Mattioli Woods plc

PENSIONS & WEALTH MANAGEMENT

Annual Report 2013

MATTIOLI WOODS PLC HIGHLIGHTS

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. Following the acquisition of Atkinson Bolton Consulting Limited in July 2013, our clients now entrust us with over £4.0 billion of assets under management, administration and advice. We provide services to over 5,000 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, embracing the duality of adviser and provider status to progress as a 21st century financial services business aligned to our clients' needs.

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"We look forward to delivering first class services to our clients and further sustainable growth to our shareholders"

Bob Woods
Executive Chairman

Revenue

£23.41m

+14.3%

Adjusted profit before tax[3]

£5.56m

+9.9%

Adjusted EPS [2,3]

24.29p

+12.2%

Proposed total dividend

7.00p

+26.1%

Financial highlights

- Revenue up 14.3% to £23.41m (2012: £20.48m)
- Recurring revenues represent 70.7% (2012: 64.8%)
- EBITDA[1] up 12.7% to £5.76m (2012: £5.11m)
- Adjusted EPS[2,3] up 12.2% to 24.29p (2012: 21.65p)
- Adjusted profit before tax[3] up 9.9% to £5.56m (2012: £5.06m)
- Proposed total dividend up 26.1% to 7.00p (2012: 5.55p)
- Strong financial position with net cash of £8.05m (2012: £5.14m)

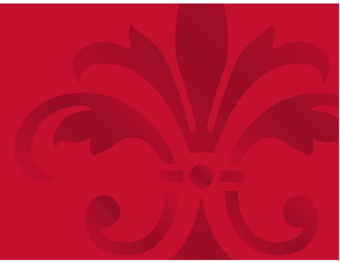
Operational highlights

- Total client assets up 20.5% to £3.64bn (2012: £3.02bn)
- Appointed to operate The Pilgrim SIPP in June 2012
- Launch of discretionary portfolio management in August 2012
- Launch of flexible benefits proposition in March 2013
- Acquisition of Ashcourt Rowan's pension business in April 2013

Recent developments

- Appointed to operate The HD SIPP in June 2013
- Acquisition of Atkinson Bolton in July 2013:
  – Total client assets now exceed £4.00bn
  – Over £0.45bn of discretionary assets under management
- Further investment in IT, training and infrastructure
- Positioned for further growth

1 Earnings before interest, taxation, depreciation and amortisation.
2 Basic EPS up 15.0% to 19.34p (2012: 16.82p).
3 Before acquisition costs expensed under IFRS3 (Revised), amortisation and impairment of intangible assets other than computer software.

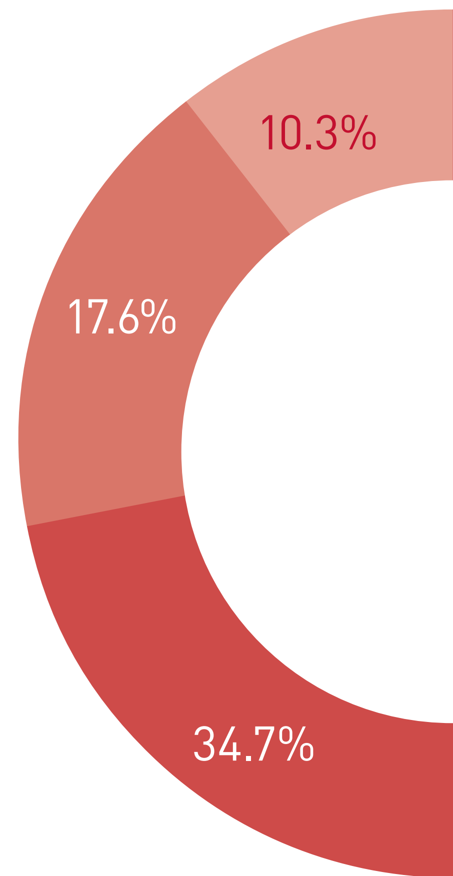


BUILDING LONG TERM CLIENT RELATIONSHIPS

We provide trusted advice, high service standards and personalised delivery

2,091 SIPPs

1,302 SSASs



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.

Our aim is to build long-term client relationships, through the provision of trusted advice, high service standards and personalised delivery. We provide integrated services, incorporating advice-led consultancy, with a strong focus on pensions, investment and estate planning.

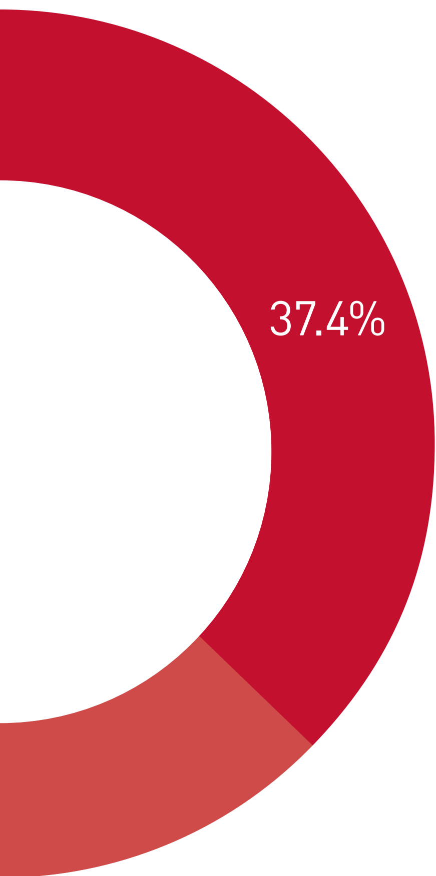
2,033 SIPPs

264 SSASs

City Trustees is a specialist pension provider focused on the bespoke self-invested pension market, distributing its products via independent financial advisers, wealth managers and other intermediaries.

We offer a professional and personalised service, which starts with each client having their own dedicated account manager to deal proactively with the day-to-day administration of their pension scheme.

Assets under mangement, administration and advice



SSAS
SIPP
Employee Benefits
Personal Assets

22 year history

£881m AuAA[3]

Kudos has a reputation for the provision of quality advice and service, offering clear, concise, and innovative ideas to clients and professional introducers.

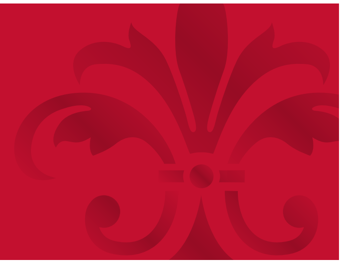
Our corporate team specialises in employee benefits consultancy and due diligence, assisting employers to deliver benefits across health, risk and workplace savings, as well as designing and implementing flexible benefit schemes and employee communication strategies. Our wealth management division designs bespoke investment solutions and offers advice on all aspects of personal financial planning including pre and post-exit planning for business owners.

1,200 investors

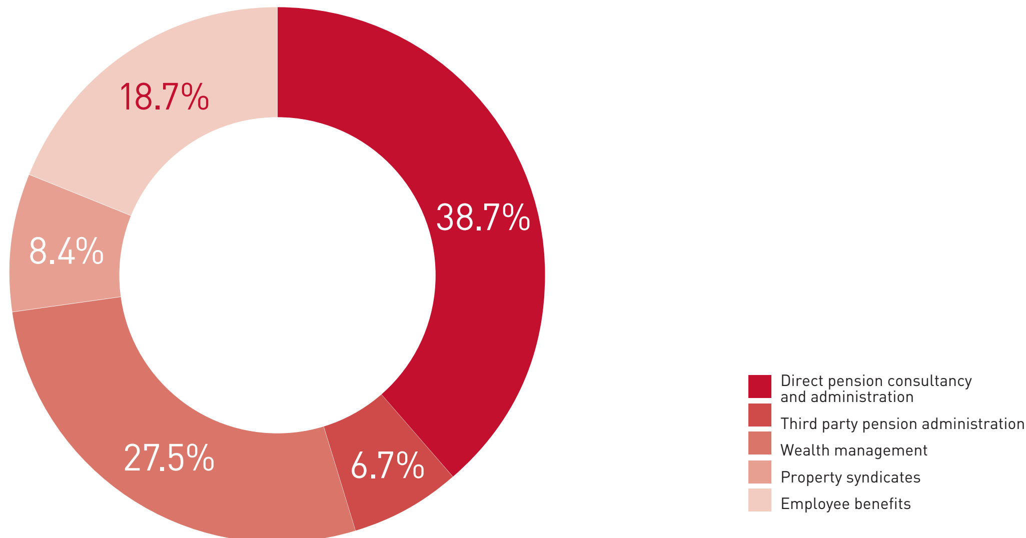
£135m portfolio

Custodian Capital manages a nationwide property portfolio with an aggregate value over £135 million and more than 1,200 individual investors.

We provide 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.



Operating segments



FLEXIBILITY AND CONTROL

We provide integrated financial services for individual and corporate clients

Direct pension consultancy and administration

We are a leader in the provision of SIPP and SSAS arrangements, which are often central to our clients' pension strategies.

We have established a reputation for technical excellence, widely acknowledged within our industry. We maintain our technical edge through our in-depth understanding of UK pension legislation, which translates into the delivery of meaningful guidance to our clients by our consultancy team.

The provision of personalised and proactive administration further differentiates us from our competitors.

Third party pension administration

City Trustees has developed an excellent reputation for providing bespoke pensions administration, coupled with first-rate client service, and has recently been awarded the Defaqto 5-star rating for its SIPP.

Wealth management

Discretionary portfolio management and the provision of bespoke investment advice sit at the heart of our investment propositions, embracing both pension investment and personal assets.

Our wealth management services are delivered by a dedicated team, with many years' experience in finance and investments.

Property syndicates

Mattioli Woods facilitates direct commercial property ownership through its subsidiary, Custodian Capital. We believe commercial property is ideally suited as a retirement investment. Good quality properties with strong leases and good quality tenants typically provide stable returns over the long-term.

Our property team offers years of combined experience in the commercial property investment markets, proactively managing clients' assets with the aim of maintaining cash flow, enhancing long-term income and protecting value.

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 work with employers to review existing or implement new reward and benefit packages, providing ongoing advice to ensure these packages remain competitive and up-to-date with changes in legislation.

We recommend, operate and administer schemes on a global basis, providing advice on life cover, medical insurance, salary protection, rewards and other lifestyle-related benefits.

Bob Woods
Chairman

ANOTHER YEAR OF PROFITABLE GROWTH

"The continued development of the Group's wider capabilities, combined with changes in our key markets, make this an exciting time"

I am delighted to report another year of profitable growth, particularly as the period embraces the first five months of the post-Retail Distribution Review ("RDR") era. The RDR heralded a period of unprecedented change in our sector, creating enormous opportunities for a 21st century financial services business that can deliver proactive advice with professional products and services.

Continued development of the Group's wider capabilities, combined with changes in our key markets, make this an exciting time. Many commentators predicted the advisory market would consolidate post-RDR and we have been active as an acquirer, most recently announcing the acquisition of Thoroughbred Wealth Management Limited and its subsidiary Atkinson Bolton Consulting Limited (together "Atkinson Bolton") last month. In addition, proposed increases in the regulatory capital requirement for operators of self-invested personal pensions ("SIPPs") is driving consolidation in another of our core markets and we were pleased to acquire the pension administration business of Ashcourt Rowan plc ("Ashcourt Rowan") in April 2013.

We were appointed to operate The HD SIPP in June 2013, which follows on from our earlier appointments to The Freedom SIPP and The Pilgrim SIPP. Our reputation for technical excellence has allowed us to work closely with The Insolvency Service, the Financial Conduct Authority ("FCA") and HM Revenue & Customs to secure the position of members following the failure of the previous operator.

Mattioli Woods has recently been shortlisted as 'Best SSAS Provider' at the Investment Life & Pensions Moneyfacts Awards 2013 and selected as a finalist in the 'Retirement Advisor of the Year' category. This level of industry recognition is very pleasing.

Market overview

There has been much focus on the impact of the RDR and I have noted previously how we welcome this move to greater professionalism within the sector. The RDR has changed the nature of our investment advisory revenues and I believe the move from provider commissions to adviser fees based on assets under advice enhances the quality of our earnings.

The Government recently announced the end of consultancy charging in auto-enrolment schemes and it plans to publish a consultation paper this autumn, including proposals to cap default fund charges in Defined Contribution schemes. Although there is still some uncertainty around the impact of these proposals, they demonstrate a clear demand for progressive employers to create cost-effective and engaging employee benefits plans. Following the launch of our flexible employee benefits service, "Create", we are well-placed to address this market, for the benefit of both our clients and shareholders.

Assets under management, administration and advice

Total client assets under management, administration and advice increased by 20.5% to £3.64bn at 31 May 2013 (2012: £3.02bn) as follows:

	31 May 2013 £m	31 May 2012 £m
SSAS	**1,362.5**	1,193.2
SIPP	**1,264.8**	919.4
Funds Under Trusteeship	**2,627.3**	2,112.6
Employee benefits	**640.3**	575.4
Personal assets	**376.7**	328.7
Assets under mangement, administration and advice[4]	**3,644.3**	3,016.7

We added £301.9m of funds under trusteeship with the acquisition of Ashcourt Rowan's pension business during the year. These acquired funds added to net organic growth of £212.8m in our core pension business, including £112.2m secured on our appointment to The Pilgrim SIPP.

The launch of our portfolio management service in the first half was an important step forward in providing wider wealth management services to our clients. At the financial year end, our discretionary proposition had attracted £187.2m of assets under management since 1 September, increasing our recurring revenues and delivering more efficient service to our clients.

Following the year end, a further £442.4m of client assets have been added on the acquisition of Atkinson Bolton, in addition to £7.1m on our appointment to The HD SIPP.

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.

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

Historically, our core distribution has been by way of referral from other professional advisers throughout the UK. We have now developed a new executive financial counselling initiative, which we are introducing to corporate clients. This is showing early signs of promise and I expect our ability to sustain strong organic growth through cost-effective distribution to become a key differentiator.

We plan to continue expanding Mattioli Woods' operations, both organically and by acquisition. The acquisitions we have completed to date have all been earnings enhancing and the acquisition of Atkinson Bolton is another excellent cultural and strategic fit, offering real synergies with the wider Group. Based in Newmarket, Atkinson Bolton employs 50 staff providing advice to both high net worth individuals and companies on all aspects of financial planning.

The acquisition extends our existing employee benefits proposition, bringing circa £154.0m in group pension schemes under advice at a time when the introduction of the National Employment Savings Trust ("NEST") and auto-enrolment present clear opportunities. In addition, the acquisition offers the enlarged business the opportunity to extend the provision of SIPPs to a wider audience and adds further specialist wealth management expertise to Mattioli Woods' existing operations, with £238.3m of discretionary assets under management and £50.1m of assets under advice at 31 July 2013. Atkinson Bolton also operates its own Open Ended Investment Company, The IM Thoroughbred Funds ICVC, which holds £52.4m of its clients' assets, the majority of which are discretionary.

Staff

I would like to thank all our staff for their continued commitment, enthusiasm and professionalism in dealing with our clients' affairs. 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"). The number of eligible staff investing via the Plan has remained at 55% (2012: 55%). I am delighted the value of employee share holdings held via the Plan has surpassed £1.0m and we will continue to encourage broader participation in the Plan.

We plan further recruitment over the coming year and were delighted to announce the appointment of Michael Crowe as Group Head of Human Resources in May 2013. Michael brings proven experience in delivering valued human resources solutions.

Last month, we further strengthened our team with the appointment of Ed Carey as Managing Director of our third party administration business, City Pensions Limited. Ed was a founding member of the team at Cofunds and brings 20 years' senior management experience in retail financial services.

Board changes

Helen Keays, one of our Non-Executive Directors, has informed the Board that she wishes to step down to pursue other interests. We thank her for her contribution over the last two years and wish her every success in her future endeavours. She will formally leave the Board on 31 October 2013. The Nominations Committee has initiated a search process to replace Helen, who has served on the Board since July 2011.

Dividends

The board is pleased to recommend the payment of a final dividend for the year of 4.67 pence (2012: 3.70 pence) per ordinary share. If approved, the final dividend will be paid on 15 October 2013 to shareholders on the register at the close of business on 6 September 2013. This makes a proposed total dividend for the year of 7.00 pence per share (2012: 5.55p), a year-on-year increase of 26.1% (2012: 12.1%). 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 plan further investment in information technology, training and recruitment over the next 12 months as we seek to develop a single platform for all the Group's operations.

I have enormous conviction in our strategy and look forward to Mattioli Woods delivering first class services to our clients and further sustainable growth to our shareholders over the coming year.

Bob Woods
Chairman
27 August 2013

PORTFOLIO MANAGEMENT

Portfolio management is a tailored investment management service, designed in response to our clients' needs and a rapidly evolving investment world. In a complex investment marketplace with a multitude of funds, the Mattioli Woods portfolio management service provides clients with actively managed investment solutions.

Portfolio management sits at the heart of our investment services, is managed by a dedicated team of investment managers and researchers and is delivered by a team of consultants, to ensure the management of a client's portfolio meets their individual investment objectives.

A year after its launch, our portfolio management service has already attracted over £200 million of assets under management.

Sarah Thi, Investment Manager

Ian Mattioli
Chief Executive

EXTENDING OUR REACH

"Our success is based upon the development of our people"

Introduction

I am pleased to report another year of growth, expanding organically and by acquisition, as we pursue our strategy of developing a broader 21st century financial services business.

Revenue in the year ended 31 May 2013 was up 14.3% to £23.41m (2012: £20.48m), with £1.51m of this increase representing the impact of a full year's contribution from Kudos. EBITDA was up 12.7% to £5.76m (2012: £5.11m). As anticipated, we saw a slight fall in EBITDA margin to 24.6% (2012: 25.0%) following further investment in the infrastructure of our business. Adjusted earnings per share[5,6] increased by 12.2% and adjusted profit before tax[6] by 9.9% compared with the prior year.

Our success is based upon the development of our people. In addition to gaining the Investors in People accreditation, we have been awarded the 'One to Watch' standard by workplace engagement specialist Best Companies, which compiles The Sunday Times '100 Best Companies to Work For'. I am delighted we have created a business people feel proud to work for and one that recognises and rewards talent and hard work.

Our focus is on ensuring we can continue to address our clients' changing needs, developing complementary services around our core activities and extending the Group's wealth management and employee benefits operations. For the first time in many years, it appears both the economic and regulatory environment may work in our favour and we plan further investment in our technology and people to ensure we can respond to these opportunities and attract new clients based on our expertise, professionalism and enterprise.

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. While the market post-RDR remains uncertain, I believe we are in a good position to respond effectively to the many opportunities that are available.

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 secure strong client retention and to attract new clients across our key markets by:

- Developing our brand;
- Growing our consultancy teams;
- Extending our range of products and services;
- Delivering on our clients' expectations; and
- Investing in our people and technology platforms to create the capacity 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 2013, recurring revenues[7] represented 70.7% (2012: 64.8%) of total Group revenues.

Although the Group's key revenue streams remain unchanged, following a review of the Group's operating segments during the year, the allocation method has been amended to provide greater clarity. Banking revenues generated from the operation of pension scheme accounts is now included within 'direct pension consultancy and administration' or 'third party administration', as appropriate. In prior years, banking revenue was disclosed as part of 'wealth management'. Comparative figures for the year ended 31 May 2012 have been restated using the amended allocation basis.

Direct pension consultancy and administration

Mattioli Woods' core business is the provision and administration of SIPPs and SSASs, representing 38.7% (2012: 45.0%) of Group revenues, of which 95.4% (2012: 90.7%) are recurring. Our client base primarily comprises owner-managers, senior executives and members of the professions. Additional fees are generated from consultancy services provided for specialist ad hoc activities.

Revenues from these services were £9.05m (2012: £9.22m). A slowdown in client activity over the summer months and an absence of one-off revenues associated with changes in pension legislation that we advised on in the prior year, led to reduced fee income of £7.51m (2012: £8.17m). This was partially offset by an increase in banking revenues to £1.54m (2012: £1.05m).

We gained 282 (2012: 310) direct[8] SSAS and SIPP schemes in the year, representing 8.5% (2012: 10.3%) 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 £0.42m (2012: £0.37m). We continue to achieve strong client retention with a 1.8% (2012: 1.4%) overall increase in the number of direct schemes administered at the year-end.

Our external loss rate[9] improved to 3.6% (2012: 5.2%) and the overall attrition rate[10] fell to 4.2% (2012: 6.2%), partly as a result of previous acquisitions now having fully bedded-in.

In a low interest rate environment, we continue to work with our core banking partners to structure bank accounts offering better interest 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. Lower LIBOR rates over the last year are expected to lead to lower banking revenues in this new financial year, although this may be partially offset by demand for advice on investment into other asset classes.

Wealth management

Wealth management revenues are generated from advising clients on their investments. Revenues increased 19.0% to £6.44m (2012: £5.41m), with £0.58m of this increase arising from a full year's contribution from Kudos' wealth management team. Wealth management represented 27.5% (2012: 26.4%) of total Group revenues, with the proportion of recurring revenues increasing to 54.2% (2012: 37.6%) following the launch of our portfolio management service in August 2012 and the introduction of adviser charging following the implementation of the RDR on 1 January 2013. Post-RDR, our investment advisory revenues comprised fees of £0.92m (2012: £nil) based on the value of assets under advice at the start of each quarterly billing period, partially offsetting an anticipated fall in commission payments received in the year to £1.63m (2012: £3.57m).

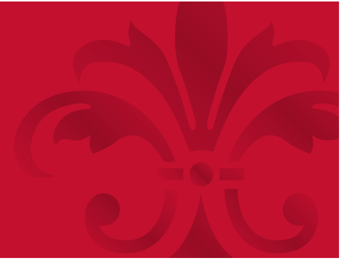
In addition, we attracted £187.2m of client assets onto our discretionary platform during the period, generating initial placement fees and ongoing management charges of £1.92m (2012: £nil).

I believe the launch of our portfolio management service and introduction of adviser charging enhances the quality of our earnings through the creation of new recurring revenue streams. As for other firms, these income streams are directly linked to the performance of financial markets and the value of funds under management and advice.

Employee benefits

We define employee benefits 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. These traditions are now changing and we see many employers who look at other, more flexible or lifestyle-related benefits for their employees.

5 Basic EPS up 15.0% to 19.34p (2012: 16.82p).
6 Before acquisition costs expensed under IFRS3 (Revised), amortisation and impairment of intangible assets other than computer software.
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.



EMPLOYEE BENEFITS

Traditionally, employee benefits have comprised salary along with certain other benefits employers provide such as pension, life cover, medical insurance, cover for salary while off ill and holidays. Traditions are changing and many employers are now looking for new ideas, such as more flexible, lifestyle-related, benefits for their employees.

We have built a reputation for not only implementing and running employee benefit schemes well, but also promoting them to the employees who use them.

The Government has recently introduced legislation that requires all employers to enrol their workers into a qualifying workplace pension scheme. 'Create', our own flexible benefits proposition, provides an end-to-end solution for all sizes of employer, covering all the stages of their auto-enrolment journey.

We also help many companies with cost audits for their benefits and how they can engage their employees through effective remuneration packages.

Alan Fergusson, Director of Employee Benefits

Employee benefits revenues increased to £4.37m (2012: £3.53m), aided by a full year contribution from Kudos and some significant new client wins. Employee benefits revenues now represent 18.7% of total revenue (2012: 17.2%), of which 38.5% (2012: 34.9%) are recurring. The acquisition of Atkinson Bolton extends our existing employee benefits proposition and we expect new opportunities will arise from auto-enrolment and a drive towards total reward and flexible benefits in the corporate market. We have also seen strong interest in executive financial counselling, which dovetails well with our core pension and wealth management services.

Property syndicates

Mattioli Woods facilitates direct commercial property ownership for clients via its subsidiary, Custodian Capital Limited ("Custodian Capital"), which aims 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 may be SIPPs, SSASs or private individuals.

> "We were delighted when Defaqto awarded City Trustees its highest 5-star rating in September 2012"

Custodian Capital initiated £11.0m (2012: £12.6m) of investment into six (2012: eight) new partnerships during the period, with direct property ownership continuing to appeal to clients attracted by the opportunity to develop a well-diversified portfolio of prime commercial property.

Property syndicate revenues increased to £1.96m (2012: £1.38m) or 8.4% of total revenue (2012: 6.8%), of which 63.4% (2012: 62.9%) represented recurring annual management charges. Our appointment to operate The Pilgrim SIPP also benefited Custodian Capital, which now administers 11 property syndicates on behalf of Pilgrim members.

In October 2011, our property syndicate business was transferred into a separate subsidiary to allow us to offer property syndicate investment to a broader client base, using an Unregulated Collective Investment Schemes ("UCIS") structure. In June 2013 the FCA published new rules, which take effect from 1 January 2014, aimed at improving retail consumer outcomes by limiting the promotion of UCIS and close substitutes. While we support the regulator's desire to restrict the promotion of UCIS to more strictly defined "sophisticated investors", property is an important asset class for a large number of our clients and against the backdrop of these regulatory changes we will consider the adoption of alternative structures for the delivery of our property initiative into the wider market.

Third party pension administration

City Pensions Limited (trading as "City Trustees") has also enjoyed strong profit growth following its relocation to Leicester, enhanced by its appointment to operate The Pilgrim SIPP in June 2012. We have worked hard to develop our administration-only proposition and were delighted to receive further recognition of this when Defaqto awarded City Trustees its highest 5-star rating in September 2012. Defaqto provides an independent quality assessment of SIPPs, based on product features and service to advisers. Key features of the City Trustees SIPP are a transparent fee structure and bespoke service, with each client having their own dedicated account manager. The City Trustees SIPP offers clients full control of their pension planning and allows diversification through a wide range of investments.

Third party administration revenues increased by 68.1% to £1.58m (2012: £0.94m), representing 6.7% (2012: 4.6%) of total revenues, of which 94.8% (2012: 82.3%) are recurring. This strong revenue growth follows the Bank of Scotland's appointment of City Trustees to operate The Pilgrim SIPP in June 2012 and the acquisition of Ashcourt Rowan's pension administration business in April 2013. Administration fees increased to £1.14m (2012: £0.78m) and associated banking revenues were £0.44m (2012: £0.15m).

The number of SSAS and SIPP schemes administered by City Trustees more than doubled during the year to 2,297 (2012: 1,012) at the period end. Our appointment to operate The HD SIPP in June 2013 adds over 30 active schemes and following the recent appointment of Ed Carey as Managing Director, I anticipate further growth in the current financial year.

Regulatory environment

Financial Conduct Authority

Mattioli Woods is authorised and regulated by the FCA to provide investment advice, deal in investments as agent and to establish, operate and wind-up personal pension schemes, including SIPPs. The FCA'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, abolishing the previous system, including the Financial Services Authority. From 1 April 2013 we have been regulated by the FCA, which the Government intends to have a more proactive, interventionist approach, with the aim that actual or potential risks will be addressed before they crystallise.

All firms have been assigned one of four conduct classifications (C1-C4) and one of four prudential classifications (P1-P4), based on the FCA's view of the potential impact of the firm on the FCA's objectives.

The categories are not permanent and the FCA will continue to monitor the Group's potential impact on its objectives. The Group is currently classified as:

- A C3 firm, classed as "flexible portfolio", supervised by a team of sector specialists who will examine how the business is run and controlled on a four year cycle, although the FCA will conduct interim reviews of firms where information indicates the risk they represent is significantly changing; and
- A P3 firm, categorised as prudentially non-significant, where the FCA will be relying more on firms' own assessments of their financial resources requirements. P3 firms may be subject to a prudential assessment by the FCA as part of a peer group exercise, that is, a cross-firm review of capital and liquidity standards.

We welcome any regulatory change that builds a stronger system and allows well-resourced businesses like us to further differentiate themselves.

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.

We have seen some smaller firms struggling within the SIPP sector. We know from our own experience that the operators of The Freedom SIPP, The Pilgrim SIPP and The HD SIPP could no longer continue to provide appropriate services to their clients. Other SIPP providers may find themselves in a similar position and many commentators expect these issues to lead to further consolidation within the sector.

Compliance

We consider all legislative changes and the findings of all FCA 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, FCA 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.

WEALTH MANAGEMENT

Retirement planning is entering a new phase, hallmarked by less reliance on tax incentives. Legislative changes create the need for advice and it is more important than ever for clients to have ongoing monitoring of both their pension fund and personal investment strategies.

In refusing to allow our thinking to be driven by media or popular sentiment we have avoided many of the pitfalls in investment markets. Our focus is to remain impartial and deliver investment strategies through a tightly controlled, but diverse portfolio of investment instruments, to facilitate proactive ongoing management in ever-changing investment markets.

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

Current and future developments and performance

Group results

Revenues were up 14.3% to £23.41m (2012: £20.48m), with sustained demand for the Group's services. We are particularly pleased with the continued development of our broader wealth management proposition, strong post-acquisition performance of Kudos and growth in City Trustees during the year. The Group's revenue mix changed during the period, with further diversification of our key revenue streams as follows:

- 38.7% direct pension consultancy and administration (2012: 45.0%);
- 27.5% wealth management (2012: 26.4%);
- 18.7% employee benefits (2012: 17.2%);
- 8.4% property syndicate revenues (2012: 6.8%); and
- 6.7% third party pension administration (2012: 4.6%).

Unadjusted EBITDA increased 12.7% to £5.76m (2012: £5.11m), with an anticipated fall in EBITDA margin to 24.6% (2012: 25.0%) as a result of continued investment in our people and systems.

To facilitate a like-for-like comparison with prior years, acquisition costs of £0.17m on the Atkinson Bolton acquisition that were incurred during the year have been added back in calculating adjusted EBITDA and adjusted profit before tax. Adjusted EBITDA[11] increased 10.2% to £5.93m (2012: £5.38m), while adjusted EBITDA margin fell to 25.3% (2012: 26.3%).

I anticipate we will see some continued 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, I expect the investment we are making in the Group's management information systems and technology will provide scope for future margin improvement and the delivery of more efficient client service.

Net finance revenue

Net finance revenues of £0.04m (2012: £0.05m) remain in line with low interest rates. The Group has maintained a positive net cash position, with average balances broadly in line with the prior year.

Taxation

The effective rate of taxation on profit on ordinary activities fell to 22.2% (2012: 26.3%) due to further cuts in the UK corporation tax rate. The net deferred taxation liability carried forward at 31 May 2013 was £1.83m (2012: £2.12m).

Earnings per share and dividend

Adjusted EPS[12] increased 12.2% to 24.29p (2012: 21.65p). Basic EPS was up 15.0% to 19.34p (2012: 16.82p), primarily due to revenue growth increasing operating profits, coupled with lower corporate tax rates. Diluted earnings per share increased 13.5% to 18.94p (2012: 16.68p), with 567,000 options issued under the Share Option Plan exercised during the period. A proposed increase of 26.1% in the total dividend for the year to 7.00p (2012: 5.55p) demonstrates our desire to deliver value to shareholders and confidence in the outlook for our business.

Cash flow

Net cash generated from operations was £6.41m (2012: £5.81m) with EBITDA of £5.76m (2012: £5.11m). The Group conversion of EBITDA into operating cash flow was 111.3% (2012: 113.7%), with the changing sales mix and a continued focus on improved credit control reducing trade receivables to 52 days' sales (2012: 67 days). This, coupled with a £0.96m increase in trade and other payables (2012: £0.73m), created a cash inflow from working capital of £0.53m (2012: £0.53m).

Trade payables increased to 44 days' purchases (2012: 41 days) with amounts owed to suppliers at the year-end higher than the prior year due to a small increase in outstanding invoices.

Capital expenditure for the year was £0.69m (2012: £0.51m), with the most significant costs being investment in new computer hardware and software and the purchase of new company cars for consultants following our significant expansion of the team.

Further investment in the Group's management information systems and technology is planned over the coming year, to enhance reporting and our clients' ability to review their affairs online.

Bank facilities

The Group has renewed its borrowing facilities with Lloyds TSB Bank plc ("Lloyds TSB"), which consist of a £5.0m overdraft facility with interest payable at the bank's base rate plus 1.1875% on the first £0.50m and plus 1.375% on borrowings in excess of £0.50m. The Lloyds TSB facility is repayable upon demand and renewable on 31 January 2014. At 31 May 2013 the Group had unused borrowing facilities of £5.00m (2012: £4.36m).

Capital structure

The Group's capital structure is as follows:

	2013 £000	2012 £000
Net funds	**(8,047)**	(5,130)
Shareholders' equity	**29,100**	25,469
Capital employed	**21,053**	20,339

The Group has remained negatively geared, with the gearing ratio falling from (1.8)% to (7.5)% as a result of the growth in Group trade and other payables of £5.87m (2012: £4.69m) being more than offset by net cash balances of £8.05m (2012: £5.14m).

Acquisitions

The acquisition of Kudos in August 2011 extended both our employee benefit and wealth management propositions and we have followed this with the acquisition of Atkinson Bolton in July 2013. This transaction enables both parties to provide more services to existing clients and capture new business opportunities through our combined introducer networks. It is another exciting step forward in the development of Mattioli Woods as a broader wealth management business.

A proposed increase in the regulatory capital requirement for SIPP operators is driving consolidation in the sector and we were pleased to acquire the pension administration business of Ashcourt Rowan in April 2013. We may see more acquisition opportunities as other small SIPP operators look to exit the market.

11 Adding back £0.17m of acquisition costs expensed under IFRS3 (Revised).

12 Before acquisition costs expensed under IFRS3 (Revised) and amortisation of intangible assets other than computer software.

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. We continue to invest in our graduate recruitment programme, with a total of 13 new graduates joining the Group (2012: 11). Our total headcount at the end of the period was 283 (2012: 255).

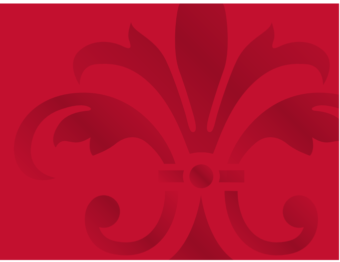
We also continue with the development of our bespoke pension administration system ("MWeb") and our management information systems. These improvements are designed to enhance the services we offer clients and realise operational efficiencies across the Group as a whole.

Principal risks and uncertainties

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

The Group has an indirect exposure to security price risk on investments held by clients, with trailing (or funds based) investment commissions, property management fees, discretionary portfolio management fees and adviser charges being based on the value of client assets under management, administration or advice. 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.

"These results are testament to our people's hard work and their ability to take ownership of the client relationship"

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 20 and 21 outlines the current risk factors for the business identified by the Group. The risk factors mentioned 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

I am delighted with the performance of our business post-RDR, in what remain uncertain economic circumstances. Mattioli Woods has always had a strong client care culture. These results are testament to our people's hard work and their ability to take ownership of the client relationship, which I believe will differentiate us from our competitors.

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

Ian Mattioli
Chief Executive
27 August 2013

MATTIOLI WOODS BACKS RACER SAMMI KINGHORN

Mattioli Woods has a long-standing commitment to the communities in which we operate and we believe we can all play a valuable role in making a difference to others.

Part of this commitment is our support of 17 year-old Sammi Kinghorn, an upcoming young Scottish athlete. As part of the Red Star Athletics Club, Sammi achieved a 2nd place in her debut race at the London Mini Marathon. In July 2012, she became British Junior Champion and in 2013 she was awarded a Young Scot Award. Sammi's dream is to compete in the Paralympics 2016. She is a remarkable teenager and her strength of character and determination are an inspiration to us all.

Corporate social responsibility is integral to who we are and is embedded in our business. Our support for Sammi is part of a wider programme of initiatives by which Mattioli Woods supports community projects and charities.

www.mattioli-woods.com/about/corporate-responsibility

Industry risks

Risk type	Risk	Mitigating factors
Changes in investment markets and poor investment performancwe	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 Trustees extends our proposition to IFA-introduced clients attracted by SIPP offering.
Evolving technology	The Group's technology could become obsolete if we are unable to develop our systems to accommodate changing client needs, new products and the emergence of new industry standards.	• Track record of successful development. • High awareness of the importance of technology at Board level. • Expanded systems development team through recruitment of new IT manager.
Regulatory risk	The Group may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations.	• Strong compliance culture. • 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

Risk type	Risk	Mitigating factors
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 Trustees 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

Risk type	Risk	Mitigating factors
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.

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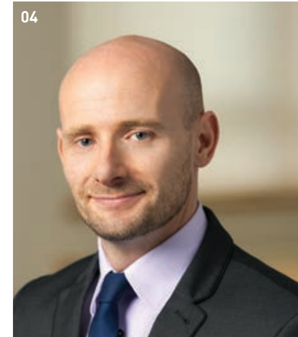
04

BUILDING VALUE FOR SHAREHOLDERS

The Board comprises five Executive and three Non-Executive Directors. A short biography of each director is set out below.

01 Bob Woods
Chairman, age 59
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. He is responsible for developing Group strategy and identifying new growth areas.

02 Ian Mattioli
Chief Executive, age 50
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, founded Mattioli Woods.

03 Nathan Imlach
Finance Director and Company Secretary, age 44
Nathan is responsible for all financial aspects of Mattioli Woods' operations and leads the Group's acquisition activity. He qualified as a Chartered Accountant in 1993 with Ernst & Young, specialising in providing mergers and acquisitions advice to a broad range of quoted and unquoted clients in the UK and abroad, latterly as a Director and Associate of Johnston Carmichael. 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 also a trustee of Leicester Grammar School.

04 Murray Smith
Marketing and Sales Director, age 44
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 being a consultant at Mattioli Woods to his appointment to the Board. Murray's responsibilities include managing the Group's consultancy team, marketing and public relations activities.

05 Mark Smith

Operations Director, age 43

Mark joined Mattioli Woods in 2000, after gaining 12 years' experience in the financial services industry with a large insurance company, a small IFA firm and specialist SSAS and SIPP consultancies. As the Group's Compliance Officer, he is responsible for liaison with the FCA 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 68

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 49

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 49

Joanne was appointed to the Board in July 2012 and is Chairman of the Audit Committee. She has over 19 years' experience in investment banking, supporting clients through a broad range of transactions. Joanne is head of Panmure Gordon'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 trustee of The Hepworth Wakefield.

Company secretary:
Nathan Imlach

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Registered number:
3140521

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Auditor:
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Solicitors:
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Kent
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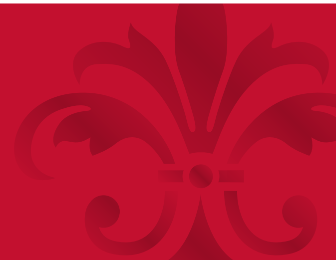


Report and financial statements

The directors have pleasure in presenting their report together with the financial statements for the year ended 31 May 2013. 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, syndicated property investment and employee benefits consultancy. The Chairman's Statement on pages 6 to 8 and the Chief Executive's Review on pages 10 to 18 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 £3.61m, up 17.2% on the previous year, primarily due to increased revenues following our appointment to The Pilgrim SIPP in June 2012 and a full year's contribution from Kudos.

The final dividend in respect of the year ended 31 May 2012 of 3.70p per share was paid in October 2012. An interim dividend in respect of the year ended 31 May 2013 of 2.33p was paid to shareholders in March 2013. The directors recommend a final dividend of 4.67p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2013. If approved, the final dividend will be paid on 15 October 2013 to ordinary shareholders whose names were on the register on 6 September 2013.

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 2013 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 FCA, whereby certain directors, officers and employees of the Group require the approval of the Group to deal in ordinary shares of the Company;
- Restrictions on the former shareholders of Kudos ("the Kudos Sellers") as a result of the Kudos 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; and
- Restrictions on the former shareholders of Thoroughbred Wealth Management Limited ("the TWM Sellers") as a result of the TWM 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 946,256 ordinary shares in Mattioli Woods during the four years ending 29 July 2017.

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 in 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 27 August 2013 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	3,423,703	17.31%
Bob Woods	3,423,703	17.31%
BlackRock Investment Management (UK) Limited	2,139,926	10.82%
Helium Special Situations Fund	1,110,000	5.61%
Investec Wealth and Investment	1,109,378	5.61%
Unicorn Asset Management Limited	1,087,561	5.50%
Liontrust Investment Partners LLP	989,436	5.00%
Octopus Investments Nominees Limited	609,332	3.08%

In addition to the above shareholdings, 372,831 ordinary 1p shares representing 1.89% 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 pages 22 and 23. Bob Woods, Murray Smith and Mark Smith retire by rotation and, being eligible, offers themselves for re-election.

The appointment of Joanne Lake as Non-Executive Director was announced on 31 July 2012. Helen Keays, also a Non-Executive Director, has informed the Board that she wishes to step down to pursue other interests. She will formally leave the Board on 31 October 2013. The Nominations Committee has initiated a search process to replace Helen, who has served on the Board since July 2011.

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 2013, the Group had an average of 44 days' purchases owed to trade creditors (2012: 41 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'.

The Group is taking advantage of its employee benefits expertise to introduce 'MyWay', an online flexible benefits platform, throughout the business. 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 six years, with the largest employers 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, and last 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, £nil (2012: £6,744) 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 £4,628 (2012: £18,511) were made during the year to local charities and community projects.

Mattioli Woods plays a valuable role in the community, forming innovative partnerships with other organisations and charities including Rainbows, LOROS, County Air Ambulance Service, Age UK, Eye Camps, RNLI and PROSTaid. The Board is keen to ensure staff engage with the local community and charities. Examples of our fundraising and sponsorship activities include:

- Mattioli Woods' annual charity dinner, with over £25,000 raised each year. This has become one of the East Midlands' most prestigious events;
- Mattioli Woods' Rothley 10k, which is one of the of the most popular charity races in Leicestershire, attracting over 600 runners; and
- The sponsorship of Sammi Kinghorn, an up-coming young Scottish athlete who aspires to compete in the 2016 Paralympics.

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 10 October 2013. 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. Resolutions 9, 10 and 11 are the special business being proposed. Resolution 9 disapplies pre-emption rights and in conjunction with Resolution 8, grants authority to the directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of 10% of the nominal value of the issued ordinary share capital of the Company.

Resolution 10 amends article 21 of the Company's articles of association to permit the execution of share certificates by a laser seal and/or laser signature. Resolution 11 grants authority to the directors, without the need for further specific shareholder approval, to make market purchases of ordinary shares up to an aggregate nominal value of 10% of the nominal value of the issued ordinary share capital of the Company. This provides the Company with additional flexibility in the management of its capital base.

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 20 and 21 of the Chief Executive's Review.

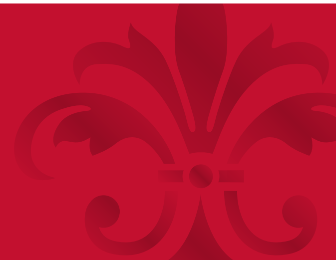
Financial risk management
The Company and certain of its subsidiaries are supervised in the UK by the Financial Conduct Authority ("FCA"). The Group must comply with the regulatory capital requirements set by the FCA and manages its regulatory capital through continuous review of the capital requirements of the Company and its regulated subsidiaries, which are monitored by the Group's management and reported monthly to the Board.

The Group's 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 31 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.



Financial risk management continued

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 management, 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 8 and the Chief Executive's review on pages 10 to 18.

Corporate governance

A full review of Corporate Governance appears on pages 29 to 31.

Auditor

Baker Tilly UK Audit LLP, who have been the Group's auditor 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 2013 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 30. 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

27 August 2013

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 pages 22 and 23 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 their 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.

The Nominations Committee has initiated a search process to replace Helen Keays, who has informed the Board that she wishes to step down to pursue other interests.

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), Murray Smith, Ben Wattam (Investment Manager), Sarah Thi (Investment Manager), Adeline Christy (Director – Wealth Management), Stan Allen (Investment Consultant) 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	11	7	1	11	3
Bob Woods	11	–	–	10	–
Ian Mattioli	9	–	–	–	–
Nathan Imlach	11	–	–	–	–
Murray Smith	10	–	–	7	–
Mark Smith	10	–	–	–	–
John Redpath	9	7	1	–	3
Helen Keays	9	7	1	–	2
Joanne Lake[1]	8	6	–	–	3

Notes:
1. 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' appointments are initially for 12 months, and continue thereafter until terminated be either party giving three months' prior written notice to expire at any time on or after the initial 12 month period. 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 10 October 2013. 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.

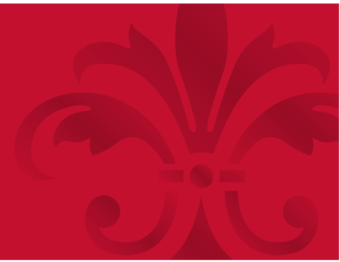
The Board routinely reviews the effectiveness of the system of internal control and risk management to ensure controls react to changes in the nature of the Group's operations.

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
27 August 2013



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.

During the year the Remuneration Committee undertook a full review of executive remuneration, in conjunction with external consultants, who benchmarked the Executive Directors' remuneration against a peer group of comparable listed companies with a similar level of revenue and market capitalisation. These figures suggested that, at each level, the Executive Directors of Mattioli Woods were paid below the median in terms of short term remuneration when compared to this peer group.

In December 2010, the Financial Services Authority (now the FCA) published a revised code of practice on remuneration policies ("the Code") to take into account changes required by the Capital Requirements Directive. The Code requires firms to apply remuneration policies, practices and procedures that are consistent with and promote effective risk management. The Code applies directly to all banks, building societies and Capital Adequacy Directive ("CAD") investment firms, such as the Company.

Following careful consideration of the Code, the Remuneration Committee has resolved to change the mix of Executive Directors' fixed and variable short and long term pay for the year ending 31 May 2014, while at the same time keeping the total cost of executive pay for "on target" performance at a level comparable to prior years. The Remuneration Committee believes this revised structure is consistent with effective risk management, reducing any incentive for risk taking beyond the tolerable risk of the firm.

The most significant change is to increase basic salaries and reduce the maximum potential variable pay awards. In addition, the rules of the Mattioli Woods 2010 Long-Term Incentive Plan ("the LTIP") have been amended to consider legislative changes since the plan was first adopted. The Remuneration Committee intends to make LTIP awards in respect of the current financial year following the announcement of the Group's results for the year ended 31 May 2013. This will introduce a significant element of deferred variable remuneration to be paid in shares. Although Mattioli Woods is not required to apply the Code principles because it is a Tier 4 firm, the Remuneration Committee believes these changes are very much in accordance with the spirit of the Code and represent the most appropriate remuneration structure for the Group's most senior executives.

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 2013, the short term incentive arrangements for Ian Mattioli and Bob Woods comprised a single all-corporate award based on actual profit achieved compared to target profit. The short-term incentive arrangements for Nathan Imlach, Murray Smith and Mark Smith comprised:

- A corporate award based on actual profit achieved compared to target profit; and
- A personal award based on the achievement of personal objectives assessed on a discretionary basis, considering each executive's performance against their key objectives.

Short term incentive payments were capped at a maximum of 180% of salary for Ian Mattioli and 150% of salary for all other Executive Directors. The payment of corporate award at its maximum level is dependent on outperformance of the Board's approved internal forecast for the period. For the year ending 31 May 2014, the short-term incentive arrangements for each Executive Director have been amended as follows:

Short term incentive arrangements continued

Director	Maximum award as a proportion of salary	Linked to corporate objectives	Linked to personal objectives
Ian Mattioli	60%	100%	–
Bob Woods	40%	100%	–
Nathan Imlach	40%	70%	30%
Murray Smith	40%	70%	30%
Mark Smith	40%	70%	30%

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 2013 the Company had granted options to certain of its senior managers to acquire ordinary shares in the Company. The maximum entitlement of any individual was 0.41% (2012: 1.03%). The options are exercisable at £1.32 per share prior to their expiry on 31 May 2015. Options over 0.72% of the Company's share capital were in issue under the Share Option Plan at 31 May 2013 (2012: 3.87%).

Grant of options under the Consultants' Share Option Plan

At 31 May 2013 the Company had granted options to certain of its senior consultants to acquire (in aggregate) up to 3.06% (2012: 3.17%) of its share capital. The maximum entitlement of any individual was 0.45% (2012: 0.47%). 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 over ordinary shares would be granted under the EMI Plan to each participant up to a value at grant of £120,000, with any further award to any individual made through the LTIP. However, following changes in tax legislation and growth in the Group's business which meant it no longer qualified for the EMI Plan, the Board has approved amendments to the LTIP, the main purpose of which is to avoid an adverse early income tax charge under the new Part 7A of the Income Tax (Earnings and Pensions) Act 2003 (employment income provided through third parties), commonly referred to as the "disguised remuneration legislation", which was implemented by the Finance Act 2011.

Long term incentives continued

There was a danger that an income tax charge would arise at the time the trustee of the proposed employee benefit trust ("EBT") agreed to allocate shares they would hold to satisfy awards granted to specific employees. Although there are certain exemptions from such "earmarking" charges, the terms of the original LTIP rules did not satisfy any of the exemptions. The amendments to the LTIP rules are summarised as follows:

- Allowing for the grant of share options. If new shares are to be used to satisfy the options, the option price per share, payable by participants, must be not less than the nominal value of 1p per share. If instead existing shares are bought on the market by the trustee of the EBT, nil-cost options can be granted. As for other types of award, the share options will vest not less than three years after their grant date and only to the extent that the performance conditions are met. To give some flexibility to participants, they will be able to exercise their options during a three-year period following the vesting date.
- To maintain flexibility, the ability to grant Conditional Share Awards and Conditional Cash Awards has been retained, but the terms of these awards have been changed to come within exemptions to the disguised remuneration "earmarking" charge. The main change is that participants will become entitled to shares or cash immediately when awards vest and the income tax charge will therefore arise at the time of vesting.
- The amount of any cash entitlement on vesting of an award will be directly linked to the value of a specified number of the Company's shares at the vesting date. An equivalent number of shares will be sold by the EBT as soon as practicable after the vesting date and the participant will be entitled to the net sale proceeds (subject to normal income tax and national insurance deductions).
- Under the revised rules, awards will only be granted by the Company, and not the trustee of the EBT. Award certificates will be executed as a deed, which will ensure that the awards are legally enforceable by participants. It is still anticipated that any awards which will be satisfied by existing shares (as opposed to new shares or treasury shares) will be delivered to participants using the EBT.
- Under a new rule, the Remuneration Committee may reduce the number of shares subject to an award if it is discovered that the award has been granted or vested on the basis of incorrect information, including a misstatement of any published results of the Group, or in the event of misconduct of the participant. If the award has already vested – and, in the case of an option, been exercised – the participant may be required to repay some or all of the shares or cash received.

The Remuneration Committee intends to grant awards under the revised rules of the 2010 LTIP following the announcement of the Group's results for the year ended 31 May 2013.

Directors' remuneration

Directors' remuneration payable in respect of the year ended 31 May 2013 was as follows:

Director	Basic salary and fees £	Performance related short term incentives £	Pension contributions £	Benefits[1,2] £	Total emoluments 2013 £	Total emoluments 2012 £
Ian Mattioli	227,115	302,517	22,712	38	552,382	540,225
Bob Woods	190,550	211,511	19,055	38	421,154	411,625
Nathan Imlach	159,650	186,551	15,965	5,413	367,579	349,170
Murray Smith	139,050	162,480	13,905	8,191	323,626	310,196
Mark Smith	113,300	132,391	11,330	5,961	262,982	249,021
John Redpath	35,000	—	—	—	35,000	35,000
Helen Keays	30,000	—	—	—	30,000	30,000
Joanne Lake[3]	30,000	—	—	—	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. 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 and continues until terminated by either party giving three months' prior written notice to expire at any time on or after the initial 12 month period. 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 2013, 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	2013 No.	%	2012 No.	%
Ian Mattioli	3,423,703	18.20	3,623,703	19.98
Bob Woods	3,423,703	18.20	3,623,703	19.98
Murray Smith	258,526	1.37	256,568	1.41
Nathan Imlach	190,884	1.01	176,922	0.98
Mark Smith	69,662	0.37	67,704	0.37
John Redpath	13,000	0.07	13,000	0.07
Helen Keays	—	—	—	—
Joanne Lake (appointed 31 July 2012)	—	—	—	—

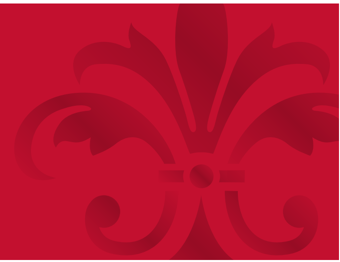
Note:
Directors' shareholdings include any shareholdings of trusts or family members deemed to be connected persons.

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 2012 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	At 31 May 2013 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



Interest in options continued

The options were 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 2013. All of the share options were granted for nil consideration.

The mid-market closing price of the Company's ordinary shares at 31 May 2013 was 288.5p and the range during the financial year was 160.0p to 296.0p.

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.

There was no change in the directors' shareholdings (all of which are beneficial) or their interests in share options between 31 May 2013 and 27 August 2013.

Total shareholder return performance graph

The graph below illustrates the total shareholder return for the five years ended 31 May 2013 in terms of the change in value of an initial investment of £100 invested on 1 June 2008 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
27 August 2013

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. The directors are required by the AIM Rules of the London Stock Exchange 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 financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and Company and the financial 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:

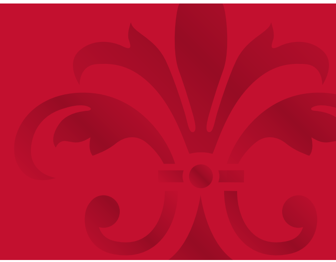
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate 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 Group and Company and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company 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 39 to 76. 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 set out on page 37, 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 Financial Reporting Council's website at http://www.frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Scope-of-audit/UK-Private-Sector-Entity-(issued-1-December-2010).aspx .

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 2013 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

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

27 August 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 May 2013

	Note	2013 £000	2012 £000
Revenue	4	**23,405**	20,482
Employee benefits expense	11	**(12,832)**	(11,194)
Other administrative expenses		**(4,693)**	(4,010)
Share based payments	19	**(102)**	(141)
Amortisation and impairment	16,17	**(854)**	(707)
Depreciation	15	**(304)**	(275)
Loss on disposal of property, plant & equipment		**(23)**	(24)
Operating profit before financing		**4,597**	4,131
Finance revenue	8	**53**	56
Finance costs	9	**(12)**	(7)
Net finance revenue		**41**	49
Profit before tax		**4,638**	4,180
Income tax expense	12	**(1,031)**	(1,101)
Profit for the year		**3,607**	3,079
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year, net of tax		**3,607**	3,079
Attributable to:			
Equity holders of the parent		**3,607**	3,079
Earnings per ordinary share:			
Basic (pence)	13	**19.34**	16.82
Adjusted (pence)		**24.29**	21.65
Diluted (pence)	13	**18.94**	16.68
Proposed total dividend per share (pence)	14	**7.00**	5.55

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 of the Company for the financial year, after taxation, was £3,053,187 (2012: £3,291,725).

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION
As at 31 May 2013
Registered number: 3140521

	Note	2013 Group £000	2013 Company £000	2012 Group £000	2012 Company £000
Assets					
Property, plant and equipment	15	**1,103**	**928**	1,019	814
Intangible assets	16	**24,060**	**10,303**	23,137	10,489
Deferred tax asset	12	**225**	**153**	156	64
Investments	17	**—**	**13,698**	—	12,948
Total non-current assets		**25,388**	**25,082**	24,312	24,315
Trade and other receivables	20	**8,769**	**6,810**	8,133	6,955
Financial assets	21	**239**	**235**	1,077	1,077
Cash and short-term deposits	22	**8,047**	**4,554**	5,796	2,669
Total current assets		**17,055**	**11,599**	15,006	10,701
Total assets		**42,443**	**36,681**	39,318	35,016
Equity					
Issued capital	23	**188**	**188**	181	181
Share premium	23	**8,616**	**8,616**	7,641	7,641
Capital redemption reserve	23	**2,000**	**2,000**	2,000	2,000
Equity - share based payments	23	**777**	**777**	626	626
Retained earnings	23	**17,519**	**17,176**	15,021	15,232
Total equity attributable to equity holders of the parent		**29,100**	**28,757**	25,469	25,680
Non-current liabilities					
Deferred tax liability	12	**2,059**	**273**	2,275	306
Provisions	26	**2,193**	**1,699**	3,310	3,266
Total non-current liabilities		**4,252**	**1,972**	5,585	3,572
Current liabilities					
Bank overdraft	22	**—**	**—**	654	641
Trade and other payables	25	**5,874**	**3,831**	4,689	3,267
Income tax payable		**502**	**—**	595	—
Provisions	26	**2,715**	**2,121**	2,326	1,856
Total current liabilities		**9,091**	**5,952**	8,264	5,764
Total liabilities		**13,343**	**7,924**	13,849	9,336
Total equities and liabilities		**42,443**	**36,681**	39,318	35,016

The financial statements on pages 39 to 76 were approved by the Board of directors and authorised for issue on 27 August 2013 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 2013

Group	Issued capital (Note 23) £000	Share premium (Note 23) £000	Equity share based payments (Note 23) £000	Capital redemption reserve (Note 23) £000	Retained earnings (Note 23) £000	Total equity £000
As at 1 June 2011	176	6,290	764	2,000	12,872	22,102
Profit for the year	—	—	—	—	3,079	3,079
Total comprehensive income	—	—	—	—	3,079	3,079
Transactions with owners of the Group, recognised directly in equity						
Issue of share capital	5	1,351	—	—	—	1,356
Share-based payments	—	—	49	—	—	49
Deferred tax taken to equity	—	—	(187)	—	—	(187)
Dividends paid	—	—	—	—	(930)	(930)
As at 31 May 2012	181	7,641	626	2,000	15,021	25,469
Profit for the year	—	—	—	—	3,607	3,607
Total comprehensive income	—	—	—	—	3,607	3,607
Transactions with owners of the Group, recognised directly in equity						
Issue of share capital	7	975	—	—	—	982
Share-based payments	—	—	1	—	—	1
Deferred tax taken to equity	—	—	31	—	—	31
Current tax taken to equity	—	—	119	—	—	119
Dividends paid	—	—	—	—	(1,109)	(1,109)
As at 31 May 2013	**188**	**8,616**	**777**	**2,000**	**17,519**	**29,100**

Company	Issued capital (Note 23) £000	Share premium (Note 23) £000	Equity share based payments (Note 23) £000	Capital redemption reserve (Note 23) £000	Retained earnings (Note 23) £000	Total equity £000
As at 1 June 2011	176	6,290	764	2,000	12,870	22,100
Profit for the year	—	—	—	—	3,292	3,292
Total comprehensive income	—	—	—	—	3,292	3,292
Transactions with owners of the Company, recognised directly in equity						
Issue of share capital	5	1,351	—	—	—	1,356
Share-based payments	—	—	49	—	—	49
Deferred tax taken to equity	—	—	(187)	—	—	(187)
Dividends paid	—	—	—	—	(930)	(930)
As at 31 May 2012	181	7,641	626	2,000	15,232	25,680
Profit for the year	—	—	—	—	3,053	3,053
Total comprehensive income	—	—	—	—	3,053	3,053
Transactions with owners of the Company, recognised directly in equity						
Issue of share capital	7	975	—	—	—	982
Share-based payments	—	—	1	—	—	1
Deferred tax taken to equity	—	—	31	—	—	31
Current tax taken to equity	—	—	119	—	—	119
Dividends paid	—	—	—	—	(1,109)	(1,109)
As at 31 May 2013	**188**	**8,616**	**777**	**2,000**	**17,176**	**28,757**

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS
For the year ended 31 May 2013

	Note	2013		2012	
		Group £000	**Company £000**	Group £000	Company £000
Operating activities					
Profit for the year excluding dividends received					
Adjustments for:		**3,607**	**2,053**	3,079	1,992
Depreciation	15	**304**	**239**	275	224
Amortisation and impairment	16,17	**854**	**376**	707	368
Investment income	8	**(53)**	**(43)**	(56)	(43)
Interest expense	9	**12**	**12**	7	6
Loss on disposal of property, plant and equipment		**23**	**24**	24	23
Equity-settled share-based payments	19	**102**	**102**	141	141
Income tax expense	12	**1,031**	**585**	1,101	965
Cash flows from operating activities before changes in working capital and provisions		**5,880**	**3,348**	5,278	3,676
(Decrease)/increase in trade and other receivables		**(576)**	**145**	12	350
Increase in trade and other payables		**964**	**551**	730	404
Increase/(decrease) in provisions		**140**	**281**	(208)	(208)
Cash generated from operations		**6,408**	**4,325**	5,812	4,222
Interest paid		**(12)**	**(12)**	(7)	(6)
Income taxes paid		**(1,257)**	**(557)**	(1,550)	(1,550)
Net cash flows from operating activities		**5,139**	**3,756**	4,255	2,666
Investing activities					
Proceeds from sale of property, plant and equipment		**23**	**22**	17	36
Purchase of property, plant and equipment	15	**(434)**	**(399)**	(278)	(224)
Purchase of software	16	**(260)**	**(190)**	(234)	(187)
Consideration paid on acquisition of subsidiaries	3	**(1,583)**	**(1,583)**	(4,329)	(4,528)
Cash received on acquisition of subsidiaries	3	**—**	**—**	2,182	—
Acquisition of businesses	3	**(656)**	**—**	(92)	(92)
Investment in subsidiaries	17	**—**	**(750)**	—	—
New loans advanced to property syndicates	21	**(2,450)**	**(2,446)**	(5,237)	(5,237)
Loan repayments from property syndicates	21	**3,288**	**3,288**	5,033	5,033
Interest received	8	**53**	**43**	56	43
Dividends received		**—**	**1,000**	—	1,300
Net cash flows from investing activities		**(2,019)**	**(1,015)**	(2,882)	(3,856)
Financing activities					
Proceeds from the issue of share capital		**881**	**881**	108	108
Payment of costs of share issue		**—**	**—**	(30)	(30)
Proceeds from directors' loans	25	**13**	**13**	9	9
Dividends paid	14	**(1,109)**	**(1,109)**	(931)	(931)
Net cash flows from financing activities		**(215)**	**(215)**	(844)	(844)
Net increase/(decrease) in cash in cash and cash equivalents		**2,905**	**2,526**	529	(2,034)
Cash and cash equivalents at start year	22	**5,142**	**2,028**	4,613	4,062
Cash and cash equivalents at end of year	22	**8,047**	**4,554**	5,142	2,028

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

Mattioli Woods plc ("the Company") is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the AIM market of the London Stock Exchange plc. The financial statements have been prepared on a historical cost basis and are presented in pounds, with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated. The financial statements were authorised for issue in accordance with a resolution of the Directors on 27 August 2013.

The financial statements comprise the financial statements of Mattioli Woods plc and its subsidiaries ("the Group") as at 31 May each year. The nature of the Group's operations and its principal activities are set out in the Chief Executive's Review.

2 Basis of preparation and accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as adopted by the European Union ("EU"), and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The financial statements have been prepared on a consistent basis with the year ended 31 May 2012, with no changes to the accounting framework adopted or accounting policies applied. At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

Standard or interpretation		Periods commencing on or after
IFRS 7 (amended)	Financial Instruments: Disclosures	1 January 2013
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosures of Interests in Other Entities	1 January 2013
IFRS 12	Fair Value Measurement	1 January 2013
IAS 1 (amended)	Presentation of Items in Other Comprehensive Income	1 January 2012
IAS 12 (amended)	Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 (revised)	Employee Benefits	1 January 2013
IAS 27 (revised)	Separate Financial Statements	1 January 2013
IAS 28 (revised)	Investments in Associates and Joint Ventures	1 January 2014
IAS 32 (amended)	Offsetting Financial Assets and Financial Liabilities	1 January 2014

Other than to expand certain disclosures within the financial statements, the Directors do not expect the adoption of the standards and interpretations listed above will have a material impact on the financial statements of the Group in the future periods.

The principal accounting policies adopted are set out below and have been applied consistently throughout the current and previous financial year.

2.2 Significant accounting policies

Basis of consolidation

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.

On publishing the consolidated financial statements, 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.

Business combinations

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.

2.2 Significant accounting policies continued

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 statement of comprehensive income 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.

Goodwill

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 statement of comprehensive income. 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 on written down values; and
- Internally generated software Straight line over 10 years.

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 at 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 statement of comprehensive income.

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 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
Ashcourt Rowan	23 April 2013	10 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 10 and 25 years on a straight-line basis	Amortised over a useful economic life of four years on a reducing balance basis or 10 years 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 statement of comprehensive income.

2.2 Significant accounting policies continued

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 statement of comprehensive income unless the asset is carried at revalued amount, in which case reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

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

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 May.

Financial assets

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 and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each reporting 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 statement of comprehensive income.

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

Trade and other receivables

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

Leases

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

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

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

Group as a lessee

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

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position 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 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 statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Provisions

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 statement of comprehensive income, 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.

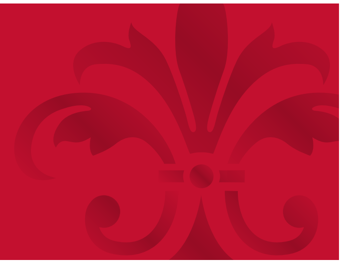
Share based payments

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 statement of comprehensive income 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.



2.2 Significant accounting policies 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 generally invoices its pension clients six months in arrears for time costs incurred in advising on and administering their affairs. Revenue is recognised as time costs accrue under the fees and services agreements in place with clients, by reference to the estimated recoverability of the time incurred. 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 reporting date.

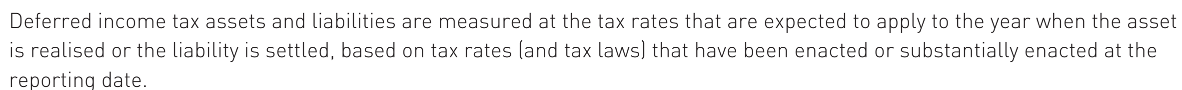
Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting 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 reporting 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 reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.



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

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.

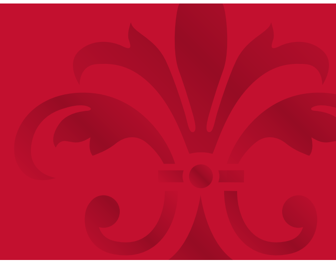
2.3 Key sources of judgements and estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The areas where a higher degree of judgement or complexity arises, or where assumptions and estimates are significant to the consolidated financial statements, are discussed below.

Impairment of client portfolios

The Group reviews whether acquired client portfolios are impaired at least on an annual basis. This comprises an estimation of the fair value less cost to sell and the value in use of the acquired client portfolios. In assessing value in use, the estimated future cash flows expected to arise from the individual client portfolios are discounted to their present value using the Group's weighted average cost of capital adjusted for tax, which reflects management's estimate of the time value of money and the risks specific to the asset.

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.



2.3 Key sources of judgements and estimation uncertainty continued

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% (2012: 2.5%), which management considers conservative against industry average long-term growth rates.

The carrying amount of client portfolios at 31 May 2013 was £14,475,616 (2012: £13,694,951). No impairments have been made during the year (2012: £nil) based upon the Directors' review.

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. In assessing value in use, the estimated future cash flows expected to arise from the cash-generating unit are discounted to their present value using the Group's weighted average cost of capital adjusted for tax. Details of the cash-generating units are contained in Note 18.

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, based upon management's expectation. The carrying amount of goodwill at 31 May 2013 was £8,734,336 (2012: £8,734,336). No impairments have been made during the year (2012: £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 2013 was £511,241 (2012: £379,079).

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 exercise price. The carrying amount of deferred tax assets at 31 May 2013 was £224,978 (2012: £155,980).

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 reporting 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 2013 was £2,847,199 (2012: £3,226,616).

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 reporting date. This requires an estimation of the amount of commission income that will be received subsequent to the reporting 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 2013 was £425,847 (2012: £510,011).

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 2013 was £3,791,667 (2012: £4,750,000).

Provisions

As detailed in Note 26, the Group recognises provisions for client claims, contingent consideration payable on acquisitions, commission clawbacks and other obligations which exist at the reporting date. These provisions are estimates and the actual amount and timing of future cash flows are dependent on future events. Management reviews these provisions at each reporting date to ensure they are measured at the current best estimate of the expenditure required to settle the obligation. Any difference between the amounts previously recognised and the current estimate is recognised immediately in the statement of comprehensive income.

3. Business combinations

Acquisition of Ashcourt Rowan

On 23 April 2013, City Pensions Limited (trading as "City Trustees") acquired the trade and certain assets of Ashcourt Rowan Administration Limited ("ARAL"), 100% of the share capital of Ashcourt Rowan Pension Trustees Limited and 100% of the share capital of Robinson Gear (Management Services) Limited (together "the Pension Business") from Ashcourt Rowan Holdings Limited, a wholly owned subsidiary of Ashcourt Rowan plc.

The acquisition has been accounted for using the acquisition method. The fair values of the identifiable assets and liabilities of the Pension Business as at the date of acquisition were:

	Fair value recognised on acquisition £000	Previous carrying value £000
Client portfolio	1,517	—
Trade receivables	33	104
Prepayments and accrued income	28	28
Total assets	1,578	132
Accruals	53	53
Deferred income and other payables	155	155
Provisions	89	89
Liabilities	297	297
Total identifiable net assets at fair value and total acquisition cost	1,281	
Analysed as follows:		
Cash paid	656	
Deferred contingent consideration	625	
	1,281	

Cash outflow on acquisition	£000
Cash paid	656
Acquisition costs	54
Net cash outflow	710

The fair value of trade receivables represents amounts receivable from clients in respect of services provided by the Pension Business prior to the date of acquisition. The fair value of trade receivables acquired has been impaired to reflect balances of £71,260 not expected to be recoverable.

From the date of acquisition, the Pension Business has contributed £75,967 to the revenue of the Group and £8,356 to the profit of the Group, prior to amortisation of intangible assets of £25,291 and acquisition costs of £54,488 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 £3,661,192 and revenue from continuing operations would have been £24,073,434.

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 the performance of the acquired businesses during the period), the Group estimates the net present value of contingent consideration payable within the next 12 months is £1,733,333 (2012: £1,583,333).

On 23 April 2013, the Group acquired the Pension Business for an initial cash consideration of £655,814 plus contingent consideration of up to £625,000 payable in cash in the five years following completion if certain targets are met based on growth in revenues and client retention during that period. The Group estimates the net present value of the contingent consideration to be £625,000 using cash flows approved by the Board covering the contingent consideration period. The effect of discounting the cash flow projections at a rate of equivalent to the benchmark yield on a five-year UK Government bond is not material.

3. Business combinations continued

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 still to be paid is £3,166,667 using cash flows approved by the Board covering the contingent consideration period. 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.

4. Revenue

Revenue disclosed in the statement of comprehensive income is analysed as follows:

	2013 £000	2012 £000
Rendering of services	**14,879**	11,476
Commission income	**8,526**	9,006
	23,405	20,482

No revenue was derived from exchanges of goods or services (2012: £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. Despite growth in the number of SIPP schemes under administration and further diversification of the Group's revenue streams, the directors believe there is still some seasonality of operations, although a substantial element of the Group's revenues are geared to the prevailing economic and market conditions.

6. Segment information

The Group's operating segments remain unchanged but the allocation method has have been amended during the period. Following a review of the Group's operating segments, banking revenues generated from the operation of pension scheme accounts is now included within 'direct pension consultancy and administration' or 'third party pension administration', as appropriate. In prior years, banking revenue was disclosed as part of 'wealth management'. Comparative figures for the year ended 31 May 2012 have been re-stated using the amended allocation basis.

The Group's operating segments are as follows:

- 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 and the provision of bespoke scheme banking arrangements;
- Third party pension administration – fees earned by City Trustees for setting up and administering pension schemes under an administration-only model. Additional fees are generated from provision of bespoke scheme banking arrangements;
- Wealth management - income generated from the placing of investments on behalf of clients;
- Property syndicates - income generated where Custodian Capital facilitates direct commercial property investments on behalf of clients; and
- Employee benefits – income generated by the Group's employee benefits operations.

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 2013 and 2012 respectively.

Year ended 31 May 2013	Direct pension consultancy and administration £000	Third-party pension administration £000	Wealth management £000	Property syndicates £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
Revenue								
External client	9,049	1,582	6,444	1,958	4,372	23,405	—	23,405
Total revenue	9,049	1,582	6,444	1,958	4,372	23,405	—	23,405
Results								
Segment result	2,275	285	1,855	435	771	5,621	(983)	4,638
Year ended 31 May 2012 (restated)	£000	£000	£000	£000	£000	£000	£000	£000
Revenue								
External client	9,217	938	5,414	1,386	3,527	20,482	—	20,482
Total revenue	9,217	938	5,414	1,386	3,527	20,482	—	20,482
Results								
Segment result	1,657	66	1,718	877	846	5,164	(984)	4,180

Segment assets

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

	31 May 2013 £000	Restated 31 May 2012 £000
Direct pension consultancy and administration	**11,296**	12,093
Third-party pension administration	**4,395**	2,572
Wealth management	**6,098**	5,743
Property syndicates	**1,453**	989
Employee benefits	**8,179**	8,843
Total segments	**31,421**	30,240
Corporate assets	**11,022**	9,078
Total assets	**42,443**	39,318

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 intangibles and amortisation thereon relate to a specific transaction and are allocated between individual operating segments based on the revenue mix of the cash generating units at the time of acquisition. Comparative figures as at 31 May 2012 have been restated using the amended allocation basis set out above. The subsequent delivery of services to acquired clients may be across a number or all operating segments, comprising different operating segments to those the acquired intangibles have been allocated to.

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

6. Segment information continued

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 2013 £000	Restated 31 May 2012 £000
Total segments	**5,621**	5,164
Acquisition costs	**(175)**	(263)
Depreciation	**(304)**	(275)
Amortisation and impairment	**(91)**	(83)
Loss on disposal of assets	**(23)**	(24)
Unallocated overheads	**(414)**	(371)
Bank charges	**(17)**	(17)
Finance income	**53**	56
Finance costs	**(12)**	(7)
Group profit before tax	**4,638**	4,180

Reconciliation of assets	31 May 2013 £000	Restated 31 May 2012 £000
Segment operating assets	**31,421**	30,240
Property plant and equipment	**1,103**	1,019
Intangible assets	**823**	610
Deferred tax asset	**224**	141
Prepayments and other receivables	**825**	1,512
Cash and short-term deposits	**8,047**	5,796
Total assets	**42,443**	39,318

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 2013 £	Company Associates of Baker Tilly UK Audit LLP 2013 £	Subsidiaries Associates of Baker Tilly UK Audit LLP 2013 £	Total 2013 £	Total 2012 £
Audit related services					
Audit of the Company	32	—	—	**32**	29
Audit of subsidiaries	23	—	—	**23**	23
Other assurance – CASS reporting	5	—	—	**5**	6
Interim review	11	—	—	**11**	11
	71	—	—	**71**	69
Non-audit services					
Corporation tax compliance	—	12	2	**14**	7
VAT advice	—	3	—	**3**	8
Share option scheme advice	—	—	—	**—**	2
Corporate finance	—	—	—	**—**	23
	—	15	2	**17**	40
Total	71	15	2	**88**	109

8. Finance revenue

	2013 £000	2012 £000
Bank interest receivable	**53**	56

9. Finance costs

	2013 £000	2012 £000
Bank loans and overdrafts	**12**	7

10. Operating profit

Included in operating profit before financing:	2013 £000	2012 £000
Depreciation (Note 15)	**304**	275
Amortisation and impairment of intangible assets (Notes 16 and 17)	**854**	707
Minimum lease payments recognised as an operating lease expense (Note 27)	**552**	544

11. Employees benefits expense

The average monthly number of employees during the year was:	2013 No.	2012 No.
Executive directors	**5**	5
Consultants	**51**	40
Administrators	**119**	117
Support staff	**95**	89
	270	251

Staff costs for the above persons were:	2013 £000	2012 £000
Wages and salaries	**10,798**	9,593
Social security costs	**1,253**	994
Pension costs and life insurance	**483**	454
Other staff costs	**298**	153
	12,832	11,194

In addition, the cost of share based payments disclosed separately in the statement of comprehensive income was £101,485 (2012: £141,395).

Directors' remuneration:	2013 £000	2012 £000
Emoluments	**1,920**	1,614
Company contributions to personal pension schemes	**83**	335
Gains made on exercise of share options	**535**	—
	2,538	1,949

The amounts in respect of the highest paid director are as follows:	2013 £000	2012 £000
Emoluments	**529**	491
Company contributions to personal pension schemes	**23**	49
Gains made on exercise of share options	**—**	—
	552	540

Details of the remuneration payable to each director in respect of the year ended 31 May 2013 is disclosed in the Directors' Remuneration Report. Five directors (2012: five) accrued benefits under personal pension schemes. During the year no share options were issued to directors (2012: nil) and three directors exercised share options (2012: nil).

12. Income tax

The major components of income tax expense for the years ended 31 May 2013 and 2012 are:

Consolidated income statement	2013 £000	2012 £000
Current tax	**1,268**	1,348
Under/(over) provision in prior periods	**17**	(40)
	1,285	1,308
Deferred tax credit	**(254)**	(207)
Income tax expense reported in the statement of comprehensive income	**1,031**	1,101

For the year ended 31 May 2013, current tax recognised directly in equity was £119,407 (2012: £nil).

Factors affecting the tax charge for the period

The tax charge assessed for the period is lower (2012: higher) than the standard rate of corporation tax in the UK of 23.83% (2012: 25.67%). The differences are explained below:

	2013 £000	2012 £000
Accounting profit before income tax	**4,638**	4,180
Multiplied by standard rate of UK corporation tax of 23.83% (2012: 25.67%)	**1,105**	1,073
Effects of:		
Expenses not deductible for tax	**100**	177
Deferred tax on share options	**(46)**	62
Under/(over) provision in prior periods	**17**	(40)
Deferred tax in respect of prior periods	**(59)**	35
Effect of changes in the standard rate of tax	**(86)**	(179)
Tax losses recognised as a deferred tax asset	**—**	(27)
Income tax expense for the year	**1,031**	1,101
Effective income tax rate	**22.2%**	26.3%

During the year, the UK Government reduced the rate of corporation tax from 24% to 23% with effect from 1 April 2013. The rate of UK corporation tax will reduce from 23% to 21% from 1 April 2014, with a further 1% reduction to a rate of 20% from 1 April 2015 (see Note 32).

Deferred income tax

Deferred income tax at 31 May relates to the following:

Group	2013 £000	2012 £000
Deferred income tax liability		
Temporary differences on acquired intangibles	**(1,955)**	(2,152)
Temporary differences accelerated capital allowances	**(104)**	(123)
	(2,059)	(2,275)
Deferred income tax asset		
Temporary differences on provisions	**107**	74
Temporary differences on accelerated capital allowances in subsidiaries	**7**	3
Temporary differences on share based payments	**111**	64
Temporary differences on tax losses in subsidiary	**—**	15
	225	156
Net deferred tax liabilities	**(1,834)**	(2,119)
Reflected in the statement of financial position as follows:		
Deferred tax assets	**225**	156
Deferred tax liabilities	**(2,059)**	(2,275)
Net deferred tax liabilities	**(1,834)**	(2,119)

Company	2013 £000	2012 £000
Deferred income tax liability		
Temporary differences on acquired intangibles	**(179)**	(196)
Temporary differences on accelerated capital allowances	**(94)**	(110)
	(273)	(306)
Deferred income tax asset		
Temporary differences on provisions	**42**	—
Temporary differences on share based payments	**111**	64
	153	64
Net deferred tax liabilities	**(120)**	(242)
Reflected in the statement of financial position as follows:		
Deferred tax assets	**153**	64
Deferred tax liabilities	**(273)**	(306)
Net deferred tax liabilities	**(120)**	(242)

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2012 or 2013.

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 statement of comprehensive income 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 2013 are summarised as follows:

Deferred tax in income statement	2013 £000	2012 £000
Deferred tax on share options	**(16)**	62
Deferred tax on capital allowances	**(26)**	(18)
Overprovision for capital allowances in prior period	**—**	35
Deferred tax on provisions	**(30)**	3
Deferred tax on losses	**—**	(22)
Deferred tax on losses utilised	**15**	10
Deferred tax on amortisation of client portfolios	**(110)**	(98)
Effect of changes in the standard rate of tax	**(87)**	(179)
Deferred tax movement	**(254)**	(207)

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

Deferred tax reconciliation	2013 £000	2012 £000
Opening net deferred tax liability	**(2,119)**	(312)
Movement recognised in the statement of comprehensive income	**254**	207
Deferred tax movement recognised in equity	**31**	(187)
Deferred tax arising on acquisitions	**—**	(1,827)
Closing net deferred tax liability	**(1,834)**	(2,119)

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:

	2013 £000	2012 £000
Net profit and diluted net profit attributable to equity holders of the Company	**3,607**	3,079
Weighted average number of ordinary shares:	**000s**	000s
Issued ordinary shares at start period	**18,137**	17,584
Effect of shares issued during the year ended 31 May 2012	**—**	411
Effect of shares issued during the year ended 31 May 2013	**517**	310
Basic weighted average number of shares	**18,654**	18,305
Effect of dilutive options at the statement of financial position date	**390**	156
Diluted weighted average number of shares	**19,044**	18,461

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 3.77% 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 2013 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 18.94p per share (2012: 16.68p).

The only transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements have been the issue of 18,400 ordinary shares under the Mattioli Woods plc Share Incentive Plan and 946,256 shares issued as consideration for the acquisition of Thoroughbred Wealth Management Limited (see Note 32).

14. Dividends paid and proposed

	2013 £000	2012 £000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
- Final dividend for 2012: 3.70p (2011: 3.30p)	**673**	596
- Interim dividend for 2013: 2.33p (2012: 1.85p)	**436**	335
Dividends paid	**1,109**	931
Proposed for approval by shareholders at the AGM:		
Final dividend for 2013: 4.67p (2012: 3.70p)	**924**	673

15. Property, plant and equipment

Group	Computer and office equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Gross carrying amount:				
At 1 June 2011	439	692	501	1,632
Arising on acquisitions	40	81	—	121
Additions	133	24	121	278
Disposals	(115)	—	(68)	(183)
At 31 May 2012	497	797	554	1,848
Additions	123	97	214	434
Disposals	(25)	(2)	(98)	(125)
At 31 May 2013	595	892	670	2,157
Depreciation				
At 1 June 2011	212	344	141	697
Charged for the year	91	83	101	275
On disposals	(95)	—	(48)	(143)
At 31 May 2012	208	427	194	829
Charged for the year	102	82	120	304
On disposals	(19)	(1)	(59)	(79)
At 31 May 2013	291	508	255	1,054
Carrying amount:				
At 31 May 2013	**304**	**384**	**415**	**1,103**
At 31 May 2012	289	370	360	1,019
At 31 May 2011	227	348	360	935
Company				
Gross carrying amount:				
At 1 June 2011	391	649	501	1,541
Additions	97	5	122	224
Disposals	(88)	—	(68)	(156)
At 31 May 2012	400	654	555	1,609
Additions	96	89	214	399
Disposals	(25)	(2)	(98)	(125)
At 31 May 2013	471	741	671	1,883
Depreciation:				
At 1 June 2011	208	337	141	686
Charged for the year	60	63	101	224
On disposals	(68)	—	(47)	(115)
At 31 May 2012	200	400	195	795
Charged for the year	61	58	120	239
On disposals	(19)	(1)	(59)	(79)
At 31 May 2013	242	457	256	955
Carrying amount:				
At 31 May 2013	**229**	**284**	**415**	**928**
At 31 May 2012	200	254	360	814
At 31 May 2011	183	312	360	855

16. Intangible assets

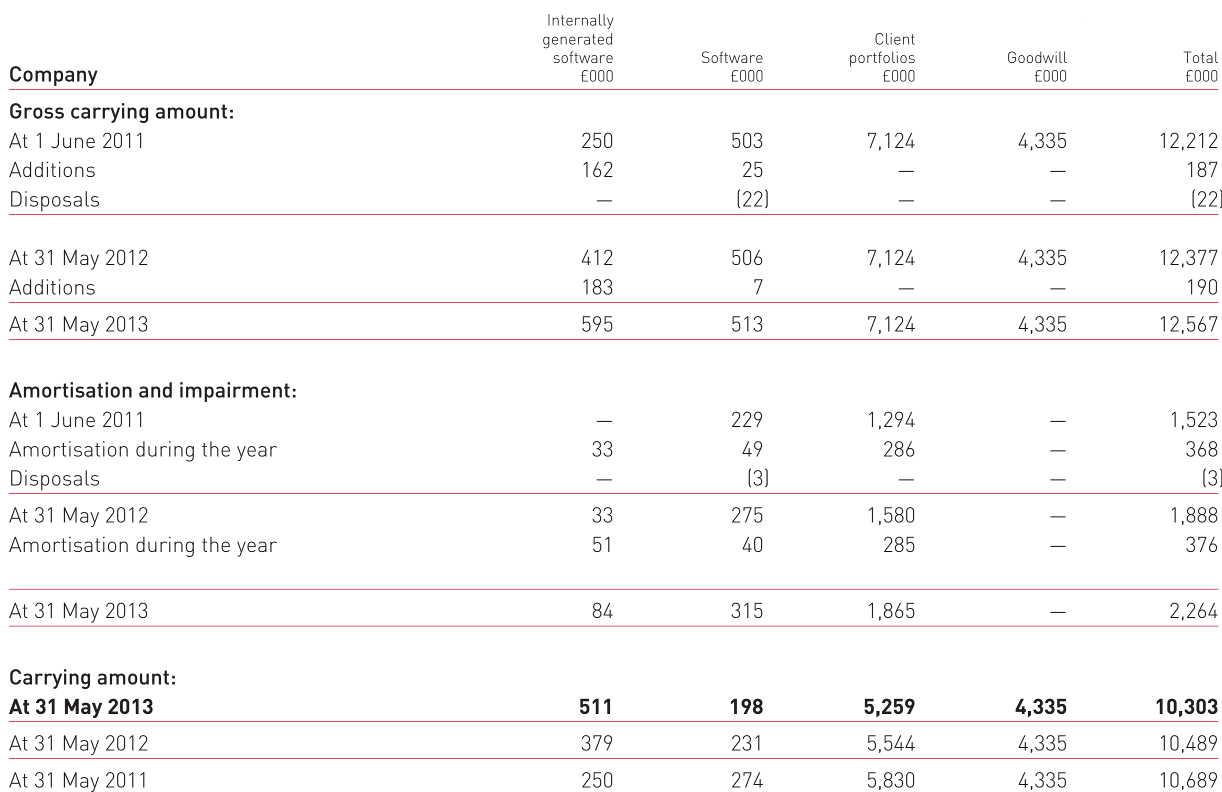
Group	Internally generated software £000	Software £000	Client portfolios £000	Goodwill £000	Other £000	Total £000
Gross carrying amount:						
At 1 June 2011	251	504	8,322	5,430	—	14,507
Additions	161	73	—	—	35	269
Arising on acquisitions	—	—	7,332	3,304	—	10,636
At 31 May 2012	412	577	15,654	8,734	35	25,412
Additions	183	77	—	—	—	260
Arising on acquisitions	—	—	1,517	—	—	1,517
Disposals	—	(1)	—	—	—	(1)
At 31 May 2013	595	653	17,171	8,734	35	27,188
Amortisation and impairment:						
At 1 June 2011	—	229	1,339	—	—	1,568
Amortisation during the year	33	54	620	—	—	707
At 31 May 2012	33	283	1,959	—	—	2,275
Amortisation during the year	51	55	737	—	11	854
Disposals	—	(1)	—	—	—	(1)
At 31 May 2013	84	337	2,696	—	11	3,128
Carrying amount:						
At 31 May 2013	**511**	**316**	**14,475**	**8,734**	**24**	**24,060**
At 31 May 2012	379	294	13,695	8,734	35	23,137
At 31 May 2011	251	275	6,983	5,430	—	12,939

Software

Software is amortised over its useful economic life. Internally generated software represents the development costs 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 10 and 25 years, based on the Group's historic experience.



Company	Internally generated software £000	Software £000	Client portfolios £000	Goodwill £000	Total £000
Gross carrying amount:					
At 1 June 2011	250	503	7,124	4,335	12,212
Additions	162	25	—	—	187
Disposals	—	(22)	—	—	(22)
At 31 May 2012	412	506	7,124	4,335	12,377
Additions	183	7	—	—	190
At 31 May 2013	595	513	7,124	4,335	12,567
Amortisation and impairment:					
At 1 June 2011	—	229	1,294	—	1,523
Amortisation during the year	33	49	286	—	368
Disposals	—	(3)	—	—	(3)
At 31 May 2012	33	275	1,580	—	1,888
Amortisation during the year	51	40	285	—	376
At 31 May 2013	84	315	1,865	—	2,264
Carrying amount:					
At 31 May 2013	**511**	**198**	**5,259**	**4,335**	**10,303**
At 31 May 2012	379	231	5,544	4,335	10,489
At 31 May 2011	250	274	5,830	4,335	10,689

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 £000	Company £000
At 1 June 2011	—	2,483
Acquisition of TCF Global Independent Financial Services Limited	—	10,265
Investment in Custodian Capital Limited		200
At 31 May 2012	—	12,948
Investment in City Pensions Limited	—	750
At 31 May 2013	**—**	**13,698**

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

Subsidiary undertakings	Holding	Voting rights and shares held	Nature of business
GB Pension Trustees Limited	Ordinary shares	100%	Trustee company
Great Marlborough Street Pension Trustees Limited	Ordinary shares	100%	Trustee company
MW Trustees Limited	Ordinary shares	100%	Trustee company
SLT Trustees Limited	Ordinary shares	100%	Trustee company
Professional Independent Pension Trustees Limited	Ordinary shares	100%	Trustee company
Pension Consulting Limited ("PCL")	Ordinary shares	100%	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
Ashcourt Rowan Pension Trustees Limited	Ordinary shares	100%	Trustee company
Robinson Gear (Management Services) Limited	Ordinary shares	100%	Trustee company

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

Other Investments
Mattioli Woods owns 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 29 September 2011, Mainsforth entered into two conditional sale agreements ("the Agreements") to acquire freehold land with vacant possession (the "Development Land").

The Agreements lapse on 1 December 2018 if planning approval has 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 2019 have not been fulfilled. 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 2013 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.

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.

The Group is comprised of five operating segments, managed together as one business. As explained in Note 6, following a review of the Group's operating segments, banking revenues generated from the operation of pension scheme accounts is now included within 'direct pension consultancy and administration' or 'third party pension administration', as appropriate. In prior years, banking revenue was disclosed as part of 'wealth management'.

The directors believe the cash generating units now comprise the same groups of assets as the five operating segments, which represent the smallest individual groups of assets generating cash flows. Goodwill has been allocated between the Group's five operating segments for impairment testing, as follows:

Group	Direct pension consultancy and admin £000	Third party admin £000	Wealth management £000	Property syndicates £000	Employee benefits £000	Total £000
At 1 June 2011	2,414	1,096	1,410	188	322	5,430
Arising on consolidation of Kudos	—	—	926	—	2,378	3,304
At 31 May 2012 and 2013	**2,414**	**1,096**	**2,336**	**188**	**2,700**	**8,734**

Company	Direct pension consultancy and admin £000	Third party admin £000	Wealth management £000	Property syndicates £000	Employee benefits £000	Total £000
At 31 May 2011, 2012 and 2013	**2,414**	**—**	**1,411**	**188**	**322**	**4,335**

Goodwill believed to have an indefinite useful life is 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 operating segments 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 2013 of 288.5p, giving a market capitalisation of £54.3m. Comparing this to the net asset value of the Group of £29.1m, the directors believe the value of goodwill is not impaired at 31 May 2013.

In assessing value in use, the estimated future cash flows of each operating segment are discounted to their present value using the Group's weighted average cost of capital adjusted for tax, which reflects management's estimate of the time value of money and the risks specific to the asset. The estimated cash flows are derived by extrapolating the actual cash flows for the year ended 31 May 2013, using a terminal growth rate of 2.5% (2012: 2.5%), which management considers conservative against actual average long-term growth rates.

The value in use calculated at 31 May 2013 was £67.1m. Comparing this to the net asset value of the operating segments identified above, the directors believe the value of goodwill is not impaired at 31 May 2013. This accounting treatment resulted in an impairment loss of £nil (2012: £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 per share, 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 2013 the total number of options outstanding and exercisable under the Share Option Plan was 134,851 (2012: 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 2012 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	**At 31 May 2013 No.**
5 September 2006	2.21	234,377	—	—	—	**234,377**
4 September 2007	2.79	170,456	—	—	—	**170,456**
8 September 2009	2.16	170,456	—	—	—	**170,456**
		575,289	—	—	—	**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 when the option holders achieve certain individual performance hurdles. No options vested during the year as a result of the associated performance conditions being 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.

Share options	**2013 No.**	**2013 WAEP £**	2012 No.	2012 WAEP £
Outstanding as at 1 June	**1,276,870**	**1.79**	1,362,098	1.85
Granted during the year	**—**	**—**	—	—
Exercised	**(567,000)**	**1.32**	—	—
Forfeited during the year	**—**	**—**	(85,228)	2.79
Outstanding at 31 May	**709,870**	**2.17**	1,276,870	1.79
Exercisable at 31 May	**539,414**	**2.17**	1,106,414	1.74

The weighted average share price at the date of exercise for share options exercised during the year was £2.43. For the share options outstanding as at 31 May 2013, the weighted average remaining contractual life is 3.8 years (2012: 4.4 years). The WAEP for options outstanding at the end of the year was £2.17 (2012: £1.79), 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 2013 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 109,328 (2012: 90,272) new ordinary shares were issued to the 127 employees who participated in the SIP during the year. At 31 May 2013, 354,446 shares were held in the SIP on their behalf, with a further 2,233 of forfeited shares not allocated to any specific employee.

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 2013 is £831 (2012: £48,964), 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 2013 is £100,654 (2012: £92,431), which entirely arises from equity-settled share based payment transactions.

20. Trade and other receivables (current)

	Group 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
Trade receivables due from related parties	—	527	—	669
Other trade receivables	3,302	2,063	3,751	2,354
Other receivables	589	208	117	93
Prepayments and accrued income	4,878	3,918	4,265	3,835
Income tax receivable	—	94	—	4
	8,769	6,810	8,133	6,955

Trade receivables due from related parties are recognised at amortised cost. Other receivables include Directors' loans of £262 (2012: £nil). For terms and conditions relating to related party loans, refer to Note 29. None of the related party receivables were overdue at the reporting date.

Non-related party trade receivables are non-interest bearing and are generally on 30-90 days' terms. As at 31 May 2013, the nominal value of non-related party trade receivables impaired and fully provided for, and movements in the provision for impairment of receivables were as follows:

	Group 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
As at 1 June	566	499	485	390
(Release)/charge for year	(31)	(86)	59	109
Acquired on acquisition	—	—	22	—
At 31 May	535	413	566	499

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

			Past due but not impaired			
	Total £000	Neither past due nor impaired £000	Less than 30 days £000	30-60 days £000	60-90 days £000	More than 90 days £000
2013	3,302	1,619	836	265	139	443
2012	3,751	1,181	1,387	387	236	560

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

21. Financial assets (current)

Financial assets (current) for the Group of £239,400 (2012: £1,077,214) and for the Company of £234,959 (2012: £1,077,214) 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 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 statement of cashflows, cash and cash equivalents comprise the following at 31 May:

	Group 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
Cash at banks and on hand	**8,047**	**4,554**	5,369	2,669
Short-term deposits	**—**	**—**	427	—
	8,047	**4,554**	5,796	2,669
Bank overdrafts	**—**	**—**	(654)	(641)
Cash and cash equivalents	**8,047**	**4,554**	5,142	2,028

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 £8,046,655 (2012: £5,795,997).

At 31 May 2013, the Group had £5,000,000 (2012: £4,346,363) of undrawn committed borrowing facilities available, 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 2011, 31 May 2012 and 31 May 2013	**30,000,000**	**300,000**
Issued and fully paid		
At 1 June 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
Exercise of employee share options	567,000	5,670
Shares issued under the SIP	109,328	1,093
At 31 May 2013	**18,813,129**	**188,131**

Rights, preferences and restrictions on shares

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

Share option schemes and share incentive plan

The Company has two share option schemes under which options to subscribe for the Company's shares have been granted to certain executives and senior employees (Note 19).

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

Other reserves

Group	Equity-share based payments £000	Share premium account £000	Capital redemption reserve £000	Retained earnings £000
At 1 June 2011	764	6,290	2,000	12,872
Share based payments	49	—	—	—
Shares issued under the SIP	—	169	—	—
Shares issued on acquisition of Kudos	—	1,182	—	—
Deferred tax asset derecognised in equity	(187)	—	—	—
Profit for the financial year	—	—	—	3,079
Dividends paid	—	—	—	(930)
At 31 May 2012	626	7,641	2,000	15,021
Share based payments	1	—	—	—
Shares issued under the SIP	—	232	—	—
Shares issued on exercise of options		743		
Deferred tax asset recognised in equity	31	—	—	—
Profit for the financial year	—	—	—	3,607
Dividends paid	—	—	—	(1,109)
Current tax charge taken to equity	119	—	—	—
At 31 May 2013	**777**	**8,616**	**2,000**	**17,519**

Company	Equity-share based payments £000	Share premium account £000	Capital redemption reserve £000	Retained earnings £000
At 1 June 2011	764	6,290	2,000	12,871
Share based payments	49	—	—	—
Shares issued under the SIP	—	169	—	—
Shares issued on acquisition of Kudos	—	1,182		
Deferred tax asset derecognised in equity	(187)	—	—	—
Profit for the financial year	—	—	—	3,291
Dividends paid	—	—	—	(930)
At 31 May 2012	626	7,641	2,000	15,232
Share based payments	1	—	—	—
Shares issued under the SIP		232		
Shares issued on exercise of options	—	743	—	—
Deferred tax asset recognised in equity	31	—	—	—
Profit for the financial year	—	—	—	3,053
Dividends paid	—	—	—	(1,109)
Current tax charge taken to equity	119	—	—	—
At 31 May 2013	**777**	**8,616**	**2,000**	**17,176**

23. Issued capital and reserves continued

Other reserves

The following table describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Equity – share based payments	The fair value of equity instruments issued by the Company in respect of share based payment transactions.
Share premium	Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
Capital redemption reserve	Amounts transferred from share capital on redemption of issued shares.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

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 statement of comprehensive income 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 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
Cash receipts from customers	**22,829**	**15,084**	20,494	15,132
Cash paid to suppliers and employees	**(16,274)**	**(10,666)**	(14,682)	(10,910)
Cash generated from operations	**6,555**	**4,418**	5,812	4,222

25. Trade and other payables

Trade and other payables (current)	Group 2013 £000	Company 2013 £000	Group 2012 £000	Company 2012 £000
Trade payables due to related parties	**—**	**17**	—	54
Other trade payables	**705**	**278**	417	112
Other taxation and social security	**1,069**	**711**	1,162	885
Other payables	**103**	**108**	119	127
Accruals and deferred income	**3,997**	**2,717**	2,923	2,021
Deferred consideration	**—**	**—**	68	68
	5,874	**3,831**	4,689	3,267

Other payables include Directors' loans of £nil (2012: £12,266). 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).

26. Provisions

Group	Client claims £000	Contingent consideration £000	Dilapidations £000	Clawbacks £000	Employers' NIC on share options £000	Onerous contracts	Other	Total £000
At 1 June 2012	386	4,750	130	357	13	—	—	5,636
Arising during the year	150	—	35	—	51	—	—	236
Acquisitions (Note 3)	20	625	—	—	—	42	26	713
Used during the year	—	(1,583)	—	—	(35)	—	(18)	(1,636)
Unused amounts reversed	—	—	(25)	(16)	—	—	—	(41)
At 31 May 2013	556	3,792	140	341	29	42	8	4,908
Current 2012	386	1,583	—	357	—	—	—	2,326
Non-current 2012	—	3,167	130	—	13	—	—	3,310
At 31 May 2012	386	4,750	130	357	13	—	—	5,636
Current 2013	**556**	**1,733**	**35**	**341**	**—**	**42**	**8**	**2,715**
Non-current 2013	**—**	**2,059**	**105**	**—**	**29**	**—**	**—**	**2,193**
At 31 May 2013	**556**	**3,792**	**140**	**341**	**29**	**42**	**8**	**4,908**

Company	Client claims £000	Contingent consideration £000	Dilapidations £000	Clawbacks £000	Employers' NIC on share options £000	Total £000
At 1 June 2012	248	4,750	86	25	13	5,122
Arising during the year	246	—	35	—	51	332
Used during the year	—	—	—	—	(35)	(35)
Unused amounts reversed	—	(1,583)	—	(16)	—	(1,599)
At 31 May 2013	494	3,167	121	9	29	3,820
Current 2012	248	1,583	—	25	—	1,856
Non-current 2012	—	3,167	86	—	13	3,266
At 31 May 2012	248	4,750	86	25	13	5,122
Current 2013	**494**	**1,583**	**35**	**9**	**—**	**2,121**
Non-current 2013	**—**	**1,584**	**86**	**—**	**29**	**1,699**
At 31 May 2013	**494**	**3,167**	**121**	**9**	**29**	**3,820**

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 £1,733,333 (2012: £1,583,333).

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.

26. Provisions continued

Onerous contracts

The Group acquired an onerous contract for the provision of an IT system as part of the acquisition of Ashcourt Rowan's pension business ("the Pension Business"). Management has assessed the expected benefit and costs associated with this contract and concluded that the costs of the obligation exceed the benefit to the extent it is appropriate to provide against the contract in full. No discount rate is applied to the projected cash flows because the contract expires within the next 12 months.

Other

Prior to the Group's acquisition of the Pension Business, its employees had been notified the business was to be restructured, creating a potential liability for certain employee-related costs related to the restructuring. Following acquisition, the Group relocated the Pension Business from Birmingham to Leicester and became liable for those employee-related costs relating to the restructuring. The provision can be quantified and it is regarded as more likely that not that an outflow of resources will be required to settle the obligation. The provision is not discounted due to the short term nature of the provision.

27. Commitments and contingences

Operating lease agreements - Group as lessee

Mattioli Woods plc 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.

Mattioli Woods plc 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.

Kudos Independent Financial Services Limited has entered into a lease for its premises at 8 Queens Terrace, Aberdeen, which has a duration of ten years from 1 June 2008. The annual rental of £110,000 is to be reviewed as at 1 June 2013 and five yearly thereafter.

As part of certain acquisitions, the Group acquired operating lease obligations for office equipment. No restrictions were 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	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Not later than one year	**44**	2	**533**	529
After one year but not more than five years	**6**	7	**1,990**	1,950
More than five years	**—**	—	**2,042**	2,805
	50	9	**4,565**	5,284

	Office equipment		Land and buildings	
Company	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Not later than one year	**—**	—	**374**	408
After one year but not more than five years	**—**	—	**1,352**	1,343
More than five years	**—**	—	**1,302**	1,595
	—	—	**3,028**	3,346

Group operating lease charges during the year were £524,456 (2012: £539,242) for land and buildings and £27,442 (2012: £5,198) for office equipment.

Capital commitments

At 31 May 2013 the Group had capital commitments of £74,005 associated with the refit of its premises at Grove Park, Enderby and £42,250 associated with the implementation of a new property management system (2012: £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).

Client claims continued

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 £357,000. 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.

FSCS levy

The Financial Services Compensation Scheme ("FSCS") has raised an interim levy on the Investment Intermediation sub-class in each of the last two years. This arose from revisions to the FSCS' earlier estimates of the compensation it expected to pay out in each period, following the failure of firms in the Investment Intermediation and General Insurance Intermediation sub-classes.

In the year ended 31 May 2013 the FSCS raised an interim levy of £20m (2012: £60m) from investment intermediaries to pay for the costs of compensating clients in investment failures, to which the Group contributed £29,601 (2012: £58,759). No provision has been made in these financial statements for any FSCS interim levy that may be raised during the year ending 31 May 2014.

28. Pension costs

The Group makes discretionary and contractual payments into the personal pension schemes of employees and contributions are charged in the statement of comprehensive income as they become payable. The charge for the year was £367,408 (2012: £358,215).

29. Related party disclosures

Transactions with key management personnel

Ian Mattioli, Bob Woods and the private pension schemes of Ian Mattioli, Bob 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 (2012: £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 (2012: £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 (2012: nine) other executives, received total compensation of £3,080,767 for the year ended 31 May 2013 (2012: £2,818,281). Total remuneration is included in "employee benefits expense" and analysed as follows:

	2013 £000	2012 £000
Short-term employee benefits	**2,979**	2,464
Post-employment benefits	**102**	354
Share-based payments	**—**	—
	3,081	2,818

At 31 May 2013, Ian Mattioli was owed £3,939 (2012: £15,816) by the Company and Bob Woods was due £4,201 (2012: £3,550) 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.

29. Related party disclosures continued

Transactions with other related parties continued

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 2013 the Company had advanced £239,400 (2012: £1,077,214) 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.

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 2013 the value of financial instruments on the Group's statement of financial position exposed to interest rate risk was £8,286,055 (2012: £6,219,574) 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.

	Increase/decrease in basis points	Effect on profit before tax £000
2013		
£ Sterling	+100	83
£ Sterling	-100	(83)
2012		
£ Sterling	+100	98
£ Sterling	-100	(98)

(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's statement of financial position. At 31 May 2013, the fair value of investments recognised on the Group's statement of financial position was £15 (2012: £15). Any move in the value of these investments would not have a material impact on the Group balance sheet or results.

Trailing (or funds based) commission revenues, property administration fees, discretionary management charges and adviser charges for intermediation 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' statement of financial postion. The risk of lower revenues is partially mitigated by asset class diversification. The Group does not hedge its revenue exposure to movements in the value of client assets arising from these risks, and so the interests of the Group are aligned to those of its clients.

Credit risk

The Group trades only with third parties it recognises as being creditworthy. 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 2013 and 2012 based on contractual undiscounted payments:

At 31 May 2013	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Total £000
Trade and other payables	—	5,874	—	—	—	5,874
Contingent consideration	—	—	1,733	2,059		3,792
	—	5,874	1,733	2,059	—	9,666

At 31 May 2012	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Total £000
Trade and other payables	—	4,689	—	—	—	4,689
Contingent consideration	—	—	1,583	3,167	—	4,750
	—	4,689	1,583	3,167	—	9,439

Capital management

The Company and certain of its subsidiaries are supervised in the UK by the Financial Conduct Authority ("FCA"). 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 FCA;
- 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 2013 was £29,100,238 (2012: £25,468,553). 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 FCA, 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.

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.

30. Financial risk management continued

Capital management continued

The Company and regulated subsidiary companies submit quarterly returns to the FCA relating to capital adequacy. At 31 May 2013 the total regulatory capital requirement across the Group was £3.85m and the Group had an aggregate surplus of £2.21m 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 FCA'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 2013	Less than 1 year £000	1 to 2 years £000	2 to 3 years £000	3 to 4 years £000	4 to 5 years £000	More than 5 years £000	Total £000
Floating rate							
Financial assets (current)	239	–	–	–	–	–	239
Cash assets	8,047	–	–	–	–	–	8,047
Bank overdrafts	–	–	–	–	–	–	–

Group 31 May 2012	Less than 1 year £000	1 to 2 years £000	2 to 3 years £000	3 to 4 years £000	4 to 5 years £000	More than 5 years £000	Total £000
Floating rate							
Financial assets (current)	1,077	–	–	–	–	–	1,077
Cash assets	5,142	–	–	–	–	–	5,142
Bank overdrafts	(654)	–	–	–	–	–	(654)

Company 31 May 2013	Less than 1 year £000	1 to 2 years £000	2 to 3 years £000	3 to 4 years £000	4 to 5 years £000	More than 5 years £000	Total £000
Floating rate							
Financial assets (current)	235	–	–	–	–	–	235
Cash assets	4,554	–	–	–	–	–	4,554
Bank overdrafts	–	–	–	–	–	–	–

Company 31 May 2012	Less than 1 year £000	1 to 2 years £000	2 to 3 years £000	3 to 4 years £000	4 to 5 years £000	More than 5 years £000	Total £000
Floating rate							
Financial assets (current)	1,077	–	–	–	–	–	1,077
Cash assets	2,028	–	–	–	–	–	2,028
Bank overdrafts	(641)	–	–	–	–	–	(641)

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 Group's principal financial assets are cash and short term deposits, trade and other receivables and loans advanced to certain property syndicates.

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 2013, the Group's bank deposits were held with Royal Bank of Scotland plc, Lloyds TSB Bank plc, Bank of Scotland plc and Clydesdale Bank plc.

Credit risk continued

Given the nature of the Group's operations, it does not have significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers. An allowance for impairment for trade receivables is made where there is an identified loss event, which based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Details of trade receivables and the associated provision for impairment are disclosed in Note 20.

Loans to property syndicates are only approved by the Board under strict criteria, including independent professional advice confirming the market value of the underlying property.

Contingent consideration

As set out in Note 3, the Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. While the exact amounts payable cannot be determined (as these depend on the future performance of the acquired businesses) the Group estimates the net present value of contingent consideration payable on acquisitions to be £3,791,667 (2012: £4,750,000).

32. Events after the reporting date

Acquisition of Thoroughbred Wealth Management Limited

On 29 July 2013, Mattioli Woods plc acquired the entire share capital of Thoroughbred Wealth Management Limited ("TWM") and its subsidiary Atkinson Bolton Consulting Limited ("ABC") from its shareholders for a total consideration of up to £5.99m.

TWM is the holding company of ABC, an employee benefits and wealth management business based in Newmarket, employing 50 staff and providing advice to individuals and companies on all aspects of financial planning. In addition, ABC offers a full discretionary management service and operates its own Open Ended Investment Company. In its latest audited accounts for the year ended 31 December 2012, TWM reported a profit of £613,153 (before shareholders' dividends) on revenues of £2,876,160. At 31 December 2012, TWM's net assets were £1,768,183.

The total consideration consists of an initial consideration of £3.24m, comprising £375,000 cash (subject to adjustment for the value of net assets acquired) and 946,256 ordinary shares in Mattioli Woods, plus deferred consideration of up to £2.75m payable in cash in the four years following completion if certain financial targets are met based on growth in earnings before interest, tax, depreciation and amortisation generated during the period.

As a consequence of the acquisition occurring after the end of the reporting period and the proximity of the date of the acquisition to the date of issue of these consolidated financial statements, the directors are unable to provide the full disclosures required to meet the requirements of IFRS3 relating to acquisitions after the end of the reporting period but before the financial statements are authorised for issue. Specifically, the purchase price allocation process is not yet complete, due to:

- The sellers not being required to deliver completion accounts prepared under UK GAAP until 60 business days after the date of acquisition; and
- The impracticality of measuring each identifiable asset and liability at its IFRS acquisition date fair value for inclusion in these consolidated financial statements before completion accounts have been agreed.

The acquisition will be accounted for using the acquisition method and it is expected the Group will recognise goodwill as a result of revenue synergies available to Mattioli Woods as a result of the transaction and new opportunities available to the combined business as a result of TWM and the existing business becoming part of a larger listed business.

Transaction costs of £120,402 incurred on the acquisition have been expensed in the year ended 31 May 2013 and are included in administrative expenses in the consolidated statement of comprehensive income and operating cash flows in the statement of cash flows.

The fair values to be attributed to the assets acquired and liabilities assumed will be finalised during the year following acquisition. A fair value table will be presented in Mattioli Woods' interim report for the six months ending 30 November 2013 and its consolidated financial statements for the year ending 31 May 2014.

32. Events after the reporting date continued

Acquisition of Thoroughbred Wealth Management Limited continued

The directors' estimate of the fair values of the identifiable assets and liabilities of TWM if the acquisition had been completed on 30 June 2013, for illustrative purposes only, are as follows:

	Illustrative fair value to be recognised on acquisition (unaudited) £000	Previous carrying value (unaudited) £000
Tangible fixed assets	58	58
Goodwill	979	979
Client portfolio	3,576	—
Investments	23	23
Cash	1,748	1,748
Trade and other receivables	157	157
Assets	6,541	2,965
Trade and other payables	(381)	(381)
Income tax payable	(315)	(315)
Deferred income and other payables	(83)	(83)
Other taxation and social security	(84)	(84)
Deferred tax liability	(832)	(9)
Liabilities	(1,695)	(872)

Total identifiable net assets at fair value	4,846
Goodwill arising on acquisition	1,460
Total acquisition cost	6,306

Analysed as follows:	
Initial cash consideration	375
Completion net asset adjustment	314
New shares in Mattioli Woods	2,867
Deferred contingent consideration	2,750
	6,306

Cash outflow on acquisition	£000
Cash paid	(689)
Acquisition costs	(180)
Net cash acquired with the subsidiary	1,748
Net cash inflow	879

It is not expected any goodwill arising on acquisition will be deductible for income tax. The client portfolio will be amortised on a straight-line basis over an estimated useful life based on the Group's historic experience.

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 23% to 21% from 1 April 2014, with a further 1% reduction to a rate of 20% from 1 April 2015.

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 deferred tax assets and liabilities in the Group's statement of financial position.

33. Ultimate controlling party

The Company has no controlling party.

FIVE YEAR SUMMARY

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Revenue	**23,405**	20,482	15,363	13,678	13,283
Administrative expenses	**(17,885)**	(15,468)	(10,472)	(9,207)	(9,239)
Net finance revenue	**41**	49	59	44	86
Adjusted profit before tax	**5,561**	5,063	4,950	4,515	4,130
Amortisation of acquired intangibles	**(748)**	(620)	(330)	(245)	(233)
Acquisition costs expensed under IFRS3	**(175)**	(263)	(72)	—	—
Profit before tax	**4,638**	4,180	4,548	4,270	3,897
Income tax expense	**(1,031)**	(1,101)	(1,219)	(1,266)	(1,175)
Profit for the year	**3,607**	3,079	3,329	3,004	2,722
Assets under administration and advice (£m)	**3,644.3**	3,106.7	2,304.4	1,886.1	1,590.2
Headline debtors' days ratio (days)	**51.5**	66.8	78.4	71.2	70.4
External client loss rate	**3.6%**	5.2%	4.3%	3.1%	1.9%
EBITDA margin	**24.6%**	25.0%	33.1%	34.5%	32.3%
Adjusted EBITDA margin	**25.3%**	26.3%	33.6%	34.5%	32.3%
Basic EPS (pence)	**19.34**	16.82	18.89	16.86	15.31
Adjusted EPS (pence)	**24.29**	21.65	21.17	18.23	16.62
Dividends paid and proposed (pence)	**7.00**	5.55	4.95	4.35	3.90

FINANCIAL CALENDAR

28 August 2013	Announcement of final results for the year ended 31 May 2013
4 September 2013	Ex-dividend date for ordinary shares
6 September 2013	Record date for final dividend
10 October 2013	Annual General Meeting
15 October 2013	Payment of final dividend on ordinary shares

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