Mattioli Woods plc

Corporate statement

Mattioli Woods plc ("Mattioli Woods" or "the Group") is one of the UK's leading and fastest growing providers of specialist pension consultancy and wealth management. Our core services and advice are targeted towards the higher end of the market including controlling directors, professionals, executives, owner-managed businesses and small to medium-sized PLCs. The Group is focused on retirement consultancy and wealth management with a strong core of over 4,000 self-invested personal pension ("SIPP") and small self-administered pension scheme ("SSAS") clients throughout the UK.

Following the acquisition of Kudos Independent Financial Services Limited in August 2011, our clients' SSAS, SIPP, employee benefits and personal assets under administration and advice now total in excess of £2.8 billion.

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 markets, extending the Group's wealth management and employee benefits operations, which are set to enhance our reputation for the delivery of high quality services and advice.

Summary Highlights

Revenue up 12.3%

Revenue up to £15.36m (2010: £13.68m)

Adjusted EPS up 14.1%

Adjusted EPS up to 21.22p (2010: 18.60p)

Profit up 9.8%

Adjusted profit before tax up to £4.95m (2010: £4.51m)

Proposed total dividend up 13.8%

Proposed total dividend up to 4.95p (2010: 4.35p)

See page 3 for full highlights

"I am delighted to report another strong set of results and our sixth year of growth on AIM. Recent changes in pension legislation, combined with other market developments such as the demise of defined benefit pensions, all lead to an increasing need for people to plan for their own financial futures. I expect demand for impartial advice and our 'trusted adviser' status to deliver further growth against a backdrop of deep changes in the world's economies."

Bob Woods, Chairman, Mattioli Woods plc.

See page 4 for the Chairman's statement.

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Our services

Mattioli Woods is focused on the application and administration of self-invested personal pensions ("SIPPs") and small self-administered pension schemes ("SSASs"). In addition to pensions, the Group now offers a broad range of ancillary wealth management services and strategic planning in relation to clients' business and personal assets.

Trusteeship and administration

Our focus is to remain strong on integrity and compliance, ensuring that our clients' pension arrangements are administered by a dedicated account manager with an attention to detail that is appropriate in what is often a burdensome regulatory environment.

Pension consultancy

We have established a reputation for technical excellence, widely acknowledged within our industry. We strive to maintain our technical edge by continually developing an in-depth understanding of UK pension legislation. This translates into the provision of meaningful, strategic guidance to our clients by our consultants.

Group scheme consultancy

We offer a consultancy function to client companies in relation to group and staff pension arrangements, from the complexities of final salary schemes, through to defined contribution schemes. This assists clients with adding flexibility, controlling running costs, investment performance and reducing liabilities.

Employee benefits

We arrange, recommend, operate and administer employee benefit schemes, providing advice and guidance on life cover, medical insurance, salary protection and lifestyle-related benefits.

Investment services

We ensure the development and maintenance of robust client investment strategies, through the management of our asset allocation guidance and 'best-buy list' of investment funds and products.
Our key focus is to remain impartial and deliver investment strategies through a tightly controlled and diverse portfolio of instruments.

Syndicated property

Syndication gives clients access to better quality prime property, with stronger underlying tenants and lease terms, for small denomination investments. This allows investors to build up a diversified portfolio of syndicated, institutional grade assets that produce a robust and stable, long-term income stream.

Structured products

We have developed a portfolio of 'structured products', complimentary to our clients' investment needs. These provide clients with a high level of capital security and investment returns linked to the performance of some of the most exciting investment markets around the world.

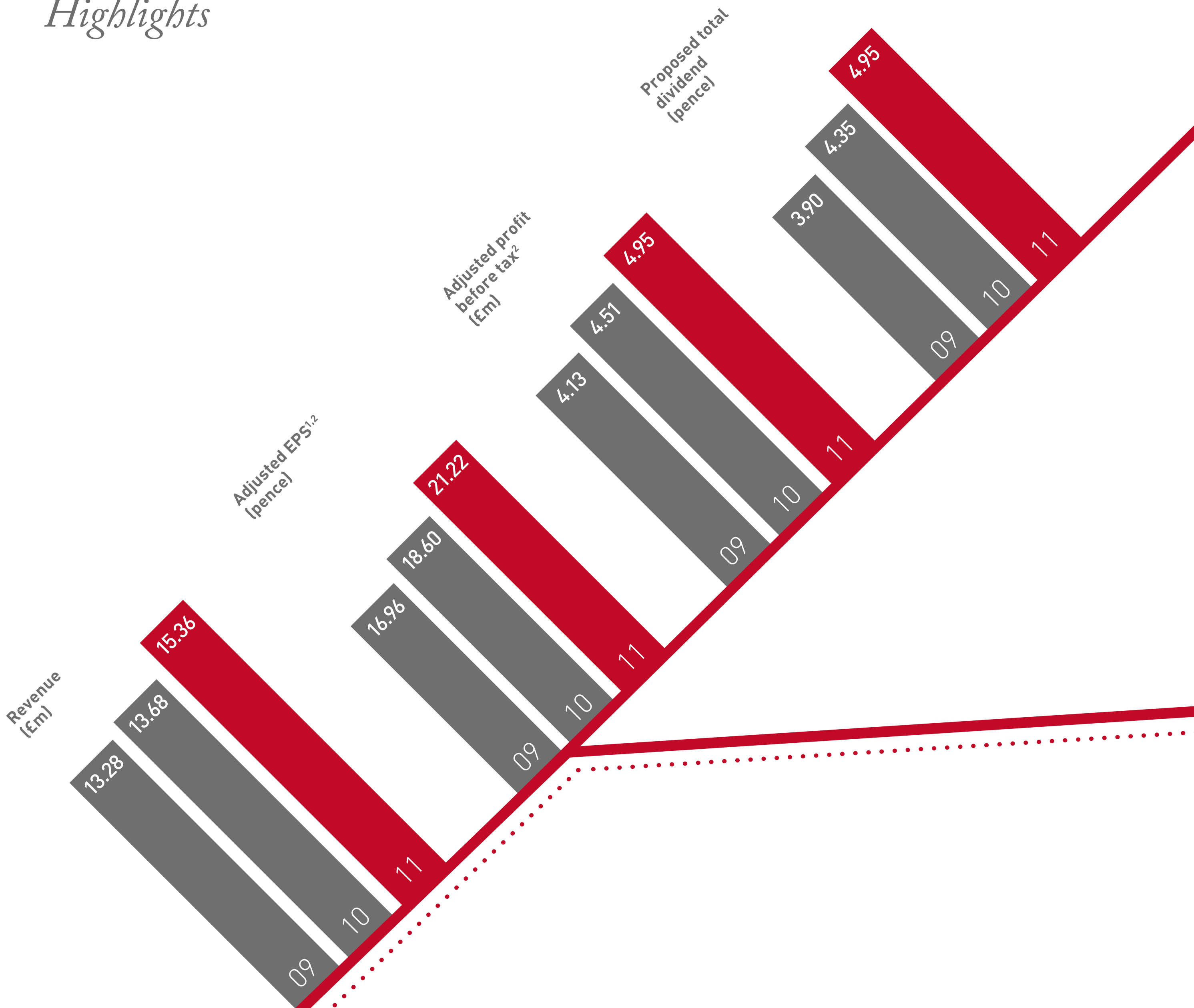
Business planning

We provide the specialist skill sets and experience to assist owner-managers with their wealth strategy, assisting their business planning in areas such as business cash flow, profitability, balance sheet strength and succession planning.

Trusts and taxation

We assist our clients with estate planning and the careful use of trusts, which provide effective solutions in balancing the desire to mitigate inheritance tax whilst retaining control. Working in partnership with our specialist advisers, we strive to ensure that full advantage is taken of all appropriate opportunities to minimise tax.

Highlights



- Assets under administration and advice up 21.7% to £2.30bn (2010: £1.89bn)
- Strong balance sheet with net cash at period end of £4.61m (2010: £5.79m)
- Acquisition of City Trustees in August 2010
- Helen Keays appointed as Non-Executive Director
- Acquisition of Kudos, an employee benefits and wealth management business, in August 2011

1 Basic EPS up 10.1% to 18.94p (2010: 17.20p)
2 Before acquisition costs expensed under IFRS3 (Revised) and amortisation of intangible assets other than computer software

Chairman's statement

I am delighted to report further progress for the Group in the year ended 31 May 2011, with adjusted earnings per share[3,4] up 14.1% and adjusted profit before tax[4] up 9.8% compared with the prior year. This completes a 20-year record of revenue and profit growth, of which we are immensely proud.

Our business delivers technically excellent, bespoke advice to clients, supported by high quality personalised administration. The pace of political and economic change in the UK and abroad is making these attributes increasingly important, underpinning strong client retention and growth in consultancy and administration revenues. Fee-based revenues increased by 22.0% to £8.97m (2010: £7.35m) as a result of demand for advice associated with changes in pension legislation and the positive contribution from recent acquisitions.

We acquired City Pensions Limited and City Trustees Limited (together "City Trustees") from Lighthouse Group plc in August 2010, expanding our range of services to include a separately branded administration proposition that services over 1,000 SIPP and SSAS schemes. Both City Trustees and the CP Pensions business we acquired in April 2010 have bedded in well and I am very pleased with their successful integration into the Group.

The acquisition of TCF Global Independent Financial Services Limited and its operating subsidiary Kudos Independent Financial Services Limited ("Kudos") announced today is an excellent strategic and cultural fit with Mattioli Woods. Kudos' employee benefits and wealth management capabilities strengthen our existing client proposition. In addition to extending our geographic footprint, the acquisition gives us the opportunity to offer our core SSAS and SIPP services to Kudos' clients while enabling us to offer enhanced employee benefits services to Mattioli Woods' clients.

We continue to enjoy strong client retention, although the expected fall-out from recent acquisitions increased the core client attrition rate[5] to 5.1% (2010: 4.3%). Mattioli Woods added 248 new direct SSAS and SIPP schemes in the year (2010: 229) and we remain focused on maintaining the quality of new business, with the average new scheme comprising £0.37m of assets. I am confident we can secure strong organic growth going forward, particularly following the acquisition of Kudos. We have a healthy enquiry pipeline and have increased new business capacity within the consultancy team, with the aim of increasing the conversion of enquiries to new clients.

The development of our staff remains key and it is pleasing to see seven individuals progress into consultancy during the year, increasing the team to 30 (2010: 23).

Behind the scenes, it has been a busy year as we prepare for the launch of our discretionary fund management ("DFM") platform, developed in response to client demand for this extension to our existing wealth management proposition.

Assets under administration and advice

Historically, we have reported Funds Under Trusteeship ("FUT"), representing the assets administered within our clients' SSAS and SIPP portfolios, which increased by 22.7% to £2.11bn (2010: £1.72bn). This year, we are introducing a new metric to include all the different assets the business gives advice upon and/or administers.

Total assets under administration and advice increased by 21.7% to £2.30bn at 31 May 2011 (2010: £1.89bn), with £0.29bn of new funds added on the acquisition of City Trustees.

	31 May 2011 £m	31 May 2010 £m
SSAS	**1,221.7**	1,085.0
SIPP	**888.6**	634.9
FUT	**2,110.3**	1,719.9
Employee benefits	**149.9**	139.0
Personal assets	**44.2**	27.2
Assets under administration and advice	**2,304.4**	1,886.1

While the majority of these assets comprise pension wealth, personal investment planning is an area of additional focus for us, where I expect strong growth following the acquisition of Kudos, which adds circa £530.0m of new assets under administration and advice.

[3] Basic EPS up 10.1% to 18.94p (2010: 17.20p).
[4] Before acquisition costs expensed under IFRS3 (Revised) and amortisation of intangible assets other than computer software.

[5] Direct 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.

Market overview

Our clients' needs and expectations have shifted markedly from the past. Communication is driven by the internet and we are seeing tectonic shifts in the global economy, with the credit crisis of 2008 heralding changing fortunes for the developed West and emerging East. Against this backdrop, our status as trusted adviser, with a commitment to high service standards and increasing investment in technology, positions us well to deliver the wider range of services our clients require.

The SIPP market displays the characteristics of many fast-growing financial services markets: high growth, associated concerns around mis-selling, resulting in stricter compliance requirements being imposed by the regulator. The Financial Services Authority's ("FSA's") Thematic Review in 2009 focused on concerns about the suitability of the SIPP product and the ability of smaller SIPP providers to police their client portfolios appropriately.

The FSA's recent intervention in the sale of a failing SIPP operator highlights how this sector is under increasing scrutiny. The FSA has signalled its plans to increase the capital resource requirements of SIPP operators, which I expect to drive further consolidation as small providers struggle to compete under the new regime.

In addition, the Retail Distribution Review ("RDR") may still take effect at the end of 2012. It is widely predicted the IFA market will shrink as a result, driving the remaining players to focus on quality rather than quantity. I believe this is all good news for Mattioli Woods, as we position ourselves to take advantage of new opportunities as demand moves closer to our established model.

Trading results

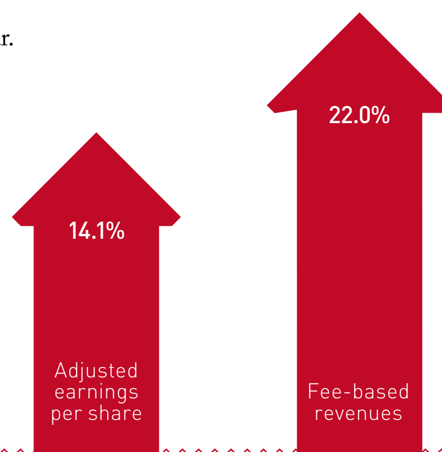
We achieved increased total revenues of £15.36m (2010: £13.68m) in the year ended 31 May 2011, with our two most recent acquisitions delivering £0.89m of this increase. These acquisitions, together with sustained demand for advice from clients following the recent changes in pension legislation, helped increase fee-based revenues to 58.4% (2010: 53.7%).

Investment-related revenues fell to 31.9% of total revenue (2010: 39.1%), with traditional investment commissions falling to £3.05m (2010: £3.61m) as the general economic environment, sovereign debt concerns and fragile stock markets saw our clients remain cautious. These concerns continue to drive demand for structured products, with associated revenues increasing to £0.91m (2010: £0.84m). Despite interest rates having remained at historic lows since March 2009, banking income increased to £0.95m (2010: £0.90m) following the negotiation of enhanced terms with our key banking partners.

Last year, I set out our expectation that we would see increased property syndicate investment due to rental yields looking increasingly attractive compared with low interest rates and gilt yields. Property syndicate revenues increased to £1.49m (2010: £0.99m) or 9.7% of total revenue (2010: 7.2%). Clients invested £16.3m (2010: £6.73m) into eight (2010: three) new syndicates completed during the year.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") increased to £5.09m (2010: £4.72m) with EBITDA margin of 33.1% (2010: 34.5%) falling as a result of the acquisition of City Trustees during the year. Following the successful integration of City Trustees into the Group, I expect the acquisition to be earnings enhancing in this current financial year. Adjusted earnings per share increased by 14.1% to 21.22p (2010: 18.60p).

EBITDA increased to £5.09m (2010: £4.72m)



Compliance

The FSA's involvement in the recent sale of certain SIPP operators highlights once more the regulatory challenges facing the SIPP sector. Having identified problems with many small SIPP operators' systems, the FSA continues to focus on this sector and earlier this year issued a detailed questionnaire for firms to report on all areas of their business including systems, management controls and capital adequacy requirements.

In July, the Treasury Committee recommended that the FSA should delay implementation of the RDR by 12 months, although the FSA seems reluctant to do so. However, the broad principles of the proposed RDR framework remain and I am confident our fee-based approach is already aligned with the key recommendations of the RDR. Many commentators believe the increasing compliance burden and changes in regulation will continue to drive consolidation, both among SIPP operators and in the IFA sector.

Acquisitions

The two businesses we acquired in 2010 have been fully integrated and performed in line with our expectations. City Trustees has moved into new offices at 210 High Holburn, London and its senior management team has been strengthened through the appointment of new staff. We have also improved operating systems and procedures, eliminating billing inefficiencies. City Trustees is well positioned to provide top-end IFAs and wealth managers with high quality administration, backed by strong technical support.

The acquisition of Kudos extends both our employee benefit and wealth management propositions, giving us the ability to do more with our existing client base. The acquisition is expected to be earnings enhancing in the current financial year.

We continue to seek bolt-on acquisitions in the SIPP sector and to review strategic acquisitions that can increase scale, broaden the range of services we offer or extend our distribution channels.

Staff

We are a people business. Our aim is to deliver top quality, personalised advice and administration to help our clients achieve their long-term objectives. Our people remain our most important asset and everything we achieve is due to their hard work and commitment. Earlier this month, it gave Ian Mattioli and I enormous pleasure to celebrate 20 years of profitable growth with all our staff.

We enjoy a strong team spirit and continue to build upon this by facilitating employee equity participation through the Mattioli Woods plc Share Incentive Plan. Currently, 48% of eligible staff (2010: 48%) have elected to invest via the plan and I will promote broader participation over the next 12 months.

Board changes

Earlier this year, the Nominations Committee decided to appoint a further non-executive director to bring better balance to the Board. Following a selection process laid down by the Nominations Committee, we were delighted to announce the appointment of Helen Keays on 6 July 2011. Helen's marketing knowledge and experience as a director of listed and financial services businesses will be a great asset to the Group as we continue to grow and develop our business.

Dividends

The Board is pleased to recommend the payment of a final dividend for the year ended 31 May 2011 of 3.30 pence (2010: 2.90 pence) per ordinary share. If approved, the final dividend will be paid on 18 October 2011 to shareholders on the register at the close of business on 9 September 2011. This makes total dividends in respect of the year ended 31 May 2011 of 4.95 pence per share (2010: 4.35p), a year-on-year increase of 13.8% (2010: 11.5%). The Board remains committed to growing the dividend, while maintaining an appropriate level of dividend cover.

Recent acquisitions increase scale, broaden our range of services and extend our distribution channels

Outlook

Trading in the current period is in line with the Board's expectations. In the short term, I expect volatile financial markets and economic uncertainty to present further challenges for investment advisers and managers. However, we have demonstrated before how our billing model and advisory approach give us the resilience to continue growing the business despite difficult market conditions.

I am particularly enthused about the opportunities now open to the enlarged Group. The planned launch of our DFM platform will take centre stage in developing our wealth management capabilities and the acquisition of Kudos gives us an exciting new distribution channel for both our core pension and complementary services.

I believe these strategic developments will strengthen our position in a market I expect to place advice-led services at a premium.

Our pension services and our reputation as a SSAS and SIPP consultancy of excellence provide a strong foundation from which to drive continued revenue growth, albeit with a short-term contraction in margin as a result of increasing our investment in infrastructure and brand to ensure we can take advantage of these opportunities. The acquisition of Kudos and development of DFM herald a new chapter for our business and I look to the future with confidence.

Bob Woods
Chairman
29 August 2011

Chief Executive's review

It is 20 years since Bob Woods and I founded Mattioli Woods. I am proud that throughout this period, we have delivered consistent revenue and profit growth.

The last few years have been a period of great economic uncertainty. During this time, our clients have been reassured by our proactive investment advice. Our investment strategies have performed well, putting our clients in a strong position to take advantage of tomorrow's opportunities.

The development of our business has been based upon the development of our people. Their ability to adapt to challenges, whether it be those created by turmoil in financial markets or regulatory change, has been very satisfying. All of these values are important as we look to continue growing our business, both organically and by acquisition.

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 many 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:

- Organic growth achieved by attracting new clients and extending the range of products and services we offer to our existing clients;
- Continuing to develop our administration platforms, allowing us to service increased business volumes;
- Expanding our presence in the wealth management space through strategic acquisitions.

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.

During the year, we acquired City Trustees from Lighthouse Group plc ("Lighthouse"). City Trustees has an excellent reputation for providing bespoke pensions administration coupled with first-rate client service and it is a great fit with our existing business.

Revenues from our fee-based services have increased by 22.0% to £8.97m (2010: £7.35m) as a result of demand for advice associated with changes in pension legislation and the positive contribution from City Trustees and the CP Pensions business acquired in April 2010.

Investment planning

A key feature of our approach to wealth management for retirement 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 the majority of 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.

Investment planning revenues fell 8.24% in 2011 to £4.90m (2010: £5.34m) with traditional investment commissions falling to £3.05m (2010: £3.61m) as the general economic environment, sovereign debt concerns and fragile stock markets saw our clients remain cautious. These concerns continue to drive demand for structured products. We promoted 10 (2010: 13) new bond issues during the year, with clients subscribing a total of £29.5m (2010: £31.0m). Associated revenues increased to £0.91m (2010: £0.84m), with a number of new issues in 2010 having short maturities, carrying lower initial commissions.

Despite interest rates having remained at historic lows since March 2009, banking income increased to £0.95m (2010: £0.90m) following the negotiation of enhanced terms with our key banking partners.

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. As expected, we saw increased property syndicate investment during the year as rental yields looked increasingly attractive in the prevailing interest rate environment.

Property syndicate revenues increased to £1.49m (2010: £0.99m) or 9.7% of total revenue (2010: 7.2%). Clients invested £16.3m (2010: £6.73m) into eight (2010: three) new syndicates that completed during the year. The total number of property syndicates using our administrative services at the year-end increased to 49 (2010: 41).

Demand remains within our client base for commercial property with the benefit of long leases and strong tenant covenants. Recurring revenues derived from our annual administration services increased 13.6% to £0.75m (2010: £0.66m), in line with higher commercial property valuations and more properties under administration.

To allow us to develop the property syndicate initiative outside of our own client base, following FSA approval, this element of our business will be transferred into a separate subsidiary, Custodian Capital Limited ("CCL") later this year. The business currently administers properties worth over £84.0m, owned by 850 investors drawn exclusively from Mattioli Woods' client base.

There are growth opportunities within the existing platform through:

- Increasing participation from existing and new clients yet to invest; and
- Encouraging clients to diversify from client-owned properties into syndicates.

CCL's objective is to invest in good quality commercial or residential property with conservative levels of gearing, to deliver a long-term income stream and the possibility of capital growth. Investors can be SIPP, SSAS or private individuals. This will enable us to open the direct property investment opportunity to other wealth managers, IFAs, private client brokers and professionals, representing a much wider potential client base.

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.

Assessment of small SIPP providers

In early 2011, the FSA requested detailed information from all small SIPP providers to ensure they are adequately structured and controlled and to ensure they review all assets that are accepted into their SIPP arrangements. The FSA has also closely reviewed the capital resources requirements of those firms to ensure that consumers are adequately protected. Our balance sheet strength gives us significant headroom above the basic FSA requirements. However, these demands may force certain firms to consider exiting the market, creating new opportunities for us.

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

Under the Review of Retail Distribution ("RDR"), new rules are intended to come into effect at the end of December 2012, although the Treasury Committee has recommended that the implementation of these rules is delayed for 12 months. The FSA's proposals mean 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.

The options for Mattioli Woods' core SSAS and SIPP business remain:

- To be an entirely independent adviser; or
- To provide only restricted advice; or
- To be a combination of the two, for example, being a SIPP operator that provides independent advice on the assets held within the SIPP 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 continue to consult 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.

I believe the new pensions legislation incorporated in the Finance (No 3) Bill 2011 will put pensions at the centre of the Government's drive to revive a savings culture in the UK. The first piece of new legislation introduces a contribution limit of £50,000 per annum, with the ability to carry forward unused allowances from the previous three years. Reintroducing full top-rate tax relief for all, including high earners, is a clear indication that the Government wants to see a substantial increase in UK pension investment.

The second piece of legislation abolishes a particularly onerous aspect of the previous tax regime, where there were potential tax charges of up to 82% on a member's pension fund following the death of the member and their partner after the age of 75. Furthermore, the legislation introduces a new concept, referred to as 'flexible drawdown', which in essence will allow some members to access their pension fund, over and above HMRC's usual maximum income limits, at any time in retirement.

I expect these changes and the shift away from a culture of corporate pension provision to one of greater individual responsibility to support further growth in our sector.

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

Revenues were up 12.3% to £15.36m (2010: £13.68m) as a result of our recent acquisitions and sustained demand for advice following changes in pension legislation during the year. Fee-based revenues increased to 58.4% of total revenue (2010: 53.7%). Investment planning related revenues fell to 31.9% of total revenue (2010: 39.1%) as clients remained cautious around the general economic outlook. Property syndicate revenues increased to 9.7% (2010: 7.2%), with increased investment in new syndicates due to rental yields looking increasingly attractive compared with low interest rates and gilt yields.

EBITDA increased by 7.8% to £5.09m (2010: £4.72m), with a lower EBITDA margin of 33.1% (2010: 34.5%) a result of the acquisition of City Trustees during the year. In addition, a change in accounting policies imposed by a revised IFRS3 meant deal costs of £0.07m were recognised in the income statement. Comparable deal costs have been capitalised in prior years. To facilitate a like-for-like comparison with prior years, deal costs have been added back in calculating adjusted profit before tax.

In January 2011, the UK Financial Services Compensation Scheme ("FSCS") announced an interim levy to remedy the cost of major investment failures in certain firms, primarily Keydata Investment Services Limited. The Group incurred total interim levy costs of £0.13m. The adverse impact of the FSCS interim levy has been offset by a release of provision for contingent consideration payable on the JB Group and CP Pensions acquisitions totalling £0.24m, following "stretch" performance targets not being met during the earn-out period.

Our reputation for technical excellence has served us well and continues to provide a healthy flow of new business enquiries, which I expect to drive continued revenue growth, albeit with a short-term contraction in margin as a result of our increasing investment in infrastructure and brand to ensure we can take full advantage of these opportunities. In the longer term, I expect our additional investment in information systems and technology will provide scope for future margin improvement and the delivery of even better client service.

Net finance revenue

Net finance revenue increased to £0.06m (2010: £0.04m). Net finance revenues continue to be adversely impacted by the Bank of England base rate remaining at its historic low of 0.5%. The Group has maintained a positive net cash position, although the payment of acquisition consideration resulted in lower average balances than in the prior year. The increase in finance revenue during the year is a result of using our working capital to fund expansion in the property syndicate business.

Taxation

The effective rate of taxation on profit on ordinary activities fell to 26.8% (2010: 29.6%), due to cuts in the UK corporation tax rate and the exercise of employee share options during the year. The net deferred taxation liability carried forward at 31 May 2011 was £0.31m (2010: £0.12m).

Earnings per share and dividend

Basic earnings per share increased by 10.1% to 18.94p (2010: 17.20p) with diluted earnings per share increasing by 9.5% to 17.94p (2010: 16.38p). A proposed increase of 13.8% in total dividend for the year to 4.95p per share (2010: 4.35p) demonstrates our desire to deliver value to shareholders and confidence in the outlook for the business.

Cash flow

Net cash generated from operations was £3.79m (2010: £3.85m) with EBITDA of £5.09m (2010: £4.72m). The Group conversion of EBITDA into operating cash flow fell to 74.4% (2010: 81.6%), primarily due to a £1.82m increase in trade and other receivables as a result of:

- Fee-based revenues increasing as a proportion of total revenues, with sustained demand for advice from clients; and
- The migration of ex-JB Group and CP Pensions clients to our fee-based billing model during the period leading to these clients being invoiced six months in arrears, rather than 12 months in advance.

These factors increased the cash outflow from working capital to £1.38m (2010: £1.05m). Headline trade debtor days increased to 78 days (2010: 71 days), with headline debtor days excluding amounts owed by property syndicates increasing to 69 days (2010: 65 days).

Trade creditor days fell to 20 days (2010: 35 days) with amounts owed to suppliers at the year-end being lower than in the prior year, when improvements made to the layout of our offices at MW House led to a number of large supplier invoices for these works being outstanding at the year-end.

Capital expenditure for the year was £0.55m (2010: £0.43m), with the most significant costs being incurred on the fit-out of City Trustees new London offices, the replacement of company cars used by consultants and investment in new computer hardware and software. Further investment in the Group's information systems and technology is planned over the next year, to enable us to launch our DFM service and enhance our clients' ability to review their affairs online.

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 2012.

At 31 May 2011 the Group had unused borrowing facilities of £3.00m (2010: £3.00m).

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

Capital structure

The Group's capital structure is as follows:

	2011 £	2010 £
Net funds	**(4,609,653)**	(5,781,664)
Shareholders' equity	**22,102,050**	18,981,286
Capital employed	**17,492,397**	13,199,622

The Group has remained negatively geared, with the gearing ratio increasing from (16.5)% to (5.6)% as a result of the acquisition of City Trustees during the period (see Note 3).

Acquisitions

Clients acquired as part of the CP Pensions transaction have been fully integrated into our existing business, with CP Pensions' experienced team of administrators having relocated to our Leicester office.

In August 2010 we acquired City Trustees from Lighthouse Group plc ("Lighthouse"). City Trustees is a great fit with our existing business. During the period we have moved City Trustees into new offices and strengthened the senior management team. We have recently put in place a revised fee structure and enhanced the client banking proposition. Improved operating systems and procedures have eliminated historic billing inefficiencies and I expect the acquisition to be earnings enhancing in this new financial year.

We have followed this with the acquisition of Kudos, extending both our employee benefit and wealth management propositions. The transaction enables both parties to provide more services to existing clients and capture new business opportunities through our combined introducer networks. It is an exciting step forward in the development of Mattioli Woods as a broader wealth management business.

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

Offices in Leicester, London, Aberdeen and Glasgow

Resources, risks and relationships

Resources

The Group aims to safeguard the assets that give it competitive advantage, including its reputation for quality and 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's 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 to take advantage of growing demand remains a key priority and we continue to invest in our graduate recruitment programme, with a total of 11 new graduates joining the Group (2010: 11). Our total headcount at the end of the period was 206 (2010: 179).

We continue to invest in the development of our bespoke pension administration system ("MWeb") and the DFM platform designed to enhance the services we offer clients.

Principal risks and uncertainties

There are a number of potential risks which could hinder the successful implementation of our Group strategy and have a material impact on our long-term performance. These arise from internal or external events, acts or omissions which could potentially pose a threat to the Group. 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.

A source of revenue is based on the value of cash balances held in clients' schemes. These balances are not on the Group balance sheet. A continued low interest rate environment creates a risk of a decline in earnings due to a decline in balances or interest turn. However, we continue to develop our banking relationships to access competitive interest rates for our clients.

The Group has an indirect exposure to security price risk on investments held by clients, with trailing (or funds-based) investment commissions being based on the value of client assets under administration. Periods of volatility in a particular asset class may see changes in how our investment revenues are derived. However, a great strength of our business is that we can continue to derive income from investments in all asset classes, while ensuring our clients' investment strategies are appropriately aligned to the prevailing market conditions and suitable for their financial needs.

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

The table below outlines the current risk factors for the business identified by the Group. The risk factors mentioned below do not purport to be exhaustive as there may be additional risks that materialise over time that the Group has not yet identified or deemed to have a potentially material adverse effect on the business:

Industry risks

Risk type	Risk	Mitigating factors/controls
Changes in investment markets	Volatility may adversely affect trading and/or the value of the Group's funds under administration and advice, from which we derive revenues	• Focus on fee-based revenues over more volatile transactional or asset value-based revenues • Majority of clients' funds held within registered pension schemes, where less likely to withdraw funds and lose tax benefits • Bespoke client banking arrangements enable clients to shelter from market volatility
Changing markets and increased competition	The Group operates in a highly competitive environment with evolving characteristics and trends	• Consolidating market position develops the Group's pricing power • Full control over scalable and flexible MWeb administration platform • Experienced management team with a strong track record • Loyal customer base and strong client retention • Acquisition of City Trustees extends our proposition to IFA-introduced clients attracted by SIPP offering
Evolving technology	The Group's technology could become obsolete if we are unable to develop our systems to accommodate changing client needs, new products and the emergence of new industry standards	• Track record of successful development • High awareness of the importance of technology at Board level • Expanded systems development team through recruitment of new IT manager
Regulatory risk	The Group may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations	• Strong compliance culture • Business model and culture embraces FSA principle of treating clients fairly • Financial strength provides comfort should capital resource requirements be increased
Changes in tax law	Changes in tax legislation could reduce the attractiveness of long-term savings via pensions schemes, particularly SSASs and SIPPs	• The Government has a desire to encourage long-term savings to plan for an ageing population, which is currently under-provided for • The Board believes recent changes in pension legislation have been positive

Financial risks

Risk type	Risk	Mitigating factors/controls
Liquidity risk	The risk the Group is unable to meet liabilities as they become due because of an inability to liquidate assets or obtain adequate funding	• Cash generative business • Group maintains a surplus above regulatory and working capital requirements • Treasury management provides for the availability of liquid funds at short notice
Bank default	In the current economic climate there is a risk that a bank could fall	• We only use banks with strong credit ratings where we believe the Government would not allow them to fail. • Deposits spread across multiple banks • Regular review and challenge of treasury policy by management
Interest rate risks	Risk of decline in earnings due to a decline in interest turn. Low interest rates make it harder to structure compelling capital-protected products for clients	• Good relationships with key banking partners • Access to competitive interest rates due to scale of our business

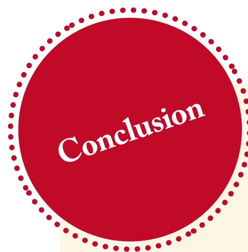
Operational risks

Risk type	Risk	Mitigating factors/controls
Damage to the Group's reputation	There is a risk of reputational damage as a result of employee misconduct, failure to manage inside information or conflicts of interest, fraud, improper practice, poor client service or advice	• Strong compliance culture • High level of internal controls including checks on new staff • Well trained staff
Errors, breakdown or security breaches in respect of the Group's software or information technology systems	Serious or prolonged breaches, errors or breakdowns in the Group's software or information technology systems could negatively impact customer confidence. It could also breach contracts with customers and data protection laws, rendering us liable to disciplinary action by governmental and regulatory authorities, as well as to claims by our clients	• Ongoing review of data security • IT performance, scalability and security are deemed top priorities by the Board • Experienced in-house team of IT professionals and established name suppliers
Business continuity	In addition to the failure of IT systems, there is a risk of disruption to the business as a result of power failure, fire, flood, acts of terrorism, re-location problems and the like	• Periodic review of Business Continuity Plan, considering best practice methodologies
Key personnel risk	The loss of, or inability to recruit, key personnel could have a material adverse effect on the Group's business, results of operations or financial condition	• Succession planning is a key consideration throughout the Group • Success of the Group should attract high calibre candidates • Share-based schemes in operation to incentivise staff and encourage retention • Graduate and other recruitment programmes in place to attract appropriate new staff
Litigation or claims made against the Group	Risk of liability related to litigation from clients or third parties and assurance that a claim or claims will be covered by insurance or, if covered, will not exceed the limits of available insurance coverage, or that any insurer will remain solvent and will meet its obligations to provide the Group with coverage	• Appropriate levels of Professional Indemnity insurance cover regularly reviewed with the Group's advisers • Comprehensive internal review procedures, including compliance sign-off, for advice and marketing materials
Reliance on third parties	Any regulatory breach or service failure on the part of an outsourced service provider could expose the Group to the risk of regulatory sanctions and reputational damage	• Due diligence is part of the selection process for key suppliers • Ongoing review of relationships and concentration of risk with key business partners
Strategic risk	Risk that management will pursue inappropriate strategies or implement the Group's strategy ineffectively	• Experienced management team, with successful track record to date • Management have demonstrated a thorough understanding of the market and monitor this through regular meetings with clients

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



We operate in a dynamic market and have developed a great business platform, operated by a team of technically excellent and highly-motivated staff. The development of our consultancy team will support organic growth around our core SSAS and SIPP proposition, and I expect the twin pressures of economic uncertainty and regulatory change to create new acquisition opportunities to support our growth objectives.

I believe the acquisition of Kudos creates an exciting opportunity for the enlarged Group to gain a greater share of the UK's fast-growing wealth management sector. Trading in the period since the end of the financial year has continued in line with management's expectations and I look forward to building further shareholder value going forward.

Ian Mattioli
Chief Executive
29 August 2011

Our clients

The key difference between Mattioli Woods and many of our competitors is our hands-on and bespoke approach. There is a genuine focus on providing the highest level of personal advice and maintaining close relationships with all clients, which has led to high levels of satisfaction, retention and referrals.

"Mattioli Woods has provided me with a solid platform for the future and clarity of where I will be financially over the coming years – you cannot put a price on this – it provides a great deal of peace of mind."

Liz Wood

"We are very pleased with the way Mattioli Woods has handled our pensions scheme – fantastic."

Barry Brooks

"We now have almost a 24-hour professional service available as well as up to date advice from Mattioli Woods which is both innovative and dynamic."

Bill Sisley

"We achieved more in one meeting than we did in three years with our previous providers."

Carl Jarvis

"The great thing about Mattioli Woods is the ability to speak to named individuals who know all about my scheme and can answer questions with a single phone call without the hassle of having to go through a call centre."

Alastair Kennedy

48% of clients are between 35-55 years old.
47% of clients are between 56-80 years old.
We administer over 2,900 client SIPP schemes.

We administer over 1,400 client SSAS schemes.
Over 10% of our clients have a portfolio value of £1m+.

"Through Mattioli Woods' ability to think 'outside' the box and undertake proactive management we were able to secure the property."

Raymond Ramage &
Stephen Howe

"Thank you so much for your efficiency. It is wonderful to be working with people at Mattioli Woods who rally in an emergency."

John Cook

Derek Corner

"Having received my anniversary portfolio valuation, I would just like to say that I am extremely pleased with the results. So thanks again to you and all your colleagues for their sterling efforts, particularly during what are still very trying times for the world's economies."

Our clients include controlling directors, professionals, owner-managed businesses and small to medium-sized PLC's.

Our clients business range from solicitors to haulage companies, life sciences to bakeries. Our average client's portfolio value is circa £0.5m.

Our people

Employing over 250 people in Leicester, London, Aberdeen and Glasgow, Mattioli Woods enjoys a high level of staff retention. Our commitment to developing our staff and promoting from within ensures a highly motivated team with a true sense of commitment.

Our average length of service is over five years

40% of our people hold a minimum of a degree qualification

62% of employees who celebrated Mattioli Woods' 10th anniversary were with us for the 20th

50% of our consultants hold an Advanced Diploma
During 2010/11 our consultancy team has increased by 30%
During 2010/11 the number of employees increased by 15%
Since 2006, our graduate retention rate has been 84%

Our Board of Directors

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

Bob Woods
Chairman,
age 57

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

Ian Mattioli
Chief Executive,
age 48

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 42

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 leads the Group's acquisition activity.

John Redpath
Non-Executive Director,
age 66

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 moved to Northumbrian Water Authority in a similar capacity, 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 the subsidiary CPCR Limited, a human resources consultancy specialising in leadership and partnership development, where he was Managing Director until his retirement in 2003. John is a Trustee of the Percy Hedley Foundation for cerebral palsy and a member of the Chartered Institute of Personnel and Development.

Michael Kershaw

Non-Executive Director, **age 54**

Michael qualified as a Chartered Accountant in 1981, following a degree in Engineering taken at Queens' College, Cambridge.
His subsequent career was spent entirely 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 has recently been awarded a PhD in the History of Science and Technology.

Murray Smith

Marketing and Sales Director, **age 42**

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, together with related consultancy. He has responsibility for managing the Group's consultancy team and marketing activities.

Mark Smith

Operations Director, **age 41**

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.

Helen Keays

Non-Executive Director, **age 47**

Helen was the first female Board Director of Vodafone UK and was General Manager of Singlepoint. Helen was with Vodafone for eight years and previously held positions as Brand and Advertising Director and Marketing Director of Vodafone Retail.
Prior to joining Vodafone she worked for Sears Retail, GE Capital and Thomson Holidays in a variety of senior marketing and retail positions. Helen is now a Management Consultant and her particular interests include brand marketing and customer experience development.
Helen is currently a Non-Executive Director of Majestic Wine plc and Sk:n Clinics Limited, and a Trustee of the Shakespeare Birthplace Trust.
Helen previously sat on the boards of Chrysalis plc and the Britannia Building Society.
Through her non-executive roles Helen has built a broad knowledge of customer segments and markets.

Report and financial statements

The directors present their report together with the financial statements for the year ended 31 May 2011. 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 6 and the Chief Executive's Review on pages 7 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 £3.33m, an increase of 11.0% on the previous year. This increase was due to sustained demand for the Group's services following a period of continued uncertainty in financial markets, combined with the impact of changes in pensions legislation introduced during the year. The Group also benefited from the contribution of recent acquisitions during the period.

The final dividend in respect of the year ended 31 May 2010 of 2.90p per share was paid in October 2010. An interim dividend in respect of the year ended 31 May 2011 of 1.65p was paid to shareholders in February 2011.

The directors recommend a final dividend of 3.30p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2011. If approved, the final dividend will be paid on 18 October 2011 to ordinary shareholders whose names were on the register on 9 September 2011.

Events after the balance sheet date

Details of significant events occurring after the end of the reporting period are given in Note 32.

Directors

A list of current serving directors and their biographies is given on pages 18 to 19. Nathan Imlach and John Redpath retire by rotation and, being eligible, offer themselves for re–election. Helen Keays retires having been appointed since the last Annual General Meeting and offers herself 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 website 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, Share Incentive Plan and Long Term 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. Group policy is 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 £5,308 (2010: £1,375) were made during the year to local charities and community projects.

Supplier payment policy and practice

The Group's policy is that supplier payments 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 2011, the Group had an average of 20 days' purchases owed to trade creditors (2010: 35 days).

Related party transactions

Details of related party transactions are given in Note 29.

Environmental

The Board believes 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 its business generally, the Group does not have a significant environmental impact.

Substantial shareholdings

At 29 August 2011 the Company had been notified of the following interests representing 3% or more of its issued share capital:

	Number of ordinary shares	Percentage holding[6]
Ian Mattioli	3,623,703	20.06%
Bob Woods	3,623,703	20.06%
BlackRock, Inc.	2,278,075	12.61%
Unicorn Asset Management Limited	1,087,461	6.02%
Investec Wealth and Investment	836,151	4.63%

In addition to the above shareholdings, 198,149 ordinary 1p shares representing 1.10% of the issued share capital are held by employees 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.

6. Calculation includes 462,572 shares issued on the acquisition of Kudos.

CREST

Mattioli Woods plc share dealings are settled on CREST, the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and 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 13 October 2011. The Notice of Meeting is enclosed with this document and contains further information on the ordinary and special business to be proposed at the meeting. Resolution 9 is the only special business being proposed, which disapplies pre–emption rights and in conjunction with Resolution 8, 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 10% of the nominal value of the issued ordinary share capital of the Company.

Principal risks and uncertainties

The directors' view of the principal risks and uncertainties facing the business is summarised on pages 11 to 12 of the Chief Executive's Review.

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. Our process for identifying and managing risks is set out in more detail on pages 12 to 13 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;
- Assets under administration and advice – this is the value of all the client assets the business gives advice upon or adminsters;
- Client retention – this is the number of 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; 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 6 and the Chief Executive's review on pages 7 to 13.

Corporate governance

A full review of Corporate Governance appears on pages 25 to 28.

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 ensure 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 UK 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 18 to 19. 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 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
29 August 2011

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 UK Corporate Governance Code (formerly the Combined Code) issued by the Financial Reporting Council in May 2010 ("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 three independent non–executive directors.
Their biographies on pages 18 to 19 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 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 a 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 four 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 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.

Remuneration committee

The Remuneration Committee comprises John Redpath (Chairman) 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

The Nominations Committee comprises 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 works in close consultation with the executive directors, with its main priorities being Board structure and management succession.

During the year, the Committee recommended the appointment of Helen Keays as an additional Non–Executive Director, with the objective of balancing executive and non–executive membership of the Board and bringing new skills to the Company. Helen Keays joined the Board on 6 July 2011.

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. The Committee will continue to review the optimal timetable for the appointment of a non-executive chairman, which would bring better conformity with conventional corporate governance standards.

Investment committee

The Investment Committee comprises Bob Woods (Chairman), Ian Mattioli, Murray Smith, Ben Wattam (Investment Manager) and Sarah Thi (Investment Manager). The Committee's principal terms of reference are to oversee the Group's investment management approach, set the "house view" on economics, investment markets and asset allocation; and consider how the Group should best apply these views.

The Committee is considering the appointment of an experienced investment professional to sit as an independent member of the Committee. The Committee is also exploring the development of a strategic relationship with Nottingham Business School, to provide the Group with economic consultancy.

Meetings and attendance

All directors are encouraged to attend all Board meetings and meetings of Committees they are members of. Directors' attendance at Board and Committee meetings during the year (including the AGM) was as follows:

	Board	Remuneration Committee	Nominations Committee	Investment Committee	Audit Committee
Meetings in year	15	2	1	8	3
Bob Woods	13	2	–	8	–
Ian Mattioli	14	2	–	7	–
Nathan Imlach	15	–	–	–	3
Murray Smith	14	–	–	3	–
Mark Smith	15	–	–	–	2
John Redpath	13	2	1	–	3
Michael Kershaw	14	2	1	–	3

Note 1. Helen Keays was appointed on 6 July 2011.

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 maintaining an 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 website (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 13 October 2011. 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
29 August 2011

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 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 December 2010, the FSA published a revised code of practice on remuneration policies ("the FSA Code") to take into account changes required by the Capital Requirements Directive. The FSA Code requires firms to apply remuneration policies, practices and procedures that are consistent with and promote effective risk management.

The FSA Code applies directly to all banks, building societies and Capital Adequacy Directive ("CAD") investment firms. The Code does not apply to insurers or "Exempt CAD" firms, such as the Company. However, 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 FSA Code might be regarded as best practice and hence 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.

During the financial year ended 31 May 2010 the Remuneration Committee undertook 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. The recommendations of this review have been taken into account although, as explained below, the introduction of a Long Term Incentive Plan has been delayed until the financial year ending 31 May 2013.

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

For the year ended 31 May 2011, each executive director is entitled to a contractual annual award, which is conditional upon the Group's and their own performance meeting certain criteria, summarised as follows:

(a) An award in respect of actual profit achieved up to target profit ("Corporate award"); and
(b) An award calculated taking into account the achievement of personal objectives during the relevant period of assessment ("Personal bonus").

For the year ending 31 May 2012, which is a transitional year before the full introduction of the LTIP, short–term incentive arrangements have been simplified to a single all–corporate award. The additional award will be in respect of actual profit achieved compared to target profit. The payment of corporate award at its maximum level is dependent on significant outperformance of the Board's approved forecast for the period.

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 ordinary shares in the Company. The maximum entitlement of any individual is 1.07%. The options are exercisable at £1.32 per share prior to their expiry on 31 May 2015. Options over 3.99% of the Company's share capital were in issue under the Share Option Plan at 31 May 2011.

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 3.76% of its share capital. The maximum entitlement of any individual is 0.48%. The options are exercisable at various prices, depending upon the date the options were granted.

The options are 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. At the last AGM, shareholders approved the introduction of the Mattioli Woods 2010 EMI Option Plan ("the EMI Plan") and the Mattioli Woods 2010 Long–Term Incentive Plan ("the LTIP").

It was intended that nil–cost options would be granted under the EMI Plan to each participant over ordinary shares with a value at grant of up to £120,000, with any further grants to any individual made through the LTIP. However, following the publication of draft legislation in December 2010 designed to block arrangements which used employee benefit trusts ("EBTs") to defer or avoid income tax or national insurance contributions, no awards were made under the EMI Plan or LTIP during the year. Previously, there would have been no tax on individuals until they had shares distributed to them by the EBT. Under the proposed legislation, tax will be charged when shares are acquired by an EBT for a conditional award-based plan.

Consequently, the Remuneration Committee is reviewing the most appropriate structure, with a view to introducing a revised LTIP not later than in the year ending 31 May 2013. In doing so the Remuneration Committee has, on an exceptional basis, been mindful of the current tax treatment of pension contributions, and it is intended that a significant proportion of any awards made to the executive directors' under the Company's employee incentive arrangements for the year ending 31 May 2012 may be satisfied in this way. The Remuneration Committee has also been mindful that all the executive directors' current equity participation in the Company is of a quantum that creates a long term strategic focus.

Directors' remuneration

Directors' remuneration payable in respect of the year ended 31 May 2011 was as follows:

Director	Basic salary and fees £	Performance related bonuses £	Pension contributions £	Benefits[1,2] £	**Total emoluments 2011 £**	Total emoluments 2010 £
Ian Mattioli	165,000	177,500	83,500	–	**426,000**	396,000
Bob Woods	165,000	117,500	66,500	–	**349,000**	359,000
Nathan Imlach	150,000	56,250	58,750	2,223	**267,223**	280,000
Murray Smith	120,000	45,000	91,000	10,370	**266,370**	231,244
Mark Smith	100,000	55,000	10,000	2,316	**167,316**	178,850
John Redpath	30,000	–	–	–	**30,000**	25,000
Michael Kershaw	30,000	–	–	–	**30,000**	23,500

Note 1. The benefit package of each Executive Director includes the provision of life assurance under a group scheme.
Note 2. The benefit packages of Nathan Imlach, Murray Smith and Mark Smith include the provision of a company car.

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, Michael Kershaw and Helen Keays 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 minimum 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. However, the Remuneration Committee may, on an exceptional basis, award additional corporate pension contributions to an executive director as part of its ongoing review of executive remuneration arrangements.

Directors' shareholdings

As at 31 May 2011, 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	**2011 No.**	**%**	2010 No.	%
Ian Mattioli	**3,623,703**	**20.61**	3,627,554	20.91
Bob Woods	**3,623,703**	**20.61**	3,624,117	20.89
Murray Smith	**255,382**	**1.45**	253,882	1.46
Nathan Imlach	**175,732**	**1.00**	174,228	1.00
Mark Smith	**66,518**	**0.38**	65,018	0.37
Michael Kershaw	**14,500**	**0.08**	14,500	0.08
John Redpath	**13,000**	**0.07**	13,000	0.07

Note: Directors' shareholdings include any shareholdings of trusts or family members deemed to be connected person

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 2010 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	**At 31 May 2011 No.**
Murray Smith	(a)	1.32	95,250	–	–	–	**92,250**
	(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**
Nathan Imlach	(a)	1.32	95,250	–	–	–	**95,250**
	(b)	1.32	29,750	–	–	–	**29,750**
			125,000	–	–	–	**125,000**

Notes:
(a) Approved options
(b) Unapproved options

The options are exercisable prior to 31 May 2015. Note 19 to the financial statements contains a detailed schedule of all options granted to directors and employees as at 31 May 2011. All of the share options were granted for nil consideration.

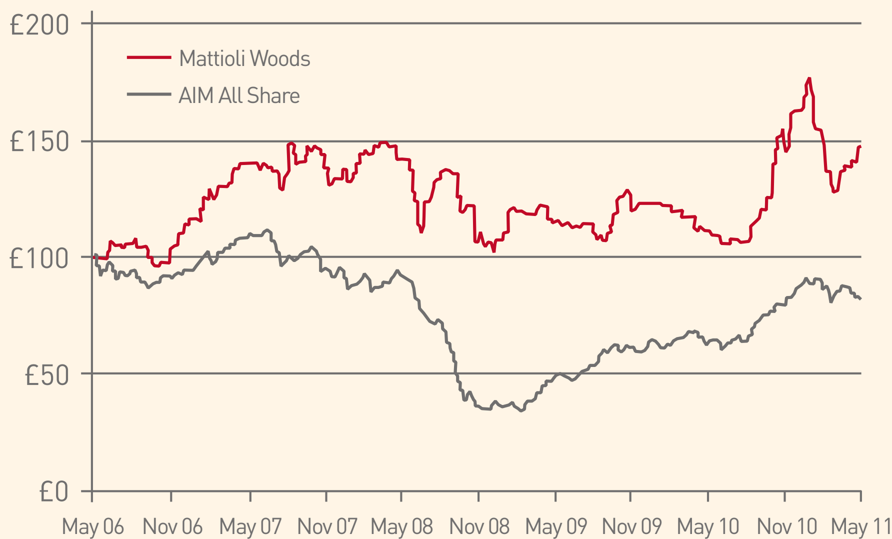
The mid-market closing price of the Company's ordinary shares at 31 May 2011 was 279p and the range during the financial year was 205p to 343p.

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

The only change in the directors' shareholdings (all of which are beneficial) and their share options between 31 May 2011 and 29 August 2011 was in respect of contributions to the Mattioli Woods plc Share Incentive Plan made by Nathan Imlach, Murray Smith and Mark Smith.

Total shareholder return performance graph

The graph below illustrates the total shareholder return for the five years ended 31 May 2011 in terms of the change in value of an initial investment of £100 invested on 1 June 2006 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
29 August 2011

Independent auditors' report to the members of Mattioli Woods plc

We have audited the Group and parent company financial statements ("the financial statements") on pages 37 to 92. 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 auditor

As more fully explained in the Directors' Responsibilities Statement on pages 23 to 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("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/private.cfm

Opinion on 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 2011 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

29 August 2011

Consolidated statement of comprehensive income

For the year ended 31 May 2011	Note	2011 £	2010 £
Revenue	4	**15,363,474**	13,678,033
Employee benefits expense	11	**(7,911,763)**	(6,908,691)
Other administrative expenses		**(2,208,133)**	(1,865,220)
Share based payments	19	**(142,454)**	(161,957)
Amortisation	16	**(381,256)**	(324,110)
Depreciation	15	**(219,705)**	(169,397)
Loss on disposal of property, plant & equipment		**(10,830)**	(22,528)
Operating profit before financing		**4,489,333**	4,226,130
Finance revenue	8	**59,304**	43,659
Finance costs	9	**(357)**	(116)
Net finance revenue		**58,947**	43,543
Profit before tax		**4,548,280**	4,269,673
Income tax expense	12	**(1,219,344)**	(1,265,590)
Profit for the year		**3,328,936**	3,004,083
Other comprehensive income for the year, net of tax		**–**	–
Total comprehensive income for the year, net of tax		**3,328,936**	3,004,083
Attributable to:			
Equity holders of the parent		**3,328,936**	3,004,083
Earnings per ordinary share:			
Basic (pence)	13	**18.94**	17.20
Diluted (pence)	13	**17.94**	16.38
Proposed total dividend per share (pence)	14	**4.95**	4.35

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 £3,327,346 (2010: £3,004,083).

Statement of financial position

Registered number: 3140521

As at 31 May 2011

	Note	**Group 2011 £**	**Company 2011 £**	Group 2010 £	Company 2010 £
Assets					
Property, plant and equipment	15	**934,708**	**854,419**	733,463	733,463
Intangible assets	16	**12,939,389**	**10,688,954**	11,050,274	11,050,274
Deferred tax asset	12	**210,788**	**210,788**	127,069	127,069
Investments	17	**15**	**2,483,215**	15	41,684
Total non-current assets		**14,084,900**	**14,237,376**	11,910,821	11,952,490
Trade and other receivables	20	**7,611,845**	**7,301,650**	5,662,881	5,662,561
Financial assets	21	**873,569**	**873,569**	–	–
Cash and short-term deposits	22	**4,612,689**	**4,062,244**	5,790,292	5,789,143
Total current assets		**13,098,103**	**12,237,463**	11,453,173	11,451,704
Total assets		**27,183,003**	**26,474,839**	23,363,994	23,404,194
Equity					
Issued capital	23	**175,840**	**175,840**	173,473	173,473
Share premium	23	**6,289,891**	**6,289,891**	5,918,314	5,918,314
Other reserves	23	**2,764,132**	**2,764,132**	2,552,579	2,552,579
Retained earnings	23	**12,872,187**	**12,871,673**	10,336,920	10,337,996
Total equity attributable to equity holders of the parent		**22,102,050**	**22,101,536**	18,981,286	18,982,362
Non-current liabilities					
Trade and other payables	25	**120,000**	**120,000**	120,000	120,000
Deferred tax liability	12	**522,559**	**222,678**	251,181	251,181
Provisions	26	**325,721**	**300,721**	329,598	329,598
Total non-current liabilities		**968,280**	**643,399**	700,779	700,779
Current liabilities					
Trade and other payables	25	**3,248,381**	**2,865,612**	2,532,508	2,571,632
Income tax payable		**584,766**	**584,766**	689,088	689,088
Provisions	26	**279,526**	**279,526**	460,333	460,333
Total current liabilities		**4,112,673**	**3,729,904**	3,681,929	3,721,053
Total liabilities		**5,080,953**	**4,373,303**	4,382,708	4,421,832
Total equities and liabilities		**27,183,003**	**26,474,839**	23,363,994	23,404,194

The financial statements on pages 37 to 92 were approved by the board of directors and authorised for issue on 29 August 2011 and are signed on its behalf by:

Ian Mattioli
Chief Executive

Nathan Imlach
Finance Director

Statements of changes in equity

For the year ended 31 May 2011

Group	Issued capital (Note 23) £	Share premium (Note 23) £	Equity share based payments (Note 23) £	Capital redemption reserve (Note 23) £	Retained earnings (Note 23) £	Total equity £
As at 1 June 2009	172,855	5,769,149	456,341	2,000,000	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	552,579	2,000,000	10,336,920	18,981,286
Profit for the period	–	–	–		3,328,936	3,328,936
Total comprehensive income	–	–	–	–	3,328,936	3,328,936
Issue of share capital	2,367	371,577	–	–	–	373,944
Share–based payment transactions	–	–	82,699	–	–	82,699
Current tax taken to equity	–	–	56,081	–	–	56,081
Deferred tax asset taken to equity	–	–	72,773	–	–	72,773
Dividends	–	–	–	–	(793,669)	(793,669)
As at 31 May 2011	**175,840**	**6,289,891**	**764,132**	**2,000,000**	**12,872,187**	**22,102,050**

For the year ended 31 May 2011

Company	Issued capital (Note 23) £	Share premium (Note 23) £	Equity share based earnings (Note 23) £	Capital redemption reserve (Note 23) £	Retained earnings (Note 23) £	Total equity £
As at 1 June 2009	172,855	5,769,149	456,341	2,000,000	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	552,579	2,000,000	10,337,996	18,982,362
Profit for the period	–	–	–		3,327,346	3,327,346
Total comprehensive income	–	–	–	–	3,327,346	3,327,346
Issue of share capital	2,367	371,577	–	–	–	373,944
Share-based payment transactions	–	–	82,699	–	–	82,699
Current tax taken to equity	–	–	56,081	–	–	56,081
Deferred tax asset taken to equity	–	–	72,773	–	–	72,773
Dividends	–	–	–	–	(793,669)	(793,669)
As at 31 May 2011	**175,840**	**6,289,891**	**764,132**	**2,000,000**	**12,871,673**	**22,101,536**

Cash flow statements

For the year ended 31 May 2011	Note	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Operating activities					
Profit for the period		**3,328,936**	**3,327,346**	3,004,083	3,004,083
Adjustments for:					
Depreciation	15	**219,705**	**206,079**	169,397	169,397
Amortisation	16	**381,256**	**336,293**	324,110	324,110
Investment income	8	**(59,304)**	**(59,166)**	(43,659)	(43,659)
Interest expense	9	**357**	**357**	116	116
Loss on disposal of property, plant and equipment		**10,830**	**10,830**	22,528	22,528
Equity-settled share based payments	19	**142,454**	**142,454**	161,957	161,957
Income tax expense	12	**1,219,344**	**1,254,995**	1,265,590	1,265,590
Cash flows from operating activities before changes in working capital and provisions		**5,243,578**	**5,219,188**	4,904,122	4,904,122
Increase in trade and other receivables		**(1,828,596)**	**(1,639,090)**	(504,411)	(504,460)
Increase/(decrease) in trade and other payables		**452,117**	**399,572**	(543,210)	(540,510)
Decrease in provisions		**(80,910)**	**(80,910)**	(7,463)	(7,463)
Cash generated from operations		**3,786,189**	**3,898,760**	3,849,038	3,851,689
Interest paid		**(357)**	**(357)**	(116)	(116)
Income taxes paid		**(1,342,684)**	**(1,342,684)**	(1,139,229)	(1,139,229)
Net cash flows from operating activities		**2,443,148**	**2,555,719**	2,709,693	2,712,344
Investing activities					
Proceeds from sale of property, plant and equipment		**17,057**	**17,057**	34,800	34,800
Purchase of property, plant and equipment	15	**(448,477)**	**(354,562)**	(321,554)	(321,554)
Purchase of software	16	**(96,750)**	**(95,625)**	(109,450)	(109,450)
Acquisition of subsidiaries	3	**(2,141,529)**	**(2,441,531)**	(105,500)	(105,500)
Cash received on acquisition of subsidiaries		**456,766**	**–**	–	–
Acquisition of businesses	3	**(108,481)**	**(108,481)**	(741,332)	(741,332)
New loans advanced to property syndicates	21	**(3,325,588)**	**(3,325,588)**	(614,784)	(614,784)
Loan repayments from property syndicates	21	**2,452,019**	**2,452,019**	735,176	735,176
Interest received		**59,304**	**59,165**	43,659	43,659
Net cash flows from investing activities		**(3,135,679)**	**(3,797,546)**	(1,078,985)	(1,078,985)
Financing activities					
Proceeds from the issue of share capital		**314,188**	**314,188**	76,923	76,923
Repayment of borrowings		**–**	**–**	–	–
(Repayment of)/proceeds from directors' loans	25	**(5,591)**	**(5,591)**	1,808	1,808
Dividends paid	14	**(793,669)**	**(793,669)**	(727,326)	(727,326)
Net cash flows from financing activities		**(485,072)**	**(485,072)**	(648,595)	(648,595)
Net increase in cash and cash equivalents		**(1,177,603)**	**(1,726,899)**	982,113	984,764
Cash and cash equivalents at start period	22	**5,790,292**	**5,789,143**	4,808,179	4,804,379
Cash and cash equivalents at end period	22	**4,612,689**	**4,062,244**	5,790,292	5,789,143

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 29 August 2011.

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 during the year:

International Accounting Standards	Effective date
Amendments to IFRS 3 Business Combinations	1 July 2009
Amendments to IAS 27 Consolidated and separate financial statements	1 July 2009
Amendments to IFRS 2 Group Cash–settled Share–based Payment Transactions	1 January 2010
Improvements to IFRS: 2007 – 2009 Annual Improvements	1 January 2010
Amendment to IAS 32 Reclassification of Rights Issues	1 February 2010

Adoption of the revised IFRS 3 resulted in £71,920 of acquisition costs being recognised in the income statement during the year. Previously, these costs would have been capitalised as part of the goodwill arising on acquisition. Adoption of the other 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 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 measurement of 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.

Amendments to IFRS 2 Group Cash–settled Share–based Payment Transactions

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 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.

Improvements to IFRS: 2007–2009 Annual Improvements

In April 2009, the IASB issued a collection of amendments to 10 IFRSs/IASs and two IFRICs, as its latest set of annual improvements.

Amendment to IAS 32 Reclassification of Rights Issues

In October 2009, the IASB issued an amendment to IAS 32 Financial Instruments: Presentation which addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

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 their expected useful lives. Expected future cash flows are estimated based on the historic revenues and costs associated with the operation of that client portfolio. 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.

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, which is based on the value of historic commission receipts and investments placed by clients under advice.

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.

Investments

The Group accounts for its investments in subsidiaries, associates and other investments using the cost model.

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. Where the Group reorganises its reporting structure in a way that changes the composition of one or more cash–generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected.

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.

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

Client portfolio	Date of acquisition	Estimated useful life
Mattioli Woods Pension Consultants ('the Partnership Portfolio')	2 September 2003	25 Years
Geoffrey Bernstein	20 June 2005	25 Years
Suffolk Life	27 January 2006	25 Years
PCL	10 July 2007	25 Years
JBFS	18 February 2008	25 Years
CP Pensions	30 April 2010	25 Years
City Pensions	9 August 2010	20 Years

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 between 20 and 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.

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

Goodwill

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

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

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 uncollectible.

Leases

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

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

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b). The Group has no lease arrangements that were entered into prior to 1 June 2005.

Group as a lessee

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

Cash and short–term deposits

Cash and short–term deposits in the balance sheet comprise cash at banks and in hand and short–term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and short–term deposits as defined above, net of outstanding bank overdrafts.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest–bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Provisions

General

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

Commissions received on indemnity terms

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

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.

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 13).

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.

Dividend recognition

Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are declared and paid, or if earlier, in the accounting period when the dividend is approved by the Company's shareholders at the Annual General Meeting.

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 IFRS Interpretations Committee (formerly "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.

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.

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.

International Accounting Standards	Effective date
Limited exemption amendment to IFRS 1 First–time Adoption of International Financial Reporting Standards	1 July 2010
Annual Improvements to IFRS	Various
Amendments to IFRS 7 Disclosures—Transfers of Financial Assets	1 July 2011
Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First–time adopters	1 July 2011
Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets	1 January 2012
IFRS 9 Financial Instruments	1 January 2013
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS13 Fair Value Measurement	1 January 2013
IAS 27 Separate Financial Statements (as amended 2011)	1 January 2013
IAS 28 Investments in Associates and Joint Ventures (as amended 2011)	1 January 2013

International Financial Reporting Interpretations Committee	Effective date
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 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 intercompany balance repayments made by Lighthouse prior to completion. CPL provides pension administration services, primarily to SSAS and SIPP schemes, and CTL acts as trustee to the schemes.

The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of City Trustees for the 10-month period from the acquisition date. The fair value of the identifiable assets and liabilities of City Trustees as at the date of acquisition was:

	Fair value recognised on acquisition (unaudited) £	Previous carrying value (unaudited) £
Client portfolio	1,198,324	–
Cash	456,766	456,766
Trade receivables	103,458	103,458
Other debtors and prepayments	16,909	16,909
Assets	1,775,457	577,133
Accruals	(89,462)	(65,515)
Other creditors and deferred income	(304,885)	(304,885)
Deferred tax liabilities	(335,531)	–
Liabilities	(729,878)	(370,400)
Total identifiable net assets at fair value	1,045,579	
Goodwill arising on acquisition	1,095,950	
Total acquisition cost	2,141,529	

Cash outflow on acquisition	Unaudited £
Cash paid	(2,141,529)
Acquisition costs	(71,920)
Net cash acquired with the subsidiary (included in cashflows from investing activities)	456,766
Net cash outflow	(1,756,683)

From the date of acquisition, City Trustees has contributed £10,877 to the profit of the Group, prior to amortisation of intangible assets arising on consolidation of £44,937. If the combination had taken place at the beginning of the period, the profit for the Group would have been £3,263,295 and revenue from continuing operations would have been £15,502,881.

The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of City Trustees with those of the Group, to be derived from the expertise of City Trustees' employees and synergies arising through economies of scale. These expected benefits are not capable of being separately identified as intangible assets. None of the recognised goodwill is expected to be deductable for income tax purposes.

Transaction costs of £71,920 incurred on the acquisition have been expensed and are included in administrative expenses in the income statement and operating cash flows in the statement of cash flows.

Deferred and contingent consideration

The Group has entered into certain acquisition agreements that provide for deferred and contingent consideration to be paid. While 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), these agreements and the basis of calculation of the net present value of the contingent consideration are summarised below.

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 £100,000 of deferred consideration to the vendors of the JB Group, plus a further £45,653 of contingent consideration following the year-end. The directors estimate the net present value of deferred and contingent consideration outstanding at 31 May 2011 was £nil (2010: £100,000) and £45,653 (2010: £185,511) respectively (see Notes 25 and 26).

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"). The total acquisition cost included deferred and contingent consideration of up to £600,000. Following the year-end, the Group paid £92,193 of deferred consideration to the vendor of CP Pensions. The directors estimate the net present value of deferred and contingent consideration outstanding at 31 May 2011 was £212,193 (2010: £300,000) and £150,000 (2010: £300,000) respectively (see Notes 25 and 26).

4. Revenue

Revenue disclosed in the income statement is analysed as follows:	**2011** **£**	2010 £
Rendering of services	**10,458,300**	8,338,525
Commission income	**4,905,174**	5,339,508
	15,363,474	13,678,033

No revenue was derived from exchanges of goods or services (2010: £nil).

5. Seasonality of operations

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 believe the seasonality of operations is becoming less significant.

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.

6. Segment reporting (continued)

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	
	2011 £	2010 £	**2011 £**	2010 £	**2011 £**	2010 £	**2011 £**	2010 £
Total revenue	**8,965,601**	7,347,665	**4,905,174**	5,339,508	**1,492,699**	990,860	**15,363,474**	13,678,033
Results								
Employee benefits expense (including share based payments)	**(6,267,904)**	(5,134,082)	**(1,015,034)**	(991,604)	**(771,279)**	(944,962)	**(8,054,217)**	(7,070,648)
Other administrative expense	**(103,520)**	(95,312)	**(115,890)**	(82,370)	**(101,388)**	(22,906)	**(320,798)**	(200,588)
Segment results	**2,594,177**	2,118,271	**3,774,250**	4,265,534	**620,032**	22,992	**6,988,459**	6,406,797
Unallocated indirect overheads							**(2,499,126)**	(2,180,667)
Operating profit before financing							**4,489,333**	4,226,130
Net finance income							**58,947**	43,543
Profit before tax							**4,548,280**	4,269,673
Income tax expense							**(1,219,344)**	(1,265,590)
Net profit for the period							**3,328,936**	3,004,083

Total segment assets

The table below compares total segment assets as at 31 May 2011 and 31 May 2010:

	2011 **£**	2010 £
Pension consultancy and administration	**5,961,763**	4,548,853
Investment planning	**807,337**	579,292
Property syndicates	**1,446,738**	325,888
Total segment assets	**8,215,838**	5,454,033
Property plant and equipment	**934,708**	733,463
Intangible assets	**12,939,389**	11,050,274
Deferred tax	**210,788**	127,069
Investments	**15**	15
Prepayments and other receivables	**269,576**	208,848
Cash and short term deposits	**4,612,689**	5,790,292
Total consolidated assets	**27,183,003**	23,363,994

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 2011 £	Associates of Baker Tilly UK Audit LLP 2011 £	**Total 2011 £**	Total 2010 £
Audit of the financial statements	30,850	–	**30,850**	27,000
Other fees to auditors:				
– taxation services	–	8,850	**8,850**	9,280
– corporate finance services	–	35,283	**35,283**	25,000
– interim financial statements	6,116	–	**6,116**	5,750
– other services	–	–	**–**	7,599
	36,966	44,133	**81,099**	74,629

8. Finance revenue

	2011 £	2010 £
Bank interest receivable	**59,304**	43,659

9. Finance costs

	2011 £	2010 £
Bank loans and overdrafts	**357**	**116**

10. Operating profit

Included in operating profit before financing:	**2011** **£**	2010 £
Depreciation (Note 15)	**219,705**	169,397
Amortisation of intangible assets (Note 16)	**381,256**	324,110
Minimum lease payments recognised as an operating lease expense (Note 27)	**356,598**	288,768

11. Employee benefits expense

The average monthly number of employees during the year was:	2011 No.	2010 No.
Directors	**5**	5
Consultants	**20**	19
Administrators	**98**	82
Support staff	**76**	64
	199	170

Staff costs for the above persons were:	2011 £	2010 £
Wages and salaries	**6,607,504**	6,006,669
Social security costs	**781,449**	653,639
Pension costs and life insurance	**411,913**	152,857
Other staff costs	**110,897**	95,526
	7,911,763	6,908,691

In addition, the cost of share based payments disclosed separately in the income statement was £142,454 (2010:£161,957)

Directors' remuneration:	2011 £	2010 £
Emoluments	**1,226,159**	1,425,744
Company contributions to personal pension schemes	**309,750**	67,850
Gains made on exercise of share options	**–**	–
	1,535,909	1,493,594

The amounts in respect of the highest paid director are as follows:	2011 £	2010 £
Emoluments	**342,500**	380,000
Company contributions to personal pension schemes	**83,500**	16,000
	426,000	396,000

Five directors (2010: five) accrued benefits under personal pension schemes. During the year no share options were issued to directors (2010: nil) and no director exercised any share options (2010: nil).

12. Income tax

The major components of income tax expense for the years ended 31 May 2011 and 2010 are:

Consolidated income statement	**2011 £**	2010 £
Current income tax:		
Current income tax charge	**1,275,144**	1,269,087
Over provision in respect of prior period	**(1,404)**	–
Tax losses surrendered by subsidiary	**(35,378)**	–
Deferred income tax:		
Relating to origination and reversal of temporary differences:		
– Current year	**18.995**	(3,497)
Relating to effect of change in the standard rate of tax	**(38,013)**	–
Income tax expense reported in the income statement	**1,219,344**	1,265,590

Factors affecting the tax charge for the period

The tax charge assessed for the period is lower than the standard rate of corporation tax in the UK of 27.7% (2010: 28.0%). The differences are explained below:

	2011 £	2010 £
Accounting profit before income tax	**4,548,280**	4,269,673
Multiplied by the standard rate of corporation tax in the UK of 27.7% (2010: 28.0%)	**1,259,874**	1,195,508
Effects of:		
Expenses not deductible for tax purposes	**37,884**	56,730
(Recoverable)/Irrecoverable deferred tax on share options	**(18,425)**	13,352
Over provision in respect of prior period	**(1,404)**	–
Tax losses surrendered by subsidiary	**(38,391)**	–
Effect of change in the standard rate of tax	**(20,194)**	–
Current tax charge for the period	**1,219,344**	1,265,590
Effective income tax rate	**26.8%**	29.6%

Deferred Income Tax

Deferred income tax at 31 May 2011 relates to the following:

Group	2011 £	2010 £
Deferred income tax liability		
Temporary differences on acquisition intangibles	**(522,559)**	(251,181)
Deferred income tax asset		
Temporary differences on accelerated capital allowances	**(102,537)**	(82,278)
Temporary differences on share based payments	**313,325**	209,347
	210,788	127,069
Deferred tax (liabilities)/assets net	**(311,771)**	(124,112)
Reflected in the balance sheet as follows:		
Deferred tax assets	**210,788**	127,069
Deferred tax liabilities	**(522,559)**	(251,181)
Deferred tax (liabilities)/assets net	**(311,771)**	(124,112)

Company	**2011 £**	2010 £
Deferred income tax liability		
Temporary differences on acquisition intangibles	**(222,678)**	(251,181)
Deferred income tax asset		
Temporary differences on accelerated capital allowances	**(102,537)**	(82,278)
Temporary differences on share based payments	**313,325**	209,347
	210,788	127,069
Deferred tax (liabilities)/assets net	**(11,890)**	(124,112)
Reflected in the balance sheet as follows:		
Deferred tax assets	**210,788**	127,069
Deferred tax liabilities	**(222,678)**	(251,181)
Deferred tax (liabilities)/assets net	**(11,890)**	(124,112)

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2010 or 2011.

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

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

The recognition of deferred tax in the income statement arises from the origination and the reversal of temporary differences and the effects of changes in tax rates. The primary component of the deferred tax credit for the year ended 31 May 2011 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 2011.

For the year ended 31 May 2011, current tax recognised directly in equity was £56,081 (2010: £nil) and deferred tax recognised directly in equity was £72,773 (2010: £7,141 recognised).

13. 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:

	2011 £	2010 £
Net profit and diluted net profit attributable to equity holders of the Company	**3,298,135**	3,004,083
Weighted average number of ordinary shares:	**Thousands**	Thousands
Issued ordinary shares at start period	**17,347**	17,286
Effect of shares issued during the year ended 31 May 2010	**–**	55
Effect of shares issued during the year ended 31 May 2011	**232**	124
Basic weighted average number of shares	**17,579**	17,465
Effect of options exercisable at the balance sheet date	**979**	875
Diluted weighted average number of shares	**18,558**	18,340

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 7.75% of its issued share capital (see Note 19). 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 2011 the conditions attached to 426,140 options granted under the Consultants' Share Option Plan are not satisfied. If the conditions had been satisfied, diluted earnings per share would have been 17.58p per share (2010: 15.83p).

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.

14. Dividends paid and proposed

	2011 £	2010 £
Declared and paid during the year:		
Equity dividends on ordinary shares:		
– Final dividend for 2010: 2.90p (2009: 2.75p)	**503,864**	476,053
– Interim dividend for 2011: 1.65p (2010: 1.45p)	**289,805**	251,273
Dividends paid	**793,669**	727,326
Proposed for approval by shareholders at the AGM:		
Final dividend for 2011: 3.30p (2010: 2.90p)	**596,168**	503,864

15. Property, plant and equipment

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
Additions	127,408	71,199	249,870	448,477
Disposals	(706)	–	(80,518)	(81,224)
At 31 May 2011	**439,435**	**691,267**	**501,038**	**1,631,740**
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
Charged for the year	56,386	80,222	83,097	219,705
On disposals	(33)	–	(53,664)	(53,697)
At 31 May 2011	**211,670**	**344,016**	**141,346**	**697,032**
Carrying amount:				
At 31 May 2011	**227,765**	**347,251**	**359,692**	**934,708**
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
Additions	73,845	30,847	249,870	354,562
Disposals	(706)	–	(80,518)	(81,224)
At 31 May 2011	**391,095**	**649,264**	**501,038**	**1,541,397**
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
Charged for the year	47,949	75,033	83,097	206,079
On disposals	(33)	–	(53,664)	(53,697)
At 31 May 2011	**208,456**	**337,176**	**141,346**	**686,978**
Carrying amount:				
At 31 May 2011	**182,639**	**312,088**	**359,692**	**854,419**
At 31 May 2010	157,416	356,274	219,773	733,463
At 31 May 2009	132,035	314,288	192,311	638,634

16. Intangible assets

Group	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 consideration	–	–	–	(79,290)	(79,290)
At 31 May 2010	166,874	491,719	7,123,956	4,454,828	12,237,377
Additions	83,927	12,823	–	–	96,750
Arising on acquisitions	–	–	1,198,324	1,095,949	2,294,273
Disposals	–	(436)	–	–	(436)
Adjustment to JB Group consideration	–	–	–	(120,293)	(120,293)
At 31 May 2011	**250,801**	**504,106**	**8,322,280**	**5,430,484**	**14,507,671**
Amortisation and impairment:					
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**
Amortisation during the year	–	51,363	329,893	–	381,256
Disposals	–	(77)	–	–	(77)
At 31 May 2011	**–**	**228,690**	**1,339,592**	**–**	**1,568,282**
Carrying amount:					
At 31 May 2011	**250,801**	**275,416**	**6,982,688**	**5,430,484**	**12,939,389**
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

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 consideration	–	–	–	(79,290)	(79,290)
At 31 May 2010	166,874	491,719	7,123,956	4,454,828	12,237,377
Additions	83,927	11,698	–	–	95,625
Disposals	–	(436)	–	–	(436)
Adjustment to JB Group consideration	–	–	–	(120,293)	(120,293)
At 31 May 2011	**250,801**	**502,981**	**7,123,956**	**4,334,535**	**12,212,273**
Amortisation and impairment:					
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
Amortisation during the year	–	51,336	284,957	–	336,293
Disposals	–	(77)	–	–	(77)
At 31 May 2011	**–**	**228,663**	**1,294,656**	**–**	**1,523,319**
Carrying amount:					
At 31 May 2011	**250,801**	**274,318**	**5,829,300**	**4,334,535**	**10,688,954**
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.

The costs of internal software developments are capitalised where they are recognised as having an economic value that will extend into the future. Internally generated software capitalised to date represents the development cost of the Group's bespoke pension administration platform, "MWeb". The directors believe MWeb will be the principal pension administration platform used throughout the Group for the foreseeable future. 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 between 20 and 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 18).

17. Investments

	Group £	Company £
Investments in subsidiaries		
At 1 June 2009	–	41,667
Additions	–	2
At 31 May 2010	–	41,669
Additions	–	2,441,531
At 31 May 2011	**–**	**2,483,200**
Other investments		
At 1 June 2009, 31 May 2010 and 31 May 2011	15	15
Total at 31 May 2011	**15**	**2,483,215**

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	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 ("PCL")	Ordinary shares	100%	Dormant
PC Trustees Limited (held by PCL)	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 Ltd)	Ordinary shares	100%	Property management
CP SSAS Trustees Limited	Ordinary shares	100%	Trustee company
CP SIPP Trustees Limited	Ordinary shares	100%	Trustee company
City Pensions Limited	Ordinary and preference shares	100%	Pension administration
City 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 sale agreements ("the Agreements") to acquire freehold land with vacant possession (the "Development Land").

The Agreements lapsed on 1 December 2010 because planning approval had not been granted on the Development Land. The directors of Mainsforth are considering disposing of all work-in-progress relating to the proposed development and subsequently repaying outstanding shareholder loans, including £55,000 owed to the Company.

18. Impairment of goodwill and intangibles with indefinite lives

Goodwill arising on acquisitions has historically been allocated to the cash-generating units comprising the acquired businesses, being those arising on the transfer of the partnership to the limited company; the acquisition of PCL; and the acquisition of the JB Group. However, as each of the acquired businesses have been integrated and managed on a unified basis post–acquisition, it is more appropriate to allocate goodwill to two cash-generating units for impairment testing, as follows:

	Mattioli Woods plc £	City Pensions Limited £	Total £
Company			
At 1 June 2009	4,534,118	–	4,534,118
Adjustment to JB Group consideration	(79,290)	–	(79,290)
At 31 May 2010	**4,454,828**	**–**	**4,454,828**
Adjustment to JB Group consideration	(120,293)	–	(120,293)
At 31 May 2011	**4,334,535**	**–**	**4,334,535**
Group			
At 1 June 2009	4,534,118	–	4,534,118
Adjustment to JB Group consideration	(79,290)	–	(79,290)
At 31 May 2010	4,454,828	–	4,454,828
Arising on consolidation	–	1,095,949	1,095,949
Adjustment to JB Group consideration	(120,293)	–	(120,293)
At 31 May 2011	**4,334,535**	**1,095,949**	**5,430,484**

Intangible assets believed to have an indefinite useful life are carried at cost. The recoverable amount of the goodwill arising on Mattioli Woods plc and City Pensions Limited is based on a fair value less costs to sell calculation. The closing share price of the Group on 31 May 2011 was 279p, giving a market capitalisation of £49.1m. Comparing this to the net asset value of the cash-generating units identified above, the directors believe the value of goodwill is not impaired at 31 May 2011. This accounting treatment resulted in an impairment loss of £nil (2010: £nil).

19. 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 ordinary shares in the Company at an exercise price of £1.32, equal to the placing price of the shares issued on 15 November 2005. The options vested when profit–based performance conditions were fulfilled. The contractual life of each option expires on 31 May 2015. At 31 May 2011 the total number of options outstanding and exercisable under the Share Option Plan was 701,851 (2010: 875,000).

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. Options granted under the Consultants' Share Option Plan are summarised as follows:

Date of grant	Exercise price £	At 1 June 2010 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	**At 31 May 2011 No.**
5 September 2006	2.21	255,684	–	–	(21,307)	**234,777**
4 September 2007	2.79	255,684	–		–	**255,684**
8 September 2009	2.16	170,456	–	–	–	**170,456**
		681,824	–	–	(21,307)	**660,517**

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. During the year 234,377 options vested when the associated performance conditions were fulfilled. If the 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.

	2011 No.	2011 WAEP £	2010 No.	2010 WAEP £
Outstanding as at 1 June	**1,556,824**	**1.80**	1,386,368	1.76
Granted during the year	**–**	**–**	170,456	2.16
Exercised	**(173,419)**	**1.32**	–	–
Forfeited during the year	**(21,307)**	**2.21**	–	–
Outstanding at 31 May	**1,362,098**	**1.85**	1,556,824	1.80
Exercisable at 31 May	**935,958**	**1.54**	875,000	1.32

For the share options outstanding as at 31 May 2011, the weighted average remaining contractual life is 5.4 years (2010: 6.3 years). The WAEP for options outstanding at the end of the year was £1.85 (2010: £1.80).

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 share price at 31 May 2011 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 63,226 new ordinary shares were issued to the 87 employees who participated in the SIP during the year. At 31 May 2011, 181,531 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 2011 is £82,699 (2010: £89,097), 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 2011 is £59,755 (2010: £72,860), which entirely arises from equity–settled share based payment transactions.

20. Trade and other receivables (current)

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Trade receivables	**3,298,369**	2,668,919	**3,036,555**	2,668,968
Other receivables	**102,009**	67,634	**120,179**	67,265
Prepayments and accrued income	**4,211,467**	2,926,328	**4,144,916**	2,926,328
	7,611,845	5,662,881	**7,301,650**	5,662,561

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. As at 31 May 2011, the nominal value of trade receivables impaired and fully provided for, and movements in the provision for impairment of receivables were as follows:

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
As at 1 June	**395,135**	301,899	**395,135**	301,899
Charge/(release) for year	**10,127**	54,858	**(5,171)**	54,858
Acquired on acquisition	**79,548**	38,378	**–**	38,378
At 31 May	**484,810**	395,135	**389,964**	395,135

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
	£	£	£	£	£	£
2011	**3,298,369**	**1,249,039**	**967,654**	**265,376**	**216,316**	**599,984**
2010	2,668,919	676,902	901,516	307,971	159,370	623,160

21. Financial assets (current)

Financial assets (current) for the Group and Company of £873,569 (2010: £nil) 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.

22. Cash and short-term deposits

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

		Group		Company
	2011	2010	**2011**	2010
	£	£	**£**	£
Cash at banks and on hand	**3,418,318**	5,283,798	**3,287,873**	5,282,649
Short-term deposits	**1,194,371**	506,494	**774,371**	506,494
	4,612,689	5,790,292	**4,062,244**	5,789,143

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 £4,612,689 (2010: £5,790,292).

At 31 May 2011, the Group had available £3,000,000 (2010: £3,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

23. Issued capital and reserves

Share capital	Ordinary shares of 1p	Ordinary shares of 1p £
Authorised		
At 1 June 2009, 31 May 2010 and 31 May 2011	**30,000,000**	**300,000**
Issued and fully paid		
At 1 June 2009	17,285,525	172,855
Shares issued under the SIP	61,787	618
At 31 May 2010	17,347,312	173,473
Exercise of employee share options	173,419	1,735
Shares issued under the SIP	63,226	632
At 31 May 2011	**17,583,957**	**175,840**

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 19).

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 in any year. At the directors' discretion, the Company may also award additional 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.

Other reserves Group	Equity–share based payments £	Share premium account £	Capital redemption reserve £	Retained earnings £
At 1 June 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
Share based payments	82,699	–	–	–
Shares issued under the SIP	–	144,398	–	–
Exercise of share options	–	227,179	–	–
Current tax taken to equity	56,081	–	–	–
Deferred tax asset taken to equity	72,773	–	–	–
Profit for the financial year	–	–	–	3,328,936
Dividends	–	–	–	(793,669)
At 31 May 2011	**764,132**	**6,289,891**	**2,000,000**	**12,872,187**

Company	Equity–share based payments £	Share premium account £	Capital redemption reserve £	Retained earnings £
At 1 June 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
Share based payments	82,699	–	–	–
Shares issued under the SIP	–	144,398	–	–
Exercise of share options	–	227,179	–	–
Current tax taken to equity	56,081	–	–	–
Deferred tax asset taken to equity	72,773	–	–	–
Profit for the financial year	–	–	–	3,327,346
Dividends	–	–	–	(793,669)
At 31 May 2011	**764,132**	**6,289,891**	**2,000,000**	**12,871,673**

24. 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:

Cash flows from operating activities	**Group 2011 £**	**Company 2011 £**	Group 2010 £	Company 2010 £
Cash receipts from customers	**13,534,877**	**13,055,071**	13,173,622	13,173,573
Cash paid to suppliers and employees	**(9,748,688)**	**(9,156,311)**	(9,324,584)	(9,321,884)
Cash generated from operations	**3,786,189**	**3,898,760**	3,849,038	3,851,689

25. Trade and other payables

Trade and other payables (current)	**Group 2011 £**	Group 2010 £	**Company 2011 £**	Company 2010 £
Trade payables	**120,249**	167,383	**117,628**	167,383
Other taxation and social security	**1,011,148**	547,955	**963,961**	547,955
Other payables	**44,470**	12,386	**46,661**	51,510
Accruals and deferred income	**1,980,321**	1,524,784	**1,645,169**	1,524,784
Deferred consideration	**92,193**	280,000	**92,193**	280,000
	3,248,381	2,532,508	**2,865,612**	2,571,632

Other payables include directors' loans of £3,037 (2010: £8,628). For terms and conditions relating to related party loans, refer to Note 29. Terms and conditions of the other financial liabilities set out above are as follows:

- Trade payables are non-interest bearing and are normally settled on 30-day terms;
- Other taxation and social security 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 26).

Trade and other payables (non-current)	**Group 2011 £**	Group 2010 £	**Company 2011 £**	Company 2010 £
Deferred consideration	**120,000**	120,000	**120,000**	120,000
	120,000	120,000	**120,000**	120,000

26. Provisions

Group	Client claims £	Contingent consideration £	Dilapidations £	Clawbacks £	Employees' NIC on share options £	Total £
At 1 June 2010	142,500	493,991	85,000	33,903	34,537	789,931
Arising during the year	59,000	–	–	–	31,184	90,184
Acquisitions (Note 3)	–	–	25,000	–	–	25,000
Used during the year	–	(8,481)	–	(1,530)	–	(10,011)
Unused amounts reversed	–	(289,857)	–	–	–	(289,857)
At 31 May 2011	**201,500**	**195,653**	**110,000**	**32,373**	**65,721**	**605,247**
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
Current 2011	**201,500**	**45,653**	**–**	**32,373**	**–**	**279,526**
Non–current 2011	**–**	**150,000**	**110,000**	**–**	**65,721**	**325,721**
At 31 May 2011	**201,500**	**195,653**	**110,000**	**32,373**	**65,721**	**605,247**

Company	Client claims £	Contingent consideration £	Dilapidations £	Clawbacks £	Employees' NIC on share options £	Total £
At 1 June 2010	142,500	493,991	85,000	33,903	34,537	789,931
Arising during the year	59,000	–	–	–	31,184	90,184
Used during the year	–	(8,481)	–	(1,530)	–	(10,011)
Unused amounts reversed	–	(289,857)	–	–	–	(289,857)
At 31 May 2011	**201,500**	**195,653**	**85,000**	**32,373**	**65,721**	**580,247**
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
Current 2011	**201,500**	**45,653**	**–**	**32,373**	**–**	**279,526**
Non–current 2011	**–**	**150,000**	**85,000**	**–**	**65,721**	**300,721**
At 31 May 2011	**201,500**	**195,653**	**85,000**	**32,373**	**65,721**	**580,247**

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 £45,653 (2010: £283,930).

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 provided for deferred consideration of £640,000 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. The Group calculates the net present value of the contingent consideration to be £45,653, using cashflow projections approved by the board covering the contingent consideration period. No discount rate has been applied to the cash flow projections, due to their very short–term.

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 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. While 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 £150,000, using cash flows 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%.

Under the terms of the lease for the Group's 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 flow projections is 5.0%.

In October 2010 the Group entered into an agreement to lease premises at 210 High Holborn, London. The Group has an obligation to return the property to a specified condition at the end of the lease term in 2016. The Group estimates the net present value of the cost of dilapidations on the property to be £25,000. The discount rate applied to the cash flow projections is 5.0%.

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 2011 was £32,373 (2010: £33,903). No discount rate is applied to the projected cash flows due to their short term nature.

27. 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. A second lease for part of the ground floor of Gateway House has a duration of 10 years, from 1 December 2009. For both leases, the amount of annual rental is to be reviewed at the end of the fifth year.

The Group has also entered into a commercial lease for its premises at 210 High Holburn, London, which has a duration of five years, from 6 October 2010. The annual rental of £79,068 will not be reviewed.

As part of the acquisition of the JB Group, the Group acquired operating lease obligations for certain office equipment.

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	**2011 £**	2010 £	**2011 £**	2010 £
Not later than one year	**3,754**	3,754	**382,093**	294,725
After one year but not more than five years	**–**	1,844	**1,317,523**	1,178,900
More than five years	**–**	–	**1,878,793**	2,344,994
	3,754	5,598	**3,578,409**	3,818,619

Operating lease charges during the year were £308,552 (2010: £282,864) for land and buildings and £5,584 (2010: £5,904) for office equipment.

Capital commitments

At 31 May 2011 the Group had no capital commitments (2010: £nil).

28. Pension costs

The Group makes discretionary payments into the personal pension schemes of employees and contributions are charged in the income statement as they become payable. The charge for the period was £363,381 (2010: £105,247).

29. 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 £117,025 during the year. At the year-end the Group had prepaid future rentals of £9,017.

Key management personnel receive compensation in the form of short–term employee benefits and equity compensation benefits (see Note 11). Key management personnel, representing the executive directors and six (2010: six) other executives, received total compensation of £2,115,921 for the year ended 31 May 2011 (2010: £2,028,680). Total remuneration is included in "employee benefits expense" and analysed as follows:

	2011 £	2010 £
Short–term employee benefits	**1,780,871**	1,900,637
Post–employment benefits	**335,050**	76,100
Share–based payments	**–**	51,943
	2,115,921	2,028,680

At 31 May 2011, Ian Mattioli was owed £5,611 (2010: £6,215) and Robert Woods was due £2,575 (2010: owed £2,413) by the Group. These directors' loans carry no coupon and have no fixed repayment date.

30. Financial risk management

Financial assets principally comprise trade and other receivables, cash and short–term deposits, which arise directly from its operations. Financial liabilities comprise certain provisions and trade and other payables. The main risks arising from financial instruments are market risk (including interest rate risk, foreign exchange risk and price risk), credit risk, and liquidity risk. Each of these risks is discussed in detail below.

The Group monitors financial risks on a consolidated basis, with its financial risk management based upon sound economic objectives and good corporate practice. No hedging transactions have taken place during the years presented.

Market risk

(a) Interest rate risk

Interest rate risk is the risk that the Group will sustain losses from adverse movements in interest bearing assets. There is an exposure to interest rates on banking deposits held in the ordinary course of business and short–term loans advanced to property syndicates. At 31 May 2011 the value of financial instruments on the Group balance sheet exposed to interest rate risk was £5,486,258 (2010: £5,790,292) comprising cash and cash equivalents. This exposure is monitored to ensure that the Group is maximising its interest earning potential within accepted liquidity and credit constraints. The Group has no external borrowings and as such is not exposed to interest rate or refinancing risk on borrowings. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are also made for varying periods of between one day and 12 months depending on the immediate cash requirements of the Group and earn interest at the respective fixed term deposit rates.

A source of revenue is based on the value of client cash under administration. The Group has an indirect exposure to interest rate risk on these cash balances held for clients. These balances are not on the Group balance sheet. At 31 May 2011 the Group had entered into certain fixed term deposits subject to a period of between six and 12 months with the Bank of Scotland plc, which govern the application of a pricing mechanism to be used in the calculation of credit interest rates the Bank of Scotland plc pays to the Group. If during the term of a fixed term deposit the aggregate of client deposits held under the arrangement falls below the aggregate of all unexpired fixed term deposits, the Group is obliged to pay breakage costs equivalent to the costs incurred by Bank of Scotland plc in breaking any of the hedging arrangements it has entered into to make any uncovered unexpired fixed term deposit available. The Group's liability is capped 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.

The following table demonstrates the sensitivity to a 100bps (1%) 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 £
2011		
£ Sterling	+100	117,890
£ Sterling	–100	(117,890)
2010		
£ Sterling	+100	87,090
£ Sterling	–100	(87,090)

(b) Foreign exchange translation and transaction risk
Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates. With all of the Group's business located within the UK, the Group is not exposed to foreign exchange translation or transaction risk and does not hedge any foreign current assets or liabilities.

(c) Price risk
Price risk is the risk that a decline in the value of assets adversely impacts the profitability of the Group as a result of an asset not meeting its expected value. The Group is exposed to price risk on corporate investments held on the Group balance sheet. At 31 May 2011, the fair value of investments recognised on the Group balance sheet was £15 (2010: £15). Any move in the value of these investments would not have a material impact on the Group balance sheet or results.

As trailing (or funds based) commission revenues are based on the value of client assets under administration, the Group has an indirect exposure to security price risk on investments held by clients. These assets are not on the Group balance sheet. The risk of lower revenues is partially mitigated by asset class diversification. The Group does not hedge its revenue exposure to movements in the value of client assets arising from these risks, and so the interests of the Group are aligned to those of its clients.

Credit risk

The Group trades only with recognised, creditworthy third parties. 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.

Credit risk from the other financial assets of the Group, which comprise cash and cash equivalents and property syndicate loans, 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 a syndicate fails to raise sufficient funds to complete a property purchase, the Group may either take up ownership of part of the property or lose some, or all, of the loan. To mitigate this risk, loans are only approved by the board under strict criteria, including independent professional advice confirming the market value of the underlying property.

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and leases. The table below summarises the maturity profile of the Group's financial liabilities at 31 May 2010 and 2011 based on contractual undiscounted payments:

Year ended 31 May 2011	On demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	> 5 years £	Total £
Trade and other payables	–	3,248,381	–	–	–	3,248,381
	–	3,248,381	–	–	–	3,248,381

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	–	2,252,508	280,000	–	–	2,532,508
	–	2,252,508	280,000	–	–	2,532,508

Capital management

The primary objective of the Group's capital management is to ensure it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Group manages the capital structure and makes adjustments to it in 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 an Exempt Capital Adequacy Directive ("Exempt CAD") Firm. As such, the Company is required to maintain own funds of at least £10,000 (2010: £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 £86,172 (2010: £83,664) of own funds at all times.

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 £96,172 (2010: £93,664) 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 Expenditure Based Requirement of 8/52 of its relevant annual expenditure, calculated in accordance with IPRU(INV);
- An amount equal to £400 multiplied by the number of its advisers; and
- £10,000.

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

The Group policy, which remains unchanged from the year ended 31 May 2010, 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 2010 and 2011 were as follows:

Gearing	**2011** **£**	2010 £
Trade and other payables	**3,368,381**	2,652,508
less: Cash and short-term deposits	**(4,612,689)**	(5,790,292)
Net (cash)/debt	**(1,244,308)**	(3,137,784)
Share capital	**175,840**	173,473
Share premium	**6,289,891**	5,918,314
Fair value and other reserves	**2,764,132**	2,552,579
Retained earnings:		
– At 1 June	**10,336,920**	8,060,163
– Retained earnings for period	**2,535,267**	2,276,757
Capital	**22,102,050**	18,981,286
Gearing ratio:		
Net debt/capital	**(5.6%)**	(16.5)%

31. Financial instruments

Fair values

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

Interest rate risk

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

Year ended 31 May 2011	<1 year £	1–2 years £	2–3 years £	3–4 years £	4–5 years £	>5 years £	Total £
Floating rate							
Financial assets (current)	873,569	–	–	–	–	–	873,569
Cash assets	4,612,689	–	–	–	–	–	4,612,689
Bank overdrafts	–	–	–	–	–	–	–

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	–	–	–	–	–	–	–

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

Credit risk

The only significant concentrations of credit risk relate 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 2011, 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.

32. Events after the balance sheet date

Acquisition of TCF and Kudos

On 26 August 2011, Mattioli Woods plc acquired the entire share capital of TCF Global Independent Financial Services Limited ("TCF") and its subsidiary Kudos Independent Financial Services Limited ("Kudos") from its shareholders for a total consideration of up to £8.69 million, to be satisfied partly in cash and partly through the issue of 462,572 new ordinary shares of 1p each in Mattioli Woods. The cash consideration is payable in part on completion and in part over the period of three years following completion, subject to certain earnings and revenue targets being met.

TCF is the holding company of Kudos, an employee benefits and wealth management business founded in 1991. Based in Aberdeen, Kudos employs 45 staff with offices in Glasgow and London, providing advice to both high net worth individuals and companies on all aspects of financial planning.

In the year ended 30 September 2010, Kudos generated a profit before taxation of £534,817 on revenues of £4,257,891. At 30 September 2010 TCF's net assets (equivalent to Kudos' net assets at the same date) were £1,278,061.

The total consideration consists of an initial consideration of £3.94 million, comprising £2.75 million in cash and 462,572 ordinary shares in Mattioli Woods, plus deferred consideration of up to £4.75 million payable in cash in the three years following completion if certain financial targets are met based on growth in recurring revenues and earnings before interest, tax, depreciation and amortisation generated during the three years following completion.

As a result of the date of acquisition, the directors are unable to provide the disclosure requirements of IFRS3 relating to acquisitions after the end of the reporting period but before the financial statements are authorised for issue.

Taxation

In July 2011 the UK government enacted tax changes which will have a significant effect on the Group's future tax position. The rate of UK corporation tax will reduce from 27% to 26% from 1 April 2012, 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.

There are also changes to the UK capital allowances regime, which take effect from 1 April 2012.

33. Ultimate controlling party

The Company has no controlling party.

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
Helen Keays	–	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:
Canaccord Genuity Limited
Cardinal Place
80 Victoria Street, 7th Floor
London SW1E 5JL

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
Charnwood House
Harcourt Way, Meridian Business Park
Leicester LE19 1WF

Bank of Scotland plc
1 Lochrin Square
92 Fountainbridge
Edinburgh EH3 9QA

Registrars:
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Financial calendar

30 August 2011	Preliminary announcement of results for the year ended 31 May 2011
7 September 2011	Ex-dividend date for ordinary shares
9 September 2011	Record date for final dividend
13 October 2011	Annual General Meeting
18 October 2011	Payment of final dividend on ordinary shares