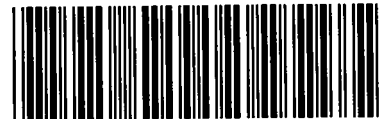


Company no. 4341768

NEPTUNE INVESTMENT MANAGEMENT LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2013

FRIDAY



A34

A3G92UAO

12/09/2014

#109

COMPANIES HOUSE

NEPTUNE INVESTMENT MANAGEMENT LIMITED

CONTENTS

	Page
Company information	1
Chairman's statement	2
Strategic report	4
Directors' report	11
Statement of Directors' responsibilities	13
Independent Auditors' report	14
Statements of comprehensive income	16
Balance sheets	17
Statement of changes in equity	18
Cash flow statements	19
Notes to the financial statements	20

NEPTUNE INVESTMENT MANAGEMENT LIMITED

COMPANY INFORMATION

Directors	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 J N Cripps	(Non-executive)
	R H Green	(Deputy Managing Director)
	R M Pickering	(Non-executive)
	S M Southall	(Non-executive)
	R H Warner	(Finance Director)

Company Secretary R H Warner

Company number 4341768

Registered office Lion House
Red Lion Street
London
WC1R 4GB

Auditors Saffery Champness
Lion House
Red Lion Street
London
WC1R 4GB

Bankers HSBC
21 King's Mall
King Street
Hammersmith
London
W6 0QF

Solicitors Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Macfarlanes LLP
20 Cursitor Street
London
EC4A 1LT

NEPTUNE INVESTMENT MANAGEMENT LIMITED

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

Introduction and overview

Neptune's centralised investment process, driven by its own global sectoral proprietary research, enables it to construct high conviction active equity-based portfolios that have generated long-term outperformance. However, the last two years have seen significant headwinds. First, the abnormally loose monetary policy of central banks, in response to the financial crisis, has seen flows of risk capital into bonds and largely out of equities. Secondly, this trend has run in parallel with flows out of emerging markets and into developed markets. Neptune is much more internationally positioned than most of its UK-centric competitors and this strategic strength has had a short-term negative impact, exacerbated by the current overvaluation of sterling. This macroeconomic turbulence has resulted in a decline in Neptune's assets under management and is a setback to what remains a robustly healthy and profitable business. Against this background, we ended the year with assets under management ("AUM") 7.8% lower at £5.4 billion.

Results and dividends

The audited accounts of the Group, being the Company and its subsidiary, for the year ended 31 December 2013, show a profit before tax of £7.410 million (2012: £12.768 million), on turnover of £72.990 million (2012: £85.093 million). The tax charge for the year is £2.087 million (2012: £2.408 million), leaving a profit after tax of £5.323 million (2012: £10.360 million).

During the year total dividends of 90p per share were paid (2012: 90p per share), absorbing £6.545 million (2012: £6.720 million) and leaving a retained loss for the year of £1.222 million (2012: profit of £3.640 million) to be funded from (2012: transferred to) reserves.

Further details on the accounts and the year's trading are given in the Strategic Report on pages 4 to 10.

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 £23.367 million (2012: £29.189 million). The Company's regulatory capital adequacy remains comfortably in surplus and is reviewed by the Board on a monthly basis.

Personnel

Neptune prides itself on providing a working environment that offers a level of professional and personal development, which attracts and retains high quality staff, working within a team framework. In the current economic climate, it is particularly gratifying to see this enthusiasm and commitment undimmed and, on behalf of the Board, I should like to thank all our staff for their efforts throughout the last financial year.

In November we were delighted to welcome James Cripps to the Board as a fifth non-executive. James has been known to Neptune for many years, during which time he has provided a wide range of legal and commercial advice, including on the Company's launch. I believe that the knowledge and experience he has gained during his impressive career will be complementary to the skills of the existing directors and continue to be invaluable to Neptune and its clients.

Share capital

No new shares were issued during the year.

**CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013**

Future strategy and prospects

The cyclical nature of the macroeconomic background means that we can now see that the headwinds referred to above are beginning to reverse. Significant flows into bonds have stopped and we are seeing net investment into equities for the first time in over a decade. Emerging Markets equities are at a ten year low compared to Developed Markets and this trend is due to reverse. In addition, our Chief Economist expects Sterling to weaken against the US dollar.

The Board expects Neptune to be a significant beneficiary of these reversals and has prepared the Group to take advantage of them through continued expansion of our investment team, an operating platform with significant capacity for growth and sustained marketing investment. All of this points to a steady recovery in growth and profitability over the next few years and we look forward to this with increasing confidence.

J D Punter
Chairman
25 April 2014

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

The directors present their strategic report for the year ended 31 December 2013.

Financial

Group revenue for the year fell by 14% to £72.990 million (2012: £85.093 million) as a result of the lower average AUM over the year as a whole, with gross sales and positive market movements being outweighed by gross redemptions. The direct costs of sales, which include fund administration and accounting charges, rebates and commissions payable to third parties, totalled £35.582 million (2012: £39.452 million), with the resulting gross profit down 18% to £37.408 million (2012: £45.641 million). The gross profit margin continued this trend being at 51.3% (2012: 53.6%). The table below provides a summary and further analysis of the key performance indicators:

<i>Analysis of gross profit</i>	2013	2012
AUM at end of year (£million)	5,378	5,835
Average month end AUM (£million)	5,627	6,175
Fee income margin (basis points)	128	133
Retained, post rebate and commission, fee income margin (basis points)	74	78
Average FTSE 100	6,422	5,743
	<hr/>	<hr/>
	£000	£000
Fee income (from management fees)	71,688	82,942
Other income (excluding interest)	1,302	2,151
Revenue (per statement of comprehensive income)	72,990	85,093
Cost of sales	(35,582)	(39,452)
Gross profit	37,408	45,641
	<hr/>	<hr/>
Gross profit margin	51.3%	53.6%

Operating expenditure in total was lower than last year at £30.091 million (2012: £33.014 million). However, during 2012, the Group recognised exceptional income of £1.207 million in relation to a refund received from the Financial Services Compensation Scheme ("FSCS") against a levy that was recognised as an exceptional charge in 2010. If this 2012 FSCS credit and the share option charges in both years are excluded from the comparison, administrative expenses, as shown in the Statement of Comprehensive Income on page 15, have fallen by 13.1% to £28.965 million (2012: £33.330 million).

Staff costs in total fell by 16.5% to £15.094 million (2012: £18.079 million), reflecting a lower level of bonuses and accounting for 50.2% of total administrative costs (2012: 52.8% excluding the FSCS credit). The slight rise in fixed staff costs (from £8.712 million to £9.240 million) reflects the Board's decision to continue a prudent strategy of investment in people, whilst some savings have been achieved across other costs.

The tax expense for the year was £2.087 million (2012: £2.408 million). The higher effective rate of 28% (2012: 19%) is mostly as a result of the disallowable cost of the share option expense exceeding the beneficial tax treatment of the exercise of share options during the year (see note 9). The table below provides a summary and further analysis of the operating profit:

NEPTUNE INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

<i>Analysis of operating profit</i>	2013 £000	2012 £000
Gross profit	37,408	45,641
Fixed costs - Staff	9,240	8,712
Other	14,997	16,142
	24,237	24,854
Variable staff costs	4,728	8,476
Share option charge	1,126	891
FSCS levy refund	-	(1,207)
Total operating expenditure	30,091	33,014
Operating profit	7,317	12,627
<i>Business ratios</i>		
Operating margin (against total revenue)	10.0%	14.8%
Operating margin (excluding FSCS levy refund in 2012)	10.0%	13.4%
Staff costs / gross profit	40.3%	39.6%
Variable staff costs / operating profit pre-FSCS levy refund and variable staff costs	39.3%	42.6%

Principal risks and uncertainties

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.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

(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 no borrowing facilities and interest rate risk is consequently 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 2013 (2012: 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 £1,607,000 (2012: £1,861,000).

Investment

2013 was a year when our long-held positive view on the global economy began to be appreciated by the markets. With the US continuing to show firm signs of recovery, the Chinese economy demonstrating improved stability and European debt crises largely absent from market conversation, investors appeared to turn more optimistic about global growth prospects. James Dowey, Chief Economist, and Paul Caruana-Galizia were instrumental in helping us focus on these improving fundamentals and to see through the intermittent market noise – an invaluable contribution in a year when those with less conviction failed to fully participate in one of the strongest years on record for equity markets.

This commitment to the underlying fundamentals was reflected across the fund range, where we saw a number of significant outperformances against a background of rising markets. Chris Taylor, whose insight as Head of Research is central to the performance of the entire team, was once again well-rewarded: his Japan Opportunities Fund recorded a gain of 50.7% – more than double the TOPIX Index's rise of 24.7%. The Fund finished the year ranked 2nd out of 49 competitors in the IMA Japan sector, notable outperformance on the back of a very strong 2012 when it was ranked 1st in the peer group.

In the US, the S&P 500 Index gained 29.9% in its strongest year since 1997. Felix Wintle's US Opportunities Fund significantly outperformed this with a gain of 36.9%, ending 2013 ranked in the top decile of the IMA North America sector. After a challenging first quarter, when the market digested the last of Eurozone concerns, the European Opportunities Fund also enjoyed success. Benefiting from Rob Burnett's thorough analysis of the financials sector, the Fund outperformed the Index and peer group in the last three quarters of 2013 – outperformance which has continued strongly into 2014 and has since seen the Fund climb to the top of its peer group.

Closer to home, our UK growth funds continued to build on their excellent track records. Scott MacLennan took sole management of the UK Opportunities Fund (newly named following the merger of the UK Equity and UK Special Situations funds) in April and finished the year in the top quartile of the highly competitive UK All Companies sector. The consistency of the Fund's outperformance saw it ranked in the top quartile of the peer group on a 1, 3, 5 and 7 year basis, as well as since inception. In December, Mark Martin's UK Mid Cap celebrated its fifth anniversary with a fifth consecutive year of peer group outperformance – a remarkable track record that we look forward to Mark continuing to build on. Reflecting this success and his outstanding contribution to the Investment Team, Mark was recently promoted to Investment Director.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

Since Neptune's launch in 2002, we have focused consistently on nurturing home-grown talent and it is particularly gratifying to watch the next generation of fund managers emerge. Notably, Ian Sealey, having taken full responsibility for the Cautious Managed and Defensive Managed funds in January 2013, completed his first year as a manager ranked in the top quartile of the respective funds' IMA peer groups. In the post Retail Distribution Review ("RDR") environment, amidst a growing focus on risk profiles, we fully expect these managed funds will become increasingly important products, offering investors a variety of ways to meet their different investment requirements, whilst providing crucial exposure to important equity markets.

Leveraging our regional research, a number of our global funds also enjoyed strong performance in 2013. The Neptune Balanced Fund, which recently celebrated its 15th anniversary, outperformed its peer group, retaining the top position in the IMA sector since inception in 1998. Launched in 2001, the Neptune Global Alpha Fund completed the year in the top decile of its sector – a position that it holds in 8 out of 12 calendar years since its inception. The longevity and track records of these funds is testament to the robust investment process that has always formed Neptune's core and the quality of the research output of the entire investment team.

During 2013 we continued to bolster our research capabilities through the addition of talented young analysts across a number of industry sectors. It is this central team-based sector process that I believe is at the heart of Neptune. Last year, we were delighted to be named Fund Group of the Decade (2003-2013) by consumer personal finance publication *What Investment* and I strongly believe that it is the depth and breadth of the Neptune team that will continue to differentiate us over the next ten years.

Awards

We added further awards to our name in 2013 and I take great pride in listing these below at both a company and individual level:

What Investment Fund Group of the Decade Award

Neptune named Fund Group of the Decade (2003-2013) by *What Investment*.

Global Investor/ISF Awards 2013

Neptune wins the American Equities Manager of the Year category.

Professional Adviser Awards 2013

Mark Martin named Best Fund Manager over One Year with the Neptune UK Mid Cap Fund.

Sales

Following the challenges of recent years, when equities were shunned in favour of fixed income and perceived safe havens, 2013 witnessed the beginnings of the reversal of this trend. More positive on the outlook for global growth, investors began to increase their exposure to equities from April and, in the UK, equity funds saw their highest net sales since 2000. This, we believe, is just the start of the "great rotation": with bonds seeing global inflows of \$1.3 trillion since 2007, there is a long way to go yet.

**STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

Against this improving background, the Sales Team, under Patrick Berton's leadership, was able to make good progress and it was pleasing to see that Neptune's gross sales were 6% higher than in 2012. I know that this is in no small part down to the relationships that members of the team have forged in the UK intermediated market, which remains at the core of the Neptune client base. Unfortunately, these efforts were more than outweighed by the increased volume of redemptions, which rose markedly as funds flowed out of Emerging Market equities.

Patrick, in tandem with Adam Hughes, continued to penetrate the wealth management industry and build relationships with some of the big names in this space. In 2012, a key focus for the team was to build traction in the marketplace for some of our smaller, less well-known funds and the groundwork that had been laid continued to pay dividends last year: the UK Mid Cap Fund recorded net sales in excess of £73m, more than doubling in size for the second consecutive year. Whilst many emerging market products suffered from poor sentiment and a general asset allocation shift towards developed regions, the Greater China Income, Africa and Latin America funds saw net sales (as a percentage of assets under management) of +50%, +25% and +8%, respectively. I have no doubt that this success is down to the relationships built in the marketplace over recent years – and the quality of the products – which together saw these emerging products continue to gain market share.

Alongside this, considerable effort was placed on regaining market share for our Opportunities fund range. Having suffered from poor developed market sentiment in recent years, we saw a marked increase in appetite for our flagship Japan Opportunities, US Opportunities and European Opportunities funds. Most notable in this space was the Japan Opportunities Fund which recorded net sales of £115m, with assets under management growing in excess of 170% across the course of the year. Whilst the US Opportunities and European Opportunities recorded aggregated net outflows for the year as whole, this decreased considerably as the year progressed and by the end of 2013 we were recording net inflows for these key products.

During the course of the year, we continued to build on our international strategy. In Europe, we retained our focus on Switzerland and the Benelux countries, whilst remaining opportunistic in the other jurisdictions in which we are registered. On the Institutional side, Ian Harvey's team worked hard retaining assets and servicing existing clients, whilst assuming responsibility for the important Family Office business.

As the year progressed and the wider implications of RDR began to unfold, there was a considerable amount of operational work undertaken by Justin Ralph and his Client Services and Product Management team. Working closely with fund distributors and key strategic partners, share class reviews were undertaken, distribution channels widened and appropriate groundwork laid, positioning Neptune for the ongoing environment of increasing regulation and more competitive distribution in 2014. The highlight of the year was linking with Standard Life, with whom we are one of only twelve partner groups.

This important work was complemented by the sales support arm of the team, which provided essential backup to the sales process. Our CRM systems continued to develop and, well supported by Marketing, the team is now able to provide even more in-depth management information and commentary on funds.

Marketing

In 2013 we continued with our new advertising style initiated in 2012. Designed to communicate our independent investment thinking in an engaging manner, campaign work included advertising our equity income fund range and promoting our UK growth portfolios, including a specific focus on the UK Mid Cap Fund in the lead-up to its fifth anniversary. Extending the image and theme-led advertising style, we launched the Neptune Big Ideas website as a portal for our wealth of investment commentary and opinion. The site, which launched in July with both consumer and financial adviser pages, seeks to further highlight our high conviction, active management approach.

NEPTUNE INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The launch of the Big Ideas site was part of a drive during the year to enhance our digital content marketing activity. In particular, improvements were made to the effectiveness of our email communications. By increasing our email output and growing our contact list, we raised the number of emails received by our professional client base by 63.7% over the course of the year. Pleasingly, we also witnessed greater engagement with the content distributed: more emails were opened and we saw a significant uptick in traffic to our website from these communications (up 126% from the previous year).

Allied to our advertising initiatives, our PR strategy focused on promoting the UK Mid Cap Fund as well as the range of Opportunities funds ahead of a 2014 campaign. Particular emphasis was placed on building relationships with national and trade press journalists and developing the profiles of established fund managers: Chris Taylor, Felix Wintle, Rob Burnett and Mark Martin all featured prominently in the trade and national publications. We also continued to build the profiles of our next generation of fund manager talent, with Thomas Smith and Scott MacLennan being increasingly referenced across multiple publications.

Our existing sponsorship commitments continued through 2013, especially our relationships with the National Theatre (NT), the Neptune City Sevens Rugby Tournament (with all profits going to Child Bereavement UK), British Horse Racing, the Tennis & Rackets Association and selected sporting clubs and societies at Oxford University. All of our educational, cultural and sporting partnerships celebrate dynamism, conviction and teamwork, while promoting the nurturing of raw talent. As the NT's Shed Partner, we supported the encouragement of a new, younger generation to the Shed with a series of topical, avant-garde and more youth-focused plays, featuring emerging writers and directors. Our partnership with the NT also includes an Outreach Project for five schools in the Hammersmith & Fulham borough, thereby strengthening our links with the local community.

A key part of the Marketing Team's work is planning and delivering events, supporting the Sales Team's activities. 2013 once again proved to be an exceptionally busy year on this front. From fund manager web conferences and regional roadshows to national conferences, there was rarely a week when we were not participating in an event. A particular highlight was the annual Neptune Conference. Now in its sixth year, this event is critical in showcasing Neptune, offering clients in-depth access to our investment views alongside comprehensive product information. Exceptionally well received by our clients, the Conference not only demonstrated the breadth of Neptune's investment talent, but once again highlighted our dynamic and team-based culture that is so central to the brand. At the end of the year, we hosted our annual Wholesale Update at Twickenham Stadium, which was also very well received. With over 330 delegates, the planning and logistics for the day represented no small feat and the event was a fitting end to a successful year.

Maintaining a high profile among investors, particularly in the UK Wholesale market, is vital to achieving the success we aspire to and significant investment into our marketing strategy will continue in 2014. The improvements we have enjoyed in the marketing arena, particularly in developing the brand and boosting our communications output, is something for which we should thank Alasdair Johnson and his team.

Finance and administration

Robert Smith joined us in October as Deputy Finance Director and Head of Operational Risk. Robert reports to Robert Warner, Finance Director, who, with Richard Green, Deputy Managing Director, together direct all our operations. Iain Jee, Head of Operations, manages all our major projects, including those linked to regulatory changes. Neal Gilbert continues to run our Fund Administration team, liaising with our external fund accountants and custodians. Nick Clary was promoted to head up our Investment Middle Office that interfaces with the Investment team and its dealing transactions. Pritie Sharma continues to lead our Investor Services team and manage the relationship with our transfer agents. All these operational teams have managed the increased volume of transactions

NEPTUNE INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

and regulatory flux with professional calm and efficiency, always under the vigilant monitoring and guidance of our compliance function, headed by Karen Barker. Excluding the recently-appointed Robert Smith, the above directors and heads of departments have an average Neptune tenure of over seven years, which gives me the comfort of knowing that, operationally, Neptune is in safe hands, so that I can continue to concentrate on our clients and the way we manage their money.

Summary

Neptune is in a strong position to exploit an upturn in demand for our core product: high conviction, actively managed equity funds. The last two years have been testing and demanding, but we expect a more positive forthcoming global macroeconomic environment. We are confident of the ability of our investment philosophy and process to deliver value over the longer term and, as a Board, are optimistic about Neptune's prospects.



R J H Geffen
Chief Executive Officer
25 April 2014

NEPTUNE INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present their report and the audited financial statements for the year ended 31 December 2013. The Company's registration number is 4341768.

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 Conduct Authority (formerly the Financial Services Authority).

Results and dividends

The Group results for the year are set out in the Statements of comprehensive income on page 15.

During the year total dividends of 90p per share (2012: 90p per share) were paid, absorbing £6.545 million (2012: £6.720 million) and leaving a retained loss for the year of £1.222 million (2012: profit of £3.640 million) to be funded from (2012: 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 Strategic Report on pages 4 to 10.

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 J N Cripps (appointed 1 November 2013)
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.

Political and charitable contributions

The Company made charitable contributions during the year of £2,312 (2012: £17,666).

NEPTUNE INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

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.

Options under the Company's Enterprise Management Incentive Scheme over a total of 31,072 new Ordinary Shares (representing 0.4% of the current issued share capital of the Company) have been granted and had not lapsed as at 31 March 2014. Options under the Company's Unapproved Share Option Scheme over a total of 1,247,329 ordinary shares (representing 16.6% of the current issued share capital of the Company) have been granted and had not lapsed as at 31 March 2014.

The Equity Participation Plan ("EPP"), introduced in 2011, continues to be utilised in order to reward key senior executives as part of their performance-related remuneration. EPP awards are in the form of a nil-priced option to acquire ordinary shares in the Company, vesting from the third anniversary of the date of grant. As at 31 March 2014 there were 213,784 options outstanding under the EPP scheme (representing 2.8% of the current issued share capital of the Company). The awards in respect of 2013's performance and totalling £0.892 million, being options over 44,623 shares, were made on 31 January 2014 and will be accounted for in the current year's financial statements. The EPP provides that additional shares be awarded to participants, on vesting, in respect of dividends paid subsequent to the date of grant. A further 5,191 share options in this regard have been allocated to EPP participants in respect of the dividend paid on 10 February 2014.

Risk and Pillar 3

The financial risk policies of the Group are disclosed in note 3 to the financial statements. The Company's Pillar 3 disclosures can be located on the Company's website at www.neptunefunds.com.

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
25 April 2014

NEPTUNE INVESTMENT MANAGEMENT LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2013

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;
- make judgements and estimates that are reasonable and prudent;
- 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
FOR THE YEAR ENDED 31 DECEMBER 2013**

We have audited the group and parent company financial statements (the "financial statements") of Neptune Investment Management Limited for the year ended 31 December 2013 which comprise the Group and Parent Company Statements of Comprehensive Income, 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2013 and of the group's and the parent company's profit for the year then ended;
- the group financial statements have been prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.
- the financial statements have been prepared in accordance with the Companies Act 2006.

NEPTUNE INVESTMENT MANAGEMENT LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS
FOR THE YEAR ENDED 31 DECEMBER 2013**

Opinion on other matter prescribed by the Companies Act 2006

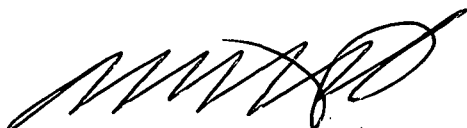
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements 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**

25 April 2014

Chartered Accountants
Statutory Auditors

Lion House
Red Lion Street
London WC1R 4GB

NEPTUNE INVESTMENT MANAGEMENT LIMITED

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

		2013		2012	
	<i>Notes</i>	Group £000	Company £000	Group £000	Company £000
Revenue	6	72,990	72,990	85,093	85,093
Cost of sales		(35,582)	(35,762)	(39,452)	(39,632)
Gross profit		37,408	37,228	45,641	45,461
Administrative expenses		(28,965)	(31,134)	(33,330)	(37,984)
Share option expense	19	(1,126)	(1,126)	(891)	(891)
FSCS levy refund	7	-	-	1,207	1,207
Operating profit	7	7,317	4,968	12,627	7,793
Finance income	6	93	93	141	141
Profit before tax		7,410	5,061	12,768	7,934
Tax expense	9	(2,087)	(1,994)	(2,408)	(2,326)
Profit and total comprehensive income for the year		5,323	3,067	10,360	5,608

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 2013

		2013		2012	
	Notes	Group £000	Company £000	Group £000	Company £000
Assets					
Non-current assets					
Intangible assets	11	752	-	752	-
Property, plant and equipment	12	993	993	1,259	1,259
Investments in subsidiaries	13	-	-	-	-
Deferred tax asset	17	-	-	40	40
		<u>1,745</u>	<u>993</u>	<u>2,051</u>	<u>1,299</u>
Current assets					
Cash and cash equivalents		23,367	23,259	29,189	29,174
Trade and other receivables	14	2,745	2,745	3,708	3,708
Available-for-sale financial assets	15	-	-	13	13
		<u>26,112</u>	<u>26,004</u>	<u>32,910</u>	<u>32,895</u>
Total assets		27,857	26,997	34,961	34,194
Liabilities					
Current liabilities					
Trade and other payables	16	<u>12,433</u>	<u>12,562</u>	<u>17,120</u>	<u>17,176</u>
Non-current liabilities					
Deferred tax liability	17	<u>6</u>	<u>6</u>	<u>-</u>	<u>-</u>
Total liabilities		12,439	12,568	17,120	17,176
Net assets		15,418	14,429	17,841	17,018
Equity					
Equity attributable to equity holders of the parent					
Share capital	18	75	75	75	75
Share premium	18	2,209	2,209	2,209	2,209
Share options reserve	19	4,720	4,720	3,875	3,875
Retained earnings		14,639	7,425	16,192	10,859
Own share reserve	18	(6,225)	-	(4,510)	-
Total equity		15,418	14,429	17,841	17,018

These financial statements were approved by the Board of Directors on 25 April 2014.

R H Green
Director



R H Warner
Director



Company Registration No. 4341768

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 2013

Group	Share Capital	Share Premium	Share Option Reserve	Retained Earnings	Own Shares Reserve	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2012	75	2,209	3,539	16,529	(4,257)	18,095
Share option expense	-	-	336	555	-	891
Transactions in own shares	-	-	-	(4,532)	(253)	(4,785)
Profit after tax	-	-	-	10,360	-	10,360
Dividends paid	-	-	-	(6,720)	-	(6,720)
Balance at 31 December 2012	75	2,209	3,875	16,192	(4,510)	17,841
Share option expense (note 19)	-	-	845	281	-	1,126
Transactions in own shares (note 18)	-	-	-	(612)	(1,715)	(2,327)
Profit after tax	-	-	-	5,323	-	5,323
Dividends paid (note 10)	-	-	-	(6,545)	-	(6,545)
Balance at 31 December 2013	75	2,209	4,720	14,639	(6,225)	15,418
Company	Share Capital	Share Premium	Share Option Reserve	Retained Earnings	Own Shares Reserve	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2012	75	2,209	3,539	11,478	-	17,301
Share option expense	-	-	336	555	-	891
Profit after tax	-	-	-	5,608	-	5,608
Dividends paid	-	-	-	(6,782)	-	(6,782)
Balance at 31 December 2012	75	2,209	3,875	10,859	-	17,018
Share option expense (note 19)	-	-	845	281	-	1,126
Profit after tax	-	-	-	3,067	-	3,067
Dividends paid	-	-	-	(6,782)	-	(6,782)
Balance at 31 December 2013	75	2,209	4,720	7,425	-	14,429

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 2013

		2013		2012	
	<i>Notes</i>	Group £000	Company £000	Group £000	Company £000
Cash flows from operating activities					
Operating profit		7,317	4,968	12,627	7,793
Depreciation of tangible fixed assets	12	602	602	646	646
Loss on disposal of tangible fixed assets		-	-	-	-
Share based payments – options	19	1,126	1,126	891	891
Other non-cash losses	15	-	-	3	3
Decrease in debtors		963	963	195	195
Corporation tax paid		(2,272)	(2,157)	(3,521)	(3,468)
Decrease in creditors		(4,457)	(4,405)	(3,558)	(3,426)
Net cash inflow from operating activities		3,279	1,097	7,283	2,634
Cash flows from investing activities					
Purchase of property, plant and equipment	12	(336)	(336)	(146)	(146)
Purchase of own shares (net)	18	(2,326)	-	(4,785)	-
Interest received		82	82	157	157
Sale of investments		24	24	-	-
Dividends paid	10	(6,545)	(6,782)	(6,720)	(6,782)
Net cash outflow from investing activities		(9,101)	(7,012)	(11,494)	(6,771)
Cash flows from financing activities					
		-	-	-	-
Net decrease in cash and cash equivalents		(5,822)	(5,915)	(4,211)	(4,137)
Cash and cash equivalents at beginning of year		29,189	29,174	33,400	33,311
Cash and cash equivalents at end of year		23,367	23,259	29,189	29,174

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 2013

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 Conduct Authority (formerly 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 2014).

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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

2.2 Standards, amendments and interpretations effective in 2013

Standards, amendments and interpretations effective in the year with no material effect on the financial statements:

- IFRS 7 Financial Instruments: Disclosures - effective for annual periods beginning on or after 1 January 2013
- IAS 1 Presentation of Financial Statements - effective for annual periods beginning on or after 1 January 2013
- IAS 16 Property, Plant and Equipment - effective for annual periods beginning on or after 1 January 2013
- IAS 19 Employee Benefits - effective for annual periods beginning on or after 1 January 2013
- IAS 32 Financial Instruments: Presentation - effective for annual periods beginning on or after 1 January 2013

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

2.2 Standards, amendments and interpretations effective in 2013 (continued)

Standards, amendments and interpretations effective in the year with no material effect on the financial statements:

- IFRS 10 Consolidated Financial Statements - effective for annual periods beginning on or after 1 January 2013
- IAS 27 Consolidated and Separate Financial Statements - effective for annual periods beginning on or after 1 January 2013

Standards, amendments and interpretations effective in the year not currently relevant to the company's operations:

- IFRS 11 Joint Arrangements - effective for annual periods beginning on or after 1 January 2013
- IFRS 12 Disclosure of Interests in Other Entities - effective for annual periods beginning on or after 1 January 2013
- IAS 28 Investment in Associates - effective for annual periods beginning on or after 1 January 2013
- IFRS 1 First-time Adoption of International Financial Reporting Standards – effective for annual periods beginning on or after 1 January 2013
- IAS 34 Interim Financial Reporting - effective for annual periods beginning on or after 1 January 2013
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - effective for annual periods beginning on or after 1 January 2013

Standards, amendments and interpretations not yet effective with no material effects on the financial statements expected:

- IFRS 9 Financial Instruments - the mandatory effective date of IFRS 9 will be announced when the IASB has completed all outstanding parts of IFRS 9.
- IFRS 10 Consolidated Financial Statements - effective for annual periods beginning on or after 1 January 2014
- IAS 27 Consolidated and Separate Financial Statements - effective for annual periods beginning on or after 1 January 2014

Standards, amendments and interpretations not yet effective and not relevant for the company's operations:

- IFRS 12 Disclosure of Interests in Other Entities - effective for annual periods beginning on or after 1 January 2014
- IFRIC Interpretation 21 Levies - effective for annual periods beginning on or after 1 January 2014

2.3 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

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 statements of comprehensive income.

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.

2.4 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 statements of comprehensive income 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 statements of comprehensive income.

2.5 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.

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

2.6 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.

2.7 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.

2.8 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.

2.9 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 statements of comprehensive income 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.

2.10 Trade payables

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

2.11 Taxation

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 statements of comprehensive income 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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.

2.12 Employee benefits

(a) Pension obligations

The Group operates 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 statements of comprehensive income, 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 & 19).

2.13 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.

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

2.14 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.

2.15 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 statements of comprehensive income 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.

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.

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(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 no borrowing facilities and interest rate risk is consequently 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 2012 (2011: 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 £1,607,000 (2012: £1,861,000).

4. Critical accounting estimates and judgements

Estimates and judgements 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.

5. Segment information

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

6. Revenue

	Group 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
Fee income	71,688	71,688	82,942	82,942
Commission income	217	217	866	866
Miscellaneous income	1,085	1,085	1,285	1,285
	72,990	72,990	85,093	85,093
Interest income	93	93	141	141
	73,083	73,083	85,234	85,234

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

7. Operating profit

Operating profit includes the following significant items:

	Group 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
Depreciation and amortisation	602	602	646	646
Auditors' remuneration:				
- audit services				
current year	33	33	33	33
prior year under-provision	1	1	1	1
AAF 01/06 audit	36	36	30	30
- tax services	12	12	25	25
- other advisory services	2	2	7	7
Operating lease costs:				
- plant and equipment	45	45	50	50
- land and buildings	417	417	338	338
FSCS levy refund	-	-	(1,207)	(1,207)

The FSCS levy refund in 2012 represented a credit received from the Financial Services Compensation Scheme against a levy that was recognised as an exceptional charge in 2010.

8. Employees

	2013 Number	2012 Number
The average monthly number of persons (including directors) employed by the Group during the year was:		
Management and administration and operations	106	101
	£000	£000
Staff costs (for the above persons):		
Wages and salaries	11,784	14,269
Pension contributions	622	600
Share options granted to directors and employees (see note 19)	1,126	891
Social security costs	1,562	2,319
	15,094	18,079

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

	2013 £000	2012 £000
Salaries, fees, bonuses and other short-term employee benefits	3,616	5,324
Pension contributions (see below)	312	324
Share-based payments	647	579
	4,575	6,227

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Retirement benefits under money purchase pension schemes are accruing to four directors (2012: four). Directors' emoluments disclosed include the following amounts paid to the highest paid director, who exercised no share options during the year (2012: 100,000):

	2013 £000	2012 £000
Salaries, allowances and other short-term benefits	2,531	4,010
Pension contributions	241	255
Share-based payments	496	320
	<u>3,268</u>	<u>4,585</u>

9. Tax expense

	Group 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
Current taxation				
UK Corporation tax at 23.25% (2012: 24.5%)	2,041	1,948	2,435	2,353
Prior year adjustments	-	-	(1)	(1)
	<u>2,041</u>	<u>1,948</u>	<u>2,434</u>	<u>2,352</u>
Deferred tax (see note 17)	46	46	(26)	(26)
	<u>2,087</u>	<u>1,994</u>	<u>2,408</u>	<u>2,326</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>7,410</u>	<u>5,061</u>	<u>12,768</u>	<u>7,934</u>
Profit on ordinary activities multiplied by the standard rate of tax of 23.25% (2012: 24.5%)	1,723	1,177	3,128	1,944
Expenses not deductible	36	36	56	47
Excess of depreciation over capital allowances	42	42	79	79
ESOT contributions and share options expense	262	773	218	1,367
Share option exercises	(115)	(115)	(1,058)	(1,058)
Prior year adjustment	-	-	(1)	(1)
Other tax adjustments	93	35	12	(26)
Current year tax charge	<u>2,041</u>	<u>1,948</u>	<u>2,434</u>	<u>2,352</u>

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

10. Dividends

During the year total dividends of 90p per share (2012: 90p per share) were paid, absorbing £6.545 million (2012: £6.720 million) and leaving a retained loss for the year of £1.222 million (2012: profit of £3.640 million) to be funded from (2012: transferred to) reserves. Included in the above dividend payments was £4.536 million (2012: £4.690 million) that was paid to shareholders who are also directors of the Company.

A further interim dividend of 45p per share was declared on 31 January 2014 and paid on 10 February 2014, absorbing £3.251 million of profit in the current year.

11. Intangible assets

	Group £000	Company £000
At 1 January 2012		
Cost	752	-
Net book amount	752	-
Year ended 31 December 2012		
Opening and closing net book amount	752	-
At 31 December 2012		
Cost	752	-
Net book amount	752	-
Year ended 31 December 2013		
Opening and closing net book amount	752	-
At 31 December 2013		
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 2013

12. Property, plant and equipment

	Group £000	Company £000
At 1 January 2012		
Cost	3,374	3,374
Accumulated depreciation & impairment	(1,615)	(1,615)
Net book amount	1,759	1,759
Year ended 31 December 2012		
Opening net book amount	1,759	1,759
Additions	146	146
Disposals	-	-
Depreciation charge	(646)	(646)
Closing net book amount	1,259	1,259
At 31 December 2012		
Cost	3,520	3,520
Accumulated depreciation & impairment	(2,261)	(2,261)
Net book amount	1,259	1,259
Year ended 31 December 2013		
Opening net book amount	1,259	1,259
Additions	336	336
Disposals	-	-
Depreciation charge	(602)	(602)
Closing net book amount	993	993
At 31 December 2013		
Cost	3,856	3,856
Accumulated depreciation & impairment	(2,863)	(2,863)
Net book amount	993	993

13. Investment in subsidiary

	Group 2013 £	Company 2013 £	Group 2012 £	Company 2012 £
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 £142,000 (2012: £142,000) and the value of its share capital and reserves at 31 December 2013 was £992,000 (2012: £850,000).

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

14. Trade and other receivables

	Group 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
Current				
Trade receivables	216	216	352	352
Other receivables	33	33	11	11
Prepayments & accrued income	2,496	2,496	3,345	3,345
	<u>2,745</u>	<u>2,745</u>	<u>3,708</u>	<u>3,708</u>

The directors estimate that the carrying amount of trade and other receivables approximates to their fair value. Trade and other receivables are not past due at 31 December 2013.

Non-current

Provision for deferred tax (see note 17)

	-	-	40	40
	<u>-</u>	<u>-</u>	<u>40</u>	<u>40</u>

15. Available-for-sale financial assets

The available-for-sale financial assets were shares in the Neptune SICAV funds, which were launched in December 2007 and which were authorised and regulated by the CSSF in Luxembourg. The units were denominated in Euro and held in share register form. The Neptune SICAV funds were merged with Neptune Investment Funds in October 2013 leading to the closure of the SICAV. There were no impairment provisions on available-for-sale financial assets during the year under review (2012: none) and the shares held were disposed of upon the closure of the SICAV for proceeds of £14,000 (2012: £nil).

16. Trade and other payables

	Group 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
Current				
Trade creditors	893	891	1,162	1,153
Corporation tax	1,067	1,018	1,297	1,227
Other taxes and social security	402	402	518	518
Accruals and deferred income	9,687	9,687	13,890	13,890
Other creditors	384	384	253	253
Amount due to subsidiary undertaking (see below)	-	180	-	135
	<u>12,433</u>	<u>12,562</u>	<u>17,120</u>	<u>17,176</u>

All the above current liabilities are due within one year.

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

The amount due to the subsidiary undertaking consisted of an intercompany loan which was 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.

17. Deferred tax (liability) / asset

Group and Company	Accelerated tax allowances £000	Other timing differences £000	Total £000
At 1 January 2012	(23)	37	14
Credited / (charged) to statements of comprehensive income	56	(30)	26
At 31 December 2012	33	7	40
Charged to statements of comprehensive income	(46)	-	(46)
At 31 December 2013	(13)	7	(6)

18. Share capital

	Number of shares	Issued capital £000	Share premium £000	Total £000
At 1 January 2012 and 31 December 2012	7,535,245	75	2,209	2,284
At 1 January 2013 and 31 December 2013	7,535,245	75	2,209	2,284

The total authorised number of ordinary shares is 10,000,000 shares (2012: 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 ("ESOT"), which have been utilised to enable the ESOT 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 ESOT has also sold shares to employees, either at market value or in order to fulfil the exercising of share options.

The accounts of the ESOT 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 2013 was £6,225,000, (2012: £4,510,000) equating to an average purchase price of £20.07 per share (2012: £20.06 per share). These transactions are summarised in the table below:

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Group	Number of shares	Carrying value of shares £000
At 1 January 2013	224,863	4,510
Purchase costs	146,860	2,952
Sales proceeds	(61,653)	(625)
Losses arising from shares sold by the ESOT on the exercise of share options by employees	-	(612)
Closing net book amount	310,070	6,225

19. Share Options

Share Option Reserve	Group £000	Company £000
At 1 January 2012	3,539	3,539
Share options expense	891	891
Transfer to Retained Earnings	(555)	(555)
At 31 December 2012	3,875	3,875
Share options expense (see below)	1,126	1,126
Transfer to Retained Earnings (see below)	(281)	(281)
At 31 December 2013	4,720	4,720

The Company operates three share option schemes as follows:

- (i) Enterprise Management Initiative ("EMI") Scheme. Options were granted to all employees under this scheme, at market value, with a minimum vesting period of five years. No new options have been granted under this scheme since 2010, when the Company ceased to qualify under the EMI rules.
- (ii) Unapproved Scheme. Options continue to be granted to all employees under this scheme, at market value, with a minimum vesting period of five years.
- (iii) Equity Participation Plan ("EPP"). Introduced in 2011, with initial grants made in 2012, this scheme is utilised to reward key senior executives as part of their performance-related remuneration. The awards are in the form of nil-priced options to acquire ordinary shares in the Company, with a minimum vesting period of three years.

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 2013, relating to options granted during the year, were as follows:

Expected share price volatility (based on similar listed small cap fund managers):	31%
Risk free rate:	
<i>EMI & Unapproved schemes</i>	2.02%
<i>EPP</i>	1.12%

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Likelihood of exercise of options:

EMI & Unapproved schemes

80%

EPP

99%

Market value of each share:

£20.00

Dividend yield:

4.5%

Assumed life of options before exercise:

EMI & Unapproved schemes

5 years

EPP

3 years

The fair value of share options that have been exercised as at 31 December 2013 has been transferred out of the Share Option Reserve into Retained Earnings, as shown in the Statement of Changes in Equity on page 17.

Under the Company's above schemes, a total of 1,492,185 options over ordinary 1p shares in the Company have been granted to certain employees as at 31 March 2014 and have not lapsed or been exercised or surrendered. The terms of these grants in the three schemes are as follows:

EMI Scheme

Earliest exercisable date	Date of expiry	Exercise price	Number of shares
31 January 2013	31 January 2018	£12.00	15,072
15 August 2013	15 August 2018	£15.00	2,000
23 January 2014	23 January 2019	£15.00	2,000
2 May 2014	2 May 2019	£15.00	1,000
31 July 2014	31 July 2019	£15.00	1,000
2 November 2014	2 November 2019	£20.00	2,000
30 March 2015	30 March 2020	£20.00	1,000
5 July 2015	5 July 2020	£20.00	2,000
1 October 2015	1 October 2020	£20.00	2,000
1 December 2015	1 December 2020	£20.00	3,000
			<u>31,072</u>

Unapproved Scheme

Earliest exercisable date	Date of expiry	Exercise price	Number of shares
30 June 2011	30 June 2016	160p	410,879
15 January 2012	15 January 2017	220p	42,500
18 May 2012	18 May 2017	220p	25,000
31 January 2013	31 January 2018	£12.00	38,200
31 March 2013	31 March 2018	£12.00	275,250
15 August 2013	15 August 2018	£15.00	1,500
23 January 2014	23 January 2019	£15.00	3,000
2 May 2014	2 May 2019	£15.00	4,000
31 July 2014	31 July 2019	£15.00	34,000
2 November 2014	2 November 2019	£20.00	14,000
25 January 2015	25 January 2020	£20.00	30,000
30 March 2015	30 March 2020	£20.00	4,000
6 April 2015	6 April 2020	£20.00	15,000
1 October 2015	1 October 2020	£20.00	23,000
1 December 2015	1 December 2020	£20.00	5,000

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Unapproved Scheme (continued)

Earliest exercisable date	Date of expiry	Exercise price	Number of shares
5 February 2016	5 February 2021	£20.00	27,000
1 July 2016	1 July 2021	£20.00	8,500
15 November 2016	15 November 2021	£20.00	1,000
30 January 2017	30 January 2022	£20.00	22,000
24 February 2017	24 February 2022	£20.00	1,000
19 April 2017	19 April 2022	£20.00	5,000
30 April 2017	30 April 2022	£20.00	5,000
01 May 2017	01 May 2022	£20.00	10,000
01 June 2017	01 June 2022	£20.00	5,000
25 June 2017	25 June 2022	£20.00	7,500
30 July 2017	30 July 2022	£20.00	5,000
30 October 2017	30 October 2022	£20.00	2,000
1 November 2017	1 November 2022	£20.00	15,000
10 December 2017	10 December 2022	£20.00	5,000
1 January 2018	1 January 2023	£20.00	4,000
2 January 2018	2 January 2023	£20.00	5,000
25 February 2018	25 February 2023	£20.00	107,000
1 March 2018	1 March 2023	£20.00	10,000
30 April 2018	30 April 2023	£20.00	1,000
13 May 2018	13 May 2023	£20.00	1,000
1 July 2018	1 July 2023	£20.00	5,000
30 July 2018	30 July 2023	£20.00	1,000
31 August 2018	31 August 2023	£20.00	2,000
15 September 2018	15 September 2023	£20.00	15,000
15 October 2018	15 October 2023	£20.00	11,000
8 November 2018	8 November 2023	£20.00	5,000
18 November 2018	18 November 2023	£20.00	7,000
10 January 2019	10 January 2024	£20.00	1,000
5 February 2019	5 February 2024	£20.00	1,000
24 February 2019	24 February 2024	£20.00	1,000
2 March 2019	2 March 2024	£20.00	1,000
31 March 2019	31 March 2024	£20.00	25,000
			1,247,329

EPP (all nil-priced)

Earliest exercisable date	Date of expiry	Number of shares
3 February 2015	3 February 2017	103,064
4 February 2016	4 February 2018	64,991
31 January 2017	31 January 2019	45,729
		213,784

The above EPP total includes 163,970 options outstanding under the scheme as at 31 December 2013. Further awards, in respect of 2013's performance and totalling £0.892 million, being options over 44,623 shares, were made on 31 January 2014, although these will be accounted for in the current year's financial statements. Finally, the EPP provides that additional shares be awarded to

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

participants, on vesting, in respect of dividends paid subsequent to the date of grant. A further 5,191 options, totalling £103,820, have been allocated accordingly to EPP participants in respect of the dividend paid on 10 February 2014.

The following table gives further information regarding movements during the year in respect of options granted under the Company's three schemes:

	Number of share options	Weighted average exercise price
Outstanding at 1 January 2013	1,310,328	£9.12
Exercised during the year	(55,653)	£11.14
Granted during the year	259,070	£14.51
Forfeited during the year	(105,374)	£17.41
Outstanding at 31 December 2013	1,408,371	£9.41
Exercisable at 31 December 2013	810,410	£5.92

The weighted average remaining (minimum) contractual life of share options outstanding at 31 December 2013 was 1.06 years (2012: 0.99 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 2013 £000	Plant & equipment 2013 £000	Land & buildings 2012 £000	Plant & equipment 2012 £000
Payable within 12 months	675	30	497	45
Payable between 1 and 5 years	623	8	1,297	38
	1,298	38	1,794	83

NEPTUNE INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

21. Related party transactions

The Company acts as Authorised Corporate Director and Unit Trust Manager for a number of investment funds and unit trusts, which may be considered to be related parties. Investment management and performance fees receivable from these funds during the year amounted to £66.924 million (2012: £77.6 million) and the balance outstanding at 31 December 2013 was £nil (2012: £nil).

During the year, fees totalling £16,000 were paid to Punter Southall Health and Protection Consulting Limited ("PSHP") for staff benefits consultancy advice. There were no amounts outstanding at 31 December 2013. PSHP is a subsidiary of Punter Southall Group Limited, of which, two directors of the Company, Mr J D Punter and Mr S M Southall, are shareholders. Mr Punter is a director of both PSHP and Punter Southall Group Limited.

22. Ultimate controlling party

In the opinion of the directors, there was no ultimate controlling party as at 31 December 2013.