

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about its contents or what action you should take, you should immediately consult an independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your Ordinary Shares in New Star Financial Opportunities Fund Limited (the “**Company**”), please forward this document, together with the accompanying Form of Proxy, as quickly as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

New Star Financial Opportunities Fund Limited

*(a closed-ended investment company incorporated in Guernsey with registered number 37630
under the provisions of the Companies (Guernsey) Laws 1994 to 1996)*

Recommended Proposals for Changes to the Investment Policy and Notice of Extraordinary General Meeting

Notice of an Extraordinary General Meeting of the Company to be held starting at 10.20 a.m. on 2 November 2005 is set out at the end of this document. The accompanying Form of Proxy, for use at the Extraordinary General Meeting, should be completed and returned in accordance with the instructions thereon, so as to be received by the Company Secretary, Collins Stewart Fund Management Limited at PO Box 8, No. 1 Le Truchot, St. Peter Port, Guernsey GY1 4AE, Channel Islands, as soon as possible and in any event not later than 48 hours before the time of the meeting. Completion and return of a Form of Proxy will not preclude a member from attending and voting in person at the Extraordinary General Meeting.

Persons receiving a copy of this document are directed to the section headed “Risk Factors” on pages 5 and 6 of this document. This section sets out the factors which the Directors believe Ordinary Shareholders should consider prior to casting a vote in respect of the resolution to be proposed at the Extraordinary General Meeting.

CONTENTS

	<i>Page</i>
DEFINITIONS	3
PART 1 – RISK FACTORS	5
Assumptions	5
Investments	5
Investment Policy	5
Dividends and Income	5
Costs of the Bank Loan Repayment	6
Taxation	6
Accounting Policies	6
Capital Structure and Gearing	6
PART 2 – LETTER FROM THE CHAIRMAN	7
Introduction	7
Background.....	7
The Proposals	8
Implications of Proposals	10
Costs and Expenses	12
Risk Factors	12
Extraordinary General Meeting	12
Action to be Taken	12
Board Recommendation	12
PART 3 – GENERAL INFORMATION AND PRINCIPAL BASES AND ASSUMPTIONS	13
NOTICE OF EXTRAORDINARY GENERAL MEETING	15

DEFINITIONS

Unless the context otherwise requires, the following expressions shall have the following meanings in this document:

“AIM”	AIM, a market of the London Stock Exchange;
“Articles”	the articles of association of the Company;
“Assumptions”	the principal bases and assumptions set out in Part 3 of this document;
“Bank”	the Governor and Company of the Bank of Scotland;
“Bank Loan”	the term loan of up to £36 million dated 21 August 2001 provided by the Bank to the Company;
“Board” or “Directors”	the board of directors of the Company;
“Company”	New Star Financial Opportunities Fund Limited;
“Company Secretary”	Collins Stewart Fund Management Limited;
“Cover”	the ratio of the total assets of the Group to the aggregate of its total liabilities (including the final capital entitlement of the Zero Dividend Preference Shares) and the estimated charges to capital in the period to 11 December 2007;
“Existing Zero Dividend Preference Shares”	the Zero Dividend Preference Shares in issue at the date of this document;
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of the Company to be held at 10.20 a.m. on 2 November 2005, notice of which is set out at the end of this document;
“Form of Proxy”	the form of proxy accompanying this document for use by Ordinary Shareholders in connection with the Extraordinary General Meeting;
“FSA”	the Financial Services Authority;
“FSMA”	the Financial Services and Markets Act 2000 (as amended);
“Group”	the Company and the Subsidiary;
“Group’s Net Assets”	the net assets attributable to the Ordinary Shares and the Zero Dividend Preference Shares;
“Issue Price”	148.5p per New Zero Dividend Preference Share;
“Listing Rules”	the listing rules issued by the FSA;
“London Stock Exchange”	London Stock Exchange plc;
“Manager” or “New Star Asset Management”	New Star Asset Management Limited;
“New Zero Dividend Preference Shares”	the new Zero Dividend Preference Shares to be issued by the Subsidiary;
“Official List”	the Official List of the UK Listing Authority;
“Open Offer”	the conditional offer made by Winterflood Securities, on behalf of the Subsidiary, to the holders of the Existing Zero Dividend Preference Shares for the New Zero Dividend Preference Shares;

“Ordinary Shares”	ordinary shares of 25p each in the capital of the Company;
“Ordinary Shareholders”	holders of Ordinary Shares;
“Placing”	the conditional placing (subject to a right of recall to satisfy valid applications from holders of Existing Zero Dividend Preference Shares under the Open Offer) by Winterflood Securities, on behalf of the Subsidiary, of the New Zero Dividend Preference Shares;
“Recognised Investment Exchange”	an investment exchange recognised by the FSA under Part XVIII of FSMA;
“Redemption Yield”	in relation to a Share, the rate of discount expressed as a percentage per annum (assuming a 365 day year) which, when applied to the projected future income and capital cash flows attributable to such Share in the period to 11 December 2007, produces an amount equal to its Issue Price on the date of calculation;
“Shares”	Ordinary Shares and/or Zero Dividend Preference Shares, as the context may require;
“Shareholders”	holders of Shares;
“Subsidiary”	NSF Securities Limited;
“UK Listing Authority”	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
“Winterflood Securities”	Winterflood Securities Limited, acting through its division Winterflood Investment Trusts;
“Zero Dividend Preference Shareholders”	holders of Zero Dividend Preference Shares; and
“Zero Dividend Preference Shares”	the zero dividend preference shares of 25p each in the capital of the Subsidiary from time to time.

PART 1

RISK FACTORS

This section sets out the specific factors which the Directors believe that Ordinary Shareholders should consider prior to casting a vote in respect of the resolution to be proposed at the Extraordinary General Meeting.

Assumptions

The illustrative investment statistics and related figures given in this document in relation to the Group's securities are based on the Assumptions. These are assumptions only which may or may not be fulfilled in practice. The Assumptions and the illustrative investment statistics should not be regarded as forecasts of profit or growth in the Group's assets.

Investments

The Group's portfolio:

- is invested in the securities of financial companies. Investments in securities from this specialist sector may be regarded as higher risk than market investments generally;
- is, following the change in investment policy, expected to be predominantly invested in the equity securities of such financial companies (by reducing the current exposure to fixed-interest securities), certain of which may be listed on AIM. Equity securities, and specifically those which offer a high dividend yield, may be more prone to market movements and may be more liable to diminish in capital value over time than fixed-interest securities. In addition, investments in equity securities listed on recognised but unregulated markets such as AIM may be regarded as higher risk than investments in equity securities on regulated markets;
- is, following the change in investment policy, expected to remain exposed, albeit to a lesser extent, to fixed-interest securities. Such securities are subject to credit, liquidity and interest rate risks. Adverse changes in the financial position of an issuer of a fixed-interest security or in general economic conditions may impair the ability of the issuer to make payments of interest and/or principal or may cause the liquidation or insolvency of an issuer. To the extent that the Group invests in fixed-interest securities which are assessed by the credit agencies as being 'high yield' (or 'non-investment grade'), these assets may realise a higher current yield than the yield offered by investment grade securities. Investment in such securities involves a greater volatility of price and a greater probability of default by the issuers of such securities with consequential loss of interest and/or principal. Non-investment grade bonds will have, in the judgment of a rating agency, uncertainties of risk exposures to adverse conditions and are speculative with respect to an issuer's capacity to meet interest payments and repay principal in accordance with the terms of its obligations; and
- is, following the change in investment policy, expected to extend its geographic exposure to continental Europe. Investments in faster-growing economies in Europe may be regarded as higher risk than investments in more established economies.

Investment Policy

In the event that the Zero Dividend Preference Shareholders do not approve the issue of the New Zero Dividend Preference Shares such that the Bank Loan cannot be repaid, the Company's ability to pursue the investment strategy described in this document may, as a result of certain covenants contained within the Bank Loan, be compromised, in which case some or all of the benefits described in this document for the Ordinary Shareholders may not be realised.

Dividends and Income

The Company will pay dividends on the Ordinary Shares only to the extent that it has profits available for that purpose. A reduction of income from the Company's investments may adversely affect the dividend payable to Ordinary Shareholders. Such a reduction could arise, for example, from lower dividends or rates of interest paid on the Company's investments.

Costs of the Bank Loan Repayment

A significant element of the costs of the Board's proposals for early repayment of the Bank Loan represents the cost of breaking the associated interest rate swap. The actual cost to the Group of breaking this swap will depend on the interest rate prevailing in the market at the point of the repayment. A fall in interest rates in the period up to the point of the repayment would increase the cost of breaking the swap, which would reduce the net asset value of the Ordinary Shares.

Taxation

Representations in this document concerning the taxation of Shareholders are based upon current law and practice. These are, in principle, subject to change and prospective investors should be aware that such changes may affect the Group's ability to generate returns to Shareholders and/or the taxation of any such returns to Shareholders.

Accounting Policies

Representations in this document concerning returns to Shareholders are based on accounting practices currently applicable to the Group. Prospective investors should be aware that any changes in such accounting practices may affect the Group's ability to provide returns to Shareholders as envisaged in this document.

Capital Structure and Gearing

It is proposed that the Company repay the Bank Loan before its planned repayment date of 11 December 2007 and fund this repayment by the issue of New Zero Dividend Preference Shares. This change to the Group's capital structure will change the risk profile of the Ordinary Shares, as quantified in Part 2 of this document under the heading "Implications of Proposals". The repayment of the Bank Loan removes the risks associated with such a liability, which include the risk that the Bank may in certain circumstances, for example where financial covenants attached to the Bank Loan are breached, require early repayment of the Bank Loan together with attendant costs.

PART 2

LETTER FROM THE CHAIRMAN

New Star Financial Opportunities Fund Limited

*(A closed-ended investment company incorporated in Guernsey with registered number 37630
under the provisions of the Companies (Guernsey) Laws 1994 to 1996)*

Directors:

Martyn Chambers (*Chairman*)
George Baird
Christopher Fish
Nigel Taylor
Julian Tregoning

Registered Office:

PO Box 8
No.1 Le Truchot
St. Peter Port
Guernsey GY1 4AE
Channel Islands

12 October 2005

To the Ordinary Shareholders

Dear Shareholder

PROPOSED CHANGES TO THE INVESTMENT POLICY

Introduction

On 17 August 2005, the Board announced that it was considering reorganisation proposals for the Group involving a broadening of the Company's investment mandate to encompass pan-European financial stocks, a repayment of the entire amount of the Bank Loan and replacement of it by way of a further issue of Zero Dividend Preference Shares.

The Board today announced a placing and open offer of 14,175,000 million New Zero Dividend Preference Shares at a price of 148.5p per Share, to raise £20.1 million after expenses. This document sets out details of the Board's proposals and of the Extraordinary General Meeting at which a resolution regarding the change of the Company's investment policy is to be proposed. Ordinary Shareholders are encouraged to complete and return their Form of Proxy in respect of the EGM to the Company Secretary as soon as possible.

Background

In the light of the upturn in world stock markets, the Board has been giving consideration to the Group's strategy. This focussed primarily on the constraints imposed on the Group's investment activities by a combination of the terms of the Bank Loan and the relatively high dividend target on the Ordinary Shares.

The constraints of the existing Group structure and investment policy currently mean that:

- it is necessary to hold a relatively high proportion of the Company's portfolio in fixed-interest securities (39.1 per cent. as at 31 August 2005), which the Board and Manager believe constrains the Company's ability to deliver the capital growth that is an important element of its investment objective;
- although the Bank Loan is currently well covered, both the Ordinary Shareholders and the Zero Dividend Preference Shareholders are exposed to the risks associated with such a liability, primarily the risk that the Bank is entitled, if the financial covenants attached to the Bank Loan are breached, to require early repayment of the Bank Loan; and
- the Manager is constrained in the financial companies in which it may invest on the Company's behalf, which the Board and the Manager believe limits the Company's access to faster-growing economies, and concentrates Shareholders' risks on the UK economy and on a limited number of companies.

The Board wish to maintain the current level of dividend at 4p per annum per Ordinary Share. In order to achieve this and in order to enhance the prospects for growth of both capital and income by increasing the Company's exposure to equities, it is necessary to change the structure of the Company. The Board's conclusion in this regard was that the most equitable way of achieving this change was to repay the Bank Loan early and fund this repayment by a further issue of Zero Dividend Preference Shares.

The Proposals

The Board's proposals for the Group are set out below. Under the Articles and the Listing Rules, the Board is required to seek Ordinary Shareholders' approval only for the change in investment policy and the Board is required to notify the Ordinary Shareholders of the proposals as they relate to the refinancing of the Company.

Change to the investment policy

The Company's existing investment policy is that approximately 60 per cent. of its portfolio will be invested in ordinary shares issued by financial companies listed on the Official List, with the balance invested in a fixed-interest portfolio comprising preference shares and other fixed-interest securities issued by financial companies.

The Board is proposing to adopt the following revised investment policy:

"The policy of the Company is to provide Ordinary Shareholders with a high income and the opportunity for income and capital growth and to provide Zero Dividend Preference Shareholders with a pre-determined final capital entitlement. This is to be achieved by investing in securities of financial companies, the majority of which will be listed on a Recognised Investment Exchange".

It is intended that the percentage of the Company's portfolio invested in equity securities will be increased under the new investment policy, and that the portfolio's geographic exposure will be extended to continental Europe.

Investment strategy

The primary objective of the Board's proposals is to provide for an investment strategy with a greater potential for growth by placing greater emphasis on equities and having less reliance on fixed-interest securities. The Board and the Manager believe the revised investment policy has the following benefits:

- To allow the potential for exposure to companies that have a higher percentage of their profits that come from faster-growing economies.

The top ten best performing bank shares in the FTSE Eurofirst 300 Banks Index rose on average by 56.0 per cent. over the year to 30 September 2005, only one of which, Anglo Irish Bank, was UK-listed. In comparison, the worst ten performing bank shares rose on average by only 6.5 per cent., of which six were UK-listed.

- To reduce exposure to companies that lend to the UK consumer who would suffer if there was a rise in unemployment and/or higher interest rates.

UK domestic banks trade on lower price earnings ratios relative to other European bank shares due to investors' concerns over their exposure to increasing bad debt provisions from lending to UK consumers. In May 2005, a trading statement from Barclays Bank Plc highlighted increased bad debt provisions in its Barclaycard operations and resulted in sharp price falls across the UK banks sector on the day. (Source: Barclays Bank Plc statement, dated 26 May 2005)

- To increase the breadth of the investment universe that the Manager can choose to invest in and thereby reduce company specific risk.

In the last ten years there has been significant consolidation within the UK financials sectors following a number of mergers and acquisitions. In the FTSE Eurofirst 300 Bank Index there are 50 banks with market capitalisations of over €7bn, of which only 11 are UK-listed.

- To allow greater diversity in investments by the Company, which under its present mandate is forced in some cases to buy equity and fixed-interest securities issued by the same company.

The Group has, amongst others, holdings in both the equity and fixed-interest securities issued by Aviva, Chaucer Holdings, HBOS, Investec and Prudential.

- To allow the Manager the flexibility to increase the Group's exposure to AIM-listed securities which offer the potential for significant capital growth or exposure to alternative asset classes.

Some of the best performing UK financial companies in the last year in terms of share price are listed on AIM.

It is the Board's intention to amend the investment policy regardless of whether the Zero Dividend Preference Shareholders approve the issue of the New Zero Dividend Preference Shares. However, in the event that the Zero Dividend Preference Shareholders do not approve the issue of the New Zero Dividend Preference Shares such that the Bank Loan cannot be repaid, the Company's ability to pursue the investment strategy described in this document may, as a result of certain covenants contained within the Bank Loan, be compromised, in which case some or all of the benefits described in this document for the Ordinary Shareholders may not be realised.

Mr. Nick Brind, the principal fund manager for the Company's portfolio, will be supported by Mr. Guy de Blonay in the management of the non-UK securities.

Mr. Brind has ten years' experience of fund management, having previously worked at Capel-Cure Myers and Exeter Asset Management. He has been responsible for the day-to-day management of the Company's portfolio since 31 March 2003. From this date to 31 August 2005, the total assets total return on the portfolio has been 57.4 per cent. compared to the total return of 43.3 per cent. of a composite benchmark made up of 60 per cent. FTSE Financials Index and 40 per cent. FT-A British Government All Stocks Index. *(Source: New Star Asset Management)*

Mr. de Blonay has eight years' experience of fund management having been at New Star Asset Management for four years and Jupiter Asset Management Limited prior to that. He has an AAA rating with Citywire and has been responsible for the management of New Star Global Financials Fund since its launch in December 2001 and New Star Financial Leaders Fund since November 2003. Over the period to 9 September 2005, the performance of these funds has been as follows:

<i>Fund</i>	<i>One Year</i>	<i>Rank*</i>	<i>Two Years</i>	<i>Rank*</i>	<i>Total period**</i>	<i>Rank*</i>
New Star Global						
Financials Fund.....	48.2%	1	71.2%	1	113.4%	1
Average	30.8%		41.6%		48.3%	
New Star Financial						
Leaders Fund	40.1%	2	42.6%	3	42.5%	3
Average	30.8%		41.6%		39.9%	

* Rank of performance of fund against other specialist financial funds in the relevant period.

** Total period during which Mr. de Blonay has managed the relevant Fund.

(Source: New Star Asset Management)

Repayment of the Bank Loan

The Company has £20.34 million outstanding under the Bank Loan, which has an interest rate fixed at 6.56 per cent. per annum, and is due to be repaid on 11 December 2007. The Board intends to repay the Bank Loan early, subject to the issue of the New Zero Dividend Preference Shares outlined below. This repayment will incur certain costs. As at 30 September 2005, these were estimated by the Bank to total £580,000 in aggregate.

Following repayment of the Bank Loan, the Board do not intend that the Company has any indebtedness in future other than overdrafts for short-term liquidity purposes.

Issue of New Zero Dividend Preference Shares

The Group currently has 10.5 million Zero Dividend Preference Shares in issue. The Zero Dividend Preference Shares have a final capital entitlement of 168.48p per Zero Dividend Preference Share on their redemption date of 11 December 2007, which equates to a cost of capital to the Company of

8.65 per cent. per annum. The New Zero Dividend Preference Shares, which will rank *pari passu* with the Existing Zero Dividend Preference Shares, will be issued at a price of 148.5p per Zero Dividend Preference Share, which equates to a cost of capital to the Company of 6.25 per cent. per annum. As with the Existing Zero Dividend Preference Shares, the Company will charge the cost of the New Zero Dividend Preference Shares wholly to capital.

The issue of New Zero Dividend Preference Shares will be by way of a placing and open offer, thus enabling both existing Zero Dividend Preference Shareholders and new investors to participate. 14,175,000 New Zero Dividend Preference Shares are being made available to the existing Zero Dividend Preference Shareholders under the Open Offer. Certain existing Zero Dividend Preference Shareholders have given irrevocable undertakings to subscribe their entitlements under the Open Offer, which amount in aggregate to 400,000 New Zero Dividend Preference Shares (representing 2.8 per cent. of the New Zero Dividend Preference Shares). The remaining 13,775,000 New Zero Dividend Preference Shares (representing 97.2 per cent. of the New Zero Dividend Preference Shares) have been conditionally placed with investors procured by Winterflood Securities, subject to clawback to satisfy valid applications under the Open Offer.

Implications of Proposals

The Board believes that the implications of its proposals for the Group are as follows:

Capital Structure

Based on the Assumptions, the Group's capital structure before and after the repayment of the Bank Loan and the issue of the New Zero Dividend Preference Shares would be as follows:

	<i>Before</i>		<i>After</i>	
Ordinary Shares	£35.7m	50.3%	£35.7m	49.5%
Zero Dividend Preference Shares.....	£14.9m	21.0%	£35.0m	50.5%
Shareholders' funds	£50.6m	71.3%	£70.7m	100%
Bank Loan	£20.3m	28.7%	Nil	Nil
Total Assets	£70.9m	100%	£70.7m	100%

Based on the above figures, the net asset value per Ordinary Share before and after the repayment of the Bank Loan and issue of New Zero Dividend Preference Shares would be 58.05p and 58.06p respectively.

Illustrative returns for Ordinary Shareholders

Based on the Assumptions, the following illustrates the principal characteristics of the Ordinary Shares over the period to 11 December 2007 (being the redemption date of the Zero Dividend Preference Shares).

The statistics set out below are based on the Assumptions, are for illustrative purposes only and do not represent profit forecasts or forecasts of growth in the Group's assets.

Following the repayment of the Bank Loan and the issue of the New Zero Dividend Preference Shares, the Ordinary Shares will be geared solely by the Zero Dividend Preference Shares. The table below shows the returns potentially available from the Ordinary Shares, given various annual rates of capital and income growth in the Company's equity portfolio:

	<i>Capital growth in equity portfolio (% p.a.)</i>				
	(5.0)	(2.5)	0.0	2.5	5.0
Redemption Yield (%).....	-10.0	-4.9	0.0	4.8	9.4
Net asset value per Ordinary Share	36.2p	41.0p	46.0p	51.1p	56.4p

Note: The Assumptions include that the Company's fixed-interest portfolio declines in value by 1 per cent. per annum in the period to 11 December 2007.

Based on the above analysis, the net asset value per Ordinary Share would on 11 December 2007 at least equal its current net asset value if the capital value of the Company's equity portfolio were to increase by at least 5.78 per cent. per annum, and would at least equal its current share price if the capital value of the Company's equity portfolio were to increase by at least 3.63 per cent. per annum.

If the Group's restructuring were not implemented as proposed, the net asset value per Ordinary Share would on 11 December 2007 at least equal its current net asset value if the capital value of the Company's equity portfolio were to increase by at least 5.72 per cent. per annum, and would at least equal its current share price if the capital value of the Company's equity portfolio were to increase by at least 2.66 per cent. per annum.

Dividend Policy

The Directors intend, in the absence of unforeseen circumstances, to declare and pay on the Ordinary Shares:

- A fourth interim dividend in respect of the three months ending 30 November 2005 of 1p per Share; and
- Total dividends in respect of the year ending 30 November 2006 of 4p per Share.

The Company had approximately £1.38 million of revenue reserves as at 31 May 2005 (before taking into account the quarterly dividend declared on 20 June 2005) and the Board will utilise this reserve to pay the above dividends if required. The above statement of intent does not represent a profit forecast.

Illustrative returns for Zero Dividend Preference Shareholders

Based on the Assumptions, the following illustrates the principal characteristics of the Zero Dividend Preference Shares over the period to 11 December 2007 (being their redemption date).

The statistics set out below are based on the Assumptions, are for illustrative purposes only and do not represent profit forecasts or forecasts of growth in the Group's assets.

The final capital entitlement of the Zero Dividend Preference Shares will be unchanged by the Placing and Open Offer, remaining at 168.48p per Zero Dividend Preference Share on 11 December 2007. Based on the issue prices of 100p per Existing Zero Dividend Preference Share and 148.5p per New Zero Dividend Preference Share, this entitlement is equivalent to a Redemption Yield on the Existing Zero Dividend Preference Shares and the New Zero Dividend Preference Shares of 8.65 per cent. per annum and 6.25 per cent. per annum respectively.

The final capital entitlement of the Zero Dividend Preference Shares would initially be covered approximately 1.68 times following the Placing and Open Offer and the repayment of the Bank Loan. If the Group's total assets were to fall by more than 22.1 per cent. per annum in the period to 11 December 2007, this would result in a lower payment per Zero Dividend Preference Share than the 168.48p final capital entitlement due per Zero Dividend Preference Share on that date.

If the Group's restructuring were not implemented as proposed, the final capital entitlement of the Existing Zero Dividend Preference Shares would be covered approximately 1.78 times. In these circumstances, if the Group's total assets were to fall by more than 24.7 per cent. per annum in the period to 11 December 2007, this would result in a lower payment per Zero Dividend Preference Share than the 168.48p final capital entitlement due per Zero Dividend Preference Share on that date.

Costs and Expenses

It is expected that the costs and expenses related to the Board's proposals will be more than offset by the issue premium payable on the New Zero Dividend Preference Shares. It is estimated that the gross cost of the proposals will be £935,000, which comprises £355,000 of costs and expenses and £580,000 of costs in respect of the early repayment of the Bank Loan; based on the Assumptions, this gross cost would be offset by a credit of £955,000 from the issue premium on the New Zero Dividend Preference Shares.

The Investment Management Agreement between the Company and New Star Asset Management provides for a management fee at the annual rate of 0.8 per cent. of the Group's Net Assets, which does not include the value of the Bank Loan. Acceptance of the Board's proposals would lead to an increase

in the Group's Net Assets under management by the value of the New Zero Dividend Preference Shares.

The Board will not repay the Bank Loan if the issue of New Zero Dividend Preference Shares is not completed.

Risk Factors

Ordinary Shareholders' attention is drawn to the section entitled "Risk Factors" set out in Part 1 of this document.

Extraordinary General Meeting

Attached to this circular is a notice convening the Extraordinary General Meeting of the Company to be held at Hirzel House, Smith Street, St. Peter Port, Guernsey GY1 4AX, Channel Islands on 2 November 2005 at 10.20 a.m. At the Extraordinary General Meeting, an ordinary resolution will be proposed to approve the change of the Company's investment policy.

Action to be Taken

Accompanying this letter is a Form of Proxy for use in respect of the Extraordinary General Meeting. Shareholders are encouraged to complete the Form of Proxy and return it to the Company Secretary, Collins Stewart Fund Management Limited at PO Box 8, No. 1 Le Truchot, St. Peter Port, Guernsey GY1 4AE, Channel Islands as soon as possible but in any event so as to be received no later than 10.20 a.m. on 31 October 2005.

If you complete and return the Form of Proxy, you may also attend and vote at the Extraordinary General Meeting in person should you wish to do so.

Board Recommendation

The Board, which has been advised by Winterflood Securities, considers that its proposals for the Group, including the change of the Company's investment policy outlined above, are in the best interests of the Company and the Ordinary Shareholders as a whole. The Board, therefore, unanimously recommends that Ordinary Shareholders vote in favour of the Resolution to be proposed at the Extraordinary General Meeting as Messrs. Chambers and Taylor intend to do in respect of their own beneficial stockholdings, being in aggregate 11,000 Ordinary Shares (representing 0.018 per cent. of the issued Ordinary Shares). In giving this advice, Winterflood Securities has taken into account the Directors' commercial assessments.

Yours faithfully,

Martyn Chambers
Chairman

PART 3

GENERAL INFORMATION AND PRINCIPAL BASES AND ASSUMPTIONS

Consents

Winterflood Securities has given and not withdrawn its written consent to the inclusion herein of its name and references to Winterflood Securities in the form and context in which they are included.

New Star Asset Management has given and not withdrawn its written consent to the inclusion herein of its name and references to New Star Asset Management in the form and context in which they are included.

Principal Bases and Assumptions

Save as otherwise stated, illustrative investment statistics in this document in relation to the Group's securities have been based or calculated on the principal bases and assumptions, which are set out below. These are assumptions only which may or may not be fulfilled in practice. The Assumptions and the illustrative investment statistics should not be regarded as forecasts of profit or growth in the Group's assets.

1. The illustrative investment statistics are prepared in respect of the period from 11 November 2005 to 11 December 2007.
2. On 11 November 2005, the Group has total assets of £70,925,700, comprising the Bank Loan of £20.34 million with a fixed interest rate of 6.56 per cent. per annum; 10.5 million Zero Dividend Preference Shares with a net asset value per Share of 141.76p; and 61.5 million Ordinary Shares with a net asset value per Share of 58.05p. The mid market prices of the Ordinary Shares and the Zero Dividend Preference Shares are 53.50p and 148.00p respectively.
3. On 11 November 2005, the entire Bank Loan is repaid and 14,175,000 New Zero Dividend Preference Shares are issued at 148.5p per Share, with aggregate associated costs of £950,000. As a result the total assets of the Group are £70,685,575.
4. Before the Group's restructuring, its portfolio is invested 60 per cent. in equities yielding 3.5 per cent. per annum and 40 per cent. in fixed-interest securities yielding 7.5 per cent. per annum. Subsequently, the Group's portfolio is invested 85 per cent. in equities and 15 per cent. in fixed-interest securities at the same yields. The Group's fixed-interest portfolio declines in value by 1 per cent. per annum in the period to 11 December 2007.
5. The Group's gross monthly income comprises the value of the equity and fixed-interest portfolios as at 11 November 2007 multiplied by one twelfth of the relevant dividend yields quoted above. Each monthly income stream is then reduced to take account of assets assumed sold to pay charges to capital and increased for any assumed revenue growth. The Group's gross monthly income is unaffected by any capital growth or loss in the investment portfolio. Dividends are paid on the Ordinary Shares in respect of each month and on the last day of the month to which they relate. Each payment is equal to the Group's net revenue after tax.
6. The entitlement of the Zero Dividend Preference Shares increases monthly by an amount equivalent to 8.65 per cent. per annum compound, such cost being charged wholly to capital.
7. The management fee is charged 50 per cent. to capital and amounts to 0.8 per cent. per annum on the value of the Group's Net Assets. The other expenses of the Group amount to £400,000 per annum and are charged 100 per cent. to revenue. The management fees and other expenses of the Group are paid monthly. Any loan interest incurred by the Group is charged 50 per cent. to capital.
8. The Group is exempt from tax on both capital gains and income. There are no changes to taxation legislation or practice, nor to accounting practice, relevant to the Group in the period to 11 December 2007.
9. The Redemption Yields on the Ordinary Shares and the Zero Dividend Preference Shares are calculated by discounting monthly cash flows and are stated on an annualised basis.
10. Cover is calculated as the Group's total assets on 11 November 2005 (after deducting costs in respect of the Groups' reconstruction where appropriate) divided by the sum of the Bank Loan (where appropriate), the aggregate final entitlement of the Zero Dividend Preference Shares and the estimated charges to the Group's capital account in the period to 11 December 2007.

11. The rights attaching to the Group's securities are not altered and no further such securities are issued in the period to 11 December 2007.
12. No costs are incurred in respect of liquidating the Group on 11 December 2007, including realising the Group's portfolio investment.

NOTICE OF EXTRAORDINARY GENERAL MEETING

NEW STAR FINANCIAL OPPORTUNITIES FUND LIMITED

(a closed-ended investment company incorporated in Guernsey with registered number 37630 under the provisions of the Companies (Guernsey) Laws 1994 to 1996)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of New Star Financial Opportunities Fund Limited (the “**Company**”) will be held at Hirzel House, Smith Street, St. Peter Port, Guernsey GY1 4AX, Channel Islands on 2 November 2005 at 10.20 a.m. for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as an ordinary resolution:

ORDINARY RESOLUTION

THAT the Company adopt a new investment policy in the following terms and in substitution of its existing investment policy:

“The policy of the Company is to provide holders of Ordinary Shares with a high income and the opportunity for income and capital growth and to provide Zero Dividend Preference Shareholders with a pre-determined final capital entitlement. This is to be achieved by investing in securities of financial companies, the majority of which will be listed on the Recognised Investment Exchange.”

By order of the Board
Collins Stewart Fund Management Limited
Secretary

Dated: 12 October 2005

Registered Office:
PO Box 8
No.1 Le Truchot
St. Peter Port
Guernsey GY1 4AE
Channel Islands

Notes:

1. A Form of Proxy is enclosed. A member entitled to attend and vote at the EGM may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. The appointment of a proxy will not prevent a Shareholder from subsequently attending and voting at the EGM in person.
2. To be effective the instrument appointing a proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority), must (failing previous registration with the Company) be left at the office of the Company Secretary, Collins Stewart Fund Management Limited at PO Box 8, No. 1 Le Truchot, St. Peter Port, Guernsey GY1 4AE, Channel Islands, not less than 48 hours before the time for holding the EGM or adjourned meeting or (in the case of a poll taken otherwise than at the EGM or adjourned meeting) for the taking of the poll at which it is to be used.
3. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company as at 6.00 p.m. on 31 October 2005 shall be entitled to attend and vote at the meeting in respect of the number of shares in the Company registered in their name at that time. Changes to entries on the register of members after 6.00 p.m. on 31 October 2005 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

