	2,681
Convertible securities	458
Other investments	36,089
	<u>39,228</u>

*All the Company's investments are either unlisted or are unit trusts/OEIC funds with the exception of Henderson Private Equity Investment Trust, iShares FTSE/Xinhua China 25 ETF, BH Global Investment Limited, Midas Capital, Lyxor Gold Bullion Securities ETF, Immedia Broadcasting and Hanson Westhouse Holdings.*

## DIRECTORS' REPORT

The Directors present the audited accounts of the Company and their report for the year ended 30th June 2010.

### BUSINESS REVIEW

The following business review is designed to provide information primarily about the Company's business and results for the year ended 30th June 2010. The Business Review should be read in conjunction with the Chairman's Statement on pages 6 and 7 and the Investment Manager's Report on pages 8 and 9, which provide a review of the year's performance of the Company and the outlook for the future.

### STATUS

The Company is an investment company under section 833 of the Companies Act 2006. It conducts its operations in accordance with the requirements of sections 1158/1159 Corporation Tax Act 2010 ("section 1158") (formerly section 842 Income and Corporation Taxes Act 1988) so as to gain exemption under those sections from liability to United Kingdom capital gains tax. Approval by HM Revenue & Customs ("HMRC") under section 1158 can only be obtained annually and is only granted subject to no subsequent enquiry into the Company's corporation tax self-assessment. The Directors are of the opinion that the Company continues to conduct its affairs in a manner which will enable it to continue to apply for exemption under section 1158.

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

The Company is incorporated and registered in England and Wales and is domiciled in the United Kingdom. The Company number is 3969011

### INVESTMENT OBJECTIVE AND POLICY

#### *Investment Objective*

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

#### *Investment Policy*

The Company's investment policy is to allocate assets to global investment opportunities through investment in equity, bond, commodity, real estate, currency and other markets. The Company's assets may have significant weightings to any one asset class or market, including cash.

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

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

## DIRECTORS' REPORT

*continued*

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

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

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

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

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

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

### FINANCIAL REVIEW

#### *Assets*

Net assets at 30th June 2010 amounted to £67,972,000 compared with £58,746,000 at 30th June 2009. In the year under review the net asset value per Ordinary share increased by 15.7% from 82.71p to 95.70p.

#### *Costs*

Total expenses for the year amounted to £763,000 (2009: £411,000 net of a VAT recovery credit of £170,000). In the year under review the investment management fee amounted to £496,000 (2009: £311,000). No performance fee was payable in respect of the year under review as the Company did not outperform the hurdle rate. Further details on the Company's expenses may be found in notes 3 and 4.

#### *Revenue*

The Company's gross revenue totalled £437,000 (2009: £1,272,000) mainly as a result of a strategic move to lower income producing investments in emerging markets and lower interest rates. After deducting expenses, the revenue loss for the year was £281,000 (2009 revenue profit: £655,000).

#### *Dividends*

Dividends do not form a central part of the Company's investment policy. The Directors have not declared a final dividend (2009: final dividend of 0.70p).

#### *Funding*

The primary source of the Company's funding is shareholder funds. The Company is typically ungeared.

## DIRECTORS' REPORT

*continued*

### *VAT reclaim*

No VAT is charged on investment management fees. In 2009 the Company received VAT refunds totalling £170,000, together with interest of £35,000, in respect of VAT paid on management fees between 2001 and 2007.

### *Payment of suppliers*

The Company seeks to obtain the best possible terms for all business and, therefore, there is no single payment of supplier policy. In general the Company agrees with its suppliers the terms on which business will take place. There were no trade creditors at 30th June 2010 (2009: nil).

### *Future developments*

While the future performance of the Company is dependent, to a large degree, on the performance of international financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the strategy outlined above. Further comments on the outlook for the Company for the next 12 months are set out in both the Chairman's Statement on pages 6 and 7 and the Investment Manager's Report on pages 8 and 9.

### *Going concern*

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. In reaching this view, the Directors reviewed the level of expenditure of the Company against the cash and asset liquidity within the portfolio.

### PERFORMANCE MEASUREMENT AND KEY PERFORMANCE INDICATORS

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of the Investment Manager, the directors take into account the following key performance indicators.

	30th June 2010	30th June 2009	% Change
Net assets (£000)	67,972	58,746	15.7
Net asset value per share	95.70p	82.71p	15.7
Share price	70.00p	58.00p	20.7
Discount	26.9%	29.9%	N/A
Total Return per share	13.69p	(52.30)p	N/A
FTSE World Index (total return, sterling adjusted)	510.67	415.61	22.9
FTSE All-Share Index (total return)	3,370.06	2,781.88	21.1



## DIRECTORS' REPORT

*continued*

### MANAGEMENT ARRANGEMENTS

In common with most investment trusts, the Company does not have any executive directors or employees. The day-to-day management and administration of the Company, including investment management, accounting and company secretarial matters and custodian arrangements are delegated to specialist companies.

#### *Investment management services*

The Company's investments were managed by New Star Asset Management Limited ("New Star"), a subsidiary of Henderson Global Investors Plc, until 31st December 2009. The Company's investments during the period included funds managed by subsidiaries of Henderson Global Investors Plc.

On 1st January 2010 Brompton Asset Management LLP ("Brompton") replaced New Star as Investment Manager. The portfolio manager, Simon Akroyd, transferred from New Star to Brompton. This relationship is governed by an agreement dated 23rd December 2009.

Brompton (and prior to that New Star) receives a management fee, payable quarterly in arrears, equivalent to 3/16 per cent of total assets after the deduction of the value of any investments managed by the Investment Manager or its associates (as defined in the investment management agreement). The investment management agreement may be terminated by either party giving three months written notice to expire on the last calendar day of any month.

With effect from 1st September 2008, the Investment Manager has also been entitled to a performance fee of 15 per cent of the growth in net assets over a hurdle of 3 month Sterling LIBOR plus 1 per cent per annum, payable six monthly in arrears, subject to a high watermark. The aggregate of the Company's management fee and performance fee are subject to a cap of 4.99 per cent of net assets in any financial year (with any performance fee in excess of this cap capable of being earned in future years).

During the year under review the investment management fee amounted to £496,000 (2009: £311,000). No performance fee was accrued or paid in respect of the year ended 30th June 2010 (2009: £nil).

#### *Secretarial, administration and accounting services*

Secretarial services, general administration and accounting services for the Company have been undertaken by Phoenix Administration Services Limited since 1st January 2010. Prior to 1st January 2010, these services were undertaken by New Star and HSBC.

#### *Custodian services*

On 1st January 2010 Brown Brothers Harriman & Co was appointed as the independent custodian to the Company. Prior to 1st January 2010, HSBC was the custodian.

### RELATED PARTY TRANSACTIONS

On 1st January 2010 Brompton replaced New Star as Investment Manager. Mr Duffield is the senior partner of Brompton Asset Management Group LLP.

The investment management fee payable to Brompton in relation to the year ended 30th June 2010 was £261,000. No performance fee was payable in respect of the year ended 30th June 2010.

## DIRECTORS' REPORT

*continued*

During the year the Group's investments included funds managed by the Investment Manager or by associates of the Investment Manager. At 30th June 2010 the Company held 1 such investment. No investment management fees were payable by the Company in respect of this investment.

### PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks associated with the Company that have been identified by the Board, together with the steps taken to mitigate them, are as follows:

#### *Investment strategy*

Inappropriate long-term strategy, asset allocation and manager selection might lead to the underperformance of the Company.

The Company's strategy is kept under regular review by the Board. Investment performance is discussed at every Board meeting and the Directors receive a monthly report which details the Company's asset allocation, investment selection and performance.

#### *Business conditions and general economy*

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

The portfolio is managed with a view to mitigating risk by investing in a spread of different asset classes and geographic regions. A schedule of the twenty largest investments may be found on page 10.

#### *Portfolio risks – Market price, foreign currency and interest rate risks*

The downward valuation of investments contained in the portfolio would lead to a reduction in the Company's net asset value. A proportion of the Company's portfolio is invested in investments denominated in foreign currencies and movements in exchange rates can significantly affect their sterling value. It is the Board's policy to hold an appropriate spread of investments in order to reduce the risk arising from factors specific to a particular investment or sector. The Investment Manager takes account of foreign currency risk and interest rate risk when making investment decisions.

The Company does not normally hedge against foreign currency movements affecting the value of the portfolio, although hedging techniques may be employed in appropriate circumstances.

Further information on how the Company manages risk may be found in the Corporate Governance Statement on page 22 and in note 18 on pages 49 to 57.

#### *Investment Manager*

The quality of the management team employed by the Investment Manager is an important factor in delivering good performance and the loss by the Investment Manager of key staff could adversely affect investment returns. The Board receives a monthly financial report which includes information on performance and a representative of the Investment Manager attends each Board meeting. The Board is kept informed of any personnel changes to the investment team employed by the Investment Manager.

## DIRECTORS' REPORT

*continued*

### *Tax and regulatory risks*

A breach of sections 1158 to 1165 Corporation Tax Act 2010 (formerly section 842 of the Income and Corporation Taxes Act 1988) could lead to a loss of investment trust status, resulting in capital gains realised within the portfolio being subject to United Kingdom capital gains tax. A breach of the UKLA Listing Rules could result in suspension of the Company's shares, while a breach of company law could lead to criminal proceedings, or financial or reputational damage. The Board employs Brompton as Investment Manager and Phoenix Administration Services Limited as Secretary and administrator to help manage the Company's legal and regulatory obligations. The Board receives a monthly financial report which includes information on the Company's compliance with section 1158.

### *Operational*

Disruption to, or failure of, the Investment Manager's or Administrator's accounting, dealing or payment systems or the Custodian's records could prevent the accurate reporting and monitoring of the Company's financial position. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service.

Details of how the Board monitors the services provided by the Investment Manager, Administrator and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section of the Corporate Governance Statement on page 22.

### **ENVIRONMENTAL, SOCIAL AND COMMUNITY ISSUES**

The Company has no employees, with day-to-day management and administration of the Company being delegated to the Investment Manager and the Administrator. The Company's portfolio is managed in accordance with the investment objective and policy; environmental, social and community matters are considered to the extent that they potentially impact on the Company's investment returns.

### **CORPORATE GOVERNANCE STATEMENT**

#### **APPLICABLE CORPORATE GOVERNANCE CODES**

The UK Listing Authority requires all listed companies to include within the annual financial report a report on corporate governance and to disclose which code of corporate governance the Company has applied. Throughout the year under review the Company applied the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008 (the "Code"). In addition, the Company paid regard to the AIC Code of Corporate Governance, issued by the Association of Investment Companies in March 2009 ("the AIC Code"), which provide specific corporate governance guidance to investment trusts.

#### **STATEMENT OF COMPLIANCE**

It is considered that the Company has complied with the provisions of the Code subject to the exceptions explained below: the Company has not arranged insurance cover in respect of legal action against its Directors (Code provision A.1.5); the Company has not appointed a Senior Independent Director (Code provision A3.3); the Company does not have a Nominations Committee (Code Provision: A.4.1); and up to 1st September 2009 Mr Howard-Spink acted as both chairman of the Company and chairman of the Audit Committee (Code Provision C.3.1). These instances of non-compliance are explained in more detail below.

## DIRECTORS' REPORT

*continued*

### DIRECTORS

#### *Board composition*

The Articles of Association provide that the total number of directors shall be not less than two and not more than ten.

The following Directors, all of whom are non-executive, served throughout the year:

	Date of appointment as a Director
G Howard-Spink (Chairman)	13th April 2000
J L Duffield	13th April 2000
M J Gregson	1st December 2006

On 30th October 2009, James Roe retired as a Director.

No Director has a contract of employment with the Company. Directors' terms of appointment are set out in letters of appointment which are available for inspection at the registered office of the Company and will be available at the AGM.

During the year under review the Company did not arrange insurance cover in respect of legal action against its directors, as it was considered that the premiums would not have constituted good value to shareholders.

#### *Board independence*

The Board consider a range of factors in determining the independence of the individual directors including their character and judgment, whether they have any material business relationships with the Company or its advisers, whether they have any close family ties with the Company's advisers or directors and their other commitments. The Directors consider that length of service does not of itself impair a director's ability to act independently. Rather, a long-serving director can offer a perspective that adds value to the deliberations of a well-balanced investment trust company board.

It is considered by the Board that, with the exception of Mr Duffield, all of the Directors are independent. The biographies of the Directors holding office at the date of this report demonstrate a breadth of investment and commercial experience relevant to their positions as directors. All Directors have a wide range of other interests and are not dependent on the Company itself. The Chairman's other significant commitments are detailed on page 4.

The Board considers that, in the light of the small size of the Board, it is unnecessary to appoint a Senior Independent Director.

#### *Directors' appointment, retirement and rotation*

The Board may appoint directors to the Board without shareholder approval. Any director so appointed must stand for election by shareholders at the next AGM in accordance with the Articles of Association. No directors were appointed during the year.

## DIRECTORS' REPORT

*continued*

The Articles of Association provide that one-third of the directors are required to retire by rotation in each year. In order to comply with the Code, the Directors have also adopted a policy that each director will stand for re-election by shareholders at least every three years and that any director who has served for more than nine years will stand for re-election annually. As explained above, the Directors consider that length of service does not of itself impair a director's ability to act independently and that a long-serving director can offer a perspective that adds value to the deliberations of a well-balanced investment trust company board. Nonetheless the Directors recognise that it is desirable for the composition of the Board to be periodically refreshed.

Under the Articles of Association, shareholders may remove a director before the end of his term by passing an ordinary resolution at a meeting. An ordinary resolution is passed if more than 50% of the votes cast, in person or by proxy, are in favour of the resolution.

Mr Howard-Spink has served for more than nine years and therefore stands for re-election annually. The Board considers that Mr Howard-Spink continues to exhibit independence of character and judgment, and recommends his re-election to shareholders.

Mr Duffield has a beneficial interest in 59.14% of the Company's shares and is therefore not considered to be independent. It is the policy of the Board that all directors who are not considered to be independent stand for re-election annually. The independent Directors consider that Mr Duffield makes a significant contribution to the Company and recommend his re-election to shareholders.

Mr Gregson retires by rotation in accordance with the Company's Articles of Association. The Directors consider Mr Gregson to be a valuable member of the Board and recommend his re-election.

All Directors standing for re-election are eligible to be re-elected.

### *Directors' remuneration*

The Board consists solely of non-executive directors and accordingly the Company is not required to comply with the principles of the Combined Code in respect of executive directors' remuneration and does not have a Remuneration Committee. Details of the fees paid to the Directors can be found in the Directors' Remuneration Report on pages 26 and 27.

### *Directors' interests in shares*

The interests of the Directors in the Ordinary shares of the Company at the beginning and end of the financial year are shown in the table below.

Ordinary shares of 25p	30th June 2010	1st July 2009
Beneficial:		
J L Duffield	42,003,223	42,003,223
M J Gregson	10,000	10,000
G Howard-Spink	–	–

There have been no changes in the Directors' interests in the period from 30th June 2010 to the date of this report.

## DIRECTORS' REPORT

*continued*

### THE BOARD

#### *Responsibilities of the Board*

The Board is responsible for the effective stewardship of the Company's affairs. It determines the strategic direction of the Company and sets the boundaries within which the Investment Manager operates. The Board meets at least four times a year and reviews the Company's investment policy, performance and financial position. The Investment Manager takes decisions as to the purchase and sale of individual investments and is responsible for effecting those decisions on the best available terms. Matters specifically reserved for decision by the full Board have been defined and there is an agreed procedure for directors in the furtherance of their duties, to take independent professional advice at the Company's expense.

The chairman is responsible for leading the Board and ensuring that it continues to deal effectively with all aspects of its role. In particular, he ensures that the Investment Manager and Administrator provide the Directors, in a timely manner, with management, regulatory and financial information that is clear, accurate and relevant. Representatives of the Investment Manager attend each Board meeting, enabling the Directors to seek clarification on specific issues or to probe further matters of concern.

The Board comprises three non-executive directors. In the light of the small size of the Board, it has been decided not to appoint a formal Nominations Committee and appointments of any new directors are considered by the Board as a whole.

#### *Audit Committee*

The Board has established an Audit Committee which consists of Mr Gregson (Chairman) and Mr Howard-Spink. Both members of the Audit Committee served throughout the year and are considered by the Board to be independent of the Investment Manager. During part of the year Mr Howard-Spink served as chairman of the Audit Committee. With effect from 2nd September 2009, Mr Howard-Spink stepped down as chairman of the Audit Committee and Mr Gregson has chaired the Audit Committee. It is considered that each of the members of the Audit Committee have recent and relevant financial experience.

The Audit Committee, which met twice during the year, operates within clearly defined terms of reference. The Committee provides a forum through which the Company's external auditors report to the Board. The main work and responsibilities of the Audit Committee include monitoring the integrity of the Company's financial statements and appropriateness of its accounting policies. It also reviews the internal control systems and the risks to which the Company is exposed. The Audit Committee makes recommendations to the Board regarding the appointment and independence of the external auditor, Ernst & Young LLP and the objectivity and effectiveness of the audit process. Details of the amounts paid to the external auditors during the year under review, for audit and other services are set out in note 4 on page 41. In addition to auditing the annual financial report, Ernst & Young LLP also performed certain agreed upon review procedures in respect of the half year report. These procedures are considered to be a non-audit service.

The Audit Committee monitors the integrity of financial statements and effectiveness of reporting procedures at its meetings to consider the Company's Annual Report & Accounts and Half Year Statements. It also reviews any public announcements, other than the monthly Net Asset Value Statements, giving details of financial performance prior to release.

## DIRECTORS' REPORT

*continued*

### *Other Matters*

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

The Company does not have any employees and its day-to-day operations are delegated to third parties. The Board has determined that, in view of these circumstances, there is no need for the Company to have an internal audit function. The Directors annually review whether a function equivalent to an internal audit is needed and will continue to monitor its systems of internal controls in order to provide assurance that they operate as intended.

### *Board attendance*

Attendance at the Board and Audit Committee meetings held during the financial year is shown below.

	Board meetings	Audit Committee meetings
No of meetings	5	2
John Duffield	5	N/A
Marcus Gregson	5	2
Geoffrey Howard-Spink	5	2
James Roe*	–	–

\* Retired 30th October 2009

### PERFORMANCE EVALUATION

#### *The Company*

The performance of the Company is considered in detail at each Board meeting.

#### *The Board*

The Board has formulated a periodic process to evaluate its performance and that of its chairman. This takes the form of a questionnaire followed by a discussion to identify the effectiveness of the Board, the Audit Committee and the individual directors. The evaluation process undertaken in respect of the year ended 30th June 2010 concluded that the current directors contributed effectively and that they had the skills and necessary experience for the Board to fulfil its responsibilities.

### INTERNAL CONTROLS

The Board has overall responsibility for the establishment of the Company's systems of internal control and for reviewing their effectiveness. Internal control systems are designed to meet the particular requirements of the Company and to manage rather than eliminate the risks of failure to achieve its objectives. The systems by their very nature provide reasonable but not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of the Company's internal control systems including the financial, operational and compliance controls and risk management for the period since 1st July 2009.

## DIRECTORS' REPORT

*continued*

The key procedures which have been established with a view to providing effective internal control are as follows:

- Throughout the year under review, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process accords with the guidance in the document "Internal Control: Guidance for Directors on the Combined Code". 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 and Investment Manager on risk control and compliance, in conjunction with the Investment Manager's regular report which covers investment performance and compliance issues. In addition, the Company Secretary or Investment Manager report on the internal control environment at the Company's third party service providers. Internal control statements from the third party service providers are made available to the Audit Committee.
- The duties of investment management, accounting and custody of assets are segregated; the procedures of the individual parties are designed to complement one another.
- Investment management is performed by Brompton since 1st January 2010. Prior to this date New Star was responsible for investment management. The Board is responsible for setting the overall investment policy and monitors the activity of the Investment Manager at regular Board Meetings. The responsibilities of the Investment Manager are included in the Investment Management Agreement between the Company and Brompton. Brompton is authorised and regulated by the Financial Services Authority.
- Custody of assets is undertaken by Brown Brothers Harriman & Co.
- Administration, accounting and company secretarial duties are performed by Phoenix Administration Services Limited.
- Authorisation and exposure limits are set by the Board.
- The Company clearly defines the duties and responsibilities of its agents through their contracts. The appointment of agents and advisers is conducted by the Board after consideration of the quality of parties involved; the Board monitors their ongoing performance and contractual arrangements. The Board reviews financial information produced by the Investment Manager and the Company Secretary in detail on a regular basis.

### ACCOUNTABILITY AND RELATIONSHIP WITH INVESTMENT MANAGER

The Statement of Directors' Responsibilities in respect of the accounts is set out on page 28. The responsibilities of the independent auditors are set out on pages 29 and 30. The Directors report that the business is a going concern is set out on page 14.

The Board has delegated contractually to external agents, including the Investment Manager, the management of the investment portfolio, the custodial service (which includes the safeguarding of assets), the day-to-day accounting, company secretarial and administration requirements and the registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered. The Board receives regular reports from the Investment Manager and ad hoc reports and information are supplied to the Board as required.



## DIRECTORS' REPORT

*continued*

### SHARE CAPITAL AND SHAREHOLDERS

#### *Share capital*

The Company's share capital comprises 71,023,695 Ordinary shares of 1p each (2009: 71,023,695), all of which are issued and fully paid. No shares are held in treasury (2009: nil). The Company did not issue or repurchase any shares during the year.

There are no restrictions on the transfer of the Company's shares other than a) transfers by Directors and Persons Discharging Managerial Responsibilities and their connected persons during prohibited periods under the rules of the UK Listing Authority or which may constitute insider dealing, b) transfers for more than one class of share, c) transfers to more than 4 joint transferees and d) transfers of shares which are not fully paid up or on which the Company has a lien provided that such would not prohibit dealings taking place on an open and proper basis.

The Company is not aware of any arrangements between shareholders or between the Company and any shareholders which restrict the transfer of shares or which would take effect or terminate in the event of a change of control of the Company.

The voting rights of the Ordinary shares on a poll are one vote for every share held. Accordingly there were 71,023,695 voting rights throughout the year.

#### *Substantial share interests*

At 22nd September 2010, the Company is aware of the following interests which represent 3% or more of the voting rights in the Company:

Shareholder	% of voting rights
J L Duffield	59.14
Clients of Jupiter Asset Management Ltd*	7.33
M R L Astor	3.94
J E Craig	3.36
J K Roe	3.22

\* excluding any shareholders disclosed above

#### *Relations with shareholders*

The Board and Investment Manager are available for dialogue with shareholders. The prime medium by which the Company communicates with its shareholders is through the Half Year Report and Annual Financial Report which aim to provide shareholders with a clear understanding of the Company's activities and its results.

All shareholders will have the opportunity to attend and vote at the AGM during which the Directors and Investment Manager will be available to answer questions regarding the Company. The Company will generally seek to provide twenty working days notice of the AGM.

The Notice of Meeting sets out the business of the Annual General Meeting and any item not of an entirely routine nature is explained in the Directors' Report or, if applicable, the Notice of Meeting. Separate resolutions are proposed for each substantive issue. The Company reports to shareholders twice a year by way of the Half Year Report and Annual Financial Report. The Company's Annual Financial Report, Half Year Report and Interim Management Statements are also published on the Company's website at: [www.nsitplc.com](http://www.nsitplc.com). In addition, net asset values are published on a monthly basis.

### SUBSIDIARY

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

## DIRECTORS' REPORT

*continued*

### INDEPENDENT AUDITORS

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

### DIRECTORS' STATEMENT AS TO THE DISCLOSURE OF INFORMATION TO THE AUDITORS

The Directors who were members of the Board at the time of approving this Report are listed on page 4. Each of those Directors confirms that:

- to the best of his knowledge and belief, there is no information relevant to the preparation of the Report and Accounts of which the Company's auditors are unaware; and
- he has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

### AGM

The annual general meeting will be held on Wednesday, 17th November at 11.00 a.m. The notice of meeting may be found on pages 58 to 60.

### SPECIAL BUSINESS AT THE AGM

At the forthcoming annual general meeting, in addition to the Ordinary business to be transacted, Resolutions will be proposed on the following:

Resolution 7 is proposed as an Ordinary Resolution to provide a general and unconditional authority for the Directors to allot shares. Shares cannot be allotted by a company unless this general authority has been obtained. The authority can be sought for up to 5 years and Resolution 9 seeks authority for the full period to avoid the necessity of putting similar Resolutions annually. The Directors currently do not have any plans to exercise the authority granted under this Resolution.

Resolutions 8 to 11 are proposed as Special Resolutions.

Resolution 8 would enable the Company to allot a limited number of equity securities outside of pre-emption rights. The Directors again do not currently have any plans to exercise the authority under this Resolution, but consider it to be in the Company's interest for the Directors to have it available in case circumstances arose where it was in the interests of the Company to exercise it without the need to call a separate general meeting to authorise it.

Resolution 9 seeks to renew the existing authority for the Company to make market purchases of the Company's Ordinary shares. The authority is limited to 10,646,450 Ordinary shares representing approximately 14.99% of the current issued Ordinary share capital. The Directors have not as yet effected any market purchases but feel it is important to have the ability to do so, and would only do so if they considered it would result in an increase in the net asset value per Ordinary share. Any Ordinary shares bought back would be cancelled or held in treasury at the discretion of the Directors. The shareholders authorised a similar resolution at the 2009 AGM.

Resolution 10 would enable the Directors to re-issue Ordinary shares held in treasury provided they were not re-issued at a price below that at which they had been bought back.

## DIRECTORS' REPORT

*continued*

Resolution 11 would enable the Directors to call general meetings, other than an annual general meeting, at not less than 14 clear days notice rather than 21 days. Ordinarily the Directors would expect to give the full notice period but circumstances might arise where it would be desirable to call a meeting on shorter notice and this Resolution would provide that flexibility.

The Directors strongly recommend that shareholders vote in favour of all Resolutions being put to the annual general meeting, as they themselves intend to vote in respect of their own beneficial shareholdings totalling 42,013,223, being approximately 59.2% of the Ordinary share capital in issue at the date of this report.

Geoffrey Howard-Spink,  
for and on behalf of the Board of Directors  
24th September 2010

## DIRECTORS' REMUNERATION REPORT

The Directors are pleased to present their report on remuneration which is prepared in accordance with the requirements of section 420 of the Companies Act 2006 (the "Act"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration in the Combined Code. An ordinary resolution to receive this report will be put to members of the Company at the forthcoming Annual General Meeting.

The Act requires the Auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Act. Where information set out below has been audited, it is clearly indicated. The Auditor's opinion is included within the Independent Auditor's Report on pages 29 and 30.

### REMUNERATION COMMITTEE

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

### POLICY ON DIRECTORS' FEES

The Board's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other investment trusts that have a similar capital structure (ordinary shares), and have a similar investment objective (long-term capital growth). It is intended that this policy will continue for the year ending 30th June 2011.

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

### DIRECTORS' SERVICE CONTRACTS

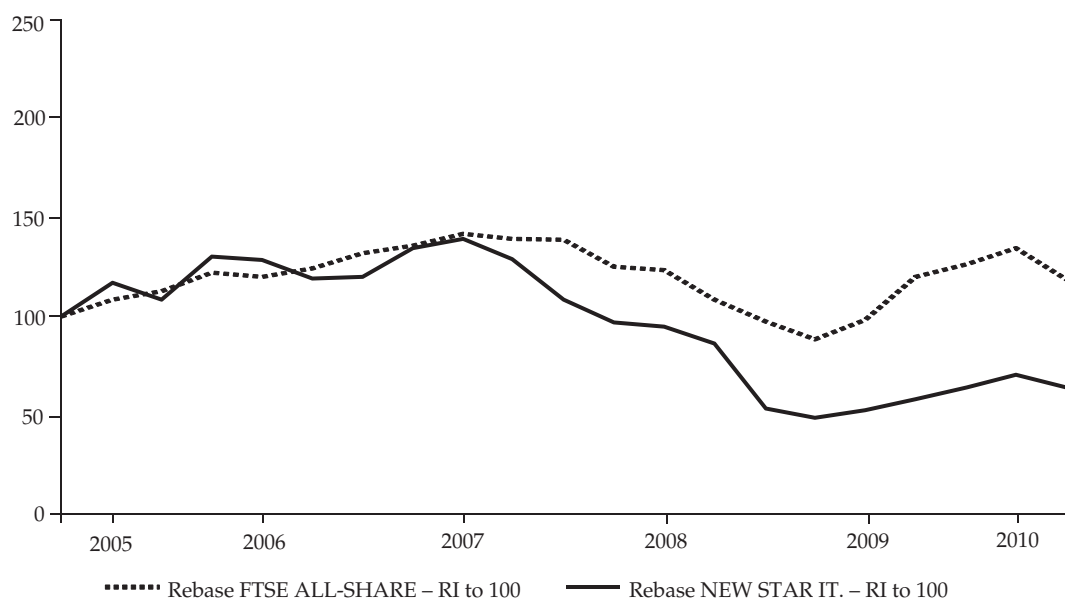
It is the Board's policy that none of the Directors has a service contract. Each Director shall retire and be subject to election at the first Annual General Meeting after his appointment, and be subject to re-election at least every three years after that. Any Director may be removed without notice and compensation will not be due on leaving office. Directors who are not considered by the Board to be independent and those who have served on the Board for nine years or more are required to stand for re-election annually.

## DIRECTORS' REMUNERATION REPORT

*continued*

## YOUR COMPANY'S PERFORMANCE

The graph below compares the share price total return (assuming all dividends are reinvested) over the last five years with the FTSE All-Share Index (total return) which is the Company's benchmark index. The data has been rebased to 100 on 30th June 2005.



Source: Thomson Reuters Datastream

## DIRECTORS FEES (AUDITED)

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

	2010	2009
	£	£
J L Duffield	£15,000	£15,000
M J Gregson	£15,000	£15,000
G Howard-Spink (Chairman)	£20,000	£15,659
J K Roe	£5,000	£19,341
Total	<u>£55,000</u>	<u>£65,000</u>

For and on behalf of the Board of Directors  
 Geoffrey Howard-Spink  
*Chairman*  
 24th September 2010

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Under Company Law, the directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- prepare a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### STATEMENT UNDER DISCLOSURE AND TRANSPARENCY RULE 4.1.12

The Directors of the Company each confirm to the best of their knowledge that:

- (a) the financial statements have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- (b) this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties they face.

For and on behalf of the Board of Directors  
Geoffrey Howard-Spink  
*Chairman*  
24th September 2010

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW STAR INVESTMENT TRUST PLC

We have audited the financial statements of New Star Investment Trust PLC for the year ended 30th June 2010 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Balance Sheets and Consolidated and Company Cash Flow Statements and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

### SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30th June 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW STAR INVESTMENT TRUST PLC

*continued*

### OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 14, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Caroline Gulliver (*Senior Statutory Auditor*)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
24th September 2010



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*for the year ended 30th June 2010*

	Notes	Year ended 30th June 2010			Year ended 30th June 2009		
		Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
INVESTMENT INCOME	2	420	–	420	1,049	–	1,049
Other operating income	2	17	–	17	223	–	223
		<b>437</b>	<b>–</b>	<b>437</b>	<b>1,272</b>	<b>–</b>	<b>1,272</b>
<b>GAINS AND LOSSES ON INVESTMENTS</b>							
Gains/(losses) on investments at fair value through profit or loss							
	9	–	9,397	9,397	–	(36,822)	(36,822)
Losses on index future contracts							
		–	–	–	–	(672)	(672)
Losses on forward currency contracts							
		–	–	–	–	(302)	(302)
Other exchange gains/(losses)							
		–	659	659	–	(167)	(167)
Trail commission							
		–	120	120	–	129	129
		<b>437</b>	<b>10,176</b>	<b>10,613</b>	<b>1,272</b>	<b>(37,834)</b>	<b>(36,562)</b>
<b>EXPENSES</b>							
Management fees							
	3	(496)	–	(496)	(311)	–	(311)
VAT recovery							
	3	–	–	–	170	–	170
Other expenses							
	4	(267)	–	(267)	(268)	(2)	(270)
		<b>(763)</b>	<b>–</b>	<b>(763)</b>	<b>(409)</b>	<b>(2)</b>	<b>(411)</b>
<b>PROFIT/(LOSS) BEFORE FINANCE COSTS AND TAX</b>							
		<b>(326)</b>	<b>10,176</b>	<b>9,850</b>	<b>863</b>	<b>(37,836)</b>	<b>(36,973)</b>
Finance costs							
		<b>(1)</b>	<b>–</b>	<b>(1)</b>	<b>(77)</b>	<b>–</b>	<b>(77)</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>							
		<b>(327)</b>	<b>10,176</b>	<b>9,849</b>	<b>786</b>	<b>(37,836)</b>	<b>(37,050)</b>
Tax							
	5	46	(172)	(126)	(131)	40	(91)
<b>PROFIT/(LOSS) FOR THE YEAR</b>							
		<b>(281)</b>	<b>10,004</b>	<b>9,723</b>	<b>655</b>	<b>(37,796)</b>	<b>(37,141)</b>
<b>EARNINGS PER SHARE</b>							
Ordinary shares (pence)							
	7	<b>(0.40)</b>	<b>14.09</b>	<b>13.69</b>	<b>0.92</b>	<b>(53.22)</b>	<b>(52.30)</b>

The Company did not have any income or expense that was not included in 'profit for the year'. Accordingly, the 'profit for the year' is also the 'Total comprehensive income for the year', as defined in IAS1 (revised) and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Group's profit and loss account, prepared in accordance with IFRS. The supplementary Revenue Return and Capital Return columns are both prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations.

No operations were acquired or discontinued during the year.

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

*The Notes on pages 37 to 57 form an integral part of these Accounts.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*for the year ended 30th June 2010*

	<i>Note</i>	Share capital £'000	Share premium £'000	Special reserve £'000	Retained earnings £'000	Total £'000
AT 30TH JUNE 2009		710	21,573	56,908	(20,445)	58,746
Total comprehensive income for the year		-	-	-	9,723	9,723
Dividend paid	8	-	-	-	(497)	(497)
AT 30TH JUNE 2010		<u>710</u>	<u>21,573</u>	<u>56,908</u>	<u>(11,219)</u>	<u>67,972</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*for the year ended 30th June 2009*

	<i>Note</i>	Share capital £'000	Share premium £'000	Special reserve £'000	Retained earnings £'000	Total £'000
AT 30TH JUNE 2008		710	21,573	56,908	17,214	96,405
Total comprehensive income for the year		-	-	-	(37,141)	(37,141)
Dividend paid	8	-	-	-	(518)	(518)
AT 30TH JUNE 2009		<u>710</u>	<u>21,573</u>	<u>56,908</u>	<u>(20,445)</u>	<u>58,746</u>

*The Notes on pages 37 to 57 form an integral part of these Accounts.*

## COMPANY STATEMENT OF CHANGES IN EQUITY

*for the year ended 30th June 2010*

	<i>Note</i>	Share capital £'000	Share premium £'000	Special reserve £'000	Retained earnings £'000	Total £'000
AT 30TH JUNE 2009		710	21,573	56,908	(20,940)	58,251
Total comprehensive income for the year		–	–	–	9,722	9,722
Dividend paid	8	–	–	–	(497)	(497)
AT 30TH JUNE 2010		710	21,573	56,908	(11,715)	67,476

## COMPANY STATEMENT OF CHANGES IN EQUITY

*for the year ended 30th June 2009*

	<i>Note</i>	Share capital £'000	Share premium £'000	Special reserve £'000	Retained earnings £'000	Total £'000
AT 30TH JUNE 2008		710	21,573	56,908	16,750	95,941
Total comprehensive income for the year		–	–	–	(37,172)	(37,172)
Dividend paid	8	–	–	–	(518)	(518)
AT 30TH JUNE 2009		710	21,573	56,908	(20,940)	58,251

*The Notes on pages 37 to 57 form an integral part of these Accounts.*

## CONSOLIDATED BALANCE SHEET

at 30th June 2010

	<i>Notes</i>	<b>30th June 2010 £'000</b>	30th June 2009 £'000
<b>NON-CURRENT ASSETS</b>			
Investments at fair value through profit or loss	9	<u>48,902</u>	<u>39,228</u>
<b>CURRENT ASSETS</b>			
Other receivables	11	68	94
Cash and cash equivalents	12	<u>19,672</u>	<u>20,189</u>
		<u>19,740</u>	<u>20,283</u>
<b>TOTAL ASSETS</b>		<b>68,642</b>	59,511
<b>CURRENT LIABILITIES</b>			
Other payables	13	<u>(230)</u>	<u>(421)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>68,412</b>	59,090
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability	5	<u>(440)</u>	<u>(344)</u>
<b>NET ASSETS</b>		<u><u>67,972</u></u>	<u><u>58,746</u></u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS</b>			
Called-up share capital	14	710	710
Share premium	15	21,573	21,573
Special reserve	15	56,908	56,908
Retained earnings	15	<u>(11,219)</u>	<u>(20,445)</u>
<b>TOTAL EQUITY</b>		<u><u>67,972</u></u>	<u><u>58,746</u></u>
		pence	pence
<b>NET ASSET VALUE PER ORDINARY SHARE</b>	16	<u><u>95.70</u></u>	<u><u>82.71</u></u>

These Accounts were approved by the Board of Directors and authorised for issue on 24th September 2010.

Geoffrey Howard-Spink  
*Chairman*

*The Notes on pages 37 to 57 form an integral part of these Accounts.*

## COMPANY BALANCE SHEET

at 30th June 2010

	<i>Notes</i>	<b>30th June 2010 £'000</b>	30th June 2009 £'000
<b>NON-CURRENT ASSETS</b>			
Investments at fair value through profit or loss	9	<b>48,902</b>	39,228
<b>CURRENT ASSETS</b>			
Other receivables	11	955	974
Cash and cash equivalents	12	<b>18,289</b>	18,814
		<b>19,244</b>	19,788
<b>TOTAL ASSETS</b>		<b>68,146</b>	59,016
<b>CURRENT LIABILITIES</b>			
Other payables	13	<b>(230)</b>	(421)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>67,916</b>	58,595
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability	5	<b>(440)</b>	(344)
<b>NET ASSETS</b>		<b>67,476</b>	58,251
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS</b>			
Called-up share capital	14	710	710
Share premium	15	21,573	21,573
Special reserve	15	56,908	56,908
Retained earnings	15	<b>(11,715)</b>	(20,940)
<b>TOTAL EQUITY</b>		<b>67,476</b>	58,251

These Accounts were approved by the Board of Directors and authorised for issue on 24th September 2010.

Geoffrey Howard-Spink  
*Chairman*

*The Notes on pages 37 to 57 form an integral part of these Accounts.*

## CASH FLOW STATEMENTS

*for the year ended 30th June 2010*

	Year ended 30th June 2010 Group £'000	Year ended 30th June 2010 Company £'000	Year ended 30th June 2009 Group £'000	Year ended 30th June 2009 Company £'000
	<i>Note</i>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit/(loss) before finance costs and tax	9,850	9,849	(36,973)	(37,004)
Adjustments for:				
(Gains)/losses on investments	<u>(9,562)</u>	<u>(9,562)</u>	46,340	46,340
<b>OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL</b>	<b>288</b>	<b>287</b>	<b>9,367</b>	<b>9,336</b>
Rolled-up interest	(112)	(112)	–	–
Decrease in receivables	19	19	8	3
Decrease in payables	<u>(112)</u>	<u>(112)</u>	(347)	(8)
Net cash from operating activities before finance costs and income taxes	83	82	9,028	9,331
Taxation	<u>(102)</u>	<u>(109)</u>	(78)	(78)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>17</b> <b>(19)</b>	<b>(27)</b>	<b>8,950</b>	<b>9,253</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividends paid	(497)	(497)	(518)	(518)
Interest paid	<u>(1)</u>	<u>(1)</u>	(77)	(77)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(498)</b>	<b>(498)</b>	<b>(595)</b>	<b>(595)</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(517)</b>	<b>(525)</b>	<b>8,355</b>	<b>8,658</b>
Cash and cash equivalents at beginning of Year	<u>20,189</u>	<u>18,814</u>	<u>11,834</u>	<u>10,156</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>19,672</u></b>	<b><u>18,289</u></b>	<b><u>20,189</u></b>	<b><u>18,814</u></b>

*The Notes on pages 37 to 57 form an integral part of these Accounts.*

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010*

### 1. ACCOUNTING POLICIES

These financial statements are presented in pounds sterling, the Group's functional currency, because that is the currency of the primary economic environment in which the Group operates, rounded to the nearest thousand.

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

- (a) *Basis of preparation:* The financial statements have been prepared on a going concern basis. The principal accounting policies adopted are set out below.

Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in January 2009 is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

- (b) *Basis of consolidation:* The Consolidated Statement of Comprehensive Income and Balance Sheet include the Accounts of the Company and its subsidiary made up to 30th June 2010. No Statement of Comprehensive Income is presented for the parent company as permitted by Section 408 of the Companies Act 2006.

- (c) *Presentation of Statement of Comprehensive Income:* In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Consolidated Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Consolidated Statement of Comprehensive Income.

In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, net capital returns may not be distributed by way of a dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 1158 of the Corporation Tax Act 2010.

- (d) *Use of estimates:* The preparation of financial statements requires the Group to make estimates and assumptions that affect items reported in the Balance Sheet and Consolidated Statement of Comprehensive Income and the disclosure of contingent assets and liabilities at the date of the financial instruments. Although these estimates are based on the Directors' best knowledge of current facts, circumstances and, to some extent, future events and actions, the Group's actual results may ultimately differ from those estimates, possibly significantly.
- (e) *Revenue:* Dividends and other such distributions from investments are credited to the revenue column of the Consolidated Statement of Comprehensive Income on the day in which they are quoted ex-dividend. Interest on fixed interest securities and deposits is accounted for on an effective yield basis. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of cash dividend is recognised as income. Any excess in the value of the shares received over the amount of cash dividend is credited to the capital reserve.

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010*

*continued*

### 1. ACCOUNTING POLICIES CONTINUED

(f) *Expenses:* Expenses are accounted for on an accruals basis. Management fees, administration and other expenses, with the exception of the transaction charges are charged to the revenue column of the Consolidated Statement of Comprehensive Income. Transaction charges are charged to the capital column of the Consolidated Statement of Comprehensive Income.

(g) *Investment held at fair value:* Purchases and sales of investments are recognised and derecognised on the trade date where a purchase or sale is under a contract whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value

All investments are classified as held at fair value through profit or loss on initial recognition and are measured at subsequent reporting dates at fair value, which is either the bid price or the last traded price, depending on the convention of the exchange on which the investment is quoted. Investments in units of unit trusts or shares in OEICs are valued at the closing bid price released by the relevant investment manager. Unquoted investments are valued by the directors at the balance sheet date based on recognised valuation methodologies, in accordance with International Private Equity and Venture Capital ("IPEVC") Valuation Guidelines such as dealing prices or third party valuations where available, net asset values and other information as appropriate.

The Company's investment in its subsidiary company, JIT Securities Limited, is valued at cost in the Company's Balance Sheet.

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

(i) *Foreign currency:* Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign currency transactions are translated at the rates of exchange applicable at the transaction date. Foreign currency differences including exchange gains and losses are dealt with in the capital reserve.

(j) *Capital reserve:* The following are accounted for in this reserve:

- gains and losses on the realisation of investments together with the related taxation effect;
- foreign exchange gains and losses, including those on settlement, together with the related taxation effect;
- unrealised gains and losses on investments; and
- trail commission and rebates received from the managers of the Company's investments.

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

(k) *Special reserve:* The special reserve can be used to finance the redemption and/or purchase of shares in issue.



## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 1. ACCOUNTING POLICIES CONTINUED

(l) *Cash and cash equivalents*: Cash and cash equivalents comprise current deposits, overdrafts with banks and bank loans and are subject to an insignificant risk of changes in value. Cash and cash equivalents may be held for the purpose of either asset allocation or managing liquidity.

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

(n) *Segmental Reporting*: The Directors consider that the Group is engaged in a single segment of business with the primary objective of investing in securities to generate long-term capital growth for its shareholders.

Consequently no business segmental analysis is provided.

(o) *Accounting developments*: At the date of authorisation of these financial statements, the following Standards which have not been applied in these financial statements were in issue but were not yet effective (and in some cases had not yet been adopted by the European Union):

International Accounting Standards (IAS/IFRSs)	Accounting periods beginning on or after
IFRS 1 Amendments to IFRS 1 – Additional Exemptions for First-time Adopters	1st January 2010
IFRS 1 Amendments to IFRS 1 – Limited Exemption from Comparative IFRS 7 disclosures	1st July 2010
IFRS 2 Amendments to IFRS 2 – Group Cash settled Share-based Payment Transactions	1st January 2010
IFRS 9 Financial Instruments: Classification & Measurement	1st January 2013
IAS 24 Related Party Disclosures (revised)	1st January 2011

The Directors anticipate that the adoption of these standards/interpretations in future periods will have no material impact on the consolidated financial statements.

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 2. INVESTMENT INCOME

	Year ended 30th June 2010 £'000	Year ended 30th June 2009 £'000
<b>INCOME FROM INVESTMENTS</b>		
UK net dividend income	23	319
Unfranked investment income	182	570
Fixed interest income	160	105
Interest on convertible loan stock	55	55
	<u>420</u>	<u>1,049</u>
<b>OTHER OPERATING INCOME</b>		
Bank interest receivable	17	188
VAT reclaim interest received from HMRC	–	35
	<u>17</u>	<u>223</u>
<b>TOTAL INCOME COMPRISES</b>		
Dividends	205	889
Interest	215	160
Other income	17	223
	<u>437</u>	<u>1,272</u>

## 3. MANAGEMENT FEES

	Year ended 30th June 2010			Year ended 30th June 2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment management fee	496	–	496	311	–	311
Performance fee	–	–	–	–	–	–
	<u>496</u>	<u>–</u>	<u>496</u>	<u>311</u>	<u>–</u>	<u>311</u>

At 30th June 2010 there were amounts outstanding of £129,000 (2009: £203,000) for investment management fees. Details of the investment management agreement are given in Note 19.

A summary of the terms of the investment management agreement may be found in the Directors' Report on page 15.

Following a decision made by HM Revenue and Customs in November 2007, management fees invoiced after this date have not incurred a VAT charge. £170,000 of VAT paid on management fees in past years was recovered during the year ended 30th June 2009.

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 4. OTHER EXPENSES

	Year ended 30th June 2010 £'000	Year ended 30th June 2009 £'000
Legal fees	52	82
Directors' remuneration	55	65
Administrative and secretarial fee	82	55
Auditors' remuneration		
– Audit	28	27
– Other	5	2
Other	45	39
	<u>267</u>	<u>270</u>
Allocated to:		
– Revenue	267	268
– Capital	–	2
	<u>267</u>	<u>270</u>

## 5. TAXATION

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

	Year ended 30th June 2010			Year ended 30th June 2009		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax	–	–	–	138	35	173
Overseas tax	–	–	–	7	–	7
Double tax relief	–	–	–	(7)	–	(7)
Tax relief to Income	(76)	76	–	–	–	–
Irrecoverable income tax	30	–	30	–	–	–
Total current tax for the year	<u>(46)</u>	<u>76</u>	<u>30</u>	<u>138</u>	<u>35</u>	<u>173</u>
Deferred tax	–	96	96	(7)	(75)	(82)
Total tax for the year (note 5b)	<u>(46)</u>	<u>172</u>	<u>126</u>	<u>131</u>	<u>(40)</u>	<u>91</u>

## NOTES TO THE ACCOUNTS

for the year ended 30th June 2010

continued

## 5. TAXATION CONTINUED

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

The charge for the year can be reconciled to the profit/(loss) per the Consolidated Statement of Comprehensive Income as follows:

	Year ended 30th June 2010 £'000	Year ended 30th June 2009 £'000
Profit/(loss) before tax	9,849	(37,050)
Tax at the UK corporation tax rate of 28% (2009: 28%)	2,758	(10,374)
Effects of:		
Non-taxable UK dividend income	(6)	(89)
Gains and losses on investments that are not taxable	(2,774)	10,629
Movement in unrealised gains on non-qualifying offshore funds	96	(75)
Irrecoverable income tax	29	–
Overseas dividends which are not taxable	(9)	–
Excess expenses not utilised	32	–
Overseas tax	–	7
Double tax relief	–	(7)
Total tax for the year	<u>126</u>	<u>91</u>

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

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

	Group and Company	
	Year ended 30th June 2010 £'000	Year ended 30th June 2009 £'000
Provision at start of year	344	426
Deferred tax charge/(credit) for the year	96	(82)
Provision at end of year	<u>440</u>	<u>344</u>

The deferred tax charge in the capital account of £96,000 (2009: credit of £75,000) of the Company relates to unrealised gains on non-distributing offshore funds. There is no deferred tax charge in the revenue account (2009: credit of £7,000) relating to the reversal of the prior year tax charge on income taxable in the subsequent accounting period.

There is no unrecognised deferred tax asset (2009: nil) as a result of excess expenses.

## 6. REVENUE RETURN FOR THE YEAR

The revenue loss for the year dealt with in the accounts of the parent company was £(282,000) (2009: revenue profit of £624,000).

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued***7. RETURN PER ORDINARY SHARE**

Total return per Ordinary share is based on the Group total return on ordinary activities after taxation of £9,723,000 (2009: loss of £37,141,000) and on 71,023,695 (2009: 71,023,695) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

Revenue return per Ordinary share is based on the Group revenue loss on ordinary activities after taxation of £(281,000) (2009: profit of £655,000) and on 71,023,695 (2009: 71,023,695) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

Capital return per Ordinary share is based on net capital gains for the year of £10,004,000 (2009: capital losses of £37,796,000) and on 71,023,695 (2009: 71,023,695) Ordinary shares, being the weighted average number of Ordinary shares in issue during the year.

**8. DIVIDENDS ON EQUITY SHARES**

Amounts recognised as distributions in the year:

	<b>Year ended 30th June 2010 £'000</b>	Year ended 30th June 2009 £'000
Dividends paid for the year ended 30th June 2009 of 0.70p (2008: 0.73p) per share	<u>497</u>	<u>518</u>

The total dividend payable in respect of the financial year, which is the basis on which the requirement of section 1159 of the Corporation Tax Act 2010 (formerly section 842 of the Income and Corporation Taxes Act 1988) are considered, is set out below.

	<b>Year ended 30th June 2010 £'000</b>	Year ended 30th June 2009 £'000
Final dividend for the year ended 30th June 2009 of 0.70p	<u>–</u>	<u>497</u>
Revenue available for distribution by way of dividend	<u>(282)</u>	<u>624</u>

The directors do not recommend the payment of a final dividend for the year ended 30th June 2010 (2009: £497,000).

## NOTES TO THE ACCOUNTS

for the year ended 30th June 2010

continued

## 9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 30th June 2010 £'000	Year ended 30th June 2009 £'000	
<b>GROUP AND COMPANY</b>	<b>48,902</b>	<b>39,228</b>	
<b>ANALYSIS OF INVESTMENT PORTFOLIO – GROUP AND COMPANY</b>			
	Listed* £'000	Unlisted £'000	Total £'000
Opening book cost	50,386	4,340	54,726
Opening investment holding losses	(14,801)	(697)	(15,498)
Opening valuation	35,585	3,643	39,228
Movement in period			
Purchases at cost	15,113	–	15,113
Sales			
– Proceeds	(14,165)	(783)	(14,948)
– Realised (losses)/gains on sales	(3,565)	149	(3,416)
Investment holding gains/(losses)	13,500	(687)	12,813
Rolled-up interest	–	112	112
Closing valuation	46,468	2,434	48,902
Closing book cost	47,769	3,706	51,475
Closing investment holding losses	(1,301)	(1,384)	(2,685)
Rolled-up interest	–	112	112
Closing valuation	46,468	2,434	48,902

\* Listed investments include unit trust and OEIC funds.

	Year ended 30th June 2010 £'000	Year ended 30th June 2009 £'000
<b>ANALYSIS OF CAPITAL GAINS AND LOSSES</b>		
Realised (losses) on sales of investments	(3,416)	(8,981)
Increase/(decrease) in investment holding gains	12,813	(27,841)
	<b>9,397</b>	<b>(36,822)</b>

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS CONTINUED

*Transaction costs*

The purchases and sales proceeds figures above include transaction costs on purchases of £13,000 (2009: £31,000) and on sales of £nil (2009: £16,000).

*Significant movements in unquoted holdings*

During the year capital repayments of £244,000 were received on Synergy Fund A1 and £539,000 on Synergy Fund B1. The closing market value of these Funds were £132,000 (Synergy Fund A1) and £395,000 (Synergy Fund B1). Full provision has been made for the equity investment in Corndon and the Sierra Leone Fund has been written up to the last traded price.

## 10. INVESTMENT IN SUBSIDIARY UNDERTAKING

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

The financial results of the subsidiary are summarised as follows:

	<b>Year ended 30th June 2010 £'000</b>	Year ended 30th June 2009 £'000
Net assets brought forward	495	464
Profit for year	1	31
<b>NET ASSETS CARRIED FORWARD</b>	<b>496</b>	<b>495</b>

## 11. OTHER RECEIVABLES

	<b>30th June 2010 Group £'000</b>	<b>30th June 2010 Company £'000</b>	30th June 2009 Group £'000	30th June 2009 Company £'000
Prepayments and accrued income	41	41	60	60
Taxation	27	-	34	-
Amounts owed by subsidiary undertakings	-	914	-	914
	<b>68</b>	<b>955</b>	<b>94</b>	<b>974</b>

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 12. CASH AND CASH EQUIVALENTS

	30th June 2010 Group £'000	30th June 2010 Company £'000	30th June 2009 Group £'000	30th June 2009 Company £'000
Cash at bank	19,672	18,289	20,189	18,814

## 13. OTHER PAYABLES

	30th June 2010 Group £'000	30th June 2010 Company £'000	30th June 2009 Group £'000	30th June 2009 Company £'000
Accruals	230	230	342	342
Corporation tax payable	–	–	79	79
	<u>230</u>	<u>230</u>	<u>421</u>	<u>421</u>

## 14. CALLED UP SHARE CAPITAL

	30th June 2010 £'000	30th June 2009 £'000
Authorised 305,000,000 (2009: 305,000,000) Ordinary shares of £0.01 each	<u>3,050</u>	<u>3,050</u>
Issued and fully paid 71,023,695 (2009: 71,023,695) Ordinary shares of £0.01 each	<u>710</u>	<u>710</u>



## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 15. RESERVES

	Share premium account £'000	Special reserve £'000	Retained earnings £'000
<b>GROUP</b>			
At 30th June 2009	21,573	56,908	(20,445)
Decrease in investment holding losses	–	–	12,813
Net losses on realisation of investments	–	–	(3,416)
Gains on foreign currency	–	–	659
Trail commission	–	–	120
Deferred tax charge in capital	–	–	(96)
Tax relief to income from capital	–	–	(76)
Final dividend	–	–	(497)
Retained loss for year	–	–	(281)
At 30th June 2010	<u>21,573</u>	<u>56,908</u>	<u>(11,219)</u>
	Share premium account £'000	Special reserve £'000	Retained earnings £'000
<b>COMPANY</b>			
At 30th June 2009	21,573	56,908	(20,940)
Decrease in investment holding losses	–	–	12,813
Net losses on realisation of investments	–	–	(3,416)
Gains on foreign currency	–	–	659
Trail commission	–	–	120
Deferred tax charge in capital	–	–	(96)
Tax relief to income from capital	–	–	(76)
Final dividend	–	–	(497)
Retained loss for year	–	–	(282)
At 30th June 2010	<u>21,573</u>	<u>56,908</u>	<u>(11,715)</u>

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 15. RESERVES CONTINUED

The components of retained earnings are set out below:

	<b>30th June 2010 £'000</b>	30th June 2009 £'000
<b>GROUP</b>		
Capital reserve-realised	(8,925)	(5,165)
Capital reserve-revaluation	(2,685)	(16,449)
Revenue reserve	391	1,169
	<u>(11,219)</u>	<u>(20,445)</u>
<b>COMPANY</b>		
Capital reserve-realised	(9,277)	(5,428)
Capital reserve-revaluation	(2,685)	(16,538)
Revenue reserve	247	1,026
	<u>(11,715)</u>	<u>(20,940)</u>

## 16. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary share is calculated on net assets of £67,972,000 (2009: £58,746,000) and 71,023,695 (2009: 71,023,695) Ordinary shares in issue at the year end.

## 17. NOTES TO THE CASH FLOW STATEMENT

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

*Cash flows from operating activities*

Included within the cash flows from operating activities are the cash flows associated with the purchases and sales of investments, as these are not considered to be investing activities given the objective of the Company.

Cash flows from operating activities can therefore be further analysed as follows:

	<b>30th June 2010 Group £'000</b>	<b>30th June 2010 Company £'000</b>	30th June 2009 Group £'000	30th June 2009 Company £'000
Proceeds on disposal of fair value through profit and loss investments	14,948	14,948	69,304	69,304
Purchases of fair value through profit and loss investments	(15,113)	(15,113)	(59,786)	(59,786)
Net cash flows from investment transactions	(165)	(165)	9,518	9,518
Cash flows from other operating activities	146	138	(568)	(265)
Net cash from operating activities	<u>(19)</u>	<u>(27)</u>	<u>8,950</u>	<u>9,253</u>

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010*

*continued*

### 18. FINANCIAL INSTRUMENTS

The Group's investment objective is to produce long-term capital growth. The investment objective is implemented by allocating assets to global investment opportunities through investment in equity, bond, commodity, real estate, currency and other markets. The Group's assets are stated at fair value.

For listed securities, these represent bid prices, or for unit trusts and OEICs, the closing bid price released by the relevant investment manager.

Unquoted investments are valued by the directors at the balance sheet date based on recognised valuation methodologies, in accordance with International Private Equity and Venture Capital ("IPEVC") Valuation Guidelines such as dealing prices or third party valuations where available, net asset values and other information as appropriate.

The holding of securities, investing activities and associated financing undertaken pursuant to this objective involve certain inherent risks. Events may occur that would result in either a reduction in the Group's net assets or a reduction of potential revenue profits available for dividend. As an investment trust, the Group invests in securities for the long-term. Accordingly it is, and has been throughout the year under review, the Group's policy that no short-term trading in investments or other financial instruments shall be undertaken.

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

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

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 18. FINANCIAL INSTRUMENTS CONTINUED

**(a) Market Risk**

The fair value or future cash flows of a financial instrument held by the Group may fluctuate because of changes in market prices of investments held by the Group.

This market risk comprises three elements – currency risk (see note 18 (b)), interest rate risk (see note 18 (c)), and other price risk (see note 18 (d)). The Board reviews and agrees policies for managing these risks. The Group's Investment Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

**(b) Currency Risk**

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

*Management of the risk*

The Investment Manager does not normally hedge against foreign currency movements affecting the value of the investment portfolio, but takes account of this risk when making investment decisions. In addition, the directors may authorise the Investment Manager to hedge currency risk in appropriate circumstances.

*Foreign currency exposure*

During the year under review, the Investment Manager did not enter into any forward currency contracts. (2009: total realised loss of £302,000.)

The fair values of the Group's monetary items that have foreign currency exposure at 30th June 2010 are shown below.

	2010	2010	2010	2009	2009	2009
	US			US		
	Dollars	Euros	Total	Dollars	Euros	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investments at fair value through profit or loss	12,211	1,919	14,130	11,529	–	11,529
Cash at bank and short-term deposits	8,558	3,572	12,130	108	4,257	4,365
Total net foreign currency exposure	<u>20,769</u>	<u>5,491</u>	<u>26,260</u>	<u>11,637</u>	<u>4,257</u>	<u>15,894</u>

## NOTES TO THE ACCOUNTS

for the year ended 30th June 2010

continued

## 18. FINANCIAL INSTRUMENTS CONTINUED

**(b) Currency Risk** continued*Foreign currency sensitivity*

During the financial year sterling depreciated by 9.2% against the US dollar (2009: depreciated by 17.2%) and appreciated by 4.0% against the euro (2009: depreciated by 7.0%).

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

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

	2010 US Dollars £'000	2010 Euros £'000	2010 Total £'000	2009 US Dollars £'000	2009 Euros £'000	2009 Total £'000
If exchange rates appreciated by 10%	<u>(1,888)</u>	<u>(499)</u>	<u>(2,387)</u>	<u>(1,058)</u>	<u>(387)</u>	<u>(1,445)</u>
If exchange rates depreciated by 10%	<u>2,307</u>	<u>610</u>	<u>2,907</u>	<u>1,293</u>	<u>473</u>	<u>1,766</u>

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

**(c) Interest Rate Risk**

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

*Management of the risk*

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. The Group currently has no gearing.

The Group may from time to time hold significant cash balances. Short-term borrowings are used when required. Cash balances are invested in the market.

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

*Interest rate exposure*

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

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

## NOTES TO THE ACCOUNTS

for the year ended 30th June 2010

continued

## 18. FINANCIAL INSTRUMENTS CONTINUED

## (c) Interest Rate Risk continued

	2010 In 1 year or less £'000	2010 Greater than 1 year £'000	2010 Total £'000	2009 In 1 year or less £'000	2009 Greater than 1 year £'000	2009 Total £'000
Exposure to floating interest rates:						
Cash at bank	19,672	–	19,672	20,189	–	20,189
	<u>19,672</u>	<u>–</u>	<u>19,672</u>	<u>20,189</u>	<u>–</u>	<u>20,189</u>
Exposure to fixed interest rates:						
Investments at fair value through profit and loss	–	458	458	–	458	458
	<u>–</u>	<u>458</u>	<u>458</u>	<u>–</u>	<u>458</u>	<u>458</u>
Total exposure to interest rates	<u>19,672</u>	<u>458</u>	<u>20,130</u>	<u>20,189</u>	<u>458</u>	<u>20,647</u>

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

Interest receivable and finance cash are at the following rates:

- Interest received on cash balances, or paid on bank overdrafts is at a margin above or below LIBOR or its foreign currency equivalent (2009: same).
- The nominal and weighted average interest rate on Corndon Limited 12% Convertible Loan Notes is 12% (2009: 12%).

*Interest rate sensitivity*

The following table illustrates the sensitivity of the profit after taxation for the year and equity to an increase or decrease of 50 (2009: 50) basis points in interest rates in regard to the Group's monetary financial assets which are subject to interest rate risk.

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

	Increase in rate 2010 £'000	Decrease in rate 2010 £'000	Increase in rate 2009 £'000	Decrease in rate 2009 £'000
Effect on total return and equity	<u>98</u>	<u>(98)</u>	<u>101</u>	<u>(101)</u>

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 18. FINANCIAL INSTRUMENTS CONTINUED

**(d) Other price risk**

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

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

*Management of the risk*

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

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

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

*Other price risk exposure*

The Group's exposure to other changes in market prices at 30th June 2010 on its quoted investments, which are all equities or equity related, was as follows:

	2010 £'000	2009 £'000
Fixed asset quoted investments at fair value through profit or loss	<u>46,468</u>	<u>35,585</u>

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

	2010 £'000	2009 £'000
Fixed asset unquoted investments at fair value through profit or loss	2,434	3,643
Analysed as:		
Equities	1,864	3,185
Fixed Interest	570	458
	<u>2,434</u>	<u>3,643</u>

## NOTES TO THE ACCOUNTS

for the year ended 30th June 2010

continued

## 18. FINANCIAL INSTRUMENTS CONTINUED

**(d) Other price risk** *continued**Other price risk sensitivity*

The following table illustrates the sensitivity of the profit after taxation for the year and the equity to an increase or decrease of 10% in the fair values of the Group's investments. The sensitivity analysis is based on the Group's investments at each balance sheet date, with all other variables held constant.

	<b>Increase in fair value 2010 £'000</b>	<b>Decrease in fair value 2010 £'000</b>	<b>Increase in fair value 2009 £'000</b>	<b>Decrease in fair value 2009 £'000</b>
Effect on total return and on net assets	<u>4,890</u>	<u>(4,890)</u>	<u>3,923</u>	<u>(3,923)</u>

**(e) Liquidity Risk**

Liquidity risk is the possibility of failure of the Group to realise sufficient assets to meet its financial liabilities, including outstanding commitments associated with financial instruments.

The Group's assets mainly comprise securities which can be readily sold to meet future funding commitments, if necessary. Unlisted securities, which carry a higher degree of liquidity risk form only 5.0% (2009: 9.3%) of the investment portfolio.

*Management of the risk*

The liquidity risk is managed by maintaining some cash or cash equivalent holdings in order to meet investment requirements as they fall due. At the year end the Group had liquid resources of £66.2 million.

This was made up of £19.7 million cash and money market instruments and £46.5 million of listed investments.

*Liquidity risk exposure*

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

**(f) Credit Risk**

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

*Management of the risk*

Credit risk is managed as follows:

- investment transactions are carried out with approved brokers, whose credit standard is reviewed periodically by the Investment Manager.
- cash at bank is held only with an authorised list of reputable banks, with ratings of A or higher.



## NOTES TO THE ACCOUNTS

for the year ended 30th June 2010

continued

## 18. FINANCIAL INSTRUMENTS CONTINUED

**(f) Credit Risk** continued*Credit risk exposure*

The maximum exposure to credit risk at 30th June 2010 was £19,740,000 (2009: £20,283,000), comprising:

	2010 £'000	2009 £'000
Accrued income	41	60
Tax recoverable	27	34
Cash and cash equivalents	19,672	20,189
	<u>19,740</u>	<u>20,283</u>

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

**(g) Fair Values of Financial Assets and Financial Liabilities**

The Group's financial instruments are stated at their fair values at the year end. The fair value of listed shares and securities and unit trusts and OEICs is based on last traded market bid prices. The fair value of unlisted shares and securities is based on directors' valuations as detailed in the accounting policies (note 1(g)).

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

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

	2010 £'000	2009 £'000
<b>FINANCIAL ASSETS</b>		
Financial assets at fair value through profit or loss:		
Fixed asset investments – designated as such on initial recognition	48,902	39,228
Loans and receivables:		
Current assets:		
Debtors (due from brokers, dividends receivable, accrued income and other debtors)	41	60
Tax recoverable	27	34
Cash and cash equivalents	19,672	20,189
	<u>68,642</u>	<u>59,511</u>

## NOTES TO THE ACCOUNTS

for the year ended 30th June 2010

continued

## 18. FINANCIAL INSTRUMENTS CONTINUED

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

## FINANCIAL LIABILITIES

*Measured at amortised cost:**Creditors: amounts falling due within one year*

Creditors (deferred taxation)	–	–
Other taxation payable	–	79
Accruals	<b>230</b>	342

*Creditors: amounts falling due after one year*

Creditors (deferred taxation)	<b>440</b>	344
	<b>670</b>	765

*Valuation of financial instruments*

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- Level 1 – valued using quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included within Level 1.
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

The tables below set out fair value measurements of financial instruments at the year-end, by the level in the fair value hierarchy into which the fair value measurement is categorized.

## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AT 30TH JUNE 2010

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	46,468	564	1,300	48,332
Fixed Interest	–	–	570	570
	<b>46,468</b>	<b>564</b>	<b>1,870</b>	<b>48,902</b>

The valuation techniques used by the Company are explained in the accounting policies on page 38. There have been no transfers during the year between Levels 1 and 2.

## NOTES TO THE ACCOUNTS

*for the year ended 30th June 2010**continued*

## 18. FINANCIAL INSTRUMENTS CONTINUED

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

A reconciliation of fair value measurements in Level 3 are set out below.

## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AT 30TH JUNE 2010

	Level 3 £'000
Opening fair value	2,458
Purchases at cost	–
Sales proceeds	–
Total gains or losses included in gains on investments in the Statement of Comprehensive Income	
– on sold assets	–
– on assets held at the end of the year	(700)
Rolled up interest	112
Closing fair value	<u>1,870</u>

Level 2 and 3 valuations comprise the unlisted investments held at Director's valuation.

**(i) Capital Management**

The Group and the Company's capital is as disclosed in the Balance Sheets and is managed on a basis consistent with its investment objective and policies, as disclosed in the Directors' Report on pages 12 and 13. The principal risks and their management are disclosed above.

## 19. RELATED PARTIES

Since 1st January 2010 Brompton has acted as Investment Manager to the Company. This relationship is governed by an agreement dated 23rd December 2009. Details of the investment management fee payable may be found on page 15.

The total investment management fee payable to Brompton for the year ended 30th June 2010 was £261,000 (2009: £nil). No performance fee was payable in respect of the year ended 30th June 2010 (2009: £nil).

The Group's investments include 1 fund managed by Brompton or its associates. No investment management fees were payable by the Company in respect of this investment.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2010 Annual General Meeting of New Star Investment Trust plc ("Company") shall be held at Tenth Floor, 1 Knightsbridge Green, London, SW1X 7QA commencing at 11.00 am on 17th November 2010 for the following purposes:

### ORDINARY BUSINESS

To consider, and if thought fit to pass, the following Resolutions which are proposed as Ordinary Resolutions of the Company:

1. To receive, consider and adopt the Company's annual accounts for the year to 30th June 2010 together with the Reports of the Directors and Auditors therein.
2. To receive and approve the Directors' Remuneration Report for the year to 30th June 2010.
3. To re-elect Mr Geoffrey Howard-Spink, retiring in accordance with the Company's Articles of Association, as a Director.
4. To re-elect Mr John Duffield, retiring in accordance with the Listing Rules, as a Director.
5. To re-elect Mr Marcus Gregson, retiring by rotation in accordance with the Company's Articles of Association, as a Director.
6. To reappoint Ernst & Young LLP as auditors until the conclusion of the next general meeting at which accounts are laid before members AND authorise the Directors to determine the auditor's remuneration.

### SPECIAL BUSINESS

To consider, and if thought fit to pass, Resolution 7 as an Ordinary Resolution of the Company, and Resolutions 8 to 11 which are proposed as Special Resolutions of the Company:

7. THAT the Directors be generally and unconditionally authorised under section 551 of the Companies Act 2006 ("Act") to exercise all the powers of the Company to allot Ordinary shares in the capital of the Company ("Shares") and/or grant rights to subscribe for or convert any security into Shares up to an aggregate of:
  - a) £236,745 in nominal value of such Shares; and
  - b) a further £236,745 in nominal value of Shares in connection with an offer by way of a rights issue:
    - (i) to holders of Ordinary shares in proportion (or as nearly may be) to their existing holdings; and
    - (ii) to holders of other equity securities as required by the rights of those equity securities or otherwise as the Directors may consider necessary;

subject to such exclusions, restrictions or other arrangements as the Directors consider necessary or appropriate in relation to fractional entitlements, record dates, treasury shares, or any legal or regulatory or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

unless otherwise renewed varied or revoked the authorities hereby granted shall expire at the earlier of the conclusion of the annual general meeting of the Company in 2015 or the fifth anniversary of the passing of this Resolution SAVE THAT the Company may before such expiry enter into offer(s) or agreement(s) which shall or may require Shares to be allotted after such expiry and the Company may allot Shares in pursuance of such offer(s) or agreement(s) as if the authorities hereby granted had not so expired.

8. THAT subject to the passing of Resolution 7 above the Directors be generally and unconditionally authorised pursuant to section 570 of the Companies Act 2006 ("Act") to

## NOTICE OF ANNUAL GENERAL MEETING

*continued*

allot equity securities (as defined in section 560 of the Act) as if section 561 of the Act did not apply to such allotment, provided that unless otherwise renewed, varied or revoked the authority hereby granted shall expire at the earlier of the conclusion of the next following annual general meeting of the Company or the date fifteen months after the passing of this Resolution, and shall be limited to:

- (i) the allotment of equity securities up to an aggregate nominal amount of £35,511 (being approximately 5% of the capital currently in issue); and
- (ii) the allotment of equity securities at a price (excluding expenses) not less than the net asset value per share for the business day immediately preceding such allotment, or if earlier the agreement to allot;

save that the Company is hereby authorised to enter into offer(s) or agreement(s) which shall or may require Shares to be allotted after such expiry and the Company may allot Shares in pursuance of such offer(s) or agreement(s) as if the authorities hereby granted had not so expired.

9. THAT the Company be and is hereby generally and unconditionally authorised in accordance with section 701 of the Companies Act 2006 ("Act") to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary shares in the capital of the Company upon such terms and in such manner as the Directors shall determine provided that:
  - (i) the maximum aggregate number of Ordinary shares authorised hereby to be purchased shall be 10,646,450, being approximately 14.99% of the Ordinary shares currently in issue;
  - (ii) the minimum price which may be paid per Ordinary share shall be £0.01;
  - (iii) the maximum price (exclusive of expenses) which may be paid per Ordinary share shall be an amount equal to the highest of (a) 5% above the average of the mid-market quotations for Ordinary shares as shown on the London Stock Exchange Daily Official List or website on the five business days immediately preceding the day of purchase and (b) in the event of a programme of buybacks the higher of the last independent trade and the highest current independent bid price;
  - (iv) at the discretion of the Directors any Ordinary shares bought back under this authority may be cancelled or placed in treasury;
  - (v) unless otherwise renewed, varied or revoked the authority hereby granted shall expire at the earlier of the conclusion of the next following annual general meeting of the Company or the date fifteen months after the passing of this Resolution SAVE THAT the Company may enter into offer(s) or agreement(s) which shall or may require Shares to be bought back after such expiry and the Company may buy back Ordinary shares pursuant to such offer(s) or agreement(s) as if the authority hereby granted had not so expired.
10. THAT any Ordinary shares held by the Company in treasury, whether as a result of being bought back in accordance with the authority conferred by Resolution 9 above or otherwise may, at the discretion of the Directors, be cancelled or resold or allotted from treasury, provided that they shall not be resold or allotted at a price below that at which they had been purchased.
11. THAT general meetings of the Company, other than an annual general meeting, may be called on not less than 14 clear days' notice.

By order of the Board  
Phoenix Administration Services Limited  
*Corporate Secretary*  
24th September 2010

Registered Office: 1 Knightsbridge Green, London SW1X 7QA  
Registered in England & Wales No: 3969011

## NOTICE OF ANNUAL GENERAL MEETING

*continued*

### NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

1. This Report & Accounts is circulated to holders of Ordinary shares, all of whom are entitled to attend, speak and vote at the above Annual General Meeting ("AGM").
2. Any member entitled to attend and vote at the AGM is also entitled to appoint one or more proxies to attend, speak and vote at the AGM on their behalf, provided that if multiple proxies are appointed they must be appointed in respect of different Ordinary shares. Proxies need not be members of the Company. A form of proxy is sent to members with the Report & Accounts and must be received by the Company's Registrar: Equiniti Registrars, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA duly completed in accordance with the instructions on the form of proxy. If multiple proxies are being appointed the form of proxy should be copied and a separate form of proxy completed, identifying the different Ordinary shares each represents and stating that it is in respect of a multiple proxy appointment, for each proxy. Completion and return of form(s) of proxy will not preclude a member from attending, speaking and voting in person at the AGM.
3. To appoint proxies or give/amend an instruction to an appointed proxy via the CREST system, the CREST message must be received by the issuer's agent, Equiniti Registrars (ID: RA19) by 3.30 pm on 15th November 2010. The time of receipt will be taken as the time (as determined by the timestamp applied by the CREST Applications Host) that the issuer's agent is able to retrieve the message. CREST Personal Members or other CREST Sponsored Members, and CREST Members who have appointed voting service providers, should refer to their relevant sponsor or voting service provider for advice on appointing proxies via CREST. Regulation 35 of the Uncertificated Securities Regulations 2001 will apply to all proxy appointments sent via CREST. Members should refer to the CREST Manual for information on CREST system limitations, procedures and timing.
4. A person who is not a member of the Company and receives this notice of meeting as a person nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 ("Act") does not have a right to appoint proxies. However, if a nominated person has an agreement with the member who nominated them, the nominated person may have a right to be appointed as a proxy or a right to instruct the member as to the exercise of voting rights at the AGM.
5. Shareholders entered on the Register of Members of the Company 48 hours before the time for the meeting, or 48 hours prior to an adjourned meeting, are entitled to attend and vote at the AGM. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any shareholders to attend and vote at the AGM.
6. Under Section 319(A) of the Act the Company must cause to be answered any question relating to the business being dealt with at the AGM put by a member attending the AGM unless answering the question would interfere unduly with the preparation for the meeting, would involve the disclosure of confidential information, an answer has already been given on a website, or is undesirable in the interests of the Company or good order of the AGM.
7. Members may not use any electronic address provided in this notice or any related document(s) to communicate with the Company for any purpose other than as specifically stated.
8. As at 24th September 2010, the latest practicable date prior to the publication of this notice, the issued capital carrying voting rights comprised 71,023,695 Ordinary shares.
9. Information regarding the AGM, including the information required by Section 311A of the Act, can be found on the Company's website at [www.nsitplc.com](http://www.nsitplc.com)
10. No Director has a service agreement with the Company. Directors' letters of appointment will be available for inspection at the AGM venue from 15 minutes before the time for the meeting until conclusion of the meeting.
11. Members holding requisite shareholdings are entitled, pursuant to Sections 388 and 388A of the Act, to include a Resolution to be dealt with in the business of the AGM and to require the Company to give notice of that Resolution.



