

**New Star Asset Management Group PLC**

**Audited preliminary results for the year ended 31 December 2006**

**HIGHLIGHTS**

- Net revenue up 41% to £133.9 million (2005: £95.1 million)
- Operating earnings\* up 65% to £72.0 million (2005: £43.6 million)
- Operating earnings\* per share up 71% to 24.7p (2005: 14.5p)
- Assets under management up 26% to £21.1 billion at 31 December 2006 (2005: £16.8 billion)
- Maiden final dividend for 2006 of 5p per share. Full year total 9p per share
- Second in UK market for net retail sales during 2006
- In view of New Star's strong current trading and future prospects, the proposed return of capital to shareholders is to be increased to £1.25 per share
- The proposed return of capital to shareholders is expected to be completed in June 2007 concurrently with a listing of New Star on the London Stock Exchange's main market

*\*Profit before taxation, interest, exceptional items and amortisation of intangibles.*

*The annual results for 2006 are the first full year financial statements of the Group to be prepared under International Financial Reporting Standards (IFRS). The comparative results for the year to 31 December 2005 have been re-stated under IFRS.*

**Commenting, John Duffield, Chairman, said:**

“Our first full year as a quoted public company has been one of record organic growth in our retail business, and good returns both to our customers and our shareholders. The Board is recommending a final dividend of 5p per share, bringing our first full year dividend to 9p per share.

“The current year has started strongly, with the recent market volatility having had no discernible effect on our retail sales momentum. Assets under management are now £22.8 billion compared to £21.1 billion at 31 December 2006. Subject to movements of financial markets and to external events, the Directors remain confident that 2007 will be a further year of strong growth and progress for New Star.

“In view of our strong cashflow and future prospects, we are increasing the proposed return of capital to shareholders to £1.25 per share, some £363 million in total. We intend to complete this return in June and simultaneously list New Star on the London Stock Exchange's main market, so fulfilling the prospectus undertaking we gave at the time of our flotation in November 2005.”

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## CHAIRMAN'S STATEMENT

New Star Asset Management's first full year as a public company was characterised by strong organic growth as we built further on the consistent progress made since the business began trading in January 2001. Our net revenue during the 12 months to 31 December 2006 rose 41% from £95.1 million to £133.9 million. Our operating earnings before tax, interest, exceptional items and amortisation of intangibles rose 65% from £43.6 million to £72.0 million. Over the year, our total funds under management rose 26% from £16.8 billion to £21.1 billion.

All of New Star's businesses moved forward, with the most significant advances being made by our retail funds operations, both in the UK and in international markets, and by our alternative investments activities. Investment performance continued to be healthy, with 48% of our equity and bond mutual fund assets under management in funds in the top quartile of their respective peer groups during 2006 and 83% in the top two quartiles.

### *UK retail funds*

Within our core UK retail funds business, our healthy investment performance has achieved consistent recognition in ratings and awards for our funds, our fund managers and for the Group as a whole. At the end of 2006, 19 of the UK retail funds were rated 'A' or better by one or more of the leading independent ratings agencies, Standard & Poor's, Forsyth/OBSR and OBSR. During the year, our funds were also named as award winners in ceremonies organised by Lipper and Standard & Poor's and well-regarded publications such as Bloomberg Money and Moneywise. For the third year in a row, New Star was named overall winner in its Citywire's Team All Stars Awards and we also picked up two other group-wide awards. Further details of our awards are contained within the Operating and Financial Review.

The success of our UK retail funds business has been built on strong investment performance combined with effective sales, marketing and client service. During the year under review, we continued to broaden our product range across diverse asset classes from equities, bonds and commercial property through to funds of funds and more specialist areas such as financials. We also continued to invest significant sums in building our brand awareness among investors and intermediaries and strengthened further our distribution capabilities and our commitment to effective client service. The result is that our sources of retail fund revenue have become increasingly diversified, with our funds being distributed through a widening range of third-party distributors such as independent financial advisers, stockbrokers, life insurance and pensions providers, banks and fund supermarkets. Overall, taking the UK and international products together, New Star's retail assets under management grew 46%.

Thanks to the efforts of our sales and marketing staff, gross retail sales within the UK retail business grew by 55% to £2.9 billion while net retail sales doubled to £1.8 billion. According to the Investment Management Association (IMA), these inflows ranked us second out of all providers for gross and net retail sales during 2006, a sales performance that elevated us to overall market leader as measured by net retail sales since our retail launch in July 2001.

As in 2005, the sales highlight of 2006 was the growth of our property unit trust, which was named the UK's biggest selling fund of the year by the IMA. This is the first time a New Star fund has achieved this position. Inflows were also strong into our other income products including our bond funds and into our European and UK equity funds.

### *International retail funds*

In the international retail market, our investment in building a dedicated sales, marketing and administration team tasked with replicating the success of our UK retail business yielded significant results. The assets under management within our Dublin-based funds grew by 252% to £1.1 billion. The team also contributed to the fund flows into the UK retail funds by improving access into them for offshore investors, intermediaries and global “open architecture” financial institutions. Such fund flows reflect the growing strength of London’s reputation as a global financial centre.

#### *Institutional, alternative funds and private clients*

In the institutional marketplace, New Star Institutional Managers had a relatively quiet year. Our North American institutional business, having experienced substantial inflows in 2005, focussed on meeting existing clients’ needs and building the team of fund managers rather than actively seeking new mandates. In the UK, our investment in building relationships with the leading investment consultants yielded a steady stream of specialist equity mandates.

Within our alternative investments business, assets grew 51% to £1.2 billion. The highlights included the launch of a leveraged global property fund, the launch of a multi-strategy hedge fund and the launch of a London Stock Exchange-listed security that provides exposure to a hedge fund index comprising more than 250 funds.

2006 was also a year of strong growth for our private client business, with assets under management growing by 39% to £303 million. New clients attracted by our focus on absolute returns generated by investment in broadly-diversified and actively-managed portfolios of funds run by the best available fund managers within and outside New Star.

#### *Dividends*

The board is recommending to shareholders a dividend of 5.0p per ordinary share in respect of the year ended 31 December 2006, bringing the total dividend in respect of the year to 9.0p per share. The dividend will be paid on 25 May 2007 to shareholders on the register at the close of business on 13 April 2007.

#### *Return of capital and reconstruction*

We announced on 31 January 2007 that New Star was considering a return of capital to shareholders of at least £1.00 per share. In view of New Star’s strong current trading, the board has decided to increase the proposed return of capital to £1.25 per share, equivalent to £363 million in total based on the current number of shares in issue.

We intend to effect this proposed return of capital by way of a Court-approved scheme of arrangement under the terms of which a new company, currently called New Star AM PLC, will become the holding company of the New Star Group. New Star AM PLC will allot its shares to New Star shareholders in consideration for the cancellation of their New Star shares. It is currently expected that this allotment will be made on the basis of four New Star AM PLC shares and £6.25 in cash for every five existing New Star shares held.

New Star AM PLC’s shares will be listed on the Official List and traded on the London Stock Exchange’s main market for listed securities. On completion of the transaction New Star AM PLC will change its name to New Star Asset Management Group PLC.

It is anticipated that, in the absence of unforeseen circumstances, New Star AM PLC will pay total dividends of 9.0p per share in respect of the financial year ending 31 December 2007.

At 28 March 2007 New Star had net cash of £40 million. Following the return of capital, New Star expects to receive a repayment of debt from its employee benefit trusts of £23 million. Accordingly, had the return of capital been completed on 29 March 2007 the New Star Group would have had net indebtedness of approximately £300 million.

New Star will make the £363 million return of capital payment from existing cash resources and from a bank facility to be provided by HBOS. This will comprise a term loan of up to £350 million, repayable six years after drawing, and an additional working capital facility of £35 million. Interest on the term loan and the revolving credit facility will be charged initially at 1.50% over LIBOR.

The return of capital is subject to final tax approval, formal regulatory approvals, the execution of a facility agreement in respect of the bank facility to be provided by HBOS, the approval of New Star shareholders, the approval of the Court to the proposed scheme of arrangement and to the scheme and the bank facility becoming unconditional in all respects. It is anticipated that the relevant shareholder documents will be posted to New Star shareholders in April with scheme and shareholder meetings being held in May and the return of capital and listing being completed in June.

### *Board changes*

We recently announced that Sir Dominic Cadbury KBE, who became deputy chairman and senior non-executive director on New Star's admission to AIM, had decided to resign in view of his additional responsibilities at Misys, the computer software company. Sir Dominic became non-executive chairman of Misys in 2006 and chairman of its Sesame subsidiary. Sesame is a leading service provider for financial advisers, creating the potential for a conflict of interest. I would like to thank Sir Dominic for his contribution during our early months as a public company.

Sir Dominic's place as deputy chairman and senior non-executive director has been taken by John Craig, who became a New Star non-executive director in 2005. Mr Craig is a former managing director of NM Rothschild & Sons and former chairman of the British Bankers Association. In addition, John Jay, our business development director and a member of our senior management team since we began trading in January 2001, has joined the New Star board.

### *Current trading*

The current year has started strongly, with the recent market volatility having had no discernible effect on our retail sales momentum. Assets under management at 28 March 2007 were £22.8 billion compared to £21.1 billion at 31 December 2006. Within this total UK mutual fund assets were £10.3 billion, up from £9.7 billion, and international mutual fund assets were £1.6 billion, up from £1.1 billion. Subject to movements of financial markets and to external events, the Directors remain confident that 2007 will be a further year of strong growth and progress for New Star.

### *Prospects*

Looking ahead, we are confident we can maintain strong long-term organic growth and that there remains scope to improve our profit margins. New Star is well spread, with a diversified mix of funds, assets under management and clients, who range from retail investors in the UK and overseas, to global financial institutions and wealthy families. Thus, we are not overly dependent on any one fund or client, with our largest fund and our largest institutional client accounting for only single-figure percentages of net revenue.

The investment performance in our core mutual funds business remains healthy, based on our distinctive investment style. We continue to strengthen our fund management team while

maintaining our emphasis on risk and compliance, complementing the freedom we give our fund managers to focus on achieving outstanding investment returns.

Operationally, we focus on asset management, sales and service, with other functions mainly outsourced, so our funds under management can expand substantially without significantly higher fixed costs. Equally importantly, almost all staff are shareholders or option holders, aligning their interests with those of clients and outside investors.

Our senior management team has a wealth of experience, with some members having track records of consistent value creation dating back two decades. Our culture is entrepreneurial yet our business has been institutionalised, with teams responsible for key functions. This means New Star is not overly dependent on any one individual for our business success.

Critically, we have avoided being sidetracked by investment fashions and excessive specialisation and do not depend for success on obscure asset classes or complex financial derivatives. Instead, we have built a diversified, durable business, giving us confidence that through investment performance, marketing and service we can create significant long-term shareholder value.

### *Conclusion*

Finally, I would like to give credit to our staff for their hard work and dedication during 2006. An exceptional team, they have responded magnificently to the challenges of growth and to our new public company status. Through their efforts, New Star is able to grasp the opportunities presented by the changing investment landscape and create significant shareholder value. On behalf of our shareholders, I thank them all.

## OPERATING AND FINANCIAL REVIEW

### *Investment report*

The year under review was one of reaccelerating growth for the world economy. Consensus Economics estimates world economic growth during 2006 at 3.9%, up from 3.3% in 2005, while United Nations figures calculated on a purchasing power parity basis show growth at 5.1%, up from 4.8% the previous year.

Once again, China was the fastest growing of the major economies at 10.7%, with 2006 being the country's fourth successive year of double-digit growth. India grew at 8.8% while growth in the Asia Pacific region as a whole was 5.2%. This was faster than in Latin America, where growth was 5.0%. Within the main industrial countries, the momentum of economic growth improved in 2006 after the growth slowdown of 2005. The US produced the strongest growth at 3.3%, slightly higher than in 2005, but the most significant feature was improvement of growth in Europe, with eurozone growth rising from 1.4% to 2.8% and UK growth rising from 1.9% to 2.7%. Japanese growth, by contrast, rose marginally from 1.9% to 2.2%.

Equity markets generated modest positive returns over the year for UK-based investors, with the MSCI Total Return Index rising 5.8% in sterling terms. Fixed interest markets were also positive, with investors being paid for the degree of risk they assumed: developed world government bonds generated relatively weak returns, with stronger performance generated by emerging market sovereign debt and higher-yielding corporate bonds.

The progress during the year was not uninterrupted. Equity markets suffered a short but painful correction between mid-May and mid-June in response to fears that the trade-off between economic growth and inflation was deteriorating, necessitating a more aggressive monetary response from central banks.

There was, however, a strong recovery over the second half of 2006 as a result of four main factors. Having reached a peak over the summer, oil prices fell to leave them virtually unchanged over the year. Secondly, after 17 consecutive rises, the US Federal Reserve said it would peg its Fed Funds Target Rate in August and it remained on hold for the rest of 2006. This pause reflected expectations that US economic growth would slow and inflationary pressures would ease and meant investors took rate rises in the eurozone and in the UK in their stride. Thirdly, corporate profit growth was buoyant in response to healthy economic growth. Lastly, asset prices benefited from the “carry trade”, involving investors such as hedge funds borrowing in low-yielding weak currencies such as the yen and investing in higher-yielding assets.

Measured in sterling terms, the UK made the biggest country contribution to overall global stockmarket returns among the Group of Seven (G7) major industrial countries, rising 14.6%. Other strong G7 markets included Germany, up 20.0%, France, up 18.8%, and Italy, up 17.6%. Japan, however, suffered from the turn upwards in its monetary policy cycle and disappointing economic growth, falling 6.7%. Partly as a result of currency weakness, the US and Canada also underperformed, rising 1.2% and 3.8% respectively.

Of the major global sectors, financials made the biggest sectoral contribution to overall global returns, rising 9.2%. Other strong sectors included utilities, up 20.1%, telecommunications, up 16.6%, and materials, up 13.4%. By contrast, information technology fell 3.9% and healthcare fell 2.7%.

### *Financial results*

New Star’s operating earnings (profit before taxation, interest, exceptional items and amortisation of intangible assets) were £72.0 million in 2006 compared to £43.6 million in 2005. The 65% increase resulted from strong organic growth, favourable market conditions, the benefit of a full year’s revenue from assets secured in 2005 and cost containment. As a result, operating margins increased from 46% to 54%. Profits before taxation rose from £16.8 million to £50.0 million.

New Star’s 2006 results have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) and the comparative figures have been restated. The introduction of IFRS has resulted in a reduction in the reported operating earnings of £1.9 million in 2006 and of £2.6 million in 2005. Our cash flow has not been affected by these accounting adjustments.

The most significant adjustment is the inclusion of a fair value charge in respect of share arrangements entered into after 7 November 2002 and still in existence at the date of transition to IFRS on 1 January 2005. This adjustment would also be required under FRS 20 for periods commencing 1 January 2006.

In our interim statement, which followed the introduction of IFRS, we noted that the accounting bodies were considering whether front-end fees earned on the sale of investment products should be deferred and that the accounting treatment to be adopted in our year-end accounts was uncertain. The accounting bodies, after deliberations, have decided that they cannot give definitive guidance. Moreover, different countries have adopted different interpretations. New Star’s front-end fees are earned absolutely at the point of sale. Accordingly, we continue to account for them in these financial statements as they are earned.

Assets under management rose 26% from £16.8 billion to £21.1 billion. Growth in assets and revenue was achieved in all business areas – UK retail assets under management rose 36% from £7.2 billion to £9.7 billion, institutional assets rose by 5% to £8.1 billion, international retail assets increased by 252% to £1.1 billion while alternative assets and other assets increased by 51% and

16% respectively. The full impact on our revenue of the significant growth in assets in the second half of 2006 will be seen in our 2007 results.

Net revenue increased in all major business areas, rising from £95.1 million to £133.9 million in 2006. Net revenue from retail products increased by £20 million, reflecting good levels of net retail sales both in the UK and internationally together with good market conditions. Institutional net revenue increased from £15 million to nearly £21 million as the full effect of the growth in new institutional clients in 2005 benefited net revenue and the impact of new UK institutional business started to come through. Alternative investment revenue more than doubled to over £24 million as a result of the launch of new products and strong performance in the main strategies.

Net performance fees included in operating earnings were £12.4 million, up from £6.3 million in 2005. New Star now has 14 different funds or strategies on which it earns performance fees.

Operating expenses before amortisation increased by 21% to £62 million. The Group's largest cost remains staff costs, which represented 49% of total costs. These costs increased by 24%, a percentage slightly above the increase in staff numbers. Despite the investment in the international business, non-staff costs were controlled, increasing by 20%. The Group's operating margin increased to 54% and the directors believe the operating margin can be improved further as it concentrates on higher margin product sales.

The Group had net interest receivable during 2006 because all debt was repaid by February 2006. The significant operating cash flow generated of £57 million was used to repay debt, purchase New Star's own shares in the market, undertake some seeding of investment products and fund the maiden interim dividend of 4p per share.

The tax charge at 15% of operating earnings reflects the allowability of the amortisation of intangible assets, totalling £23 million in 2006, increased overseas earnings and the utilisation of tax losses brought forward. At the end of the year, the Group had utilised the majority of its initial tax losses but had intangible assets of £53 million to be utilised against future operating earnings. As a result, the Group will continue to have a comparatively low tax charge until 2009, when the amortisation of intangible assets stemming from our 2003 acquisitions will have come to an end. At that time, we anticipate that the tax charge will continue to be below the recently announced corporation tax rate, of 28%, as a result of the growing income from our international operations.

Operating earnings per ordinary share increased by 71% from 14.48p to 24.71p per share. The operating earnings per share calculation has been arrived at before taxation, interest, exceptional items and amortisation of intangible assets. We have adopted this measure because we believe it reflects our underlying profitability. After taxation, interest, exceptional items and amortisation of intangible assets the earnings per share were 13.54p compared with 5.02p in 2005.

Group net assets increased from £99.4 million to £105.6 million. The directors expect New Star to be highly cash generative in 2007.

#### *UK retail funds*

Assets under management within New Star's UK open-ended investment companies and unit trusts increased by 36% from £7.2 billion to £9.7 billion during 2006. Investment performance in general continued to be healthy, with New Star Investment Funds providing our investors with healthy returns from a broad spread of asset classes. These range from UK and international equities, investment grade and higher-yielding corporate bonds and commercial property through to funds of funds, funds of investment trusts and specialist areas such as financials. This fund range has a breadth that positions us to meet investors' requirements in diverse market conditions and at different times in the business cycle.

The highlight of the year was the growth of the New Star Property Unit Trust from £765 million to £1.8 billion, with inflows resulting in the fund becoming the UK's best-selling mutual fund in 2006. Our marketing message has been that commercial property offers the potential for an above-average and rising income and offers diversification because its returns are only weakly correlated with those of equities and bonds. The inflows during 2006 gave the fund the flexibility to shift its focus towards office buildings and in particular towards the City of London, where rents have been growing strongly as a result of London's increasing strength as a global financial centre.

There are a number of reasons to expect retail interest in commercial property as an asset class to continue. Since December 2005, bricks-and-mortar property funds have been permitted as ISA and PEP investments and the sector's profile has also risen as a result of the introduction of real estate investment trusts in the UK. IMA figures at the end of 2006 showed that only 3.2% of UK mutual fund assets were held in property funds yet a survey late last year suggested that more than half of financial advisers thought investors ought to have more than 10% of their portfolios in commercial property.

In response to this increasing interest, New Star has developed the first fund in the industry to enable UK retail investors to hold international direct commercial property within a Financial Services Authority-authorized retail fund in a tax-efficient manner. We intend to launch the fund, whose authorisation followed extensive discussions with the FSA culminating in a waiver from the existing rules, in the early summer, providing investors with a further level of asset diversification.

Our awareness of investors' needs for diversification also lay behind our launch last summer of the New Star Tri-Star Unit Trust. Developed in response to demand from our "open architecture" life and pension company partners, the fund offers relatively cautious investors an opportunity to gain actively-managed exposure to commercial property, bonds and UK equities within a single investment vehicle.

Over the year to 31 December 2006, 48% of our equity and bond mutual fund assets under management were in funds in the top quartile of their respective peer groups and 83% were in the top two quartiles. The strongest areas in terms of relative performance were in Continental Europe, financials and fixed income.

New Star's investment performance during 2006 and the longer-term achievements of our fund managers gained recognition in a series of awards during the year. In addition to being overall winner in Citywire's Team All Stars Awards for the third year in a row, we were named Best Unit Trust Manager of 2006 by the Investors Chronicle and Best Multi-manager Group of 2006 by Real Adviser. This award recognises the achievements of our fund of funds team. Our funds and fund managers also picked up a series of individual awards.

In Lipper's 2006 UK fund awards, the New Star Fixed Interest Unit Trust was named the best sterling corporate bond fund over three years, the New Star Global Financials Fund was named the best banks and other financials equity fund over three years, the New Star Managed Portfolio was named the best global high UK equity fund over three and five years, the New Star UK Strategic Income Unit Trust was named the best UK equity income fund over three years and the New Star Balanced Portfolio was named the best aggressive mixed asset sterling fund over 10 years.

In the Standard & Poor's 2006 UK fund awards, the New Star Pacific Growth Unit Trust came top in the Asia Pacific excluding Japan equity sector over five and 10 years, the New Star Global Strategic Capital Unit Trust came top in the global flexible asset allocation sector over 10 years, the New Star Sterling Bond Unit Trust came top in the sterling corporate bond sector over 10 years and the New Star Global Financials Fund came top in the finance sector over one year.

In addition, the New Star European Growth Fund was named the best European fund in the Bloomberg Money 2006 Investment Awards while the New Star Pacific Growth Unit Trust won the Asia Pacific excluding Japan sector category in the 2006 Moneywise Fund Awards.

Most recently, Citywire named seven of our fund managers in its 2007 Top 100 Fund Managers list, placing us in equal second place, while two of our fund managers were named Specialist Fund Manager of the Year 2007 and UK Equity Income Fund Manager of the Year 2007 respectively.

Continued healthy investment performance, focussed sales and marketing efforts and efficient client service resulted in a 55% rise in gross retail sales from £1.89 billion to £2.93 billion. Net retail sales doubled from £902 million to £1.8 billion. Measured by net sales, the Property Unit Trust had the greatest inflows, attracting £872 million. Elsewhere net sales were broadly spread among our equity, fixed income and balanced managed funds: the European Growth Fund attracted £186 million, the Sterling Bond Unit Trust attracted £180 million, the Managed Distribution Fund attracted £98 million and the High Yield Bond Fund attracted £95 million. Net sales within our fund of funds range totalled £177 million, with the Balanced Portfolio attracting £70 million.

While the main priorities for our advertising spending during the year were to promote the Property Unit Trust and to launch the Tri-Star Unit Trust, we also ran campaigns for the UK Growth Fund and for the Global Financials Fund, which, although it has a specialist remit, was able to attract net sales of £91 million.

After a relatively slow start in January 2006, sales momentum built up steadily across the range. The short but painful equity market correction from mid-May to mid-June had little impact on our sales, which benefited from the broad diversity of our product range and the emphasis on income and balanced funds. As the year progressed, investors showed increasing confidence that the equity markets were attractively valued while the momentum of interest in commercial property was sustained.

One particular priority was to broaden investors' access to our products by developing new links and deepening existing relationships with life insurers, pensions companies and banks that provide their clients with access to third-party fund managers. Such initiatives involved strengthening our marketing team and making further investments in our customer support and service operations.

Our commitment to sustained marketing, clear communication with our clients and effective public relations activity generated significant coverage in national newspapers and trade publications and was reflected in opinion surveys among financial advisers. In the Investment Insight winter 2006 report, New Star was ranked the most effective of 20 leading fund management groups for marketing. We were also ranked first as the fund management group that IFAs noticed the most and were in the top three for customer service. According to the Presswatch monitoring organisation, New Star was ranked seventh out of all financial services companies of any sort for our press coverage in 2006 and third among retail fund providers.

As a result of our investments in marketing, client communication, customer support and service, we have entered 2007 with comfortably more than half of our sales coming from fund supermarkets and from "open architecture" financial services groups. We are increasingly selling to major institutions on an international basis, benefiting from the powerful trend among the world's largest financial services companies to open their businesses to independent fund management groups such as New Star.

*International retail funds*

2006 was a year of outstanding growth for our international retail funds operation. The assets under management of our range of Dublin-domiciled funds increased 252% from £313 million to £1.1 billion.

One particular priority has been to build meaningful partnerships with global distributors of financial products such as international consumer banks, investment banks and life insurance and pensions providers that have “open architecture” investment propositions. This has involved us taking a disciplined and systematic approach, tailoring our fund registrations, marketing material and service capabilities to the specific needs of clients and intermediaries.

In Continental Europe, in particular, we sought to raise New Star’s profile through targeted marketing and promotional activity, including our golfing sponsorship of the Ladies European Tour Official Money List. Geographically, our biggest fund inflow successes were in Switzerland, France and Spain, with the highlight of the year being the increase in size of the Dublin-domiciled New Star European Growth Fund. In addition, the sales team worked hard to broaden the range of funds sold to international investors.

Our investment performance is being recognised in international ratings and awards for our funds. In Lipper’s 2006 Hong Kong awards, European Growth was named the best Equity Europe ex-UK fund over three years, the New Star UK Alpha Fund was named the best Equity UK fund over three years and the New Star Pacific Growth Unit Trust was named the best Equity Asia Pacific ex-Japan fund over 10 years.

To maintain our sales momentum, we have continued our programme of fund registrations and we recently launched a multi-currency service offering access to UK-domiciled New Star funds that we believe will be attractive to euro and dollar-based investors and intermediaries.

### *Institutional portfolios*

After strong inflows during 2005, New Star’s institutional assets under management increased 5% from £7.7 billion to £8.1 billion in 2006.

The main markets for our institutional business are the US, Canada and the UK. In the US and Canada, we focus mainly on mandates covering Europe, Australasia and the Far East (EAFE). We have, as a result, been affected by significant changes in the EAFE marketplace. 2005 was a particularly active year for new EAFE mandates but the number of available new mandates fell sharply in 2006. Partly as a result of this, our US and Canadian business had a quiet year. From the end of 2005, rather than seeking new EAFE mandates, we concentrated on consolidating the substantial volumes of new business won in 2004 and 2005 and of increasing the strength and depth of our institutional fund management team.

In managing EAFE mandates, we take a growth-oriented approach, focussing on large capitalisation, higher-growth companies at the expense of value stocks and smaller companies. Using this growth style, we were able broadly to match the returns of the MSCI EAFE Growth Index. Our portfolios did, however, underperform those with a focus on value and smaller companies and the benchmark MSCI EAFE Index.

In the UK, the approach of our recently-established domestic institutional business is to seek specialist mandates from institutional investors that are seeking high performance. This approach is proving increasingly popular in the marketplace as institutions aim to achieve significant outperformance from their equity allocations to complement liability-matching in their fixed income portfolios.

During 2006, the business made good progress, as our investment in marketing and in developing relationships with the investment consultancy community began to yield concrete results. We were particularly pleased to be able to broaden the spread of our UK institutional clients, winning a series of specialist mandates from pension funds and life insurance companies and extending our presence in the charities sector. Over the course of the year, our fund managers also gained increasing numbers of positive ratings from investment consultants. This should enable us to sustain our momentum in the future.

### *Alternative assets*

Assets under management within New Star's alternative investments business grew by 51% to £1.2 billion during 2006. The business comprises New Star's established hedge fund operation and the recently-launched leveraged global property fund.

Within the New Star range of hedge funds, assets under management grew from £771 million to £958 million of which £292 million was invested by the group's managed hedge funds. The assets within the largest single strategy, European Hedge, grew from £281 million to £393 million. Of the next two largest strategies, UK Gemini Hedge grew from £69 million to £121 million while Financials Hedge increased from £66 million to £91 million. Some 62% of our single-strategy hedge fund assets were in hedge funds in the top two quartiles for the year relative to their peer groups.

Single-strategy fund launches during the year included the New Star Atlas Hedge Fund, a global long/short equity fund employing a quantitative screening process combined with fundamental stock selection, and the New Star Aurora Hedge Fund, a UK long/short equity fund. These additions brought our total of single-strategy long/short equity hedge fund strategies to ten.

In addition to single-strategy long/short equity fund launches, a multi-strategy fund using the skills of New Star's hedge fund managers was launched during the summer. Investors can access this fund through three distribution channels. The first is an offshore fund; the second is New Star Absolute Return, a Guernsey-domiciled closed-end fund that was admitted to the Alternative Investment Market in August; and the third is a structured product launched in conjunction with Credit Suisse. In November, a further extension to the hedge fund range was added through the launch of Hedge ETS, a unique security providing exposure to the RBC Hedge 250 Index, the most representative global index of hedge fund performance.

In addition to hedge funds, a significant step was taken to broaden the range of alternative investments with the launch in March of a leveraged global property fund for institutional investors and high net worth individuals. By the year end, the fund had £203 million of assets, with committed funds that will increase its size to about £550 million when fully invested. Managed by a team of five international property managers, the fund has invested in commercial properties in various European and Far Eastern countries. This fund has experienced further growth since the year end.

Most recently, the group has advanced its plans to add private equity as an additional alternative asset class and in March 2007 two closed-end private equity funds announced that they were merging to form a private equity fund of funds vehicle to be managed by New Star. The transaction, which is subject to shareholder approval, is expected to complete in June 2007, with the new vehicle having an initial size of approximately £90 million.

### *Closed-end funds*

Assets within our closed-end funds business, with a range of funds to suit various investment objectives, experienced strong growth during 2006 and the number of funds increased from two to

five. In addition to launching New Star Absolute Return and Hedge ETS, New Star launched the Connor, Clark & Lunn Global Financials Fund, a Toronto-listed trust that invests in an international portfolio of financial services businesses.

### *Private clients*

Funds under management within New Star's private client department grew from £218 million to £303 million during 2006 principally as a result of new mandates. The department's investment approach, involving a focus on absolute returns through access to the best available fund managers within and outside New Star and diversification of asset classes, has been well received by wealthy private investors and their advisers. Managing the assets within self-invested personal pensions continues to be a strong growth area.

### Other Information

The financial information contained herein does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The consolidated balance sheet at 31 December 2006, the consolidated income statement, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended have been extracted from the Group's 2006 statutory financial statements upon which the auditors' opinion is unqualified and does not include any statement under Section 237 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2006 will be delivered to the Registrar of Companies.

The Annual Report is scheduled to be posted to shareholders on 19 April 2006 and will be available on the Company's website at [www.newstaram.com](http://www.newstaram.com).

This announcement is not for publication or distribution to persons in the United States of America, its territories or possessions or to any US person (within the meaning of Regulation S under the US Securities Act of 1933, as amended). Neither this announcement nor any copy of it may be taken or transmitted into Australia, Canada or Japan or to Canadian persons or to any securities analyst or other person in any of those jurisdictions. Any failure to comply with this restriction may constitute a violation of United States, Australian, Canadian or Japanese securities law. The distribution of this announcement in other jurisdictions may be restricted by law and persons into whose possession this announcement comes should inform themselves about, and observe any such restrictions.

This preliminary announcement contains certain forward-looking statements with respect to the financial condition, results of operations and businesses and plans of New Star Asset Management Group PLC. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that have not yet occurred. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. Nothing in this announcement should be construed as a profit forecast.

## CONSOLIDATED INCOME STATEMENT

*for the year ended 31 December 2006*

	2006 £'000	2005 £'000
Revenue	200,710	133,987
Fees and commissions	(66,764)	(38,850)
<b>Net Revenue</b>	133,946	95,137
Operating expenses	(61,934)	(51,502)
<b>Operating earnings*</b>	72,012	43,635
Intangible amortisation	(23,252)	(23,219)
Exceptional IPO costs	-	(3,351)
<b>Operating profit</b>	48,760	17,065
Finance revenue	1,890	2,475
Finance expense	(631)	(2,729)
<b>Profit before taxation</b>	50,019	16,811
Taxation	(10,577)	(1,680)
<b>Profit for the period attributable to equity holders of the parent</b>	39,442	15,131
Operating earnings per share (pence) *	24.71	14.48
Basic and diluted earnings per share (pence)	13.54	5.02

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

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

*for the year ended 31 December 2006*

	2006 £'000	2005 £'000
<b>Profit for the year</b>	39,442	15,131
Exchange movement on translation of foreign operations	(265)	165
Fair value movement on available-for-sale assets	(1,469)	801
<b>Net (expense) / income recognised directly in equity</b>	(1,734)	966
<b>Total recognised income and expense for the year</b>	37,708	16,097
<b>Attributable to:</b>		
Equity holders of the parent company	37,708	16,097

# CONSOLIDATED BALANCE SHEET

at 31 December 2006

	2006 £'000	2005 £'000
<b>Non-current assets</b>		
Intangible assets	53,762	77,014
Property and equipment	3,312	2,604
Financial assets	11,815	7,284
Deferred tax assets	1,421	3,360
Trade and other receivables	9,292	9,346
	<u>79,602</u>	<u>99,608</u>
<b>Current assets</b>		
Trade and other receivables	95,661	57,796
Financial assets	3,900	1,095
Cash and cash equivalents	19,237	21,092
	<u>118,798</u>	<u>79,983</u>
<b>Total assets</b>	<u>198,400</u>	<u>179,591</u>
<b>Current liabilities</b>		
Short-term borrowings	-	(9,758)
Trade and other payables	(85,559)	(56,410)
Current tax	(4,793)	(2,012)
	<u>(90,352)</u>	<u>(68,180)</u>
<b>Non-current liabilities</b>		
Long-term borrowings	-	(9,298)
Trade and other payables	(2,335)	(2,504)
Provisions	(129)	(165)
	<u>(2,464)</u>	<u>(11,967)</u>
<b>Total liabilities</b>	<u>(92,816)</u>	<u>(80,147)</u>
<b>Net assets</b>	<u>105,584</u>	<u>99,444</u>
<b>Equity</b>		
Share capital	14,541	15,643
Share premium	257	-
Capital redemption reserve	1,119	-
Retained earnings	110,933	100,564
Other reserves	(407)	1,327
Own shares	(20,859)	(18,090)
<b>Equity attributable to equity holders of the parent</b>	<u>105,584</u>	<u>99,444</u>

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2006

	2006 £'000	2005 £'000
<b>Cash flow from operating activities</b>		
Profit after taxation	39,442	15,131
Depreciation charges	791	620
Amortisation of intangible assets	23,252	23,219
Share-based element of remuneration	1,689	2,039
Net finance (revenue) / expenses	(1,259)	254
Taxation expense	10,577	1,680
	<u>74,492</u>	<u>42,943</u>
<b>Changes in operating assets and liabilities</b>		
Increase in financial assets	(2,805)	(419)
Increase in trade and other receivables	(37,345)	(18,714)

Increase in trade and other payables	28,475	14,606
	<u>62,817</u>	<u>38,416</u>
Taxation paid	(5,857)	(1,323)
<b>Net cash flow from operating activities</b>	<u>56,960</u>	<u>37,093</u>
<b>Cash flow from investing activities</b>		
Purchase of investments	(6,000)	(5,000)
Proceeds from the sale of investments	-	893
Purchase of property and equipment	(1,504)	(1,094)
Purchase of intangible assets	-	(402)
Proceeds from sale of tangible fixed assets	5	-
<b>Net cash flow from investing activities</b>	<u>(7,499)</u>	<u>(5,603)</u>
<b>Cash flow from financing activities</b>		
Proceeds from the issue of share capital	274	1,070
Movement in EBTs	(2,837)	-
Loans to employees	(586)	(9,247)
Repayment of long-term borrowing	(9,298)	(12,130)
Repayment of short-term borrowing	(9,758)	(6,234)
Finance income received	2,442	1,863
Finance expense paid	(526)	(2,411)
Purchase of warrants	-	(1,450)
Purchase and cancellation of shares	(19,422)	-
Dividends paid	(11,340)	-
<b>Net cash flow from financing activities</b>	<u>(51,051)</u>	<u>(28,539)</u>
<b>Net change in cash and cash equivalents</b>	(1,590)	2,951
Cash and cash equivalents at start of year	21,092	18,817
Exchange movements	(265)	(676)
	<u>19,237</u>	<u>21,092</u>
<b>Cash and cash equivalents at end of year</b>		