Mattioli Woods
Pension Consultants

Mattioli Woods plc
Annual Report 2010

Securing your retirement wealth

Retirement Wealth Management

Pension Consultants

Trustees & Administrators

Mattioli Woods plc

Mattioli Woods plc ("Mattioli Woods" or "the Group") provides retirement wealth management 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.

Our objective is to grow our business organically and by acquisition, delivering strong, sustainable shareholder returns over the long-term. We plan to continue developing complementary services around our core market of member-directed pension schemes, extending the Group's operations into wider markets and enhancing our reputation for the delivery of high quality services and advice.

Contents

Highlights

+3.0%

Revenue
2010: £13.68 (2009: £13.28m)

+9.2%

Profit before tax and amortisation[1]
2010: £4.51m (2009: £4.13m)

+9.7%

Adjusted EPS[1,2]
2010: 18.73p (2009:17.08p)

+11.5%

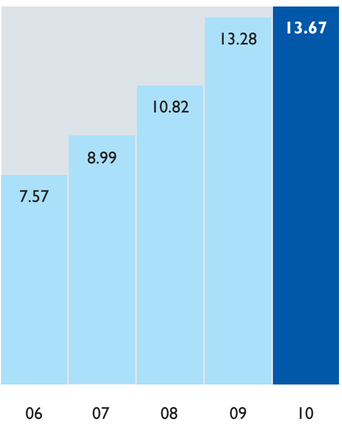
Proposed total dividend
2010: 4.35p (2009: 3.90p)

For more information go to www.mattioli-woods.com

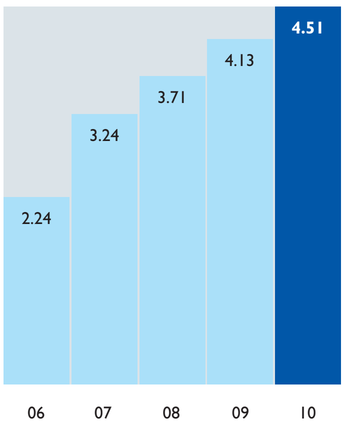
LON: MTW

- EBITDA margin improved to 34.5% (2009: 32.3%)
- Total funds under trusteeship up 8.2% to £1.72bn (2009: £1.59bn)
- Acquisition of CP Pensions in April 2010
- Net cash at period end of £5.79m (2009: £4.81m)
- Acquisition of City Trustees in August 2010

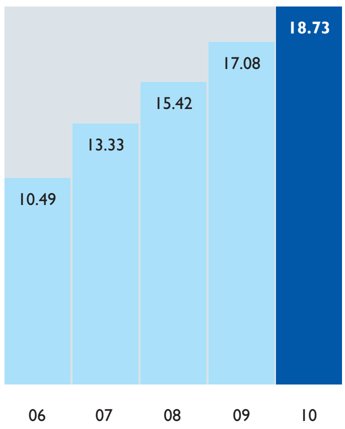
Revenue
£m



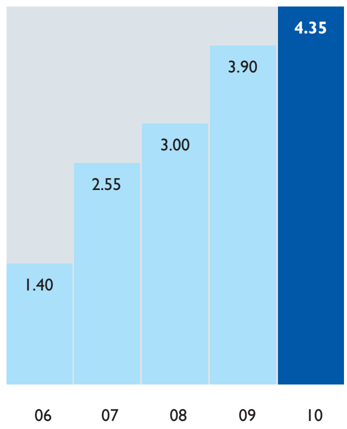
Profit before tax and amortisation[1] £m



Adjusted EPS[1,2]
pence



Full year dividend
pence



1 Before amortisation of intangible assets other than computer software.
2 Basic EPS up 10.1% to 17.32p (2009: 15.73p).

Mattioli Woods at a glance
a commitment to excellence

The key difference between Mattioli Woods and many of our larger competitors is our holistic approach to the use of SSAS and SIPP. Our aim is to build long-term relationships by supporting clients fully with a hands-on and bespoke approach.

Our strategic objectives

We aim to deliver strong, sustainable shareholder returns over the long-term by focusing on retirement wealth management for the mass affluent. Our focus is on providing our clients with impartial, highly personalised administration and advice.

Around our core market of member-directed pension schemes (primarily SSASs and SIPPs), we will continue to develop complementary services aimed at a broader market, including third party scheme administration and bespoke investment products.

The retirement wealth marketplace is highly fragmented and we will continue seeking new acquisition opportunities to support our growth objectives.

Our principal services

Retirement wealth management

Our investment and economic research team ensures the maintenance of robust client investment strategies, which refuse to be driven by newspaper or marketing sentiment. By offering focused pension investment services, our management of clients' retirement wealth can often widen to include strategic planning in relation to personal assets and ancillary advisory services.

Consultancy

We strive to maintain our technical edge by continually updating our in-depth understanding of UK pension legislation. This translates into the provision of meaningful, strategic guidance to our clients. With an ever-changing legislative framework it is imperative to regularly review strategy.

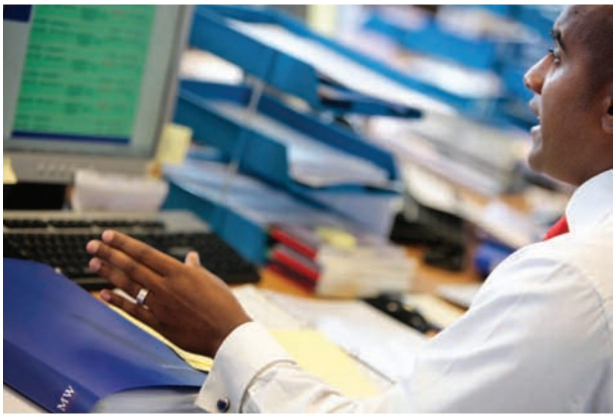
In addition to SSAS and SIPP services, Mattioli Woods offers consultancy enabling interaction between pension fund assets and clients' personal wealth, from both a strategic and investment perspective. The last few years have seen significant changes within the final-salary sector. Our specialist consultants can assist employers to control running costs and reduce their liabilities.

Graduate foundations

Mattioli Woods has been built on our graduate recruitment initiative. Over 60% of our employees joined as graduates. We believe in giving responsibility early, proactively supported by an experienced mentor, and also promoting from within.

An inspiring success

We were delighted to win the 'Success through People' category and be voted runner-up for 'Business of the Year' at the 2010 Leicestershire Business Awards.



Retention

Our focus is on developing our staff to allow them to fulfil career aspirations, resulting in great staff retention.

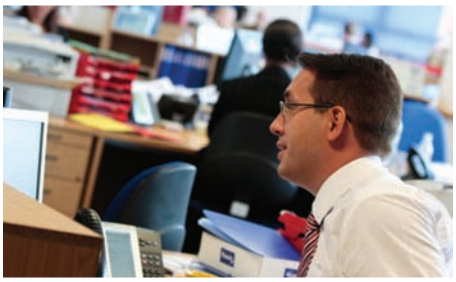
Trusteeship and administration
Our focus is strong integrity and compliance, ensuring our clients' pension arrangements are administered with an attention to detail appropriate to what is often a burdensome regulatory environment.

Our recent acquisition of City Trustees brings the opportunity for the Group to develop a separately branded administration proposition, servicing other advisers and their clients.

Our clients
Clients often come to Mattioli Woods when they have accumulated a number of different pension funds they want to amalgamate to achieve a particular objective. Alternatively, a client may be looking for greater flexibility and control within their pension scheme, which cannot be achieved using an insurance-based scheme or low cost SIPP.

Many prospective clients have identified a specific cause for concern or want to review their pension position. They often discuss these issues with their accountant or solicitor, who in turn refer the client to Mattioli Woods.

Our people
The strength of our business is testament to our staff, who are integral to the delivery of the client service we strive to maintain. One of the principal objectives behind our flotation on AIM was to create wider staff ownership in the business. With a focus on developing our people internally, Mattioli Woods enjoys great staff retention and a highly motivated team with a true sense of commitment.



Growth
A strong track record of growth, creates exciting career opportunities for our people.

Experience and expertise
Mattioli Woods has an experienced management team and we pride ourselves in providing high quality bespoke services.

Chairman's statement

I am delighted to report another good set of results for the year ended 31 May 2010, with basic earnings per share up 10.1% and profit before tax and amortisation[1] up 9.2% compared with the prior year.

Volatility in financial markets, economic uncertainty and fiscal changes led to sustained demand for advice from clients throughout the year. Fee-based revenues increased by 13.4% to £7.35m (2009: £6.48m), representing 53.7% (2009: 48.8%) of total revenues of £13.68m (2009: £13.28m). Whilst revenues in the first half were affected by difficult investment conditions, in the second half we saw clients increasingly willing to invest away from the safe haven of cash, resulting in second-half revenues up by 10.3% on the equivalent period last year to £7.09m (2H09: £6.43m).

Events in mainland Europe, uncertainty over the UK's political position and disappointing economic data in the US have tempered some clients' risk appetite. This has triggered a switch to income-focused strategies, based around higher yielding investments such as large cap funds, investment grade corporate bonds and property syndicates. There continues to be strong demand for specialist consultancy and investment advice, particularly with a view to understanding the changes announced in the coalition Government's emergency budget and the economic outlook for the UK.

We added 519 new client schemes in the year, 229 by organic growth and 290 through the acquisition of the pension administration and employee benefits businesses of Cooper Parry Wealth Strategies Limited ("CP Pensions") in April 2010. We continue to enjoy strong client retention, with an overall client attrition rate[2] of 4.3% (2009: 3.2%).

Total funds under trusteeship increased by 8.2% to £1.72bn at 31 May 2010 (2009: £1.59bn).

Market overview

The self-invested personal pension ("SIPP") market continues to expand. There are estimated to be 650,000 schemes in the UK, with some commentators predicting the one million scheme mark will be reached by 2015. The demise of final salary schemes and the imperative for many employers to control the cost of post-retirement benefits are increasing general awareness that more than ever the onus now falls upon individuals to provide for their own retirements. These trends look likely to be reinforced by the coalition Government's policy on private pensions and I welcomed George Osborne's announcement that he intends to abolish compulsory annuity purchase at age 75. I believe this initiative will introduce more flexibility as to how an individual's pension fund can be managed after the age of 75 and boost the attractiveness of pensions as people understand their long-term retirement savings need not necessarily disappear into the black hole of an annuity fund, or be subject to severe regulatory constraints.

Trading results

We achieved increased total revenues of £13.68m (2009: £13.28m) in the year ended 31 May 2010. Sustained demand for advice from clients throughout the year saw fee-based revenues increase by 13.4% to £7.35m (2009: £6.48m), representing 53.7% of total revenue (2009: 48.8%).

Investment-related revenues fell to 39.1% of total revenue (2009: 42.9%). Interest rates have remained at historic lows since March 2009, adversely impacting our banking revenues and making the structuring of capital-guaranteed bonds more challenging. Against this, continued turbulence in mainstream investment markets has resulted in continuing demand for structured products, with clients subscribing a total of £31.0m (2009: £46.7m) during the year.

Property syndicate revenues were 7.2% of total revenue (2009: 8.3%), with clients investing £6.73m (2009: £6.51m) into the three (2009: two) new syndicates completed. I expect to see increased property syndicate investment over the course of the next year, as rental yields look increasingly attractive compared with low interest rates and gilt yields.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") margin improved to 34.5% (2009: 32.3%) as a result of operational efficiencies realised following the introduction of our 'small to big' initiative last year. Adjusted earnings per share increased by 9.7% to 18.73p (2009: 17.08p).

Compliance

I have noted previously how the SIPP sector needs to respond to the regulatory challenges it faces. Almost 12 months' ago the Financial Services Authority ("the FSA") reported it had identified problems with many small SIPP operators' systems and controls. In January 2010, we were appointed to complete the winding up of The Freedom SIPP and have since worked closely with the FSA and the liquidators, PricewaterhouseCoopers, to develop solutions for this troubled operation. To date, we have transferred 35 members to alternative arrangements (three of these being with Mattioli Woods), with a further 116 members still in the process of transferring elsewhere.

The FSA has confirmed that all SIPP operators, including third party administrators, must take responsibility for reviewing the nature of the underlying investments being held within the scheme. It remains to be seen how this will impact on the market, but we welcome these timely initiatives. The FSA's Retail Distribution Review ("RDR") is scheduled to take effect from the end of 2012. I am confident our fee-based approach is already aligned with the key recommendations of the RDR, which can only offer us a competitive advantage compared with other advisers who will be required to make fundamental changes to the basis of their remuneration.

I expect further changes in regulation will bring about a better understanding of the key requirements for clients to achieve their retirement plans and will continue to drive consolidation within our sector.

Acquisitions

It is our ambition to continue expanding Mattioli Woods' operations both organically and by acquisition. In April 2010 we completed the acquisition of the pension administration and employee benefits businesses of CP Pensions for a cash consideration of up to £1,175m, subject to certain revenue and client retention targets. CP Pensions provided pensions consultancy and administration services to 239 SIPP and 51 small self-administered pension ("SSAS") clients, with total funds under trusteeship of over £110m. In addition, CP Pensions' employee benefits business serviced 30 corporate clients, which adds further scale to our existing employee benefits and group scheme operation.

I am delighted to have followed this with the acquisition earlier this month of City Trustees Limited and its associated company City Pensions Limited (together "City Trustees") from Lighthouse Group plc for a cash consideration of £1.85m. City Trustees provides trustee and administration services to a portfolio of 965 SIPP, 123 SSAS and 14 funded unapproved retirement benefit schemes, with total funds under trusteeship of over £300m. The acquisition of City Trustees brings the opportunity to expand our range of services through the development of a separately branded administration proposition.

Both acquisitions are expected to be earnings enhancing in the first full year of ownership.

Staff

Our people have demonstrated an enormous amount of enthusiasm in embracing our 'small to big' initiative. This creates the platform for Mattioli Woods to manage higher volumes of business whilst retaining our personalised approach.

Building capacity remains a high priority and we continue to invest in our graduate recruitment programme. Our increased business profile as a listed company continues to enhance our ability to recruit both new and experienced staff.

I thank all our employees for their effort over the last year, as it is their dedication and hard work that differentiates Mattioli Woods from its competitors. We continue to build upon this strong team spirit by facilitating employee equity participation through the Mattioli Woods plc Share Incentive Plan. To date, 48% of eligible staff have elected to invest via the plan and I plan to promote broader participation over the next 12 months.

Following a review of executive remuneration undertaken in conjunction with independent consultants, I am pleased to announce the introduction of a Long Term Incentive Plan ("LTIP") designed to attract and retain appropriately qualified staff. The LTIP will be tabled for shareholder approval at the Company's next Annual General Meeting on 14 October 2010.

Dividends
The Board is pleased to recommend the payment of a final dividend for the year ended 31 May 2010 of 2.90 pence (2009: 2.75 pence) per ordinary share. If approved, the final dividend will be paid on 18 October 2010 to shareholders on the register at the close of business on 10 September 2010.

The Board remains committed to growing the dividend, whilst maintaining an appropriate level of dividend cover.

Shareholders
We continue to expand the excellent institutional shareholder base we have enjoyed since joining the AIM market. We are also working to develop broader private client interest and employee share participation. We will communicate fully with all our shareholders and the wider market, building further awareness of Mattioli Woods.

Outlook
With the continuing demise of defined benefit pension plans and the increasing need for people generally to plan for their own financial futures, we expect further growth in demand for the Group's increasing range of retirement wealth management services.

Trading in the current period is in line with the Board's expectations and we feel the outlook for the new financial year is increasingly positive. It is our ambition to continue expanding Mattioli Woods' operations both organically and by acquisition, building upon our track record of profitable growth.

Bob Woods
Chairman
30 August 2010

[1] Before amortisation of intangible assets other than computer software.
[2] Core SSAS and SIPP schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period.

It is our ambition to continue expanding Mattioli Woods' operations both organically and by acquisition, building upon our track record of profitable growth

RW

Bob Woods
Executive Chairman

Chief Executive's review

Our focus is at the higher end of the retirement wealth market, where clients require bespoke service and specialist advice.

Introduction

It is almost five years since Mattioli Woods was admitted to trading on the AIM market of the London Stock Exchange. One of my key objectives upon flotation was to create a platform capable of supporting a much larger business. The 'small to big' initiative is a key step in achieving this and enabling Mattioli Woods as a brand that is recognised as providing bespoke retirement wealth management services to a growing client base.

Market

Our markets are serviced by a wide range of suppliers offering diverse services to individual and corporate clients. These markets are fragmented and remain highly competitive, although some commentators suggest regulatory changes, particularly the RDR and increased capital adequacy requirements, will drive consolidation.

Business objective and strategy

Our focus is at the higher end of the retirement wealth market, where clients require bespoke service and specialist advice. We aim to deliver profitable growth year-on-year, both organically and by acquisition.

We will underpin this objective through:

- Extending the range of products and services offered by the Group;
- Expanding the presence of our property syndicate business; and
- Continuing to develop our administration platforms, allowing us to service increased business volumes.

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 primarily comprises owner-managers, senior executives and members of the professions. We also provide employee benefits consultancy and personal financial planning as complementary services to our core business.

Revenues from our fee-based services have increased by 13.4% to £7.35m (2009: £6.48m) as a result of volatile financial markets, economic uncertainty and fiscal changes leading to sustained client demand for advice throughout the year.

Investment planning

A 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, including our own bespoke products. Although 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. However, a strength of our business is that we can continue to derive income from investments in most asset classes, whilst ensuring our clients' investment strategies are appropriately aligned to the prevailing market conditions.

Investment planning revenues fell 6.15% in 2010 to £5.34m (2009: £5.69m) as a result of low interest rates adversely impacting our banking revenues and delivery of structured products. Whilst low interest rates make securing investment returns on structured products more challenging, continued turbulence in mainstream investment markets has resulted in sustained demand for this type of product. We promoted 13 (2009: 15) new bond issues during the year, with clients subscribing a total of £31.0m (2009: £46.7m) and expect to deliver a greater number of these products as interest rates rise.

Property syndicates

Mattioli Woods facilitates commercial property ownership for its clients by way of a syndicated property initiative. We believe commercial property is ideally suited as a retirement investment, with good quality properties typically providing stable long-term income streams. I believe rental yields look increasingly attractive in the prevailing interest rate environment.

In August 2009 we were delighted to appoint Richard Shepherd-Cross to manage our property syndicate team. Richard is a skilled property investment professional with 15 years experience and a broad-based knowledge of real estate across all sectors. He was previously head of the Jones Lang Lasalle portfolio investment team. His experience strengthens the team and highlights our commitment to this important element of our business, in what are exciting times for the commercial property market.

Demand remains within our client base for commercial property with the benefit of long leases and strong tenant covenants. We facilitated the purchase of three (2009: two) new properties during the year with a combined value of £6.73m (2009: £6.51m). The total number of property syndicates using our administrative services at the year-end increased to 41 (2009: 38). Total income from property syndicates was £0.99m (2009: £1.11m), with recurring revenues derived from our annual administration services falling 12.0% to £0.66m (2009: £0.75m), in line with falls in commercial property valuations.

We monitor our clients' appetite for direct commercial property investment and will facilitate suitable opportunities when they are available. In time, we expect our property syndicate business will develop outside of our core Mattioli Woods' clients.

Regulatory environment

Financial Services Authority

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. 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.

The FSA published the findings of its thematic review of small SIPP operators in September 2009. The conclusions of the FSA's review highlight that SIPPs are a bespoke service designed to facilitate clients' retirement objectives. This means that operators need to engage with their clients, even when offering administration-only services.

Review of the Prudential Rules for Personal Investment Firms

In November 2009, the FSA set out the changes it will make to the prudential rules for Personal Investment Firms. These changes will increase our expenditure based capital requirement from six to 13 weeks over the next three years. Our balance sheet strength gives us significant headroom above the increased requirement. However, the burden on many small and medium sized IFA firms may force them to exit the market, creating new opportunities for stronger firms such as Mattioli Woods.

The FSA has also announced it is going to consider the capital resources requirements for pension administrators separately and expects to consult on these issues later this year. This may lead to a further increase in our capital resource requirements, although I expect any increase to be accommodated within our current financing arrangements.

Review of Retail Distribution ("RDR")

The RDR rules are intended to come into effect at the end of December 2012. Under the FSA's proposals, advisers will have to charge customers a fee rather than receiving commission from the companies whose products they recommend. IFAs will be required to adopt a much stricter remuneration agreement at the outset of a new client relationship, divorced from a specific product sale, together with higher professional standards. Historic product sales will not need to be revisited.

A proposed 11.5% increase in the total dividend for the year to 4.35p per share (2009: 3.90p) demonstrates our desire to deliver value to our shareholders and our confidence in the future outlook for the business

Ian Mattioli
Chief Executive

Chief Executive's review

Revenues from our fee-based services were up 13.4% to £7.35m (2009: £6.48m) following sustained demand for advice throughout the year.

As a result of the RDR, the options for Mattioli Woods' core SSAS and SIPP business are:

- Be an entirely independent adviser; or
- Provide only restricted advice; or
- A combination of the two, for example, being a SIPP operator that provides independent advice on the assets held within the wrapper.

We want to be an independent investment adviser and are already well-positioned by having an investment research team. However, Mattioli Woods has its own SIPP products and hence we may decide to provide only restricted advice in relation to these.

With significant changes being made to existing commission structures, we are considering the most appropriate revenue model to adopt for the provision of investment advice. Under the RDR rules, product providers can continue to facilitate our existing model, although the introduction of an advisory fee linked to the value of Funds Under Advice, billed monthly or annually in advance, may be more appropriate.

We are consulting with our clients to gather their views, prior to implementing any change to our existing fee-based business model. Mattioli Woods provides clients with service and fee agreements at the outset and I believe our well-established, fee-based culture gives us a competitive advantage over much of the IFA sector. I do not expect that the RDR's proposals will change significantly the way we deal with our clients.

HM Revenue & Customs and The Pensions Regulator

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.

Whilst concern was expressed in some quarters about the 2009 Budget proposals to restrict tax relief on pension contributions for people with taxable income of £150,000 or more to the basic rate of income tax with effect from 6 April 2011, we are confident this will have a negligible impact on our business. The question of pension tax relief was revisited in the emergency budget. Although the Government stated reform in this area is a necessary part of its commitment to tackle the fiscal deficit, the previously announced changes are to be reviewed by the Treasury. In the meantime, basic rate tax relief is still available for high-earners and our focus continues to be advising clients on their existing retirement wealth, rather than having any significant reliance on new pension contributions.

The Chancellor also intimated he would review the rules surrounding compulsory annuity purchase. Legislative changes create complications, which inevitably lead to greater client advisory and planning opportunities for Mattioli Woods.

Compliance

We consider all legislative changes and the findings of all FSA and HMRC reviews and where appropriate, we take action to ensure our systems and processes continue to represent best practice.

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.

We continue to invest in maintaining our staff's technical excellence and developing our administration systems. The majority of our consultancy team joined us as graduate trainees and already hold high-level examinations obtained during their training with us. A key objective of the RDR is to inspire consumer confidence so that the provision of personal financial advice is seen as a profession on a par with other professions. The FSA believes a higher minimum qualification requirement is needed for investment advisers. Their recommendation is that this is set at Qualifications Credit Framework ("QCF") level 4 or equivalent. All existing advisers will be required to reach at least this level by the end of 2012.

Current and future developments and performance

Group results

Sales revenues were up 3.0% to £13.68m (2009: £13.28m) following sustained demand for advice throughout the year. Fee-based revenues increased to 53.7% of total revenue (2009: 48.8%). Investment planning related revenues fell to 39.1% of total revenue (2009: 42.8%) as a result of low interest rates and property syndicate revenues fell to 7.2% (2009: 8.4%), with falls in commercial property valuations adversely impacting annual management charges.

EBITDA increased by 10.0% to £4.72m (2009: £4.29m), with EBITDA margin improving to 34.5% (2009: 32.3%) as a result of our 'small to big' change management initiative, which has created additional capacity now and paved the way for us to manage greater business volumes in the future. Additional investment in information systems and technology provides scope for future margin improvement and even better client service going forward.

Net finance revenue

Net finance revenue fell to £0.04m (2009: £0.09m). The Group has maintained a positive net cash position, but net finance revenue was adversely impacted by the Bank of England base rate remaining at a historic low of 0.5% throughout the financial year.

A dream pension cocktail

Alastair Kennedy is the senior partner at Howsons Accountants in Leek and had acquired a number of pension schemes throughout his working life. The heart of his pension assets rested with ownership of the property rented by Howsons. Other pension policies were all held with insurance companies, which had languished in unmanaged and impractical investments for many years.

Alastair has three children all of whom have been successful in their own fields. One son, James, was particularly keen to start his own business running a cocktail bar and spent many hours looking for suitable premises from which to operate. His dreams came true when he found a quaint listed building in Congleton. Thanks to the structure put together by Mattioli Woods, which had amalgamated all Alastair's pensions into one SIPP, the pension fund was able to acquire the property and fund the refurbishment of the building ready for a grand opening.

The use of pension schemes in this way has enabled Alastair to invest his pension in an asset which provides not only a continuing interest in his son's business but also a good income stream for his retirement.

James and Chris, who is James's partner in the wine bar, have started a pension scheme of their own, looking to acquire further commercial properties from which to run their cocktail bar themed business, DV8 bar, more details of which can be found at www.dv8bar.co.uk.

Chief Executive's review

We aim to retain and attract staff through the provision of training, career progression, good communication and a positive culture. The continued growth of our business will create new opportunities for staff.

Taxation

The effective rate of taxation on profit on ordinary activities is 29.6% (2009: 30.1%). The net deferred taxation liability carried forward at 31 May 2010 was £0.12m (2009: £0.13m).

Earnings per share and dividend

Basic earnings per share increased by 10.1% to 17.32p (2009: 15.73p) with diluted earnings per share increasing by 10.2% to 16.49p (2009: 14.97p). A proposed 11.5% increase in the total dividend for the year to 4.35p per share (2009: 3.90p) demonstrates our desire to deliver value to our shareholders and our confidence in the future outlook for the business. The Board remains committed to growing the dividend progressively, whilst maintaining an appropriate level of dividend cover.

Cash flow

Net cash generated from operations was £3.85m (2009: £4.31m) with EBITDA of £4.72m (2009: £4.29m). The Group conversion of EBITDA into operating cash flow fell to 81.6% (2009: 100.3%) due to the acceleration of bonus payments in advance of the fiscal year end and the migration of clients acquired as part of the JB Group to the Company's fee-based billing model during the period.

These factors combined with a £0.50m increase in trade and other receivables to increase the cash outflow from working capital to £1.05m (2009: £0.21m). The increase in trade debtors is primarily due to an increase in time-based fees billed during the period and the move to invoice ex-JB Group clients in arrears, rather than in advance. Headline trade debtor days were 71 days (2009: 70 days).

Trade creditor days increased to 35 days (2009: 28 days) with amounts owed to suppliers at the year-end increasing primarily in respect of improvements made to the layout of our offices at MW House.

Capital expenditure for the year was £0.43m (2009: £0.47m), with the most significant costs being incurred on the re-fit of existing and new office space in Leicester, and the replacement of company cars used by consultants. Further investment in the Group's information systems and technology is planned over the next year, to enable clients to review their affairs on-line.

Bank facilities

The Group has renewed its borrowing facilities with Lloyds TSB Bank plc ("Lloyds TSB"), which consist of a £3.00m overdraft facility, with interest payable at the bank's base rate plus 1.0% on the first £0.25m and plus 1.375% on borrowings in excess of £0.25m. The Lloyds TSB facility is repayable upon demand and renewable on 31 January 2011.

At 31 May 2010 the Group had unused borrowing facilities of £3.00m (2009: £3.00m).

Capital structure

The Group's capital structure is as follows:

	2010 £	2009 £
Net funds	(5,781,664)	(4,801,359)
Shareholders' equity	18,981,286	16,458,508
Capital employed	13,199,622	11,657,149

The Group has remained negatively geared, with the gearing ratio falling from (11.5)% to (16.5)% as a result of cash generated during the period (see Note 29). The Board believes it is in the Company's best interests to retain cash to pursue future acquisition opportunities.

Acquisitions

In April 2010, we acquired CP Pensions for a total consideration of up to £1.175 million. Clients acquired as part of the transaction have been fully integrated into our existing business, with CP Pensions' experienced team of administrators having relocated to our Leicester office.

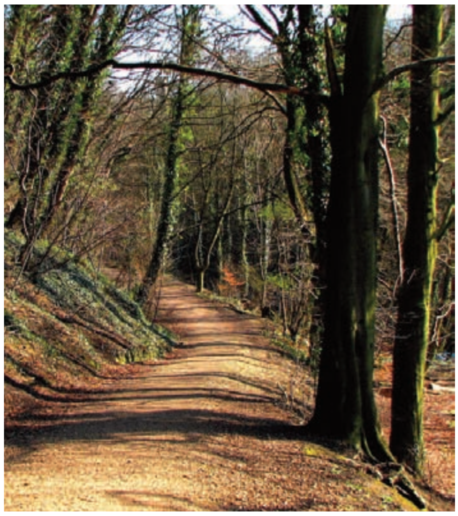
The acquisition gives us the opportunity to develop the client offering through our consultancy initiatives and the alternative investment vehicles we have developed in response to existing clients' demands, such as the syndicated property initiative and capital-guaranteed bond programme.

The acquisition of CP Pensions' employee benefits business adds further scale to our existing employee benefits and group scheme operation. The transaction also facilitates the development of a closer, ongoing relationship with Cooper Parry.

We have followed this with the acquisition of City Trustees from Lighthouse Group plc ("Lighthouse") for a cash consideration of £1.85 million, subject to certain client retention targets being met during the two years following completion.

City Trustees has an excellent reputation for providing bespoke pensions administration, coupled with first-rate client service and is a great fit with our existing business. I am delighted these and certain of the Group's other services will be promoted to Lighthouse advisers as part of Lighthouse's Strategic Partnership Programme over the next 18 months.

It is our ambition to continue expanding Mattioli Woods' operations both organically and by acquisition.



A green investment

Nigel Price of Decision Capital Limited specialises in unusual investment strategies, most recently arranging financing for state of the art renewable energy projects. This alternative investment strategy is mirrored in Nigel's personal investments.

We were introduced to Nigel by his accountant at Botham Accounting in Nottingham and asked to investigate a insured personal pension which had performed indifferently over the past 12 months. Initial consultancy identified the member was closely aligned with other forms of investment planning, such as ownership of land and bricks and mortar property. The strategy of the insured policy ran contrary to this.

After further meetings, we identified that if the pension scheme could buy woodland from Nigel this would release liquidity from the pension scheme, which Nigel could then use to pay down personal loans and avoid high rates of interest.

In addition, the woodland purchased by the pension scheme may obtain planning permission at some future date for the development of care homes or residential property. As the investment is now held within the pension scheme, any future income or capital gain will be tax-free.

Chief Executive's review

The retirement wealth marketplace remains highly fragmented and we will continue seeking new acquisition opportunities to support our growth objectives.

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 created by the recent turmoil in financial markets. Maintaining capacity is crucial in an environment of growing demand and our graduate recruitment programme remains on target, with a total of 11 new graduates joining the Group (2009: 10). Our total headcount at the end of the period was 179 (2009: 164).

The development of a scalable technology infrastructure remains a key objective for the Group. We continue to invest in the development of our bespoke pension administration system ("MWeb") and new technology platforms designed to enhance the other services we offer clients.

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 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, and is a member of the Association of Member-directed Pension Schemes and the Quoted Companies Alliance.

Conclusion

We aim to deliver strong, sustainable shareholder returns over the long-term and continue to develop complementary services around our core SSAS and SIPP proposition. Trading in the period since the end of the financial year has continued in line with management's expectations. The retirement wealth marketplace remains highly fragmented and we will continue seeking new acquisition opportunities to support our growth objectives.

Ian Mattioli
Chief Executive
30 August 2010

Our objective is to grow our business organically and by acquisition, delivering strong, sustainable shareholder returns over the long term

Group KPIs	2010	2009
Revenue	**£13.68m**	£13.28m
EBITDA Margin	**34.5%**	32.3%
Profit before tax and amortisation	**£4.51m**	£4.13m
Adjusted EPS[1]	**18.73p**	17.08p
Basic EPS	**17.32p**	15.73p
Total funds under trusteeship	**£1.72bn**	£1.59bn
Client retention	**95.7%**	96.8%
Debtors' days	**71 days**	70 days

[1]Before the amortisation of intangible assets other than computer software.

Key performance indicators

KPIs

The performance of the Group in the context of the KPIs is discussed in the Chairman's statement on pages 4 to 5 and the Chief Executive's review on pages 6 to 13.

Risk management

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 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 21 of the review of corporate governance.

Board of Directors

The Board comprises five executive and two non-executive directors.

Bob Woods, Chairman, age 56
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 pensioneer 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 47
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 41
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 led the Group's recent acquisitions of CP Pensions and City Trustees.

Murray Smith, Marketing and Sales Director, age 41
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 40
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 65
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 53
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.

Directors' report

Report and financial statements

The Directors present their report together with the financial statements for the year ended 31 May 2010. 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 4 to 5 and the Chief Executive's Review on pages 6 to 13 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 £3.00m, an increase of 10.4% on the previous year. This increase was primarily due to sustained demand for the Group's services following a period of extreme volatility in financial markets, combined with the realisation of operational efficiencies following the introduction of the 'small to big' change management initiative.

The final dividend in respect of the year ended 31 May 2009 of 2.75p per share was paid in October 2009. An interim dividend in respect of the year ended 31 May 2010 of 1.45p was paid to shareholders in February 2010.

The Directors recommend a final dividend of 2.90p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2010. If approved, the final dividend will be paid on 18 October 2010 to ordinary shareholders whose names were on the register on 10 September 2010.

Directors

A list of current serving Directors and their biographies is given on pages 14 to 15. Bob Woods, Murray Smith, Mark Smith and Michael Kershaw retire by rotation and, being eligible, 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 £1,375 (2009: £4,428) were made during the year to local charities and community projects.

Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 May 2010, the Group had an average of 35 days' purchases owed to trade creditors (2009: 28 days).

Related party transactions

Details of related party transactions are given in Note 28.

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 30 August 2010 the Company had been notified of the following interests representing 3% or more of its issued share capital:

	Number of ordinary shares	Percentage holding
Ian Mattioli	3,627,782	20.89%
Bob Woods	3,624,117	20.86%
BlackRock, Inc.	2,268,075	13.06%
Unicorn Asset Management Limited	1,082,461	6.23%
Rensberg Sheppards Investment Management Limited	694,333	4.00%

In addition to the above shareholdings, 148,238 ordinary 1p shares representing 0.85% of the issued share capital are held by employees of the Group via the Mattioli Woods plc Share Incentive Plan ("the SIP"). The Group intends to actively encourage wider share ownership by its employees through the SIP 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 14 October 2010. The Notice of Meeting is enclosed with this document and contains further information with regard to the ordinary and special business to be proposed at the meeting. Resolution 12 is the only special business being proposed, which disapplies pre-emption rights and in conjunction with Resolution 9, 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 5% of the nominal value of the issued ordinary share capital of the Company.

Financial risk management

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 21 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 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.

Third party indemnity provision for directors

Qualifying third party indemnity provision is in place for the benefit of all directors and officers of the Company.

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 margin – this is profit generated from the Group's operating activities before any financing income or costs, taxation, depreciation and amortisation;
- Profit before tax and amortisation of intangible assets other than computer software;
- Adjusted EPS (before the amortisation of intangible assets other than computer software) and basic EPS:
- Total funds under trusteeship – this is the value of funds held by those SSAS and SIPP schemes administered by the Group as at the date of the last scheme valuation.
- Client retention – this is the number of core SSAS and SIPP schemes as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period; and
- Debtors' days – this is the average number of days' sales outstanding in trade receivables at any time

The performance of the Group in the context of the KPIs is discussed in the Chairman's statement on pages 4 to 5 and the Chief Executive's review on pages 6 to 13.

Directors' report continued

Corporate governance
A full review of Corporate Governance appears on pages 19 to 21.

Directors' responsibilities for the financial statements
The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company. In preparing each of the Group and Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Mattioli Woods plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement as to disclosure of information to auditors
The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 14 to 15. 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 489 of the Companies Act 2006.

Going concern
The Directors believe that the Group is well placed to manage its business risks successfully. The Group's forecasts and projections show that the Group should continue to be cash generative and able to operate within the level of its current financing arrangements. Accordingly, the Directors continue to adopt the going concern basis for the preparation of the financial statements.

On behalf of the Board

Nathan Imlach
Finance Director and Company Secretary
30 August 2010

Corporate governance

Introduction

The Board is committed to achieving high standards of corporate governance, integrity and business ethics. Under the AIM rules 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 Code"). However, the Board has taken into consideration the Guidance for Smaller Quoted Companies on the Code, produced by the Quoted Companies Alliance and taken steps to comply with the 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 14 to 15 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 overseeing the delivery of this strategy and the day-to-day management of the Group by the Operations Management Team.

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 Director.

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. The Board is the principal forum 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 three 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 comprises Michael Kershaw (Chairman) and John Redpath. Michael Kershaw is a chartered accountant and the Board believes the Committee is independent, with all members being Non-Executive Directors.

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 detailed presentations are made to the Committee by the Company's auditors at least once a year. An analysis of fees payable to the external audit firm in respect of audit and non-audit services during the year is set out in Note 7 to the financial statements. The Company is satisfied the external auditors remain independent in the discharge of their audit responsibilities.

The Committee reviews the interim report and annual financial statements for compliance with accounting standards, statutory obligations, the requirements of the AIM Rules and the 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.

Corporate governance continued

Remuneration committee

The Remuneration Committee comprises John Redpath and Michael Kershaw. 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 also administers the operation of the share option and share incentive schemes established by the Company.

The members of the Remuneration Committee 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.

The remuneration of the Non-Executive Directors is determined by the Board itself. No Director is permitted to participate in decisions concerning his own remuneration.

Nominations committee

Although the management structure of the Company has evolved since admission to AIM in 2005, the Board now considers it appropriate for this process to be formalised. Accordingly, a Nominations Committee was appointed in August 2010, comprising John Redpath (Chairman) and Michael Kershaw. The Committee is responsible for reviewing the size, structure and composition of the Board, establishing appropriate succession plans for the Executive Directors and other senior executives in the Group and for the nomination of candidates to fill Board vacancies where required. The Committee will work in close consultation with the Executive Directors and expects to invite Bob Woods to its meetings. The Committee has not yet met formally, but its initial focus will be on two areas:

- Board structure: the Committee will make recommendations as to the appointment of an additional Non-Executive Director, with the objective of balancing Executive and Non-Executive membership of the Board, bringing new skills to the Company. It will also consider the optimal timetable for the appointment of a Non-Executive Chairman, which would allow Bob Woods to focus on his Executive responsibilities and bring better conformity with conventional corporate governance standards; and
- Management succession: to broaden the management team of the business, the Board has established an Operations Management Team. This is chaired by Nathan Imlach and includes Murray Smith, Mark Smith and other senior executives as members. The Operations Management Team is responsible for the day-to-day management of the business and its development is one of Ian Mattioli's key responsibilities as Chief Executive.

The Board is committed to developing the corporate governance and management structure of the Group to ensure they continue to meet the changing needs of the business and the requirements of its shareholders.

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 (including the AGM) was as follows:

	Board meetings	Remuneration committee	Audit committee
Number of meetings in year	13	3	4
Bob Woods	13	3	–
Ian Mattioli	11	2	–
Nathan Imlach	13	3	3
Murray Smith	10	1	–
Mark Smith	12	1	3
John Redpath	12	3	3
Michael Kershaw	13	3	4

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 as 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

Individual appraisal of each Director's performance is undertaken either by the Chief Executive or Executive Chairman each year and involves meetings with each Director on a one-to-one basis. The Non-Executive Directors, led by the Senior Independent Director, carry out an appraisal of the performance of the Executive Chairman.

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 AGM and the Group's web site (www.mattioli-woods.com).

It is intended that all Directors will attend each AGM and shareholders will be given the opportunity to ask questions at the AGM on 14 October 2010. In addition, the Executive Chairman, Chief Executive and Finance Director welcome dialogue with individual institutional shareholders to understand their views and feed these back to the Board. General presentations are also given to analysts and investors covering the annual and interim results.

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, in conjunction with the Group's insurance broker.

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
30 August 2010

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.

In August 2009, the FSA published a new code of practice on remuneration policies ("the FSA Code") designed to achieve two objectives: firstly, that boards focus more closely on ensuring the total amount distributed by a firm is consistent with good risk management and sustainability; and secondly that individual compensation practices provide the right incentives.

The FSA Code applies directly to large banks, building societies and broker dealers but the FSA encourages all firms to review their compensation policies against the general requirement and principles of the FSA Code. The Remuneration Committee believes the Group should comply with the FSA Code so far as it can be applied practically, given the size of the Group and the nature of its operations.

The remuneration structure for senior executives was put in place at the time of the Company's admission to AIM in November 2005 and has remained broadly unchanged since then. During the year the Remuneration Committee has undertaken a full review of executive remuneration, in conjunction with external consultants, who interviewed each of the Executive Directors and benchmarked their remuneration against a peer group of comparable listed companies with a similar level of revenue and market capitalisation. A revised executive remuneration structure incorporating the recommendations of this review has been put in place effective from 1 June 2010.

Salaries, fees and benefits

Salaries for Executive Directors are determined by the Remuneration Committee and reviewed annually, 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

Each Executive Director is 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 ("Corporate bonus"); and
(b) A bonus calculated taking into account the achievement of personal objectives during the relevant period of assessment ("Personal bonus").

The maximum total bonus payable under (a) and (b) to each Executive Director in respect of the year ending 31 May 2011 is capped at a maximun of 100% of salary.

Share option plans

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 5.04% of its share capital. The maximum entitlement of any individual is 1.08%. The options will be exercisable at £1.32 per share, following approval of the financial statements for the year ended 31 May 2010, 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 3.93% of its share capital. The maximum entitlement of any individual is 0.49%. 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 financial year four years after the year of grant, 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 SIP") 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.

Long term incentive plan

It is a priority for the Group to continue to attract and retain appropriately qualified staff. The review of executive remuneration concluded the Company's existing share option plans were less generous than typical market practice for long term incentive arrangements.

A new remuneration structure has been designed to ensure the Group can attract, incentivise and retain key staff of appropriately high calibre. As a key part of this revised structure, it is proposed that two new long-term incentive plans will be introduced: the Mattioli Woods 2010 EMI Option Plan ("the EMI Plan") and the Mattioli Woods 2010 Long-Term Incentive Plan ("the LTIP"). These plans are being introduced in conjunction with modifications to the Executive Directors' annual bonus packages, to provide a greater focus on the long term elements of the remuneration package.

The new plans will replace the existing Enterprise Management Incentive Share Option Plan and the Consultants' Share Option Plan. No further grants will be made under these existing plans.

It is intended that nil-cost options will be granted under the EMI Plan to each participant over ordinary shares with a value at grant of up to £120,000. Any further grants to any individual will be made through the LTIP. The combined value of awards granted to any individual under both plans in any financial year of the Company will not exceed 100% of his or her base salary.

Awards granted under both plans will be subject to the achievement of demanding performance conditions. For the initial grants to Executive Directors the following performance conditions will apply.

Up to 65% of the award will vest depending on the aggregate earnings before interest, taxation and depreciation ("EBITDA") achieved by the Company over the three financial years beginning 1 June 2010, in comparison with Targets set by the Remuneration Committee, in accordance with the following table:

Percentage of aggregate Target EBITDA achieved	Percentage of this portion of the Award which vests
At or below 92.5% of Target	0%
Between 92.5% and 100% of Target	Between 0% and 75%, calculated on a pro rata basis
100% of Target	75%
Between 100% and 107.5% of Target	Between 75% and 100%, calculated on a pro rata basis
107.5% of Target or or better	100%

The other 35% of each award will vest depending on the annualised total shareholder return ("TSR") achieved by the Company over a three-year period, in accordance with the following table:

Annualised TSR achieved	Percentage of this portion of the Award which vests
Below 10%	0%
10%	30%
Between 10% and 20%	Between 30% and 100%, calculated on a pro rata basis
20% or higher	100%

The Remuneration Committee believes there are no obvious listed benchmarks for the Company, hence an absolute measure of TSR is a better performance benchmark than a relative TSR measure.

Shares acquired through the plans will be delivered to participants by the trustees of the Mattioli Woods 2010 Employee Benefit Trust ("the EBT"), which has been established for this purpose. The trustees may either subscribe for new shares from the Company or purchase shares on the market. The EBT may never hold more than 5% of the ordinary share capital of the Company at any time.

Shareholders are being asked to approve the new plans at the Company's AGM on 14 October 2010. The Notice of Meeting set out at the end of this document contains further details of the EMI Plan and the LTIP. Resolutions 10 and 11 in the Notice of Meeting seek the approval of shareholders to adopt these plans.

Directors' remuneration report continued

Directors' remuneration

Directors' remuneration payable in respect of the year ended 31 May 2010 was as follows:

Directors	Basic salary and fees £	Performance related bonuses £	Pension contributions £	Benefits[1] £	Total emoluments 2010 £	Total emoluments 2009 £
Ian Mattioli	160,000	220,000	16,000	–	**396,000**	449,000
Bob Woods	160,000	183,000	16,000	–	**359,000**	372,167
Nathan Imlach	150,000	115,000	15,000	–	**280,000**	291,000
Murray Smith	115,000	90,000	11,500	14,744	**231,244**	290,954
Mark Smith	93,500	76,000	9,350	–	**178,850**	164,500
John Redpath	25,000	–	–	–	**25,000**	23,063
Michael Kershaw	23,500	–	–	–	**23,500**	22,500

Notes
1. The benefit package of each Executive Director includes the provision of life assurance under a group scheme.
2. The benefit package of Murray Smith includes the provision of a company car and fuel.

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.

The other Executive Directors' 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' shareholdings

As at 31 May 2010, 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:

Director	2010 No.	2010 %	2009 No.	2009 %
Ian Mattioli	**3,627,554**	**20.91**	4,125,342	23.87
Bob Woods	**3,624,117**	**20.89**	4,124,110	23.86
Murray Smith	**253,882**	**1.46**	413,838	2.39
Nathan Imlach	**174,228**	**1.00**	174,182	1.01
Mark Smith	**65,018**	**0.37**	64,974	0.38
John Redpath	**13,000**	**0.07**	13,000	0.08
Michael Kershaw	**14,500**	**0.07**	14,500	0.08

Notes
Directors' shareholdings include any shareholdings of family members deemed to be connected persons.

Interest in options

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

		Exercise price £	At 31 May 2009 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	**At 31 May 2010 No.**
Nathan Imlach	(a)	1.32	95,250	–	–	–	**95,250**
	(b)	1.32	29,750	–	–	–	**29,750**
			125,000	–	–	–	**125,000**
Murray Smith	(a)	1.32	95,250	–	–	–	**95,250**
	(b)	1.32	92,250	–	–	–	**92,250**
			187,500	–	–	–	**187,500**
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 from the date of approval of the financial statements for the year ended 31 May 2010 to 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 2010. All of the share options were granted for nil consideration.

The mid-market closing price of the Company's ordinary shares at 31 May 2010 was 217p and the range during the financial year was 205p to 254.5p.

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 28 to the financial statements.

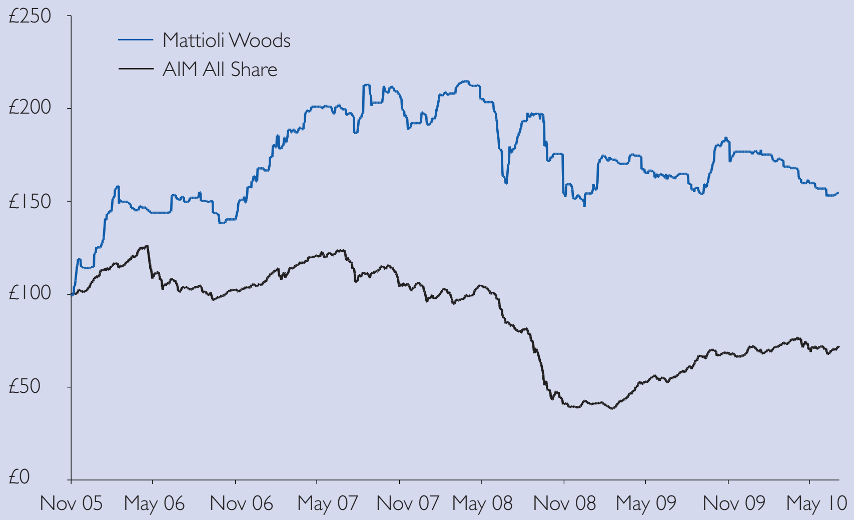
The only change in the Directors' shareholdings (all of which are beneficial) and their share options between 31 May 2010 and 30 August 2010 is in respect of contributions to the Mattioli Woods plc Share Incentive Plan made by Nathan Imlach, Murray Smith, Mark Smith and Laura Mattioli.

Directors' remuneration report continued

Total shareholder return performance graph

The graph below illustrates the total shareholder return for the five years ended 31 May 2010 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
30 August 2010

Independent auditors' report to the members of Mattioli Woods plc

We have audited the group and parent company financial statements ("the financial statements") which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As more fully explained in the Directors' Responsibilities Statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 May 2010 and of the group's profit for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- The parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 2.2 to the financial statements, the group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ("IASB").

In our opinion the financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Richard King (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
2 Whitehall Quay
Leeds
LS1 4HG

30 August 2010

Consolidated statement of comprehensive income

For the year ended 31 May 2010

	Note	**2010 £**	2009 £
Revenue	4	**13,678,033**	13,283,204
Employee benefits expense	10	**(6,908,691)**	(6,813,449)
Other administrative expenses		**(1,865,220)**	(1,941,255)
Share based payments	18	**(161,957)**	(199,905)
Amortisation	15	**(324,110)**	(299,099)
Depreciation	14	**(169,397)**	(183,178)
Loss on disposal of property, plant & equipment		**(22,528)**	(35,360)
Operating profit before financing		**4,226,130**	3,810,958
Finance revenue	8	**43,659**	91,599
Finance costs	9	**(116)**	(5,889)
Net finance revenue		**43,543**	85,710
Profit before tax		**4,269,673**	3,896,668
Income tax expense	11	**(1,265,590)**	(1,174,410)
Profit for the year		**3,004,083**	2,722,258
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year, net of tax		**3,004,083**	2,722,258
Attributable to:			
Equity holders of the parent		**3,004,083**	2,722,258
Earnings per ordinary share:			
Basic (pence)	12	**17.32**	15.73
Diluted (pence)	12	**16.49**	14.97
Proposed total dividend per share (pence)	13	**4.35**	3.90

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 £3,004,083 (2009: £2,722,258).

Statement of financial position

As at 31 May 2010

	Note	2010 Group £	2010 Company £	2009 Group £	2009 Company £
Assets					
Property, plant and equipment	14	**733,463**	**733,463**	638,634	638,634
Intangible assets	15	**11,050,274**	**11,050,274**	10,056,466	10,056,466
Deferred tax asset	11	**127,069**	**127,069**	127,805	127,805
Investments	16	**15**	**41,684**	15	41,682
Total non-current assets		**11,910,821**	**11,952,490**	10,822,920	10,864,587
Trade and other receivables	19	**5,662,881**	**5,662,561**	5,021,080	5,020,713
Financial assets	20	**–**	**–**	120,392	120,392
Cash and short-term deposits	21	**5,790,292**	**5,789,143**	4,808,179	4,804,379
Total current assets		**11,453,173**	**11,451,704**	9,949,651	9,945,484
Total assets		**23,363,994**	**23,404,194**	20,772,571	20,810,071
Equity					
Issued capital	22	**173,473**	**173,473**	172,855	172,855
Share premium	22	**5,918,314**	**5,918,314**	5,769,149	5,769,149
Other reserves	22	**2,552,579**	**2,552,579**	2,456,341	2,456,341
Retained earnings	22	**10,336,920**	**10,337,996**	8,060,163	8,061,239
Total equity attributable to equity holders of the parent		**18,981,286**	**18,982,362**	16,458,508	16,459,584
Non-current liabilities					
Trade and other payables	24	**120,000**	**120,000**	100,000	100,000
Deferred tax liability	11	**251,181**	**251,181**	262,555	262,555
Provisions	25	**329,598**	**329,598**	242,599	242,599
Total non-current liabilities		**700,779**	**700,779**	605,154	605,154
Current liabilities					
Trade and other payables	24	**2,532,508**	**2,571,632**	2,810,554	2,846,978
Income tax payable	11	**689,088**	**689,088**	559,229	559,229
Provisions	25	**460,333**	**460,333**	339,126	339,126
Total current liabilities		**3,681,929**	**3,721,053**	3,708,909	3,745,333
Total liabilities		**4,382,708**	**4,421,832**	4,314,063	4,350,487
Total equities and liabilities		**23,363,994**	**23,404,194**	20,772,571	20,810,071

The financial statements on pages 28 to 61 were approved by the board of directors and authorised for issue on 30 August 2010 and are signed on its behalf by:

Bob Woods
Executive Chairman

Nathan Imlach
Finance Director

Statements of changes in equity

For the year ended 31 May 2010

Group	Issued capital (Note 22) £	Share premium (Note 22) £	Other capital reserves (Note 22) £	Retained earnings (Note 22) £	Total equity £
As at 1 June 2008	172,159	5,601,458	2,372,242	5,881,203	14,027,062
Profit for the period	–	–	–	2,722,258	2,722,258
Total comprehensive income	–	–	–	2,722,258	2,722,258
Issue of share capital	696	167,691	–	–	168,387
Share-based payment transactions	–	–	116,067	–	116,067
Deferred tax asset taken to equity	–	–	(31,968)	–	(31,968)
Dividends	–	–	–	(543,298)	(543,298)
As at 31 May 2009	172,855	5,769,149	2,456,341	8,060,163	16,458,508
Profit for the period	–	–	–	3,004,083	3,004,083
Total comprehensive income	–	–	–	3,004,083	3,004,083
Issue of share capital	618	149,165	–	–	149,783
Share-based payment transactions	–	–	89,097	–	89,097
Deferred tax asset taken to equity	–	–	7,141	–	7,141
Dividends	–	–	–	(727,326)	(727,326)
As at 31 May 2010	**173,473**	**5,918,314**	**2,552,579**	**10,336,920**	**18,981,286**

Company	Issued capital (Note 22) £	Share premium (Note 22) £	Other capital reserves (Note 22) £	Retained earnings (Note 22) £	Total equity £
As at 1 June 2008	172,159	5,601,458	2,372,242	5,882,279	14,028,138
Profit for the period	–	–	–	2,722,258	2,722,258
Total comprehensive income	–	–	–	2,722,258	2,722,258
Issue of share capital	696	167,691	–	–	168,387
Share-based payment transactions	–	–	116,067	–	116,067
Deferred tax asset taken to equity	–	–	(31,968)	–	(31,968)
Dividends	–	–	–	(543,298)	(543,298)
As at 31 May 2009	172,855	5,769,149	2,456,341	8,061,239	16,459,584
Profit for the period	–	–	–	3,004,083	3,004,083
Total comprehensive income	–	–	–	3,004,083	3,004,083
Issue of share capital	618	149,165	–	–	149,783
Share-based payment transactions	–	–	89,097	–	89,097
Deferred tax asset taken to equity	–	–	7,141	–	7,141
Dividends	–	–	–	(727,326)	(727,326)
As at 31 May 2010	**173,473**	**5,918,314**	**2,552,579**	**10,337,996**	**18,982,362**

Cash flow statements

For the year ended 31 May 2010

	Note	2010 Group £	2010 Company £	2009 Group £	2009 Company £
Operating activities					
Profit for the period					
Adjustments for:		**3,004,083**	**3,004,083**	2,722,258	2,722,258
Depreciation		**169,397**	**169,397**	183,178	183,178
Amortisation		**324,110**	**324,110**	299,099	299,099
Investment income		**(43,659)**	**(43,659)**	(91,599)	(91,599)
Interest expense		**116**	**116**	5,889	5,889
Loss on disposal of property, plant and equipment		**22,528**	**22,528**	35,360	35,360
Equity-settled share-based payments		**161,957**	**161,957**	199,905	199,905
Income tax expense		**1,265,590**	**1,265,590**	1,174,410	1,174,410
Cash flows from operating activities before changes in working capital and provisions		**4,904,122**	**4,904,122**	4,528,500	4,528,500
Increase in trade and other receivables		**(504,411)**	**(504,460)**	(331,142)	(331,142)
(Decrease)/increase in trade and other payables		**(543,210)**	**(540,510)**	119,892	119,892
Decrease in provisions		**(7,463)**	**(7,463)**	(9,261)	(9,261)
Cash generated from operations		**3,849,038**	**3,851,689**	4,307,989	4,307,989
Interest paid		**(116)**	**(116)**	(5,889)	(5,889)
Income taxes paid		**(1,139,229)**	**(1,139,229)**	(1,133,932)	(1,133,932)
Net cash flows from operating activities		**2,709,693**	**2,712,344**	3,168,168	3,168,168
Investing activities					
Proceeds from sale of property, plant and equipment		**34,800**	**34,800**	2,545	2,545
Purchase of property, plant and equipment	14	**(321,554)**	**(321,554)**	(126,616)	(126,616)
Purchase of software	15	**(109,450)**	**(109,450)**	(345,133)	(345,133)
Acquisition of subsidiaries	3	**(105,500)**	**(105,500)**	(206,000)	(206,000)
Acquisition of businesses	3	**(741,332)**	**(741,332)**	(234,048)	(234,048)
New loans advanced to property syndicates	20	**(614,784)**	**(614,784)**	(1,629,060)	(1,629,060)
Loan repayments from property syndicates	20	**735,176**	**735,176**	2,037,910	2,037,910
Interest received		**43,659**	**43,659**	91,599	91,599
Net cash flows from investing activities		**(1,078,985)**	**(1,078,985)**	(408,803)	(408,803)
Financing activities					
Proceeds from the issue of share capital		**76,923**	**76,923**	84,549	84,549
Repayment of borrowings		**–**	**–**	(28,242)	(28,242)
Proceeds from/(repayment of) directors' loans	24	**1,808**	**1,808**	(2,089)	(2,089)
Dividends paid	13	**(727,326)**	**(727,326)**	(543,298)	(543,298)
Net cash flows from financing activities		**(648,595)**	**(648,595)**	(489,080)	(489,080)
Net increase in cash and cash equivalents		**982,113**	**984,764**	2,270,285	2,270,285
Cash and cash equivalents at start period	21	**4,808,179**	**4,804,379**	2,537,894	2,534,094
Cash and cash equivalents at end period	21	**5,790,292**	**5,789,143**	4,808,179	4,804,379

Notes to the financial statements

1. Corporate information

Mattioli Woods plc ("the Company") is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the AIM market of the London Stock Exchange plc. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 30 August 2010.

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 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations as issued by the International Accounting Standards Board ("IASB") and as adopted for use in the European Union ("EU"), and the requirements of the Companies Act applicable to companies reporting under IFRS.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Mattioli Woods plc and its subsidiaries (together referred to as "the Group") 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 intra-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 that the Group has adopted the following new and amended IFRS and International Financial Reporting Interpretation Committee ("IFRIC") interpretations during the year:

International Accounting Standards	Effective date
Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Reassessment of embedded derivatives*	30 June 2009
Amendments to IFRS 7 *Financial Instruments: Disclosures*	1 January 2009
First Annual Improvements Project	1 January 2009
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements*	1 January 2009
Amendments to IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation*	1 January 2009
Amendment to IAS 1 *Presentation of Financial Statements*	1 January 2009
Amendment to IFRS 2 *Share-based payment – Vesting Conditions and Cancellations*	1 January 2009
Amendment to IAS 23 *Borrowing Costs*	1 January 2009

IFRIC Interpretations	Effective date
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	1 October 2008
Amendment to IFRIC 9 Reassessment of embedded derivatives	30 June 2009
IFRIC 15 *Agreements for the Construction of Real Estate*	1 January 2009
IFRIC 18 *Transfers of Assets from Customers*	1 July 2009

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. Where relevant to the Group, the principal effects of these changes are explained below:

Amendments to IFRS 7 Financial Instruments: Disclosures

In March 2009, the IASB published amendments to IFRS 7 that improve the disclosure requirements about fair value measurements and reinforce existing principles for disclosure about the liquidity risk associated with financial instruments.

First Annual Improvements Project

In May 2008, the IASB issued its first Annual Improvements project which 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.

2.2 Changes in accounting policy and disclosures (continued)

Amendment to IAS 1 Presentation of Financial Statements

In September 2007, the IASB issued an amendment to IAS 1 as follows:

- 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 to enable 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 (i.e. "comprehensive income");
- An entity may choose whether items of income and expense are presented in a single statement of comprehensive income with subtotals of items of profit or loss for the period and components of other comprehensive income, or in two separate statements (i.e. a separate income statement followed by a statement of comprehensive income); and
- An entity must present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively or makes a retrospective restatement.

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

In January 2008, the IASB published amendments to IFRS 2, which provides guidance on the treatment of employee 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 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.

Amendment to IAS 23 Borrowing Costs

In March 2007, the IASB issued an amendment to IAS 23. The main change eliminates the option to expense borrowing costs to the income statement as incurred and requires entities to capitalise borrowing costs as part of the cost of an asset where the borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset. Other borrowing costs should be expensed in the period in which they are incurred.

IFRS 8 Operating segments

The Group 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. 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 are shown in Note 6.

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

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, 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 future periods.

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.

Valuation of intangibles on acquisition

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in business combinations is its fair value as at the date of acquisition. Client portfolios are valued by discounting the future expected cash flows of the acquired schemes over a 25 year period. The discount rates used estimate the cost of capital, adjusted for risk.

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.

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.

Notes to the financial statements continued

2.3 Significant accounting judgements, estimates and assumptions (continued)

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.

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 determine a suitable discount rate for the calculation of the present value of those cash flows.

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 purchase 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.

2.4 Summary of significant accounting policies (continued)

Intangible assets

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

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

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

The Group amortises individual client portfolios acquired through business combinations on a straight-line basis over an estimated useful life of 25 years, based on the Group's historic experience. Client portfolios acquired through business combinations are allocated for impairment testing purposes to six 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 10 July 2007;
- Individual clients acquired as part of the JBFS portfolio acquired on 18 February 2008; and
- Individual clients acquired as part of the CP Pensions portfolio acquired on 30 April 2010.

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

	Goodwill	Client portfolios	Software
Useful life	**Indefinite**	**Finite**	**Finite**
Measurement method used	Annual impairment review	Amortised over a useful economic life of 25 years on a straight-line basis	Amortised over a useful economic life of four years 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.

Notes to the financial statements continued

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

2.4 Summary of significant accounting policies (continued)

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.

Loans and receivables

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

Trade and other receivables

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

Leases

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

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

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

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

Group as a lessee

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

Cash and 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.

2.4 Summary of significant accounting policies (continued)

Interest bearing loans and borrowings

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

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

Provisions

General

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

Commissions received on indemnity terms

Some initial commission is paid on indemnity terms and as a result commission may subsequently be clawed back by companies upon cancellation of a policyholder. Provision is made in the financial statements for the expected level of clawback, based on the Company's past experience.

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.

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.

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.

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).

Notes to the financial statements continued

2.4 Summary of significant accounting policies (continued)

Revenue recognition

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

Rendering of services

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

Commission income

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

Interest income

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

Taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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 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 results or assets and liabilities 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 explained below.

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, which accompanied amendments to IAS 27 *Consolidated and Separate Financial Statements*.

Amendments to IFRS 3 Business Combinations
The main changes to IFRS 3 include changes to the scope of the standard, accounting for acquisition costs, 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.

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.

These amendments are effective for periods commencing on or after 1 July 2009.

Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)
In June 2009, the IASB issued amendments to IFRS 2 to clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. The amendments also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* and hence these Interpretations have been withdrawn.

The amendments clarify the scope of IFRS 2, clarify the interaction of IFRS 2 and other standards, and clarify the accounting for some group and treasury share-based payment transactions:

- An entity that receives goods or services in a share-based payment arrangement must account for those goods or services regardless of which entity in the group settles the transaction, or whether the transaction is settled in shares or cash.
- A "group" has the same meaning as in IAS 27 i.e. includes only a parent and subsidiaries.
- An entity must measure the goods or services it receives as either an equity-settled or a cash-settled share-based payment transaction assessed from its own perspective. This may not always be the same as the accounting treatment or amount recognised by the consolidated group.
- An entity measures the goods or services as equity settled when it is to be settled in its own equity instruments or if it has no obligation to settle the share-based payment transaction. In the later case, the parent's settlement is an equity contribution to the entity.

These amendments are effective for periods commencing on or after 1 January 2010.

Improvements to IFRS: 2007-2009 Annual Improvements
In April 2009, the IASB issued a collection of amendments to ten IFRSs/IASs and two IFRICs, as its latest set of annual improvements. The amendments are effective for periods commencing on or after 1 January 2010.

IAS 24 Related Party Disclosures
In November 2009, the IASB issued a revised version of IAS 24. The main amendments to the standard are as follows:

- Revised definition of a related party. The definition now includes joint ventures under joint common control;
- Clarification that a subsidiary of an associate is related to the investor;
- Commitments outstanding at the balance sheet date must also be disclosed in addition to outstanding balances; and
- Additional guidance in respect of disclosures by government related-entities.

The amendments are effective for periods commencing on or after 1 January 2011. The amendments have not yet been endorsed by the EU, but EU endorsement will not impact the effective date.

Notes to the financial statements continued

2.5 Future changes in accounting policies (continued)

IFRS 9 Financial Instruments

In November 2009, the IASB issued IFRS 9 *Financial Instruments*, which will ultimately replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety. Chapters 4 and 5 of IFRS 9 specify how an entity should classify and measure financial assets, including some hybrid contracts. The standard requires all financial assets to be:

- Classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; and
- Subsequently be measured at amortised cost or fair value.

The aim of these requirements is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They aim to achieve a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method. The amendments are effective for periods commencing on or after 1 January 2013.

In addition to the changes explained above the following standards and interpretations have been issued, none of which are anticipated to significantly impact the Group's results or assets and liabilities and are not expected to require additional disclosure:

International Accounting Standards	Effective date
IFRS 1 (revised) *First-time Adoption of International Financial Reporting Standards*	1 July 2009
Amendment to IAS 39 *Eligible Hedged Items*	1 July 2009
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 January 2010
Amendment to IAS 32 *Reclassification of Rights Issues*	1 February 2010
Limited exemption amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*	1 July 2010

International Financial Reporting Interpretations Committee	Effective date
IFRIC 17 *Distributions of Non-cash Assets to Owners*	1 July 2009
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
Minor amendment to IFRIC 14 pensions accounting Prepayments of a Minimum Funding Requirement	1 January 2011

3. Business combinations

Acquisition of CP Pensions

On 30 April 2010, the Group acquired the trade and assets of the pension administration and employee benefits businesses of Cooper Parry Wealth Strategies Limited ("Cooper Parry") (together "CP Pensions"). CP Pensions administered pension schemes on behalf of 239 self-invested personal pension ("SIPP") and 51 small self-administered pension scheme ("SSAS") clients. CP Pensions also provided employee benefits services to 30 corporate clients.

As part of the transaction the Group also acquired CP SIPP Trustees Limited and CP SSAS Trustees Limited, which act as trustees to the pension schemes. The acquisition has been accounted for using the purchase method of accounting. The consolidated financial statements include the results of CP Pensions for the period from the acquisition date.

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

	Fair value recognised on acquisition £	Previous carrying value £
Intangible asset – client portfolio	1,287,758	–
Trade receivables	58,099	96,477
Accruals and deferred income	(135,857)	(135,857)
Fair value of net assets	1,210,000	(39,380)
Goodwill arising on acquisition	–	
Total acquisition cost	1,210,000	

The total acquisition cost of £1,210,000 comprises an initial cash payment of £575,000, deferred consideration of £300,000, contingent consideration of up to £300,000 and costs of £35,000 directly attributable to the acquisition. £300,000 of the deferred consideration will be paid in the two years following completion, with the remaining payment of up to £300,000 being determined by reference to an earn-out mechanism, contingent on growth in revenues during the two years following completion.

3. Business combinations (continued)

Cash outflow on acquisition:

	Unaudited £
Cash paid	(575,000)
Acquisition costs	(35,000)
Net cash outflow	(610,000)

From the date of acquisition, CP Pensions has contributed £3,609 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 £3,107,663 and revenue from continuing operations would have been £14,080,145.

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 (together "the JB Group"). The total acquisition cost included deferred and contingent consideration of up to £1,340,000 payable in the three years following completion. During the period the Group paid a total of £127,000 deferred and contingent consideration to the vendors of the JB Group. The Directors estimate the net present value of deferred and contingent consideration outstanding at 31 May 2010 is £100,000 (2009: £340,000) and £185,511 (2009: £200,000) respectively (see Notes 24 and 25).

4. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2010 £	2009 £
Rendering of services	**8,338,525**	7,588,818
Commission income	**5,339,508**	5,694,386
	13,678,033	13,283,204

No revenue was derived from exchanges of goods or services (2009: £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, primarily due to SSAS scheme year-ends being linked to the sponsoring company's year-end, which is often in December or March, coupled with the end of the fiscal year being 5 April. With the growth in the number of SIPP schemes under administration and further diversification of the Group's revenue streams in recent periods, the Board of Directors believes the seasonal impact of SSAS scheme year-ends is no longer material.

In the year ended 31 May 2009, revenues in the first half were higher than in the second half. Extreme volatility in financial markets during the first half resulted in increased demand for the Group's fee-based services.

Notes to the financial statements continued

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:

Business segments	Pension consultancy and administration		Investment planning		Property syndicates		Total	
	2010 £	2009 £	**2010 £**	2009 £	**2010 £**	2009 £	**2010 £**	2009 £
Total revenue	**7,347,665**	6,479,102	**5,339,508**	5,694,386	**990,860**	1,109,716	**13,678,033**	13,283,204
Results								
Employee benefits expense (including share based payments)	**(5,134,082)**	(4,947,096)	**(991,604)**	(1,155,657)	**(944,962)**	(910,601)	**(7,070,648)**	(7,013,354)
Other administrative expense	**(95,312)**	(188,275)	**(82,370)**	(320,819)	**(22,906)**	—	**(200,588)**	(509,094)
Segment results	**2,118,271**	1,343,731	**4,265,534**	4,217,910	**22,992**	199,115	**6,406,797**	5,760,756
Unallocated indirect overheads							**(2,180,667)**	(1,949,798)
Operating profit before financing							**4,226,130**	3,810,958
Net finance income							**43,543**	85,710
Profit before tax							**4,269,673**	3,896,668
Income tax expense							**(1,265,590)**	(1,174,410)
Net profit for the period							**3,004,083**	2,722,258

6. Segment information (continued)

Total segment assets

The following table compares total segment assets as at 31 May 2010 and 31 May 2009.

	2010 £	2009 £
Pension consultancy and administration	**4,548,853**	3,729,921
Investment planning	**579,292**	605,377
Property syndicates	**325,888**	647,617
Total segment assets	**5,454,033**	4,982,915
Property plant and equipment	**733,463**	638,634
Intangible assets	**11,050,274**	10,056,466
Investments	**15**	15
Deferred tax	**127,069**	127,805
Prepayments and other receivables	**208,848**	158,557
Cash and short term deposits	**5,790,292**	4,808,179
Total consolidated assets	**23,363,994**	20,772,571

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:

	Baker Tilly UK Audit LLP 2010 £	Associates of Baker Tilly UK Audit LLP 2010 £	Total 2010 £	Total 2009 £
Audit of the financial statements	27,000	–	**27,000**	26,500
Other fees to auditors:				
– taxation services	–	9,280	**9,280**	7,088
– corporate finance services	–	25,000	**25,000**	–
– interim financial statements	5,750	–	**5,750**	5,500
– other services	–	7,599	**7,599**	26,764
	32,750	41,879	**74,629**	65,852

8. Finance revenue

	2010 £	2009 £
Bank interest receivable	**43,659**	91,599

9. Finance costs

	2010 £	2009 £
Bank loans and overdrafts	**116**	3,860
Other loans	**–**	2,029
	116	5,889

Notes to the financial statements continued

10. Employees benefits expense

The average monthly number of employees during the year was:	2010 No.	2009 No.
Directors	**5**	5
Consultants	**19**	18
Administrators	**82**	81
Support staff	**64**	55
	170	159

Staff costs for the above persons were:	2010 £	2009 £
Wages and salaries	**6,006,669**	5,871,320
Social security costs	**653,639**	659,974
Pension costs and life insurance	**152,857**	203,695
Other staff costs	**95,526**	78,460
	6,908,691	6,813,449

In addition, the cost of share based payments disclosed separately in the income statement was £161,957 (2009: £199,905).

Directors' remuneration:	2010 £	2009 £
Emoluments	**1,425,744**	1,533,184
Company contributions to personal pension schemes	**67,850**	80,000
	1,493,594	1,613,184

The amounts in respect of the highest paid director are as follows:	2010 £	2009 £
Emoluments	**380,000**	430,000
Company contributions to personal pension schemes	**16,000**	19,000
	396,000	449,000

During the year five directors (2009: five) were accruing benefits under personal pension schemes.

11. Income tax

The major components of income tax expense for the years ended 31 May 2010 and 2009 are:

Consolidated income statement	2010 £	2009 £
Current income tax:		
Current income tax charge	**1,269,087**	1,179,229
Deferred income tax:		
Relating to origination and reversal of temporary differences:		
– Current year	**(3,497)**	(4,819)
Income tax expense reported in the income statement	**1,265,590**	1,174,410

11. Income tax (continued)

Factors affecting the tax charge for the period

The tax charge assessed for the period is higher than the standard rate of corporation tax in the UK of 28.0% (2009: 28.0%). The differences are explained below:

	2010 £	2009 £
Accounting profit before income tax	**4,269,673**	3,896,668
Multiplied by the standard rate of corporation tax in the UK of 28.0% (2009: 28.0%)	**1,195,508**	1,091,067
Effects of:		
Expenses not deductible for tax purposes	**56,730**	38,577
Irrecoverable deferred tax on share options	**13,352**	44,766
Current tax charge for the period	**1,265,590**	1,174,410
Effective income tax rate	**29.6%**	30.1%

Deferred income tax

Deferred income tax at 31 May relates to the following:

Group and Company	2010 £	2009 £
Deferred income tax liability		
Temporary differences on acquisition intangibles	**(251,181)**	(262,555)
Deferred income tax asset		
Temporary differences on accelerated capital allowances	**(82,278)**	(62,806)
Temporary differences on share based payments	**209,347**	190,611
	127,069	127,805
Deferred tax liabilities net	**(124,112)**	(134,750)
Reflected in the balance sheet as follows:		
Deferred tax assets	**127,069**	127,805
Deferred tax liabilities	**(251,181)**	(262,555)
Deferred tax liabilities net	**(124,112)**	(134,750)

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2009 or 2010.

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 the 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 the deferred tax credit for the year ended 31 May 2010 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 2010.

Total deferred tax derecognised directly in equity was £7,141 for the year ended 31 May 2010 (2009: £31,968 recognised).

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:

	2010 £	2009 £
Net profit and diluted net profit attributable to equity holders of the Company	**3,004,083**	2,722,258
Weighted average number of ordinary shares:	**Thousands**	Thousands
Issued ordinary shares at start period	**17,286**	17,216
Effect of shares issued during the year ended 31 May 2009	**–**	52
Effect of shares issued during the year ended 31 May 2010	**55**	38
Basic weighted average number of shares	**17,341**	17,306

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 8.97% 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 2010 the conditions attached to the options granted under the Consultants' Option Plan are not satisfied. If the conditions had been satisfied, diluted earnings per share would have been 16.00p per share (2009: 14.56p).

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

	2010 £	2009 £
Declared and paid during the year:		
Equity dividends on ordinary shares:		
– Final dividend for 2009: 2.75p (2008: 2.00p)	**476,053**	344,788
– Interim dividend for 2010: 1.45p (2009: 1.15p)	**251,273**	198,510
Dividends paid	**727,326**	543,298
Proposed for approval by shareholders at the AGM:		
Final dividend for 2010: 2.90p (2009: 2.75p)	**503,733**	476,053

14. Property, plant and equipment

Group	Computer and office equipment £	Fixtures and fittings £	Motor vehicles £	Total £
Gross carrying amount:				
At 1 June 2008	273,089	524,761	264,469	1,062,319
Additions	42,951	14,250	69,415	126,616
Disposals	(70,233)	(33,959)	(28,000)	(132,192)
At 31 May 2009	**245,807**	**505,052**	**305,884**	**1,056,743**
Depreciation:				
At 1 June 2008	121,421	134,658	73,139	329,218
Charged for the year	44,788	79,899	58,491	183,178
On disposals	(52,437)	(23,793)	(18,057)	(94,287)
At 31 May 2009	**113,772**	**190,764**	**113,573**	**418,109**
Carrying amount:				
At 31 May 2009	**132,035**	**314,288**	**192,311**	**638,634**
At 31 May 2008	151,668	390,103	191,330	733,101

Company	Computer and office equipment £	Fixtures and fittings £	Motor vehicles £	Total £
Gross carrying amount:				
At 1 June 2008	278,312	523,110	264,469	1,065,891
Additions	42,951	14,250	69,415	126,616
Disposals	(70,233)	(33,959)	(28,000)	(132,192)
At 31 May 2009	**251,030**	**503,401**	**305,884**	**1,060,315**
Depreciation:				
At 1 June 2008	126,644	133,007	73,139	332,790
Charged for the year	44,788	79,899	58,491	183,178
On disposals	(52,437)	(23,793)	(18,057)	(94,287)
At 31 May 2009	**118,995**	**189,113**	**113,573**	**421,681**
Carrying amount:				
At 31 May 2009	**132,035**	**314,288**	**192,311**	**638,634**
At 31 May 2008	151,668	390,103	191,330	733,101

Notes to the financial statements continued

14. Property, plant and equipment (continued)

Group	Computer and office equipment £	Fixtures and fittings £	Motor vehicles £	Total £
Gross carrying amount:				
At 1 June 2009	245,807	505,052	305,884	1,056,743
Additions	66,926	115,016	139,612	321,554
Disposals	–	–	(113,810)	(113,810)
At 31 May 2010	**312,733**	**620,068**	**331,686**	**1,264,487**
Depreciation:				
At 1 June 2009	113,772	190,764	113,573	418,109
Charged for the year	41,545	73,030	54,822	169,397
On disposals	–	–	(56,482)	(56,482)
At 31 May 2010	**155,317**	**263,794**	**111,913**	**531,024**
Carrying amount:				
At 31 May 2010	**157,416**	**356,274**	**219,773**	**733,463**
At 31 May 2009	132,035	314,288	192,311	638,634

Company	Computer and office equipment £	Fixtures and fittings £	Motor vehicles £	Total £
Gross carrying amount:				
At 1 June 2009	251,030	503,401	305,884	1,060,315
Additions	66,926	115,016	139,612	321,554
Disposals	–	–	(113,810)	(113,810)
At 31 May 2010	**317,956**	**618,417**	**331,686**	**1,268,059**
Depreciation:				
At 1 June 2009	118,995	189,113	113,573	421,681
Charged for the year	41,545	73,030	54,822	169,397
On disposals	–	–	(56,482)	(56,482)
At 31 May 2010	**160,540**	**262,143**	**111,913**	**534,596**
Carrying amount:				
At 31 May 2010	**157,416**	**356,274**	**219,773**	**733,463**
At 31 May 2009	132,035	314,288	192,311	638,634

15. Intangible assets

Group and Company	Internally generated software £	Software £	Client portfolios £	Goodwill £	Total £
Gross carrying amount:					
At 1 June 2008	72,929	131,081	5,836,198	4,588,868	10,629,076
Additions	34,119	311,014	–	–	345,133
Adjustment to PCL earn-out	–	–	–	(16,000)	(16,000)
Adjustment to JB Group contingent consideration	–	–	–	(38,750)	(38,750)
At 31 May 2009	**107,048**	**442,095**	**5,836,198**	**4,534,118**	**10,919,459**
Amortisation:					
At 1 June 2008	–	32,223	531,671	–	563,894
Amortisation during the year	–	65,652	233,447	–	299,099
At 31 May 2009	**–**	**97,875**	**765,118**	**–**	**862,993**
Carrying amount:					
At 31 May 2009	**107,048**	**344,220**	**5,071,080**	**4,534,118**	**10,056,466**
At 31 May 2008	72,929	98,858	5,304,527	4,588,868	10,065,182

Group and Company	Internally generated software £	Software £	Client portfolios £	Goodwill £	Total £
Gross carrying amount:					
At 1 June 2009	107,048	442,095	5,836,198	4,534,118	10,919,459
Additions	59,826	49,624	1,287,758	–	1,397,208
Adjustment to JB Group contingent consideration	–	–	–	(79,290)	(79,290)
At 31 May 2010	**166,874**	**491,719**	**7,123,956**	**4,454,828**	**12,237,377**
Amortisation:					
At 1 June 2009	–	97,875	765,118	–	862,993
Amortisation during the year	–	79,529	244,581	–	324,110
At 31 May 2010	**–**	**177,404**	**1,009,699**	**–**	**1,187,103**
Carrying amount:					
At 31 May 2010	**166,874**	**314,315**	**6,114,257**	**4,454,828**	**11,050,274**
At 31 May 2009	107,048	344,220	5,071,080	4,534,118	10,056,466

Software
Software is amortised over its useful economic life. Internally generated software is not amortised while the software remains in development.

Client portfolios
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
Goodwill arises where the price paid for an acquisition is greater than the fair value of the net assets acquired. Goodwill arising on business combinations is subject to annual impairment testing (see Note 17).

Notes to the financial statements continued

16. Investments

Investments in subsidiaries	Group £	Company £
At 1 June 2008 and 31 May 2009	–	41,667
Additions	–	2
At 31 May 2010	**–**	**41,669**
Other investments		
At 1 June 2008, 31 May 2009 and 31 May 2010	15	15
Total at 31 May 2010	**15**	**41,684**

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

Subsidiary undertakings	Holding	Proportion of voting rights and shares held	Nature of business
GB Pension Trustees Limited	Ordinary shares	100%	Trustee company
Great Marlborough Street Pension Trustees Limited	Ordinary shares	100%	Trustee company
MW Trustees Limited	Ordinary shares	100%	Trustee company
SLT Trustees Limited	Ordinary shares	100%	Trustee company
Professional Independent Pension Trustees Limited	Ordinary shares	100%	Trustee company
Pension Consulting Limited	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
Custodian Capital Limited (formerly North Star Pensions Limited)	Ordinary shares	100%	Dormant
CP SSAS Trustees Limited	Ordinary shares	100%	Trustee company
CP SIPP Trustees Limited	Ordinary shares	100%	Trustee company

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

Other Investments

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 2010 £	2009 £
The Partnership portfolio	**2,347,130**	2,347,130
The PCL portfolio	**1,034,807**	1,034,807
The JB Group direct portfolio	**1,072,891**	1,152,181
	4,454,828	4,534,118

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 the market for self-directed pensions in the intervening periods. This accounting treatment resulted in an impairment loss of £nil (2009: £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 vested when profit-based performance conditions between 1 June 2005 and 31 May 2010 were fulfilled. The contractual life of each option expires on 31 May 2015.

Consultants' Share Option Plan

The Company also operates the Consultants' Share Option Plan by which certain senior executives are able to subscribe for ordinary shares in the Company. On 8 September 2009, new options to subscribe for up to 170,456 ordinary shares in the Company were granted to two senior executives. Options granted under the Consultants' Share Option Plan are summarised as follows:

Date of grant	Exercise price £	At 1 June 2009 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	At 31 May 2010 No.
5 September 2006	2.21	255,684	–	–	–	**255,684**
4 September 2007	2.79	255,684	–		–	**255,684**
8 September 2009	2.16	–	170,456	–	–	**170,456**
		511,368	170,456	–	–	**681,824**

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.

Summary of share options

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

	2010 No.	2010 WAEP £	2009 No.	2009 WAEP £
Outstanding as at 1 June	**1,386,368**	**1.76**	1,386,368	1.76
Granted during the year	**170,456**	**2.16**	–	–
Forfeited during the year	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at 31 May	**1,556,824**	**1.80**	1,386,368	1.76
Exercisable at 31 May	**875,000**	**1.32**	–	–

For the share options outstanding as at 31 May 2010, the weighted average remaining contractual life is 6.3 years (2009: 6.9 years). The weighted average fair value of options granted during the year was £0.36 (2009: £nil). The WAEP for options outstanding at the end of the year was £1.80 (2009: £1.76).

Notes to the financial statements continued

18. Share based payments (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 2010:

	Consultants' Share Option Plan
Share price at date of grant	£2.13
Option exercise price	£2.16
Expected life of option (years)	7
Expected share price volatility (%)	17.0
Dividend yield (%)	1.60
Risk-free interest rate (%)	3.33

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 2010 and movements during the year are set out in the Directors' Remuneration Report.

Share Incentive Plan

The Company introduced the Mattioli Woods plc Share Incentive Plan (the "SIP") in July 2008. Participants in the SIP are entitled to purchase up to a prescribed number of new ordinary shares in the Company of 1p each at the end of each month. These ordinary shares rank pari passu with existing issued ordinary shares of the Company.

A total of 61,787 new ordinary shares were issued to the 79 employees who participated in the SIP during the year. At 31 May 2010, 131,402 shares were held in the SIP on their behalf.

Share based payments expense

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 2010 is £89,097 (2009: £116,067), which entirely arises from equity-settled share based payment transactions.

The expense for share based payments in respect of "Matching shares" issued under the SIP is recognised in the period the shares are granted to the participating employee (see Note 22). The expense recognised during the year ended 31 May 2010 is £72,860 (2009: £83,838), which entirely arises from equity-settled share based payment transactions.

19. Trade and other receivables (current)

	Group		Company	
	2010 **£**	2009 £	**2010** **£**	2009 £
Trade receivables	**2,668,919**	2,563,587	**2,668,968**	2,563,587
Other receivables	**67,634**	47,860	**67,265**	47,493
Prepayments and accrued income	**2,926,328**	2,409,633	**2,926,328**	2,409,633
	5,662,881	5,021,080	**5,662,561**	5,020,713

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. As at 31 May 2010, trade receivables at nominal value of £395,135 (2009: £301,899) were impaired and fully provided for.

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

	Group		Company	
	2010 **£**	2009 £	**2010** **£**	2009 £
As at 1 June	**301,899**	217,345	**301,899**	217,345
Charge for year	**54,858**	84,554	**54,858**	84,554
Acquired on acquisition	**38,378**	–	**38,378**	–
At 31 May	**395,135**	301,899	**395,135**	301,899

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

	Total £	Neither past due nor impaired £	Past due but not impaired < 30 days £	30-60 days £	60-90 days £	>90 days £
2010	**2,668,919**	**676,902**	**901,516**	**307,971**	**159,370**	**623,160**
2009	2,563,587	910,795	714,262	306,770	180,408	451,352

20. Financial assets (current)

Financial assets (current) for the Group and Company of £nil (2009: £120,392) 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	
	2010 **£**	2009 £	**2010** **£**	2009 £
Cash at banks and on hand	**5,283,798**	3,808,179	**5,282,649**	3,804,379
Short-term deposits	**506,494**	1,000,000	**506,494**	1,000,000
	5,790,292	4,808,179	**5,789,143**	4,804,379

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 £5,790,292 (2009: £4,808,179).

At 31 May 2010, the Group had available £3,000,000 (2009: £3,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Notes to the financial statements continued

22. Issued capital and reserves

Share capital	Ordinary shares of 1p	Ordinary shares of 1p £
Authorised		
At 1 June 2008, 31 May 2009 and 31 May 2010	30,000,000	300,000
Issued and fully paid		
At 1 June 2008	17,215,910	172,159
Partnership shares issued under the SIP	34,604	346
Matching shares issued under the SIP	34,604	346
Dividend shares issued under the SIP	407	4
At 31 May 2009	17,285,525	172,855
Partnership shares issued under the SIP	30,040	300
Matching shares issued under the SIP	30,040	300
Dividend shares issued under the SIP	1,707	18
At 31 May 2010	**17,347,312**	**173,473**

Rights, preferences and restrictions on shares

All ordinary shares carry 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.

Share option schemes and share incentive plan

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).

The Company also operates a share incentive plan. Participants in the SIP are entitled to purchase up to a prescribed number of new ordinary shares in the Company of 1p each at the end of each month ("Partnership shares"). At the Directors' discretion, the Company may also award additional shares ("Matching shares") to participants in the SIP. Ordinary shares issued under the SIP rank pari passu with existing issued ordinary shares of the Company. Dividends paid on shares held within the SIP are used to buy new ordinary shares in the Company of 1p each ("Dividend shares").

Other reserves

Group	Equity-share based payments £	Share premium account £	Capital redemption reserve £	Retained earnings £
At 1 June 2008	372,242	5,601,458	2,000,000	5,881,203
Share based payments	116,067	–	–	–
Shares issued under the SIP	–	167,691	–	–
Deferred tax asset taken to equity	(31,968)	–	–	–
Profit for the financial year	–	–	–	2,722,258
Dividends	–	–	–	(543,298)
At 31 May 2009	456,341	5,769,149	2,000,000	8,060,163
Share based payments	89,097	–	–	–
Shares issued under the SIP	–	149,165	–	–
Deferred tax asset taken to equity	7,141	–	–	–
Profit for the financial year	–	–	–	3,004,083
Dividends	–	–	–	(727,326)
At 31 May 2010	**552,579**	**5,918,314**	**2,000,000**	**10,336,920**

22. Issued capital and reserves (continued)

Company	Equity-share based payments £	Share premium account £	Capital redemption reserve £	Retained earnings £
At 1 June 2008	372,242	5,601,458	2,000,000	5,882,279
Share based payments	116,067	–	–	–
Shares issued under the SIP	–	167,691	–	–
Deferred tax asset taken to equity	(31,968)	–	–	–
Profit for the financial year	–	–	–	2,722,258
Dividends	–	–	–	(543,298)
At 31 May 2009	456,341	5,769,149	2,000,000	8,061,239
Share based payments	89,097	–	–	–
Shares issued under the SIP	–	149,165	–	–
Deferred tax asset taken to equity	7,141	–	–	–
Profit for the financial year	–	–	–	3,004,083
Dividends	–	–	–	(727,326)
At 31 May 2010	**552,579**	**5,918,314**	**2,000,000**	**10,337,996**

23. Cash flows from operating activities using the direct method

IAS 7 *Cash Flow Statements* permits entities to present the cash flow from operating activities under the indirect method by showing the revenues and expenses disclosed on the income statement and the changes during the period in operating receivables and payables. Alternatively, the cash generated from operations may be presented under the direct method as follows:

		2010		2009
Cash flows from operating activities	**Group £**	**Company £**	Group £	Company £
Cash receipts from customers	**13,173,622**	**13,173,573**	12,952,062	12,952,062
Cash paid to suppliers and employees	**(9,324,584)**	**(9,321,884)**	(8,644,073)	(8,644,073)
Cash generated from operations	**3,849,038**	**3,851,689**	4,307,989	4,307,989

24. Trade and other payables

		Group		Company
Trade and other payables (current)	**2010 £**	2009 £	**2010 £**	2009 £
Trade payables	**167,383**	141,695	**167,383**	141,695
Other taxation and social security	**547,955**	279,028	**547,955**	279,028
Other payables	**12,386**	11,784	**51,510**	48,208
Accruals and deferred income	**1,524,784**	2,112,547	**1,524,784**	2,112,547
Deferred consideration	**280,000**	265,500	**280,000**	265,500
	2,532,508	2,810,554	**2,571,632**	2,846,978

Other payables include Directors' loans of £8,628 (2009: £6,820). For terms and conditions relating to related party loans, refer to Note 28. 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 becomes 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 25).

		Group		Company
Trade and other payables (non-current)	**2010 £**	2009 £	**2010 £**	2009 £
Deferred consideration	**120,000**	100,000	**120,000**	100,000
	120,000	100,000	**120,000**	100,000

Notes to the financial statements continued

25. Provisions

Group and Company	Client claims £	Contingent consideration £	Dilapidations £	Onerous contracts £	Clawbacks £	Employees' NIC on share options £	Total £
At 1 June 2009	135,500	282,812	89,000	14,000	28,926	31,487	581,725
Arising during the year	7,000	–	–	–	4,977	3,050	15,027
Acquisitions (Note 3)	–	300,000	–	–	–	–	300,000
Used during the year	–	(84,332)	–	(14,000)	–	–	(98,332)
Unused amounts reversed	–	(4,489)	(4,000)	–	–	–	(8,489)
At 31 May 2010	**142,500**	**493,991**	**85,000**	**–**	**33,903**	**34,537**	**789,931**
Current 2009	135,500	160,700	–	14,000	28,926	–	339,126
Non-current 2009	–	122,112	89,000	–	–	31,487	242,599
At 31 May 2009	135,500	282,812	89,000	14,000	28,926	31,487	581,725
Current 2010	**142,500**	**283,930**	**–**	**–**	**33,903**	**–**	**460,333**
Non-current 2010	**–**	**210,061**	**85,000**	**–**	**–**	**34,537**	**329,598**
At 31 May 2010	**142,500**	**493,991**	**85,000**	**–**	**33,903**	**34,537**	**789,931**

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 £283,930 (2009: £160,700).

On 20 June 2005, the Group acquired the client portfolio of Geoffrey Bernstein, a small practice providing professional trusteeship in London and the Home Counties, for an initial consideration of £379,987. 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 £8,481 using cash flow projections approved by the Board covering the contingent consideration period. No discount rate is applied to the cash flow projections due to their short term nature.

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 3), with a further payment being contingent upon the retention of acquired schemes during the two years following completion. At 31 May 2010 the Group has no further obligations under the acquisition agreement.

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 3) 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 £185,511, using cashflow projections approved by the Board covering the contingent consideration period. The discount rate applied to the cashflow projections is 0.5%.

On 30 April 2010, the Group acquired the trade and assets of the pension administration and employee benefits businesses of CP Pensions for an initial consideration of £575,000. The acquisition agreement also provides for £300,000 of deferred consideration (see Note 3) plus up to £300,000 of contingent consideration to be paid subject to certain revenue and client retention targets being met during the two years following completion. Whilst it is not possible to determine the exact amount of contingent consideration (as this will depend on revenue earned and client retention during the period), the Group estimates the net present value of the contingent consideration to be £300,000, using cashflows approved by the Board covering the contingent consideration period. The discount rate applied to the cashflow projections is 0.5%.

Dilapidations and onerous contracts

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 Business Park, Lutterworth. The lease term ended in January 2010 and the provision of £4,000 was released against the actual cost of dilapidations at the property. Because the St John's property in Lutterworth was vacant, an onerous contract provision was recognised for the unavoidable costs of meeting the Group's obligations under the lease. This provision was released against the actual rental costs incurred prior to termination of the lease.

25. Provisions (continued)

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 2010 was £33,902. No discount rate is applied to the projected cash flows due to their short term nature.

26. Commitments and contingencies

Operating lease agreements – Group as lessee

The Group has entered into three 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, with the next review date being 10 June 2011.

The first lease for part of the ground floor of Gateway House (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.

A second lease for part of the ground floor of Gateway House has a duration of 10 years, from 1 December 2009. 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 operating lease obligations including:

- 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:

	Office equipment		Land and buildings	
Group and Company	**2010 £**	2009 £	**2010 £**	2009 £
Not later than one year	**3,754**	6,411	**294,725**	282,600
After one year but not more than five years	**3,074**	4,767	**1,178,900**	1,079,650
More than five years	**–**	–	**2,344,994**	2,329,500
	6,828	11,178	**3,818,619**	3,691,750

Operating lease charges during the year were £282,864 (2009: £265,156) for land and buildings and £5,904 (2009: £9,058) for office equipment.

Capital commitments

At 31 May 2010 the Group had no capital commitments (2009: £nil).

27. 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 £105,247 (2009: £134,009).

28. Related party disclosures

Ian Mattioli, Robert Woods and the private pension schemes of Ian Mattioli, Robert Woods, Nathan Imlach, Murray Smith and Mark 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 £186,000 during the year. At the year end the Group had prepaid future rentals of £11,721.

The Group leases its premises at Gateway House, Grove Park, Enderby from MW Properties (No 60) Limited and paid rentals of £94,953 during the year. At the year end the Group had prepaid future rentals of £6,851.

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 six (2009: four) other executives, received total compensation of £2,028,680 for the year ended 31 May 2010 (2009: £1,922,167). Total remuneration is included in "employee benefits expense" and analysed as follows:

	2010 £	2009 £
Short-term employee benefits	**1,900,637**	1,799,167
Post-employment benefits	**76,100**	86,400
Share-based payments	**51,943**	36,600
	2,028,680	1,922,167

At 31 May 2010, Ian Mattioli was owed £6,215 (2009: £6,781) and Robert Woods was owed £2,413 (2009: £39) by the Group. These Directors' loans carry no coupon and have no fixed repayment date.

Notes to the financial statements continued

29. 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.

Throughout 2009 and 2010, the Group's policy was that no trading in derivatives would 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.

The Group has entered into certain agreements with the Bank of Scotland plc, which govern the application of a pricing mechanism to be used in the calculation of credit interest rates that the Bank of Scotland plc pays to the Group.

The Group and Bank of Scotland plc may agree any number of separate fixed term deposits subject to minimum and maximum periods of three months and 12 months respectively. If during the term of a fixed term deposit the aggregate of client deposits held under the Group's "branch" arrangement with Bank of Scotland plc falls below the aggregate of all unexpired fixed term deposits, the Group is obliged to pay Bank of Scotland plc breakage costs equivalent to the costs incurred by Bank of Scotland plc as a result of having to break any of the hedging arrangements it has entered into in order to make any uncovered unexpired fixed term deposit available. The sum payable is capped as being based on a maximum increase in the LIBOR interest rate of 500bps over the LIBOR interest rate applicable on the day the relevant deposit was arranged.

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 £
2010		
£ Sterling	+10	8,709
£ Sterling	-10	(8,709)
2009		
£ Sterling	+10	2,998
£ Sterling	-10	(2,998)

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.

29. Financial risk management objectives and policies (continued)

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and leases. The table below summarises the maturity profile of the Group's financial liabilities at 31 May 2009 and 2010 based on contractual undiscounted payments:

Year ended 31 May 2010	On demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	> 5 years £	Total £
Trade and other payables	–	2,286,208	280,000	–	–	2,566,208
	–	2,286,208	280,000	–	–	2,566,208

Year ended 31 May 2009	On demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	> 5 years £	Total £
Trade and other payables	–	2,570,554	240,000	–	–	2,810,554
	–	2,570,554	240,000	–	–	2,810,554

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 (2009: £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 £83,664 (2009: £68,040) of own funds at all times.

The FSA has announced revised capital resource rules effective from 31 December 2011. The own funds requirement increases to £15,000 from 31 December 2011 and to £20,000 from 31 December 2013. In addition, Expenditure Based Requirements ("EBR") will be extended to all firms. This EBR will be phased in, increasing from 4/52 of the Company's relevant annual expenditure from 31 December 2011 to 13/52 from 31 December 2013.

The Company is also authorised by the FSA to establish and operate personal pension 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 £93,664 (2009: £78,040) 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:

- An EBR 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.

The FSA has announced its intention to review the prudential rules for firms authorised to establish and operate personal pension schemes later in 2010. Throughout the year, the Company has complied with the FSA's financial resource requirements outlined above.

Notes to the financial statements continued

29. Financial risk management objectives and policies (continued)

The Group policy, which remains unchanged from the year ended 31 May 2009, 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 2009 and 2010 were as follows:

Gearing	**2010 £**	2009 £
Trade and other payables	**2,652,508**	2,910,554
less: Cash and short-term deposits	**(5,790,292)**	(4,808,179)
Net cash	**(3,137,784)**	(1,897,625)
Share capital	**173,473**	172,855
Share premium	**5,918,314**	5,769,149
Fair value and other reserves	**2,552,579**	2,456,341
Retained earnings:		
– At 1 June	**8,060,163**	5,881,203
– Retained earnings for period	**2,276,757**	2,178,960
Capital	**18,981,286**	16,458,508
Gearing ratio:		
Net debt/capital	**(16.5)%**	(11.5)%

30. Financial instruments

Fair values

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

Interest rate risk

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

Year ended 31 May 2010	< 1 year £	1-2 years £	2-3 years £	3-4 years £	4-5 years £	> 5 years £	Total £
Floating rate							
Financial assets (current)	–	–	–	–	–	–	–
Cash assets	5,790,292	–	–	–	–	–	5,790,292
Bank overdrafts	–	–	–	–	–	–	–

Year ended 31 May 2009	< 1 year £	1-2 years £	2-3 years £	3-4 years £	4-5 years £	> 5 years £	Total £
Floating rate							
Financial assets (current)	120,392	–	–	–	–	–	120,392
Cash assets	4,808,179	–	–	–	–	–	4,808,179
Bank overdrafts	–	–	–	–	–	–	–

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

The only significant concentrations of credit risk within the Group relates to the Group's bank deposits and exposure to credit risk arising from default of the counterparty. The maximum exposure is equal to the carrying amount of these deposits. At 31 May 2010, the Group's bank deposits were held with Royal Bank of Scotland plc, Lloyds TSB Bank plc, Bank of Scotland plc and Investec Bank plc.

31. Events after the balance sheet date

Acquisition of City Trustees

On 9 August 2010 Mattioli Woods plc acquired the entire issued share capital of City Pensions Limited ("CPL") and City Trustees Limited ("CTL") (together "City Trustees") from Lighthouse Group plc ("Lighthouse") for a cash consideration of £1.85 million, net of inter company balance repayments made by Lighthouse prior to completion. CPL administers pension schemes on behalf of 965 SIPP schemes, 123 SSAS schemes and 14 funded unapproved retirement benefit schemes, with total funds under trusteeship of over £300 million. CTL acts as trustee to the schemes.

In the year ended 31 December 2009, CPL generated a loss on ordinary activities before taxation of £55,717 on revenues of £785,962. CPL's net assets at 31 December 2009 were £413,124. CTL is a non-trading dormant company with net assets at 31 December 2009 of £2.

Taxation

In June 2010 the UK government's Emergency Budget announced tax changes which, if enacted in the proposed manner, will have a significant effect on the Group's future tax position. These changes to the UK tax system are not regarded as "substantively enacted" as they are still subject to Parliamentary agreement. However, it is proposed that the rate of UK corporation tax will reduce from 28% to 27% from 1 April 2011, with further annual reductions of 1% annually leading to a rate of 24% from 1 April 2014.

These rate changes 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 assets and liabilities.

Changes to the UK capital allowances regime have also been proposed, to take effect from 1 April 2012.

32. Ultimate controlling party

The Company has no controlling party.

Company information

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

Registered number:
3140521

Nominated adviser and broker:
Evolution Securities Limited
Kings House
1 King Street
Leeds
LS1 2HH

Auditors:
Baker Tilly UK Audit LLP
2 Whitehall Quay
Leeds
LS1 4HG

Solicitors:
Cobbetts LLP
1 Whitehall Riverside
Leeds
LS1 4BN

Principal bankers:
Lloyds TSB plc
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Harcourt Way
Meridian Business Park
Leicester
LE19 1WF

Royal Bank of Scotland plc
98-102 Belgrave Gate
Leicester
LE1 3GR

Registrars:
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0GA

Financial calendar

31 August	Preliminary announcement of results for the year ended 31 May 2010
8 September	Ex-dividend date for ordinary shares
10 September	Record date for final dividend
14 October	Annual General Meeting
18 October	Payment of final dividend on ordinary shares

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