

**Mattioli Woods plc**  
**Annual Report 2008**



## 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 155 staff, including 20 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 provide Mattioli Woods’ clients with a bespoke, personalised service, enhancing our reputation in the pension consultancy market and achieving profitable growth year-on-year. Mattioli Woods’ core values provide our staff and our clients with an open, passionate and caring organisation of integrity.

## Index

1	Highlights and financial calendar
2	Chairman’s statement
4	Chief Executive’s review
10	Board of directors
12	Company information
13	Directors’ report
17	Corporate governance
20	Directors’ remuneration report
24	Independent auditors’ report
25	Consolidated income statement
26	Statement of recognised income and expense
27	Balance sheets
28	Cash flow statements
29	Notes to the financial statements

## Financial highlights

Revenue up  
20.3% to £10.83m  
(2007: £9.00m)

Profit before tax and  
amortisation up  
14.4% to £3.73m  
(2007: £3.26m)

Adjusted EPS\* up  
16.4% to 15.6p  
(2007: 13.4p)

Proposed final  
dividend up  
17.6% to 2.0p  
(2007: 1.7p)

Advising on  
£1.35bn  
(2007: £0.82bn)  
of core funds under trusteeship

Cash at period end of  
£2.54m  
(2007: £2.80m)

\* Before amortisation of intangible assets. Basic EPS up 11.7% to 14.3p (2007: 12.8p)

## Operational highlights

- **Organic growth of 18.3% in SIPP numbers (2007: 21.1%)**
- **Two acquisitions completed and fully integrated**
- **Core SSAS and SIPP scheme numbers increased to 2,446 (2007: 1,603)**
  - 358 core schemes acquired with PCL in July 2007
  - 290 core schemes acquired with JB Group in February 2008
- **Average core scheme value of £0.55m (2007: £0.51m)**
- **Michael Kershaw appointed as second Non-Executive Director**
- **Mark Smith appointed as Operations Director**
- **Introduction of Share Incentive Plan in June 2008**
- **Self-investment of protected-rights monies possible from October 2008**

# Chairman's statement

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I am pleased to report another year of strong results, with continued earnings growth. We completed two successful acquisitions and core funds under trusteeship (which excludes third-party administration cases) rose from £819m at the start of the year to £1.35bn at the year-end. We also continue to enjoy strong organic growth, with an 18.3% (2007: 21.1%) increase in SIPP numbers before acquisitions. The core SSAS and SIPP portfolio grew to a total of 2,446 schemes at 31 May 2008 (2007: 1,603).

We have achieved a considerable amount since our admission to AIM in November 2005. However, I see our success to date as being just the first few steps of the journey. The SIPP market remains strong, providing us with exciting opportunities for continued organic growth and potential acquisitions in what is still a fragmented marketplace.

## Trading results

In the year ended 31 May 2008, revenue increased by 20.3% to £10.83m (2007: £9.00m) and profit before tax increased by 11.4% to £3.51m (2007: £3.15m). Adjusted earnings per share (adding back amortisation on intangible assets) were up 16.4% to 15.6p (2007: 13.4p). The Board is pleased to recommend a final dividend for the year of 2.0p per Ordinary Share (2007: 1.7p), an increase of 17.6%.

Notwithstanding cash costs of £3.02m on the two acquisitions completed during the year, our business remains highly cash generative. Cash balances at the period end were £2.54m (2007: £2.80m).

## The market

The SIPP market is estimated to be already approaching 400,000 schemes. I expect to see the market continue to evolve as new players develop diverse approaches. The UK is experiencing a shift away from a culture of company pension provision to one of greater individual responsibility. The decline in the number of defined benefit schemes is resulting in lower company contribution rates. Whilst this will reduce pension funding for lower earners, I believe it will lead to an increasing awareness amongst higher earners of the need to plan for retirement and obtain informed advice.

There is compelling evidence that the majority of companies operating defined benefit schemes wish to wind-up such arrangements. This will increase demand for pension consultancy services and ultimately lead to substantial sums currently locked-up in defined benefit schemes being transferred into alternative pension arrangements. I believe the SIPP will become the pension arrangement of choice for people at the top end of the market.

## The regulatory environment

The Government has recently announced that 'contracted-out' personal pension plans may be transferred to self-invested arrangements for the first time. Contracting-out of the State Second Pension (formerly the State Earnings Related Pension Scheme or "SERPS") has been possible via a personal pension since 1988. Currently, money built up from national insurance rebates when people contract-out (known as "protected-rights monies") can only be held in a restricted range of funds. It is estimated that up to £100bn

“Core funds under trusteeship now exceed £1.35bn”

of protected-rights monies are locked up in personal pensions alone. The majority of existing and prospective SIPP clients have some form of contracted-out scheme and the transfer of these arrangements into a SIPP will be permitted from October this year. Because contracted-out plans cannot impose transfer penalties, I expect few to remain as stand-alone arrangements and the ensuing transfers will boost both the number of scheme members and the value of our funds under trusteeship.

The Financial Services Authority ("FSA") published its discussion paper "A Review of Retail Distribution" in June 2007, seeking to improve the efficiency of the market for the distribution of retail investment products. This set out increased regulatory and professional requirements the FSA is proposing for independent financial advisers ("IFAs") which, I believe, is likely to lead to further consolidation in our key markets.

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 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 this to lead to increased demand for trouble-shooting and specialist advisory services such as our own.

The review also proposes wider adoption of a more transparent remuneration model (known as "Customer Agreed Remuneration") where the costs of intermediary services are separated from the costs of the product. Our fee-based revenue model means Mattioli Woods is well-placed to deal with any such regulatory change.

## Strategy

Despite strong growth over the last few years, the SIPP market is still very much in its infancy. We predict assets under management across the market will at least double from £50bn to £100bn over the next few years. As a result, I expect to see increasing demand for the broader retirement wealth management services we provide in conjunction with our core pension consultancy.

We are focused on creating a scalable platform to allow us to take full advantage of these opportunities. We have strengthened the Board during the year through the appointments of Mark Smith (Operations Director) and Michael Kershaw (Non-Executive Director). We are investing to build awareness of the Mattioli Woods' brand and have launched a new suite of literature, which includes new corporate and SIPP brochures.

## Outlook

We are a people business. To accelerate the rate at which we can develop capacity, whilst further enhancing client service levels, we plan additional investment in our graduate recruitment and internal training initiatives.

Events in both credit and equity markets over the last year have made life more challenging for investment advisers generally and the economic outlook for the UK remains uncertain. Mattioli Woods was founded during the recession of the early 1990's and our experience is that economic downturns generally lead to a greater interest in pensions among those who are on what might be described as 'the flight path to retirement'. Individuals who have accumulated the most substantial pension funds are generally those who are in greatest need of impartial retirement wealth management advice. This is the advice Mattioli Woods provides.

Trading in the current period continues to be in line with expectations and it is with real enthusiasm that I look forward to continuing to grow our business over the next 12 months.

## Bob Woods

Chairman  
1 September 2008



I am proud we have continued our track record of growth whilst maintaining our strong business ethics and excellent client service. Organic growth in scheme numbers achieved through professional networking, seminars and client referrals has been enhanced by two acquisitions during the year. We are delighted to have successfully integrated the staff of both the acquired businesses, bringing new skills and experience into our organisation.

We continue to invest in our people and systems with the aim of advising our clients more efficiently and effectively. Most of our clients are over 45 years old and have pension assets in excess of £250,000. These clients are keen to optimise their retirement savings and typically make use of both our pension consultancy and investment advisory services. Against a backdrop of uncertain markets, we are seeing strong demand for bespoke pension investment products, including 100% capital-guaranteed bonds and our syndicated property initiative.

## **Business objective and strategy**

Our objective is to continue to provide a bespoke, personalised service to clients in the retirement wealth market, achieving profitable growth year-on-year. This is key to achieving the financial and non-financial measures that increase shareholder value.

## **Revenue streams**

The Group's turnover is derived from three key revenue streams: pension consultancy and administration; investment planning and property syndicates.

### *Pension consultancy and administration*

Mattioli Woods' core business is pension consultancy, involving the provision and administration of SIPPs and SSASs. Our client base comprises owner-managers, senior executives and professional persons. 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 for special one-off activities. Revenues from time-based fees have increased by 20.1% to £4.79m (2007: £3.99m).

### *Investment planning*

The key feature of our approach to retirement wealth management is the impartial nature of our investment advice. We focus on providing solutions tailored to each individual client's needs and offer the whole of the market, including our own bespoke products.

Our rationale for any new product development is to enhance our clients' existing position. Our clients' desire to protect their capital whilst retaining the possibility of capital growth linked to investment in more volatile and speculative indices led us to develop our capital-guaranteed bond programme. We launched five (2007: three) 100% capital-guaranteed bonds during the year with clients subscribing a total of £14.7m (2007: £7.4m).

Our fee-based model reinforces our ability to provide appropriate advice to our 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. Periods of volatility in a particular asset class may see changes in how our investment planning revenues are derived. However, a great strength of our business is that we can continue to derive income from investments in all asset classes, whilst ensuring our clients' investment strategies are appropriately aligned to the prevailing market conditions. Investment planning revenues grew by 7.1% in 2008 to £4.37m (2007: £4.08m).

### *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 recommends appropriate properties for syndication.

We believe commercial property is ideally suited as a retirement investment. Good quality properties with strong leases and good quality tenants typically provide stable returns over the long-term. Much has been written over the last few months about the current state of the UK commercial property market. However, indications are that prime commercial property has not suffered the falls in value expressed in the media.

Market conditions may lead to lower price expectations amongst prospective vendors, creating new buying opportunities for our clients. However, we have seen a reduction in the number of prime commercial properties coming onto the market. Despite this environment, we have been pleased to facilitate the purchase of six (2007: seven) new properties during the year with a combined value of £23.0m (2007: £19.1m). The total number of property syndicates using our administrative services at the year end increased to 36 (2007: 30). Total income from property syndicates was £1.66m (2007: £0.93m), with £0.71m (2007: £0.40m) of this being derived from our annual administration services.

### **Market**

Our markets are serviced by a wide range of suppliers offering diverse services to individual and corporate clients. These markets are fragmented but remain highly competitive.

This fragmentation reinforces my belief that our holistic service offering, coupled with the introduction of innovative new products, is 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 to provide investment advice and to establish, operate and wind-up personal pension schemes, including SIPPs.

A number of the Group's subsidiaries are registered with HM Revenue & Customs ("HMRC") as scheme administrators for pension schemes (including SSASs). All pension schemes must be registered with The Pensions Regulator.

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.

The FSA's consultation paper 'A Review of Retail Distribution' considers how fees and commissions will be generated in the future by FSA regulated organisations and is likely to lead to reduced commissions from product providers. Our revenues are predominantly fee-based and we believe the proposed changes would not have a material impact on future revenues. However, the final outcomes of the FSA's review remain uncertain.

The FSA's SIPP regulation regime introduced in 2007 affords additional protection to clients through capital adequacy requirements imposed on the providers of pension schemes. Throughout the period, we have complied with these requirements.

### **Current and future developments and performance**

#### *Group results*

Our goals continue to be the delivery of quality personal service that adds real value to clients, whilst maintaining high ethical standards and enhancing shareholder value.

Sales revenues were £10.83m (2007: £9.00m), up 20.3% on the prior year. The acquired businesses of PCL and the JB Group contributed £1.00m of revenue during the period, with organic growth of 9.2% contributing an additional £0.83m of revenue. Operating profit before financing increased by 12.2% to £3.31m (2007: £2.95m).

Cash generated from operations fell to £3.08m (2007: £3.72m) with a £1.1m increase in trade and other receivables at the year-end. This increase is primarily due to clients of the JB Group being invoiced annually in advance, rather than six months in arrears under the Mattioli Woods' model. As a result, the Group also recognised £0.42m (2007: nil) of deferred income at 31 May 2008. We will migrate the acquired clients onto the traditional Mattioli Woods' fee model after this initial transitional period.

# Chief Executive's review

continued

The Group's cash generation in 2007 was exceptionally high as a result of improved credit control and a push to collect long outstanding debtors. However, our conversion of EBITDA to cash has remained strong this year at 83.8% (2007: 117.4%).

Operating margin of 30.5% (2007: 32.8%) was impacted by costs associated with two acquisitions, both of which resulted in periods of duplicated property and compliance costs, prior to their integration into the Group's Leicester offices. In addition, the recognition of the acquired client portfolios as intangible assets has led to increased amortisation of £0.22m (2007: £0.11m).

Improvements in information systems and technology provide scope for future margin improvement and even better client service going forward.

## Acquisitions

Both the businesses acquired during the year have been fully integrated into our core business and are performing in line with our expectations. We are particularly pleased with the strong retention of clients within each client portfolio.

The Group's acquisition of Pension Consulting Limited ("PCL") for a total consideration of up to £1.925m in July 2007 was followed in February 2008 by the acquisition of the trade and assets of John Bradley Financial Services ("JBFS") and North Star SIPP LLP ("North Star") (together "the JB Group") for a total consideration of up to £2.59m. Deferred and contingent consideration of up to £1.23m is payable after the year-end.

PCL administered pension schemes on behalf of 145 SSAS and 213 SIPP clients and its experienced team of two consultants and 11 administration staff has been retained by the Group following the acquisition.

JBFS provided pensions consultancy and administration services to a core portfolio of 235 SSAS and 55 SIPP clients. In addition, the JB Group also provided third party administration services to a portfolio of other SSAS and SIPP clients. Again, the JB Group's experienced team of three consultants and 22 administration staff has been retained post-acquisition.

Neither PCL nor the JB Group provided the broad range of services that benefits Mattioli Woods' clients and this opens up the opportunity to offer additional services, such as our syndicated property initiatives and guaranteed investment products, to their client bases.

Growth in the SSAS and SIPP market means 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 strategy.

## Dividends

The Board is pleased to recommend the payment of a final dividend for the year ended 31 May 2008 of 2.0p (2007: 1.7p) per Ordinary Share. It is our intention to continue to grow dividend distributions progressively going forward. If approved, the final dividend will be paid on 17 October 2008 to shareholders on the Register at the close of business of 12 September 2008.

## 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 and ethical business practices. Structures for accountability from our administration teams through to the operational management team and 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".

### Capacity

Our people continue to demonstrate an enormous amount of enthusiasm and commitment in responding to the challenges faced by our fast-growing organisation. The former PCL and JB Group staff moved into our Leicester offices soon after each acquisition and it is pleasing they have integrated into Mattioli Woods so quickly, adding value through their experience and bringing knowledge of alternative business processes. The Group now employs a total of 20 pension consultants (2007: 14).

Maintaining capacity is crucial in an environment of growing demand and our graduate recruitment programme remains on target. In addition to the acquisitions, 12 new graduates joined the Group (2007: 12), increasing our total headcount at the end of the period to 147 (2007: 100). Our increased business profile as a public company has enhanced our ability to recruit graduates and experienced staff.





The development of a scalable technology platform remains a key objective for the Group. We introduced a new time accounting and invoicing system during the period and are continuing to invest in developing our bespoke "MWeb" system, which was launched in May 2008. This will facilitate enhanced pension administration services, including access to real-time valuation information.

#### *Staff*

Since its admission to AIM, the Group has been committed to expanding the skills and range of experience represented on our Board of Directors. We were delighted to announce the appointment of Michael Kershaw as a second independent Non-Executive Director in February 2008. Michael joins us following a highly successful career in investment banking with Dresdner Kleinwort Wasserstein and UBS Warburg. I am confident his experience will enhance our ability to deliver future profitability and growth.

In June 2008, we announced the appointment of Mark Smith as Operations Director. Mark has worked for Mattioli Woods since January 2000 and has over 20 years' financial services experience. As the Group's Compliance Officer, he has been responsible for direct liaison with the FSA on all regulatory issues, including the impact of new products and the establishment and ongoing monitoring of compliance systems and procedures. His unrivalled knowledge of Mattioli Woods' operations will be a great asset as we continue to grow and develop the business.

I have highlighted previously that Mattioli Woods enjoys a strong team spirit and commitment from all of its staff and it remains our aim to build on that culture by continuing to facilitate wider equity participation within the organisation. The introduction of the Mattioli Woods Share Incentive Plan ("the Plan") in June 2008 is an important step towards this objective and has received a very positive reaction from our staff.

The Plan enables our employees to buy shares in the Company out of pre-tax income by having an amount deducted from their salary each month. In addition, participating employees are granted matching shares on a one for one basis.

#### *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, suppliers and employees; Government; and our strategic partners. Our approach to all these parties is founded on the principle 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

# Chief Executive's review

continued

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.

Mattioli Woods is a member of the Association of Member-directed Pension Schemes.

## Financial position

### Net financing income

Net financing income was £0.20m (2007: £0.19m). 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 29.7% (2007: 30.3%). The net deferred taxation liability carried forward at 31 May 2008 was £0.11m (2007: asset of £0.14m).

### Earnings per share and dividend

The basic and diluted earnings per share in the year as per Note 12 were 14.3p (2007: 12.8p). The 17.6% increase in the total dividend for the year of 3.00p per share (2007: 2.55p) demonstrates our desire to grow the dividend progressively.

### Cash flow

The net cash generated from operations was £3.08m (2007: £3.72m) with earnings before interest, taxation, depreciation and amortisation ("EBITDA") of £3.67m (2007: £3.16m). The Group converted 83.8% (2007: 117.4%) of EBITDA into operating cash flow, with the exceptional conversion rate in 2007 being due to improved credit control. As at 31 May 2008, the Group was owed £0.53m (2007: £1.95m) by property syndicates, which has been repaid following the year-end.

The cash outflow from working capital was £0.78m (2007: inflow of £0.42m). Headline trade debtor days were 83 days (2007: 48 days) and trade creditors were 18 days (2007: 19 days). The increase in trade debtor days is primarily due to clients of the JB Group being invoiced annually in advance. Following the year-end, the Group has focused on improved credit control with trade debtor days falling to 71 days at 31 July 2008.

Capital expenditure in the year increased to £0.53m (2007: £0.24m), with significant expenditure on fixtures, fittings and computer equipment associated with increased headcount and the procurement of additional office space during the year. Further investment in the Group's information systems and technology is planned over the next year.

### Bank facilities

The Group has renegotiated its borrowing facilities with Royal Bank of Scotland plc ("RBS"), replacing overdraft facilities of £2.25m and £0.75m with respective interest rates of 1.375% and 1.5% over the bank's base rate (currently 5.0%) with one overdraft facility of £5.00m. Interest on the new facility is payable at the bank's base rate plus 1.0% on the first £1.50m, plus 1.25% on the next £1.50m and plus 1.375% on borrowings in excess of £3.00m. The RBS facility is repayable upon demand and is subject to review on at least an annual basis. The next review date is 11 January 2009.

The Group also has an overdraft facility of £0.25m provided by Lloyds TSB plc ("Lloyds TSB") with interest payable at 1.0% (2007: 1.5%) over the bank's base rate (currently 5.0%). The Lloyds TSB facility is renewable on 31 March 2009.

At 31 May 2008 the Group had unused borrowing facilities of £5.25m (2007: £3.10m).

*Capital structure*

The Group's capital structure is as follows:

	<b>2008</b>	2007
	<b>£</b>	£
Net (funds)/debt	<b>(2,528,985)</b>	(2,697,876)
Non-equity shareholders' funds (liability element)	-	-
	<b>(2,528,985)</b>	(2,697,876)
Shareholders' equity	<b>14,027,062</b>	11,856,900
Capital employed	<b>11,498,077</b>	9,159,024

Gearing has increased from (9.3)% to (0.8)% as a result of a fall in the cash conversion ratio. The acquisitions of PCL in July 2007 and the JB Group in February 2008 were funded out of existing cash resources.

**Conclusion**

Our clients and staff are the key to our success. Our business model allows us to give impartial advice to our clients at all times. The SIPP market continues to develop and we can continue to grow our business by taking advantage of the market opportunity and appropriate acquisition opportunities. The shift away from a culture of company pension provision means that retirement wealth management must encompass much more than traditional pension fund assets.

I believe the changing pensions landscape and the long-term relationships we develop with our clients present us with a unique opportunity to advise on an increasing proportion of their total wealth.

**Ian Mattioli**

Chief Executive  
1 September 2008

“the SIPP market  
continues to develop”

# Board of Directors

The Board comprises five executive and two non-executive directors. A short biography of each director is set out below.



## **Bob Woods – Chairman, age 54**

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 pension consultant Pointon York, an early market leader in SSAS, where he was appointed to the Board with responsibility for the promotion of pension-related services to professional advisers. In 1986 he was appointed as Marketing Director, and as a Director of Pointon York's corporate pensioner trustee. Bob's last major project with Pointon York was the development of the second SIPP to be launched in the UK. In 1991 Bob founded Mattioli Woods in partnership with Ian Mattioli. Bob is responsible for developing Group strategy and identifying new growth areas and opportunities.



## **Ian Mattioli – Chief Executive, age 45**

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. Ian is responsible for the operational management of the Group.



## **Nathan Imlach – Finance Director and Company Secretary, age 39**

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, specialising in providing mergers and acquisitions advice. He is a member of the Institute of Chartered Accountants in Scotland, a fellow of the Securities and Investment Institute and 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 and together with Murray Smith led the Group's recent acquisitions.



## **Murray Smith – Marketing and Sales Director, age 39**

Murray joined Mattioli Woods in 1995 and has worked in the financial services industry since graduating with an MA in Accountancy from the 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 related consultancy. He has responsibility for managing the Group's consultancy team and marketing activities.



**Mark Smith –  
Operations Director,  
age 38**

Mark joined Mattioli Woods in January 2000 after working in the financial services industry for 12 years. He has previously gained experience with a large insurance company, small IFA firm and most recently with specialist SSAS and SIPP consultancies. As the Group's Compliance Officer, he has been responsible for direct liaison with the FSA on all regulatory issues. Mark was appointed to the Board in June 2008 and has responsibility for the day to day operations of the business including systems, compliance, recruitment and the delivery of services to our clients.



**John Redpath –  
Non-Executive Director,  
age 63**

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 he carried out large scale efficiency studies. He then joined Northumbrian Water Authority, where he was promoted to Human Resources Director and was heavily involved in the flotation of Northumbrian Water. In 1992 he led the buyout of its 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 and is a trustee of the Percy Hedley Foundation for cerebral palsy. John is a member of the Chartered Institute of Personnel and Development.



**Michael Kershaw –  
Non-Executive Director,  
age 51**

Michael qualified as a Chartered Accountant in 1981, following a degree in Engineering taken at Queens' College, Cambridge. His subsequent career was spent in investment banking, including many years as a Managing Director of UBS Warburg and latterly with Dresdner Kleinwort Wasserstein. He has provided corporate finance advice to a wide variety of clients, including many in the financial services and private equity industries, and has extensive experience in mergers and acquisitions and in the equity and debt capital markets. Since his retirement in 2003 Michael has studied at Imperial College, London, where he is currently undertaking research for a PhD in the History of Science and Technology.

# Company information

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**Directors:**

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

**Company secretary:**

Nathan Imlach

**Registered office:**

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**Registered number:**

3140521

**Nominated adviser and broker:****Evolution Securities Limited**

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Leeds  
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**Auditors:****Baker Tilly UK Audit LLP**

2 Whitehall Quay  
Leeds  
LS1 4HG

**Solicitors:****Cobbetts LLP**

1 Whitehall Riverside  
Leeds  
LS1 4BN

**Principal bankers:****Royal Bank of Scotland plc**

98-102 Belgrave Gate  
Leicester  
LE1 3GR

**Lloyds TSB plc**

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Harcourt Way  
Meridian Business Park  
Leicester  
LE19 1WF

**Registrars:****Capita Registrars**

Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA

## Report and financial statements

The Directors present their report together with the financial statements for the year ended 31 May 2008. 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

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 principal activities during the year continued to be pension consulting, investment and administration of small self-administered pension schemes and self-invested personal pensions. The Chairman's Statement on pages 2 to 3 and the Chief Executive's Review on pages 4 to 9 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 417 of the Companies Act 2006 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 £2.47m, an increase of 12.8% on the previous year. This increase was primarily due to the ongoing increase in demand for the Group's services following changes in UK pension legislation and the acquisition of Pension Consulting Limited in July 2007 and the JB Group in February 2008. The Directors have also focused on controlling costs during the period, resulting in a £0.07m reduction in administrative expenses.

The final dividend in respect of the year ended 31 May 2007 of 1.7p per share was paid in October 2007. An interim dividend in respect of the year ended 31 May 2008 of 1.0p was paid to shareholders in February 2008.

The Directors recommend a final dividend of 2.0p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2008. If approved, the final dividend will be paid on 17 October 2008 to ordinary shareholders whose names were on the register on 12 September 2008.

## Directors

A list of current serving Directors and their biographies is given on pages 10 to 11. Murray Smith and John Redpath retire by rotation and, being eligible, offer themselves for re-election. Michael Kershaw and Mark Smith retire having been appointed since the last Annual General Meeting and offer themselves for re-election.

## Directors' interests

Directors' emoluments, beneficial interests in the shares of the Company and their options to acquire 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 and Share Incentive Plan, 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 £15,128 (2007: £1,925) were made during the year to local charities and community projects.

# Directors' report

continued

## 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 2008, the Group had an average of 18 days' purchases owed to trade creditors (2007: 19 days).

## Related party transactions

Details of related party transactions are given in Note 29.

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

## Substantial shareholdings

At 1 September 2008 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	4,123,703	23.93%
Ian Mattioli	4,123,703	23.93%
Unicorn Asset Management Limited	1,082,461	6.28%
BlackRock, Inc.	865,526	5.02%
Close Investments Limited	523,261	3.04%

In addition to the above shareholdings, 18,936 ordinary 1p shares representing 0.11% of the issued share capital are held by employees of the Group via the Mattioli Woods plc Share Incentive Plan ("the Plan"). The Group intends to actively encourage wider share ownership by its employees through the Plan and other share-based incentive schemes.

## 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 16 October 2008. 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 9 is the only special resolution, which disapplies pre-emption rights, and in conjunction with Resolution 7, 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 15% of the nominal value of the issued ordinary share capital of the Company.

## Financial risk management

Risk is an accepted part of doing business. The Group's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. Our process for identifying and managing risks is set out in more detail on page 19 of the review of Corporate Governance. The key risks and mitigating factors are set out below.

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet the identifiable needs of the Group and to invest cash assets safely and profitably. Short term flexibility is achieved through the use of the bank overdraft facilities.

The Group does not undertake any trading activity in financial instruments. All activities are transacted in Sterling. The Group does not engage in any hedging activities.

The Group reviews the credit quality of customers and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.



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

Loans are only advanced to new property syndicates to facilitate the purchase of prime 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.

### Key performance indicators

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

- Revenue – this is the income (excluding VAT) from all revenue streams;
- EBITDA – this is profit generated from the Group's operating activities before any financing income or costs, taxation, depreciation and amortisation;
- 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;
- Core 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 'core scheme numbers'; and
- Core funds under trusteeship – this is the value of funds held by those SSAS and SIPP schemes included within 'core 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 9.

### Corporate governance

A full review of Corporate Governance appears on pages 17 to 19.

### Directors' responsibilities for 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.

Company law requires the Directors to prepare financial statements for each financial year which present fairly the financial position, financial performance and cash flows of the Group and of the Company for that period. 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;
- 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 whether applicable accounting standards have been followed, 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 Group and the Company 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 financial statements may differ from legislation in other jurisdictions.

# Directors' report

continued

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## **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 12. 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 relevant audit information of which the Company's auditors are unaware; and
- Each Director has taken all the steps they might reasonably be expected to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

## **Auditors**

Baker Tilly UK Audit LLP, who have been the Group's auditors since 2005, offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

## **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

1 September 2008

## Introduction

The Board 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 comprises five Executive Directors and two independent Non-Executive Directors. Their biographies on pages 10 to 11 demonstrate a range of experience which is vital to the success 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. The Chief Executive is responsible for the day-to-day management of the Group.

The Non-Executive Directors are considered by the Board to be independent of management and free from any relationship which might materially interfere with the exercise of independent judgement. The Board does not consider the Non-Executive Directors' shareholdings to impinge on their independence. The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy.

John Redpath is the Senior Independent Non-Executive Director.

A nominations committee has not been appointed, hence paragraph A.4.1 of the Combined Code (which states there should be a nomination committee to lead the process for board appointments) is not complied with. The Board handles nomination issues and 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 that 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.

The Board meets regularly throughout the year as well as on an ad hoc basis, as required by time critical business needs. This forum provides the principal format for directing the business of the Group.

## Operation of the Board

The Board is responsible to shareholders for the proper management of the Group and 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 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 agenda and relevant briefing papers are distributed by the Company Secretary on a timely basis, usually a week in advance of each Board meeting.

## Board committees

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 is chaired by Michael Kershaw 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 Committee considers the appointment of, and fees payable to, the external auditors and discusses with them the scope of the annual audit. The Committee also reviews the external auditors' management letter and

# Corporate governance

continued

detailed presentations are made to the Committee by the Company's auditors.

The Committee reviews the interim report and annual financial statements for compliance with accounting standards, statutory obligations and the requirements of the AIM Rules and the Combined Code. The 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 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 Committee administers the operation of the share option and share incentive 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 Directors 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. Directors' attendance at Board and Committee meetings during the year was as follows:

	<b>Board meetings</b>	<b>Remuneration committee</b>	<b>Audit committee</b>
Number of meetings in year	18	3	4
Bob Woods	15	3	–
Ian Mattioli	15	3	4
Nathan Imlach	18	3	4
Murray Smith	14	–	–
John Redpath	14	3	4
Michael Kershaw (since appointment on 18 February 2008)	5	–	–

Mark Smith was appointed as Operations Director on 3 June 2008, after the end of the financial year.

## **Induction, training and performance evaluation**

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

The Chairman ensures Directors update their skills, knowledge and familiarity with the Group required to fulfil their roles on the Board and its Committees. Ongoing training is provided as necessary and includes updates from the Company Secretary on changes to the AIM Rules, requirements under the Companies Acts 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 Non-Executive Directors' 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.

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

#### **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 Directors 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 financial statements, the Interim Report, the Annual General Meeting and the Group's web site ([www.mattioli-woods.com](http://www.mattioli-woods.com)).

#### **Internal control and risk management**

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can only provide reasonable not absolute assurance against material misstatement or loss.

In accordance with the guidance of the Turnbull Committee on internal control, an ongoing process 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 nature of the Group's operations.

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  
1 September 2008

# 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 Directors 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 Directors. 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 £1.1m 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 £1.0m 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, Mark Smith 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 2.97% of its share capital. The maximum entitlement of any individual is 0.50%. The options will be exercisable at various prices, depending upon the date the options were granted.

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).

#### 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 at the date of grant) 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.

#### Share incentive plan

The Mattioli Woods plc Share Incentive Plan ("the Plan") was introduced in June 2008 and enables employees to buy shares in the Company at an effective discount to the Stock Exchange price by having an amount deducted from pre-tax salary each month. In addition, the Company can grant participating employees matching and/or free shares.

#### 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 and Michael Kershaw do not have service contracts. 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 2008 was as follows:

Director	Basic salary and fees £	Performance related bonuses £	Benefits <sup>1</sup> £	Total emoluments excluding pensions	
				2008 £	2007 £
Bob Woods	160,000	167,142	–	327,142	253,936
Ian Mattioli	160,000	244,000	–	404,000	268,164
Nathan Imlach	140,000	126,000	–	266,000	210,350
Murray Smith	140,000	126,000	15,247 <sup>2</sup>	281,247	226,970
John Redpath	25,082	–	–	25,082	24,160
Michael Kershaw	6,202	–	–	6,202	–

#### 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' remuneration report

continued

## Directors' shareholdings

As at 31 May 2008, the interest of the Directors in the issued shares of the Company, as shown in its register maintained under section 809 (2) and (3) of the Companies Act 2006 were:

	<b>2008 No.</b>	<b>%</b>	<b>2007 No.</b>	<b>%</b>
Bob Woods	4,123,703	23.93	5,743,500	33.36
Ian Mattioli	4,123,703	23.93	5,743,500	33.36
Murray Smith	411,564	2.39	375,000	2.18
Nathan Imlach	172,815	1.00	62,500	0.36
Mark Smith (appointed 3 June 2008)	62,700	0.36	62,500	0.36
John Redpath	13,000	0.08	13,000	0.08
Michael Kershaw (appointed 18 February 2008)	14,500	0.08	14,500	0.08

## 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:

		<b>Exercise price £</b>	<b>At 1 June 2007 No.</b>	<b>Granted during the year No.</b>	<b>Exercised during the year No.</b>	<b>Lapsed during the year No.</b>	<b>At 31 May 2008 No.</b>
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
Mark 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 2008. All of the share options were granted for nil consideration.

The mid-market closing price of the Company's ordinary shares at 31 May 2008 was 284p and the range during the financial year was 258p to 303p.

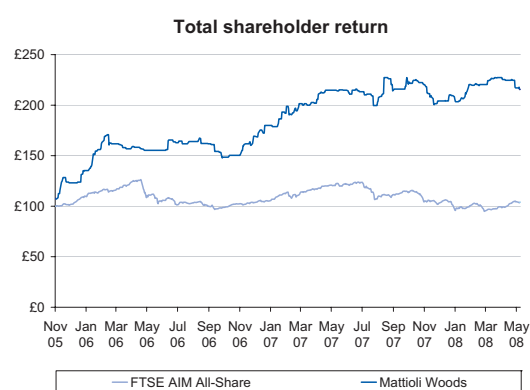
None of the Directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year; other than those disclosed in Note 29 to the financial statements.

The only change in the Directors' shareholdings (all of which are beneficial) and their share options between 31 May 2008 and 1 September 2008 is in respect of contributions to the Mattioli Woods plc Share Incentive Plan made by Nathan Imlach, Murray Smith and Mark Smith.

### Total shareholder return performance graph

The graph opposite illustrates the total shareholder return for the period ended 31 May 2008 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  
1 September 2008

# Independent auditors' report to the members of Mattioli Woods plc

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We have audited the Group and parent company financial statements on pages 25 to 65.

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 2008 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 2008;
- 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

1 September 2008

## Consolidated income statement

For the year ended 31 May 2008

	Notes	2008 £	2007 £
<b>Revenue</b>	4	<b>10,828,151</b>	8,997,191
Employee benefits expense	10	<b>(5,499,147)</b>	(4,156,368)
Other administrative expenses		<b>(1,537,507)</b>	(1,605,888)
Share based payments	18	<b>(104,659)</b>	(62,762)
Depreciation	14	<b>(142,636)</b>	(103,406)
Amortisation	15	<b>(224,313)</b>	(109,954)
Loss on disposal of property, plant & equipment		<b>(14,304)</b>	(7,407)
<b>Operating profit before financing</b>		<b>3,305,585</b>	2,951,406
Finance revenue	8	<b>219,033</b>	194,734
Finance costs	9	<b>(15,434)</b>	(1,012)
Net finance revenue		<b>203,599</b>	193,722
<b>Profit before tax</b>		<b>3,509,184</b>	3,145,128
Income tax expense	11	<b>(1,043,945)</b>	(952,274)
<b>Profit for the year</b>		<b>2,465,239</b>	2,192,854
<b>Attributable to:</b>			
Equity holders of the parent		<b>2,465,239</b>	2,192,854
<b>Earnings per ordinary share:</b>			
Basic (pence)	12	<b>14.3p</b>	12.8p
Diluted (pence)	12	<b>14.3p</b>	12.8p
Proposed total dividend per share (pence)	13	<b>3.00p</b>	2.55p

The operating profit for each period arises from the Group's continuing operations. The parent company has taken advantage of section 408 of the Companies Act 2006 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 £2,466,315 (2007: £2,192,854).

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## Statement of recognised income and expense

For the year ended 31 May 2008

	Notes	2008		2007	
		Group £	Company £	Group £	Company £
Deferred tax on share-based payments	11	<b>65,114</b>	<b>65,114</b>	102,031	102,031
<b>Income and expense recognised directly in equity</b>		<b>65,114</b>	<b>65,114</b>	102,031	102,031
Profit for the year		<b>2,465,239</b>	<b>2,466,315</b>	2,192,854	2,192,854
<b>Total recognised income and expense for the year</b>		<b>2,530,353</b>	<b>2,531,429</b>	2,294,885	2,294,885

## Balance sheets

As at 31 May 2008

	Notes	2008		2007	
		Group £	Company £	Group £	Company £
<b>Assets</b>					
Property, plant and equipment	14	<b>733,101</b>	<b>733,101</b>	429,312	429,312
Intangible assets	15	<b>10,065,182</b>	<b>10,065,182</b>	5,804,209	5,804,209
Deferred tax asset	11	<b>166,328</b>	<b>166,328</b>	143,936	143,936
Investments	16	<b>15</b>	<b>41,682</b>	-	1,264
Total non-current assets		<b>10,964,626</b>	<b>11,006,293</b>	6,377,457	6,378,721
Trade and other receivables	19	<b>4,689,938</b>	<b>4,689,571</b>	3,179,978	3,179,814
Financial assets	20	<b>529,242</b>	<b>529,242</b>	1,954,315	1,954,315
Cash and short-term deposits	21	<b>2,537,894</b>	<b>2,534,094</b>	2,799,569	2,795,769
Total current assets		<b>7,757,074</b>	<b>7,752,907</b>	7,933,862	7,929,898
<b>Total assets</b>		<b>18,721,700</b>	<b>18,759,200</b>	14,311,319	14,308,619
<b>Equity</b>					
Issued capital	22	<b>172,159</b>	<b>172,159</b>	172,159	172,159
Share premium	22	<b>5,601,458</b>	<b>5,601,458</b>	5,601,458	5,601,458
Other reserves	22	<b>2,372,242</b>	<b>2,372,242</b>	2,202,469	2,202,469
Retained earnings	22	<b>5,881,203</b>	<b>5,882,279</b>	3,880,814	3,880,814
<b>Total equity attributable to equity holders of the parent</b>	23	<b>14,027,062</b>	<b>14,028,138</b>	11,856,900	11,856,900
<b>Non-current liabilities</b>					
Trade and other payables	24	<b>365,500</b>	<b>365,500</b>	-	-
Interest-bearing loans and borrowings	25	<b>10,030</b>	<b>10,030</b>	-	-
Deferred tax liability	11	<b>273,929</b>	<b>273,929</b>	-	-
Provisions	26	<b>353,326</b>	<b>353,326</b>	127,446	127,446
Total non-current liabilities		<b>1,002,785</b>	<b>1,002,785</b>	127,446	127,446
<b>Current liabilities</b>					
Trade and other payables	24	<b>2,856,231</b>	<b>2,892,655</b>	1,627,889	1,625,189
Interest-bearing loans and borrowings	25	<b>18,212</b>	<b>18,212</b>	-	-
Income tax payable		<b>513,932</b>	<b>513,932</b>	477,234	477,234
Bank overdraft	21	-	-	72,818	72,818
Provisions	26	<b>303,478</b>	<b>303,478</b>	149,032	149,032
Total current liabilities		<b>3,691,853</b>	<b>3,728,277</b>	2,326,973	2,324,273
Total liabilities		<b>4,694,638</b>	<b>4,731,062</b>	2,454,419	2,451,719
<b>Total equities and liabilities</b>		<b>18,721,700</b>	<b>18,759,200</b>	14,311,319	14,308,619

The financial statements on pages 25 to 65 were approved by the board of directors and authorised for issue on 1 September 2008 and are signed on its behalf by:

**Ian Mattioli**  
Chief Executive

**Nathan Imlach**  
Finance Director

# Cash flow statements

For the year ended 31 May 2008

	Notes	2008		2007	
		Group £	Company £	Group £	Company £
<b>Operating activities</b>					
Cash receipts from customers		9,717,005	9,167,171	9,006,546	9,006,546
Cash paid to suppliers and employees		(6,639,453)	(6,434,356)	(5,290,352)	(5,290,352)
Cash generated from operations		3,077,552	2,732,815	3,716,194	3,716,194
Interest paid		(15,434)	(9,804)	(1,012)	(1,012)
Income taxes paid		(1,056,729)	(1,025,982)	(874,107)	(874,107)
<b>Net cashflows from operating activities</b>		<b>2,005,389</b>	<b>1,697,029</b>	2,841,075	2,841,075
<b>Investing activities</b>					
Proceeds from sale of property, plant and equipment		12,400	12,400	15,225	15,225
Purchase of property, plant and equipment	14	(420,956)	(420,956)	(164,853)	(164,853)
Purchase of software	15	(104,457)	(104,457)	(78,193)	(78,193)
Acquisition of subsidiaries	3	(1,712,985)	(1,712,985)	(231,892)	(231,892)
Cash received on acquisition of subsidiaries	3	183,805	183,805	234,443	–
Acquisition of businesses	3	(1,311,327)	(1,351,730)	–	–
Acquisition of other investments	16	(15)	(15)	–	–
New loans advanced to property syndicates	20	(529,242)	(529,242)	(1,954,315)	(1,954,315)
Loan repayments from property syndicates	20	1,954,315	1,954,315	1,915,994	1,915,994
Interest received		219,033	221,584	194,734	194,734
<b>Net cashflows from investing activities</b>		<b>(1,709,429)</b>	<b>(1,747,281)</b>	(68,857)	(303,300)
<b>Financing activities</b>					
Proceeds from the issue of share capital	22	–	–	225,000	225,000
(Repayment)/proceeds of Directors' loans	24	(19,967)	(19,967)	21,050	21,050
Dividends paid	13	(464,850)	(464,850)	(384,972)	(384,972)
Dividends received		–	346,212	–	231,792
<b>Net cashflows from financing activities</b>		<b>(484,817)</b>	<b>(138,605)</b>	(138,922)	92,870
Net increase/(decrease) in cash and cash equivalents		(188,857)	(188,857)	2,633,296	2,630,645
Cash and cash equivalents at start period	21	2,726,751	2,722,951	93,455	92,306
<b>Cash and cash equivalents at end period</b>	21	<b>2,537,894</b>	<b>2,534,094</b>	2,726,751	2,722,951

# 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 2008 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 1 September 2008.

The principal activities of the Group are described in Note 6.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Sterling and all values are rounded to the nearest pound (£) except when otherwise indicated.

#### *Statement of compliance*

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

#### *Basis of consolidation*

The consolidated financial statements comprise the financial statements of Mattioli Woods plc and its subsidiaries as at 31 May each year.

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. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

### 2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and International Financial Reporting Interpretation Committee ("IFRIC") interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 *Financial Instruments: Disclosures*
- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

The Group has also early adopted IFRS 8 *Operating Segments*. Adoption of this standard did not have any effect on the financial performance or position of the Group. It did however give rise to additional disclosures.

The principal effects of these revised standard and interpretations are as follows:

#### *IFRS 7 Financial Instruments: Disclosures*

The International Accounting Standards Board ("IASB") has issued a new standard on disclosures in respect of financial instruments. This replaces IAS 30 and the disclosure requirements in IAS 32 and locates in one place all disclosures relating to financial instruments. The new requirements incorporate additional qualitative and quantitative disclosures on the risks arising from financial instruments.

#### *IFRIC 8 Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share schemes, the interpretation had no impact on the financial position or performance of the Group.

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# Notes to the financial statements

continued

## *IFRIC 9 Reassessment of Embedded Derivatives*

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has no impact on the financial position or performance of the Group.

## *IFRIC 10 Interim Financial Reporting and Impairment*

The Group adopted IFRIC Interpretation 10 as of 1 June 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the implementation had no impact on the financial position or performance of the Group.

## *IFRIC 11 IFRS 2 – Group and Treasury Share Transactions*

IFRIC Interpretation 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

## *IFRS 8 Operating Segments*

The Group has elected to early adopt IFRS 8 *Operating Segments* as of 1 June 2007. IFRS 8 introduces the "management approach" to segment reporting, which requires the disclosure of segment information based on the internal reports regularly reviewed by the Board of Directors (the Chief Operating Decision Maker) in order to assess each segment's performance. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14. Additional disclosures about each of these segments is shown in Note 6, including revised comparative information.

## **2.3 Significant accounting estimates and assumptions**

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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 value of goodwill at 31 May 2008 was £4,588,868 (2007: £2,347,130). Further details on the calculation of goodwill arising on acquisitions during the period are given in Note 3.

### *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 2008 was £1,370,563 (2007: £994,171).

### *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 2008 was £642,655 (2007: £588,923).

#### *Contingent consideration*

The Group has entered into certain acquisition agreements that provide for a contingent consideration to be paid. 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 contingent consideration provision at 31 May 2008 was £408,630 (2007: £98,304). Further details of the contingent consideration payable on acquisitions during the period are given in Note 3 and 26.

## **2.4 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 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 IFRS 8 *Operating Segments*.

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.

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# Notes to the financial statements

continued

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 five 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;
- Individual clients acquired as part of the Suffolk Life portfolio acquired on 27 January 2006;
- Individual clients acquired as part of the PCL portfolio acquired on 9 July 2007; and
- Individual clients acquired as part of the JBFS portfolio acquired on 18 February 2008.

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. The carrying value of intangible assets with indefinite useful lives at 31 May 2008 was £4,588,868 (2007: £2,347,130).

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

	<b>Goodwill</b>	<b>Client portfolios</b>	<b>Software</b>
<b>Useful life</b>	<b>Indefinite</b>	<b>Finite</b>	<b>Finite</b>
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

## 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.

#### *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 assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

#### *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.

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# Notes to the financial statements

continued

## 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 short-term deposits

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 short-term deposits as defined above, net of outstanding bank overdrafts.

## 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 2008 was £12,674 (2007: £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 2008 was £115,500 (2007: £115,500).

#### *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 2008 was £89,000 (2007: £50,000).

#### *Onerous contracts*

Provisions for onerous contracts are recognised when the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to arise from the contract, taking into account impairment of fixed assets first. The provision for onerous contracts at 31 May 2008 was £31,000 (2007: nil).

### **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.

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 12).

### **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.

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# Notes to the financial statements

continued

## *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.

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.

## 2.5 Future changes in accounting policies

### *Standards and interpretations issued but not yet effective*

The IASB and 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 summarised below:

### *Amendment to IAS 1 Presentation of Financial Statements*

In September 2007, the IASB issued an amendment to IAS 1 Presentation of Financial Statements.

The main changes are:

- The titles of some of the financial statements have been amended to reflect their function more carefully e.g. "balance sheet" is to be a "statement of financial position". Although the new titles will be used in accounting standards they are not mandatory for use within the financial statements;
- The introduction of a new component referred to as the Statement of Comprehensive Income. The new component aims to enable the readers to analyse changes in a company's equity resulting from transactions with owners in their capacity as owners (such as dividends, share issues and repurchases) and "non-owner" changes; and
- An entity may choose whether items of income and expense should be presented as components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (i.e. a separate income statement followed by a statement of comprehensive income).

The amendment is effective for periods commencing on or after the 1 January 2009, but has not yet been adopted for use in the European Union.

### *IAS 23 Borrowing Costs*

A revised IAS 23 Borrowing Costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowings costs incurred to this date that have been expensed.

### *IFRIC 12 Service Concession Arrangements*

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

### *IFRIC 13 Customer Loyalty Programmes*

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group's financial statements as no such schemes currently exist.

### *IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This

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# Notes to the financial statements

continued

Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects this Interpretation will have no impact on the financial position or performance of the Group as it currently does not operate any defined benefits schemes.

## *Second phase of the business combinations project*

In January 2008, the IASB revised IFRS 3 Business Combinations as part of the second phase of the business combinations project. The second phase of the project was undertaken jointly with the FASB and accompanied amendments to IAS 27 Consolidated and Separate Financial Statements.

### *(a) Amendments to IFRS 3 Business Combinations*

The main changes to IFRS 3 included changes to the scope of the standard, accounting for contingent consideration and accounting for business combinations achieved in stages. The amendment also permits two methods for the accounting for goodwill along with additional guidance relating to the recognition and measurement of fair values and the assessment of whether transactions fall to be part of the business combination. It is anticipated the amendments will result in the professional costs associated with any future business combinations of the Group being expensed rather than capitalised.

### *(b) Amendments to IAS 27 Consolidated and separate financial statements*

IAS 27 now makes reference to the term "non-controlling interest" which replaces the term "minority interest". The amendment provides guidance relating to the accounting for non-controlling interests in loss making subsidiaries, the acquisition of non-controlling interests and the accounting for subsidiaries when control by the entity is lost. There are no minority interests in the Group and hence this amendment will have no impact on the Group.

These amendments are effective for periods commencing on or after 1 July 2009 but have not yet been adopted for use in the European Union.

## *Amendment to IFRS 2 Share-based payment – Vesting Conditions and Cancellations*

In January 2008, the IASB published amendments to IFRS 2 Share-based Payment relating to vesting conditions and cancellations. IFRS 2 provides guidance on the treatment of options which are cancelled by the employer and requires that any unamortised cost be accelerated to the profit and loss in the period of cancellation. The amendment now clarifies that where options are cancelled by the employee (other than on leaving employment), such cancellations should be treated in the same way as cancellations by the employer.

If any of the Group's employees decide to forfeit their right to options the employee cancellations will now fall to be treated in the same way as cancellations by the employer. The amendment is effective for periods commencing on or after 1 January 2009 but has not yet been adopted for use in the European Union.

## *Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements relating to puttable financial instruments and obligations arising on liquidation*

In February 2008, the IASB amended IAS 32 Financial Instruments: Presentation and IAS 1: Presentation of Financial Statements. IAS 32 has been amended so as to require certain puttable financial instruments and certain financial instruments that impose an obligation on the entity to deliver a pro rata share of the net assets of the entity on liquidation, to be classified as equity whilst IAS 1 has extended the disclosure requirements in respect of such instruments. The Group does not have any puttable financial investments and hence these amendments will have no impact upon the Group.

The amendment is effective for periods commencing on or after 1 January 2009 but has not yet been adopted for use in the European Union.

## *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements*

The IASB has published amendments to IFRS 1 and IAS 27 with regards to the accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate. The amendments to IFRS 1 permit first-time adopters of IFRS to use deemed cost of either fair value or the carrying value under previous GAAP to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.



The amendment to IAS 27 removes the definition of the cost method. As a consequence, dividends received by the acquirer in excess of earnings recognised after the acquisition date are no longer recognised as a reduction to the cost of the investment but recognised as income. The amendment to IAS 27 also provides additional guidance where an entity decides to reorganise its operating structure by forming a new parent entity so that the existing entity becomes a wholly-owned subsidiary of the new parent. The amendment states the new parent shall measure the cost of its investment in the existing entity using the carrying amounts of the equity, assets and liabilities in the separate financial statements of the existing entity at the date of the formation.

These amendments will not have any impact on the Group. The amendments are effective for periods commencing on or after 1 January 2009 but have not yet been adopted for use in the European Union.

#### *IASB – First Annual Improvements Project*

The IASB has issued the first Annual Improvements Project which has resulted in changes to 24 standards. The changes are a collection of miscellaneous, non urgent but necessary amendments needed to resolve inconsistencies between standards and clarify wording.

The amendments will be effective for accounting periods beginning on or after 1 January 2009 unless specified otherwise, but are not expected to have any impact on the Group. The improvements may be adopted early as long as all improvements are adopted and IAS 1 Presentation of Financial Statements (as revised in 2007) is applied in the same period.

### **3. Business combinations**

#### *Acquisition of Pension Consulting Limited*

On 9 July 2007 the Group acquired 100% of the voting shares of Pension Consulting Limited ("PCL"), an unlisted company registered in England and Wales, which administered pension schemes on behalf of 145 small self-administered pension schemes ("SSAS") and 213 self-invested personal pension ("SIPP") clients. As part of the transaction the Group also acquired PCL's 100% subsidiary company, PC Trustees Limited, which acts as trustee to the pension schemes. The acquisition has been accounted for using the purchase method of accounting. The consolidated financial statements include the results of PCL for the period from the acquisition date.

The fair value of the identifiable assets and liabilities of PCL as at the date of acquisition were:

	<b>Fair value recognised on acquisition £</b>	<b>Previous carrying value £</b>
Property, plant and equipment	16,511	17,545
Intangible asset – client portfolio	1,015,554	–
Investment	100	100
Prepayments and accrued income	165,220	165,220
Trade receivables	42,340	42,340
Other receivables	44,055	44,055
Cash and cash equivalents	183,805	183,805
	<b>1,467,585</b>	<b>453,065</b>
Deferred income tax liability	(304,666)	–
Short term subordinated loan	(29,883)	(29,883)
Trade payables	(19,421)	(19,421)
Current income tax liability	(61,468)	(61,468)
Other payables	(25,388)	(25,388)
Accruals and deferred income	(37,081)	(37,081)
	<b>(477,907)</b>	<b>(173,241)</b>
Fair value of net assets	989,678	279,824
Goodwill arising on acquisition	980,807	
Total acquisition cost	<b>1,970,485</b>	

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# Notes to the financial statements

continued

The total acquisition cost of £1,970,485 comprises an initial cash payment of £1,525,000, deferred and contingent consideration of up to £400,000 and costs of £45,485 directly attributable to the acquisition. £240,000 of deferred consideration is payable in the two years following completion, with the remaining payment of up to £160,000 being contingent upon growth in scheme numbers during the two years following completion. In addition, a further earn-out consideration will be payable if growth in scheme numbers during the two years following completion exceeds the hurdle required to trigger payment of the contingent consideration. The Directors' have revised their estimate of the present value of likely future earn-out amounts payable under this agreement from nil at completion to £50,000 at 31 May 2008.

In accordance with IFRS 3 *Business Combinations*, a value has been applied to the PCL client portfolio at the date of acquisition to recognise the value of this asset to the Group. In accordance with IAS12 *Income Taxes*, an associated deferred tax liability has also been recognised on the value of the client portfolio.

Cash outflows associated with the acquisition are summarised as follows:

	£
Net cash acquired with the subsidiary	183,805
Cash paid	(1,525,000)
Acquisition costs	(45,485)
Net cash outflow on acquisition	(1,386,680)
Deferred consideration paid	(142,500)
Net cash outflow at 31 May 2008	(1,529,180)

The goodwill recognised above is attributed to the expected synergies and other benefits from combining the assets and activities of PCL with those of the Group. On 30 November 2007 the trade and assets of PCL were transferred to Mattioli Woods ("hived-up") for a consideration of £386,212, equivalent to the net asset value of PCL at that date.

From the date of acquisition to the date of the hive-up, PCL contributed £106,389 to the profit of the Group. If the combination had taken place at the beginning of the year, the profit for the Group would have been £2,434,970 and revenue from continuing operations would have been £10,840,623.

## Acquisition of the JB Group

On 18 February 2008 the Group acquired the trade and assets of John Bradley Financial Services ("JBFS") and North Star SIPP LLP ("North Star") (together "the JB Group") for a total consideration of up to £2.59m, subject to certain revenue and client retention targets being met during the three years following completion.

On 18 February 2008 the Company also entered into separate agreements to acquire the entire issued share capital of JB Trustees Limited and Bank Street Trustees Limited (together "the Trustee Companies") and John Bradley Financial Services Limited (together with the Trustee Companies "the Dormant Companies") for a nominal consideration.

JBFS provided pensions consultancy and administration services to a core portfolio of 235 SSAS and 55 SIPP clients. In addition, the JB Group provided third party administration services to a further portfolio of SSAS and SIPP clients.

North Star was established in October 2006 and subsequently authorised by the Financial Services Authority ("FSA") to establish and operate personal pension schemes, including SIPPs, under the new regulatory regime introduced on 6 April 2007. The Dormant Companies have never traded.

The acquisition has been accounted for using the purchase method of accounting. The consolidated financial statements include the results of the JB Group for the period from the acquisition date.

The fair value of the identifiable assets and liabilities of the JB Group as at the date of acquisition were:

	<b>Fair value recognised on acquisition £</b>	<b>Previous carrying value £</b>
Property, plant and equipment	33,000	106,885
Intangible asset – client portfolio	1,163,211	–
Trade receivables	147,199	190,750
	1,343,410	297,635
Other payables	(32,948)	(34,454)
Accruals and deferred income	(350,066)	(350,066)
	(383,014)	(384,520)
Fair value of net assets	960,396	(86,885)
Goodwill arising on acquisition	1,190,931	
Total acquisition cost	2,151,327	

The total acquisition cost of £2,151,327 comprises an initial cash payment of £1,245,000, deferred and contingent consideration of £840,000 and costs of £66,327 directly attributable to the acquisition. £640,000 of deferred consideration will be paid in the three years following completion, with the contingent payment being determined by reference to an earn-out mechanism based on growth in revenues generated from the acquired portfolio during the three years following completion. The maximum amount payable under the earn-out is £700,000. The Directors' estimate of the present value of likely future earn-out amounts payable under the acquisition agreement is £200,000.

In accordance with IFRS 3 *Business Combinations*, a value has been applied to the JB Group client portfolio at the date of acquisition to recognise the value of this asset to the Group.

Cash outflow on acquisition:

	<b>£</b>
Cash paid	(1,245,000)
Acquisition costs	(66,327)
Net cash outflow	(1,311,327)

From the date of acquisition, the JB Group has contributed £3,888 to the profit of the Group. Due to different legal natures, ownership structures, accounting policies and accounting periods of the various entities comprising the JB Group prior to its acquisition by the Group, it is impracticable to disclose the revenue or profit of the Group as if the combination had taken place at the beginning of the year.

The goodwill recognised above is attributed to the expected synergies and other benefits from combining the assets and activities of the JB Group with those of Mattioli Woods plc.

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# Notes to the financial statements

continued

## 4. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2008 £	2007 £
Rendering of services	<b>6,454,651</b>	4,920,093
Commission income	<b>4,373,500</b>	4,077,098
	<b>10,828,151</b>	8,997,191

No revenue was derived from exchanges of goods or services (2007: nil)

## 5. 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.

## 6. Segment information

The Group is comprised of the following operating segments:

- Pension consultancy and administration – 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 – income generated from the placing of investments on clients' behalf with banks and other financial institutions; and
- Property syndicates – income generated where the Group facilitates commercial property transactions on behalf of its clients.

Each segment represents a revenue stream subject to risks and returns that are different to other operating segments, although each operating segment's products and services are offered to the same market. The Group operates exclusively within the United Kingdom.

There are no transfers between operating segments and hence there are no differences between total segment revenue and consolidated revenue.

Each operating segment utilises the same intangible and tangible assets, and the segments have been financed as a whole, rather than individually. The reportable operating 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 operating segments.

Segment profit or loss reflects the measure of segment performance reviewed by the Board of Directors (the Chief Operating Decision Maker). This measure differs from the numbers used in the financial statements prepared in accordance with IFRS as follows:

- *Finance revenue* – Interest revenue from loans receivable and cash at bank is not included in the measure of segment profit or loss as it is not considered part of the core operations of any segment.
- *Finance costs* – Finance costs are not included in the measure of segment profit or loss.
- *Indirect overheads* – Indirect overheads including property costs, amortisation and impairment of intangible assets, depreciation of property, plant and equipment, sales and marketing costs, legal and professional fees and insurance are not included in the measure of segment profit or loss as it is not possible to allocate these overheads to individual segments without making arbitrary allocations.

Segment assets exclude property, plant and equipment, intangible assets, investments, current and deferred tax balances, cash and cash equivalents, as these assets are considered corporate in nature and are not allocated to a specific operating segment.

### Operating segments

The following table presents revenue and profit information regarding the Group's operating segments:

	Pension consultancy and administration		Investment planning		Property syndicates		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	£	£	£	£	£	£	£	£
Total revenue	4,792,681	3,986,367	4,373,500	4,077,908	1,661,970	932,916	10,828,151	8,997,191
Employee benefits expense (including share based payments)	(3,645,438)	(3,085,401)	(852,733)	(453,905)	(1,105,635)	(679,824)	(5,603,806)	(4,219,130)
Other administrative expense	(215,426)	(269,909)	(90,153)	(256,655)	–	–	(305,579)	(526,564)
<b>Segment results</b>	<b>931,817</b>	<b>631,057</b>	<b>3,430,614</b>	<b>3,367,348</b>	<b>556,335</b>	<b>253,092</b>	<b>4,918,766</b>	<b>4,251,497</b>
Unallocated indirect overheads							(1,613,181)	(1,300,091)
Operating profit before financing							3,305,585	2,951,406
Net finance income							203,599	193,722
Profit before tax							3,509,184	3,145,128
Income tax expense							(1,043,945)	(952,274)
Net profit for the period							2,465,239	2,192,854

### Total segment assets

The following table compares total segment assets as at 31 May 2008 and 31 May 2007.

	2008	2007
	£	£
Pension consultancy and administration	3,621,963	2,136,427
Investment planning	642,655	588,923
Property syndicates	839,325	2,095,868
Total segment assets	5,103,943	4,821,218
Property plant and equipment	733,101	429,312
Intangible assets	10,065,182	5,804,209
Investments	15	–
Deferred tax	166,328	143,936
Prepayments	43,515	97,649
Other receivables	71,722	215,426
Cash and short term deposits	2,537,894	2,799,569
Total consolidated assets	18,721,700	14,311,319

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# Notes to the financial statements

continued

## 7. Auditors' remuneration

Remuneration paid by the Group to its auditors for the 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:

	BakerTilly UK Audit LLP 2008 £	Associates of BakerTilly UK Audit LLP 2008 £	<b>Total 2008 £</b>	Total 2007 £
Audit of the financial statements	26,000	–	<b>26,000</b>	23,000
Other fees to auditors:				
– taxation services	–	11,500	<b>11,500</b>	21,025
– corporate finance services	–	29,949	<b>29,949</b>	4,975
– interim financial statements	5,000	–	<b>5,000</b>	7,500
– other services	–	13,247	<b>13,247</b>	–
	31,000	54,696	<b>85,696</b>	56,500

## 8. Finance revenue

	<b>2008 £</b>	2007 £
Bank interest receivable	<b>219,033</b>	194,734

## 9. Finance costs

	<b>2008 £</b>	2007 £
Bank loans and overdrafts	<b>9,183</b>	55
Other loans	<b>6,251</b>	957
	<b>15,434</b>	1,012

## 10. Employees benefits expense

The average monthly number of employees during the year was:	<b>2008</b>	2007
	<b>No.</b>	No.
Directors	<b>4</b>	4
Consultants	<b>14</b>	10
Administrators	<b>62</b>	44
Support staff	<b>44</b>	34
	<b>124</b>	92

Staff costs for the above persons were:	<b>2008</b>	2007
	<b>£</b>	£
Wages and salaries	<b>4,695,864</b>	3,492,112
Social security costs	<b>521,362</b>	371,968
Pension costs	<b>184,636</b>	201,019
Other staff costs	<b>97,285</b>	91,269
	<b>5,499,147</b>	4,156,368

In addition, the cost of share based payments disclosed separately in the income statement was £104,659 (2007: £62,762).

<b>Directors' remuneration</b>	<b>2008</b>	2007
	<b>£</b>	£
Emoluments	<b>1,309,673</b>	983,580
Company contributions to personal pension schemes	<b>60,000</b>	52,350
	<b>1,369,673</b>	1,035,930

The amounts in respect of the highest paid director are as follows:	<b>2008</b>	2007
	<b>£</b>	£
Emoluments	<b>404,000</b>	268,164
Company contributions to personal pension schemes	<b>16,000</b>	14,175
	<b>420,000</b>	282,339

During the year five directors (2007: four) were accruing benefits under personal pension schemes.

# Notes to the financial statements

continued

## 11. Income tax

The major components of income tax expense for the years ended 31 May 2008 and 2007 are:

<b>Consolidated income statement</b>	<b>2008</b>	2007
	<b>£</b>	£
<i>Current income tax:</i>		
Current income tax charge	<b>1,038,541</b>	970,652
Adjustments in respect of current income tax of previous year	–	–
<i>Deferred income tax:</i>		
Relating to origination and reversal of temporary differences:		
– Current year	<b>24,312</b>	(6,759)
– Effect of change in the standard rate of tax in the year	<b>(18,908)</b>	–
– Prior year	–	(11,619)
Income tax expense reported in the income statement	<b>1,043,945</b>	952,274

### *Factors affecting the tax charge for the period*

The rate of UK corporation tax has reduced 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 made from 1 April 2008. 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, and the reduction in the rate of capital allowances from 25% to 10% per annum on a reducing balance basis for certain items of plant and machinery that become integral fixtures on a building.

The tax charge assessed for the period is higher than the standard rate of corporation tax in the UK of 28.0% (2007: 30%). The differences are explained below:

	<b>2008</b>	2007
	<b>£</b>	£
Accounting profit before income tax	<b>3,509,184</b>	3,145,128
Multiplied by the standard rate of corporation tax in the UK of 28.0% (2007: 30%)	<b>982,572</b>	943,538
Effects of:		
Expenses not deductible for tax purposes	<b>27,677</b>	20,355
Effect of change in the standard rate of tax in the year:		
– Current income tax	<b>52,604</b>	–
– Deferred income tax	<b>(18,908)</b>	–
Adjustment in respect of earlier years	–	(11,619)
Current tax charge for the period	<b>1,043,945</b>	952,274
Effective income tax rate	<b>29.7%</b>	30.3%



### Deferred income tax

Deferred income tax at 31 May relates to the following:

<b>Group and Company</b>	<b>2008</b>	2007
	<b>£</b>	£
<b>Deferred income tax liability</b>		
Temporary differences on acquisition intangibles	<b>(273,929)</b>	–
<b>Deferred income tax asset</b>		
Temporary differences on accelerated capital allowances	<b>(68,518)</b>	(26,904)
Temporary differences related to provisions	–	28,688
Temporary differences on share based payments	<b>234,846</b>	142,152
	<b>166,328</b>	143,936
Deferred tax (liabilities)/assets net	<b>(107,601)</b>	143,936
Reflected in the balance sheet as follows:		
Deferred tax assets	<b>166,328</b>	143,936
Deferred tax liabilities	<b>(273,929)</b>	–
Deferred tax (liabilities)/assets net	<b>(107,601)</b>	143,936

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2008 or 2007.

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 2008 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 2008.

Total deferred tax recognised directly in equity was £65,114 for the year ended 31 May 2008 (2007: £102,031).

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# Notes to the financial statements

continued

## 12. 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:

	2008 £	2007 £
Net profit and diluted net profit attributable to equity holders of the Company	<b>2,465,239</b>	2,192,854
Weighted average number of ordinary shares:	<b>Thousands</b>	Thousands
Issued ordinary shares at start period	<b>17,216</b>	17,045
Effect of shares issued in October 2006	–	107
Basic weighted average number of shares	<b>17,216</b>	17,152
Dilutive potential ordinary shares:		
– non-employee share options	–	27
Diluted weighted average number of shares	<b>17,216</b>	17,179

The Company has granted options under the Share Option Plan and Consultants' Share Option Plan to certain of its senior managers and directors to acquire (in aggregate) up to 8.05% of its issued share capital (see Note 18). Under IAS 33 Earnings Per Share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions (the events triggering the vesting of the option) are satisfied. At 31 May 2008 the conditions are not satisfied. If the conditions had been satisfied, diluted earnings per share would have been 13.3p per share (2007: 12.0p).

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.

## 13. Dividends paid and proposed

	2008 £	2007 £
<b>Declared and paid during the year:</b>		
Equity dividends on ordinary shares:		
– Final dividend for 2007: 1.70p (2006: 1.40p)	<b>292,671</b>	238,636
– Interim dividend for 2008: 1.00p (2007: 0.85p)	<b>172,179</b>	146,336
Dividends paid	<b>464,850</b>	384,972
<b>Proposed for approval by shareholders at the AGM:</b>		
Final dividend for 2008: 2.00p (2007: 1.70p)	<b>344,697</b>	292,671

#### 14. Property, plant and equipment

Group	Computer and office equipment £	Fixtures and fittings £	Motor vehicles £	Total £
Gross carrying amount:				
At 1 June 2007	217,906	222,649	220,919	661,474
Additions	48,064	295,292	77,600	420,956
Acquired on acquisition	19,461	10,989	32,000	62,450
Disposals	(12,342)	(4,169)	(66,050)	(82,561)
<b>At 31 May 2008</b>	<b>273,089</b>	<b>524,761</b>	<b>264,469</b>	<b>1,062,319</b>
Depreciation:				
At 1 June 2007	85,603	78,227	68,332	232,162
Charged for the year	41,041	57,302	44,293	142,636
Disposals	(5,223)	(871)	(39,486)	(45,580)
<b>At 31 May 2008</b>	<b>121,421</b>	<b>134,658</b>	<b>73,139</b>	<b>329,218</b>
Carrying amount:				
<b>At 31 May 2008</b>	<b>151,668</b>	<b>390,103</b>	<b>191,330</b>	<b>733,101</b>
At 31 May 2007	132,303	144,422	152,587	429,312
<b>Company</b>				
Gross carrying amount:				
At 1 June 2007	217,906	222,649	220,919	661,474
Additions	48,064	295,292	77,600	420,956
Acquired on acquisition	12,342	5,169	32,000	49,511
Disposals	–	–	(66,050)	(66,050)
<b>At 31 May 2008</b>	<b>278,312</b>	<b>523,110</b>	<b>264,469</b>	<b>1,065,891</b>
Depreciation:				
At 1 June 2007	85,603	78,227	68,332	232,162
Charged for the year	41,041	54,780	44,293	140,114
Disposals	–	–	(39,486)	(39,486)
<b>At 31 May 2008</b>	<b>126,644</b>	<b>133,007</b>	<b>73,139</b>	<b>332,790</b>
Carrying amount:				
<b>At 31 May 2008</b>	<b>151,668</b>	<b>390,103</b>	<b>191,330</b>	<b>733,101</b>
At 31 May 2007	132,303	144,422	152,587	429,312

The figures above include assets held under finance leases and hire purchase contracts as follows:

Group and Company	Motor vehicles £
Carrying amount:	
<b>At 31 May 2008</b>	<b>29,779</b>
At 31 May 2007	–
Depreciation provided in the year	2,221

# Notes to the financial statements

continued

## 15. Intangible assets

Group and Company	Internally generated software £	Software £	Client portfolios £	Goodwill £	Total £
Gross carrying amount:					
At 1 June 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
Additions	45,407	59,050	–	–	104,457
Acquired on acquisition	–	–	2,178,765	2,241,738	4,420,503
Adjustment to Suffolk Life earn-out	–	–	(39,674)	–	(39,674)
<b>At 31 May 2008</b>	<b>72,929</b>	<b>131,081</b>	<b>5,836,198</b>	<b>4,588,868</b>	<b>10,629,076</b>
Amortisation:					
At 1 June 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
Amortisation during the year	–	22,858	201,455	–	224,313
<b>At 31 May 2008</b>	<b>–</b>	<b>32,223</b>	<b>531,671</b>	<b>–</b>	<b>563,894</b>
Carrying amount:					
<b>At 31 May 2008</b>	<b>72,929</b>	<b>98,858</b>	<b>5,304,527</b>	<b>4,588,868</b>	<b>10,065,182</b>
At 31 May 2007	27,522	62,666	3,366,891	2,347,130	5,804,209

Software is amortised over its useful economic life.

### Acquisitions during the year

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 acquisitions of PCL and the JB Group has been determined as having an indefinite useful life (see Note 3). Goodwill arising on business combinations is subject to annual impairment testing (see Note 17).

## 16. Investments

<b>Company – Investments in subsidiaries</b>	<b>£</b>
<b>Cost:</b>	
At 1 June 2006	1,164
Additions	231,892
Dividends received	(231,792)
At 31 May 2007	1,264
Additions	386,615
Dividends received	(346,212)
<b>At 31 May 2008</b>	<b>41,667</b>
<b>Company – Other investments</b>	
At 1 June 2006 and 31 May 2007	–
Additions	15
<b>At 31 May 2008</b>	<b>15</b>
<b>Total at 31 May 2008</b>	<b>41,682</b>

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:

<b>Subsidiary undertakings</b>	<b>Holding</b>	<b>Proportion of voting rights and shares held</b>	<b>Nature of business</b>
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	Ordinary shares	100%	Trustee company
Professional Independent Pension Trustees Limited	Ordinary shares	100%	Trustee company
Pension Consulting Limited (trade and assets transferred to the Company on 30 November 2007)	Ordinary shares	100%	Dormant
PC Trustees Limited (held by Pension Consulting Limited)	Ordinary shares	100%	Trustee company
Bank Street Trustees Limited	Ordinary shares	100%	Trustee company
JB Trustees Limited	Ordinary shares	100%	Trustee company
John Bradley Financial Services Limited	Ordinary shares	100%	Dormant
Polaris Pensions Limited	Ordinary shares	100%	Dormant
Polaris Financial Services Limited	Ordinary shares	100%	Dormant
Cobco 873 Limited	Ordinary shares	100%	Dormant

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

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# Notes to the financial statements

continued

## Group and Company – Other Investments

£

### Cost:

At 1 June 2007

–

Additions

15

### At 31 May 2008

15

On 1 October 2007, Mattioli Woods subscribed £15 for 15% of the issued share capital of Mainsforth Developments Limited (“Mainsforth”), a company incorporated in England and Wales with its principal activity being the development and selling of real estate. On the same date, Mainsforth entered into two conditional sales agreements (“CSAs”) to acquire freehold land.

The first CSA gives Mainsforth the right to acquire certain freehold land (“Land A”) with vacant possession for a purchase consideration of £1.0m.

The second CSA gives Mainsforth the right to acquire other freehold land adjacent to Land A (“Land B”) with vacant possession for a purchase consideration of £2.8m, subject to an upwards and downwards adjustment if the consideration (the “Development Consideration”) payable to Mainsforth on the sale of Land A and Land B (together “the Development Land”) is greater or less than £10.0m, subject to the condition that the consideration payable for Land B shall not be reduced below £2.2m.

The effective date of the agreements will be the date on which planning approval is granted for the development of the Development Land as a mixed use scheme where residential property comprises at least 50% of the built area. Any consideration payable by Mainsforth under the CSAs only becomes payable on completion of its sale of the Development Land. If planning approval has not been obtained by 1 December 2010 the agreements will lapse, although the termination dates may be extended to 1 December 2011 if certain conditions are fulfilled.

## 17. Impairment of goodwill and intangibles with indefinite lives

Goodwill arising on acquisitions has been allocated to three cash generating units for impairment testing, as follows:

Group and Company	Carrying amount of goodwill	
	2008 £	2007 £
The Partnership portfolio	2,347,130	2,347,130
The PCL portfolio	1,050,807	–
The JB Group direct portfolio	1,190,931	–
	<b>4,588,868</b>	2,347,130

Intangible assets believed to have an indefinite useful life are carried at cost. The recoverable amount of the goodwill arising on the acquired portfolios is based on a fair value less costs to sell calculation, using a bid price estimated from the transactions as there have been no significant changes in economic circumstances in the intervening periods. This accounting treatment resulted in an impairment loss of nil (2007: nil).

## 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 4 September 2007, options to subscribe for up to 255,684 ordinary shares in the Company were granted to senior executives under the Consultants' Share Option plan. Options granted under the Consultants' Share Option Plan are summarised as follows:

Date of grant	Exercise price £	At 1 June 2007 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	<b>At 31 May 2008 No.</b>
5 September 2006	2.21	255,684	–	–	–	<b>255,684</b>
4 September 2007	2.79	–	255,684	–	–	<b>255,684</b>
		255,684	255,684	–	–	<b>511,368</b>

The exercise price of the options is 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 2008 is £104,659 (2007: £62,762), which entirely arises from equity-settled share based payment transactions.

### Summary

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

	<b>2008 No.</b>	<b>2008 WAEP £</b>	2007 No.	2007 WAEP £
Outstanding as at 1 June	<b>1,130,684</b>	<b>1.52</b>	1,045,455	1.32
Granted during the year	<b>255,684</b>	<b>2.79</b>	255,684	2.21
Forfeited during the year	–	–	–	–
Exercised	–	–	(170,455)	(1.32)
Expired during the year	–	–	–	–
Outstanding at 31 May	<b>1,386,368</b>	<b>1.76</b>	1,130,684	1.52
Exercisable at 31 May	–	–	–	–

For the share options outstanding as at 31 May 2008, the weighted average remaining contractual life is 7.9 years (2007: 8.6 years). The weighted average fair value of options granted during the year was £0.70 (2007: £0.70). The WAEP for options outstanding at the end of the year was £1.76 (2007: £1.52).

# Notes to the financial statements

continued

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. The following table lists the inputs to the model used to estimate the fair value of options granted during the year ended 31 May 2008:

	<b>Consultants' Share Option Plan</b>
Share price at date of grant	£2.82
Option exercise price	£2.79
Expected life of option (years)	7
Expected share price volatility (%)	30.0
Dividend yield (%)	1.11
Risk-free interest rate (%)	4.63

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 2008 and movements during the year are set out in the Directors' Remuneration Report.

## 19. Trade and other receivables (current)

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	£	£	£	£
Trade receivables	<b>2,455,739</b>	1,183,704	<b>2,455,739</b>	1,183,704
Other receivables	<b>59,048</b>	202,751	<b>58,681</b>	202,587
Prepayments and accrued income	<b>2,175,151</b>	1,793,523	<b>2,175,151</b>	1,793,523
	<b>4,689,938</b>	3,179,978	<b>4,689,571</b>	3,179,814

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. As at 31 May 2008, trade receivables at nominal value of £217,345 (2007: £158,801) were impaired and fully provided for:

Movements in the provision for impairment of receivables were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	£	£	£	£
As at 1 June	<b>158,801</b>	139,215	<b>158,801</b>	139,215
Charge for year	<b>155</b>	19,586	<b>–</b>	19,586
Acquired on acquisition	<b>58,389</b>	–	<b>58,544</b>	–
At 31 May	<b>217,345</b>	158,801	<b>217,345</b>	158,801

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

	Total	Neither past due nor impaired	< 30 days	Past due but not impaired		>90 days
	£	£	£	30–60 days	60–90 days	£
	£	£	£	£	£	£
<b>2008</b>	<b>2,455,739</b>	<b>924,056</b>	<b>785,604</b>	<b>178,970</b>	<b>213,395</b>	<b>353,714</b>
2007	1,183,704	466,260	356,171	89,216	66,536	205,521



## 20. Financial assets (current)

Financial assets (current) for the Group and Company of £529,242 (2007: £1,954,315) represent unsecured short-term loans made by the Company to certain property syndicates to facilitate their purchase of commercial property. These loans generally accrue interest at rates of between 1% and 3% above the Bank of England's base rate.

## 21. Cash and short-term deposits

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

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Cash at banks and on hand	2,537,894	2,799,569	2,534,094	2,795,769
Short-term deposits	–	–	–	–
	<b>2,537,894</b>	2,799,569	<b>2,534,094</b>	2,795,769
Bank overdrafts	–	(72,818)	–	(72,818)
	<b>2,537,894</b>	2,726,751	<b>2,534,094</b>	2,722,951

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 £2,537,894 (2007: £2,726,751).

At 31 May 2008, the Group had available £5,250,000 (2007: £3,100,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

## 22. Issued capital and reserves

Share capital	Ordinary shares of 1p Thousands	Ordinary shares of 1p £
<b>Authorised</b>		
At 1 June 2006	25,000	250,000
Increase in authorised share capital	5,000	50,000
At 31 May 2007 and 2008	30,000	300,000
<b>Issued and fully paid</b>		
At 1 June 2006	17,046	170,455
Exercise of share options	170	1,704
At 31 May 2007 and 2008	17,216	172,159

On 17 October 2006, the share capital of the Company was increased by the allotment of 170,455 new ordinary shares of 1p 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.

### *Rights, preferences and restrictions on shares*

All ordinary shares carrying equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

# Notes to the financial statements

continued

## 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).

## Other reserves

Group	Equity-share based payments £	Share premium account £	Capital redemption reserve £	Retained earnings £
At 1 June 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 option	(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
Share based payments	104,659	–	–	–
Deferred tax asset taken to equity	65,114	–	–	–
Profit for the financial year	–	–	–	2,465,239
Dividends	–	–	–	(464,850)
<b>At 31 May 2008</b>	<b>372,242</b>	<b>5,601,458</b>	<b>2,000,000</b>	<b>5,881,203</b>

## Company

At 1 June 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 option	(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
Share based payments	104,659	–	–	–
Deferred tax asset taken to equity	65,114	–	–	–
Profit for the financial year	–	–	–	2,466,315
Dividends	–	–	–	(464,850)
<b>At 31 May 2008</b>	<b>372,242</b>	<b>5,601,458</b>	<b>2,000,000</b>	<b>5,882,279</b>

### 23. Summary statement of changes in equity

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>£</b>	£	<b>£</b>	£
Profit for the year	<b>2,465,239</b>	2,192,854	<b>2,466,315</b>	2,192,854
Dividends paid	<b>(464,850)</b>	(384,972)	<b>(464,850)</b>	(384,972)
Net proceeds of share issue	–	225,000	–	225,000
Share based payments	<b>104,659</b>	62,762	<b>104,659</b>	62,762
Deferred tax asset taken to equity	<b>65,114</b>	102,031	<b>65,114</b>	102,031
Net addition to equity	<b>2,170,162</b>	2,197,675	<b>2,171,238</b>	2,197,675
Opening equity attributable to equity holders of the parent	<b>11,856,900</b>	9,659,225	<b>11,856,900</b>	9,659,225
Closing equity attributable to equity holders of the parent	<b>14,027,062</b>	11,856,900	<b>14,028,138</b>	11,856,900

### 24. Trade and other payables

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>£</b>	£	<b>£</b>	£
<b>Trade and other payables (current)</b>				
Trade payables	<b>70,629</b>	79,341	<b>70,629</b>	79,341
Other taxation and social security	<b>265,033</b>	193,516	<b>265,033</b>	193,516
Other payables	<b>14,974</b>	31,575	<b>51,398</b>	28,875
Accruals and deferred income	<b>2,053,595</b>	1,323,457	<b>2,053,595</b>	1,323,457
Deferred consideration	<b>452,000</b>	–	<b>452,000</b>	–
	<b>2,856,231</b>	1,627,889	<b>2,892,655</b>	1,625,189

Other payables include Directors' loans of £8,909 (2007: £28,875). For terms and conditions relating to related party loans, refer to Note 29.

Terms and conditions of the other financial liabilities set out above are as follows:

- Trade payables are non-interest bearing and are normally settled on 30-day terms;
- Other taxation and social security become interest bearing if paid late and are settled on terms of one or three months;
- Accruals and deferred income are non-interest bearing and are normally settled monthly throughout the financial year; and
- Deferred consideration is settled as set out in the terms of the acquisition agreement (see Notes 3 and 26).

	<b>Group</b>		<b>Company</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>£</b>	£	<b>£</b>	£
<b>Trade and other payables (non-current)</b>				
Deferred consideration	365,500	–	365,500	–
	365,500	–	365,500	–

# Notes to the financial statements

continued

## 25. Interest-bearing loans and borrowings

Group and Company	Effective interest rate %	Maturity	2008 £	2007 £
<b>Current</b>				
Obligations under finance leases and hire purchase contracts (Note 27)	4.40%	2008-2009	<b>18,212</b>	–
Bank overdrafts	Base rate + 1.25%	On demand	–	72,818
			<b>18,212</b>	72,818
<b>Non-current</b>				
Obligations under finance leases and hire purchase contracts (Note 27)	3.91%	2009-2010	<b>10,030</b>	–
			<b>10,030</b>	–

The Company's bank overdrafts are secured by a floating charge over the Group's assets.

## 26. Provisions

Group and Company	Client claims £	Contingent consideration £	Dilapidations £	Onerous contracts £	Clawbacks £	Total £
At 31 May 2006	47,966	104,876	50,000	–	12,674	215,516
Arising during the year	67,534	–	–	–	–	67,534
Utilised	–	(6,572)	–	–	–	(6,572)
At 31 May 2007	115,500	98,304	50,000	–	12,674	276,478
Acquisitions (Note 3)	–	350,000	–	–	–	350,000
Arising during the year	–	–	39,000	31,000	–	70,000
Unused amounts reversed	–	(39,674)	–	–	–	(39,674)
At 31 May 2008	115,500	408,630	89,000	31,000	12,674	656,804
<b>Current 2008</b>	<b>115,500</b>	<b>155,304</b>	<b>–</b>	<b>20,000</b>	<b>12,674</b>	<b>303,478</b>
<b>Non-current 2008</b>	<b>–</b>	<b>253,326</b>	<b>89,000</b>	<b>11,000</b>	<b>–</b>	<b>353,326</b>
	<b>115,500</b>	<b>408,630</b>	<b>89,000</b>	<b>31,000</b>	<b>12,674</b>	<b>656,804</b>
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

### 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.

### Contingent consideration

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. Details of these agreements and the basis of calculation of the net present value of the contingent consideration is summarised below. The Group estimates the net present value of contingent consideration payable within the next 12 months is £155,304 (2007: £20,858).

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.

In addition, the acquisition agreement provides for contingent 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 contingent consideration is payable at 12-monthly intervals following completion of the acquisition. Whilst it is not possible to determine the exact amount of the contingent consideration (as this will depend on commission earned on contracts), the Group estimates the net present value of the earn-out to be £58,630, using cash flow projections approved by the Board covering the contingent consideration period. The discount rate applied to the cash flow projections is 5.0%.

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 provided for contingent consideration to be paid to Suffolk Life based on investment commissions earned by the Group during the three years from 27 January 2006. However, under an agreement dated 10 March 2008 all the Group's liabilities under the acquisition agreement are extinguished and hence the value of the remaining contingent consideration has been written down to nil.

On 9 July 2007 the Group acquired the entire issued share capital of PCL for an initial consideration of £1,525,000. The acquisition agreement also provides for £240,000 of deferred consideration to be paid in the two years following completion (see Note 24), with a further payment being contingent upon growth in scheme numbers during the two years following completion. Whilst it is not possible to determine the exact amount of contingent consideration (as this will depend on growth in scheme numbers), the Group estimates the net present value of the contingent consideration at 31 May 2008 to be £150,000.

On 18 February 2008 the Group acquired the trade and assets of the JB Group for an initial consideration of £1,245,000. The acquisition agreement also provides for deferred consideration of £640,000 (see Note 24) plus up to £700,000 of contingent consideration to be paid subject to certain revenue and client retention targets being met during the three years following completion. Whilst it is not possible to determine the exact amount of contingent consideration (as this will depend on revenues earned and client retention during the period), the Group estimates the net present value of the contingent consideration to be £200,000, using cashflow projections approved by the Board covering the contingent consideration period. The discount rate applied to the cashflow projections is 5.0%.

#### *Dilapidations*

Under the terms of the lease for the Group's premises at MW House, 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 MW House to be £50,000. The discount rate applied to the cash flow projections is 5.0%.

In February 2008 the Group entered into an agreement to lease additional premises at The Gateway, Grove Park, Enderby. The Group has an obligation to return the property in a specified condition at the end of the lease term in 2018. The Group estimates the net present value of the cost of dilapidations on The Gateway to be £35,000. The discount rate applied to the cash cashflow projections is 5.0%.

As part of the Group's acquisition of the JB Group, it was assigned the lease to premises at St John's, Lutterworth. The Group has an obligation to return the property in a specified condition when it breaks the lease term in 2010. The Group estimates the net present value of the cost of dilapidations at St John's to be £4,000.

#### *Onerous contracts*

The St John's property in Lutterworth is currently vacant. As a result, the unavoidable costs of meeting the Group's obligations under the lease exceed the expected benefits. The Group estimates the net present value of the cost of exiting the lease at the earliest permissible date is £31,000.

#### *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 2008 was £12,674. No discount rate is applied to the projected cash flows due to their short term nature.

# Notes to the financial statements

continued

## 27. Commitments and contingences

### Operating lease agreements – Group as lessee

The Group has entered into two commercial leases for its premises at Grove Park, Enderby. The lease for the Head Office, MW House, has a duration of 20 years, from 10 June 2005. The amount of annual rental is to be reviewed at three-yearly intervals, commencing 10 June 2008.

The lease for part of the ground floor of The Gateway (an office building adjacent to MW House) has a duration of 10 years, from 1 February 2008. The amount of annual rental is to be reviewed at the end of the fifth year.

As part of the acquisition of the JB Group, the Group acquired the following operating lease obligations:

- A five year lease for office premises at St John's Business Park, Lutterworth from January 2007;
- Two leases for company vehicles with a duration of three years commencing November 2005 and June 2006;
- Two five year leases for office equipment commencing August 2005 and January 2007; and
- A three year lease for office equipment commencing January 2007.

There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable under non-cancellable operating leases as at 31 May are as follows:

Group and Company	Office equipment		Land and buildings	
	2008 £	2007 £	2008 £	2007 £
Not later than one year	12,371	–	264,600	168,000
After one year but not more than five years	11,178	–	1,028,650	672,000
More than five years	–	–	3,215,100	2,184,000
	<b>23,549</b>	–	<b>4,508,350</b>	3,024,000

### Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various motor vehicles. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the Directors. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	Minimum payments £	2008 Present value of payments (Note 25) £	Minimum payments £	2007 Present value of payments (Note 25) £
Within one year	19,013	18,212	–	–
After one year but not more than five years	10,912	10,030	–	–
Total minimum lease payments	29,925	–	–	–
Less amounts representing finance charges	(1,683)	–	–	–
Present value of minimum lease payments	28,242	28,242	–	–

### Capital commitments

At 31 May 2008 the Group had no capital commitments (2007: nil).

## 28. 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 £184,636 (2007: £201,019).

## 29. 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 and MW Properties (No 60) Limited. The Group leases its premises at MW House, 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.

The Group leases its premises at Gateway House, Grove Park, Enderby from MW Properties (No 60) Limited and paid rentals of £18,900 during the year. At the year end the Group had prepaid future rentals of £4,764.

Key management personnel receive compensation in the form of short-term employee benefits and equity compensation benefits (see Note 10). Key management personnel, representing the executive directors and five (2007: four) other executives, received total compensation of £1,766,102 for the year ended 31 May 2008 (2007: £1,342,664). Total remuneration is included in "employee benefits expense" and analysed as follows:

	<b>2008</b>	2007
	<b>£</b>	£
Short-term employee benefits	<b>1,656,878</b>	1,232,846
Post-employment benefits	<b>72,624</b>	73,218
Share-based payments	<b>36,600</b>	36,600
	<b>1,766,102</b>	1,342,664

At 31 May 2008, Ian Mattioli was owed £6,481 (2007: £21,712) and Robert Woods was owed £2,428 (2007: £7,163) by the Group. These Directors' loans carry no coupon and have no fixed repayment date.

## 30. 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 2008 and 2007, 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.

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# Notes to the financial statements

continued

## *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 £
<b>2008</b>		
£ Sterling	+10	371
£ Sterling	-10	(371)
<b>2007</b>		
£ Sterling	+ 10	393
£ Sterling	- 10	(393)

## *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.

## *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 2007 and 2008 based on contractual undiscounted payments:

<b>Year ended 31 May 2008</b>	<b>On demand £</b>	<b>Less than 3 months £</b>	<b>3 to 12 months £</b>	<b>1 to 5 years £</b>	<b>&gt; 5 years £</b>	<b>Total £</b>
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	2,432,473	–	–	–	2,432,473
	–	2,432,473	–	–	–	2,432,473

<b>Year ended 31 May 2007</b>	<b>On demand £</b>	<b>Less than 3 months £</b>	<b>3 to 12 months £</b>	<b>1 to 5 years £</b>	<b>&gt; 5 years £</b>	<b>Total £</b>
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

#### 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 (2007: £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 (2007: £103,000) of own funds at all times.

The Company is also authorised by the FSA to establish and operate personal pensions schemes, including SIPPs. The Company's scope of permissions allows the Company to control, but not hold, client money, which results in additional financial resource requirements. In addition to the obligation to maintain £113,000 (2007: £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.

# Notes to the financial statements

continued

The Group policy, which remains unchanged from the year ended 31 May 2007, is to maintain a gearing ratio of less than 50%, to allow the Group to secure access to additional finance at a reasonable cost by maintaining a level of debt capacity which will enable the Group to pursue new business opportunities as they arise. Gearing ratios as at 31 May 2007 and 2008 were as follows:

<b>Gearing</b>	<b>2008</b> £	2007 £
Interest bearing loans and borrowings	–	72,818
Trade and other payables	<b>2,432,473</b>	1,627,889
less: Cash and short-term deposits	<b>(2,537,894)</b>	(2,799,569)
Net debt/cash	<b>(105,421)</b>	(1,098,862)
Share capital	<b>172,159</b>	172,159
Share premium	<b>5,601,458</b>	5,601,458
Fair value and other reserves	<b>2,372,242</b>	2,202,469
Retained earnings:		
– At 1 June	<b>3,880,814</b>	2,072,932
– Retained earnings for period	<b>2,000,389</b>	1,807,882
Capital	<b>14,027,062</b>	11,856,900
Gearing ratio: Net debt/capital	<b>(0.8)%</b>	(9.3)%

## 31. 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:

<b>Year ended</b> <b>31 May 2008</b>	<b>&lt; 1 year</b> £	<b>1-2 years</b> £	<b>2-3 years</b> £	<b>3-4 years</b> £	<b>4-5 years</b> £	<b>&gt; 5 years</b> £	<b>Total</b> £
<b>Floating rate</b>							
Financial assets (current)	529,242	–	–	–	–	–	529,242
Cash assets	2,537,894	–	–	–	–	–	2,537,894
Bank overdrafts	–	–	–	–	–	–	–
<b>Year ended</b> <b>31 May 2007</b>	<b>&lt; 1 year</b> £	<b>1-2 years</b> £	<b>2-3 years</b> £	<b>3-4 years</b> £	<b>4-5 years</b> £	<b>&gt; 5 years</b> £	<b>Total</b> £
<b>Floating rate</b>							
Financial assets (current)	1,954,315	–	–	–	–	–	1,954,315
Cash assets	2,799,569	–	–	–	–	–	2,799,569
Bank overdrafts	72,818	–	–	–	–	–	72,818

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.

**32. Events after the balance sheet date**

*Share Incentive Plan*

In June 2008 the Company launched the Mattioli Woods plc Share Incentive Plan (“the Plan”). Principally, the Plan enables employees to purchase up to a prescribed number of shares in the Company each year at an effective discount to the Stock Exchange price by having an amount deducted from pre-tax salary. In addition, the Company may grant participating employees matching and/or free shares. Ordinary shares issued under the Plan will rank pari passu with the existing issued ordinary shares of the Company.

**33. Ultimate controlling party**

The Company has no controlling party.

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# Notice of annual general meeting

**Please note that this document is important and requires your immediate attention. If you are in any doubt as to the action to be taken, please consult an independent adviser immediately.**

**If you have sold or transferred or otherwise intend to sell or transfer all of your holding of ordinary shares in the Company prior to the Annual General Meeting of the Company on 16 October 2008 at 10.00am, you should send this document, together with the accompanying Form of Proxy, to the (intended) purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is to be effected for transmission to the (intended) purchaser or transferee.**

**Company Number: 3140521**

## **NOTICE OF ANNUAL GENERAL MEETING MATTIOLI WOODS PLC ("the Company")**

**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 16 October 2008 at 10.00am in order to consider and, if thought fit, pass resolutions 1 to 8 as Ordinary Resolutions and resolution 9 as a Special Resolution:-

### Ordinary Resolutions

- 1 To re-elect as a director Robert Woods 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 Murray Smith 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 elect Mark Smith as a director.
- 4 To elect Michael Kershaw as a director.
- 5 To receive, consider and adopt the directors' report and accounts of the Company for the period ended 31 May 2008, together with the reports of the directors and the auditors thereon.
- 6 To re-appoint Baker Tilly UK Audit LLP of 2 Whitehall Quay, Leeds. LSI 4HG as auditors and to authorise the directors to determine their remuneration.
- 7 Pursuant to Section 80 of the Companies Act 1985 (the "**Act**") to exercise all or any of the powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of all the authorised but unissued share capital of the Company provided that this authority shall, unless previously revoked or varied by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company following the date of the passing of this resolution or (if earlier) 15 months from the date of passing this resolution, but so that the directors 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 that offer or agreement as if the authority hereby conferred had not expired.
- 8 To declare a final dividend recommended by the directors of 2.00p per ordinary share for the year ended 31 May 2008.

### Special Resolutions

- 9 Pursuant to Section 95 of the Act, that the directors of the Company be and they are hereby authorised by way of a general authority to issue all or any of the authorised but unissued ordinary shares in the capital of the Company for cash, as and when they in their discretion deem fit which currently provide, inter alia, that:
  - 9.1 this authority shall expire at the conclusion of the next Annual General Meeting of the Company or (if earlier) 15 months from the date of passing 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 such offer or agreement as if the power conferred hereby had not expired; and
  - 9.2 issues in the aggregate in any one financial year will not exceed 15% of the number of ordinary shares in the Company's issued share capital from time to time;

**By order of the Board**

Nathan Imlach  
**Company Secretary**

Registered Office: MW House, 1 Penman Way, Grove Park, Enderby, Leicester, LE19 1SY

Dated 15 September 2008

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, proxy forms must be lodged with the Company's registrars at Capita Registrars, Proxies, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU not later than 2 business days 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 To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 not later than 2 business days before the time of the meeting or any adjournment thereof. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the Company's registrars not later than 2 business days before the time of the meeting or any adjournment thereof.
- 5 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.
- 6 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.
- 7 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.
- 8 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.

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## Notes

## Financial calendar

2 September	Preliminary announcement of results for the year ended 31 May 2008
10 September	Ex-dividend date for ordinary shares
12 September	Record date for final dividend
16 October	Annual General Meeting
17 October	Payment of final dividend on ordinary shares



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