Mattioli Woods plc

PENSIONS & WEALTH MANAGEMENT

Annual Report 2012

"Mattioli Woods is positioning its business to deliver comprehensive wealth management to affluent clients across the UK, centred on their retirement planning needs. Increasingly, we are both provider and adviser, a new and different approach designed to better meet clients' requirements."

Bob Woods, Chairman, Mattioli Woods plc.
See page 6 for the Chairman's statement.

Financial highlights

- Revenue up 33.3% to £20.48m (2011: £15.36m)
- Recurring revenues represent 63.2% (2011: 67.5%)
- Adjusted EPS[1,2] up 4.0% to 22.02p (2011: 21.17p)
- Adjusted profit before tax[2] up 2.2% to £5.06m (2011:£4.95m)
- Proposed total dividend up 12.1% to 5.55p (2011: 4.95p)
- Strong financial position with net cash at period end of £5.14m (2011: £4.61m)

Operational highlights and recent developments

- Assets under administration and advice up 31.3% to £3.02bn (2011: £2.30bn)
- Strong client retention
- Earnings enhancing acquisition of Kudos in August 2011
- Group consultancy team now numbers 52 (2011: 23)
- Appointed operator of The Pilgrim SIPP in June 2012
- Joanne Lake appointed as Non-Executive Director in July 2012
- Launch of portfolio management service in August 2012

1 Basic EPS down 9.4% to 17.11p (2011: 18.89p).
2 Before acquisition costs expensed under IFRS3 (Revised), amortisation and impairment of intangible assets other than computer software.

Financial Calendar

29 August 2012	Announcement of final results for the year ended 31 May 2012
5 September 2012	Ex-dividend date for ordinary shares
7 September 2012	Record date for final dividend
18 October 2012	Annual General Meeting
23 October 2012	Payment of final dividend on ordinary shares

HIGHLIGHTS

Revenue (£m)

£20.48m
+33.3%

2012	20.48
2011	15.36

Adjusted profit before tax[2] (£m)

£5.06m
+ 2.2%

2012	5.06
2011	4.95

Adjusted EPS (pence) [1,2]

22.02p
+ 4.0%

2012	22.02
2011	21.17

Proposed total dividend (pence)

5.55p
+ 12.1%

2012	5.55
2011	4.95

1 Basic EPS down 9.4% to 17.11p (2011: 18.89p).
2 Before acquisition costs expensed under IFRS3 (Revised), amortisation and impairment of intangible assets other than computer software.

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 administration, employee benefits and wealth management. Our clients include controlling directors, professionals, executives, owner-managed businesses, small to medium-sized enterprises and PLCs, who entrust us with over £3.0 billion of assets under administration and advice.
We provide services to over 4,000 self-invested personal pension ("SIPP") and small self-administered pension scheme ("SSAS") clients throughout the UK.

Our objective is to grow our business both organically and by acquisition, and to deliver strong, sustainable shareholder returns over the long term. We plan to continue developing complementary services around our core specialisms, extending the Group's operations and building on our reputation for high quality service and advice.

Company overview

Business review

Governance

Financial statements

LONG TERM CLIENT RELATIONSHIPS

Our aim is to provide trusted advice, high service standards and personalised delivery.

MATIOLI WOODS

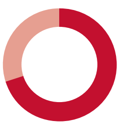
Mattioli Woods plc
PENSIONS & WEALTH MANAGEMENT

Mattioli Woods' core business is the provision and administration of self-invested personal pensions and small self-administered schemes. Our client base primarily comprises owner managers, senior executives and members of the professions.

By building long-term client relationships, our aim is to provide trusted advice, high service standards and personalised delivery. We provide integrated services, incorporating pension consultancy, with a strong focus on self-investment and employee benefits. Our wealth management services embrace pensions and personal investment, coupled with estate planning.

Principal functions include:

Self-invested personal pension schemes (SIPP)
Small self-administered schemes (SSAS)
Employee benefits
Personal wealth management



70%
Group revenue

2,073 SIPPs
1,260 SSASs

CITY TRUSTEES

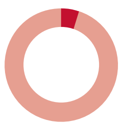
City Trustees
A MATTIOLI WOODS PLC COMPANY

City Trustees is a specialist pension provider focused on the fully bespoke self-invested pension market. City Trustees distributes its products exclusively via independent financial advisers, wealth managers and other intermediaries. As an independent trustee and pension administrator established in 1996, City Trustees is a well-established business, which also benefits from the strength of being part of the Mattioli Woods Group.

Core to its product offering is a professional and personalised service, which starts with each client having their own dedicated account manager to deal with the day-to-day administration of their scheme in a proactive fashion.

Principal functions include:

SIPP
SSAS
Family SIPP
International pensions
Intermediary investment products



5%
Group revenue

894 SIPPs
118 SSASs

KUDOS FINANCIAL SERVICES

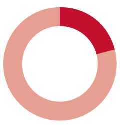
Kudos Financial Services

Established in 1991, Kudos is one of the largest financial services businesses in Scotland. Kudos has built a reputation for quality advice and service, with an ability to provide clear, concise, and innovative ideas to clients and professional introducers. We take a long-term approach of fully understanding clients' needs, wants and aspirations, and then prioritising their objectives.

The Kudos corporate teams specialise in employee benefits consultancy and due diligence, assisting employers to deliver benefits across health, risk and workplace savings, as well as designing and implementing flexible benefit schemes and employee communication strategies. The wealth management division designs bespoke tax-efficient investment solutions, often in conjunction with trust planning around inheritance tax mitigation, providing advice on pre and post-exit planning for business owners and advice on all other aspects of personal financial planning.

Principal functions include:

Due diligence
Employee benefits consultancy
Wealth management



21% Group revenue

20 year history

£732m AuAA[3]

3 Assets under Administration and Advice

CUSTODIAN CAPITAL

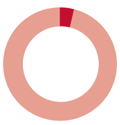
Custodian Capital
DIRECT PROPERTY OWNERSHIP

Custodian Capital is a property investment and management business, which provides a structure for SIPP, SSAS and private investors to build individual diversified portfolios of directly-owned, institutional-grade, commercial property assets, in small denomination investments.

Over the last nine years, the business has developed a nationwide property portfolio with an aggregate value over £110 million and more than 1,000 individual investors.

Principal functions include:

Property investment
Property management
Property consultancy



4% Group revenue

1,000+ investors

£110m+ portfolio

FLEXIBILITY AND CONTROL

We provide integrated services for individuals, embracing pension consultancy; personal investment and estate planning. For corporate clients, we provide a comprehensive range of employee benefits services.

Self-invested personal pensions

We have been at the forefront of the fast-growing self-invested personal pension marketplace since 1995 and act as professional trustees, administrators and consultants. A SIPP provides clients with a high degree of flexibility and full control of all aspects of their pension planning. A SIPP can allow diversification through a wide range of investments, including commercial property, equities, cash deposits and the ability to undertake client-related transactions.

www.mattioli-woods.com/services/sipp

Small self-adminstered schemes

A small self-administered scheme is an occupational scheme, typically set up by a limited company for the benefit of its controlling directors and senior management. A SSAS provides considerably greater flexibility and control over the scheme's investments, with the ability to invest in a vast range of assets and investment vehicles, including the client's own business, either through the purchase of shares, loanbacks or the purchase of company premises.

www.mattioli-woods.com/services/ssas

Employee benefits

We offer our clients specialist consultancy on group pension arrangements, from the complexities of final salary schemes, through to defined contribution schemes and wider employee benefits. We recommend, operate and administer schemes on a global basis, providing advice on life cover, medical insurance, salary protection, rewards and lifestyle-related benefits.

www.kifs.co.uk

Sarah Thi, Investment Manager

Personal wealth management

In addition to our distinct pension investment services, our management of clients' wealth includes strategic planning in relation to personal assets. We also facilitate ancillary advisory services on a range of areas including taxation, overseas pensions (QNUPS, QROPS) and estate planning. In managing our clients' wealth, we aim to remain impartial and deliver investment strategies through a tightly controlled but diverse portfolio of investment instruments, with proactive ongoing management in ever-changing investment markets.

www.mattioli-woods.com/services/personal-wealth-management

Syndicated property investment

Syndication gives clients access to high quality prime property, with strong underlying tenants and lease terms. Custodian Capital now manages a commercial property portfolio containing assets in excess of £110 million. Our property syndicate structure allows investors to build a diversified portfolio of institutional-grade assets that produce a stable long-term income stream, with protection against inflation.

See page 14

Structured products

We seek to provide structured products that offer a high level of capital security, but with attractive returns correlated with the performance of various investment markets. Clients are encouraged to invest in relatively small denominations over time. In this way, they can build a portfolio providing a high level of capital security, with returns linked to the performance of some of the most exciting investment markets around the world and an income stream created by a rolling profile of maturities, with the typical product term being around five years.

See page 16

Portfolio management

Portfolio management is a tailored investment management service designed in response to our clients' needs and reflecting how the investment world continues to evolve rapidly. In a complex investment marketplace with a multitude of funds, our portfolio management service provides clients with an investment solution, actively managed by a dedicated team of investment managers and researchers, delivered by a team of consultants to ensure the management of the portfolio meets each clients' investment objectives.

See page 9

Support for intermediaries

Fundamental to our success is a structure that enables us to provide a tailored technical and professional service to both our clients and our introducers. Each of our professional connections is allocated to an experienced consultant, or business development manager, who is their first point of contact for any enquiries.

We look at ways we can work with intermediaries to enhance and support their existing relationships. As well as offering ongoing technical support on existing and new legislation, our team is available to assist with innovative solutions that interact with any client planning that may already be in place.

To keep our professional contacts updated on changes in pension legislation, as well as the challenges and opportunities that arise from them, we run nationwide seminar programmes specifically tailored for accountants, IFAs and solicitors. We also produce frequent newsletters and e-bulletins, highlighting topical economic news with comment and investment opportunities.

www.mattioli-woods.com/services/support-for-intermediaries

A SOUND PLATFORM FOR GROWTH

It is pleasing that our investment strategies have proved to be resilient in difficult market conditions. We continue to enjoy strong demand for both our syndicated property and structured product investment initiatives.

I am delighted to report another 12 months of strong progress for the Group, delivering both organic and acquired growth despite challenging economic conditions. Mattioli Woods is positioning its business to deliver comprehensive wealth management to affluent clients across the UK, centred on their retirement planning needs. Increasingly, we are both provider and adviser, a forward-looking and innovative approach designed to better meet clients' needs in a sector which historically has sometimes disappointed its market. This duality enables the Group to optimise its revenues, whilst providing cost-effective services to clients.

Kudos Independent Financial Services Limited ("Kudos"), acquired in August 2011, has bedded-in well and extended our range of both employee benefit and wealth management services. In addition, we launched our new discretionary portfolio management service with clients earlier this month.

The Group is now better positioned than ever to secure further profitable growth, underpinned by strong recurring revenues.

I am also pleased to report our reputation for technical excellence has served us well and City Pensions Limited ("City Pensions") was recently appointed to take over the operation of The Pilgrim SIPP by Bank of Scotland plc. The Pilgrim SIPP has total estimated scheme assets of over £100.0m and I expect the operation of this scheme to make a positive contribution to our results in the current financial year.

Market overview

There is much focus on the impact of the Retail Distribution Review ("RDR"), which the Financial Services Authority ("FSA") has scheduled to take effect from 1 January 2013. The RDR requires advisers' qualifications to be at a much higher level and bans commissions paid by product providers in return for recommending their savings and investment products. I welcome this move to greater professionalism within the sector and believe it will enhance the Group's status in supporting our longstanding fee-based model.

I anticipate that in the coming months interest rates will remain at historic lows and weak investment returns will be an even more powerful driver for change as investors focus increasingly on seeking-out best value. This will provide real challenges for the industry and will attract people towards businesses, such as Mattioli Woods, which can deliver cost efficiency and added-value services to its clients.

Exemplifying this, I am excited about the launch of our portfolio management service, which provides a more cost effective and efficient investment process for our clients and enhanced recurring revenue streams for ourselves.

"I remain enthused about the opportunities now open to the enlarged Group, with our portfolio management service taking centre stage in the development of our wealth management proposition. I believe our billing model and advisory approach give us the resilience to continue growing the business and I am confident we can build upon our record of growth going forward."

Bob Woods
Executive Chairman

Assets under administration and advice

Our total assets under administration and advice increased by 31.3% to £3.02bn at 31 May 2012 (2011: £2.30bn), with £0.53bn of assets brought in on the acquisition of Kudos.

	31 May 2012 £m	31 May 2011 £m
SSAS	**1,193.2**	1,221.7
SIPP	**919.4**	888.6
Funds Under Trusteeship	**2,112.6**	2,110.3
Employee benefits	**575.4**	149.9
Personal assets	**328.7**	44.2
Assets under administration and advice[4]	**3,016.7**	2,304.4

It is pleasing that our investment strategies have proved to be resilient in difficult market conditions. We continue to enjoy strong demand for both our syndicated property and structured product investment initiatives and I expect to see a greater number of new wealth management enquiries following our rebranding last autumn and the launch of our portfolio management service.

4 Note certain pension scheme assets, including clients' own commercial properties, are only subject to a statutory valuation at a benefit crystallisation event.

Strategy and acquisitions

Our business is structured to deliver comprehensive wealth management to affluent clients across the UK, centred on their retirement planning needs. Our services include pension consultancy and administration, discretionary and advisory investment management and employee benefits advice.

We plan to continue expanding Mattioli Woods' operations, both organically and by acquisition. Kudos has been earnings enhancing in the year of acquisition and extends both our employee benefit and wealth management propositions, giving us the ability to do more for our existing client base.

During the year we have further integrated the City Pensions business acquired in 2010, relocating the administration function to our Leicester offices in March 2012. City Pensions' sales team has been strengthened through the appointment of a new business development manager and I expect further growth in third party administration revenues in the current financial year.

Staff

I would like to thank all our staff for their continued commitment, enthusiasm and professionalism in dealing with our clients' affairs. I am particularly pleased with the development of our consultancy team and our training programme supports the attainment of those qualifications required to maintain our momentum following the introduction of RDR.

For many years we have run a successful graduate training programme, but identified that there is considerable talent that may not always fit this profile. This year, we have launched a new apprenticeship scheme, giving opportunities to school leavers and people who have taken an alternative route through education or work. The programme has been a resounding success, with four new apprenticeships created to date and an existing member of staff also undertaking a business administration apprenticeship programme.

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 ("the Plan"). I am delighted the number of eligible staff currently investing via the Plan has increased to 55% (2011: 48%) and I hope to see broader participation following the launch of our flexible benefits platform earlier this year.

PORTFOLIO MANAGEMENT

In 2012, we launched our new portfolio management service. This marks an exciting development of the Group's wealth management division and sits at the heart of our investment services. Portfolio management enables equity and bond portfolios to be actively managed to ensure they are positioned to take full advantage of market opportunities and, equally importantly, avoid adverse conditions as far as possible.

The past few years have demonstrated just how volatile investment markets can be, and in a complex marketplace, portfolio management will provide clients with an actively managed approach. It will deliver a more efficient investment process enabling appropriate adjustments to be made almost instantly. Furthermore, it will deliver cost savings in the management of equity and bond investments, and even greater cost savings in administration.

www.mattioli-woods.com/services/portfolio-management

Board changes

Helen Keays was appointed as a Non-Executive Director in July 2011, bringing her broad marketing experience to the board. Michael Kershaw stepped down from the board on 31 January 2012 and we thank him for his valuable contribution to the Group's growth over the last four years and wish him well for the future. The Nominations Committee initiated a search process to replace Michael and we were delighted to announce the appointment of Joanne Lake on 31 July 2012. Joanne's many years' experience as a corporate finance adviser to listed companies 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 2012 of 3.70 pence (2011: 3.30 pence) per ordinary share. If approved, the final dividend will be paid on 23 October 2012 to shareholders on the register at the close of business on 7 September 2012. This makes a proposed total dividend for the year of 5.55 pence per share (2011: 4.95 pence), a year-on-year increase of 12.1% (2011: 13.8%). The board remains committed to growing the dividend, while maintaining an appropriate level of dividend cover.

Outlook

Trading in the current period is in line with the Board's expectations. I believe we are well positioned to grow in the post-RDR world and we will continue to invest in our information technology and client-facing services to ensure we can take advantage of new opportunities as they arise.

I remain enthused about the opportunities now open to the enlarged Group, with our portfolio management service taking centre stage in the development of our wealth management proposition. I believe our billing model and advisory approach give us the resilience to continue growing the business and I am confident we can build upon our record of growth going forward.

Bob Woods
Chairman
28 August 2012

KUDOS

Kudos became part of the Mattioli Woods Group in August 2011 and is an advice-based business, providing wealth management and employee benefits services. For individuals, Kudos offers personal investment, estate planning and pension consultancy. For corporate clients, Kudos designs, implements and administers and a comprehensive range of employee benefits services across health, risk, workplace savings and flexible benefits.

During the period, Kudos won a number of significant new employee benefit mandates and operates schemes for companies ranging in size from 10 to 10,000 employees in the UK and internationally.

Kudos has been ranked by market leading IFA profiling database mytouchstone.co.uk as the leading provider in Scotland across all financial advice areas, with a number 1 position in corporate pensions. It has also ranked as third in the top 5 financial advice firms in Scotland by national publication, Professional Adviser magazine.

www.kifs.co.uk

Pictured left to right:
Adeline Christy (Director – Wealth Management),
Alan Fergusson (Director - Employee Benefits) and
Jim Tennent (Director - Due Diligence)

EXTENDING OUR REACH

Over the past few years, our focus has been on ensuring that we can continue to address our clients' changing needs, developing complementary services around our core markets and extending the Group's wealth management and employee benefits operations.

Introduction

I am delighted we have delivered another year of growth in both revenues and profits. Revenues in the year ended 31 May 2012 were up 33.3% to £20.48m (2011: £15.36m), with our most recent acquisition, Kudos delivering £4.27m of this increase. Adjusted earnings per share[5,6] increased by 4.0% and adjusted profit before tax[6] was up 2.2% compared with the prior year. As anticipated, we have seen a fall in margin as we continue to invest in the infrastructure of the business.

The Group continues to expand organically and by acquisition to pursue our strategy of developing a broader financial services business.

Over the past few years, our focus has been on ensuring that we can continue to address our clients' changing needs, developing complementary services around our core markets and extending the Group's wealth management and employee benefits operations. We will continue to invest to capitalise on our opportunities and to ensure the business is appropriately positioned to meet our clients' needs, as well as statutory and regulatory requirements.

I have previously pointed to the development of our business as being based upon the development of our people. I have always wanted to create a business that is not only profitable, but cares for its staff and offers them long-term career opportunities. I believe these values are as important as ever as we look to secure further growth.

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 that regulatory changes, particularly the RDR and increased regulatory capital requirements, will drive consolidation.

5 Basic EPS down 9.4% to 17.11p (2011: 18.89p).
6 Before acquisition costs expensed under IFRS3 (Revised), amortisation and impairment of intangible assets other than computer software.

Business objective and strategy

We operate at the higher end of our chosen markets, where we aim to deliver comprehensive wealth management to clients requiring bespoke service and specialist advice, centred on their retirement planning needs.

Our objective is to deliver profitable growth year-on-year, both organically and by acquisition, across our key markets of SIPP, SSAS, employee benefits and personal wealth.

Our goals over the next 12 months are to do this by:

- Attracting new clients;
- Promoting the Group's broadening range of products and services to existing clients;
- Securing strong client retention by delivering on our clients' expectations;
- Delivering more efficient investment services through our portfolio management service; and
- Investing in the development of our people and information technology platforms, to allow us to service increased business volumes at a lower cost.

Revenue streams

The Group's income is derived from five key revenue streams: direct pension consultancy and administration; third party administration; wealth management; property syndicates and employee benefits. In the year ended 31 May 2012 recurring revenues[7] represented 63.2% (2011: 67.5%) of total Group revenues.

Direct pension consultancy and administration

Mattioli Woods' core business is the provision and administration of SIPPs and SSASs, representing 39.9% (2011: 53.1%) of Group revenues, of which 86.4% (2011: 13.6%) are recurring. Revenues from these fee-based services were £8.17m (2011: £8.16m), with sustained demand for advice associated with changes in pension legislation and a positive contribution from the CP Pensions business acquired in April 2010.

"A key feature of our approach to wealth management is the impartial nature of our investment advice. We focus on providing solutions tailored to each individual client's needs, including access to our own bespoke products."

Ian Mattioli
Chief Executive

Our client base primarily comprises owner-managers, senior executives and members of the professions. Additional fees are generated from consultancy services provided for special one-off activities.

Our passion for delivering proactive, impartial advice, high service standards and individual care and attention has again been appreciated. In the first half of the financial year, against a backdrop of economic uncertainty caused by the Eurozone crisis, keeping clients informed and recommending the maintenance of defensive positions was welcomed by existing and prospective clients. The subsequent delivery of proactive advice on the repositioning of clients' retirement and investment strategies in the second half was also well received.

As anticipated, our core proposition saw stronger growth during the period, winning 310 (2011: 248) direct[8] SSAS and SIPP schemes in the year, representing 10.3% (2011: 8.4%) of schemes at the start of the year. We remain focused on maintaining the quality of new business, with an average new scheme value of over £0.37m (2011: £0.37m). We continue to enjoy strong client retention and, net of expected losses on acquired portfolios, achieved a 3.5% (2011: 2.7%) overall increase in the number of direct schemes administered at the year-end. Our external loss rate[9] was 5.2% (2011: 4.3%) and the overall attrition rate[10] increasing to 6.2% (2011: 5.1%), partly as a result of recent acquisitions.

Wealth management

Wealth management revenues are generated from the placing of investments with banks and other financial institutions on behalf of clients of Mattioli Woods, Kudos and City Pensions. Revenues increased 47.4% to £6.62m (2011: £4.49m), with £1.21m of this increase representing Kudos' wealth management revenues during the period. Wealth management now represents 32.3% (2011: 29.2%) of total Group revenues, of which 48.4% (2011: 45.2%) are recurring.

7 Annual pension consultancy and administration fees; level, renewal and trail commissions; banking income and property syndicate annual management charges.
8 SSAS and SIPP schemes where Mattioli Woods acts as pension consultant and administrator.
9 Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the period.
10 Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period.

CUSTODIAN CAPITAL LIMITED

In October 2011, our property syndicate business was transferred to a separate subsidiary, Custodian Capital Limited, with a view to extending the service beyond our existing clients to a wider base of IFAs and wealth managers.

The business continues to follow the strategy of developing a portfolio of prime commercial or residential property, producing solid, long-term income.

During the year, eight new properties were secured for syndicates in a number of UK locations to the value of £12.6 million. These included property let to well-known tenants such as Royal Mail, Dreams and Tile Giant, Honda, Greggs, and Prezzo.

Direct property ownership can offer higher income returns and a greater degree of control than pooled property funds, without foregoing the benefits of diversification.

www.custodiancapital.com

Pictured: artists impression of Bluecoat House in Bath, let to Prezzo plc.

The repositioning of clients' retirement and investment strategies in the second half increased investment-related revenues, after our response to the Eurozone crisis had led to a controlled slowdown of investment activity in the first half. Within wealth management revenues:

- Structured product revenues were £0.96m (2011: £0.91m) with clients subscribing £32.2m (2011: £29.5m) in new capital protected bond issues, with a strong appetite amongst Mattioli Woods' clients for income-based plans; and
- Banking income increased 26.3% to £1.20m (2011: £0.95m), with clients of Mattioli Woods and City Pensions holding aggregate cash balances of £341.3m (2011: £363.6m) and £21.2m (2011: £23.2m) respectively at the year-end. In a difficult low interest rate environment, we have worked with our core banking partners to structure bank accounts offering better rates for our SIPP and SSAS clients, and were delighted to win the Best SME Treasury Solution award from national magazine, Treasury Today, at its Adam Smith Awards in June 2012.

Although the majority of our income streams are not directly dependent upon the performance of financial markets or the value of funds under administration and advice, movements in these can influence the appetite of our clients to make investments. The launch of our portfolio management service offers us a new recurring revenue stream, which is dependent upon the value of funds under management.

Employee benefits

Employee benefits can mean different things to different people. We define them as anything employers provide to their employees. Traditionally, this has meant a salary along with other benefits, such as pension, life cover, medical insurance, cover for salary while off ill and, of course, holidays. The new world means that these traditions are changing, and we see many employers who look at other, more flexible or lifestyle-related benefits for their employees.

The Group's employee benefit revenues saw a six-fold increase to £3.53m (2011: £0.59m) following the acquisition of Kudos, which has won a number of significant new employee benefit mandates during the period. Employee benefits revenues now represent 17.2% of total revenue (2011: 3.9%), of which 34.9% (2011: 59.1%) are recurring.

Kudos operates schemes for companies ranging in size from 10 to 10,000 employees across the UK and on a global basis for some clients with international operations.

Property syndicates

For a number of years, Mattioli Woods has facilitated direct commercial property ownership for its clients by way of a syndicated property initiative. We now administer £111.2m (2011: £98.1m) of property on our clients' behalf. With effect from 1 October 2011 this activity was transferred into a separate subsidiary, Custodian Capital Limited ("Custodian Capital"), to offer property syndicate investment to a broader client base.

Custodian Capital'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.

Property syndicate revenues were £1.39m (2011: £1.50m) or 6.8% of total revenue (2011: 9.8%), of which 62.6% (2011: 50.1%) represented recurring annual management charges. Clients invested £12.6m (2011: £16.3m) into eight (2011: eight) new syndicates that completed during the year, including two private syndicates. The total number of property syndicates using our administrative services at the year-end, including private syndicates, increased to 75 (2011: 67). Direct property ownership continues to appeal to clients attracted by the opportunity to develop a well-diversified portfolio of prime commercial property, delivering a long-term income stream with the possibility of capital growth.

Third party administration

In August 2010, we acquired City Pensions from Lighthouse Group plc. City Pensions and its trustee company, City Trustees Limited, trade as "City Trustees" with an excellent reputation for providing bespoke pensions administration coupled with first-rate client service.

A full year's contribution from City Pensions increased our fees for setting up and administering pension schemes under an administration-only model by 25.8% to £0.78m (2011: £0.62m). This represented 3.8% (2011: 4.0%) of total revenues, of which 74.4% (2011: 82.2%) are recurring.

To further integrate the City Pensions business, we relocated the administration function to our Leicester offices in March 2012. At the same time, the London sales team was strengthened through the appointment of a new business development manager.

We reported the Bank of Scotland plc's appointment of City Pensions as the new operator of The Pilgrim SIPP in June 2012 and I anticipate strong growth in third party administration revenues in the current financial year.

Regulatory environment

Financial Services Authority

Mattioli Woods is authorised and regulated by the FSA to provide investment advice, deal in investments as agent and to establish, operate and wind-up personal pension schemes, including SIPPs. The FSA's regulatory regime affords additional protection to clients through the capital adequacy requirements imposed on the providers of financial services. Throughout the period, we have complied with these requirements.

The government has embarked on major reforms to the UK financial services regulatory structure, following the recent financial crisis. The government intends to abolish the current system, including the FSA, and establish three new regulatory bodies: the Financial Policy Committee, the Prudential Regulation Authority (a subsidiary of the Bank of England), and the Financial Conduct Authority ("FCA") (essentially a new name for the FSA).

From March 2013 we expect to be regulated by the FCA, which will inherit the majority of the FSA's existing roles, other than responsibility for systemically important infrastructure, which will be transferred to the Bank of England. The government intends for the FCA to have a more proactive, interventionist approach, with the aim that actual or potential risks will be addressed before they crystallise. We welcome any regulatory change that builds a stronger system and allows well-resourced businesses like us to further differentiate themselves.

> "Our clients value our ability to deliver clear advice on the back of strong investment skills."

STRUCTURED PRODUCTS

Since 2005 we have developed a portfolio of structured products, complementary to our clients' investment needs. Our structured products are designed for clients to invest modest amounts sequentially to diversify both the underlying asset and counterparty risks, and market timing. Our products have ranged from kick-out plans linked to individual shares, to income and growth plans linked to specific indices.

This month, we were delighted to announce the early maturity of the Morgan Stanley US Technology Kick-out plan with the return of the initial investment plus a 15.4% growth payment, which we believe is a fantastic result considering the difficult economic and investment environment. The plan was designed exclusively for clients of Mattioli Woods and based on five US technology companies: Google, Apple, Microsoft, Intel and Oracle.

We believe structured products have an important role to play in investment planning and long-term savings.

www.mattioli-woods.com/services/structured-products

Review of Retail Distribution

Under RDR, new rules are scheduled to come into effect from 1 January 2013. The FSA's proposals mean all financial advisers 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 Group already provides clients with service and fee agreements at the outset and hence I do not expect the RDR to have any significant impact on the way we deal with our clients.

Firms are starting to ready themselves for the changes that will be required to their business models as they transition to the post-RDR world. We have an action plan in place to ensure we deliver on all of the new legislative requirements well in-advance of the deadline. However, we continue to see a number of independent financial advisers looking to exit the market, as smaller firms struggle to adapt to the new regulatory framework.

A key feature of our approach to wealth management is the impartial nature of our investment advice. We focus on providing solutions tailored to each individual client's needs, including access to our own bespoke products, and I believe our clients value our ability to deliver clear advice on the back of strong investment skills.

Under RDR, firms providing advice on retail investment products to retail clients will need to describe these services as either 'independent' or 'restricted'. We have developed our RDR plan over the last 24 months, taking into account that we are the provider of our own SIPPs and an investment adviser with a number of our own bespoke investment products. We will provide restricted advice in relation to these products and may provide restricted advice in other areas, as increasingly we become provider and adviser. The interpretation of parts of the RDR rules continues to be discussed within the industry and we have built flexibility into our plan, bearing in mind some commentators' speculation that further changes may be applied to the rules.

A large number 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 our existing advisers are on track to reach at least this level by the end of 2012.

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.

The Finance Act 2011 received Royal Assent on 19 July 2011 and brought with it substantial changes to the pensions tax regime, including:

- The introduction of a contribution limit of £50,000 per annum, with the ability to carry forward unused allowances from the previous three years;
- The reintroduction of full top-rate tax relief for all, including high-earners;
- A reduction in the lifetime allowance from £1.8m to £1.5m with effect from 6 April 2012;
- The removal of age 75 limits, abolishing 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; and
- The introduction of a new concept, '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 to support further growth in the market for member-directed pension schemes. However, within the SIPP sector we have seen some smaller firms struggling. We know from our own experience that The Freedom SIPP and The Pilgrim SIPP could no longer continue to provide appropriate services to their clients and there are other SIPP providers who have found themselves in a similar position. Many commentators expect these issues to lead to further consolidation within the sector.

Compliance

We consider all legislative changes and the findings of all FSA and HMRC reviews and, where appropriate, 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.

Current and future developments and performance

Group results

Revenues were up 33.3% to £20.48m (2011: £15.36m), with sustained demand for the Group's services. We are particularly pleased with the strong post-acquisition performance of Kudos, which contributed revenues of £4.27m during the year. The Group's revenue mix changed during the period, with further diversification of our key revenue streams as follows:

- 39.9% direct pension consultancy and administration (2011: 53.1%);
- 32.3% wealth management (2011: 29.2%);
- 17.2% employee benefits (2011: 3.9%);
- 6.8% property syndicate revenues (2011: 9.8%); and
- 3.8% third party administration (2011: 4.0%).

CITY TRUSTEES

City Trustees became part of the Mattioli Woods Group in August 2010. Its products are distributed exclusively via independent financial advisers, wealth managers and other intermediaries. It has an excellent reputation for providing bespoke pensions administration coupled with first-rate client service.

Key to the offering is the technical support and provision of solutions, which ensure that clients maximise their pension arrangements. City Trustees will consider all suitable investments and provide interpretation of legislation with clients' best interests at heart.

In the past year, we relocated the administration function of City Trustees to our Leicester offices to enhance our service levels, and our London sales office has been strengthened through the appointment of a new business development manager. In June 2012, The City Trustees team began to administer The Pilgrim SIPP, further to our appointment as the new scheme operator by Bank of Scotland plc.

www.citytrustees.co.uk

Pictured: City Trustees offices in High Holborn, London

Unadjusted EBITDA was flat at £5.11m (2011: £5.09m), with a fall in EBITDA margin to 25.0% (2011: 33.1%) as was anticipated, primarily as a result of an increase in acquisition related costs to £0.39m (2011: £0.07m) and a number of one-off costs during the year, including:

- £0.10m of costs associated with our re-branding exercise earlier in the year;
- £0.08m of costs associated with a client claim which the Group's professional indemnity insurers for the period from have declined to indemnify the Group for;
- £0.06m of employee benefits costs associated with the relocation of City Pensions' administration function from London to Leicester; and
- Financial Services Compensation Scheme ("FSCS") interim levy costs of £0.06m (2011: £0.12m).

In March 2012, the FSCS announced a second interim levy to remedy the cost of major investment failures in certain firms, primarily MF Global, Keydata Investments Services, CF Arch Cru and Wills and Co. There are industry concerns about the fairness and unpredictability of FSCS levies and the FSA is reviewing the FSCS's future funding arrangements.

The impact of one-off costs during the period was partially offset by the release of provisions for deferred and contingent consideration payable on the CP Pensions acquisition totalling £0.20m (2011: £0.24m), due to certain "stretch" performance targets not being met during the earn-out period.

To facilitate a like-for-like comparison with prior years, acquisition costs of £0.26m on the Kudos acquisition that completed during the year have been added back in calculating adjusted EBITDA and adjusted profit before tax. Adjusted EBITDA[11] increased 4.3% to £5.38m (2011: £5.16m), while adjusted EBITDA margin fell to 26.3% (2011: 33.6%). I anticipate we will see some further pressure on margins, with the impact of low interest rates and weak economic growth on investment returns putting stress on the total expense ratios incurred by clients. In the longer term, further investment in the Group's management information systems and technology will provide scope for future margin improvement and the delivery of even better client service.

Net finance revenue

Net finance revenues of £0.05m (2011: £0.06m) remain in line with low interest rates. 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.

Taxation

The effective rate of taxation on profit on ordinary activities fell to 26.3% (2011: 26.8%) due to cuts in the UK corporation tax rate. The net deferred taxation liability carried forward at 31 May 2012 was £2.12m (2011: £0.31m).

Earnings per share and dividend

Adjusted EPS[12] increased 4.0% to 22.02p (2011: 21.17p). Basic earnings per share fell by 9.4% to 17.11p (2011: 18.89p), primarily due to increased amortisation charges on acquired intangibles following recent acquisitions and one-off costs associated with the acquisition of Kudos earlier in the year. Diluted earnings per share fell 8.1% to 16.96p (2011: 18.45p), with a further 170,456 options issued under the Consultants' Share Option Plan vesting at the end of the period. A proposed increase of 12.1% in the total dividend for the year to 5.55p per share (2011: 4.95p) demonstrates our desire to deliver value to shareholders and confidence in the outlook for our business.

11 Adding back £0.26m of acquisition costs expensed under IFRS3 (Revised).
12 Before acquisition costs expensed under IFRS3 (Revised) and amortisation of intangible assets other than computer software.

Cash flow

Net cash generated from operations was £5.81m (2011: £3.79m) with EBITDA of £5.11m (2011: £5.09m). The Group conversion of EBITDA into operating cash flow improved to 113.7% (2011: 74.4%), primarily due to a change in sales mix, with invoiced revenues falling as a proportion of total revenues following the acquisition of Kudos and improved credit control, which saw headline trade receivable days fall to 67 days' sales (2011: 78 days). This, coupled with a £0.73m increase in trade and other payables (2011: £0.45m), created a cash inflow from working capital of £0.53m (2011: outflow of £1.38m).

Trade payable days increased to 41 days (2011: 20 days) with amounts owed to suppliers at the year-end higher than the prior year due to £0.24m of property syndicate insurance costs, payable by Custodian Capital and recharged to individual syndicates, being outstanding at the year end.

Capital expenditure for the year was £0.51m (2011: £0.55m), with the most significant costs being investment in new computer hardware and software and the purchase of entry-level company cars for new consultants following our significant expansion of the team. Further investment in the Group's management information systems and technology is planned over the next year, to enhance reporting and our clients' ability to review their affairs on-line.

Bank facilities

The Group has renewed its borrowing facilities with Lloyds TSB Bank plc ("Lloyds TSB"), which consist of a £5.0m overdraft facility with interest payable at the bank's base rate plus 1.1875% on the first £0.5m and plus 1.375% on borrowings in excess of £0.50m. The Lloyds TSB facility is repayable upon demand and renewable on 31 January 2013.

At 31 May 2012 the Group had unused borrowing facilities of £4.36m (2011: £3.00m).

Capital structure

The Group's capital structure is as follows:

	2012 £	2011 £
Net funds	**(5,130,094)**	(4,609,653)
Shareholders' equity	**25,468,553**	22,102,050
Capital employed	**20,338,459**	17,492,397

The Group has remained negatively geared, with the gearing ratio increasing from (5.6)% to (1.8)% as a result of Group trade and other payables of £4.69m (2011: £3.37m) and overdrafts of £0.65m (2011: nil) being higher than at the prior year-end.

Acquisitions

The acquisition of Kudos in August 2011 extended 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.

Our recent appointment to The Pilgrim SIPP was facilitated by our reputation for high quality administration and our ability to structure innovative solutions to the complex issues associated with a failing SIPP operator. We anticipate we may see more 'rescue' style takeovers, as the regulator and other SIPP operators look for solutions to existing problems.

Kelly-Jo Norrish, Technical Manager

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

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 financial markets. Maintaining capacity to take advantage of growing demand remains a key priority.

Through Mattioli Woods' comprehensive consultancy training programme, we created nine new consultancy roles during the year, which combined with the acquisition of Kudos increased our total number of consultants to 52. All our consultants have responsibility for bringing in new business and new clients to the Group.

We continue to invest in our graduate recruitment programme, with a total of 11 new graduates joining the Group (2011: 11). Our total headcount at the end of the period was 255 (2011: 206).

We also continue with the development of our bespoke pension administration system ("MWeb") and our management information systems. These improvements are designed to enhance the services we offer clients and realise operational efficiencies across the Group as a whole.

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 included in the Consolidated or Company statements of financial position. 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.

OUR PEOPLE: APPRENTICESHIPS

For many years Mattioli Woods has run a successful graduate programme, but identified there is considerable talent that may not always fit this profile. To bridge the gap, the business launched a new apprenticeship scheme in 2012, giving opportunities to school leavers and people who have taken an alternative route through education or work.

Apprenticeships offer work-based training programmes to develop new and existing staff across a whole range of business areas, producing the skilled workers needed for the future. For Mattioli Woods, this concept fulfilled our company's commitment to creating opportunities that offer a clear progression path both in the short and long term.

In 2012, four new apprenticeship positions have been created and an existing member of staff has undertaken a Business Administration apprenticeship programme. All these apprentices have or will study towards a nationally recognised Level 2 qualification, with the option of taking additional further qualifications. The programme has been a resounding success to date; the first apprentice started in IT and has been offered a permanent role and another who joined our clerical team has already been offered a training place within our account management team.

Pictured: Andrew Marshall, IT Helpdesk Analyst

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 on pages 22 and 23 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.

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.

Conclusion

Mattioli Woods has always had a strong and diligent client care culture. This now continues throughout our much larger organisation. Our strong training and compliance enables us to develop competent and professional staff.

Trading in the period since the end of the financial year has continued in line with management's expectations and I know we are very well positioned to take advantage of the opportunities in our markets over the next few years.

Ian Mattioli
Chief Executive
28 August 2012

Industry risks

Risk type	Risk	Mitigating factors
Changes in investment markets and poor investment performance	Volatility may adversely affect trading and/or the value of the Group's funds under administration and advice, from which we derive revenues.	• Majority of revenues are fee-based revenues, rather than 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. • Client banking arrangements enable clients to shelter from market volatility through diversification, while continuing to generate revenues for the Group.
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. • City Pensions 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. • External professional advisers are engaged to review and advise upon control environment. • Business model and culture embraces FSA principles, including 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 pension 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. • Changes in pension legislation create the need for clients to seek advice. • The development of the Groups' wealth management services reduces dependency on pension planning.

Operational risks

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.
Fraud risk	There is a risk an employee defrauds either the Company or a client.	• City Pensions Limited has permission to hold client money and the Group ensures the control environment mitigates against the misappropriation of client assets. • Strong corporate controls require dual signatures for all payments and board approval for all expenditure greater than £10,000. • Assessment of fraud risk reviewed every six months in conjunction with the external auditors. • Clients have view-only access to information and hence risk of fraud due to external attack on the Company's IT systems is assessed as low.

Operational risks

Risk type	Risk	Mitigating factors
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.

Financial risks

Counterparty default	That the counterparty to a financial obligation will default on repayments.	• The Group trades only with recognised, creditworthy third parties. • All customers who wish to trade on credit terms are subject to credit verification procedures. • All receivables are reviewed on an ongoing basis for risk of non-collection and any doubtful balances are provided against.
Bank default	In the current economic climate there is a risk that a bank could fail.	• 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.
Concentration risk	A component of credit risk, arising from a lack of diversity in business activities or geographical risk.	• The client base is broad, without significant exposure to any individual client or group of clients.
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.
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.

BUILDING VALUE FOR SHAREHOLDERS

01 Bob Woods
Chairman, age 58
Bob has over 30 years' experience in investment planning and also chairs the Group's Investment Committee. Bob has been key to the development of Mattioli Woods' investment ethos, believing that sound strategies need to avoid the 'noise' of the immediate and instead be based on an in-depth understanding of the long-term economic outlook. Bob founded Mattioli Woods in partnership with Ian Mattioli in 1991 and is responsible for developing Group strategy, identifying new growth areas and opportunities.

02 Ian Mattioli
Chief Executive, age 49
Ian is responsible for the vision and operational management of the Group. He drives the development of the investment proposition, including the structured products initiative. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award. Ian has over 30 years' experience in the financial services industry and together with Bob Woods, he founded Mattioli Woods.

03 Nathan Imlach
Finance Director and Company Secretary, age 43
Nathan qualified as a Chartered Accountant in 1993 with Ernst & Young, advising on a broad range of corporate finance transactions for quoted and unquoted clients in the UK and abroad. He joined Johnston Carmichael in 2003, becoming a Director and Associate of the firm, specialising in providing mergers and acquisitions advice. He is a Fellow of the Chartered Institute for Securities & Investment, member of the Institute of Chartered Accountants in Scotland and holds the Corporate Finance qualification from the Institute of Chartered Accountants in England and Wales ("ICAEW"). Nathan is responsible for all financial aspects of Mattioli Woods' operations and leads the Group's acquisition activity.

04 Murray Smith
Marketing and Sales Director, age 43
Murray graduated with an MA in Accountancy and has worked in the financial services industry since 1995. Murray specialises in advising on all aspects of retirement and wealth planning and progressed from consultant at Mattioli Woods to his appointment to the board, Murray's responsibilities include managing the Group's consultancy team and public relations activities.

05 Mark Smith
Operations Director, age 42
Mark joined Mattioli Woods in 2000, after gaining 12 years' experience in the financial services industry with a large insurance company, small IFA firm and specialist SSAS and SIPP consultancies. As the Group's Compliance Officer, he is responsible for liaison with the FSA on all regulatory issues. Mark has responsibility for all the day to day operations of the Group including systems, compliance, recruitment and service delivery to our clients.

06 John Redpath
Non-Executive Director, age 67
John is Chairman of both the Remuneration Committee and Nominations Committee, and is the Company's Senior Independent Director. His early career was with the North Eastern Electricity Board (later Northern Electric), before moving to the Northern Regional Health Authority to carry out large scale efficiency studies. He then joined Northumbrian Water, becoming Human Resources Director and being heavily involved in its flotation. In 1992 he led the buyout of its subsidiary CPCR Limited, a human resources consultancy, where he was Managing Director until he retired in 2003. John is a member of the Chartered Institute of Personnel and Development.

07 Helen Keays
Non-Executive Director, age 48
Helen was appointed to the Board in June 2011 and is also a Non-Executive Director of Majestic Wine plc, Domino's Pizza UK & IRL plc and Sk:n Clinics Limited. She is also a trustee of the Shakespeare Birthplace Trust. Helen has previously been a director of Chrysalis Group plc and The Britannia Building Society. She was the first female board director of Vodafone UK and prior to joining Vodafone, worked for Sears Retail, GE Capital and Thomson Holidays in a variety of senior roles. Helen is now a Management Consultant with a broad knowledge of customer segments and markets.

08 Joanne Lake
Non-Executive Director, age 48
Joanne was appointed to the Board in July 2012 and is Chairman of the Audit Committee. She has over 18 years' experience in investment banking, supporting clients through a broad range of transactions. Joanne is head of Merchant Securities Limited's Leeds office and was previously with Evolution Securities, Williams de Broe, Henry Cooke Corporate Finance and Price Waterhouse. She is a Fellow of the Chartered Institute for Securities & Investment and of the ICAEW, and is a member of the ICAEW's Corporate Finance Faculty. Joanne is also a director of Leeds Financial Services Initiative Limited and The Hepworth Wakefield.

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
88 Wood Street
London
EC2V 7QR

Auditor:
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

DIRECTORS' REPORT

Report and financial statements
The directors have pleasure presenting their report together with the financial statements for the year ended 31 May 2012. 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
The Group's principal activities continue to be the provision of pension consulting and administration, wealth management and employee benefits consultancy. The Chairman's Statement on pages 6 to 9 and the Chief Executive's Review on pages 12 to 23 include further information about the Group's principal activities, 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.

Forward looking statements
The Directors' Report is prepared for the members of the Company and should not be relied upon by any other party for any other purpose. Where this Annual Report contains forward-looking statements these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risks underlying such forward looking statements and information. The Group undertakes no obligation to update these forward looking statements.

Results and dividends
Group profit for the year after taxation amounted to £3.08m, with a decrease of 7.5% on the previous year primarily due to an increase in the amortisation of intangible assets recognised following recent aquisitions, the impact of one-off deal costs associated with the Kudos acquisition completed during the year, a client compensation payment declined by our insurers and a further interim FSCS levy on investment intermediaries announced in March 2012.

The final dividend in respect of the year ended 31 May 2011 of 3.30p per share was paid in October 2011. An interim dividend in respect of the year ended 31 May 2012 of 1.85p was paid to shareholders in February 2012.

The directors recommend a final dividend of 3.70p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2012. If approved, the final dividend will be paid on 23 October 2012 to ordinary shareholders whose names were on the register on 7 September 2012.

Share capital
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 Company's authorised and issued share capital during the year and as at 31 May 2012 is shown in Note 23. The ordinary shares rank pari passu in all respects. Save as agreed at the Annual General Meeting of the shareholders, the ordinary shares have pre-emption rights in respect of any future issues of ordinary shares to the extent conferred by section 516 of the Companies Act 2006.

There are no restrictions on the transfer of ordinary shares in the Company, other than:

- Certain restrictions that may be imposed from time to time by laws and regulations and pursuant to the Listing Rules of the FSA, whereby certain directors, officers and employees of the Group require the approval of the Group to deal in ordinary shares of the Company; and
- Restrictions on the former shareholders of Kudos ("the Sellers") as a result of the Sellers entering into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 462,572 ordinary shares in Mattioli Woods during the three years ending 26 August 2014.

The Group is not aware of any other agreements between holders of securities that may result in restrictions on the transfer of ordinary shares.

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.

Substantial shareholdings

At 28 August 2012 the Company had been notified of the following interests representing 3% or more of its issued share capital:

Shareholder	Number of ordinary shares	Percentage holding
Ian Mattioli	3,623,703	19.9%
Bob Woods	3,623,703	19.9%
Merrill Lynch International	1,361,967	7.5%
Unicorn Asset Management Limited	1,087,561	6.0%
BlackRock, Inc.	935,515	5.1%
Helium Special Situations Fund	850,000	4.7%
Investec Wealth and Investment	797,277	4.4%
Octopus Investments Nominees Limited	609,332	3.4%

In addition to the above shareholdings, 307,513 ordinary 1p shares representing 1.7% 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.

Directors

A list of current serving directors and their biographies is given on page 25. Ian Mattioli retires by rotation and, being eligible, offers himself for re-election.

Following the appointment of Helen Keays as a Non-Executive Director on 6 July 2011, Michael Kershaw stepped down as a Non-Executive Director with effect from 31 January 2012, having served on the Board for four years. The appointment of Joanne Lake as Non-Executive Director was announced on 31 July 2012. Joanne 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. During the period covered by this report, no director had material interest in a contract to which the Company or any of its subsidiaries was a party (other than their own service contract), requiring disclosure under the Companies Act 2006 other than in respect of the rental of the office premises at MW House and Gateway House as disclosed in Note 29.

Conflicts of interest

There are procedures in place to deal with any directors' conflicts of interest arising under section 175 of the Companies Act 2006 and such procedures have operated effectively since the Company adopted new Articles of Association on 22 October 2009.

Directors' indemnity

All directors and officers of the Company have the benefit of the indemnity provision contained in the Company's Articles of Association. The provision, which is a qualifying third party indemnity provision, was in force throughout the last two financial years and is currently still in force. The Group also purchased and maintained throughout the financial period Directors' and Officers' liability insurance in respect of itself and its directors and officers, although no cover exists in the event directors or officers are found to have acted fraudulently or dishonestly. No indemnity is provided for the Group's auditor.

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 2012, the Group had an average of 41 days' purchases owed to trade creditors (2011: 20 days).

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'.

During the year, the Group took advantage of the employee benefits expertise at Kudos to introduce 'MyWay', an online flexible benefits platform that employees can access at work and at home through a secure online system. Employees can change elements of their benefits choice annually or if they have any lifestyle events. MyWay offers a variety of benefits covering Health and Wellbeing, Finance and Lifestyle Choices, in addition to a 'core' benefits package, and employees are able to purchase these benefits at group rates. MyWay shows employees the value of their salary and all other benefits as part of a total reward statement.

Employees continued

The Group operates two Group Personal Pension plans available to all employees and contributes to the pension schemes of certain directors and employees. The Government has introduced new legislation ("auto-enrolment") to help people save for their retirement. This means every employer will have to automatically enrol eligible jobholders into a workplace pension scheme. Employers will then be required to make contributions to pensions schemes, adding to the savings made by employees. Auto-enrolment is being phased in over the next six years. The largest employers are leading the way with a first staging date on 1 October 2012, to be followed by medium-sized employers and lastly small and micro employers. Eligible employees may choose to opt out after they have been automatically enrolled. Employers cannot avoid their obligation to automatically enrol eligible employees into a qualifying scheme.

The Group's existing pension schemes qualify as schemes suitable for the pension reforms. Mattioli Woods' first staging date is 1 April 2014, which will introduce the following minimum contribution rates:

Date	Minimum employer contribution	Minimum employee contribution
From staging date (1 April 2014) to 30 September 2017	1%	1%
1 October 2017 to 30 September 2018	2%	3%
1 October 2018 onwards	3%	5%

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.

For many years we have run a successful graduate training programme, but identified there is considerable talent that may not always fit this profile. During the year, we launched a new apprenticeship scheme, giving opportunities to school leavers and people who have taken an alternative route through education or work.

Apprenticeships offer work-based training programmes to develop new and existing staff across a range of business areas, fulfilling the Group's commitment to creating opportunities that offer a clear progression path both in the short and long term.

Research and development

In response to the need for an increasingly sophisticated software solution to manage the broader range of products and services offered by Mattioli Woods, the Group has continued to develop its own in-house bespoke software system, 'MWeb'. The costs of this development are capitalised where they are recognised as having an economic value that will extend into the future.
In addition to the costs capitalised during the year, £6,744 (2011: £812) was recognised in the statement of comprehensive income as research and development expenditure.

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 £18,511 (2011: £5,308) were made during the year to local charities and community projects.

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 and purchase of fuel efficient motor vehicles, 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.

Annual General Meeting
The Annual General Meeting ("AGM") of the Company will be held on 18 October 2012. The Notice of Meeting is included with this document and contains further information on the ordinary and special business to be proposed at the meeting. Resolution 8 is the only special business being proposed, which disapplies pre-emption rights and in conjunction with Resolution 7, grants authority to the directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of 10% of the nominal value of the issued ordinary share capital of the Company.

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote unless the proxy is appointed by more than one shareholder and has been instructed by one or more shareholders to vote for the resolution and by one or more shareholders to vote against the resolution, in which case the proxy has one vote for and one vote against. This is to reflect the Shareholders' Rights Regulations which have amended the Companies Act 2006.

On a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. None of the ordinary shares carry any special voting rights with regard to control of the Company. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The relevant proxy votes are counted and the number for, against or withheld in relation to each resolution are announced at the AGM.

Principal risks and uncertainties
The directors' view of the principal risks and uncertainties facing the business is summarised on pages 22 and 23 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 page 33 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.

Key performance indicators

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

- **Revenue** – this is total 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 as a proportion of revenue;
- **Adjusted profit before tax** – profit before taxation, acquisition costs expensed under IFRS3 (Revised) and amortisation of intangible assets other than computer software;
- **Adjusted EPS** – total comprehensive income for the year, net of tax, attributable to equity holders of the Company, adjusted to add back acquisition costs expensed under IFRS3 (Revised) and the amortisation of intangible assets other than computer software, divided by the number of ordinary shares in issue;
- **Assets under administration and advice** – the value of all client assets the business gives advice upon, manages or administers.
- **Client retention** – 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 6 to 9 and the Chief Executive's review on pages 12 to 23.

Corporate governance

A full review of Corporate Governance appears on pages 31 to 33.

Auditor

Baker Tilly UK Audit LLP, who have been the Group's auditors since 2005, have confirmed their willingness to continue in office as auditor in accordance with Section 489 of the Companies Act 2006. The Group is satisfied that Baker Tilly UK Audit LLP are independent and there are adequate safeguards in place to safeguard their objectivity. A resolution to re-appoint Baker Tilly UK Audit LLP as the Company's auditor will be proposed at the 2012 AGM.

Directors' statement as to disclosure of information to the auditor

The directors who were members of the Board at the time of approving the Directors' Report are listed on page 32. 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 auditor is 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 auditor is aware of that information.

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.

Events after the balance sheet date

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

On behalf of the Board

Nathan Imlach
Finance Director and Company Secretary
28 August 2012

CORPORATE GOVERNANCE

Introduction
The Board is committed to achieving high standards of corporate governance, integrity and business ethics. Under the AIM rules the Group is not required to comply with the provisions of the UK Corporate Governance Code (formerly the Combined Code) issued by the Financial Reporting Council in June 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 page 25 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, and 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 Joanne Lake (Chairman), John Redpath and Helen Keays. Joanne Lake 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 auditor and discusses with them the scope of the annual audit.
The Committee also reviews the external auditor's management letter and detailed presentations are made to the Committee by the Company's auditor 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 auditor remains independent in the discharge of their audit responsibilities.

Audit Committee continued

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), Helen Keays and Joanne Lake. 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), Helen Keays and Joanne Lake. 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 Joanne Lake as Non-Executive Director, with the objectives of replacing Michael Kershaw, who stepped down as a Non-Executive Director on 31 January 2012, and bringing new skills to the Company. Joanne Lake joined the Board on 31 July 2012.

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), Sarah Thi (Investment Manager), Adeline Christy (Director – Wealth Management) and Scott Wylie (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.

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
Number of meetings in year	10	2	2	11	4
Bob Woods	10	2	2	11	—
Ian Mattioli	10	2	—	8	—
Nathan Imlach	9	—	—	—	4
Murray Smith	9	—	—	6	—
Mark Smith	9	—	—	—	2
John Redpath	9	2	2	—	4
Helen Keays[1]	9	—	2	—	2
Michael Kershaw[2]	7	2	—	—	3

Notes:
1. Helen Keays was appointed on 6 July 2011.
2. Michael Kershaw resigned on 31 January 2012.
3. Joanne Lake was appointed on 31 July 2012.

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 and Chief Executive.

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 18 October 2012. 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 brokers.

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
28 August 2012

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, such as the Company.

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.

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 2012 short-term incentive arrangements have been simplified to a single all-corporate award based on actual profit achieved compared to target profit. The payment of corporate award at its maximum level is dependent on outperformance of the Board's approved internal 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

At 31 May 2012 the Company had 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 was 1.03% (2011: 1.07%). The options are exercisable at £1.32 per share prior to their expiry on 31 May 2015. Options over 3.87% of the Company's share capital were in issue under the Share Option Plan at 31 May 2012 (2011: 3.99%).

Grant of options under the Consultants' Share Option Plan

At 31 May 2012 the Company had granted options to certain of its senior consultants to acquire (in aggregate) up to 3.17% (2011: 3.76%) of its share capital. The maximum entitlement of any individual was 0.47% (2011: 0.48%). The options are exercisable at various prices, depending upon the date the options were granted.

The options are only 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 incentives

It is a priority for the Group to continue to attract and retain appropriately qualified staff. At the 2010 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 introduction of tax legislation 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 ended 31 May 2012. In addition, further growth in the Group's business in the year ended 31 May 2012 means it no longer qualifies for the EMI Plan as gross assets now exceed £30.0m.

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 ended 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 2012 was as follows:

Director	Basic salary and fees £	Performance related bonuses £	Pension contributions £	Benefits[1,2] £	2012 £	Total emoluments 2011 £
Ian Mattioli	220,500	270,335	49,390	—	540,225	426,000
Bob Woods	185,000	148,125	78,500	—	411,625	349,000
Nathan Imlach	155,000	141,375	48,500	4,295	349,170	267,223
Murray Smith	135,000	48,045	117,330	9,821	310,196	266,370
Mark Smith	110,000	93,750	41,000	4,271	249,021	167,316
John Redpath	35,000	—	—	—	35,000	30,000
Helen Keays [3]	30,000	—	—	—	30,000	—
Michael Kershaw [4]	23,333	—	—	—	23,333	30,000

Notes:
1. The benefit package of each Executive Director includes the provision of life assurance under a group scheme.
2. The benefit packages of Nathan Imlach, Murray Smith and Mark Smith include the provision of a company car.
3. Helen Keays was appointed on 6 July 2011.
4. Michael Kershaw resigned on 31 January 2012.
5. Joanne Lake was appointed on 31 July 2012.

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, Helen Keays and Joanne Lake 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 2012, 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	2012 No.	%	2011 No.	%
Ian Mattioli	3,623,703	19.98	3,623,703	20.61
Bob Woods	3,623,703	19.98	3,623,703	20.61
Murray Smith	256,568	1.41	255,382	1.45
Nathan Imlach	176,922	0.98	175,732	1.00
Mark Smith	67,704	0.37	66,518	0.38
John Redpath	13,000	0.07	13,000	0.07
Helen Keays (appointed 6 July 2011)	—	—	—	—
Michael Kershaw (resigned 31 January 2012)	—	—	14,500	0.08

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

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

Director		Exercise price £	At 31 May 2011 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	At 31 May 2012 No.
Murray Smith	(a)	1.32	95,250	—	—	—	95,250
	(b)	1.32	92,250	—	—	—	92,250
			187,500	—	—	—	187,500
Mark Smith	(a)	1.32	95,250	—	—	—	95,250
	(b)	1.32	92,250	—	—	—	92,250
			187,500	—	—	—	187,500
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 2012. All of the share options were granted for nil consideration.

The mid-market closing price of the Company's ordinary shares at 31 May 2012 was 170p and the range during the financial year was 165p to 282p.

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 2012 and 28 August 2012 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 2012 in terms of the change in value of an initial investment of £100 invested on 1 June 2007 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
28 August 2012

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 Group and the Company and of the profit or loss of the Group for that period. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MATTIOLI WOODS PLC

We have audited the Group and parent company financial statements ("the financial statements") on pages 40 to 80. 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 page 38, 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 the financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and the parent's affairs as at 31 May 2012 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.

Opinion on other matter prescribed by the Companies Act 2006

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.

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

28 August 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 May 2012

	Note	2012 £	2011 £
Revenue	4	**20,482,220**	15,363,474
Employee benefits expense	11	**(11,193,642)**	(7,911,763)
Other administrative expenses		**(4,010,049)**	(2,208,133)
Share based payments	19	**(141,395)**	(142,454)
Amortisation and impairment	16,17	**(707,471)**	(381,256)
Depreciation	15	**(275,067)**	(219,705)
Loss on disposal of property, plant & equipment		**(23,211)**	(10,830)
Operating profit before financing		**4,131,385**	4,489,333
Finance revenue	8	**56,170**	59,304
Finance costs	9	**(7,047)**	(357)
Net finance revenue		**49,123**	58,947
Profit before tax		**4,180,508**	4,548,280
Income tax expense	12	**(1,101,365)**	(1,219,344)
Profit for the year		**3,079,143**	3,328,936
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year, net of tax		**3,079,143**	3,328,936
Attributable to:			
Equity holders of the parent		**3,079,143**	3,328,936
Earnings per ordinary share:			
Basic (pence)	13	**17.11**	18.89
Diluted (pence)	13	**16.96**	18.45
Proposed total dividend per share (pence)	14	**5.55**	4.95

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 statement of comprehensive income in these financial statements. The profit for the financial year of the Company after taxation was £3,291,725 (2011: £3,327,346).

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

As at 31 May 2012

Registered number: 3140521

	Note	2012 Group £	2012 Company £	2011 Group £	2011 Company £
Assets					
Property, plant and equipment	15	**1,018,928**	**813,601**	934,708	854,419
Intangible assets	16	**23,137,321**	**10,489,523**	12,939,389	10,688,954
Deferred tax asset	12	**155,980**	**63,984**	210,788	210,788
Investments	17	**15**	**12,948,214**	15	2,483,215
Total non-current assets		**24,312,244**	**24,315,322**	14,084,900	14,237,376
Trade and other receivables	20	**8,132,500**	**6,954,815**	7,611,845	7,301,650
Financial assets	21	**1,077,214**	**1,077,214**	873,569	873,569
Cash and short-term deposits	22	**5,795,997**	**2,669,346**	4,612,689	4,062,244
Total current assets		**15,005,711**	**10,701,375**	13,098,103	12,237,463
Total assets		**39,317,955**	**35,016,697**	27,183,003	26,474,839
Equity					
Issued capital	23	**181,368**	**181,368**	175,840	175,840
Share premium	23	**7,641,118**	**7,641,118**	6,289,891	6,289,891
Capital redemption reserve	23	**2,000,000**	**2,000,000**	2,000,000	2,000,000
Equity - share based payments	23	**625,953**	**625,953**	764,132	764,132
Retained earnings	23	**15,020,114**	**15,232,182**	12,872,187	12,871,673
Total equity attributable to equity holders of the parent		**25,468,553**	**25,680,621**	22,102,050	22,101,536
Non-current liabilities					
Trade and other payables	25	**—**	**—**	120,000	120,000
Deferred tax liability	12	**2,274,751**	**306,341**	522,559	222,678
Provisions	26	**3,310,411**	**3,265,411**	325,721	300,721
Total non-current liabilities		**5,585,162**	**3,571,752**	968,280	643,399
Current liabilities					
Bank overdraft	22	**653,637**	**641,113**	—	—
Trade and other payables	25	**4,688,893**	**3,266,992**	3,248,381	2,865,612
Income tax payable		**595,376**	**—**	584,766	584,766
Provisions	26	**2,326,334**	**1,856,219**	279,526	279,526
Total current liabilities		**8,264,240**	**5,764,324**	4,112,673	3,729,904
Total liabilities		**13,849,402**	**9,336,076**	5,080,953	4,373,303
Total equities and liabilities		**39,317,955**	**35,016,697**	27,183,003	26,474,839

The financial statements on pages 40 to 80 were approved by the board of directors and authorised for issue on 28 August 2012 and are signed on its behalf by:

Bob Woods
Executive Chairman

Nathan Imlach
Finance Director

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 May 2012

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 2010	173,473	5,918,314	552,579	2,000,000	10,336,920	18,981,286
Profit for the year	—	—	—	—	3,328,936	3,328,936
Total comprehensive income	—	—	—	—	3,328,936	3,328,936
Transactions with owners of the Group, recognised directly in equity						
Issue of share capital	2,367	371,577	—	—	—	373,944
Share-based payments	—	—	82,699	—	—	82,699
Current tax asset taken to equity	—	—	56,081	—	—	56,081
Deferred tax asset taken to equity	—	—	72,773	—	—	72,773
Dividends paid	—	—	—	—	(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
Profit for the year	—	—	—	—	3,079,143	3,079,143
Total comprehensive income	—	—	—	—	3,079,143	3,079,143
Transactions with owners of the Group, recognised directly in equity						
Issue of share capital	5,528	1,351,227	—	—	—	1,356,755
Share-based payments	—	—	48,964	—	—	48,964
Deferred tax asset taken to equity	—	—	(187,143)	—	—	(187,143)
Dividends paid	—	—	—	—	(931,216)	(931,216)
As at 31 May 2012	**181,368**	**7,641,118**	**625,953**	**2,000,000**	**15,020,114**	**25,468,553**

Company						
As at 1 June 2010	173,473	5,918,314	552,579	2,000,000	10,337,996	18,982,362
Profit for the year	—	—	—	—	3,327,346	3,327,346
Total comprehensive income	—	—	—	—	3,327,346	3,327,346
Transactions with owners of the Company, recognised directly in equity						
Issue of share capital	2,367	371,577	—	—	—	373,944
Share-based payments	—	—	82,699	—	—	82,699
Current tax taken to equity	—	—	56,081	—	—	56,081
Deferred tax asset taken to equity	—	—	72,773	—	—	72,773
Dividends paid	—	—	—	—	(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
Profit for the year	—	—	—	—	3,291,725	3,291,725
Total comprehensive income	—	—	—	—	3,291,725	3,291,725
Transactions with owners of the Company, recognised directly in equity						
Issue of share capital	5,528	1,351,227	—	—	—	1,356,755
Share-based payments	—	—	48,964	—	—	48,964
Deferred tax asset taken to equity	—	—	(187,143)	—	—	(187,143)
Dividends paid	—	—	—	—	(931,216)	(931,216)
As at 31 May 2012	**181,368**	**7,641,118**	**625,953**	**2,000,000**	**15,232,182**	**25,680,621**

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
For the year ended 31 May 2012

	Note	2012 Group £	2012 Company £	2011 Group £	2011 Company £
Operating activities					
Profit for the year					
Adjustments for:		**3,079,143**	**1,991,725**	3,328,936	3,327,346
Depreciation	15	**275,067**	**224,009**	219,705	206,079
Amortisation and impairment	16,17	**707,471**	**367,525**	381,256	336,293
Investment income	8	**(56,170)**	**(42,783)**	(59,304)	(59,166)
Interest expense	9	**7,047**	**6,383**	357	357
Loss on disposal of property, plant and equipment		**23,211**	**23,211**	10,830	10,830
Equity-settled share-based payments	19	**141,395**	**141,395**	142,454	142,454
Income tax expense	12	**1,101,365**	**965,150**	1,219,344	1,254,995
Cash flows from operating activities before changes in working capital and provisions		**5,278,529**	**3,676,615**	5,243,578	5,219,188
Decrease/(increase) in trade and other receivables		**11,566**	**350,352**	(1,828,596)	(1,639,090)
Increase in trade and other payables		**730,371**	**403,972**	452,117	399,572
Decrease in provisions		**(208,617)**	**(208,617)**	(80,910)	(80,910)
Cash generated from operations		**5,811,849**	**4,222,322**	3,786,189	3,898,760
Interest paid		**(7,047)**	**(6,383)**	(357)	(357)
Income taxes paid		**(1,549,737)**	**(1,549,737)**	(1,342,684)	(1,342,684)
Net cash flows from operating activities		**4,255,065**	**2,666,202**	2,443,148	2,555,719
Investing activities					
Proceeds from sale of property, plant and equipment		**17,300**	**35,950**	17,057	17,057
Purchase of property, plant and equipment	15	**(278,288)**	**(223,702)**	(448,477)	(354,562)
Purchase of software	16	**(234,423)**	**(186,728)**	(96,750)	(95,625)
Acquisition of subsidiaries	3	**(4,328,503)**	**(4,528,502)**	(2,141,529)	(2,441,531)
Cash received on acquisition of subsidiaries	3	**2,182,364**	**—**	456,766	—
Acquisition of businesses	3	**(92,193)**	**(92,193)**	(108,481)	(108,481)
Other investments		**(15)**	**(15)**	—	—
New loans advanced to property syndicates	21	**(5,237,049)**	**(5,237,049)**	(3,325,588)	(3,325,588)
Loan repayments from property syndicates	21	**5,033,403**	**5,033,403**	2,452,019	2,452,019
Interest received		**56,170**	**42,783**	59,304	59,165
Dividends received		**—**	**1,300,000**	—	—
Net cash flows from investing activities		**(2,881,234)**	**(3,856,053)**	(3,135,679)	(3,797,546)
Financing activities					
Proceeds from the issue of share capital		**108,129**	**108,129**	314,188	314,188
Payment of costs of share issue		**(30,302)**	**(30,302)**	—	—
Proceeds from /(repayment of) directors' loans	25	**9,229**	**9,229**	(5,591)	(5,591)
Dividends paid	14	**(931,216)**	**(931,216)**	(793,669)	(793,669)
Net cash flows from financing activities		**(844,160)**	**(844,160)**	(485,072)	(485,072)
Net increase in cash and cash equivalents		**529,671**	**(2,034,011)**	(1,177,603)	(1,726,899)
Cash and cash equivalents at start year	22	**4,612,689**	**4,062,244**	5,790,292	5,789,143
Cash and cash equivalents at end of year	22	**5,142,360**	**2,028,233**	4,612,689	4,062,244

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 28 August 2012.

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
IAS 24 Related Party Disclosures (revised)	January 2011

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

Adoption of these 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.

IAS 24 Related Party Disclosures (revised)

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

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

The IAS 27 amendments clarify which transition requirements apply prospectively and which apply retrospectively.

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

Business combinations are accounted for using the purchase accounting method. This involves assessing whether any assets acquired meet the criteria for recognition as separately identifiable intangible assets. Intangible assets are measured on initial recognition at their fair value at the date of acquisition. Client portfolios are valued by discounting their future expected cash flows over their expected useful lives, based on the Group's historic experience. 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 client portfolios

The Group determines whether acquired client portfolios are impaired at least on an annual basis. This requires an estimation of the fair value less cost to sell and the value in use of the cash-generating units to which the client portfolios have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate to calculate the present value. Details of the cash-generating units are contained in Note 6.

The key assumption used in arriving at a fair value less cost of sale are those around valuations based on earnings multiples and values based on assets under management. These have been determined by looking at valuations of similar businesses and the consideration paid in comparable transactions. Management has used a range of multiples resulting in an average of 7.5x EBITDA to arrive at a fair value.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects an assessment of the time value of money and the risks specific to the asset.

The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and costs during the period covered by the calculations. Changes to revenue and costs are based upon management's expectation. The Group prepares its annual budget and five-year cash flow forecasts derived therefrom, thereafter extrapolating these cash flows using a terminal growth rate of 2.5% (2011: 2.5%), which management considers conservative against industry average long-term growth rates.

Management estimates discount rates using the Group's pre-tax weighted average cost of capital, which reflects its estimate of the time value of money and risks specific to the cash-generating units. The carrying amount of client portfolios at 31 May 2012 was £13,694,951 (2011: £6,982,688). No impairments have been made during the year (2011: £nil) based upon the Directors' review.

2.3 Significant accounting judgements, estimates and assumptions

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate to calculate the present value. Details of the cash-generating units are contained in Note 18.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects an assessment of the time value of money and the risks specific to the asset. The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and costs during the period covered by the calculations. Changes to revenue and costs are based upon management's expectation. The Group prepares its annual budget and five-year cash flow forecasts derived therefrom, thereafter extrapolating these cash flows using a terminal growth rate of 2.5% (2011: 2.5%), which management considers conservative against industry average long-term growth rates.

Management estimates discount rates using the Group's pre-tax weighted average cost of capital, which reflects its estimate of the time value of money and risks specific to the cash-generating units. The carrying amount of goodwill at 31 May 2012 was £8,734,336 (2011: £5,430,484). No impairments have been made during the year (2011: £nil) based upon the Directors' review.

Capitalised software

The costs of internal software developments are capitalised where they are judged to have an economic value that will extend into the future and meet the recognition criteria in IAS38. Internally generated software is then amortised over an estimated useful life, assessed by taking into consideration the useful life of comparable software packages. The carrying amount of capitalised software at 31 May 2012 was £293,932 (2011: £275,416).

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. The carrying amount of deferred tax assets at 31 May 2012 was £155,980 (2011: £210,788).

Recoverability of accrued time costs

The Group recognises accrued income in respect of time costs incurred on clients' affairs during the accounting period, which have not been invoiced at the balance sheet date. This requires an estimation of the recoverability of the time costs incurred but not invoiced to clients. The carrying amount of accrued time costs at 31 May 2012 was £3,226,616 (2011: £3,070,075).

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. The carrying amount of accrued commission income at 31 May 2012 was £510,011 (2011: £973,826).

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. The carrying amount of contingent consideration provided for at 31 May 2012 was £4,750,000 (2011: £195,653).

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 is 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.

Intangible assets assessed as having finite lives are amortised over their useful economic life as follows:

• Purchased software	25% per annum as written down values; and
• Internally generated software	Straight line over 10 years.

2.4 Summary of significant accounting policies continued

Intangible assets continued

Intangible assets assessed as having finite lives are 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 eight 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
Kudos	26 August 2011	20 Years

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

	Goodwill	Client portfolios	Software	Other intangibles
Useful life	Indefinite	Finite	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 or 10 years on a on a straight-line basis if internally generated	Amortised over a useful economic life of three years
Internally generated or acquired	Acquired	Acquired	Both	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:

2.4 Summary of significant accounting policies continued

Goodwill

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

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

Loans and receivables

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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 the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Trade and other receivables

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

Leases

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

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

2.4 Summary of significant accounting policies continued

Leases continued

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 Group'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.

2.4 Summary of significant accounting policies continued

Share based payments continued

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

Mattioli Woods 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 as a percentage of the total time costs incurred on clients' affairs that could have been invoiced in the financial year compared to the proportion of these time costs actually invoiced during the year. 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 statement of financial position 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.

2.4 Summary of significant accounting policies continued

Deferred income tax continued

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

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

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

Sales tax

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

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

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

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 Group makes discretionary payments into the personal pension schemes of certain employees. Contributions are charged to the statement of comprehensive income 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.

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 2015.

2.5 Future changes in accounting policies continued

IFRS 10 Consolidated Financial Statements

In May 2011 the IASB issued IFRS 20 Consolidated Financial Statements, which replaces IAS 27 Consolidated and Separate Financial Statements. IFRS 10 retains the principle of control as the basis for determining which entities are consolidated. However, it re-defines control as "when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee."

Additional guidance on how to apply the control principle is provided:

- Where the investor holds less than a majority of the voting rights;
- Where there are potential voting rights;
- Which involve agency relationships; and
- Where the investor has control over specified assets.

The standard requires the investor to reassess whether it retains control when there is an indication of a change to one or more of the key elements of the definition of control i.e.:

1. The power over the investee;
2. The exposure, or rights, to variable returns from involvement with the investee; and
3. The ability to use power over the investee to affect the amount of the investor's returns.

IFRS 10 also sets out accounting requirements for, and exemptions from, the preparation of consolidated financial statements, which are broadly in-line with the current requirements of IAS 27. The amendments are effective for periods commencing on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

In May 2011 the IASB issued IFRS 12 Disclosure of Interests in Other Entities in response to the demand for better information in respect of interests in other entities. The new standard applies to entities that have interests in subsidiaries, joint arrangements, associates and other unconsolidated structured entities and aims to make those disclosures consistent.

The disclosures aim to provide users with information that will assist in evaluating the nature of the reporting entity's interests in other entities and the risks associated with them along with the effects that those interests have on the financial position, performance and cash flows of the reporting entity. The amendments are effective for periods commencing on or after 1 January 2013.

In addition to the changes explained above the following standards and interpretations have been issued:

International Accounting Standards	Effective date
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
Amendments to IAS 1 Presentation of Other Comprehensive Income	1 July 2012
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities	1 January 2012
IFRS 11 Joint Arrangements	1 January 2013
IFRS13 Fair Value Measurement	1 January 2013
IAS 27 Separate Financial Statements (amended 2011)	1 January 2013
IAS 28 Investments in Associates and Joint Ventures (amended 2011)	1 January 2013
IAS 19 (revised) Employee Benefits	1 January 2014
Amendments to IAS 32 Off-setting Financial Assets and Financial Liabilities	1 January 2014

International Financial Reporting Interpretations Committee	Effective date
IFRIC 19 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

None of standards and interpretations above are anticipated to significantly impact the Group's results or assets and liabilities and are not expected to require additional disclosure.

3. Business combinations

Acquisition of Kudos

On 26 August 2011, Mattioli Woods plc acquired 100% of the issued share capital of TCF Global Independent Financial Services Limited and its subsidiary Kudos Independent Financial Services Limited (together "Kudos") an employee benefits and wealth management business based in Aberdeen. Kudos is an excellent cultural strategic fit with Mattioli Woods, extending our geographic footprint and offering the enlarged Group the opportunity to promote additional services to existing and prospective clients of each business.

The acquisition has been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of Kudos as at the date of acquisition was:

	Fair value recognised on acquisition £	Previous carrying value £
Plant and equipment	121,509	121,509
Client portfolio	7,332,089	—
Deferred tax assets	79,813	79,813
Cash and short-term deposits	2,182,364	2,182,364
Trade receivables	416,140	416,140
Prepayments and accrued income	151,106	151,106
Total assets	10,283,021	2,950,932
Trade payables	(104,412)	(104,412)
Accruals	(505,177)	(505,177)
Deferred income and other payables	(315,826)	(315,826)
Deferred tax liabilities	(1,906,343)	—
Provisions	(490,115)	(490,115)
Liabilities	(3,321,873)	(1,415,530)
Total identifiable net assets at fair value	6,961,148	
Goodwill arising on acquisition	3,303,852	
Total acquisition cost	10,265,000	
Analysed as follows:		
Cash paid	4,328,503	
New shares in Mattioli Woods	1,186,497	
Deferred contingent consideration	4,750,000	
	10,265,000	

Cash outflow on acquisition	£
Cash paid	(4,328,503)
Acquisition costs	(263,257)
Net cash acquired with the subsidiary (included in cashflows from investing activities)	2,182,364
Net cash outflow	(2,409,396)

From the date of acquisition, Kudos has contributed £4,273,474 to the revenue of the Group and £999,236 to the profit of the Group, prior to amortisation of intangible assets arising on consolidation of £274,953 and acquisition costs of £263,257 recognised in administrative expenses in the consolidated statement of comprehensive income. If the combination had taken place at the beginning of the period, the profit for the Group would have been £3,465,216 and revenue from continuing operations would have been £21,684,009.

3. Business combinations continued

Acquisition of Kudos continued

The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of Kudos with those of the Group. The primary components of this residual goodwill comprise:

- The expectation that revenue synergies will be available to Mattioli Woods as a result of the transaction;
- The workforce;
- The knowledge and know-how resident in Kudos' modus operandi; and
- New opportunities available to the combined business, as a result of both Kudos and the existing business becoming part of a more sizable listed company.

None of the recognised goodwill is expected to be deductible for income tax purposes. The client portfolio will be amortised on a straight-line basis over an estimated useful life of 20 years, based on the Group's historic experience. Transaction costs of £263,257 incurred on the acquisition have been expensed and are included in administrative expenses in the consolidated statement of comprehensive income and operating cash flows in the statement of cash flows.

Contingent consideration

The Group has entered into certain acquisition agreements that provide for deferred and contingent consideration to be paid. These agreements and the basis of calculation of the net present value of the contingent consideration are summarised below. 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), the Group estimates the net present value of contingent considerations payable within the next 12 months is £1,583,333 (2011: £150,000).

As noted above, on 26 August 2011 the Group acquired Kudos for a total initial consideration of £5,515,000 (excluding cash acquired with the business) comprising £4,328,503 in cash and 462,572 ordinary shares in Mattioli Woods ("the Consideration Shares", which were valued at £1,186,497 based on the closing price of a Mattioli Woods share on 26 August 2011), plus contingent consideration of up to £4,750,000 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 ("EBITDA") generated during that period.

The Group estimates the net present value of the contingent consideration to be £4,750,000 using cash flows approved by the Board covering the contingent consideration report. The effect of discounting the cash flow projections at a rate equivalent to the benchmark yield on a three-year UK government bond is not material.

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. The net present value of the contingent consideration at 31 May 2012 is £nil, based on the actual cash flows during the contingent consideration period. Consequently, £150,000 of provision for contingent consideration has been credited to the income statement during the period.

4. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2012 £	2011 £
Rendering of services	**11,476,454**	10,458,300
Commission income	**9,005,766**	4,905,174
	20,482,220	15,363,474

No revenue was derived from exchanges of goods or services (2011: £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 following the acquisition of Kudos, the directors believe there is no longer a material seasonality of operations, with a substantial element of the Group's revenues being geared to the prevailing economic and market conditions.

6. Segment information

The Group's operating segments have been amended during the period. Following the acquisition of Kudos, integration of City Pensions and hive-down of the property syndicate business to Custodian Capital, the Group is comprised of the following operating segments:

- Direct pension consultancy and administration – fees earned by Mattioli Woods for setting up and administering pension schemes under an advice-led model. Additional fees are generated from consultancy services provided for special one-off activities;
- Third party administration – this new segment represents fees earned by City Pensions for setting up and administering pension schemes under an administration-only model;
- Wealth management - income generated from the placing of investments with banks and other financial institutions on behalf of clients of Mattioli Woods, Kudos and City Pensions;
- Property syndicates - income generated where the Group facilitates direct commercial property investments on behalf of clients. The administration of this activity was hived-down to Custodian Capital with effect from 1 October 2011; and
- Employee benefits – this new segment represents income generated by the Group's employee benefits operations operated by Kudos and Mattioli Woods.

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 broadly the same market. The Group operates exclusively within the United Kingdom.

The pension consultancy, administration and wealth management operations of Mattioli Woods utilise the same intangible and tangible assets, and the segments have been financed as a whole, rather than individually. The Group's operating segments are managed together as one business. Accordingly, certain costs are not allocated across the individual operating segments, as they are managed on a group basis. Segment profit or loss reflects the measure of segment performance reviewed by the Board of Directors (the Chief Operating Decision Maker).

Operating segments

The following tables present revenue and profit information regarding the Group's operating segments for the two years ended 31 May 2012 and 2011 respectively.

Year ended 31 May 2012	Direct pension consultancy and administration £	Third-party administration £	Wealth management £	Property syndicates £	Employee benefits £	Total segments £	Corporate costs £	Consolidated £
Revenue								
External client	8,169,903	783,299	6,615,881	1,385,950	3,527,187	20,482,220	—	20,482,220
Inter-segment	—	—	—	—	—	—	—	—
Total revenue	8,169,903	783,299	6,615,881	1,385,950	3,527,187	20,482,220	—	20,482,220
Results								
Segment result	803,930	(66,804)	2,703,882	877,005	846,278	5,164,291	(983,783)	4,180,508
Year ended 31 May 2011 (restated)	£	£	£	£	£	£	£	£
Revenue								
External client	8,155,715	623,840	4,491,991	1,499,613	592,315	15,363,474	—	15,363,474
Inter-segment	—	—	—	—	—	—	—	—
Total revenue	8,155,715	623,840	4,491,991	1,499,613	592,315	15,363,474	—	15,363,474
Results								
Segment result	1,880,610	(65,734)	2,154,521	964,028	4,804	4,938,229	(389,949)	4,548,280

6. Segment information (continued)

Segment assets

The following table presents segment assets of the Group's operating segments:

	31 May 2012 £	Restated 31 May 2011 £
Direct pension consultancy and administration	**11,924,971**	12,203,745
Third-party administration	**2,572,469**	2,587,767
Wealth management	**5,910,828**	3,361,910
Property syndicates	**989,029**	908,107
Employee benefits	**8,842,502**	770,529
Total segments	**30,239,799**	19,832,058
Corporate assets	**9,078,156**	7,350,945
Total assets	**39,317,955**	27,183,003

Segment assets exclude property, plant and equipment, certain items of computer software, investments, current and deferred tax balances, and cash balances, as these assets are considered corporate in nature and are not allocated to a specific operating segment. Acquired client portfolios and purchased goodwill relate to a specific transaction and are 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 at the date of acquisition. The subsequent delivery of services to those acquired clients may be across a number or all operating segments, comprising cash generating units different to those the acquired intangibles. Consequently, acquired intangibles have been reallocated between individual operating segments based on the revenue mix of the cash generating units that acquired intangibles were initially allocated to.

Liabilities have not been allocated between individual operating segments, as they cannot be allocated on anything other than an arbitrary basis.

Adjustments and eliminations

Certain administrative expenses including acquisition costs, amortisation and impairment of intangible assets, depreciation of property, plant and equipment, legal and professional fees and professional indemnity insurance are not allocated between segments managed on a unified basis and which utilise the same intangible and tangible assets.

Finance income and expenses, gains and losses on the disposal of assets, taxes, intangible assets and certain other assets and liabilities are not allocated to individual segments as they are managed on a group basis. Capital expenditure consists of additions of property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries.

Reconciliation of profit	31 May 2012 £	Restated 31 May 2011 £
Total segments	**5,164,291**	4,938,229
Acquisition costs	**(263,257)**	(71,920)
Depreciation	**(275,067)**	(219,705)
Amortisation and impairment	**(82,568)**	(51,337)
Loss on disposal of assets	**(23,211)**	(10,830)
Unallocated overheads	**(371,704)**	(77,854)
Bank charges	**(17,099)**	(17,250)
Finance income	**56,170**	59,304
Finance costs	**(7,047)**	(357)
Group profit before tax	**4,180,508**	4,548,280

6. Segment information (continued)

Reconciliation of assets	31 May 2012 £	Restated 31 May 2011 £
Segment operating assets	**30,239,798**	19,832,057
Property plant and equipment	**1,018,928**	934,708
Intangible assets	**610,669**	525,120
Investments	**15**	15
Deferred tax asset	**140,672**	210,788
Prepayments and other receivables	**1,511,877**	1,067,626
Cash and short-term deposits	**5,795,996**	4,612,689
Total assets	**39,317,955**	27,183,003

7. Auditor's 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:

	Company Baker Tilly UK Audit LLP 2012 £	Company Associates of Baker Tilly UK Audit LLP 2012 £	Subsidiaries Associates of Baker Tilly UK Audit LLP 2012 £	Total 2012 £	Total 2011 £
Audit of parent and consolidated financial statements	26,500	—	—	**26,500**	26,850
Audit of subsidiaries	18,000	—	—	**18,000**	4,000
	44,500	—	—	**44,500**	30,850
Other fees to auditors:					
– taxation services	—	20,578	6,000	**26,578**	8,850
– corporate finance services	—	24,007	—	**24,007**	35,283
– interim financial statements	7,500	—	—	**7,500**	6,116
– FSA compliance	6,000	—	—	**6,000**	—
– other services	—	3,755	—	**3,755**	—
	58,000	48,340	6,000	**112,340**	81,099

8. Finance revenue

	2012 £	2011 £
Bank interest receivable	**56,170**	59,304

9. Finance costs

	2012 £	2011 £
Bank loans and overdrafts	**7,047**	357

10. Operating profit

Included in operating profit before financing:	2012 £	2011 £
Depreciation (Note 15)	**275,067**	219,705
Amortisation and impairment of intangible assets (Notes 16 and 17)	**707,471**	381,256
Minimum lease payments recognised as an operating lease expense (Note 27)	**544,440**	356,598

11. Employees benefits expense

The average monthly number of employees during the year was:	2012 No.	2011 No.
Directors	**5**	5
Consultants	**40**	20
Administrators	**117**	98
Support staff	**89**	76
	251	199

11. Employees benefits expense continued

Staff costs for the above persons were:	2012 £	2011 £
Wages and salaries	**9,593,027**	6,607,504
Social security costs	**993,412**	781,449
Pension costs and life insurance	**453,797**	411,913
Other staff costs	**153,406**	110,897
	11,193,642	7,911,763

In addition, the cost of share based payments disclosed separately in the statement of comprehensive income was £141,395 (2011: £142,454).

Directors' remuneration:	2012 £	2011 £
Emoluments	**1,613,850**	1,226,159
Company contributions to personal pension schemes	**334,720**	309,750
Gains made on exercise of share options	**—**	—
	1,948,570	1,535,909

The amounts in respect of the highest paid director are as follows:	2012 £	2011 £
Emoluments	**490,835**	342,500
Company contributions to personal pension schemes	**49,390**	83,500
	540,225	426,000

Five directors (2011: five) accrued benefits under personal pension schemes. During the year no share options were issued to directors (2011: nil) and no director exercised any share options (2011: nil).

12. Income tax

The major components of income tax expense for the years ended 31 May 2012 and 2011 are:

Consolidated income statement	2012 £	2011 £
Current tax	**1,347,635**	1,295,847
Over provision in prior periods	**(39,598)**	(1,404)
	1,308,037	1,294,443
Deferred tax credit	**(206,672)**	(75,099)
Income tax expense reported in the statement of comprehensive income	**1,101,365**	1,219,344

12. Income tax continued

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 25.67% (2011: 27.70%). The differences are explained below:

	2012 £	2011 £
Accounting profit before income tax	**4,180,508**	4,548,280
Multiplied by standard rate of UK corporation tax of 25.67% (2011: 27.70%)	**1,073,244**	1,259,874
Effects of:		
Expenses not deductible for tax	**176,671**	37,884
Irrecoverable/(recoverable) deferred tax on share options	**62,199**	(18,425)
Over provision in prior periods	**(39,598)**	(1,404)
Deferred tax in respect of prior periods	**34,756**	—
Tax losses utilised	**—**	(38,391)
Effect of changes in the standard rate of tax	**(179,330)**	(20,194)
Tax losses recognised as a deferred tax asset	**(26,577)**	—
Income tax expense for the year	**1,101,365**	1,219,344
Effective income tax rate	**26.3%**	26.8%

During the year, the UK government reduced the rate of corporation tax from 26% to 24% with effect from 1 April 2012. The rate of UK corporation tax will reduce from 24% to 23% from 1 April 2013, with a further 1% reduction to a rate of 22% from 1 April 2014 (see Note 32).

Deferred income tax

Deferred income tax at 31 May relates to the following:

Group	2012 £	2011 £
Deferred income tax liability		
Temporary differences on acquisition intangibles	**(2,151,944)**	(522,559)
Temporary differences accelerated capital allowances	**(122,807)**	—
	(2,274,751)	(522,559)
Deferred income tax asset		
Temporary differences on provisions	**74,063**	—
Temporary differences on accelerated capital allowances in subsidiaries	**2,667**	(102,537)
Temporary differences on share based payments	**63,984**	313,325
Temporary differences on tax losses in subsidiary	**15,266**	—
	155,980	210,788
Net deferred tax liabilities	**(2,118,771)**	(311,771)
Reflected in the statement of financial position as follows:		
Deferred tax assets	**155,980**	210,788
Deferred tax liabilities	**(2,274,751)**	(522,559)
Net deferred tax liabilities	**(2,118,771)**	(311,771)

12. Income tax continued

Deferred income tax continued

Company	2012 £	2011 £
Deferred income tax liability		
Temporary differences on acquisition intangibles	**(195,799)**	(222,678)
Temporary differences on accelerated capital allowances	**(110,542)**	—
	(306,341)	(222,678)
Deferred income tax asset		
Temporary differences on accelerated capital allowances	**—**	(102,537)
Temporary differences on share based payments	**63,984**	313,325
	63,984	210,788
Net deferred tax liabilities	**(242,357)**	(11,890)
Reflected in the statement of financial position as follows:		
Deferred tax assets	**63,984**	210,788
Deferred tax liabilities	**(306,341)**	(222,678)
Net deferred tax liabilities	**(242,357)**	(11,890)

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2011 or 2012.

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 components of the deferred tax credit for the year ended 31 May 2012 are summarised as follows:

Deferred tax in income statement	2012 £	2011 £
Irrecoverable/(recoverable) deferred tax on share options	**62,199**	(10,946)
Deferred tax on capital allowances	**(18,287)**	(15,578)
Overprovision for capital allowances in prior period	**34,757**	—
Deferred tax on provisions	**2,892**	—
Deferred tax on losses	**(21,536)**	—
Deferred tax utilised on losses	**10,260**	—
Deferred tax on amortisation of client portfolios	**(97,627)**	(28,503)
Effect of changes in the standard rate of tax	**(179,330)**	(20,072)
Deferred tax movement	**(206,672)**	(75,099)

The total deferred tax movement in the statement of financial position is summarised as follows:

Deferred tax reconciliation	2012 £	2011 £
Opening net deferred tax liability	**(311,771)**	(124,112)
Movement recognised in the statement of comprehensive income	**206,672**	75,099
Deferred tax movement (derecognised)/recognised in equity	**(187,142)**	72,773
Deferred tax arising on acquisitions	**(1,826,530)**	(335,531)
Closing net deferred tax liability	**(2,118,771)**	(311,771)

For the year ended 31 May 2012, current tax recognised directly in equity was £nil (2011: £56,081) and deferred tax derecognised directly in equity was £187,143 (2011: £72,773 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 income and share data used in the basic and diluted earnings per share computations is as follows:

	2012 £	2011 £
Net profit and diluted net profit attributable to equity holders of the Company	**3,079,143**	3,328,936
Weighted average number of ordinary shares:	**000s**	000s
Issued ordinary shares at start period	**17,584**	17,347
Effect of shares issued during the year ended 31 May 2011	**—**	232
Effect of shares issued during the year ended 31 May 2012	**411**	45
Basic weighted average number of shares	**17,995**	17,624
Effect of dilutive options at the statement of financial position date	**156**	419
Diluted weighted average number of shares	**18,151**	18,043

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 7.04% 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 2012 the conditions attached to 170,456 options granted under the Consultants' Share Option Plan are not satisfied. If the conditions had been satisfied, diluted earnings per share would have been 16.96p per share (2011: 18.41p).

The only transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements has been the issue of 42,788 ordinary shares under the Mattioli Woods plc Share Incentive Plan.

14. Dividends paid and proposed

	2012 £	2011 £
Declared and paid during the year:		
Equity dividends on ordinary shares:		
- Final dividend for 2011: 3.30p (2010: 2.90p)	**596,296**	503,864
- Interim dividend for 2012: 1.85p (2011: 1.65p)	**334,920**	289,805
Dividends paid	**931,216**	793,669
Proposed for approval by shareholders at the AGM:		
Final dividend for 2012: 3.70p (2011: 3.30p)	**672,645**	596,296

15. Property, plant and equipment

Group	Computer and office equipment £	Fixtures and fittings £	Motor vehicles £	Total £
Gross carrying amount:				
At 1 June 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
Arising on acquisitions	40,114	81,395	—	121,509
Additions	133,038	23,795	121,455	278,288
Disposals	(115,256)	—	(68,100)	(183,356)
At 31 May 2012	497,331	796,457	554,393	1,848,181
Depreciation				
At 1 June 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
Charged for the year	91,459	82,919	100,689	275,067
On disposals	(95,363)	—	(47,483)	(142,846)
At 31 May 2012	207,766	426,935	194,552	829,253
Carrying amount:				
At 31 May 2012	**289,565**	**369,522**	**359,841**	**1,018,928**
At 31 May 2011	227,765	347,251	359,692	934,708
At 31 May 2010	157,416	356,274	219,773	733,463
Company				
Gross carrying amount:				
At 1 June 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
Additions	97,099	5,148	121,455	223,702
Disposals	(87,660)	—	(68,101)	(155,761)
At 31 May 2012	400,534	654,412	554,392	1,609,338
Depreciation:				
At 1 June 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
Charged for the year	60,309	63,011	100,689	224,009
On disposals	(67,767)	—	(47,483)	(115,250)
At 31 May 2012	200,998	400,187	194,552	795,737
Carrying amount:				
At 31 May 2012	**199,536**	**254,225**	**359,840**	**813,601**
At 31 May 2011	182,639	312,088	359,692	854,419
At 31 May 2010	157,416	356,274	219,773	733,463

16. Intangible assets

Group	Internally generated software £	Software £	Client portfolios £	Goodwill £	Other £	Total £
Gross carrying amount:						
At 1 June 2010	166,874	491,719	7,123,956	4,454,828	—	12,237,377
Additions	83,927	12,823	—	—	—	96,750
Disposals	—	(436)	—	—	—	(436)
Arising on acquisitions	—	—	1,198,324	1,095,949	—	2,294,273
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
Additions	161,616	72,807	—	—	35,024	269,447
Arising on acquisitions	—	—	7,332,089	3,303,852	—	10,635,941
At 31 May 2012	412,417	576,913	15,654,369	8,734,336	35,024	25,413,059
Amortisation and impairment:						
At 1 June 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
Amortisation during the year	33,339	54,291	619,826	—	—	707,456
At 31 May 2012	33,339	282,981	1,959,418	—	—	2,275,738
Carrying amount:						
At 31 May 2012	**379,078**	**293,932**	**13,694,951**	**8,734,336**	**35,024**	**23,137,321**
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

16. Intangible assets continued

Company	Internally generated software £	Software £	Client portfolios £	Goodwill £	Total £
Gross carrying amount:					
At 1 June 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
Additions	161,616	25,113	—	—	186,729
Disposals	—	(21,678)	—	—	(21,678)
At 31 May 2012	412,417	506,416	7,123,956	4,334,535	12,377,324
Amortisation and impairment:					
At 1 June 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
Amortisation during the year	33,339	49,214	284,957	—	367,510
Disposals	—	(3,028)	—	—	(3,028)
At 31 May 2012	33,339	274,849	1,579,613	—	1,887,801
Carrying amount:					
At 31 May 2012	**379,078**	**231,567**	**5,544,343**	**4,334,535**	**10,489,523**
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

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 amortised on a straight-line basis over an estimated useful life of 10 years.

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).

Other intangibles
Other intangibles represent external costs incurred in obtaining a licence. Other intangibles are amortised on a straight-line basis over a useful economic life of three years.

17. Investments

Investments in subsidiaries	Group £	Company £
At 1 June 2010	—	41,669
Acquisition of City Pensions Limited and City Trustees Limited	—	2,441,531
At 31 May 2011	—	2,483,200
Acquisition of TCF Global Independent Financial Services Limited	—	10,265,000
Investment in Custodian Capital Limited		199,999
At 31 May 2012	—	12,948,199
Other investments		
At 1 June 2010, 31 May 2011 and 31 May 2012	15	15
Total at 31 May 2012	**15**	**12,948,214**

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 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%	Holding company
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
Mayflower Trustees Limited (formerly Polaris Financial Services Limited)	Ordinary shares	100%	Dormant
Custodian Capital Limited (formerly North Star Pensions Limited)	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
TCF Global Independent Financial Services Limited ("TCF")	Ordinary shares	100%	Holding company
Kudos Independent Financial Services Limited (held by TCF)	Ordinary shares	100%	Employee benefits and wealth management

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

17. Investments (continued)

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 for the development of the Development Land and certain conditions which would have extended the termination date of the Agreements to 1 December 2011 had not been fulfilled.

On 29 September 2011, Mainsforth entered into an agreement to sell all property and assets used by it in connection with the Development Land to Ensco 858 Limited ("Ensco 858"), a company registered in England and Wales with its principal activity being the development and selling of real estate, to facilitate the repayment of all existing liabilities of Mainsforth, including £55,000 owed to the Company. On the same date, Mattioli Woods subscribed £15 for 15% of the issued capital of Ensco 858 and advanced a shareholder loan of £75,000 to it.

On 5 October 2011 Mainsforth changed its name to MDL First Limited and Ensco 858 changed its name to Mainsforth Developments Limited. On 25 May 2012 the local authority granted outline planning permission for residential development and associated access at the Development Land, subject to certain conditions.

At 31 May 2012 the Company's investment in Mainsforth Developments Limited was valued at £15 under the cost method and the Company had advanced Mainsforth Developments Limited £75,000 of shareholder loans. The directors regard the value of the Company's investment in MDL First Limited as having been impaired to nil (2011: £15).

18. Impairment of goodwill and intangibles with indefinite lives

Goodwill arising on acquisitions is allocated to the cash generating units comprising the acquired businesses. Where the Group reorganises its operating and reporting structures in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill is reallocated to the units affected.

As explained in Note 6, the Group's operating segments have been amended during the year. Following the acquisition of Kudos, integration of City Pensions' administration function as part of Mattioli Woods' Leicester operations and the hive-down of Mattioli Woods' property syndicate business to Custodian Capital, the Group is comprised of five operating segments, managed together as one business.

Following this reorganisation of the Group's operating segments, goodwill has been reallocated to five cash generating units for impairment testing, as follows:

Company	Direct pension consultancy and admin £	Third party admin £	Wealth management £	Property syndicates £	Employee benefits £	Total £
At 1 June 2010	2,501,695	—	1,420,685	187,770	344,678	4,454,828
Adjustment to JB Group consideration	(87,814)	—	(9,623)	—	(22,856)	(120,293)
At 31 May 2011 and 2012	**2,413,881**	**—**	**1,411,062**	**187,770**	**321,822**	**4,334,535**

18. Impairment of goodwill and intangibles with indefinite lives continued

Group	Direct pension consultancy and admin £	Third party admin £	Wealth management £	Property syndicates £	Employee benefits £	Total £
At 1 June 2010	2,501,695	—	1,420,685	187,770	344,678	4,454,828
Arising on consolidation of City Pensions	—	1,095,949	—	—	—	1,095,949
Adjustment to JB Group consideration	(87,814)	—	(9,623)	—	(22,856)	(120,293)
At 31 May 2011	2,413,881	1,095,949	1,411,062	187,770	321,822	5,430,484
Arising on consolidation of Kudos	—	—	925,078	—	2,378,774	3,303,852
At 31 May 2012	**2,413,881**	**1,095,949**	**2,336,140**	**187,770**	**2,700,596**	**8,734,336**

Intangible assets believed to have an indefinite useful life are carried at cost.

The determination of whether goodwill is impaired requires an assessment of the fair value less cost to sell and estimation of the value in use of the cash-generating units to which the goodwill has been allocated. The recoverable amount of goodwill on a fair value less costs to sell calculation is based on the closing share price of the Group on 31 May 2012 of 170p, giving a market capitalisation of £30.8m. Comparing this to the net asset value of the cash generating units identified above of £25.7m, the directors believe the value of goodwill is not impaired at 31 May 2012.

The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate to calculate the present value. Comparing this present value 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 2012. This accounting treatment resulted in an impairment loss of £nil (2011: £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 2012 the total number of options outstanding and exercisable under the Share Option Plan was 701,851 (2011: 701,851).

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 2011 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	**At 31 May 2012 No.**
5 September 2006	2.21	234,377	—	—	—	**234,377**
4 September 2007	2.79	255,684	—	—	(85,228)	**170,456**
8 September 2009	2.16	170,456	—	—	—	**170,456**
		660,517	—	—	(85,228)	**575,289**

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 170,456 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.

	2012 No.	**2012 WAEP £**	2011 No.	2011 WAEP £
Outstanding as at 1 June	**1,362,098**	**1.85**	1,556,824	1.80
Granted during the year	**—**	**—**	—	—
Exercised	**—**	**—**	(173,419)	1.32
Forfeited during the year	**(85,228)**	**2.79**	(21,307)	2.21
Outstanding at 31 May	**1,276,870**	**1.79**	1,362,098	1.85
Exercisable at 31 May	**1,106,414**	**1.74**	935,958	1.54

For the share options outstanding as at 31 May 2012, the weighted average remaining contractual life is 4.4 years (2011: 5.4 years). The WAEP for options outstanding at the end of the year was £1.79 (2011: £1.85), with the option exercise prices ranging from £1.32 to £2.79.

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 2012 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 90,272 (2011: 63,226) new ordinary shares were issued to the 120 employees who participated in the SIP during the year. At 31 May 2012, 256,942 shares were held in the SIP on their behalf, with a further 1,121 of forfeited shares not allocated to any specific employee.

19. Share based payments continued

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 2012 is £48,964 (2011: £82,699), 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 23). The expense recognised during the year ended 31 May 2012 is £92,431 (2011: £59,755), which entirely arises from equity-settled share based payment transactions.

20. Trade and other receivables (current)

	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Trade receivables due from related parties	—	669,238	—	27,461
Other trade receivables	3,750,800	2,353,785	3,298,369	3,036,555
Other receivables	116,958	92,858	102,009	92,718
Prepayments and accrued income	4,264,742	3,835,417	4,211,467	4,144,916
Corporation tax	—	3,517	—	—
	8,132,500	6,954,815	7,611,845	7,301,650

Trade receivables due to/from related parties are recognised at amortised cost.

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. As at 31 May 2012, the nominal value of trade receivables impaired and fully provided for, and movements in the provision for impairment of receivables were as follows:

	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
As at 1 June	484,810	389,964	395,135	395,135
Charge / (release) for year	59,502	109,459	10,127	(5,171)
Acquired on acquisition	21,850	—	79,548	—
At 31 May	566,162	499,423	484,810	389,964

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

			Past due but not impaired			
	Total £	Neither past due nor impaired £	Less than 30 days £	30-60 days £	60-90 days £	More than 90 days £
2012	**3,750,800**	**1,180,594**	**1,387,351**	**387,173**	**235,656**	**560,026**
2011	3,298,369	1,249,039	967,654	265,376	216,316	599,984

For receivables neither past due nor impaired, the notional amount is deemed to reflect the fair value.

21. Financial assets (current)

Financial assets (current) for the Group and Company of £1,077,214 (2011: £873,569) 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 (see Note 29). They are recognised as financial assets at amortised cost.

22. Cash and short-term deposits

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

	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Cash at banks and on hand	**5,368,985**	**2,669,346**	3,418,318	3,287,873
Short-term deposits	**427,012**	**—**	1,194,371	774,371
	5,795,997	**2,669,346**	4,612,689	4,062,244
Bank overdrafts	**(653,637)**	**(641,113)**	—	—
Cash and cash equivalents	**5,142,360**	**2,028,233**	4,612,689	4,062,244

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is £5,795,997 (2011: £4,612,689).

At 31 May 2012, the Group had available £4,346,363 (2011: £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 2010, 31 May 2011 and 31 May 2012	**30,000,000**	**300,000**
Issued and fully paid		
At 1 June 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
Shares issued on acquisition of Kudos	462,572	4,625
Shares issued under the SIP	90,272	903
At 31 May 2012	**18,136,801**	**181,368**

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.

23. Issued capital and reserves continued

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 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 recognised in equity	72,773	—	—	—
Profit for the financial year	—	—	—	3,328,936
Dividends paid	—	—	—	(793,669)
At 31 May 2011	764,132	6,289,891	2,000,000	12,872,187
Share based payments	48,964	—	—	—
Shares issued on acquisition of Kudos		1,181,871		
Shares issued under the SIP	—	169,356	—	—
Deferred tax asset derecognised in equity	(187,143)	—	—	—
Profit for the financial year	—	—	—	3,079,143
Dividends paid	—	—	—	(931,216)
At 31 May 2012	**625,953**	**7,641,118**	**2,000,000**	**15,020,114**

Company	Equity-share based payments £	Share premium account £	Capital redemption reserve £	Retained earnings £
At 1 June 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 recognised in equity	56,081	—	—	—
Deferred tax asset recognised in equity	72,773	—	—	—
Profit for the financial year	—	—	—	3,327,346
Dividends paid	—	—	—	(793,669)
At 31 May 2011	764,132	6,289,891	2,000,000	12,871,673
Share based payments	48,964	—	—	—
Shares issued on acquisition of Kudos	—	1,181,871		
Shares issued under the SIP	—	169,356	—	—
Deferred tax asset derecognised in equity	(187,143)	—	—	—
Profit for the financial year	—	—	—	3,291,725
Dividends paid	—	—	—	(931,216)
At 31 May 2012	**625,953**	**7,641,118**	**2,000,000**	**15,232,182**

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 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Cash receipts from customers	**20,493,786**	**15,131,842**	13,534,877	13,055,071
Cash paid to suppliers and employees	**(14,681,937)**	**(10,909,520)**	(9,748,688)	(9,156,311)
Cash generated from operations	**5,811,849**	**4,222,322**	3,786,189	3,898,760

25. Trade and other payables

Trade and other payables (current)	Group 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Trade payables due to related parties	**—**	**53,400**	—	—
Other trade payables	**416,904**	**111,745**	120,249	117,628
Other taxation and social security	**1,161,635**	**885,361**	1,011,148	963,961
Other payables	**118,905**	**126,873**	44,470	46,661
Accruals and deferred income	**2,923,156**	**2,021,320**	1,980,321	1,645,169
Deferred consideration	**68,293**	**68,293**	92,193	92,193
	4,688,893	**3,266,992**	3,248,381	2,865,612

Other payables include Directors' loans of £12,266 (2011: £3,037). 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 2012 £	Company 2012 £	Group 2011 £	Company 2011 £
Deferred consideration	**—**	**—**	120,000	120,000
	—	**—**	120,000	120,000

26. Provisions

Group	Client claims £	Contingent consideration £	Dilapidations £	Clawbacks £	Employers' NIC on share options £	Total £
At 1 June 2011	201,500	195,653	110,000	32,373	65,721	605,247
Arising during the year	45,900	4,750,000	—	—	—	4,795,900
Acquisitions (Note 3)	138,500	—	20,000	331,615	—	490,115
Used during the year	—	—	—	(6,887)	—	(6,887)
Unused amounts reversed	—	(195,653)	—	—	(51,977)	(247,630)
At 31 May 2012	385,900	4,750,000	130,000	357,101	13,744	5,636,745
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
Current 2012	385,900	1,583,333	—	357,101	—	2,326,334
Non-current 2012	—	3,166,667	130,000	—	13,744	3,310,411
At 31 May 2012	**385,900**	**4,750,000**	**130,000**	**357,101**	**13,744**	**5,636,745**

Company	Client claims £	Contingent consideration £	Dilapidations £	Clawbacks £	Employers' NIC on share options £	Total £
At 1 June 2011	201,500	195,653	85,000	32,373	65,721	580,247
Arising during the year	45,900	4,750,000	—	—	—	4,795,900
Used during the year	—	—	—	—	—	—
Unused amounts reversed	—	(195,653)	—	(6,887)	(51,977)	(254,517)
At 31 May 2012	247,400	4,750,000	85,000	25,486	13,744	5,121,630
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
Current 2012	247,400	1,583,333	—	25,486	—	1,856,219
Non-current 2012	—	3,166,667	85,000	—	13,744	3,265,411
At 31 May 2012	**247,400**	**4,750,000**	**85,000**	**25,486**	**13,744**	**5,121,630**

Client claims
A provision is recognised for the estimated potential liability not covered by the Group's professional indemnity insurance when the Group becomes aware of a possible client claim. No discount rate is applied to the projected cash flows due to their short term nature.

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 in Note 3.
The Group estimates the net present value of contingent consideration payable within the next 12 months is £1,583,333 (2011: £150,000).

Dilapidations
Under the terms of the leases for the Group's premises, the Group has an obligation to return the properties in a specified condition at the end of the lease term. The Group provides for the estimated net present value of the cost of any dilapidations. The discount rate applied to the cash flow projections is 5.0%.

Clawbacks
The Group receives certain initial commissions on indemnity terms and hence the Group provides for the expected level of clawback, based on past experience. No discount rate is applied to the projected cash flows due to their short term nature.

27. Commitments and contingences

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 2014. The first lease for part of the ground floor of Gateway House (an office building adjacent to MW House) has a duration of ten years, from 1 February 2008. A second lease for part of the ground floor of Gateway House has a duration of ten 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 some recent acquisitions, 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	**2012 £**	2011 £	**2012 £**	2011 £
Not later than one year	**2,005**	3,754	**529,168**	382,093
After one year but not more than five years	**6,831**	—	**1,950,256**	1,317,523
More than five years	**—**	—	**2,805,325**	1,878,793
	8,836	3,754	**5,284,749**	3,578,409

	Office equipment		Land and buildings	
Company	**2012 £**	2011 £	**2012 £**	2011 £
Not later than one year	**2,005**	3,754	**408,168**	382,093
After one year but not more than five years	**6,831**	—	**1,342,756**	1,317,523
More than five years	**—**	—	**1,595,325**	1,878,793
	8,836	3,754	**3,346,249**	3,578,409

Group operating lease charges during the year were £539,242 (2011: £308,552) for land and buildings and £5,198 (2011: £5,584) for office equipment.

Capital commitments

At 31 May 2012 the Group had no capital commitments (2011: £nil).

Client claims

The Group operates in a legal and regulatory environment that exposes it to certain litigation risks. As a result, the Group occasionally receives claims in respect of products and services provided and which arise in the ordinary course of business. The Group provides for potential losses that may arise out of contingencies where the estimated potential liability is not covered by the Group's professional indemnity insurance (Note 26).

A number of claims were notified to the Group's professional indemnity insurers ("the insurers") in respect of the period from 18 February 2010 to 17 August 2011. The insurers have declined to indemnify the Group in respect of certain of these claims. The Group is of the opinion that the insurers' position is without any merit and is challenging their view. The estimated compensation payable should the clients' claims be successful, with no indemnity provided by the insurers, is £320,000. To the extent the Group believes it is possible but not probable that a claim will succeed and result in an economic outflow, no additional provision is made in these financial statements.

Contingencies in respect of legal matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance. Significant judgment is required in assessing probability and making estimates in respect of contingencies, and the Group's final liabilities may ultimately be different. The Group's total potential liability recorded in respect of litigation, arbitration and regulatory proceedings is determined on a case-by-case basis and represents, where appropriate, an estimate of the probable economic outflow after considering, among other factors, the progress of each case, the Group's experience and the experience of others in similar cases, and the opinions and views of legal counsel.

27. Commitments and contingences continued

FSCS levy

Following the failure of MF Global and Arch Cru, coupled with The Financial Services Compensation Scheme ("FSCS") paying more compensation than predicted in relation to the failures of Keydata, Wills & Co and other stockbroking firms, the FSCS has raised an interim levy on the investment intermediation sector in each of the last two years.

In the year ended 31 May 2012 the FSCS raised an interim levy of £60 million (2011: £326 million) from investment intermediaries to pay for the costs of compensating clients in investment failures, to which the Group contributed £58,759 (2011: £115,507). No provision has been made in these financial statements for any FSCS interim levy that may be raised during the year ending 31 May 2013.

28. Pension costs

The Group makes discretionary and contractual payments into the personal pension schemes of employees and contributions are charged in the income statement as they become payable. The charge for the year was £358,215 (2011: £363,381).

29. Related party disclosures

Transactions with key management personnel

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 (2011: £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 (2011: £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 nine (2011: six) other executives, received total compensation of £2,818,281 for the year ended 31 May 2012 (2011: £2,115,921). Total remuneration is included in "employee benefits expense" and analysed as follows:

	2012 £	2011 £
Short-term employee benefits	**2,588,841**	1,780,871
Post-employment benefits	**229,440**	335,050
Share-based payments	**—**	—
	2,818,281	2,115,921

At 31 May 2012, Ian Mattioli was owed £15,816 (2011: £5,611) by the Company and Robert Woods was due £3,550 (2011: £2,575) to the Company. These Directors' loans carry no coupon and have no fixed repayment date.

Transactions with other related parties

Following the transfer of Mattioli Woods' property syndicate business to Custodian Capital, the legal structure of the arrangements offered to investors has changed to a limited partnership, replacing the previous trust-based structure. The limited partnership is constituted by its general partner and its limited partners (the investors), with the general partner being a separate limited company owned by Custodian Capital.

The general partner and the initial limited partner enter into a limited partnership agreement, which govern the operation of the partnership and also sets out the rights and obligations of the investors. The general partner will appoint Custodian Capital as the operator of the partnership pursuant to an operator agreement between the general partner and Custodian Capital. At 31 May 2012 the Company had advanced £1,077,214 (2011: £873,569) of unsecured short-term loans to new property syndicate partnerships, which are repayable on demand and accrue interest daily at a rate of 3% above the Bank of England base rate. The loans outstanding at 31 May 2012 have been repaid following the year end.

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 2012 the value of financial instruments on the Group balance sheet exposed to interest rate risk was £6,219,574 (2011: £5,486,258) comprising cash, cash equivalents and financial assets. This exposure is monitored to ensure that the Group is maximising its interest earning potential within accepted liquidity and credit constraints. Other than short term overdrafts, 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 Company or Group statements of financial position.

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.

2012	Increase/decrease in basis points	Effect on profit before tax £
£ Sterling	+100	98,246
£ Sterling	-100	(98,246)
2011		
£ Sterling	+100	117,890
£ Sterling	-100	(117,890)

(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 2012, the fair value of investments recognised on the Group balance sheet was £15 (2011: £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.

30. Financial risk management continued

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 2012 and 2011 based on contractual undiscounted payments:

Year ended 31 May 2012	On demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	More than 5 years £	Total £
Trade and other payables	—	4,681,609	—	—	—	4,681,609
Contingent consideration	—	—	1,583,333	3,166,667	—	4,750,000
	—	4,681,609	1,583,333	3,166,667	—	9,431,609

Year ended 31 May 2011	On demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	More than 5 years £	Total £
Trade and other payables	-	3,248,381	-	-	-	3,248,381
Contingent consideration	-	-	45,653	150,000	-	195,653
	-	3,248,381	45,653	150,000	-	3,444,034

Capital management

The Company and certain of its subsidiaries are supervised in the UK by the Financial Services Authority ("FSA"). The Group manages its capital through continuous review of the capital requirements of the Company and its regulated subsidiaries, which are monitored by the Group's management and reported monthly to the Board. The Group's objectives when managing capital are:

- To comply with the regulatory capital requirements set by the FSA;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital at 31 May 2012 was £25,468,553 (2011: £22,102,050). 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.

Regulatory capital is determined in accordance with the requirements of the Capital Requirements Directive ("the Directive") prescribed in the UK by the FSA, and the Group's regulatory capital comprises Tier 1 capital, which is the total of issued share capital, retained earnings and reserves created by appropriations of externally verified retained earnings, net of the book value of goodwill and other intangible assets. The Group does not hold any Tier 2 or Tier 3 capital.

30. Financial risk management continued

Capital management continued

From 30 April 2012, all regulated entities within the Group have been required to meet the Pillar 1 Capital Resources Requirements set out in the Directive. The Group is also required to comply with the Directive's requirements under Pillar 2 (Operational Risk) and Pillar 3 (Disclosure). The Directive requires continual assessment of the Group's risks in order to ensure that the higher of Pillar 1 and 2 requirements is met. Under the Pillar 3 requirements, the Group must disclose regulatory capital information and has done so by making the disclosures available on the Group's website at www.mattioli-woods.com.

The Company and regulated subsidiary companies submit quarterly returns to the FSA relating to capital adequacy. At 31 May 2012 the total regulatory capital requirement across the Group was £3,615,000 and the Group had an aggregate surplus of £1,318,000 across all regulated entities. All the regulated firms within the Group maintained surplus regulated capital throughout the year. The regulated subsidiaries are limited in the distributions that can be paid up to the Company by each of their individual capital requirements.

Prior to 30 April 2012, the Company was categorised as an Exempt Capital Adequacy Directive Firm under the FSA's financial resource requirements for personal investment firms set out in The Interim Prudential Sourcebook for Investment Business.

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 after taking into account provisions for impairment, by maturity, of the Company's and the Group's financial instruments that are exposed to interest rate risk:

Group 31 May 2012	Less than 1 year £	1 to 2 years £	2 to 3 years £	3 to 4 years £	4 to 5 years £	More than 5 years £	Total £
Floating rate							
Financial assets (current)	1,077,214	—	—	—	—	—	1,077,214
Cash assets	5,142,360	—	—	—	—	—	5,142,360
Bank overdrafts	(653,637)	—	—	—	—	—	(653,637)

Group 31 May 2011	Less than 1 year £	1 to 2 years £	2 to 3 years £	3 to 4 years £	4 to 5 years £	More than 5 years £	Total £
Floating rate							
Financial assets (current)	873,569	—	—	—	—	—	873,569
Cash assets	4,612,689	—	—	—	—	—	4,612,689
Bank overdrafts	—	—	—	—	—	—	—

Company 31 May 2012	Less than 1 year £	1 to 2 years £	2 to 3 years £	3 to 4 years £	4 to 5 years £	More than 5 years £	Total £
Floating rate							
Financial assets (current)	1,077,214	—	—	—	—	—	1,077,214
Cash assets	2,028,233	—	—	—	—	—	2,028,233
Bank overdrafts	(641,113)	—	—	—	—	—	(641,113)

Company 31 May 2011	Less than 1 year £	1 to 2 years £	2 to 3 years £	3 to 4 years £	4 to 5 years £	More than 5 years £	Total £
Floating rate							
Financial assets (current)	873,569	—	—	—	—	—	873,569
Cash assets	4,062,244	—	—	—	—	—	4,062,244
Bank overdrafts	—	—	—	—	—	—	—

31. Financial instruments continued

Interest rate risk continued

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 2012, the Group's bank deposits were held with Royal Bank of Scotland plc, Lloyds TSB Bank plc, Bank of Scotland plc, Clydesdale Bank plc and Investec Bank plc.

Contingent consideration

As set out in Note 3, the Group acquired Kudos on 26 August 2011. The sale and purchase agreement provides for contingent consideration of up to £4,750,000 to be payable in cash in the three years following completion if certain financial targets are met. Whilst the exact amount payable cannot be determined (as this will depend on the profitability and growth in recurring revenues of the acquired business during the period) the Group estimates the net present value of the contingent consideration to be £4,750,000.

32. Events after the reporting date

Taxation

The UK government has enacted tax changes which will have a significant effect on the Group's future tax position. The rate of corporation tax will reduce from 24% to 23% from 1 April 2013, with a further 1% reduction to a rate of 22% 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.

33. Ultimate controlling party

The Company has no controlling party.

FIVE YEAR SUMMARY

	2012 £	2011 £	2010 £	2009 £	2008 £
Revenue	**20,482,220**	15,363,474	13,678,033	13,283,204	10,828,151
Administrative expenses	**(15,467,736)**	(10,472,326)	(9,207,322)	(9,238,799)	(7,321,111)
Net finance revenue	**49,123**	58,947	43,543	85,710	203,599
Adjusted profit before tax	**5,063,607**	4,950,095	4,514,254	4,130,115	3,710,639
Amortisation of acquired intangibles	**(619,842)**	(329,894)	(244,581)	(233,447)	(201,455)
Acquisition costs expensed under IFRS3	**(263,257)**	(71,921)	—	—	—
Profit before tax	**4,180,508**	4,548,280	4,269,673	3,896,668	3,509,184
Income tax expense	**(1,101,365)**	(1,219,344)	(1,265,590)	(1,174,410)	(1,043,945)
Profit for the year	**3,079,143**	3,328,936	3,004,083	2,722,258	2,465,239
Assets under administration and advice (£m)	**3,106.7**	2,304.4	1,886.1	1,590.2	1,483.2
Headline debtors' days ratio (days)	**66.8**	78.4	71.2	70.4	82.8
External client loss rate	**5.2%**	4.3%	3.1%	1.9%	1.7%
EBITDA margin	**25.0%**	33.1%	34.5%	32.3%	33.9%
Adjusted EBITDA margin	**26.3%**	33.6%	34.5%	32.3%	33.9%
Basic EPS (pence)	**17.11**	18.89	17.16	15.58	14.12
Adjusted EPS (pence)	**22.02**	21.17	18.55	16.91	15.28
Dividends paid and proposed (pence)	**5.55**	4.95	4.35	3.90	3.00

Design and production
www.carrkamasa.co.uk

Mattioli Woods plc
MW House
1 Penman Way
Grove Park
Enderby
Leicester
LE19 1SY

Tel: 0116 240 8700
Fax: 0116 240 8701

info@mattioli-woods.com
www.mattioli-woods.com

Mattioli Woods plc
PENSIONS & WEALTH MANAGEMENT