

Company no. 4341768

**NEPTUNE INVESTMENT MANAGEMENT LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2010**



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# NEPTUNE INVESTMENT MANAGEMENT LIMITED

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# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## COMPANY INFORMATION

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<b>Directors</b>	J D Punter	(Non-executive Chairman)
	R J H Geffen	(Managing Director and Chief Executive Officer)
	P D Berton	(Sales Director)
	A G Catto	(Non-executive)
	R H Green	(Deputy Managing Director)
	R M Pickering	(Non-executive)
	S M Southall	(Non-executive)
	R H Warner	(Finance Director)
<b>Company Secretary</b>	R H Warner	
<b>Company number</b>	4341768	
<b>Registered office</b>	Lion House Red Lion Street London WC1R 4GB	
<b>Auditors</b>	Saffery Champness Lion House Red Lion Street London WC1R 4GB	
<b>Bankers</b>	HSBC 21 King's Mall King Street Hammersmith London W6 0QF	
<b>Solicitors</b>	Slaughter and May One Bunhill Row London EC1Y 8YY	

# **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

## **CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010**

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### **Introduction and overview**

Neptune continues to make excellent progress in an increasingly uncertain world. Assets under management ("AUM"), both retail and institutional, grew strongly during the year, the total rising by 45% to £7 250 billion (2009 £5 012 billion). This arose from a combination of net inflows of £1 362 billion (2009 £1.410 billion) and rises in global markets. Investment performance remains at the heart of the business and, for those of our mutual funds that have a track record of more than five years, over 97% by value of AUM were top quartile in their respective peer groups over that period. Personnel growth has continued across the Company, with staff loyalty and turnover remaining satisfactorily high and low respectively. Our operational efficiency and risk management has been enhanced by new systems and control processes that are preparing Neptune for the next stage of its development as we enter our tenth year at the end of this coming May. The Company is now well settled into our new head office that we moved to, as planned, last April.

### **Results and dividends**

The audited accounts of the Group, being the Company and its subsidiary, for the year ended 31 December 2010, show a profit before tax of £11 066 million (2009 £6 541 million), on turnover of £80 957 million (2009 £50 456 million). The tax charge for the year is £2 554 million (2009 £1 902 million), leaving a profit after tax of £8 512 million (2009 £4 639 million).

During the year total dividends of 20p per share were paid (2009 33p per share), absorbing £1 473 million (2009 £2 469 million) and leaving a profit for the year of £7 039 million (2009 £2 170 million) to be transferred to reserves.

Further details on the accounts and the year's trading are given in the Business Review on pages 4 to 9.

### **Cash flow and capital adequacy**

The Company's cash flow continues to be strong and the Group's net cash position at the balance sheet date was £19 925million (2009 £14 421 million). The Company's regulatory capital adequacy remains comfortably in surplus, with the latter being in excess of £5 6 million at 31 December 2010.

### **Personnel**

Neptune's success depends on the high quality of our staff and their performance and we strive to ensure that all aspects of the working environment provide motivation and enjoyment in equal measure. On behalf of the Board, I should like to thank all our staff for their commitment and enthusiasm throughout the last financial year.

## **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

### **CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010**

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#### **Share capital**

No new shares were issued during the year. In line with the Board's strategy of allowing the Company's Employee Share Ownership Trust ("ESOT") to fulfil the exercise of share options by employees, on 15 February 2010 an offer was made to all shareholders by the ESOT for the ESOT to purchase up to 1.5% of shareholdings at a price of £20 per share. The total acceptance of this offer was 95.6%, amounting to 108,048 shares at a cost of £2.161 million, which has been absorbed within reserves in the year. Since the balance sheet date a further offer was made of up to 3% of shareholdings, also at £20 per share. The total acceptance of that offer was 93.8%, amounting to 211,998 shares at a cost of £4.240 million, which will be absorbed within reserves during the current financial year.

#### **Future strategy and prospects**

Neptune's strategy remains unchanged. We strive to maintain excellence in our fund management process, whilst ensuring that our employees are motivated and rewarded appropriately within an inspirational environment, with our systems and risk management controls being kept under regular and thorough review. The Board looks to balance the Group's capital adequacy needs with the expectations of shareholders for a return on their investment.

The current financial year has started well, with monthly net inflows at satisfactory levels and global markets reasonably steady over the first quarter, despite a number of unsettling world events. I remain optimistic that 2011 will be another good year for Neptune.

**J D Punter**  
Chairman  
27 April 2011

## NEPTUNE INVESTMENT MANAGEMENT LIMITED

### BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010

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#### Introduction

Global Equity markets recovered strongly in the second half of the year, extending the bull market which had commenced the previous spring. With global economic growth coming primarily from the Emerging Market economies, expansionary monetary policy fed through into equity prices. This dynamic was closely aligned to Neptune's central macroeconomic view and translated into a healthy increase in our assets under management ("AUM").

The Income Fund joined the Global Equity Fund and the European Opportunities Fund to give us three funds with AUM of over £1 billion. Next in line by AUM, and all over £500 million, the Balanced Fund, US Opportunities Fund and Russia and Greater Russia Fund demonstrated strong growth. I am pleased to report that the Board's focus on continued delivery of this organic growth through strong investment performance allowed us to reinvest in our infrastructure, systems and people.

#### Financial

Group revenue for the year rose by 60% to £80,957 million (2009: £50,456 million) as a result of the continuing increase in AUM over the year as a whole. The direct costs of sales, which include fund administration and accounting charges, rebates and commissions payable to third parties, totalled £36,054 million (2009: £23,116 million), with the resulting gross profit up 64% to £44,903 million (2009: £27,340 million). The gross profit margin increased accordingly to 55.5% (2009: 54.2%). The table below provides a summary and further analysis.

<i>Analysis of gross profit</i>	2010	2009
AUM at end of year (£million)	7,250	5,012
Average month end AUM (£million)	5,888	3,636
Fee income margin (basis points)	139	142
Retained, post rebate and commission, fee income margin (basis points)	84	86
Average FTSE 100	5,465	4,541
	<hr/>	<hr/>
	£000	£000
Fee income (from management fees)	79,428	49,161
Other income (excluding interest)	1,529	1,295
Revenue (per Income Statement)	80,957	50,456
Cost of sales	(36,054)	(23,116)
	<hr/>	<hr/>
<b>Gross profit</b>	<b>44,903</b>	<b>27,340</b>
	<hr/>	<hr/>
Gross profit margin	55.5%	54.2%
	<hr/>	<hr/>

## NEPTUNE INVESTMENT MANAGEMENT LIMITED

### BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010

The Financial Services Compensation Scheme ("FSCS") announced on 20 January 2011 that a second interim levy for 2010-11 would be imposed on the industry for the costs of major investment failures, such as Keydata Investment Services Limited. The cost to the Group reflected in the results to 31 December 2010 was £1 452 million. This charge did not arise from any action taken by the Group.

Administrative expenditure in total, excluding the FSCS levy, has increased by 56% to £32 385 million (2009 £20 817 million). This reflected the continuing and significant expansion of the business in all areas. Staff costs rose by 37% to £17 550 million (2009 £12 769 million), accounting for 54% of total administrative costs, excluding the FSCS levy (2009 61%). Other costs rose by 84% to £14 835 million (2009 £8 048 million), over half of which related to increased marketing expenditure with the balance reflecting growth across all areas of the business, including some significant systems enhancements.

The tax charge for the year was £2 554 million (2009 £1 902 million). The lower effective rate of 23% (2009: 29%) is mostly as a result of the beneficial tax treatment of the exercise of share options during the year.

The table below provides a summary and further analysis.

<i>Analysis of operating profit</i>	<b>2010</b>	<b>2009</b>
	<b>£000</b>	<b>£000</b>
Gross profit	<b>44,903</b>	27,340
Fixed costs - Staff	<b>6,546</b>	5,868
Other	<b>14,835</b>	8,048
	<b>21,381</b>	<b>13,916</b>
Variable staff costs	<b>9,948</b>	5,982
Share option charge	<b>1,056</b>	919
FSCS levy	<b>1,452</b>	-
Total operating expenditure	<b>33,837</b>	<b>20,817</b>
<b>Operating profit</b>	<b>11,066</b>	<b>6,523</b>
<b>Business ratios</b>		
Operating margin (against total revenue)	<b>13.7%</b>	12.9%
Operating margin (excluding FSCS levy)	<b>15.5%</b>	12.9%
Staff costs / gross profit	<b>39.1%</b>	46.7%
Variable staff costs / operating profit pre-FSCS levy and variable staff costs	<b>44.3%</b>	47.8%

#### Investment

In 2010, the Neptune investment team continued to build strong track records across its stable of funds, particularly the core global mandates. The Global Equity Fund, Global Alpha Fund and Balanced Fund each delivered top decile performance amongst their respective IMA peer groups over the year. Our range of emerging market funds also saw solid returns, with the China Fund and Russia and Greater Russia Fund adding to their excellent long-term track records by also achieving top decile performances in 2010, outperforming their relevant benchmarks significantly.

## **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

### **BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010**

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Other funds repeating their 2009 success were the European Max Alpha and US Max Alpha funds, both highly concentrated portfolios managed by Rob Burnett and Felix Wintle respectively. Rob and Felix, alongside Ewan Thompson and James Dowey, who were both promoted to Investment Director in the second half of the year, continue to build Neptune's recognition as a team of widely respected investment talent. I feel deeply privileged to work alongside them.

James' contribution as Chief Economist cannot be overemphasised. In another challenging year for markets and changing global dynamics, his macroeconomic insights gave our fund managers and analysts exceptional additional context and understanding. Meanwhile, Neptune's proprietary investment research, which is at the very heart of our business, continues to be formalised and coordinated expertly by Chris Taylor, Head of Research. I remain extremely grateful to him for his considerable contribution. My thanks also go to Derek Bartlett for the knowledge and experience he has shared with the team over the years and we wish him well in retirement.

Joining the investment team this year were three analysts who have already made excellent career starts at Neptune, namely George Boyd-Bowman, Kunal Desai and William Rice. It was also a year which saw five of the team being promoted to fund manager. Rebecca Young is the named manager on the newly launched US Income Fund and Nicola Muirhead and Emma Stanford now manage the UK Alpha Fund and UK Higher Income Fund respectively, both new products in the Neptune fund range. Elsewhere, Tom Sinclair was promoted to co-manage the Asia Pacific Opportunities Fund, whilst Harriet Grieve continues to take more responsibility on the Cautious Managed Fund. Congratulations also go to Adam Kelly and Tom Smith, who were both promoted to Assistant Fund Manager, and to Jenny Davis, who was promoted to Senior Analyst.

In last year's report I mentioned the launch of the innovative Greater China Income Fund and I am proud to say that the manager, Douglas Turnbull, has had an excellent first year, outperforming many China growth funds in the peer group, whilst also offering a yield of 4.2%. In keeping with our reputation for launching forward-looking products, in August we added the Neptune Africa Fund to our fund range. Neptune is delighted to see the return to the investment team of Shelley Kuhn, who manages this fund from South Africa, giving her a crucial advantage in running a product of this nature.

The quality of the people on the team, with their research and fund management capabilities, has enabled us to maintain our long-term track record, with over half of our product range performing in the top quartile of their respective IMA peer groups since launch. Furthermore, ten of these funds are ranked in the top three funds of their peer groups since launch. The number of awards that we continue to add to our cabinet is testament to the recognition that we now have as a team across the industry. In 2010 these included:

#### **City A.M. Awards**

Neptune won the Fund Manager of the Year category.

#### **Professional Adviser Awards**

Neptune won Hot 100 – Best Boutique Group.

Neptune won for Best International Growth Group.

#### **Money Marketing Financial Services Awards**

Neptune won the Best Boutique Fund Group category.

#### **UK Professional Pension Awards**

Neptune won Emerging Markets Manager of the Year.

#### **Investment Life & Pensions Moneyfacts Awards**

Neptune won the Best Unit Trust/OEIC Provider Award.



## **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

### **BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010**

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#### **Trustnet Awards**

Neptune US Opportunities Fund won the North America award  
Neptune European Opportunities Fund won the Europe ex UK award

#### **Financial News Top 100 Rising Stars**

James Dowey listed in the Financial News Top 100 Rising Stars

#### **Gold Standard Awards**

Neptune awarded a Gold Standard for Fund Management

#### **Moneywise Fund Awards**

Neptune US Opportunities Fund won the North American Sector Award

#### **FT Pension and Investment Provider Awards**

Winner of the Active North American Equity Manager of the Year Award  
Winner of the High Alpha Equity Manager of the Year Award

#### **What Investment Awards**

Best Fund Manager Award for the Neptune Russia & Greater Russia Fund - Robin Geffen

#### **Lipper Fund Awards (UK)**

UK Equity Small Group Winner - 3 Years  
Equity North America Winner - 5 Years

#### **Austrian Investment Fund Awards**

Winner of the Stocks USA 5 Year Award for the Neptune US Opportunities Fund

#### **Lipper Fund Awards (Luxembourg)**

Neptune European Opportunities won Best Fund over 5 Years in Equity Europe ex UK category  
Neptune US Opportunities won Best Fund over 5 Years in Equity North America sector category

#### **Lipper Fund Awards (Germany)**

Neptune European Opportunities won Best Fund over 5 Years in Equity Europe ex UK category  
Neptune US Opportunities won Best Fund over 5 Years in Equity North America sector category

#### **Sales**

The sales team, led by Patrick Berton, once again delivered a substantial contribution to the asset growth of Neptune. Sales rose materially in the UK direct channel, managed by Adam Hughes and his team, serving upper end IFAs, wealth managers, private banks and funds of funds. The UK Third Party team, headed by John Lester, again grew their sales strongly against a tough background in this sector where many of the key life company partners have themselves been cutting down on their sales forces and now have links with nearly all the major UK Life Companies and platforms.

The Institutional team under Alistair Wilson had a much improved year, raising significant assets via a selection of UK and European consultants, including a second UK local authority mandate. The Continental European team under the leadership of Paul Boughton finished the year strongly, after a slow start, with the bulk of new business coming from Switzerland and France. Another notable feature of our development in 2010 was securing over £700 million in five new segregated mandates, by far our strongest performance in this area so far.

## **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

### **BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010**

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As the client base has grown larger, Emma Knight, Sales Support Manager, has taken charge of the development and implementation of a comprehensive new CRM and management information system, which will greatly increase our efficiency, ability to record client interactions and analysis of sales data. All in all, it was another year of progress. The sales support team once again played an invaluable role in backing up the salespeople and helping maintain high standards of client service.

#### **Marketing**

This year saw the launch of Neptune's new brand creative that was heavily promoted through an integrated advertising campaign that included railside, taxis, national and trade papers and online media. This has led to increased awareness across the fund management industry and the intermediated market, as well as at a consumer level.

The prominent advertising was further complemented by our ongoing sponsorships, particularly the relationship we have with the National Theatre, as their new Cottesloe Partner. In 2010, we also sponsored and helped manage the Neptune City Sevens rugby tournament, with all proceeds going to the Child Bereavement Charity.

Elsewhere we have continued to invest in our online marketing and website functionality, to meet the needs and interests of all client types. This continues to be an increasingly important shop window and information source for all our clients.

The growth in the Company and its increased commitment to our marketing visibility led to further resource being added across the team. We were particularly pleased to add the expertise of Tazeen Saeed, who joined us from Jupiter to coordinate all of our advertising activity. In addition, Alasdair Johnson was promoted to Head of Marketing, overseeing the implementation of our marketing campaigns and ensuring the output of the team is maintained at its high standard.

My thanks go to Georgina Pardoe, Marketing Director, and all her team for their continued hard work and dedication in building such a strong and recognisable brand.

#### **Finance and administration**

Under Robert Warner's direction, the finance and operational side of Neptune has continued to keep pace with the increasing volume of business transacted. He has been ably assisted since October by Piers Harrison, who joined from Charles Stanley as Deputy Finance Director and Head of Operational Risk, and who has quickly become a great asset to the business.

We moved into our new and greatly improved premises in Shortlands, Hammersmith, in April 2010, all expertly project-managed by Head of Operations, Iain Jee. This more than accommodates our 94 staff, increased from 70 last year, together with ample client and break out space, with room for further expansion as required. New system enhancements include an upgraded fund accounting platform and reinforced controls over our dealing process, both within Head of Fund Administration, Neal Gilbert's, remit.

The Compliance team, spearheaded by Karen Barker, continues to expand steadily to meet the increasing regulatory requirements across all areas of the Company. Karen presents a monthly report to the Board, covering all aspects of compliance, including our record of treating customers fairly, of which external surveys make us justifiably proud. Pritie Sharma's new Investor Services team has completed a satisfactory first year of operation, maintaining the excellent quality of administration services to current and prospective investors and distributors.

## **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

### **BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010**

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As ever, I am extremely grateful to Robert for his consistent calm efficiency in overseeing all aspects of finance and administration

#### **Summary**

Whilst returns from both emerging and developed markets were highly volatile in 2010, it was a positive year for equities. Neptune largely managed to navigate these choppy markets, using its in-house research capability and fund management expertise to deliver healthy returns for our investors. We remain committed to protecting and growing our enviable track record in many product areas, investing in talented and ambitious people to help drive our business forward and implementing the necessary robust systems to support the Company's future growth.

I continue to be extremely grateful to my four non-executive colleagues for their generous and invaluable advice and steadfast support. The executive team continues to work tirelessly on Neptune's behalf and I am particularly indebted to Richard Green, Deputy Managing Director, who continues to oversee the integration and effectiveness of all departments on a daily basis, enabling me to be a fund manager for the larger part of my day.

Whilst we have continued to steer Neptune's progress through a changing and challenging geopolitical and macroeconomic environment, I look forward with optimism to capitalising on the opportunities to build our business in the coming years and am confident that we are well placed to respond to the challenges that lie ahead of us.

**R J H Geffen**

Chief Executive Officer

27 April 2011

# **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010**

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The directors present their report and the audited financial statements for the year ended 31 December 2010.

### **Principal activities**

The principal activity of the Group during the year under review was that of investment managers. Throughout the year the Company was authorised and regulated by the Financial Services Authority.

### **Results and dividends**

The Group results for the year are set out in the income statement on page 15.

During the year total dividends of 20p per share (2009: 33p per share) were paid, absorbing £1,473 million (2009: £2,469 million) and leaving a profit for the year of £7,039 million (2009: £2,170 million) to be transferred to reserves.

### **Business review**

A full report on the activities of the Group during the year under review is given in the Chairman's Statement on pages 2 and 3 and the Business Review on pages 4 to 9.

### **Directors**

The directors who served during the year, together with their current membership of the Audit (\*) and Remuneration (#) Committees, were as follows:

R J H Geffen  
P D Berton  
#A G Catto  
R H Green  
\*R M Pickering  
\*#J D Punter  
\*S M Southall  
R H Warner

### **Employees**

The Company constantly seeks to keep its employees informed on all aspects of the business affecting them through the operation of structured management meetings.

It is the Company's policy to give fair consideration to applications for employment by disabled persons wherever practicable and, where existing employees become disabled, every effort is made to find or create suitable positions for them.

# **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010**

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### **Political and charitable contributions**

The Company made charitable contributions during the year of £7,077 (2009 nil)

### **Fixed assets**

Changes in non-current assets are set out in notes 11 to 13 to the financial statements

### **Share capital**

There were no changes to the Company's share capital during the year. In line with the Board's strategy of allowing the Company's Employee Share Ownership Trust ("ESOT") to fulfil the exercise of share options by employees, on 15 February 2010 an offer was made to all shareholders by the ESOT for the ESOT to purchase up to 1.5% of shareholdings at a price of £20 per share. The total acceptance of this offer was 95.6%, amounting to 108,048 shares at a cost of £2.161 million, which has been absorbed within reserves in the year. Since the balance sheet date a further offer was made of up to 3% of shareholdings, also at £20 per share. The total acceptance of that offer was 93.8%, amounting to 211,998 shares at a cost of £4.240 million, which will be absorbed within reserves during the current financial year. Further purchases of shares from employees were made during the year by the ESOT, funded by the Company, totalling £2.755 million and this has also been absorbed within reserves.

Options under the Company's Enterprise Management Incentive Scheme over a total of 299,436 new Ordinary Shares (representing 3.97% of the current issued share capital of the Company) have been granted and had not lapsed as at 31 March 2011. Options under the Company's Unapproved Share Option Scheme over a total of 1,317,064 ordinary shares (representing 17.48% of the current issued share capital of the Company) have been granted and had not lapsed as at 31 March 2011. Although none of these grants have any performance hurdles, such conditions remain under consideration for future issues.

### **Risk**

The financial risk policies of the Group are disclosed in note 3 to the financial statements.

### **Statement of disclosure to auditors**

So far as each of the directors is aware, there is no relevant information that has not been disclosed to the Company's auditors and each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Company's auditors have been made aware of that information.

### **Auditors**

Saffery Champness have indicated their willingness to continue in office and a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

By order of the Board

**R H Warner**  
Secretary  
27 April 2011



## **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2010**

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The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 2006

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 2006. The directors have chosen to prepare financial statements for the Group and the Company in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the European Union.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the directors to

- consistently select and apply appropriate accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make judgements and estimates that are reasonable and prudent

## **NEPTUNE INVESTMENT MANAGEMENT LIMITED**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS FOR THE YEAR ENDED 31 DECEMBER 2010**

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We have audited the group and parent company financial statements (the "financial statements") of Neptune Investment Management Limited for the year ended 31 December 2010 which comprise the Group and Parent Company Income statements, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Equity and the notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRS') as adopted by the European Union.

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**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and IFRS as adopted by the European Union as set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit includes 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 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 affairs and the parent company's affairs as at 31 December 2010 and of the group's and the parent company's profit for the year then ended,
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the financial statements have been properly prepared in accordance with the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**NEPTUNE INVESTMENT MANAGEMENT LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS  
FOR THE YEAR ENDED 31 DECEMBER 2010**

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**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 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



**Michael Di Leto (Senior Statutory Auditor)  
For and on behalf of Saffery Champness**

27 April 2011

Chartered Accountants  
Statutory Auditors

Lion House  
Red Lion Street  
London WC1R 4GB



# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

		2010		2009	
	<i>Notes</i>	Group £000	Company £000	Group £000	Company £000
<b>Revenue</b>	<b>6</b>	<b>80,957</b>	<b>80,957</b>	<b>50,456</b>	<b>50,456</b>
Cost of sales		(36,054)	(36,234)	(23,116)	(23,296)
<b>Gross profit</b>		<b>44,903</b>	<b>44,723</b>	<b>27,340</b>	<b>27,160</b>
Administrative expenses		(31,329)	(36,174)	(19,898)	(20,200)
Share option expense	19	(1,056)	(1,056)	(919)	(919)
FSCS levy	7	(1,452)	(1,452)	-	-
<b>Profit from operations</b>		<b>11,066</b>	<b>6,041</b>	<b>6,523</b>	<b>6,041</b>
Finance income	6	-	-	18	17
<b>Profit before income tax</b>	<b>7</b>	<b>11,066</b>	<b>6,041</b>	<b>6,541</b>	<b>6,058</b>
Income tax	9	(2,554)	(2,512)	(1,902)	(1,864)
<b>Profit after income tax</b>		<b>8,512</b>	<b>3,529</b>	<b>4,639</b>	<b>4,194</b>

The Group's operating profit relates to continuing operations

The Notes to the Financial Statements form part of these financial statements

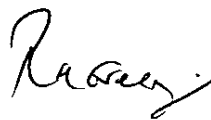
# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## BALANCE SHEETS AS AT 31 DECEMBER 2010

		2010		2009	
	Notes	Group £000	Company £000	Group £000	Company £000
<b>Assets</b>					
<b>Non current assets</b>					
Intangible assets	11	752	-	752	-
Property, plant and equipment	12	2,162	2,162	561	561
Investments in subsidiaries	13	-	-	-	-
		<u>2,914</u>	<u>2,162</u>	<u>1,313</u>	<u>561</u>
<b>Current assets</b>					
Cash and cash equivalents		19,925	20,264	14,421	14,796
Trade and other receivables	14	11,304	11,304	7,754	7,754
Available-for-sale financial assets	15	16	16	27	27
		<u>31,245</u>	<u>31,584</u>	<u>22,202</u>	<u>22,577</u>
<b>Total assets</b>		<u>34,159</u>	<u>33,746</u>	<u>23,515</u>	<u>23,138</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	16	21,381	21,542	13,943	14,039
<b>Non-current liabilities</b>					
Trade and other payables	16	35	35	8	8
<b>Total liabilities</b>		<u>21,416</u>	<u>21,577</u>	<u>13,951</u>	<u>14,047</u>
<b>Net assets</b>		<u>12,743</u>	<u>12,169</u>	<u>9,564</u>	<u>9,091</u>
<b>Equity</b>					
<b>Equity attributable to equity holders of the parent</b>					
Share capital	18	75	75	75	75
Share premium	18	2,209	2,209	2,209	2,209
Share options reserve	19	3,343	3,343	2,557	2,557
Retained earnings		9,632	6,542	6,021	4,250
Own share reserve	18	(2,516)	-	(1,298)	-
<b>Total equity</b>		<u>12,743</u>	<u>12,169</u>	<u>9,564</u>	<u>9,091</u>

These financial statements were approved by the Board of Directors on 27 April 2011

R H Green  
Director



R H Warner  
Director



The Notes to the Financial Statements form part of these financial statements

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

Group	Issued Capital £000	Share Premium £000	Share Option Reserve £000	Retained Earnings £000	Own Shares Reserve £000	Total £000
At 1 January 2009	75	2,209	1,638	3,851	(729)	7,044
Share option expense	-	-	919	-	-	919
Transactions in own shares	-	-	-	-	(569)	(569)
Profit after income tax	-	-	-	4,639	-	4,639
Dividends paid	-	-	-	(2,469)	-	(2,469)
Balance at 31 December 2009	75	2,209	2,557	6,021	(1,298)	9,564
Share option expense (note 19)	-	-	786	270	-	1,056
Transactions in own shares (note 18)	-	-	-	(3,698)	(1,218)	(4,916)
Profit after income tax	-	-	-	8,512	-	8,512
Dividends paid	-	-	-	(1,473)	-	(1,473)
Balance at 31 December 2010	75	2,209	3,343	9,632	(2,516)	12,743
Company	Issued Capital £000	Share Premium £000	Share Option Reserve £000	Retained Earnings £000	Own Shares Reserve £000	Total £000
At 1 January 2009	75	2,209	1,638	2,543	-	6,465
Share option expense	-	-	919	-	-	919
Profit after income tax	-	-	-	4,194	-	4,194
Dividends paid	-	-	-	(2,487)	-	(2,487)
Balance at 31 December 2009	75	2,209	2,557	4,250	-	9,091
Share option expense (note 19)	-	-	786	270	-	1,056
Profit after income tax	-	-	-	3,529	-	3,529
Dividends paid	-	-	-	(1,507)	-	(1,507)
Balance at 31 December 2010	75	2,209	3,343	6,542	-	12,169

The Notes to the Financial Statements form part of these financial statements

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

	<i>Notes</i>	2010 Group £000	2010 Company £000	2009 Group £000	2009 Company £000
<b>Cash flows from operating activities</b>					
Operating profit		11,066	6,041	6,523	6,041
Depreciation of tangible fixed assets		526	526	167	167
Share based payments - options		1,056	1,056	919	919
Increase in debtors		(3,550)	(3,550)	(3,415)	(3,414)
Increase in creditors		7,495	7,558	3,780	4,016
<b>Net cash inflow from operating activities</b>		<b>16,593</b>	<b>11,631</b>	<b>7,974</b>	<b>7,729</b>
<b>Corporation tax paid</b>		<b>(2,584)</b>	<b>(2,540)</b>	<b>(1,909)</b>	<b>(1,863)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	12	(2,127)	(2,127)	(445)	(445)
Purchase of own shares	18	(4,916)	-	(569)	-
Sale of investments	15	11	11	-	-
Interest received		-	-	18	17
Dividends paid	10	(1,473)	(1,507)	(2,469)	(2,487)
<b>Net cash outflow from investing activities</b>		<b>(8,505)</b>	<b>(3,623)</b>	<b>(3,465)</b>	<b>(2,915)</b>
<b>Cash flows from financing activities</b>					
		-	-	-	-
<b>Net increase in cash and cash equivalents</b>		<b>5,504</b>	<b>5,468</b>	<b>2,600</b>	<b>2,951</b>
Cash and cash equivalents at beginning of year		14,421	14,796	11,821	11,845
<b>Cash and cash equivalents at end of year</b>		<b>19,925</b>	<b>20,264</b>	<b>14,421</b>	<b>14,796</b>

The Notes to the Financial Statements form part of these financial statements

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### 1. General information

Neptune Investment Management Limited ("the Company") and its subsidiaries (together "the Group") are investment managers and the Company has been authorised and regulated by the Financial Services Authority since 19 April 2005

The Company is a limited liability company incorporated and domiciled in the United Kingdom. The address of its registered office is

Lion House  
Red Lion Street  
London WC1R 4GB

### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.1 Basis of preparation

The consolidated financial statements of Neptune Investment Management Limited have been prepared in accordance with those International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective or issued and early adopted as at the time of preparing these financial statements (March 2011).

The financial statements have been prepared under the historical cost convention. The functional currency for the Group is considered to be Pounds Sterling.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has decided not to early adopt them. The directors do not anticipate that the adoption of these standards and interpretations would have a material impact on the financial statements in the period of initial application although there will be revised and additional disclosures. The Group plans to apply these standards in the reporting period in which they become effective. The new standards and interpretations include

Not yet endorsed

- IFRS 9 – Financial Assets (*effective beginning on or after 1 January 2013*)

Endorsed and available for early adoption

- IFRIC 14 amendment – Prepayments of a Minimum Funding Requirement (*effective beginning on or after 1 January 2011*)
- IAS 24 revised – Related Party Disclosures (*effective beginning on or after 1 January 2011*)
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (*effective beginning on or after 1 January 2011*)

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### 2.2 Consolidation

#### *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.3 Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Plant and machinery 3 years
- Office equipment 4 years
- Leasehold property over the period of the lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2.5).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the income statement.

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### 2.4 Intangible assets

#### *Management licences*

Acquired management licences are shown at historical cost. Trademarks and licences have an indefinite useful life and are tested annually for impairment and carried at cost less accumulated impairment losses.

### 2.5 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.6 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### 2.8 Share capital

Ordinary shares are classified as equity.

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

Where any group company, including the Company's Employee Share Ownership Trust, purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. This deduction is effected through the Own Shares Reserve. No gain or loss is recognised in the income statement on the purchase, issue, sale or cancellation of the Company's own equity shares. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

### 2.9 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## NEPTUNE INVESTMENT MANAGEMENT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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#### **2.10 Income tax**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

#### **2.11 Employee benefits**

##### *(a) Pension obligations*

Group companies operate various pension schemes. The schemes are defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity, being publicly or privately administered pension insurance plans, on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### *(b) Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised, except where the exercise is fulfilled by shares owned by the Company's Employee Share Ownership Trust (see notes 18 and 19).



# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### 2.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.13 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities. Revenue is shown net of VAT and trade discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### *(a) Sales of services*

The Group receives fees based on a percentage of the funds under management.

#### *(b) Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### 2.14 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 3. Financial risk management

The Group uses financial instruments, other than derivatives, comprising cash, liquid resources and various items such as sundry debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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The main risks arising from the Group's financial instruments are liquidity risk and currency risk. The Group is exposed to no material credit risk. The Group's fee income, commission income and the majority of its cost of sales are all affected directly by the value of the Group's funds under management at the start of each month and are exposed to market risk accordingly. The directors review and agree policies for managing these risks and these are summarised below. Short-term debtors and creditors have been excluded from all the following disclosures.

### *(a) Liquidity risk*

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. This is achieved by placing surplus funds on deposit as and when the Directors deem appropriate.

### *(b) Currency risk*

The Group is exposed to an insignificant amount of transaction related foreign exchange risk. The Company's cash reserves are held in the UK in Sterling. Foreign exchange risk is not mitigated.

### *(c) Fair values*

The fair values of the Group's financial instruments are considered to be equal to their book value.

### *(d) Borrowing facilities and interest rate risk*

The Group has cash reserves that are sufficient to finance its trading operations for the foreseeable future. It has a specific borrowing facility to finance acquisitions. Interest rate risk on this facility is not hedged but, in the opinion of the directors, the resulting exposure is not material to the Group.

### *(e) Market risk*

The directors review the market risk applicable to the Group on a monthly basis, by considering the likelihood of market falls across the Group's funds under management and its consequent effect on the Group's profitability, net assets and capital adequacy. The Group's policy is to take out a suitably protective hedging instrument in the event that the directors believe such cover to be appropriate and worthwhile in all the circumstances. No such hedging instruments were purchased during 2010 (2009: none). The likely direct impact on the Group's profit after tax of a 5% downward movement in the average monthly value of funds held under management throughout the year amounts to £1,753,000 (2009: £1,103,000).

## **4. Critical accounting estimates and judgments**

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

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 4.1 Critical accounting estimates and assumptions

#### *(a) Estimate of consideration for management contracts*

The deferred consideration on management contracts is the total due as calculated by reference to the directors' best estimate of the balance of funds remaining under the relevant contracts one, two and three years after completion. As at 31 December 2010 there was no estimated deferred consideration (2009 £97,000, all of which was due within one year and was included within current trade and other payables)

### 5. Segment information

The business operates in the Investment Management industry within the United Kingdom

### 6. Revenue

	<b>Group 2010 £000</b>	<b>Company 2010 £000</b>	<b>Group 2009 £000</b>	<b>Company 2009 £000</b>
Fee income	79,428	79,428	49,161	49,161
Commission income	496	496	600	600
Miscellaneous income	1,033	1,033	695	695
	<u>80,957</u>	<u>80,957</u>	<u>50,456</u>	<u>50,456</u>
Interest income	-	-	18	17
	<u>-</u>	<u>-</u>	<u>18</u>	<u>17</u>
<b>Total revenue</b>	<u><b>80,957</b></u>	<u><b>80,957</b></u>	<u><b>50,474</b></u>	<u><b>50,473</b></u>

### 7. Profit before income tax

The profit before income tax is made up of the following significant items

	<b>Group 2010 £000</b>	<b>Company 2010 £000</b>	<b>Group 2009 £000</b>	<b>Company 2009 £000</b>
Depreciation and amortisation	526	526	167	167
Auditors' remuneration				
- audit services				
current year	28	27	20	19
prior year under-provision	3	3	-	-
AAF 01/06 audit	25	25	-	-
- tax services	7	7	12	12
- other advisory services	4	4	5	5
Operating lease costs				
- plant and equipment	42	42	39	39
- other	591	591	765	765
FSCS levy	1,452	1,452	-	-

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 8. Employees

	2010 Number	2009 Number
The average monthly number of persons (including directors) employed by the Group during the year was		
Management and administration and operations	92	69
	<u>£000</u>	<u>£000</u>
<b>Staff costs (for the above persons):</b>		
Wages and salaries	14,329	10,233
Pension contributions	402	349
Share options granted to directors and employees (see note 19)	1,056	919
Social security costs	1,763	1,268
	<u>17,550</u>	<u>12,769</u>

The aggregate remuneration paid to or accrued in respect of directors during the year is as follows

	2010 £000	2009 £000
Salaries, fees, bonuses and other short-term employee benefits	6,098	3,176
Pension contributions (see below)	174	171
Share-based payments	-	-
	<u>6,272</u>	<u>3,347</u>

Retirement benefits under money purchase pension schemes are accruing to four directors (2009 four) Directors' emoluments disclosed include the following amounts paid to the highest paid director, who did not exercise any share options during the year (2009 none)

	2010 £000	2009 £000
Salaries, allowances and other short-term benefits	4,731	2,032
Pension contributions	119	119
Share-based payments	-	-
	<u>4,850</u>	<u>2,151</u>

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 9. Income tax expense

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
<b>Current taxation</b>				
UK Corporation tax at 28% (2009 28%)	2,524	2,484	1,900	1,862
Prior year adjustments	3	1	-	-
	<u>2,527</u>	<u>2,485</u>	<u>1,900</u>	<u>1,862</u>
Deferred tax (see note 17)	27	27	2	2
	<u>2,554</u>	<u>2,512</u>	<u>1,902</u>	<u>1,864</u>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities. The differences are explained below:

Profit before tax	<u>11,066</u>	<u>6,041</u>	<u>6,541</u>	<u>6,058</u>
Profit on ordinary activities multiplied by the standard rate of tax of 28%	3,098	1,691	1,831	1,696
Expenses not deductible	50	50	41	48
(Deficit)/excess of depreciation over capital allowances	(24)	(24)	13	13
ESOT contributions and share options expense	296	1,662	252	343
Share option exercises	(893)	(893)	(236)	(236)
Prior year adjustment	3	1	-	-
Other tax adjustments	(3)	(2)	(1)	(2)
<b>Current year tax charge</b>	<u>2,527</u>	<u>2,485</u>	<u>1,900</u>	<u>1,862</u>

### 10. Dividends

During the year total dividends of 20p per share (2009 33p per share) were paid, absorbing £1 473 million (2009 £2 469 million) and leaving a profit for the year of £7 039 million (2009 £2 170 million) to be transferred to reserves. Included in the above dividend payments was £0 951 million (2009 £1 750 million) that was paid to shareholders who are also directors of the Company.

A final dividend of 35p per share was declared on 31 January 2011 and paid on 8 February 2011, absorbing £2 581 million of profit in the current year.

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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### 11. Intangible assets

	Group £000	Company £000
At 1 January 2009		
Cost	752	-
Net book amount	752	-
Year ended 31 December 2009		
Opening and closing net book amount	752	-
At 31 December 2009		
Cost	752	-
Net book amount	752	-
Year ended 31 December 2010		
Opening and closing net book amount	752	-
At 31 December 2010		
Cost	752	-
Accumulated impairment	-	-
Net book amount	752	-

These intangible assets have arisen from the purchase of the right to act as investment advisers on various funds, including associated costs and deferred consideration

This right has no finite life and the income generated from these funds continues, such that, in the opinion of the directors, there has been no impairment since the original purchase. The market value of these intangible assets is assessed as a percentage of the value of the funds

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 12. Property, plant and equipment

	Group £000	Company £000
At 1 January 2009		
Cost	582	582
Accumulated depreciation & impairment	(299)	(299)
Net book amount	283	283
Year ended 31 December 2009		
Opening net book amount	283	283
Additions	445	445
Disposals	-	-
Depreciation charge	(167)	(167)
Closing net book amount	561	561
At 31 December 2009		
Cost	1,027	1,027
Accumulated depreciation & impairment	(466)	(466)
Net book amount	561	561
Year ended 31 December 2010		
Opening net book amount	561	561
Additions	2,127	2,127
Disposals	-	-
Depreciation charge	(526)	(526)
Closing net book amount	2,162	2,162
At 31 December 2010		
Cost	3,154	3,154
Accumulated depreciation & impairment	(992)	(992)
Net book amount	2,162	2,162

### 13. Investment in subsidiary

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Investment in subsidiary	-	1	-	1

The Company owns 100% of the ordinary share capital of Neptune Investment Contracts Limited, another investment management business. The profit for the year in that company's accounts was £134,000 (2009 £134,000) and the value of its share capital and reserves at 31 December 2010 was £570,000 (2009 £436,000).

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

### 14. Trade and other receivables

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
Trade receivables	212	212	68	68
Other receivables	878	878	121	121
Prepayments & accrued income	10,214	10,214	7,565	7,565
	<u>11,304</u>	<u>11,304</u>	<u>7,754</u>	<u>7,754</u>

The directors estimate that the carrying amount of trade and other receivables approximates to their fair value

### 15. Available-for-sale financial assets

The available-for-sale financial assets are shares in the Neptune SICAV funds, which were launched in December 2007 and which are authorised and regulated by the CSSF in Luxembourg. The units are denominated in Euro and held in share register form. The sterling equivalent value of these units at 31 March 2011 was not significantly different to cost, which is the value at which the units are stated in the balance sheet.

There was one disposal and no impairment provisions on available-for-sale financial assets during the year under review (2009: none).

### 16. Trade and other payables

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
<b>Current</b>				
Trade creditors	1,732	1,728	828	826
Corporation tax	713	677	770	732
Other taxes and social security	357	357	268	268
Accruals and deferred income	18,287	18,286	11,976	11,975
Other creditors	292	292	4	3
Amount due to subsidiary undertaking (see below)	-	202	-	235
Deferred consideration on management contracts	-	-	97	-
	<u>21,381</u>	<u>21,542</u>	<u>13,943</u>	<u>14,039</u>



# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

	Group 2010 £000	Company 2010 £000	Group 2009 £000	Company 2009 £000
<b>Non-current</b>				
Provision for deferred tax (see note 17)	35	35	8	8
	<u>35</u>	<u>35</u>	<u>8</u>	<u>8</u>

All the above current liabilities are due within one year

The amount due to the subsidiary undertaking consists of an intercompany loan which is used as an operating account by the subsidiary. Most payments are made from the parent company and transferred through the intercompany loan to the subsidiary. This loan does not incur interest, does not have a set repayment schedule and is repayable on demand.

Deferred consideration on management contracts is the total due as calculated by reference to the directors' best estimate of the balance of funds remaining under the relevant contracts one, two and three years after completion. At the balance sheet date there is no estimated deferred consideration included within current trade and other payables (2009 total of £97,000, all of which was due within one year).

### 17. Deferred tax

Group and Company	Accelerated tax allowances £000	Other timing differences £000	Total £000
At 1 January 2009	6	-	6
Income statement	<u>2</u>	<u>-</u>	<u>2</u>
At 31 December 2009	8	-	8
Income statement	<u>54</u>	<u>(27)</u>	<u>27</u>
At 31 December 2010	<u>62</u>	<u>(27)</u>	<u>35</u>

### 18. Share capital

	Number of shares	Issued Capital £000	Share Premium £000	Total £000
At 1 January 2009 and 31 December 2009	7,535,245	75	2,209	2,284
At 1 January 2010 and 31 December 2010	<u>7,535,245</u>	<u>75</u>	<u>2,209</u>	<u>2,284</u>

## NEPTUNE INVESTMENT MANAGEMENT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The total authorised number of ordinary shares is 10,000,000 shares (2009 10,000,000 shares) with a par value of 1p per share. All issued shares are fully paid. No new ordinary shares were issued during the year.

During the year the Company has made contributions to The Neptune Employee Share Ownership Trust ("the Trust"), which have been utilised to enable the Trust to purchase shares from shareholders who wish to sell, at a price negotiated between the parties. As authorised by the directors of the Company, the Trust has also sold shares to employees, either at market value or in order to fulfil the exercising of share options.

The accounts of the Trust are consolidated and the net book cost and carrying value of shares owned at the balance sheet date is debited to the Own Shares Reserve, as shown in the Statement of Changes in Equity on page 17. The carrying value of these shares as at 31 December 2010 was £2,516,000, equating to an average purchase price of £19.35 per share. These transactions are summarised in the table below.

Group	Number of shares	Carrying value of shares £000
At 1 January 2010	44,901	1,298
Purchase costs less sale proceeds	85,094	4,916
Losses arising from shares sold by the Trust on the exercise of share options by employees		(3,698)
<b>Closing net book amount</b>	<b>129,995</b>	<b>2,516</b>

On 15 February 2010 an offer was made to all shareholders by the Trust for the Trust to purchase up to 1.5% of shareholdings at a price of £20 per share. The total acceptance of this offer was 95.6%, amounting to £2.161 million, which has been absorbed within reserves in the year.

Since the balance sheet date a further offer was made by the Trust of up to 3% of shareholdings, also at £20 per share. The total acceptance of that offer was 93.8%, amounting to 211,998 shares at a cost of £4.240 million, which will be absorbed within reserves during the current financial year.

#### 19. Share Options

Share Option Reserve	Group £000	Company £000
At 1 January 2009	1,638	1,638
Share options expense (see below)	919	919
At 31 December 2009	2,557	2,557
Share options expense (see below)	1,056	1,056
Transfer to Retained Earnings (see below)	(270)	(270)
<b>At 31 December 2010</b>	<b>3,343</b>	<b>3,343</b>

## NEPTUNE INVESTMENT MANAGEMENT LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The fair value of share options that have been exercised as at 31 December 2010 has been transferred out of the Share Option Reserve into Retained Earnings, as shown in the Statement of Changes in Equity on page 17

The share options expense is calculated using the Black-Scholes options valuation model. Key assumptions used in the Black-Scholes calculations as at 31 December 2010, relating to options granted during the year, were as follows

Expected share price volatility (based on similar listed small cap fund managers)	32.95%
Risk free rate	2.21%
Likelihood of exercise of options	80.0%
Market value of each share	£20.00
Dividend yield	1.00%
Assumed life of options before exercise	5 years

Under the Company's share option schemes, a total of 1,616,500 options over ordinary 1p shares in the Company have been granted to certain employees, as at 31 March 2011, and have not lapsed or been exercised or surrendered. The terms of these grants are as follows

Number of shares	Exercise price	Earliest exercisable date	Date of expiry
111,250	160p	21 February 2011	21 February 2016
25,000	160p	27 April 2011	27 April 2016
577,750	160p	30 June 2011	30 June 2016
25,000	220p	17 December 2011	17 December 2016
115,000	220p	15 January 2012	15 January 2017
25,000	220p	18 May 2012	18 May 2017
10,000	220p	25 May 2012	25 May 2017
15,000	£12.00	30 November 2012	30 November 2017
123,000	£12.00	31 January 2013	31 January 2018
333,000	£12.00	31 March 2013	31 March 2018
14,500	£15.00	15 August 2013	15 August 2018
25,000	£15.00	23 January 2014	23 January 2019
5,000	£15.00	2 May 2014	2 May 2019
43,500	£15.00	31 July 2014	31 July 2019
22,000	£20.00	2 November 2014	2 November 2019
31,000	£20.00	25 January 2015	25 January 2020
6,000	£20.00	30 March 2015	30 March 2020
20,000	£20.00	06 April 2015	06 April 2020
4,000	£20.00	05 July 2015	05 July 2020
45,500	£20.00	01 October 2015	01 October 2020
13,000	£20.00	01 December 2015	01 December 2020
27,000	£20.00	05 February 2016	05 February 2021

# NEPTUNE INVESTMENT MANAGEMENT LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following table gives further information in respect of the Company's share options that were

	Number of share options	Weighted average exercise price
Outstanding at 1 January 2010	1,918,000	£5 10
Exercised during the year	(170,000)	£1 25
Granted during the year	121,500	£20 00
Forfeited during the year	(3,500)	£12 86
<b>Outstanding at 31 December 2010</b>	<b>1,866,000</b>	<b>£6.41</b>
Exercisable at 31 December 2010	62,000	£1 25

The weighted average remaining (minimum) contractual life of share options outstanding at 31 December 2010 was 1.37 years (2009 2.00 years)

### 20. Commitments

#### *Operating lease commitments – group company as lessee*

The Group has a non-cancellable operating lease agreement for the head office premises. The earliest possible termination date is 4 December 2015.

The future aggregate minimum lease payments under this and other non-cancellable operating leases are as follows:

	Land & buildings 2010 £000	Plant & equipment 2010 £000	Land & buildings 2009 £000	Plant & equipment 2009 £000
Not later than 1 year	-	7	356	-
Later than 1 year and no later than 5 years	1,897	30	-	80
Later than 5 years	-	-	2,022	-
	<b>1,897</b>	<b>37</b>	<b>2,378</b>	<b>80</b>

### 21. Related party transactions

In the opinion of the directors, there was no ultimate controlling party as at 31 December 2010.

There were no transactions carried out with related parties during the year.