

Mattioli Woods plc
Annual Report 2007



Securing your pension

Pension Consultants
Retirement Wealth Management
Trustees and Administrators

Corporate statement

Mattioli Woods plc (“Mattioli Woods” or “the Company”) was established by Ian Mattioli and Bob Woods in 1991. Mattioli Woods and its subsidiaries (“the Group”) provide pensions consultancy and administration services, primarily to owner-managers, senior executives and professionals. The Group’s focus is at the higher end of the market where clients require bespoke service and specialist advice.

Headquartered in Leicester and employing 118 staff, including 17 pension consultants, Mattioli Woods has a strong network of intermediary contacts throughout the UK. The practice has grown dynamically year on year since inception and became a public company on joining the AIM market of the London Stock Exchange in November 2005.

Our objective is to continue to grow Mattioli Woods’ business to increase its market share and enhance its reputation in the pension consultancy market. Mattioli Woods’ core values provide our staff and our clients with an open, passionate and caring organisation of integrity.

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Highlights

- **Turnover increased by 18.9% to £9.00 million (2006: £7.57 million)**
- **Profit before tax up 45.2% to £3.15 million (2006: £2.17 million)**
- **Earnings per share up 28.0% to 12.8 pence (2006: 10.0 pence)**
- **Proposed total dividend to shareholders of 2.55 pence per share (2006: 1.4 pence per share)**
- **Organic growth of 21.1% in SIPP numbers (2006: 19.1%)**
- **Maturity and awareness of SIPPs continue to increase demand**
- **Advising on funds under trusteeship of over £1 billion**
- **Strong client retention**
- **Acquisition of Pension Consulting Limited completed in July 2007**



Chairman's statement



I am delighted with our performance in the year ended 31 May 2007 and the exciting prospects for our business going forward. In my opinion, strong growth seen in the self-invested personal pension ("SIPP") sector to date is likely to be boosted by further major changes in the pensions arena over the next few years.

At the year end, we acted for over 1,600 small self-administered pension scheme ("SSAS") and SIPP clients throughout the UK, an 11.7% increase during the year, and funds under trusteeship had risen to over £818 million (2006: £728 million). Following the acquisition of Pension Consulting Limited in July 2007, our total funds under trusteeship now exceed £1 billion.

Trading results

In the year ended 31 May 2007, turnover increased by 18.9% to £9.00 million (2006: £7.57 million) and profit before tax increased by 45.2% to £3.15 million (2006: £2.17 million). Earnings per share were 12.8 pence (2006: 10.0 pence), and the Board is pleased to recommend a final dividend for the year of 1.7 pence per Ordinary Share (2006: 1.4 pence).

Our Chief Executive, Ian Mattioli, sets out his review of the last financial year on pages 4 to 8 and hence my Chairman's statement focuses on the future and the key drivers in our core markets.

Our approach

The key differentiator between Mattioli Woods and many of our larger competitors is our holistic and proactive approach to the use of SIPPs (and other schemes) in developing clear pension strategies for our clients. We take the 'self-invested' out of self-invested personal pensions by providing our clients with a comprehensive 'hand-holding' service. This has led us to develop a number of other services in addition to our core pension consultancy and investment planning. These include the arrangement of exclusive current account and other banking facilities, syndicated property investments, structured products and related advisory services such as inheritance tax and business planning.

This approach appears to have struck a chord within our target market. However, we are now seeing the demand for our approach spreading from high net worth clients to a much wider audience.

Market changes

Whilst our market continues to be fuelled by increasing client demand for the greater control and flexibility afforded by SSASs and SIPPs, I believe there are two other major issues that could substantially increase the market's demand for SIPPs and, more importantly, the approach we take to the provision and administration of SIPPs.

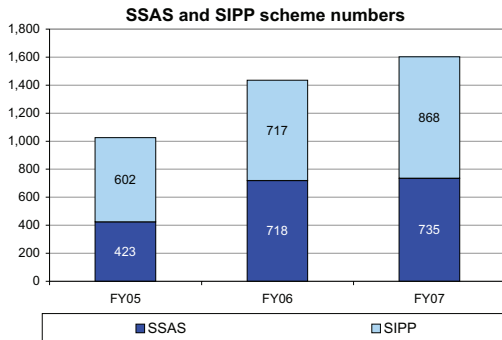
Defined benefit schemes

The vast majority of funds within UK pensions are held in defined benefit or final salary schemes. Recent industry estimates put the figure as high as £1.5 trillion. However, a recent survey by the Association of Consulting Actuaries revealed 81% of defined benefit schemes are now closed to new members, and the number of schemes closed to the accrual of future service entitlement has increased to 14%

“Total funds under trusteeship now exceed £1 billion”

Chairman's statement

continued



(up from 10% two years ago). Defined benefit schemes are becoming less relevant in most employers' remuneration strategies. Many are showing funding deficits and can present enormous nuisance value to the sponsoring employer in terms of management time, operational cost and ongoing financial liability.

However, deficits are being reduced, in some cases substantially, which I believe will create the impetus over the next five to ten years for increasing numbers of employers to wind-up their defined benefit schemes. This would give rise to an enormous flow of pension funds from such schemes to alternative individual plans and we expect the SIPP market to be a prime beneficiary. During the year we started to market our group scheme consultancy services to private companies with defined benefit schemes and early feedback supports the views expressed above.

The regulatory environment

The Financial Services Authority ("FSA") recently published its 'Review of Retail Distribution'. This promises to be one of the most comprehensive overhauls of consumer protection for many years, and is likely to heighten demand for the Group's services. At the heart of the review lie two diametrically opposed positions. On the one hand, the FSA believes standards should be raised for independent financial advisers ("IFAs"), demanding greater professional qualifications and a move to remuneration based on in-principle client agreement, rather than commission inducement from the product provider. I am pleased to report Mattioli Woods has operated this way since its formation.

At the other end of the spectrum, the FSA is proposing that large institutions should be allowed to sell financial products with a reduced duty of care. The FSA acknowledges in its review this could lead to poor selling, but concludes that for the general public to be badly sold some product is better than them being sold none at all. I expect the likely outcome of this to be increased demand for trouble-shooting and specialist advisory services such as our own.

Outlook

I believe self-invested pensions represent the most efficient vehicle for the development of a pension strategy for almost anyone who is serious about retirement planning, providing control, investment flexibility and cost effectiveness. In my view, the demise of the defined benefit scheme combined with the opportunity presented by SIPPs suggests industry estimates of the future demand for SIPPs are likely to be considerably understated. I look forward to the future with enthusiasm.

Bob Woods

Chairman
3 September 2007



Chief executive's review



Introduction

Having established the business with Bob Woods as a partnership in 1991, I am proud we have been able to continue our track record of expansion and growth, whilst staying true to our core values of strong business ethics and excellent client service.

We continue to invest in new systems that will enable us to advise our clients more efficiently and effectively, and have embraced the fundamental changes to the pensions market that were introduced on 5 April 2006 ("A-Day"). This has enabled us to access additional opportunities for our existing clients and to attract new clients who have benefited from changes under the new regime.

Nature, objectives and strategies

Mattioli Woods plc is a public limited company incorporated in England and Wales and its shares are quoted on the AIM market of London Stock Exchange plc. The Group's turnover is derived from three key revenue streams: time-based fees, investment planning and property syndicates.

Time-based fees

Mattioli Woods' core business is pension consultancy, involving the provision and administration of SIPPs and SSASs. Our client base for SIPP and SSAS services primarily comprises owner-managers, senior executives and professional persons. However, we also provide group scheme consultancy and personal financial planning as complementary services to our core business.

Our main source of income is time-based fees earned for setting up and administering SIPP and SSAS schemes. Additional fees are generated from consultancy services provided for special one-off activities. Revenues from time-based fees have increased by 21.5% to £3,986,367 (2006: £3,281,859).

The FSA's consultation paper in relation to how fees and commissions will be generated in the future by FSA regulated organisations is likely to lead to reduced commissions from product providers. Our revenues are already predominantly fee-based and we welcome the challenges that these changes will bring to the industry.

Investment planning

The key feature of our approach to pension consultancy is the impartial nature of our investment advice, with its focus on providing solutions tailored to each individual client's needs.

Being primarily fee-based reinforces our ability to provide appropriate investment planning for our pension fund clients. Whilst our income streams are not directly dependent upon the performance of financial markets or the value of funds under trusteeship, movements in these can influence the appetite of our clients to make investments to secure their pension. Periods of volatility in a particular asset class may see changes in how our investment planning fees and commissions are derived. However, we can continue to derive income from investments in other asset classes, whilst ensuring our clients' investment strategies are appropriately aligned to the prevailing market conditions. Investment commissions grew by 22.3% in 2007 (2006: 19.9%).

Property syndicates

Mattioli Woods facilitates commercial property ownership for its clients by way of a syndicated property initiative. Properties introduced to the Group by our professional property contacts are referred to an independent property adviser, who either recommends or rejects the property for syndication.

During the year we helped to facilitate the purchase of seven properties with a combined value of £19.1 million, taking the total number of property syndicates using our administrative services at the year end to 30 (2006: 23).

During the last financial year, the property market did appear over-priced at times, which resulted in us arranging a smaller number of syndicates than expected. However, we believe commercial property prices are now looking like better value and expect syndicate numbers to increase

Chief executive's review

continued

again this year. Our clients are still showing strong appetite for the property syndicate initiative. The total income from property syndicates was £932,916 (2006: £955,404), of which £399,969 (2006: £244,495) was recurring income derived from our annual administration services.

New product developments

Our rationale for any new product development is to enhance our clients' existing position. We launched our first three capital-guaranteed investment bonds during the year, where capital growth is linked to investment in more volatile and speculative indices. We also developed a secondary market for existing property syndicate investments, through which we have facilitated the sale and purchase of £1.0 million worth of existing syndicate holdings since December 2006.

Market

Most of our chosen markets are serviced by a range of suppliers offering services directly to individual and corporate clients. These markets are fragmented but remain competitive.

This fragmentation reinforces my belief that our growth strategy, based on a combination of specifically targeted acquisitions and organic growth, including the introduction of innovative new products, continues to be the most effective way to deliver the increasingly tailored solutions our clients demand.

Regulatory environment

The Group is regulated by a number of different bodies. Mattioli Woods is authorised and regulated by the FSA, and is a member of the Association of Member-directed Pension Schemes.

We maintain dedicated compliance teams, with systems to proactively monitor client investments, consultancy and administration services, investment advice, financial standing of suppliers, pension transfer advice, FSA rule book compliance and Audit & Pension Schemes Services compliance.

In March 2007, Mattioli Woods received authorisation from the FSA to establish and operate personal pension schemes, including SIPPs, under the new regulatory regime introduced with effect from 6 April 2007.

We welcome the regulation of SIPPs and were pleased to be one of the first firms to receive approval from the FSA. This initiative from the regulator provides our clients with even greater confidence when selecting a SIPP as their preferred method of retirement planning.

“Continued track record of expansion and growth”

Additional protection is now afforded to clients following the introduction of significantly higher capital adequacy requirements for the providers of pension schemes. Our strong balance sheet allowed us to meet this FSA requirement without the need for any additional funding.

Business objectives and strategies

Our objective is to grow our organisation by increasing market share and enhancing Mattioli Woods' reputation in the pensions consultancy market. This is key to achieving the financial and non-financial measures that increase shareholder value.

Current and future developments and performance

Group results

We have made significant progress towards our goals of delivering quality personal service that adds real value to clients, whilst maintaining high ethical standards and enhancing shareholder value.

Sales revenues were £9.00 million (2006: £7.57 million), up 18.9% on the prior year. Organic growth continues to be the main driver of increased turnover. Operating profit before financing increased by 36.6% to £2.95 million (2006: £2.16 million).

Cash generated from operations increased to £3.72 million (2006: £2.33 million) due to increased sales coupled with improved credit control. Operating margin of 32.8% (2006: 28.5%) was ahead of our expectations for the year. The improvement in operating margin was achieved through the realisation of operational efficiencies on the back of “A Day” legislation, investment in new systems and the benefits of operational gearing being realised as revenues increased, particularly on the two client portfolios acquired in 2006. Planned improvements in information systems and technology provide scope for further margin improvement and even better client service.

Chief executive's review

continued

Acquisitions

Both client portfolios acquired in the financial year ended 31 May 2006 are now fully integrated within our core business and are performing in line with our aspirations. We are very pleased with the strong retention of clients within both these portfolios.

Consistent with the growth strategy we set out on flotation, we acquired the entire issued share capital of Pension Consulting Limited ("PCL") for a total cash consideration of up to £1.925 million in July 2007.

Established in 1999 and based in Leicester, PCL administers pension schemes on behalf of 145 SSAS and 213 SIPP clients. It has funds under trusteeship of over £185 million and its subsidiary company, PC Trustees Limited, acts as trustee to the schemes. PCL's experienced team of two consultants and 11 administration staff have been retained by the Group following the acquisition.

PCL is a good cultural fit with Mattioli Woods. Like us, PCL has focused on attracting clients who require bespoke personal service and specialist advice. However, it did not provide the broad range of services that benefits Mattioli Woods' clients and this provides the opportunity to offer additional services, such as our syndicated property initiative and guaranteed investment products, to PCL's existing client base.

Demand for pensions consultancy and administration in the SSAS and SIPP market is increasing strongly, meaning organic growth is likely to maintain our overall momentum. However, taking advantage of opportunities to grow our presence by acquisition will continue to be an important element of our future growth.

Dividends

The Board is pleased to recommend the payment of a final dividend for the year ended 31 May 2007 of 1.7 pence (2006: 1.4 pence) per Ordinary Share. It is our intention to grow dividend distributions sensibly going forward. If approved, the final dividend will be paid on 19 October 2007 to shareholders on the Register at the close of business of 14 September 2007.

Resources, risks and relationships

Resources

The Group aims to safeguard the assets that give it competitive advantage, including its reputation for quality, proactive advice, its technical competency and its people.

Our core values provide a framework for responsible, innovative and ethical yet commercial business practices. Structures for accountability from our administration teams

through to the operational management team and then the Group board are clearly defined. The proper operation of the supporting processes and controls are regularly reviewed by the Audit Committee and take into account ethical considerations, including procedures for "whistle-blowing".

Employees

The last year has been an exceptionally busy period for Mattioli Woods and it is only through the hard work and dedication of our employees that I am able to report on the positive progress we have achieved. We have added a number of key people to the business, including the appointment of a Marketing Manager to support the Sales and Marketing Director. We continue to invest significant resources in our graduate recruitment campaign, which will give us the capacity for future growth. Twelve new graduates joined us in 2007 (2006: six), and another six graduates have joined since the year end.

The quality, knowledge and commitment of our people are key to providing our clients with a consistently high level of personal service and attention to detail. We now employ 118 people at our Leicester base and we would like to thank everyone for their support, energy and commitment over the past year.

Mattioli Woods has always enjoyed a strong team spirit and commitment from all its staff, and our aim is to strengthen that culture by facilitating wider equity participation within the organisation.

Principal risks and uncertainties

We believe the most significant risk we face is potential damage to our reputation as a result of poor client service. We address this through ongoing quality control testing and the provision of regular training for all our staff.

Pension regulations will continue to be reviewed. Future changes may not produce an environment that is advantageous to the Group and any changes in regulation may be retrospective. To address this risk, we are committed to ensuring that our views are expressed during consultation exercises, and that we respond positively and rapidly to new regulations.

We also recognise that a significant skills shortage would represent a risk to growth. We are mitigating this risk through investment in our graduate recruitment programme and by providing incentives to motivate and retain our existing employees.

Relationships

The Group's performance and value to our shareholders are influenced by other stakeholders, principally our clients,

Chief executive's review

continued



suppliers and employees; Government; and our strategic partners. Our approach with all these parties is founded on the principles of open and honest dialogue based on a mutual understanding of needs and objectives.

Relationships with our clients are managed on an individual basis through our account managers and consultants. Employees have performance development reviews and employee forums provide a communication route between employees and management. Mattioli Woods also participates in trade associations and industry groups, which give us access to client and supplier groups and decision-makers in Government and other regulatory bodies.

Financial position

Net financing income

Net financing income was £193,722 (2006: £9,721) reflecting the repayment of debt in 2006. The Group has maintained a positive net cash position throughout the financial year.

Taxation

The effective rate of taxation on profit on ordinary activities is 30.3% (2006: 31.1%). The deferred taxation asset carried forward at 31 May 2007 was £143,936 (2006: £16,946).

Earnings per share and dividend

The basic and diluted earnings per share in the year as per Note 11 were 12.8 pence (2006: 10.0 pence). The total dividend for the year of 2.55 pence per share (2006: 1.4 pence) demonstrates our desire to grow the dividend steadily.

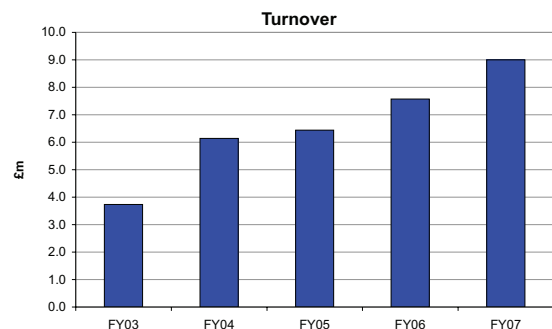
Cash flow

The net cash generated from operations increased to £3.72 million (2006: £2.33 million) due to our strong earnings before interest, taxation, depreciation and amortisation ("EBITDA") of £3.16 million (2006: £2.33 million). The Group converted 117.4% (2006: 100.3%) of EBITDA into operating cash flow, primarily due to the majority of staff bonuses being accrued but not paid at the year-end. As at 31 May 2007 the Group was owed £1.95 million (2006: £1.92 million) by property syndicates, of which £0.93 million has been repaid following the year-end.

The cash inflow from working capital was £0.42 million (2006: outflow of £0.04 million). Trade debtor days were 48 days (2006: 65 days) and trade creditors were 19 days (2006: six days). Trade debtor days were higher at 31 May 2006 primarily due to significant balances owed in respect of initial administration fees on new property syndicates. Trade creditors were higher at 31 May 2007, primarily due to balances owed to Touchstone Group for software consultancy.

Capital expenditure in the year was £243,046 (2006: £273,768), with continued investment in the Group's information systems and technology planned for the next year.

Net proceeds from new equity allotted in the year were £225,000 (2006: £5.4 million) following the exercise of options over 170,455 ordinary shares of 1p each by W Deb MVL plc (formerly Williams de Broë plc) at an exercise price of £1.32.



Chief executive's review

continued

Bank facilities

The Group has bank overdraft facilities totalling £3.25 million. These facilities consist of one overdraft facility of £2.25 million provided by the Royal Bank of Scotland plc ("RBS") at 1.375% over the bank's base rate (currently 5.75%) and another £0.75 million overdraft facility provided by RBS at 1.5% over the bank's base rate. The Group also has an overdraft facility of £0.25 million provided by Lloyds TSB plc ("Lloyds TSB") at 1.5% over the bank's base rate (currently 5.75%).

The RBS facilities are repayable upon demand, and are subject to review on at least an annual basis. The next review date for both RBS facilities is 20 December 2007. The Lloyds TSB facility is renewable on 31 March 2008.

At 31 May 2007 the Group had unused borrowing facilities of £3.1 million (2006: £0.6 million).

Capital structure

The Group's capital structure is as follows:

	2007 £	2006 £
Net (funds)/debt (note 29)	(2,697,876)	(85,630)
Non-equity shareholders' funds (liability element)	-	-
	(2,697,876)	(85,630)
Shareholders' equity	11,856,900	9,659,225
Capital employed	9,159,024	9,573,295

On 17 October 2006, the Company allotted 170,455 ordinary shares of 1p at £1.32, raising £225,000, following the exercise of options under the agreement dated 17 November 2005 made between the Company and Williams de Broë plc.

Gearing has fallen from 11.4% to (9.3)%, as a result of the repayment of debt in 2006 and strong cash generation during the year. The acquisition of PCL in July 2007 was funded out of existing cash resources.

Conclusion

Our achievements during the past year give us a great platform to continue growing our business. It is over a year since the Government introduced the "A-Day" pension simplification legislation and the SIPP is now accepted as the pension vehicle of choice for a wider audience. We always believed "A-Day" would not only boost the rate of growth in the SIPP market, but also lead to rationalisation within the sector. This has become apparent and we continue to look for further opportunities to make strategic acquisitions. We also believe the ongoing decline in defined benefit schemes will act as a driver of further growth in the SIPP industry. We continue to invest in our graduate recruitment programme to support further expansion of the Group. I am confident Mattioli Woods is well positioned for the future.

Ian Mattioli
Chief Executive
3 September 2007

“Further growth in the SIPP industry”

Board of directors

The Board comprises four executive and one non-executive director. A short biography of each director is set out below.



Robert (Bob) Woods - Chairman, age 53

Bob has worked in the pensions industry since graduating from Reading University in 1975. After initially working for Sun Alliance Insurance Group, in 1980 he joined independent financial services pension consultant Pointon York, an early market leader in SSAS, where, in 1983, he was appointed to the board with responsibility for the promotion of pension-related services to professional advisers. In 1986 he was appointed marketing director and director of Pointon York's corporate pensioner trustee. Bob's last major project with Pointon York in his capacity of Marketing Director was the development of what became the second SIPP to be launched in the UK. In 1991 Bob founded the Mattioli Woods partnership with Ian Mattioli. For the past 25 years Bob has specialised in controlling-director pension planning and is responsible for developing Group strategy and identifying new growth areas and opportunities.



Ian Mattioli - Chief Executive, age 44

Ian has worked in the pensions industry since the age of 18. His early experience was gained as a specialist pensions administrator with Phoenix Assurance. In 1983, he moved to Pointon York specialising in small self-administered pension schemes. From 1983 to 1991 Ian progressed from senior administrator to consultant and then director advising on all aspects of establishing and running pension schemes for owner-managed businesses and small to medium-sized public companies. In 1991 together with Bob Woods, he founded the Mattioli Woods partnership. Ian is responsible for the operational management of the Group.



Nathan Imlach - Finance Director and Company Secretary, age 38

Nathan qualified as a chartered accountant in 1993 with Ernst & Young, moving into corporate finance and advising on a broad range of transactions for quoted and unquoted corporate clients. He joined Johnston Carmichael Corporate Finance in January 2003, becoming a director and subsequently an associate of the firm, and specialised in providing mergers and acquisitions advice. He is a fellow of the Securities and Investment Institute and also holds the Corporate Finance qualification from the Institute of Chartered Accountants in England and Wales. Nathan is responsible for all financial aspects of Mattioli Woods' strategy and operations. Most recently, Nathan and Murray Smith led the Group's acquisition of Pension Consulting Limited.



Murray Smith - Sales and Marketing Director, age 38

Murray joined Mattioli Woods in 1995 and has worked in the financial services industry since graduating with an MA in Accountancy from University of Aberdeen. Progressing from account manager to consultant and ultimately to his appointment to the Board, Murray has specialised in advising on all aspects of pension planning with a particular focus on SSAS and SIPP, together with related consultancy. He has responsibility for managing the Group's consultancy team and marketing activities.



John Redpath - Non-Executive Director, age 62

John's early career was as a management trainee with the North Eastern Electricity Board, which became Northern Electric. He moved to the Northern Regional Health Authority where his role was to carry out large scale efficiency studies. He then moved to Northumbrian Water Authority in a similar capacity. He was promoted to Human Resources Director and was heavily involved in the flotation of Northumbrian Water. In 1992 he led the buyout of the subsidiary CPCR Limited, a human resources consultancy specialising in leadership and partnership development where he was Managing Director until his retirement in 2003. John has held a number of voluntary positions, acting as chairman of Newcastle Youth Enterprises Centre from 1982 to 1984 and Chairman of the governors of Newcastle College between 1998 and 2000. Currently he is Vice Chairman of the Percy Hedley Foundation for cerebral palsy. John is a member of the Chartered Institute of Personnel and Development.

Company information

Directors:

Robert Woods – Executive Chairman
Ian Mattioli – Chief Executive
Nathan Imlach – Finance Director
Murray Smith – Marketing and Sales Director
John Redpath – Non-Executive Director

Company secretary:

Nathan Imlach

Registered office:

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1 Penman Way
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Registered number:

3140521

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Auditors:

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Leeds
LS1 4HG

Solicitors:

Cobbetts LLP

1 Whitehall Riverside
Leeds
LS1 4BN

Principal bankers:

Royal Bank of Scotland plc

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LE1 3GR

Lloyds TSB plc

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Meridian Business Park
Leicester
LE19 1WF

Registrars:

Capita Registrars

Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Directors' report

Report and financial statements

The Directors present their report together with the financial statements for the year ended 31 May 2007. For the purposes of this report, the expression 'Company' means Mattioli Woods plc and the expression 'Group' means the Company and its subsidiaries.

Business review and future development

The Group's principal activities during the year continued to be pension consulting, investment and administration of, in the main, small self-administered pension schemes and self-invested personal pensions. The Chairman's Statement on pages 2 to 4 and the Chief Executive's Review on pages 5 to 8 include information about the Group's principal activities, the business and financial performance during the year and indications of likely future developments.

The Directors believe they have adequately discharged their responsibilities under Section 234ZZB of the Companies Act 1985 to provide a balanced and comprehensive review of the development and performance of the business.

Results and dividends

The Group profit for the year, after taxation, amounted to £2,192,854, an increase of 46.8% from the previous year. This increase was primarily due to increased demand for the Group's services following changes in UK pension legislation, which became effective on 6 April 2006. The Directors have also focused on controlling costs during the period, and the results of the previous year were impacted by one-off costs associated with the move to new office premises and the Group's admission to AIM.

The Directors recommend a final ordinary dividend of 1.7 pence per share, amounting to £292,670. During the year, the Company paid dividends totalling £384,972 to shareholders.

The final ordinary dividend, if approved, will be paid on 19 October 2007 to ordinary shareholders whose names were on the register on 14 September 2007.

Directors

A list of current serving Directors and their biographies is given on page 9. Ian Mattioli and Nathan Imlach retire by rotation and, being eligible, offer themselves for re-election.

Directors' interests

Directors' interests in the share capital of the Company and their options to acquire ordinary shares are disclosed in the Directors' Remuneration Report.

Employees

The Group continues to involve its staff in the future development of the business. Information is provided to employees through briefing sessions, the Group's web site and its intranet, 'MWeb'.

The Group operates a stakeholder pension plan available to all employees, and contributes to the pension schemes of certain Directors and employees. The Group operates an Enterprise Management Incentive scheme, details of which are given in the Directors' Remuneration Report and the financial statements.

The Group is committed to the principle of equal opportunity in employment, regardless of a person's race, creed, colour, nationality, gender, age, marital status, sexual orientation, religion or disability. Employment policies are fair, equitable and consistent with the skills and abilities of the employees and the needs of the business.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Political and charitable donations

Mattioli Woods has no affiliation to any party or group, and makes no political donations. As part of the Group's commitment to the community in which it operates, contributions totalling £1,925 (2006: £3,995) were made during the year to local charities and community projects.

Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 May 2007, the Group had an average of 19 days' purchases owed to trade creditors (2006: six days).

Related party transactions

Details of related party transactions are given in Note 32.

Environmental

The Board believes that good environmental practices, such as the recycling of paper waste, will support its strategy by enhancing the reputation of the Group. However, due to

Directors' report

continued

the nature of the business generally, it does not have a significant environmental impact.

Substantial shareholdings

At 3 September 2007 the Company had been notified of the following interests representing 3% or more of its issued share capital:

	Number of ordinary shares	Percentage holding
Bob Woods	5,743,500	33.36%
Ian Mattioli	5,743,500	33.36%
Unicorn Asset Management Limited	1,520,576	8.83%

In addition to the above shareholdings, a total of 750,937 ordinary 1p shares representing 4.36% of the issued share capital are held by other employees of the Group. The Group intends to actively encourage wider share ownership by its employees.

CREST

Mattioli Woods plc share dealings are settled on CREST. CREST is the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and also makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of the traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

Annual general meeting

The Annual General Meeting of the Company will be held on 18 October 2007. The Notice of Meeting is set out at the end of this document and contains further information with regard to the ordinary and special business to be proposed at the meeting. Resolution 7 is the only special resolution, which disapplies pre-emption rights, and in conjunction with Resolution 5, grants authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of £17,215 (equal to approximately 10% of the nominal value of the issued ordinary share capital of the Company as at 3 September 2007).

Financial instruments

Treasury policies

The objectives of the Finance Director are to manage the Group's financial risk; secure cost-effective funding for the Group's operations and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group.

The Group has financed its activities with a combination of operating leases, cash and short-term deposits, as disclosed in Note 29. Overdrafts are used to satisfy short-term cash flow requirements. Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from the Group's operating activities. The Group does not enter into derivative transactions and does not trade in financial instruments.

The main risks associated with the Group's financial assets and liabilities are set out below, as are the policies agreed by the Board for their management.

Interest rate risk

The Group's policy is to manage its cost of borrowing using a mix of fixed and variable rate debt. Whilst fixed rate interest bearing debt is not exposed to cash flow interest rate risk, there is no opportunity for the Group to enjoy a reduction in borrowing costs in markets where rates are falling. In addition, the fair value risk inherent in fixed rate borrowing means that the Group is exposed to unplanned costs should debt be restructured or repaid early as part of the liquidity management process. In contrast, whilst floating rate borrowings are not exposed to changes in fair value, the Group is exposed to cash flow risk as costs increase if market rates rise.

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the Group provides goods and services on deferred terms, deposits surplus cash, or advances short-term unsecured loans to new property syndicates.

Group policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with clients to ensure that the Group's exposure to bad debts is not significant.

In agreeing annual budgets, the Board sets limits for debtors' days and doubtful debts expense against which performance is monitored.

Directors' report

continued

Loans are only advanced to new property syndicates to facilitate the purchase of commercial property. In the event that a syndicate fails to raise sufficient funds to complete the property purchase, the Group may either take up ownership of part of the property or lose some or all of the loan. However, to mitigate this risk, loans are only approved by the Board under strict criteria, which include independent professional advice confirming the market value of the underlying property.

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generation by its operations. Investments are carefully controlled, with authorisation limits operating up to Board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate fund raising.

In its funding strategy, the Group's objective is to maintain a balance between continuity of funds and flexibility through the use of overdrafts, bank loans, leases and hire purchase contracts.

Excess cash used in managing liquidity is only invested in financial instruments exposed to insignificant risk of changes in market value, being placed on interest-bearing deposit with maturities fixed at no more than six months. Short term flexibility is achieved by overdraft facilities.

The business is inherently a net generator of cash at the operating level. Despite some capital investment being scheduled for next year, it is not anticipated there will be any significant Group borrowing requirements during the next 12 months, unless a new commercial opportunity is identified that requires substantial capital investment.

Key performance indicators

The Directors consider that the key performance indicators ("KPIs") for the Group are as follows:

- Turnover – this is the income (excluding VAT) from all revenue streams;
- Operating profit before financing – this is profit generated from the Group's operating activities before any financing income or costs;
- Debtors' days – this is the average number of days' sales outstanding in trade receivables at any time;
- Headcount – this is the number of employees the Group has, which gives the Directors an indication of the capacity of the business at any time;

- Scheme numbers – this is the number of SSAS and SIPP schemes where the Group is engaged to provide consultancy and administration services to the trustees and members of the scheme;
- Core revenues per scheme – this is the ratio of 'turnover' divided by 'scheme numbers'; and
- Funds under trusteeship – this is the value of funds held by those SSAS and SIPP schemes included within 'scheme numbers' as at the date of the last scheme valuation.

The performance of the Group in the context of the KPIs is discussed in the Chairman's statement on pages 2 to 3 and the Chief Executive's review on pages 4 to 8.

Corporate governance

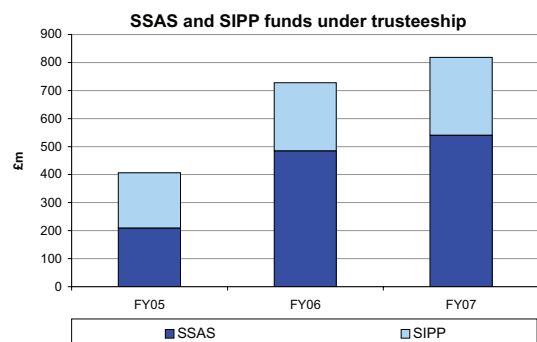
A full review of Corporate Governance appears on pages 15 to 17.

Statement of Directors' responsibilities in respect of the financial statements

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

The Directors are required to prepare financial statements for the financial year which present fairly the financial position, financial performance and cash flows of the Company and of the Group for the financial year. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;



Directors' report

continued

- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, and other events and conditions on the Group and Company's financial position and financial performance; and
- State that the Group and Company have complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are responsible for safeguarding the assets of the Group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for ensuring that the annual report includes information required by the AIM rules.

The maintenance and integrity of the corporate and financial information included on the Group's web site is the responsibility of the Directors. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual report may differ from legislation in other jurisdictions.

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 9. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The Directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, S26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office. A resolution to reappoint Baker Tilly UK Audit LLP as auditor of the Company will be proposed at the forthcoming Annual General Meeting to be held on 18 October 2007.

Going concern

On the basis of current financial projections and facilities available, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future, and accordingly, consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

Nathan Imlach

Finance Director and Company Secretary
3 September 2007

Corporate governance

Introduction

The Board of Mattioli Woods plc is committed to achieving high standards of corporate governance, integrity and business ethics. Under the rules of AIM, the Group is not required to comply with the provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ("the Combined Code"). However, the Group has taken steps to comply with the Combined Code in so far as it can be applied practically, given the size of the Group and the nature of its operations, except where explicitly set out below.

The Board and its committees

Board composition and independence

The Board of Directors, comprising four Executive Directors and one independent Non-Executive Director meets regularly throughout the year. Their biographies on page 9 demonstrate a range of experience which is vital to the success of the Group. This forum provides the principal format for directing the business of the Group.

The roles of Executive Chairman and Chief Executive are distinct, as set out in writing and agreed by the Board. The Executive Chairman is responsible for the effectiveness of the Board, directing strategy and ensuring communication with shareholders, and the Chief Executive is responsible for the day to day management of the Group.

It is the opinion of the Board that the Non-Executive Director is independent of management and free from any business or other relationships which could materially interfere with the exercise of his independent judgement. The Board does not consider the Non-Executive Director's shareholding to impinge on his independence. The Non-Executive Director provides a strong independent element to the Board and brings experience at a senior level of business operations and strategy.

The balance of executive and non-executive directors is not equal and a nominations committee has not been appointed. Hence paragraph A.3.2 of the Combined Code (which states a smaller company should have at least two independent non-executive directors) and paragraph A.4.1 (which states there should be a nomination committee to lead the process for board appointments) are not complied with.

The Board handles nomination issues, and plans to appoint an additional non-executive director when an appropriately qualified candidate has been identified. The Board considers that given the size and nature of the Group's activities, such non-compliance with the Combined Code is not unreasonable and does not compromise the overall principles of corporate governance which the Board strongly supports.

All Directors have access to the Company Secretary, who is responsible for ensuring the Board procedures and applicable rules and regulations are observed. Any Director, on appointment and throughout their service, is entitled to receive any training they consider necessary to fulfil their responsibilities effectively.

Operation of the Board

The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the financial statements is set out on page 13 and a statement on going concern is given on page 14.

The Board has a formal schedule of matters specifically reserved to it for decision. These include strategic planning, business acquisitions and disposals, authorisation of major capital expenditure and material contractual arrangements, setting policies for the conduct of business and approval of budgets and financial statements. Other matters are delegated to management, supported by policies for reporting to the Board. The Company Secretary is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with and for advising the Board, through the Chairman, on governance matters. The appointment and removal of the Company Secretary is a matter for the Board as a whole. The Company maintains appropriate insurance cover in respect of legal action against the Company's Directors, but no cover exists in the event that the Director is found to have acted fraudulently or dishonestly.

The Board met 16 times during the year, including a two-day strategy and business planning event. The agenda and relevant briefing papers are distributed by the Company Secretary on a timely basis, usually a week in advance of each Board meeting.

The Board has delegated authority to two Committees. The Chairman of each Committee provides a report of any meeting of that Committee at the next Board meeting. The Chairman of each Committee is present at the Annual General Meeting to answer questions from shareholders.

Audit committee

The Audit Committee met four times during the year; is chaired by John Redpath and also comprises Ian Mattioli. The Committee meets together with the Finance Director, Nathan Imlach, not less than twice a year. It is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. The Audit Committee considers the appointment of, and fees payable to, the external auditors and discusses with them the scope of the annual audit. The Audit Committee also reviews the

Corporate governance

continued

external auditors' management letter, and detailed presentations are made to the Committee by the Company's auditors.

As part of its duties, the Audit Committee reviews the half-year and annual financial statements for compliance with accounting standards, statutory obligations and the requirements of the AIM Rules and the Combined Code. The Audit Committee also reviews the effectiveness of the internal controls of the Group. The presence of other senior executives from the Group may be requested.

Remuneration committee

The Remuneration Committee met three times during the year; is chaired by John Redpath and also comprises Bob Woods. The Committee meets not less than twice a year. It is responsible for determining and reviewing the Group's policy on executive remuneration and other benefits and terms of employment, including performance related bonuses and share options.

The Remuneration Committee administers the operation of the share option schemes established by the Company.

The members of the Remuneration Committee can have no personal interest in the outcome of their decisions and seek to serve the interests of shareholders to ensure the continuing success of the Company. Bob Woods abstains from his role on this committee in relation to his own remuneration.

The remuneration of the Non-Executive Director is determined by the Executive Directors and confirmed by the full Board, excluding the Non-Executive Director concerned.

Meetings and attendance

All Directors are encouraged to attend all Board meetings and meetings of committees of which they are members.

Induction, training and performance evaluation

New Directors receive an induction on their appointment to the Board covering the activities of the Group and its key business and financial risks, the terms of reference of the Board and its committees and the latest financial information about the Group.

The Chairman ensures that Directors update their skills, knowledge and familiarity with the Group required to fulfil their roles on the Board and on Board committees. Ongoing training is provided as necessary and includes updates from the Company Secretary on changes to the AIM Rules, requirements under the Companies Act and other regulatory matters. All Directors have access to independent professional advice at the Company's expense where they judge it necessary to discharge their duties, with requests for such advice being authorised by the Chairman or two other directors, one of whom is a non-executive.

Evaluation of the Board's performance

The evaluation of individual Directors' performance is carried out by the Remuneration Committee. Executive Directors' performance is evaluated using an approach which combines business and personal performance objectives with financial and non-financial measures of achievement against those objectives. The annual review cycle starts with objective setting in July, interim reviews in December and performance evaluation in May. The results of interim and annual evaluations are communicated to the Remuneration Committee.

The evaluation of the Non-Executive Director's performance uses self-appraisal and interview with the Chairman to consider aspects of performance including attendance and participation at board meetings, quality of involvement in committees, commitment and effectiveness of their contribution to board activities (including the AGM and shareholder communications), the adequacy of training and director independence.

	Board meetings	Remuneration committee	Audit committee
Number of meetings in year	16	3	4
Bob Woods	14	3	–
Ian Mattioli	15	–	4
Nathan Imlach	16	–	–
Murray Smith	14	–	–
John Redpath	13	3	4

Corporate governance continued

The performance of the Chairman is reviewed annually by the Non-Executive Director. This review takes into account the views of Executive Directors who were interviewed by the Non-Executive Director.

Retirement and re-election

All Directors are subject to election by shareholders after their appointment and to re-election thereafter at intervals of no more than three years.

Non-Executive Directors are appointed for specified terms, initially 12 months with the opportunity for renewal by the Company thereafter. The terms and conditions of appointment of the Non-Executive Director are available for inspection at MW House during normal business hours and prior to the AGM.

Communications with shareholders

The Board is committed to ongoing dialogue with the Company's shareholders. The principal methods of communication with private investors remain the Annual Report and Accounts, the interim statement, the Annual General Meeting and the Group's web site (www.mattioli-woods.com).

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can therefore only provide reasonable not absolute assurance against material misstatement or loss.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing significant risks faced by the Group. This process has been in place throughout the year under review and up to the date of approval of the annual report and financial statements.

The Board routinely reviews the effectiveness of the system of internal control and risk management to ensure controls react to changes in the Group's overall profile.

The Group maintains appropriate insurance cover and reviews the adequacy of the cover regularly.

There are clearly defined procedures for reviewing and approving all bids, acquisitions and capital expenditure within the Group.

On behalf of the Board

Nathan Imlach

Finance Director and Company Secretary
3 September 2007

Directors' remuneration report

Remuneration policy

The policy of the Remuneration Committee is to set basic salaries at a level which is competitive with that of comparable businesses, with a substantial proportion of the overall remuneration package being linked to individual and corporate performance through participation in short term and long term incentive schemes. The overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhance shareholder value.

Salaries, fees and benefits

Salaries for Executive Directors are determined by the Remuneration Committee and are reviewed annually by it, taking into account individual performance over the previous 12 months, external benchmark salary data and pay and employment conditions elsewhere in the Group.

Fees for the Non-Executive Director are determined by the Board, having regard to fees paid to non-executive directors in other UK quoted companies, the time commitment and responsibilities of the role. No options are held by the Non-Executive Director. Individuals cannot vote on their own remuneration.

Benefits relate to the provision of cars for certain directors, pension contributions and life assurance.

Short term incentive arrangements

Ian Mattioli and Bob Woods are entitled to a contractual annual bonus, which is conditional upon the Group's and their own financial performance meeting certain criteria, summarised as follows:

- (a) A bonus in respect of actual profit achieved up to target profit;
- (b) A bonus in respect of actual profit achieved in excess of target profit; and
- (c) A bonus calculated on a commission basis on income in excess of £1.1 million gained by them for the Group.

The total annual bonus payable under (a) and (b) together is capped at 90% of basic salary.

Nathan Imlach is entitled to a contractual annual bonus capped at 90% of basic salary, which is conditional upon the Group's financial performance meeting certain minimum criteria, summarised as follows:

- (a) A bonus in respect of actual profit achieved up to target profit; and
- (b) A bonus in respect of actual profit achieved in excess of target profit.

Murray Smith is entitled to a contractual bonus, which is conditional upon the Group's and his own financial performance meeting certain criteria, summarised as follows:

- (a) A bonus in respect of actual profit achieved up to target profit;
- (b) A bonus in respect of actual profit achieved in excess of target profit; and
- (c) A bonus calculated on a commission basis on income in excess of £1.0 million gained by him for the Group.

The total annual bonus payable under (a) and (b) together is capped at 90% of basic salary.

Share option plan

The Group has adopted the Mattioli Woods Enterprise Management Initiative Share Option Plan ("the Share Option Plan") and the Mattioli Woods Consultants' Share Option Plan ("the Consultants' Share Option Plan") to incentivise certain of its senior managers and Directors. Where possible, and to the limits applied by the legislation, these schemes will benefit from the tax advantages under an Enterprise Management Initiative ("EMI") scheme.

Grant of options under the Share Option Plan

The Company has granted options to Murray Smith, Nathan Imlach and certain of its senior managers to acquire (in aggregate) up to 5.08% of its share capital. The maximum entitlement of any individual is 1.09%. The options will be exercisable at £1.32 per share.

The options will only be exercisable subject to performance conditions. In summary, the options will be exercisable if the Company meets target profits as agreed by the Board prior to each financial year. The targets must be met for each year up to 31 May 2010 or over two consecutive years up to 31 May 2011. The options will generally be exercisable after approval of the financial statements for the year ended 31 May 2010, 31 May 2011, or on a change of control (if earlier).

Grant of options under the Consultants' Share Option Plan

The Company has granted options to certain of its senior consultants to acquire (in aggregate) up to 1.49% of its share capital. The maximum entitlement of any individual is 0.50%. The options will be exercisable at £2.21 per share.

The options will only be exercisable subject to performance conditions. In summary, the options will be exercisable if the option holder achieves certain individual sales revenues. If the performance conditions are not met over the five financial years commencing on 1 June before the date of grant, the options lapse. The options will generally be exercisable after approval of the financial statements for the year ended 31 May 2011, or on a change of control (if earlier).

Directors' remuneration report continued

Unapproved share scheme

Options issued under the Share Option Plan and Consultants' Share Option Plan are intended to be qualifying options for EMI purposes. If they are not qualifying options (for example because they exceed the statutory limit of £100,000) then they will take effect as unapproved options which cannot benefit from the preferential tax treatments afforded to options granted pursuant to an EMI scheme. The rules for these options will be identical to those for the Share Option Plan or Consultants' Share Option Plan, as appropriate.

Service contracts

It is the Group's policy for all executive Directors to have contracts of employment that contain a termination notice period not exceeding 12 months. Ian Mattioli's and Bob Woods' appointments continue until terminated by either party on giving not less than 12 months' notice to the other party.

Nathan Imlach's and Murray Smith's appointments continue until termination by either party on giving not less than six months' notice to the other party.

John Redpath does not have a service contract. A letter of appointment provides for an initial period of 12 months, subject to review. The remuneration of non-executive directors takes the form solely of fees, which are set by the Board having taken advice on appropriate levels.

Retirement benefits

The Group will pay contributions into a personal pension plan nominated by each Executive Director at a rate of 10% of their basic salary, provided that the Director pays contributions of not less than 5% of such salary in to the same personal pension plan.

Directors' remuneration

Directors' remuneration payable in respect of the year ended 31 May 2007 was as follows:

Director	Basic salary and fees £	Performance related bonuses £	Benefits ¹ £	Total emoluments excluding pensions	
				2007 £	2006 £
Bob Woods	141,750	112,186	–	253,936	236,250
Ian Mattioli	141,750	126,414	–	268,164	236,250
Nathan Imlach	120,000	90,350	–	210,350	105,864
Murray Smith	120,000	91,723	15,247 ²	226,970	218,247
John Redpath	24,160	–	–	24,160	11,500

Notes

- The benefit package of each Executive Director includes the provision of life assurance under a Group scheme.
- The benefit package of Murray Smith includes the provision of a company car and fuel.

Directors' shareholdings

As at 31 May 2007, the interest of the Directors in the issued shares of the Company, as shown in its register maintained under section 325 of the Companies Act 1985 were:

	2007		2006	
	No.	%	No.	%
Bob Woods	5,743,500	33.36	5,743,500	33.70
Ian Mattioli	5,743,500	33.36	5,743,500	33.70
Murray Smith	375,000	2.18	375,000	2.20
Nathan Imlach	62,500	0.36	62,500	0.37
John Redpath	13,000	0.08	13,000	0.08

Directors' remuneration report

continued

Interest in options

The Group operates the Share Option Plan by which certain of the Executive Directors and other senior executives are able to subscribe for ordinary shares in the Company. The interests of the directors were as follows:

		Exercise price £	At 1 June 2006 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	At 31 May 2007 No.
Nathan Imlach	(a)	1.32	95,250	–	–	–	95,250
	(b)	1.32	29,750	–	–	–	29,750
			125,000	–	–	–	125,000
Murray Smith	(a)	1.32	95,250	–	–	–	95,250
	(b)	1.32	92,250	–	–	–	92,250
			187,500	–	–	–	187,500

Notes:

(a) Approved options

(b) Unapproved options

The options are exercisable subject to performance conditions between 1 June 2010 and 31 May 2015. Note 18 to the financial statements contains a detailed schedule of all options granted to Directors and employees as at 31 May 2007. All of the share options were granted for nil consideration.

The mid-market closing price of the Company's ordinary shares at 31 May 2007 was 283.5 pence and the range during the financial year was 192.0 pence to 287.0 pence.

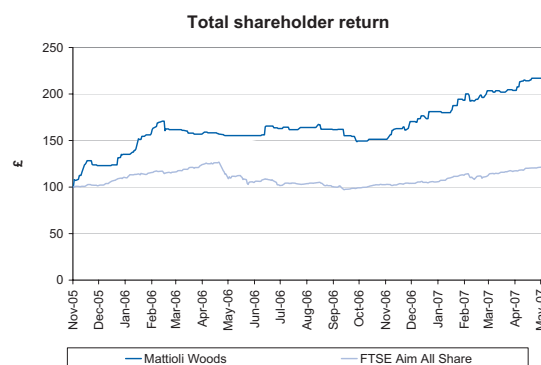
None of the Directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year, other than those disclosed in Note 32 to the financial statements.

There has been no change in the Directors' shareholdings (all of which are beneficial) and their share options between 31 May 2007 and 3 September 2007.

Total shareholder return performance graph

The graph below illustrates the total shareholder return for the period ended 31 May 2007 in terms of the change in value of an initial investment of £100 invested on 23 November 2005 in a holding of the Company's shares against the corresponding total shareholder returns in hypothetical holdings of shares in the FTSE AIM All Share Index.

The Company is a member of the FTSE AIM All Share Index and accordingly this is considered to be the most appropriate broad equity market index for the purpose of measuring the Company's relative performance.



On behalf of the Board

John Redpath

Chairman of the Remuneration Committee
3 September 2007

Independent auditors' report to the members of Mattioli Woods plc

We have audited the Group and parent company financial statements on pages 22 to 60.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") are 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).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Chief Executive's Review that is cross referenced from the Business Review and Future Development section of the Directors' Report.

In addition, we also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, Chairman's Statement, Chief Executive's Review, Corporate Governance and Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 1985, of the state of the Group's affairs as at 31 May 2007 and of its profit for the year then ended;
- The parent company financial statements give a true and fair view in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 May 2007;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' Report is consistent with the financial statements.

Baker Tilly UK Audit LLP

Registered Auditor
Chartered Accountant
2 Whitehall Quay
Leeds
LS1 4HG

3 September 2007

Consolidated income statement

For the year ended 31 May 2007

	Notes	2007 £	2006 £
Revenue	3	8,997,191	7,572,845
Employee benefits expense	9	(4,219,130)	(3,295,085)
Other administrative expenses		(1,605,889)	(1,950,019)
Depreciation and amortisation		(213,359)	(169,184)
Profit/(loss) on disposal of property, plant & equipment		(7,407)	–
Operating profit before financing		2,951,406	2,158,557
Financial income	7	194,734	103,731
Financial expenses	8	(1,012)	(94,010)
Net financing income/(costs)		193,722	9,721
Profit before taxation		3,145,128	2,168,278
Income tax expense	10	(952,274)	(674,585)
Profit for the year		2,192,854	1,493,693
Attributable to:			
Equity holders of the parent		2,192,854	1,493,693
Earnings per ordinary share:			
Basic (pence)	11	12.8p	10.0p
Diluted (pence)	11	12.8p	10.0p
Proposed total dividend per share (pence)	12	2.55p	1.40p

The operating profit for each period arises from the Group's continuing operations. The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The profit for the financial year of the Company after taxation was £2,192,854 (2006: £1,493,693).

Statement of recognised income and expense

For the year ended 31 May 2007

		2007		2006	
	Notes	Group £	Company £	Group £	Company £
Deferred tax on share-based payments	10	102,031	102,031	14,270	14,270
Income and expense recognised directly in equity		102,031	102,031	14,270	14,270
Profit for the year		2,192,854	2,192,854	1,493,693	1,493,693
Total recognised income and expense for the year		2,294,885	2,294,885	1,507,963	1,507,963

Balance sheets

As at 31 May 2007

	Notes	2007		2006	
		Group £	Company £	Group £	Company £
Assets					
Property, plant and equipment	13	429,312	429,312	390,496	390,496
Intangible assets	14	5,804,209	5,804,209	5,835,970	5,835,970
Deferred income tax assets	10	143,936	143,936	16,946	16,946
Investments	15	–	1,264	–	1,164
Total non-current assets		6,377,457	6,378,721	6,243,412	6,244,576
Trade and other receivables	20	3,179,978	3,179,814	3,189,183	3,189,168
Financial assets	21	1,954,315	1,954,315	1,915,994	1,915,994
Cash and cash equivalents	22	2,799,569	2,795,769	441,160	440,011
Total current assets		7,933,862	7,929,898	5,546,337	5,545,173
Total assets		14,311,319	14,308,619	11,789,749	11,789,749
Equity					
Issued capital	23	172,159	172,159	170,455	170,455
Share premium	23	5,601,458	5,601,458	5,321,151	5,321,151
Other reserves	23	2,202,469	2,202,469	2,094,687	2,094,687
Retained earnings	23	3,880,814	3,880,814	2,072,932	2,072,932
Total equity attributable to equity holders of the parent	24	11,856,900	11,856,900	9,659,225	9,659,225
Non-current liabilities					
Deferred income tax liabilities	10	–	–	–	–
Provisions and other liabilities	26	127,446	127,446	144,443	144,443
		127,446	127,446	144,443	144,443
Current liabilities					
Trade and other payables	25	1,627,889	1,625,189	1,193,196	1,193,196
Current income tax liabilities	10	477,234	477,234	374,107	374,107
Bank overdraft	22	72,818	72,818	347,705	347,705
Provisions and other liabilities	26	149,032	149,032	71,073	71,073
		2,326,973	2,324,273	1,986,081	1,986,081
Total liabilities		2,454,419	2,451,719	2,130,524	2,130,524
Total equities and liabilities		14,311,319	14,308,619	11,789,749	11,789,749

The financial statements on pages 22 to 60 were approved by the board of directors and authorised for issue on 3 September 2007 and are signed on its behalf by:

Ian Mattioli
Chief Executive

Nathan Imlach
Finance Director

Cash flow statements

For the year ended 31 May 2007

	Notes	2007		2006	
		Group £	Company £	Group £	Company £
Cash flows from operating activities					
Cash receipts from customers		9,006,546	9,006,546	6,927,700	6,927,700
Cash paid to suppliers and employees		(5,290,352)	(5,290,352)	(4,593,019)	(4,593,019)
Cash generated from operations		3,716,194	3,716,194	2,334,681	2,334,681
Interest paid		(1,012)	(1,012)	(94,010)	(94,010)
Income taxes paid	10	(874,107)	(874,107)	(904,045)	(904,045)
Net cash from operating activities		2,841,075	2,841,075	1,336,626	1,336,626
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment	13	15,225	15,225	–	–
Interest received		194,734	194,734	103,731	103,731
Acquisition of subsidiaries	19	(231,892)	(231,892)	(1,164)	(1,164)
Cash received on acquisition of subsidiaries	19	234,443	–	1,149	–
Acquisition of property, plant and equipment	13	(164,853)	(164,853)	(259,923)	(259,923)
Acquisition of software	14	(78,193)	(78,193)	(13,845)	(13,845)
Acquisition of other investments		–	–	(1,091,316)	(1,091,316)
New loans advanced to property syndicates	21	(1,954,315)	(1,954,315)	(1,777,034)	(1,777,034)
Loan repayments from property syndicates	21	1,915,994	1,915,994	95,540	95,540
Net cash from investing activities		(68,857)	(303,300)	(2,942,862)	(2,944,011)
Cash flows from financing activities					
Proceeds from the issue of share capital	23	225,000	225,000	6,000,001	6,000,001
Payment of costs of share issue		–	–	(576,385)	(576,385)
Proceeds from new borrowings		–	–	1,200,000	1,200,000
Redemption of preference shares		–	–	(2,000,000)	(2,000,000)
Repayments of borrowings		–	–	(1,200,000)	(1,200,000)
Proceeds/(repayment) of Directors' loans	28	21,050	21,050	(3,011,473)	(3,011,473)
Dividends paid	12	(384,972)	(384,972)	–	–
Dividends received		–	231,792	–	–
Net cash from financing activities		(138,922)	92,870	412,143	412,143
Net increase/(decrease) in cash and cash equivalents		2,633,296	2,630,645	(1,194,093)	(1,195,242)
Cash and cash equivalents at start period	22	93,455	92,306	1,287,548	1,287,548
Cash and cash equivalents at end period		2,726,751	2,722,951	93,455	92,306

Notes to the financial statements

I Corporate information

Mattioli Woods plc ("the Company") is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the AIM market of the London Stock Exchange plc. The consolidated financial statements of the Company for the year ended 31 May 2007 comprise the Company and its subsidiaries (together referred to as the "Group"). The financial statements were authorised for issue in accordance with a resolution of the Directors on 3 September 2007.

The principal activities of the Group are described in Note 5.

2.1 Statement of compliance

The financial statements of the Company and Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the European Union.

An explanation of how the transition to IFRSs has affected the financial position, financial performance and cash flows of the Group is provided in Note 36. This note includes reconciliations of equity and profit or loss for comparative periods reported under UK Generally Accepted Accounting Practice ("UK GAAP") to those reported periods under IFRSs.

2.2 Basis of preparation

This is the first year in which the Company and Group have prepared their financial statements under IFRSs and the comparatives have been restated from UK GAAP to comply with IFRSs.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. They have also been applied in preparing an opening IFRS balance sheet at 1 June 2005 for the purposes of the transition to IFRSs, as required by IFRS 1.

The accounting policies have been applied consistently throughout the Group for the purposes of these financial statements.

The Group and Company financial statements are presented in Sterling and all values are rounded to the nearest pound (£) except when otherwise indicated.

2.3 Basis of consolidation

The consolidated financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn as at 31 May each year. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. All inter-group balances, transactions, income and expenses and profits and losses resulting from inter-group transactions that are recognised in assets are eliminated in full.

2.4 Significant accounting estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the fair value less cost to sell of the cash-generating unit to which the goodwill is allocated. Estimating a fair value less cost to sell amount requires management to make an estimate of the realisable value of the cash generating unit. The carrying amount of goodwill at 31 May 2007 was £2,347,130 (2006: £2,347,130). Further details are given in Note 16.

Notes to the financial statements

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Deferred tax assets

Deferred tax assets include temporary differences related to employee benefits settled via the issue of share options. Recognition of the deferred tax assets assumes share options will have a positive value at the date of vesting, which is greater than the share option cost recognised in the income statement.

Recoverability of accrued time costs

The Group recognises accrued income in respect of time costs incurred on clients' affairs during the accounting period, which have not been invoiced at the balance sheet date. This requires an estimation of the recoverability of the time costs incurred but not invoiced to clients. The carrying amount of accrued time costs at 31 May 2007 was £994,171 (2006: £1,069,355).

Accrued commission income

Accrued commission income is recognised in respect of commissions due to the Group on investments and bank deposits placed during the accounting period which have not been received at the balance sheet date. This requires an estimation of the amount of commission income that will be received subsequent to the balance sheet date in respect of the accounting period. The carrying amount of accrued commission income at 31 May 2007 was £588,923 (2006: £451,630).

Deferred consideration

The Group has entered into certain acquisition agreements that provide for deferred consideration to be paid via an earn-out. A provision is recognised for all amounts management anticipates will be paid under the relevant acquisition agreement. This requires management to make an estimate of the expected future cash flows from the acquired client portfolio and also to choose a suitable discount rate for the calculation of the present value of those cash flows. The deferred consideration provision at 31 May 2007 was £98,304 (2006: £104,876). Further details are given in Note 26.

2.5 Summary of significant accounting policies

Property, plant and equipment

Plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its estimated residual value over its expected useful life as follows:

Computer and office equipment	20/25% per annum on written down values;
Fixtures and fittings	20% per annum on written down values; and
Motor vehicles	25% per annum on written down values.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Business combinations and goodwill

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets and liabilities of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating

Notes to the financial statements

continued

units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on the Group's reporting format determined in accordance with IAS 14 *Segment Reporting*.

If a cash generating unit was to be sold, the difference between the selling price and the net assets and amortised goodwill would be recognised in the income statement.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Any intangible assets assessed as having finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

The Group amortises individual client portfolios acquired through business combinations on a straight-line basis over an estimated useful life of 25 years, based on the Group's historic experience. Client portfolios acquired through business combinations are allocated for impairment testing purposes to three cash-generating units as follows:

- Individual clients acquired on 2 September 2003 as part of the unincorporated business Mattioli Woods Pension Consultants ("the Partnership portfolio");
- Individual clients acquired as part of the Geoffrey Bernstein portfolio acquired on 20 June 2005; and
- Individual clients acquired as part of the Suffolk Life portfolio acquired on 27 January 2006.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

A summary of the policies applied to the Group's goodwill and intangible assets is as follows:

Useful life	Goodwill	Client portfolios	Software
	Indefinite	Finite	Finite
Measurement method used	Annual impairment review	Amortised over the useful economic life on a straight-line basis	Amortised over the useful economic life on a reducing balance basis
Internally generated or acquired	Acquired	Acquired	Both

Notes to the financial statements

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Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash generating unit's fair value less cost to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or group of assets.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 May.

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 June 2005, the date of transition to IFRSs, even though no indication of impairment existed.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 May either individually or at the cash-generating unit level, as appropriate.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method, less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assess at each balance sheet date whether a financial asset or group of financial assets is impaired.

Notes to the financial statements

continued

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as a difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Trade and other receivables

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as un-collectible.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, only if one of the following applies:

- a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
- d) There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

The Group has no lease arrangements that were entered into prior to 1 June 2005.

Group as a lessee

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to the financial statements

continued

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate which reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the amount of time is recognised as a finance cost.

Commissions received on indemnity terms

Some initial commission is paid on indemnity terms and as a result commission may subsequently be clawed back by companies upon cancellation of a policyholder. Provision is made in the financial statements for the expected level of clawback, based on the Company's past experience. The provision for commission clawbacks as at 31 May 2007 was £12,674 (2006: £12,674).

Provision for client claims

A provision is recognised when the Group is notified of a claim. This requires an estimation of the maximum potential loss to the Group should the client's claim be successful. The provision for client claims as at 31 May 2007 was £115,500 (2006: £47,966).

Provision for dilapidations

A provision is recognised where the Group has an obligation at the end of a property lease to return the property in a specified condition. This requires an estimation of the likely cost of dilapidation payments at the end of the lease term. The provision for dilapidations as at 31 May 2007 was £50,000 (2006: £50,000).

Share based payments

Employees (including senior executives) of the Group receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised, together with a corresponding increase in equity, as an expense over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). Fair value is determined using the Black Scholes Merton pricing model.

The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Notes to the financial statements

continued

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in Note 11).

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised.

Rendering of services

The Group invoices clients six months in arrears for time costs incurred in advising on and administering their affairs. Revenue is recognised as time costs accrue under fees and services agreements with clients, by reference to the estimated recoverability of the time incurred but not invoiced. Recoverability is measured by reference to the time costs incurred in the 12 months which ended six months prior to the balance sheet date, as a percentage of the total time costs invoiced in respect of the same 12 month period. No revenue is recognised if there are significant uncertainties regarding recovery of the time incurred.

Commission income

Commission is recognised as being earned at the point when an investment of funds has been made by the client and submitted to the product provider.

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or repaid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax balances are recognised for all taxable temporary differences, except where the deferred income tax balance arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Notes to the financial statements

continued

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Deferred income tax assets related to temporary differences arising on share-based payments to employees are based on the market value of the Company's shares at the year end.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Pension costs

The Company makes discretionary payments into the personal pension schemes of certain employees. Contributions are charged to the profit and loss account as they are payable.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services ("business segment"), which is subject to risks and rewards that are different to those of other business segments.

The Group provides products or services within one economic environment ("geographical segment"), the United Kingdom.

2.6 Future accounting policies

New standards and interpretations not yet effective

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC") have issued standards and interpretations with an effective date for periods starting on or after the date on which these financial statements start. The Directors do not anticipate that the adoption of these standards and interpretations, wherever relevant to Mattioli Woods, will have a material impact on the Company's or the Group's financial statements in the period of initial application.

Standards and interpretations that are not yet effective and have not been early adopted by the Company or Group are:

- IFRS 7 *Financial Investments: Disclosures*;
- The complementary amendment to IAS 1 *Presentation of financial statements – Capital disclosures*;
- IFRS 8 *Operating Segments*;
- Amendment to IAS 23 *Borrowing Costs*; and
- IFRIC 10 *Interim Financial Reporting and Impairment*.

Upon adoption of IFRS 7, effective from January 2007, the Company and Group will have to disclose additional information about financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically, the Company and Group will need to disclose the fair value of financial instruments and their risk exposure in greater detail. There will be no effect on reported income or net assets.

Upon adoption of IAS 1, effective from January 2007, the Company and Group will have to disclose additional information about management of their capital, including quantitative information on what they manage as capital.

Notes to the financial statements

continued

In addition, IFRS 8, effective 1 January 2009, will require additional disclosure on how segment analysis has been measured and will require finance revenue and finance costs to be shown separately by segment. IFRS 8 has not yet been endorsed by the European Union.

IFRIC 10, effective from 1 November 2006, addresses the apparent conflict between the requirements of IAS34 and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. Upon adoption of IFRIC 10, any impairment losses recognised in the Company's or the Group's interim financial statements must not be reversed in subsequent interim or annual financial statements.

Standards, amendments and interpretations effective in the financial year but not relevant

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 June 2006, but are not relevant to the Company's or Group's operations:

- IFRIC 6 *Liabilities arising from participation in a specific market: Waste, Electrical and Electronic Equipment*;
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*;
- IFRIC 8 *Scope of IFRS 2*; and
- IFRIC 9 *Reassessment of Embedded Derivatives*.

Interpretation of existing standards that are not yet effective

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* which would first apply to the accounting period beginning on 1 June 2007;
- IFRIC 12 *Service Concession Arrangements* which would first apply to the accounting period beginning on 1 June 2008;
- IFRIC 13 *Customer Loyalty Programmes* which would first apply to the accounting period beginning on 1 June 2009; and
- IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* which would first apply to the accounting period beginning on 1 June 2008.

IFRIC 12, IFRIC 13 and IFRIC 14 have not yet been endorsed by the European Union.

3. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2007	2006
	£	£
Rendering of services	4,920,093	4,237,263
Commission income	4,077,098	3,335,582
	8,997,191	7,572,845

No revenue was derived from exchanges of goods or services (2006: nil).

4. Seasonality of operations

The Group's operations are not subject to any recurrent seasonal fluctuations as a result of external factors. Historically, revenues in the second-half year typically have been higher than in the first half, due to SSAS scheme year ends being linked to the sponsoring company's year-end, which is often in December or March. However, with the growth in the number of SIPP schemes under administration and further diversification of the Group's revenue streams over recent periods, the Board of Directors believes the seasonal impact of SSAS scheme year-ends will no longer be material.

Notes to the financial statements

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5. Segment reporting

The primary segment reporting format is determined to be business segments as the Group's risks and returns are affected predominantly by differences in the products and services provided to clients. No secondary basis for segment information is reported, as the Group operates exclusively within the United Kingdom. Each segment represents a revenue stream subject to risks and returns that are different to other business segments, although each business segment's products and services are offered within same market, as follows:

- Time-based fees earned for setting up and administering pension schemes. Additional fees are generated from consultancy services provided for special one-off activities;
- Investment planning revenues generated from the placing of investments on clients' behalf with banks and other financial institutions; and
- Property syndicate revenues generated where the Group facilitates commercial property transactions on behalf of its clients.

There are no transfers between business segments.

Business segments

The following table presents revenue and certain asset and liability information regarding the Group's business segments:

	Time-based fees		Investment planning		Property syndicates		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	£	£	£	£	£	£	£	£
Business segments								
Total revenue	3,986,367	3,281,859	4,077,908	3,335,582	932,916	955,404	8,997,191	7,572,845
Results								
Employee benefits expense	3,036,168	2,424,154	503,138	365,053	679,824	505,878	4,219,130	3,295,085
Other administrative expense	269,909	285,627	256,655	451,463	–	–	526,564	737,090
Segment results	680,290	572,078	3,318,115	2,519,066	253,092	449,526	4,251,497	3,540,670
Unallocated expenses							1,300,091	1,382,113
Operating profit before financing							2,951,406	2,158,557
Net finance income/(costs)							193,722	9,721
Profit before income tax							3,145,128	2,168,278
Income tax expense							(952,274)	(674,585)
Net profit for the period							2,192,854	1,493,693
Assets and liabilities								
Segment assets	2,136,427	2,113,931	588,923	451,630	2,095,868	2,280,676	4,821,218	4,846,237
Unallocated assets							9,490,101	6,943,512
Total assets							14,311,319	11,789,749
Segment liabilities	–	43,014	12,674	12,674	–	–	12,674	55,688
Unallocated liabilities							2,441,745	2,074,836
Total liabilities							2,454,419	2,130,524

Each reportable business segment utilises the same intangible and tangible assets, and the business segments have been financed together, rather than individually. The reportable business segments are managed together, as one business operating from one location. Accordingly, only employee benefit expenses and other direct costs have been allocated across the reportable business segments.

Notes to the financial statements

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6. Auditors' remuneration

Remuneration paid by the Group to its auditors for audit of the financial statements, fees other than for the audit of the financial statements, and the total of non-audit fees for the Group were as follows:

	Baker Tilly 2007 £	Baker Tilly UK Audit LLP 2007 £	Associates of Baker Tilly UK Audit LLP 2007 £	Total 2007 £	Total 2006 £
Audit of the financial statements	–	23,000	–	23,000	21,000
Other fees to auditors:					
– taxation services	18,025	–	3,000	21,025	3,000
– corporate finance services	4,975	–	–	4,975	80,000
– interim financial statements	7,500	–	–	7,500	5,000
– other services	–	–	–	–	24,000
	30,500	23,000	3,000	56,500	133,000

Services were provided in 2006 and up to 31 March 2007 by BakerTilly. The 2007 audit has been carried out by BakerTilly UK Audit LLP, and fees for taxation services are payable to its associate BakerTilly Tax and Advisory Services LLP.

7. Finance revenue

	2007 £	2006 £
Bank interest receivable	194,734	103,731

8. Finance costs

	2007 £	2006 £
Bank loans and overdrafts	55	29,572
Other loans	957	64,438
	1,012	94,010

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9. Employees benefit expense

	2007 No.	2006 No.
The average monthly number of employees during the year was:		
Directors	4	4
Consultants	10	10
Account Managers	44	35
Support staff	34	25
	92	74
	2007	2006
	£	£
Staff costs for the above persons were:		
Wages and salaries	3,492,112	2,800,987
Social security costs	371,968	317,609
Pension costs	201,019	102,275
Other staff costs	91,269	50,808
Expense of share based payments	62,762	23,406
	4,219,130	3,295,085
Directors' remuneration:		
Emoluments	983,580	842,747
Company contributions to personal pension schemes	52,350	42,400
	1,035,930	885,147
The amounts in respect of the highest paid director are as follows:		
Emoluments	268,164	236,250
Company contributions to personal pension schemes	14,175	13,500
	282,339	249,750

During the year four directors (2006: four) were accruing benefits under personal pension schemes.

Notes to the financial statements

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10. Income taxes

	2007 £	2006 £
Current income tax:		
Current income tax charge	970,652	686,107
Adjustment in respect of earlier years	–	(621)
Total current income tax	970,652	685,486
Deferred income tax:		
Current year	(6,759)	(10,901)
Prior year	(11,619)	–
Total deferred income tax	(18,378)	(10,901)
Tax on profit on ordinary activities	952,274	674,585

Factors affecting the tax charge for the period

The tax charge assessed for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2007 £	2006 £
Profit on ordinary activities before tax	3,145,128	2,168,278
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%)	943,538	650,483
Effects of:		
Expenses not deductible for tax purposes	20,355	24,723
Adjustment in respect of earlier years	(11,619)	(621)
Current tax charge for the period	952,274	674,585
Effective income tax rate	30.3%	31.1%

Current tax

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred tax

The primary components of the entity's recognised deferred tax assets include temporary differences related to employee benefits, provisions and other items.

The primary components of the entity's deferred tax liabilities include temporary differences related to property, plant and equipment and intangible assets.

The recognition of deferred tax in the income statement arises from the origination and the reversal of temporary differences and the effects of changes in tax rates. The primary component of deferred tax credit for the year ended 31 May 2007 is related to temporary differences arising on share-based payments to employees, based on the market value of the Company's ordinary shares at 31 May 2007.

Total deferred tax recognised directly in equity was £102,031 for the year ended 31 May 2007 (2006: £14,270).

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11. Earnings per ordinary share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year:

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2007 £	2006 £
Net profit and diluted net profit attributable to equity holders of the Company	2,192,854	1,493,693
Weighted average number of ordinary shares:	Thousands	Thousands
Issued ordinary shares at start period	17,045	12,500
Effect of shares issued in November 2005	–	2,366
Effect of shares issued in October 2006	107	–
Basic weighted average number of shares	17,152	14,866
Dilutive potential ordinary shares:		
– non-employee share options	27	28
Diluted weighted average number of shares	17,179	14,894

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. The employee share options set out in Note 18 are non-dilutive as the performance hurdles they are subject to have not, and may not, be fulfilled. If the performance hurdles are not fulfilled, the options will lapse.

12. Dividends paid and proposed

	2007 £	2006 £
Declared and paid during the year:		
Equity dividends on ordinary shares:		
– Final dividend for 2006: 1.40p	238,636	–
– Interim dividend for 2007: 0.85p (2006: nil)	146,336	–
Dividends paid	384,972	–
<i>Proposed for approval by shareholders at the AGM:</i>		
Final dividend for 2007: 1.70p (2006: 1.40p)	292,670	238,636

Notes to the financial statements

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13. Property, plant and equipment

Group and Company	Computer and office equipment £	Fixtures and fittings £	Motor vehicles £	Total £
Cost:				
As at 1 June 2006	154,696	202,710	187,033	544,439
Additions	64,041	19,939	80,873	164,853
Disposals	(831)	–	(46,987)	(47,818)
As at 31 May 2007	217,906	222,649	220,919	661,474
Depreciation:				
As at 1 June 2006	53,101	44,460	56,382	153,943
Charged for the year	32,719	33,767	36,920	103,406
Disposals	(217)	–	(24,970)	(25,187)
As at 31 May 2007	85,603	78,227	68,332	232,162
Net book value:				
At 31 May 2007	132,303	144,422	152,587	429,312
At 31 May 2006	101,595	158,250	130,651	390,496

14. Intangible assets

Group and Company	Internally generated software £	Software £	Client portfolios £	Goodwill £	Total £
Cost:					
At 1 June 2005	4,925	2,590	2,500,000	2,347,130	4,854,645
Additions	6,345	7,500	1,197,107	–	1,210,952
At 31 May 2006	11,270	10,090	3,697,107	2,347,130	6,065,597
Additions	16,252	61,941	–	–	78,193
At 31 May 2007	27,522	72,031	3,697,107	2,347,130	6,143,790
Amortisation:					
At 1 June 2005	–	371	151,910	–	152,281
Amortisation during the year	–	1,650	75,696	–	77,346
At 31 May 2006	–	2,021	227,606	–	229,627
Amortisation during the year	–	7,344	102,610	–	109,954
At 31 May 2007	–	9,365	330,216	–	339,581
Net book value at 31 May 2007	27,522	62,666	3,366,891	2,347,130	5,804,209
Net book value at 31 May 2006	11,270	8,069	3,469,501	2,347,130	5,835,970
Net book value at 1 June 2005	4,925	2,219	2,348,090	2,347,130	4,702,364

Software is amortised over its useful economic life.

Client portfolios represent individual client portfolios acquired through business combinations. Client portfolios are amortised on a straight line basis over an estimated useful life of 25 years, based on the Group's historic experience.

Goodwill arises where the price paid for an acquisition is greater than the fair value of the net assets acquired. Goodwill arising on the acquisition of the unincorporated business Mattioli Woods Pension Consultants ("the Partnership") has been determined as having an indefinite useful life. As from 1 June 2005, the date of transition to IFRS, goodwill arising on business combinations is subject to annual impairment testing (see Note 16).

Notes to the financial statements

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15. Investments

Company – Investments in subsidiaries

	£
Cost:	
At 1 June 2005	–
Additions	1,164
At 31 May 2006	1,164
Additions	231,892
Dividends received	(231,792)
At 31 May 2007	1,264

Details of the investments in which the Group and the Company (unless indicated) holds 20% or more of the nominal value of any class of share capital are as follows:

Subsidiary undertakings	Holding	Proportion of voting rights and shares held	Nature of business
GB Pension Trustees Limited	Ordinary shares	100%	Trustee company
Great Marlborough Street Pension Trustees Limited	Ordinary shares	100%	Trustee company
MW Trustees Limited	Ordinary shares	100%	Trustee company
SLT Trustees Limited (formerly Suffolk Life Trustee Company Limited)	Ordinary shares	100%	Trustee company
Professional Independent Pension Trustees Limited	Ordinary shares	100%	Trustee company

The Company accounts for its investments in subsidiaries using the cost model.

16. Impairment of goodwill and intangibles with indefinite lives

The Group acquired the Partnership on 2 September 2003. Goodwill arising on the acquisition of the Partnership has been allocated to one cash generating unit, the Partnership portfolio, for impairment testing.

Intangible assets believed to have an indefinite useful life are carried at cost. The recoverable amount of the goodwill arising on the acquisition of the Partnership is based on a fair value less costs to sell calculation, using a bid price estimated from the transaction as there have been no significant changes in economic circumstances in the intervening period. This accounting treatment resulted in an impairment loss of nil (2006: nil).

17. Other financial liabilities (non-current)

	2007 £	2006 £
Directors' loans	28,875	7,825

For terms and conditions relating to related party loans, refer to Note 32.

Notes to the financial statements

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18. Share based payments

Share Option Plan

The Company operates the Share Option Plan by which certain of the executive directors and other senior executives are able to subscribe for 875,000 ordinary shares in the Company. The exercise price of the options is £1.32, equal to the placing price of the shares issued on 15 November 2005. The options vest if and when profit-based performance conditions between 1 June 2005 and 31 May 2011 are fulfilled. A failure to meet these performance conditions causes the options to lapse. The contractual life of each option once granted expires on 31 May 2015.

Consultants' Share Option Plan

On 5 September 2006, 255,684 options to subscribe for ordinary shares in the Company were granted to senior executives under the Consultants' Share Option Plan. The exercise price of the options is £2.21, equal to the market price of the shares at the close of business on the day immediately preceding the date of grant. The options vest if and when the option holder achieves certain individual performance hurdles. If these performance hurdles, which are linked to individual sales revenues, are not met over the five financial years commencing on 1 June before the date of grant, the options lapse.

The expense for share-based payments made in respect of employee services under the Share Option Plan and the Consultants' Share Option Plan are recognised over their expected vesting periods. The expense recognised during the year ended 31 May 2007 is £62,762 (2006: £23,406), which entirely arises from equity-settled share-based payment transactions.

Williams de Broë option

On 16 November 2005 the Company granted Williams de Broë plc ('WdB') an option to subscribe for 170,455 ordinary shares in the Company. The exercise price of the option was £1.32, equal to the placing price of the shares issued on 15 November 2005. The contractual life of the option was the five years ending on 23 November 2010 and there were no cash settlement alternatives.

Options over 170,455 Ordinary Shares in the Company were exercised on 17 October 2006 by W Deb MVL plc (formerly WdB) at the exercise price of £1.32.

Summary

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year:

	2007 No.	2007 WAEP £	2006 No.	2006 WAEP £
Outstanding as at 1 June	1,045,455	1.32	–	–
Granted during the year	255,684	2.21	1,045,455	1.32
Forfeited during the year	–	–	–	–
Exercised	(170,455)	(1.32)	–	–
Expired during the year	–	–	–	–
Outstanding at 31 May	1,130,684	1.52	1,045,455	1.32
Exercisable at 31 May	–	–	170,455	1.32

For the share options outstanding as at 31 May 2007, the weighted average remaining contractual life is 8.6 years (2006: 8.6 years). The weighted average fair value of options granted during the year was £0.70 (2006: £0.23). The WAEP for options outstanding at the end of the year was £1.52 (2006: £1.32).

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black Scholes Merton model, taking into account the terms and conditions upon which the options were granted.

Notes to the financial statements

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18. Share based payments (continued)

The following table lists the inputs to the model used for the year ended 31 May 2007:

	Consultants' Share Option Plan 2007	Share Option Plan 2007
Share price at date of grant	£2.20	£1.05
Option exercise price	£2.21	£1.32
Expected life of option (years)	7	6
Expected share price volatility (%)	30.0	25.0
Dividend yield (%)	1.0	1.0
Risk-free interest rate (%)	4.58	4.57

The share price at date of grant for options issued under the Share Option Plan and Consultants' Share Option Plan is based on the market value of the shares on that date as agreed by HM Revenue & Customs. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grant were incorporated into the measurement of fair value.

The share price at 31 May 2007 and movements during the year are set out in the Directors' Remuneration Report.

19. Business combinations

	2007 £	2006 £
Purchase of subsidiaries		
Net assets acquired:		
Cash	234,443	1,149
Other debtors	149	15
Other creditors	(2,700)	–
	231,892	1,164
Purchase of businesses		
Client portfolios	–	1,197,107
	231,892	1,198,271

On 31 May 2007, the Group acquired the entire issued share capital of Professional Independent Pension Trustees Limited for a cash consideration of £231,892.

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20. Trade and other receivables (current)

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Trade receivables	1,183,704	1,351,499	1,183,704	1,351,499
Other receivables	202,751	144,591	202,587	144,576
Prepayments and accrued income	1,793,523	1,693,093	1,793,523	1,693,093
	3,179,978	3,189,183	3,179,814	3,189,168

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. As at 31 May 2007, trade receivables at nominal value of £158,801 (2006: £139,215) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

Group and Company	2007 £	2006 £
As at 1 June	139,215	29,582
Charge for year	19,586	109,633
At 31 May	158,801	139,215

At 31 May, the analysis of trade receivables that were past due but not impaired is as follows:

	Total £	Neither past due nor impaired £	Past due but not impaired			
			< 30 days £	30-60 days £	60-90 days £	>90 days £
2007	1,183,704	466,260	356,171	89,216	66,536	205,521
2006	1,351,499	377,727	545,696	202,360	38,060	187,656

21. Financial assets (current)

Financial assets (current) for the Group and Company of £1,954,315 (2006: £1,915,994) represent unsecured short-term loans made by the Company to certain property syndicates to facilitate their purchase of commercial property. These loans accrue interest at a rate of 3% above the Bank of England's base rate.

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22. Cash and short-term deposits

For the purpose of the cashflow statements, cash and cash equivalents comprise the following at 31 May:

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Cash at banks and on hand	2,799,569	441,160	2,795,769	440,011
Short-term deposits	–	–	–	–
	2,799,569	441,160	2,795,769	440,011
Bank overdrafts	(72,818)	(347,705)	(72,818)	(347,705)
	2,726,751	93,455	2,722,951	92,306

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is £2,726,751 (2006: £93,455).

At 31 May 2007, the Group had available £3,100,000 (2006: £600,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

23. Share capital and reserves

	Ordinary shares of 1p Thousands	Ordinary shares of £1 Thousands	Ordinary shares of 1p £	Ordinary shares of £1 £
Share capital				
Authorised				
At 1 June 2005	–	100	–	100,000
Conversion and subdivision to ordinary shares of 1p	10,000	(100)	100,000	(100,000)
Creation of 15,000,000 ordinary shares of 1p	15,000	–	150,000	–
At 31 May 2006	25,000	–	250,000	–
Increase in authorised share capital	5,000	–	50,000	–
At 31 May 2007	30,000	–	300,000	–
Issued and fully paid				
At 1 June 2005	–	50	–	–
Conversion and subdivision to ordinary shares of 1p	5,000	(50)	50,000	(50,000)
Bonus issue of 7,500,000 ordinary shares of 1p	7,500	–	75,000	–
Placing issue of 4,545,455 ordinary shares of 1p	4,546	–	45,455	–
At 31 May 2006	17,046	–	170,455	–
Exercise of share options	170	–	1,704	–
At 31 May 2007	17,216	–	172,159	–

On 10 November 2005, the share capital of the Company was altered by the conversion and subdivision of each of the issued and unissued ordinary shares of £1 in the capital of the Company into 100 ordinary shares of 1p. On the same date, the authorised share capital of the Company was increased from £100,000 to £250,000 by the creation of 15,000,000 ordinary shares of 1p, and £750,000 of the amount standing to the credit of the Company's retained earnings was capitalised and used by the Directors in paying up and distributing by way of a bonus issue 7,500,000 ordinary shares of 1p each on the basis of 1/2 new ordinary share of 1p for each ordinary share in issue.

Notes to the financial statements

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23. Share capital and reserves (continued)

On 15 November 2005, 4,545,455 ordinary shares of 1p each were issued at £1.32 per share pursuant to a placing.

On 17 October 2006, the share capital of the Company was increased by the allotment of 170,455 new ordinary shares of 1p each in the capital of the Company at £1.32 per share, following the exercise of options over these shares by W Deb MVL plc (formerly Williams de Broë plc) under the option agreement dated 16 November 2005 made between the Company and Williams de Broë. On 19 October 2006 the authorised share capital of the Company was increased from £250,000 to £300,000 by the creation of 5,000,000 ordinary shares of 1p.

Share option schemes

The Company has two share option schemes under which options to subscribe for the Company's shares have been granted to certain executives and senior employees (Note 18).

Reserves

Group and Company	Equity-share based payments £	Share premium account £	Capital redemption reserve £	Retained earnings £
At 1 June 2005	–	–	–	2,654,239
Capitalised on bonus issue	–	–	–	(75,000)
Capitalised on redemption of preference shares	–	–	2,000,000	(2,000,000)
Arising on share issue	–	5,954,546	–	–
Costs of share issue	–	(633,395)	–	–
Share based payments	80,417	–	–	–
Deferred tax asset taken to equity	14,270	–	–	–
Profit for the financial year	–	–	–	1,493,693
At 31 May 2006	94,687	5,321,151	2,000,000	2,072,932
Arising on share issue	–	223,296	–	–
Share based payments	62,762	–	–	–
Deferred tax asset taken to equity	102,031	–	–	–
Exercise of share options	(57,011)	57,011	–	–
Profit for the financial year	–	–	–	2,192,854
Dividends	–	–	–	(384,972)
At 31 May 2007	202,469	5,601,458	2,000,000	3,880,814

24. Summary statement of changes in equity

	2007 £	2006 £
Profit for the year	2,192,854	1,493,693
Dividends paid	(384,972)	–
Net proceeds of share issue	225,000	5,366,606
Share based payments	62,762	80,417
Deferred tax asset taken to equity	102,031	14,270
Net addition to equity	2,197,675	6,954,986
Opening equity attributable to equity holders of the parent	9,659,225	2,704,239
Closing equity attributable to equity holders of the parent	11,856,900	9,659,225

Notes to the financial statements

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25. Trade and other payables (current)

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Trade payables	79,341	28,294	79,341	28,294
Other taxation and social security	193,516	196,290	193,516	196,290
Other payables	31,575	7,825	28,875	7,825
Accruals and deferred income	1,323,457	960,787	1,323,457	960,787
	1,627,889	1,193,196	1,625,189	1,193,196

26. Provisions

Group and Company	Provision for client claims £	Deferred consideration £	Dilapidations £	Clawbacks £	Total £
At 1 June 2005	47,966	–	31,380	9,209	88,555
Arising on the acquisition of businesses	–	104,876	–	–	104,876
Transfer from income statement	–	–	18,620	3,465	22,085
At 31 May 2006	47,966	104,876	50,000	12,674	215,516
Deferred consideration paid	–	(6,572)	–	–	(6,572)
Transfer from income statement	67,534	–	–	–	67,534
At 31 May 2007	115,500	98,304	50,000	12,674	276,478
Current 2007	115,500	20,858	–	12,674	149,032
Non-current 2007	–	77,446	50,000	–	127,446
	115,500	98,304	50,000	12,674	276,478
Current 2006	47,966	10,433	–	12,674	71,073
Non-current 2006	–	94,443	50,000	–	144,443
	47,966	104,876	50,000	12,674	215,516

Provision for client claims

A provision is recognised for the excess on the Group's professional indemnity insurance when the Group becomes aware of a possible client claim.

Deferred consideration

The Group has entered into certain acquisition agreements that provide for deferred consideration to be paid. Details of these agreements and the basis of calculation of the net present value of the deferred consideration is summarised below. The Group estimates the net present value of deferred consideration payable within the next 12 months is £20,858 (2006: £10,433).

On 20 June 2005, the Group acquired the client portfolio of Geoffrey Bernstein, a small practice providing pensioner trusteeship in London and the home counties. The total cost for the purchase of business was a cash consideration of £379,987 paid on completion, plus legal fees of £3,804.

Notes to the financial statements

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26. Provisions (continued)

Deferred consideration (continued)

In addition, the acquisition agreement provides for deferred consideration to be paid based on an amount equal to 20% of all investment commissions paid to the Group by contracts entered into by the Group during the five years from 20 June 2005. The deferred consideration is payable at 12-monthly intervals following completion of the acquisition. Whilst it is not possible to determine the exact amount of the deferred consideration (as this will depend on commission earned on contracts), the Group estimates the net present value of the earn-out to be £56,807, using cash flow projections approved by the board covering the deferred consideration period. The discount rate applied to the cash flow projections is 5.5%.

On 27 January 2006, the Group acquired the entire issued share capital of Suffolk Life Trustee Company Limited ("SLT"), together with the Suffolk Life Group plc's portfolio of small self-administered pension scheme clients for an initial consideration of £701,149. The acquisition agreement also provides for deferred consideration to be paid to Suffolk Life based on investment commissions earned by the Group during the three years from 27 January 2006. Whilst it is not possible to determine the exact amount of deferred consideration (as this will depend on commission earned on contracts), the Group estimates the net present value of the deferred consideration to be £41,497, using cash flow projections approved by the board covering the deferred consideration period. The discount rate applied to the cash flow projections is 5.5%.

Dilapidations

Under the terms of the lease for the Group's premises at Grove Park, Enderby, the Group has an obligation to return the property in a specified condition at the end of the lease term in 2025. The Group estimates the net present value of the cost of dilapidations on its leasehold premises to be £50,000. The discount rate applied to the cash flow projections is 5.5%.

Clawbacks

The Group receives some initial commission on indemnity terms and hence the Group provides for the expected level of clawback, based on past experience. The provision for commission clawbacks as at 31 May 2007 was £12,674. No discount rate is applied to the projected cash flows due to their short term nature.

27. Reconciliation of operating profit to operating cash flows

	2007 £	2006 £
Group and Company		
Profit on ordinary activities before financing	2,951,406	2,158,557
Amortisation of intangible assets	109,954	75,697
Depreciation of fixed assets	103,406	93,487
Share based payments	62,762	23,406
Provisions	60,962	18,620
Loss on disposal of fixed assets	7,407	–
Decrease/(increase) in receivables	9,354	(645,145)
Increase/(decrease) in payables	410,943	610,059
Net cash inflow from operating activities	3,716,194	2,334,681

Notes to the financial statements

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28. Analysis of changes in net debt

Group	As at 1 June 2006 £	Cash flow £	Non-cash changes £	As at 31 May 2007 £
Cash at bank and in hand	441,160	2,358,409	–	2,799,569
Overdraft	(347,705)	274,887	–	(72,818)
	93,455	2,633,296	–	2,726,751
Debt due within one year	(7,825)	(21,050)	–	(28,875)
Total	85,630	2,612,246	–	2,697,876

Company	As at 1 June 2006 £	Cash flow £	Non-cash changes £	As at 31 May 2007 £
Cash at bank and in hand	440,011	2,355,758	–	2,795,769
Overdraft	(347,705)	274,887	–	(72,818)
	92,306	2,630,645	–	2,722,951
Debt due within one year	(7,825)	(21,050)	–	(28,875)
Total	84,481	2,609,595	–	2,694,076

29. Reconciliation of net cash flow to movement in net debt

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Movement in cash in the period	2,633,296	(1,194,093)	2,630,645	(1,195,242)
Movement on Directors' loans	(21,050)	11,473	(21,050)	11,473
Repayment of subordinated loan	–	3,000,000	–	3,000,000
New bank borrowings	–	1,200,000	–	1,200,000
Repayment of bank borrowings	–	(1,200,000)	–	(1,200,000)
Cash out flow from redemption of preference shares	–	2,000,000	–	2,000,000
Movement in net debt in period	2,612,246	3,817,380	2,609,595	3,816,231
Opening net funds/(debt)	85,630	(3,731,750)	84,481	(3,731,750)
Closing net funds/(debt)	2,697,876	85,630	2,694,076	84,481

Notes to the financial statements

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30. Commitments and contingences

Operating lease agreements where the Group is lessee

The Group has entered into a commercial lease on its premises at Grove Park, Enderby. This lease has a duration of 20 years, from 10 June 2005. The amount of annual rent is to be reviewed at three-yearly intervals, commencing 10 June 2008. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and buildings	
	2007	2006
	£	£
Group and Company		
Not later than one year	168,000	168,000
After one year but not more than five years	672,000	672,000
After five years	2,184,000	2,352,000
	3,024,000	3,192,000

31. Pension costs

The Group makes discretionary payments into the personal pension schemes of employees and contributions are charged in the profit and loss account as they become payable. The charge for the period was £201,019 (2006: £102,275).

32. Related party disclosures

Ian Mattioli, Robert Woods and the private pension schemes of Ian Mattioli, Robert Woods, Nathan Imlach and Murray Smith, together with the private pension schemes of certain other employees of the Group, have a beneficial interest in MW Properties (No 16) Limited. The Group leases its premises at Grove Park, Enderby from MW Properties (No 16) Limited, and paid rentals of £168,000 during the year. At the year end the Group had prepaid future rentals of £10,586.

Key management personnel receive compensation in the form of short-term employee benefits and equity compensation benefits (see Note 9). Key management personnel, representing the executive directors and four other executives, received total compensation of £1,342,664 for the year ended 31 May 2007 (2006: £1,130,572). Total remuneration is included in "employee benefits expense", and analysed as follows:

	2007	2006
	£	£
Short-term employee benefits	1,232,846	1,046,580
Post-employment benefits	73,218	60,586
Share-based payments	36,600	23,406
	1,342,664	1,130,572

At 31 May 2007, Ian Mattioli was owed £21,712 (2006: £4,397) and Robert Woods was owed £7,163 (2006: £3,428) by the Group. These Directors' loans carry no coupon and have no fixed repayment date.

Notes to the financial statements

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33. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and overdrafts, trade payables and loans given. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets, such as trade receivables and cash and short-term deposits, which arise directly from its operations.

It is, and has been throughout 2007 and 2006, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's cash and short-term deposits with floating interest rates.

The Group's policy is to manage its interest income using a mix of fixed and variable rate deposits. The Group's policy is to secure competitive rates of interest whilst maintaining sufficient funds available for it to pursue new business opportunities.

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate deposits). There is no impact on the Group's equity.

	Increase/decrease in basis points	Effect on profit before tax £
2007		
£ Sterling	+ 10	393
£ Sterling	- 10	(393)
2006		
£ Sterling	+ 10	21
£ Sterling	- 10	(21)

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and property syndicate loans, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Loans are advanced to new property syndicates to facilitate the purchase of commercial property. In the event that a syndicate fails to raise sufficient funds to complete the property purchase, the Group may either take up ownership of part of the property or lose some, or all, of the loan. However, to mitigate this risk, loans are only approved by the board under strict criteria, which include independent professional advice confirming the market value of the underlying property.

Notes to the financial statements

continued

33. Financial risk management objectives and policies (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and leases.

The table below summarises the maturity profile of the Group's financial liabilities at 31 May 2006 and 2007 based on contractual undiscounted payments:

Year ended 31 May 2007	On demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	> 5 years £	Total £
Interest bearing loans and borrowings	72,818	–	–	–	–	72,818
Trade and other payables	–	1,627,889	–	–	–	1,627,889
	72,818	1,627,889	–	–	–	1,700,707

Year ended 31 May 2006	On demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	> 5 years £	Total £
Interest bearing loans and borrowings	347,705	–	–	–	–	347,705
Trade and other payables	–	1,193,196	–	–	–	1,193,196
	347,705	1,193,196	–	–	–	1,540,901

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages the capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, calculated as net debt divided by capital. The Group includes within net debt interest bearing loans and borrowings, trade and other payables less cash and cash equivalents. Capital comprises all components of equity (i.e. share capital, share based payments, share premium, retained earnings and other reserves).

The Company's operations are authorised and regulated by the Financial Services Authority ("FSA"). Under the FSA's financial resource requirements for personal investment firms as set out in The Interim Prudential Sourcebook for Investment Business ("IPRU(INV)"), the Company is categorised as a Category B2 Personal Investment Firm. As such, the Company is required to maintain own funds of at least £10,000 (2006: £10,000) at all times.

In addition, as part of the FSA's concessions in relation to the excess on professional indemnity insurance policies maintained by regulated firms, the Company must maintain a further £103,000 (2006: £90,000) of own funds at all times.

Notes to the financial statements

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33. Financial risk management objectives and policies (continued)

Capital management (continued)

In March 2007 the Company received authorisation from the FSA to establish and operate personal pensions schemes, including SIPPs, under the new regulatory regime introduced with effect from 6 April 2007. The Company's firm category (as defined in IPRU(INV)) did not change, but the amendment to the Company's scope of permissions which allows the Company to control, but not hold, client money resulted in additional financial resource requirements. In addition to the existing obligation to maintain £113,000 of own funds at all times, the Company is subject to the following additional financial resource requirements:

- (a) To have at all times adjusted net current assets of at least £1; and
- (b) To have financial resources the higher of:
 - 6/52 of its relevant annual expenditure, calculated in accordance with IPRU(INV);
 - An amount equal to £400 multiplied by the number of its advisers; and
 - £10,000.

Throughout the year, the Company has complied with the FSA's financial resource requirements outlined above.

The Company policy, which remains unchanged from the year ended 31 May 2006, is to maintain a gearing ratio of less than 50%, to allow the Company to secure access to additional finance at a reasonable cost by maintaining a level of debt capacity which will enable the Company to pursue new business opportunities as they arise. Gearing ratios as at 31 May 2006 and 2007 were as follows:

	2007 £	2006 £
Gearing		
Interest bearing loans and borrowings	72,818	347,705
Trade and other payables	1,627,889	1,193,196
less: Cash and cash equivalents	(2,799,569)	(441,160)
Net debt	(1,098,862)	1,099,741
Share capital	172,159	170,455
Share premium	5,601,458	5,321,151
Fair value and other reserves	2,202,469	2,094,687
Retained earnings:		
- At 1 June	2,072,932	579,239
- Retained earnings for period	1,807,882	1,493,693
Capital	11,856,900	9,659,225
Gearing ratio:		
Net debt/capital	(9.3)%	11.4%

Notes to the financial statements

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34. Financial instruments

Fair values

The Directors consider that the carrying value of financial instruments in the Company's and the Group's financial statements is equivalent to fair value.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Company's and the Group's financial instruments that are exposed to interest rate risk:

Year ended 31 May 2007	1 year £	1-2 years £	2-3 years £	3-4 years £	4-5 years £	> 5 years £	Total £
Floating rate							
Financial assets (current)	1,954,315	–	–	–	–	–	1,954,315
Cash assets	2,799,569	–	–	–	–	–	2,799,569
Bank overdrafts	72,818	–	–	–	–	–	72,818
<hr/>							
Year ended 31 May 2006	1 year £	1-2 years £	2-3 years £	3-4 years £	4-5 years £	> 5 years £	Total £
Floating rate							
Financial assets (current)	1,915,994	–	–	–	–	–	1,915,994
Cash assets	441,160	–	–	–	–	–	441,160
Bank overdrafts	347,705	–	–	–	–	–	347,705

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. The other financial instruments of the Company and Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Credit risk

There are no significant concentrations of credit risk within the Group.

35. Explanation of transition to IFRSs

For all periods up to and including the year ended 31 May 2006, the Group prepared its financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"). These financial statements, for the year ended 31 May 2007, are the first the Group has prepared in accordance with International Financial Reporting Standards ("IFRS").

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 June 2006 as described in the accounting policies. In preparing these financial statements, the Group opening balance sheet was prepared as at 1 June 2005, the Group's date of transition to IFRS.

In preparing its opening IFRS balance sheet and comparative information for the year ended 31 May 2006, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRSs has effected the Group's financial position and financial performance is set out in the tables and the notes that accompany the tables in Note 36.

Notes to the financial statements

continued

36. Reconciliations between UK GAAP and IFRS

36.1 Reconciliation of balance sheet at 1 June 2005

	UK GAAP 1 June 2005 £	Notes 1 & 2 IASI Reformat £	Note 3 IAS37 Provisions £	Notes 4 & 5 IAS38 Intangible assets £	Note 6 IAS38 Restatement £	IFRS 1 June 2005 £
Assets						
Property, plant and equipment	224,630	–	–	(2,219)	–	222,411
Intangible assets – Goodwill	4,695,220	(2,348,090)	–	–	–	2,347,130
Intangible assets – Other	–	2,348,090	–	7,144	–	2,355,234
Total non-current assets	4,919,850	–	–	4,925	–	4,924,775
Trade and other receivables	2,765,864	–	9,209	–	–	2,775,073
Cash and cash equivalents	1,381,461	–	–	–	–	1,381,461
Total current assets	4,147,325	–	9,209	–	–	4,156,534
Total assets	9,067,175	–	9,209	4,925	–	9,081,309
Equity						
Issued capital	50,000	–	–	–	–	50,000
Retained earnings	2,680,694	–	–	4,925	(31,380)	2,654,239
Total equity	2,730,694	–	–	4,925	(31,380)	2,704,239
Non-current liabilities						
Deferred income tax liabilities	8,225	–	–	–	–	8,225
Provisions and other liabilities	47,966	(47,966)	–	–	–	–
	56,191	(47,966)	–	–	–	8,225
Current liabilities						
Trade and other payables	593,711	–	–	–	–	593,711
Current income tax liabilities	592,666	–	–	–	–	592,666
Interest-bearing loans and borrowings	5,000,000	–	–	–	–	5,000,000
Bank overdraft	93,913	–	–	–	–	93,913
Provisions and other liabilities	–	47,966	9,209	–	31,380	88,555
	6,280,290	47,966	9,209	–	31,380	6,368,845
Total liabilities	6,336,481	–	9,209	–	31,380	6,377,070
Total equity and liabilities	9,067,175	–	9,209	4,925	–	9,081,309

Notes to the financial statements

continued

36. Reconciliations between UK GAAP and IFRS (continued)

36.1 Reconciliation of balance sheet at 1 June 2005 (continued)

Notes:

1. Under IFRS format £47,966 of client claim provision classified within provisions for liabilities and charges under UK GAAP has been re-classified as a provision within current liabilities.
2. Under IFRS format £2,348,090 of goodwill under UK GAAP has been reclassified as client portfolios within intangible assets.
3. Under IFRS format £9,209 of clawback provision netted off against trade receivables under UK GAAP has been re-classified as a provision within current liabilities.
4. Under IAS38 *Intangible Assets*, software with a net book value of £2,219 has been reclassified as intangible assets.
5. Under IAS38 *Intangible Assets*, salary costs of £4,925 incurred developing internally generated software have been capitalised as intangible assets.
6. A review of provisions under IAS37 *Provisions, Contingent Liabilities and Contingent Assets* identified an error in the financial statements for periods up to 31 May 2005, which resulted in no provision for dilapidations on the Group's former offices at Watling House, Hinckley being recognised within current liabilities. The correction of this error in accordance with IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors* resulted in adjustments to reduce retained earnings by £31,380 and increase current liabilities by £31,380.

Notes to the financial statements

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36. Reconciliations between UK GAAP and IFRS (continued)

36.2 Reconciliation of balance sheet at 31 May 2006 and 1 June 2006

	UK GAAP 1 June 2006 £	Notes 1, 2 3 & 4 IASI Reformat £	Note 5 IAS12 Taxation £	Notes 6 & 7 IAS38 Intangible assets £	Note 8 IAS38 Restatement £	IFRS 1 June 2006 £
Assets						
Property, plant and equipment	398,566	–	–	(8,070)	–	390,496
Intangible assets – Goodwill	5,816,630	(3,469,500)	–	–	–	2,347,130
Intangible assets – Other	–	3,469,500	–	19,340	–	3,488,840
Deferred income tax assets	2,676	–	14,270	–	–	16,946
Total non-current assets	6,217,872	–	14,270	11,270	–	6,243,412
Trade and other receivables	5,092,503	12,674	–	–	–	5,105,177
Cash and cash equivalents	441,160	–	–	–	–	441,160
Total current assets	5,533,663	12,674	–	–	–	5,546,337
Total assets	11,751,535	12,674	14,270	–	–	11,789,749
Equity						
Issued capital	170,455	–	–	–	–	170,455
Share premium	5,321,151	–	–	–	–	5,321,151
Fair value and other reserves	2,080,417	–	14,270	–	–	2,094,687
Retained earnings	2,111,662	–	–	11,270	(50,000)	2,072,932
Total equity	9,683,685	–	14,270	11,270	(50,000)	9,659,225
Non-current liabilities						
Deferred income tax liabilities	–	–	–	–	–	–
Provisions and other liabilities	152,842	(58,399)	–	–	50,000	144,443
	152,842	(58,399)	–	–	50,000	144,443
Current liabilities						
Trade and other payables	1,193,196	–	–	–	–	1,193,196
Current income tax liabilities	374,107	–	–	–	–	374,107
Bank overdraft	347,705	–	–	–	–	347,705
Provisions and other liabilities	–	71,073	–	–	–	71,073
	1,915,008	71,073	–	–	–	1,986,081
Total liabilities	2,067,850	12,674	–	–	50,000	2,130,524
Total equity and liabilities	11,751,535	12,674	14,270	11,270	–	11,789,749

Notes to the financial statements

continued

36. Reconciliations between UK GAAP and IFRS (continued)

36.2 Reconciliation of balance sheet at 31 May 2006 and 1 June 2006 (continued)

Notes:

1. Under IFRS format £47,966 of client claim provision within provisions for liabilities and charges under UK GAAP has been re-classified as a provision within current liabilities.
2. Under IFRS format £10,433 of deferred consideration classified within provisions for liabilities and charges under UK GAAP has been re-classified as a provision within current liabilities.
3. Under IFRS format £12,674 of clawback provision netted off against trade receivables under UK GAAP has been re-classified as a provision within non-current liabilities.
4. Under IFRS format £3,469,500 of goodwill under UK GAAP has been reclassified as client portfolios within intangible assets.
5. Under IAS12 *Income Taxes* for employee share-based payment transactions the difference between the tax base of the employee services rendered to date (being the amount the taxation authorities will permit as a deduction in future periods) and the carrying value of nil, is a deductible temporary difference which results in a deferred tax asset of £14,270 recognised in equity, in addition to the deferred tax asset recognised in the income statement.
6. Under IAS38 *Intangible Assets*, software with a net book value of £8,070 has been reclassified as intangible assets.
7. Under IAS38 *Intangible Assets*, salary costs of £6,345 incurred during the period developing internally generated software have been capitalised as intangible assets.
8. A review of provisions under IAS37 *Provisions, Contingent Liabilities and Contingent Assets* identified in error in the financial statements for periods up to 31 May 2006, which resulted in no provision for dilapidations on the Group's offices at Watling House, Hinckley or Grove Park, Leicester being recognised within liabilities. The correction of these errors has resulted in adjustments to the opening balance sheet in accordance with IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The impact of these adjustments has been the release of a provision of £31,380 for dilapidations on the Group's offices at Watling House, Hinckley against dilapidation costs incurred during the period, and a provision of £50,000 for dilapidations on the Group's offices at Grove Park, Leicester being recognised within non-current liabilities.

Notes to the financial statements

continued

36. Reconciliations between UK GAAP and IFRS (continued)

36.3 Reconciliation of profits for the year ended 31 May 2006

	UK GAAP 31 May 2006 £	Note 1 IAS1 Reformat £	Note 2 IAS38 Intangible assets £	Note 3 IAS38 Restatement £	IFRS 31 May 2006 £
Revenue	7,572,845	–	–	–	7,572,845
Employee benefits expense	(3,278,024)	(23,406)	6,345	–	(3,295,085)
Other administrative expenses	(1,954,805)	23,406	–	(18,620)	(1,950,019)
Depreciation and amortisation	(169,184)	–	–	–	(169,184)
Operating profit before financing costs	2,170,832	–	6,345	(18,620)	2,158,557
Financial income	103,731	–	–	–	103,731
Financial expenses	(94,010)	–	–	–	(94,010)
Net financing costs	9,721	–	–	–	9,721
Profit before tax	2,180,553	–	6,345	(18,620)	2,168,278
Income tax expense	(674,585)	–	–	–	(674,585)
Profit for the period	1,505,968	–	6,345	(18,620)	1,493,693
Attributable to:					
Equity holders of the parent	1,505,968	–	6,345	(18,620)	1,493,693

Notes:

- Under IFRS format, £23,406 of share based payments classified as other administrative expenses under UK GAAP have been re-classified as employee benefits expense.
- Under IAS38 *Intangible Assets*, £6,345 of salary costs incurred developing internally generated software have been capitalised as intangible assets.
- A review of provisions under IAS37 *Provisions, Contingent Liabilities and Contingent Assets* identified in error in the financial statements for periods up to 31 May 2006, which resulted in no provision for dilapidations on the Group's former offices at Watling House, Hinckley and no provision for dilapidations on the Group's offices at Grove Park, Leicester being recognised. The correction of these errors has resulted in adjustments to the opening balances sheet in accordance with IAS8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The impact of these adjustments is to increase other administrative expenses by £18,620 following the release of the £31,380 provision for dilapidations at Watling House and the recognition of a provision for dilapidations at Grove Park of £50,000 within non-current liabilities.

Notes to the financial statements

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37. Post balance sheet events

Taxation

During March 2007 the UK government announced Budget tax changes which, if enacted in the proposed manner, will have a significant effect on the Group's future tax position. At 31 March 2007 these changes to the UK tax system are not regarded as "substantively enacted" as they are still subject to Parliamentary agreement and so their effect is not reflected in the Group's balance sheet at 31 May 2007. However, it is proposed that the rate of UK corporation tax will reduce from 30% to 28% from 1 April 2008. This rate change will affect the amount of future cash tax payments to be made by the Group and will also reduce the size of the Group's balance sheet deferred tax asset.

Changes to the UK capital allowances regime have also been proposed. The most significant of these changes for the Group are the reduction in the rate of capital allowances applicable to plant and machinery expenditure from 25% to 20% per annum on a reducing balance basis from 1 April 2008, and the reduction in the rate of capital allowances from 25% to 10% per annum on a reducing balance basis from 1 April 2008 for certain items of plant and machinery that become integral fixtures on a building.

Acquisition of Pension Consulting Limited

On 9 July 2007 Mattioli Woods plc acquired the entire issued share capital of Pension Consulting Limited ("PCL") for a total consideration of up to £1,925,000. PCL administers pension schemes on behalf of 145 small self-administered pension scheme ("SSAS") and 213 self-invested personal pension ("SIPP") clients. It has funds under trusteeship of over £185 million and its subsidiary company, PC Trustees Limited, acts as trustee to the schemes.

In the year ended 31 May 2007, PCL generated a profit on ordinary activities before taxation of £302,108 on revenues of £811,743. PCL's net assets at 31 May 2007 were £321,244.

The total consideration includes an initial payment of £1,525,000 funded from the Group's existing cash resources and deferred consideration of up to £400,000, of which £240,000 will be paid in the two years following completion, with the remaining payment of up to £160,000 being determined with reference to an earn-out mechanism based on growth in scheme numbers during the two years following completion.

38. Ultimate controlling party

The Company has no controlling party.

Notice of annual general meeting

Mattioli Woods plc
(the "Company")
Company Number: 03140521

NOTICE IS HEREBY GIVEN THAT the annual general meeting of the Company will be held at the offices of Mattioli Woods plc, MW House, 1 Penman Way, Grove Park, Enderby, Leicester, LE19 1SY on 18 October 2007 at 10am in order to consider and, if thought fit, pass resolutions 1 to 6 as ordinary resolutions and resolution 7 as a special resolution:-

Ordinary Resolutions

- 1 To re-elect as a director Ian Mattioli who is retiring in accordance with article 89 of the Company's articles of association and who being eligible is offering himself for re-election.
- 2 To re-elect as a director Nathan Imlach who is retiring in accordance with article 89 of the Company's articles of association and who being eligible is offering himself for re-election.
- 3 To receive, consider and adopt the directors' report and accounts of the Company for the period ended 31 May 2007.
- 4 To re-appoint Baker Tilly UK Audit LLP of 2, Whitehall Quay, Leeds, LS1 4HG as auditors and to authorise the directors to determine their remuneration.
- 5 To generally and unconditionally authorise the directors for the purposes of section 80 of the Companies Act 1985 (the "**Act**") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £65,000 provided that the authority hereby granted shall expire on the conclusion of the Company's next annual general meeting after the passing of this resolution but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all subsisting authorities, to the extent unused.
- 6 To declare a final dividend recommended by the directors of 1.7 pence per ordinary share for the year ended 31 May 2007.

Special Resolution

- 7 To empower the directors, subject to the passing of resolution 5 above, pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) wholly for cash pursuant to the authority conferred by resolution 5 above as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:
 - 7.1 in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and
 - 7.2 otherwise than pursuant to sub-paragraph 7.1 above, pursuant to the authority conferred by resolution 5 above up to an aggregate nominal amount of £17,215,

for a period expiring on the conclusion of the Company's next annual general meeting after the passing of this resolution, save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

By order of the Board

Nathan Imlach
Company Secretary

Registered Office: MW House, 1 Penman Way, Grove Park, Enderby, Leicester, LE10 1SY

Dated 14 September 2007

Notice of annual general meeting

continued

Notes:

- 1 A member entitled to attend and vote at the meeting is also entitled to appoint a proxy to attend and vote on a poll instead of him. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company.
- 2 Completion and return of the form of proxy will not preclude ordinary shareholders from attending or voting at the meeting, if they so wish.
- 3 To be effective, this proxy form must be lodged with the Company's registrars at Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham BR3 4ZB not later than 48 hours before the time of the meeting or any adjournment thereof, together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or, where the proxy form has been signed by an officer on behalf of a corporation, a notarially certified copy of the authority under which it is signed.
- 4 In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the register of members will be counted. Any alternations made to this proxy should be initialled.
- 5 In the case of a corporation this proxy must be given under its common seal or be signed on its behalf by an attorney or officer duly authorised.
- 6 As provided in Regulation 41 of the Uncertificated Securities Regulations 2001, only those members registered in the register of members of the Company 48 hours before the time set for the meeting shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- 7 A copy of the balance sheet and every document required by law to be annexed to it, which are to be laid before the above mentioned meeting, are enclosed. The register of interests of the directors in the share capital of the company and copies of contracts of service of directors with the Company will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the AGM.

Notes

Notes

Financial calendar

4 September	Preliminary announcement of results for the year ended 31 May 2007
12 September	Ex-dividend date for ordinary shares
14 September	Record date for final dividend
18 October	Annual General Meeting
19 October	Payment of final dividend on ordinary shares



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