Mattioli Woods plc

Interim Report 2018/19

Interim

reporting is a key part of providing effective communication to our stakeholders. We are proud to present our latest results in this

Report

Highlights

Welcome
to Mattioli Woods

Revenue
£29.2m
1H18: £28.4m +2.8%

Recurring revenues[1]
89.7%
1H18: 84.5%

Profit before tax
£5.6m
1H18: £5.4m +3.7%

Adjusted profit before tax[2]
£6.5m
1H18: £6.0m +8.3%

Operating profit before financing
£5.4m
1H18: £5.4m
- £0.1m (1H18: £0.4m) gain on revaluation of Amati option

Adjusted EBITDA[3]
£7.7m
1H18: £6.5m +18.5%
- Adjusted EBITDA margin[4] of 26.4% (1H18: 22.9%)

Basic EPS
17.0p
1H18: 16.9p +0.6%

Adjusted EPS[5]
20.1p
1H18: 18.4p +9.2%

Interim dividend
6.33p
1H18: 5.5p +15.1%

For more information, visit our website: www.mattioliwoods.com

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Mattioli Woods plc ("Mattioli Woods", "the Company" or "the Group") is one of the UK's leading providers of wealth management and employee benefits services, with total assets under management, administration and advice of £8.8bn.

Our clients include controlling directors, professionals, executives, employees, owner-managed businesses, small to medium-sized enterprises and PLCs. We put our clients at the core of everything we do, with the objective of growing and preserving their assets while giving them control and understanding of their overall financial position. At the same time, we are growing our business, both organically and by acquisition, to deliver strong, sustainable shareholder returns over the long term.

Our focus is on holistic planning and providing the highest levels of personal service, maintaining very close relationships with our clients. We plan to continue developing complementary services around our core specialisms, blending advice, investment and asset management with product provision to progress as a modern financial services business aligned to our clients' needs, producing great client outcomes and lowering clients' costs.

Operational highlights and recent developments

- Revenue mix remains primarily fee based
- Lowered clients' costs while improving margin through operational efficiencies
- Total client assets[6] up 0.7% to £8.79bn (31 May 2018: £8.73bn)
- Gross discretionary AuM[7] up 0.9% to £2.36bn (31 May 2018: £2.34bn)
- Recent acquisitions performing and integrating well
- New £15.3m freehold Leicester office now fully operational
- Strong financial position, with net cash of £16.4m[8] (1H18: £14.8m)
- Profit outlook for year in line with management's expectations

1. Annual pension consultancy and administration fees; ongoing adviser charges; level and renewal commissions; banking income; property, discretionary portfolio and other annual management charges.
2. Before acquisition–related costs, amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and notional finance income and charges.
3. Earnings before interest, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax).
4. Adjusted EBITDA divided by revenue.
5. Adjusted profit after tax used to derive adjusted EPS is calculated as adjusted profit before tax less income tax at the standard rate of 19.0% (1H18: 19.0%).
6. Includes £308.7m (31 May 2018: £286.0m) of funds under management by the Group's associate, Amati Global Investors Limited, excluding £28.6m (31 May 2018: £27.0m) of Mattioli Woods' client investment and £10.9m (31 May 2018: £12.1m) of cross-holdings between TB Amati Smaller Companies Fund and Amati AIM VCT plc.
7. Includes £348.1m (31 May 2018: £325.1m) of funds under management by Amati Global Investors Limited, including Mattioli Woods' client investment and cross-holdings between TB Amati Smaller Companies Fund and Amati AIM VCT plc.
8. Cash and short-term deposits less £0.4m of VAT reclaimed on behalf of, and to be repaid to, clients.

Focussed

on delivering great client outcomes

"We are pleased to report a period of further growth in profit"

Joanne Lake
Non-Executive Chairman

Ian Mattioli MBE
Chief Executive Officer

Interim business review

We are pleased to report the six months ended 30 November 2018 was a period of further growth in sustainable profit in a complex market. Profit before tax was up 3.7% to £5.6m (1H18: 5.4m), with adjusted profit before tax up 8.3% to £6.5m (1H18: £6.0m) and adjusted EBITDA up 18.5% to £7.7m (1H18: £6.5m) despite the lower level of client activity caused by generally poor investment sentiment and prolonged uncertainty over Brexit.

As previously highlighted in our January trading update, revenue growth of 2.8% to £29.2m (1H18: £28.4m) was slightly lower than expected due to a combination of the Group reducing clients' costs and general market conditions. The financial impact of this was more than offset by the realisation of operational efficiencies and other administrative cost savings, resulting in adjusted EBITDA margin for the period of 26.5% (1H18: 22.9%) being substantially ahead of our 20% plus target. As in the prior year, we anticipate certain operating costs associated with marketing, ongoing IT development and the demands of new regulations will be weighted towards the second half of this financial year.

We believe the benefits of operating an integrated business allow us to secure great client outcomes while further reducing clients' costs and delivering strong, sustainable shareholder returns over the long term. Our success has been based upon the delivery of quality advice, growing our clients' assets and enhancing their financial outcomes. Total client assets under management, administration and advice increased to £8.79bn (31 May 2018: £8.73bn), notwithstanding the negative market movements during the period.

In meeting our clients' investment needs we generally use third parties' funds, but where we have the particular expertise and a more appropriate investment product we look to meet those needs in-house. This has led to the innovative development of our Private Investors Club, Custodian REIT plc ("Custodian REIT") and the Mattioli Woods Structured Products Fund, in addition to the funds managed by our associate company Amati Global Investors Limited ("Amati").

These bespoke investment services enjoyed aggregate net inflows (before market movements) of £140.5m (1H18: £187.2m), with gross discretionary assets under management increasing to £2.36bn (31 May 2018: £2.34bn) at the period end. The value of assets held within our Discretionary Portfolio Management service fell by 0.7% to £1.33bn (31 May 2018: £1.34bn), of which £119.6m or 9.0% (31 May 2018: £121.0m or 9.0%) is invested within funds managed by the Group and its associates. As the business grows, we plan to continue developing new products and services to better deal with our clients' needs, using the best of what we have and the best of what other providers can offer.

Recent acquisitions are performing and integrating well, with the first half's result including a positive contribution from Broughtons Financial Planning Limited ("Broughtons"), which was acquired in August 2018, and an increased share of profit from Amati, whose total funds under management[9] had increased to £337.3m (31 May 2018: £313.0m) at 30 November 2018.

9. Excludes £10.9m (31 May 2018: £12.1m) of cross-holdings between TB Amati Smaller Companies Fund and Amati AIM VCT plc.

Amati was named the Best AIM IHT Portfolio Service for the third year running at the Investment Week Tax Efficient Awards in November, following on from Paul Jourdan being named best UK Smaller Companies Fund Manager at the FE Alpha Manager of the Year Awards in May. Since the Group's purchase of 49% of Amati in February 2017 we have reviewed how best to attract and retain talent within the Amati business. Given the success of the current arrangement, we believe the Group retaining a minority interest in the joint venture offers the optimal structure for all stakeholders. Accordingly, following the period end we agreed to cancel the Group's option to acquire the remaining 51% of Amati in return for a payment of £0.75m from the management team, equivalent to the fair value of the option at 30 November 2018.

We have previously indicated our belief that fees for financial services in the UK are generally too expensive and have set out our aim to lower client costs, whilst maintaining high levels of service and securing sustainable returns for our shareholders. In recent years we have demonstrated that one of the key benefits of operating an integrated model is the opportunity to reduce our fees and charges where possible, including:

» Cutting the custody charge for all those clients using our core investment platform with effect from 1 August 2017;
» Reducing Custodian Capital's property management fee charged to Custodian REIT from 0.9% to 0.75% of the net asset value ("NAV") in excess of £200m and then introducing a further step down in the property management fee to 0.65% of NAV applied to NAV in excess of £500m with effect from 1 June 2018, plus a step down in the administrative fee from 0.125% to 0.08% of NAV applied to NAV between £200m and £500m with a further step down to 0.05% of NAV applied to NAV in excess of £500m;

Interim business review continued

- The launch of the Mattioli Woods Structured Products Fund in November 2016, charging significantly less than individual plans had done historically; and
- Reducing adviser charges on our clients' investments in Custodian REIT and the Mattioli Woods' Structured Products Fund.

In addition, we continue to seek ways to reduce our clients' costs elsewhere in the value chain, including reducing ongoing charges within our clients' discretionary portfolios and creating a range of multi asset funds to further reduce costs and improve investment efficiency, administration and reporting for clients.

We believe securing economies of scale, such as rebates on fund managers' charges and other benefits of operating our integrated model will allow us to improve client outcomes and further reduce clients' total expense ratios ("TERs").

Market

In recent years, we have seen a period of unprecedented change in regulation, legislation and client needs as the demand for advice and the potential market for our products and services continue to grow. Pricing fairness and competition continue to attract regulatory scrutiny and we believe our focus on client service and the inherent flex within our business model will allow us to continue to adapt to the changing wealth and asset management marketplace. The fair treatment of clients is at the core of all that we do, and we will further invest in our regulatory and compliance capabilities to ensure we can continue to deliver great client outcomes.

Both the Markets in Financial Instruments Directive II ("MiFID II") and the General Data Protection Regulations ("GDPR") came into effect last year and we continue to prepare for other regulatory and legislative changes already in train, including the Senior Managers and Certification Regime ("SM&CR").

There remains considerable uncertainty across the financial services sector: the outcome of Brexit is still unknown and the impact of new rules on markets will take time to become clear as we shift from a period of implementing new regulations to one of ongoing supervision.

While there remains uncertainty around Brexit it will continue to impact markets and consumer confidence. Financial decision making becomes more difficult and clients may become reluctant to make decisions or invest in more volatile markets, preferring to sit on the side-lines. Our integrated model means we are well-positioned to proactively advise our clients and we anticipate we may see an increased demand for advice once the shape of Brexit become clearer.

However, we are conscious the position might raise unexpected challenges, including those arising from any broader impact that Brexit might have on the UK economy or on the operation of European funds, such as the Mattioli Woods Structured Products Fund.

The Financial Advice Market Review ("FAMR") published by the Financial Conduct Authority ("FCA") and HM Treasury in 2016 made a series of recommendations designed to tackle barriers to consumers engaging with financial advice, particularly through the use of technology. We continue to invest in the development of our IT platform and completed several projects during the period, including the implementation of a cloud hosted IT architecture, which offers the Group enhanced data security, business continuity and scalability for future growth, and the introduction of an integrated human resource management and payroll system that allows us to engage with all of our people through one platform.

During the period we reviewed our capital investment in IT, including how to continue developing our CRM system and improve our client propositions, which resulted in the accelerated amortisation of some of our existing IT systems. We intend to continue investing in a stronger infrastructure base and our IT spend of £0.3m (1H18: £0.5m) in the first half remains in line with expectations.

Assets under management, administration and advice
Unlike many wealth managers, the majority of the Group's revenues are fee-based, rather than being linked to the value of assets under management, administration or advice[10], giving our business a revenue profile that is less sensitive to market performance. Total client assets increased to £8.79bn (31 May 2018: £8.73bn) as follows:

Assets under management, administration and advice[11]	SIPP and SSAS[12] £m	Employee benefits £m	Personal wealth and other assets £m	Sub-total £m	Amati[13] £m	Total £m
At 1 June 2018	5,485.9	1,237.9	1,719.4	8,443.2	286.0	8,729.2
Acquisition of Broughtons	—	—	120.5	120.5	—	120.5
Net inflows/(outflows), including market movements	62.8	(33.7)	(108.1)	(79.0)	22.7	(56.3)
At 30 November 2018	**5,548.7**	**1,204.2**	**1,731.8**	**8,484.7**	**308.7**	**8,793.4**

The £64.2m increase in total client assets during the period is analysed as:

- A £62.8m increase in SIPP and SSAS funds under trusteeship, with a 0.3% fall in the number of schemes being administered during the period, comprising a 1.3% (1H18: 6.1%) increase in the number of direct[14] schemes and 2.4% decrease (1H18: 2.2% decrease) in the number of schemes the Group operates on an administration-only basis. In recent years we have been appointed to operate or wind-up several SIPP portfolios following the failure of their previous operators, with lost schemes including the transfer of certain members of these distressed portfolios to alternative arrangements;
- A £33.7m decrease in the value of assets held in corporate pension schemes advised by our employee benefits business, although revenues in our employee benefits business are not linked to the value of client assets in the way certain of our wealth management revenue streams are;
- A £12.4m increase in personal wealth and other assets under management and advice, with the addition of Broughtons and 137 (1H18: 160) new personal clients won during the period offsetting the impact of outflows and negative market movements; and
- A £22.7m increase in Amati's funds under management (excluding Mattioli Woods' client investment), primarily through the growth of the TB Amati UK Smaller Companies Fund to £206.0m (31 May 2018: £166.3m) at 30 November 2018.

Trading results
The Group has developed a broader wealth management proposition in recent years, grown from its strong pensions advisory and administration expertise, serving the higher end of the market including controlling directors and owner-managers, professionals, executives and retirees. Our broad range of employee benefit services is targeted towards medium-sized and larger corporates.

Revenue
Group revenue was up 2.8% to £29.2m (1H18: £28.4m), with revenue growth slightly lower than expected due to a combination of the Group reducing clients' costs and general market conditions. Revenue growth of 2.8% (1H18: 16.9%) included four months' revenue of £0.4m (1H18: £nil) from the Broughtons business acquired during the period.

10. Revenue for the six months ended 30 November 2018 was split 53% (31 May 2018: 58%) fixed, initial or time-based fees and 47% (31 May 2018: 42%) ad valorem fees based on the value of assets under management, advice and administration.
11. Certain pension scheme assets, including clients' own commercial properties, are only subject to a statutory valuation at a benefit crystallisation event.
12. Value of funds under trusteeship in SIPP and SSAS schemes administered by the Group.
13. Funds under management of £308.7m (31 May 2018: £286.0m) exclude £28.6m (31 May 2018: £27.0m) of Mattioli Woods' client investment and £10.9m (31 May 2018: £12.1m) of cross-holdings between TB Amati Smaller Companies Fund and the Amati AIM VCT plc.
14. SIPP and SSAS schemes where the Group acts as pension consultant and administrator.

Employee benefits expense

As in previous periods, the major component of the Group's operating costs is our employee benefits expense of £15.5m (1H18: £15.7m) representing 53.1% of revenue (1H18: 55.3%). Securing economies of scale and operational efficiencies, particularly through the integration of acquired businesses and clients, are key elements of our aim to reduce clients' TERs and we are pleased to have increased average consultant and client relationship manager caseloads during the period.

Due to the lease on the Group's office in Hampton-in-Arden expiring in June 2019 and the proximity of this location to Leicester, we relocated our MC Trustees business to our new Leicester office during the period, resulting in some redundancies and the Group's total headcount falling to 604 (1H18: 622) at 30 November 2018.

We have also reviewed our approach to consultancy development, with the number of consultants reducing to 120 (1H18: 130) at the period end, following the retirement of several vendors of acquired businesses on completion of their earn-outs and a new consultancy development programme going live in December 2018. We continue to invest in our IT systems, compliance and training across all parts of the Group, with the aim of delivering further operational efficiencies and benefiting from further economies of scale.

Other administrative expenses

Other administrative expenses were £5.4m (1H18: £5.4m), illustrating the relatively fixed nature of the Group's administrative cost base. The impact of additional regulatory and compliance costs following the introduction of MiFID II, increased IT costs after moving to a cloud hosted infrastructure, changes in revenue mix increasing irrecoverable VAT and additional costs associated with the move to our new office at New Walk in Leicester were more than offset by significantly lower than anticipated costs incurred on the Group's exit from its previous premises at Grove Park.

We completed a seamless move to the new office, incurring significantly lower downtime than anticipated. This more flexible working environment allows us to continue growing the business and realise further operational efficiencies, whilst ensuring our client services remain first class. In addition, we will benefit from future rental savings of approximately £0.85m per annum.

Share-based payments

Share-based payments costs fell to £0.7m (1H18: £0.9m) following the settlement of all outstanding cash-settled options in the prior year, with strong share price growth in previous periods having increased the costs associated with the cash-settled options.

Net finance costs

The Group has maintained a positive net cash position throughout the period, with lower net finance costs of £0.02m (1H18: £0.06m) reflecting lower notional finance charges of £0.04m (1H18: £0.09m) on the unwinding of discounts on long term provisions.

Taxation

The effective rate of taxation on profit on ordinary activities was 20.4% (1H18: 17.9%), above the standard rate of tax of 19.0% (1H18: 19.0%), primarily due to certain expenses associated with sponsorship and other business development activities not being deductible for tax purposes.

The lower effective rate in the equivalent period last year was due to research and development relief claimed for the two years ended 31 May 2017. The net deferred taxation liability carried forward at 30 November 2018 was £3.0m (1H18: £2.9m).

Alternative performance measures

The Group has identified certain measures that it believes will assist in the understanding of the performance of the business. Adjusted EBITDA, adjusted profit before tax ("adjusted PBT"), adjusted profit after tax ("adjusted PAT") and adjusted EPS are non-GAAP alternative performance measures, considered by the Board to be a better reflection of true business performance than looking at the Group's results on a statutory basis only.

These alternative performance measures may not be directly comparable with other companies' adjusted measures and are not intended to be a substitute for, or superior to, any IFRS measures of performance. However, the Board considers them to be important measures for assessing performance, used widely within the business and by research analysts covering the Company.

Profitability and earnings per share

Profit before tax was up 3.7% to £5.6m (1H18: £5.4m), with adjusted profit before tax up 8.3% to £6.5m (1H18: £6.0m). A continued focus on operational efficiencies and the realisation of one-off and recurring administrative cost savings translated into strong growth in adjusted EBITDA up 18.5% to £7.7m (1H18: £6.5m), with adjusted EBITDA margin of 26.4% (1H18: 22.9%). We expect margin in the second half to be lower, with additional expenditure on marketing, compliance with new regulations and further investment in the infrastructure and sustainability of our business.

The Board considers adjusted EBITDA to be a relevant measure for investors who want to understand the underlying profitability of the Group, adjusting for items that are non-cash or affect comparability between periods as follows:

	1H19 £m	1H18 £m
Statutory operating profit before financing	**5.4**	5.4
Amortisation of acquired intangibles	**0.9**	0.9
Amortisation of software	**0.7**	0.1
Depreciation	**0.5**	0.5
EBITDA[15, 16]	**7.6**	6.8
Share of associate profits (net of tax)	**0.2**	0.1
Acquisition-related costs	**0.1**	—
Gain on revaluation of Amati option	**(0.1)**	(0.4)
Adjusted EBITDA	**7.7**	6.5

Adjusted PBT, adjusted PAT and adjusted EPS are additional measures the Board considers to be relevant for investors who want to understand the underlying earnings of the Group, excluding items that are non-cash or affect comparability between periods as follows:

	Profit 1H19 £m	**EPS 1H19 pps**	Profit 1H18 £m	EPS 1H18 pps
Statutory profit before tax	**5.6**	**21.4**	5.4	20.6
Income tax expense	**(1.2)**	**(4.4)**	(1.0)	(3.7)
Statutory profit after tax[16]/Basic EPS	**4.5**	**17.0**	4.4	16.9
Statutory profit before tax	**5.6**	**21.4**	5.4	20.5
Amortisation of acquired intangibles	**0.9**	**3.5**	0.9	3.4
Gain on revaluation of Amati option	**(0.1)**	**(0.4)**	(0.4)	(1.6)
Notional finance costs	**0.0**	**0.1**	0.1	0.4
Acquisition-related costs	**0.1**	**0.2**	—	—
Adjusted PBT	**6.5**	**24.8**	6.0	22.7
Income tax expense at standard rate	**(1.2)**	**(4.7)**	(1.2)	(4.3)
Adjusted PAT/Adjusted EPS	**5.3**	**20.1**	4.8	18.4

Adjusted EPS increased 9.2% to 20.1p (1H18: 18.4p), while basic EPS was up 0.6% to 17.0p (1H18: 16.9p), with profits for the period stated after recognising a smaller gain on revaluation of the Amati option and £0.6m of accelerated amortisation on existing IT systems. EPS was also impacted by the higher effective tax rate of 20.4% (1H18: 17.9%) and the issue of 132,785 shares under the Company's share plans and 77,171 shares as part of the initial consideration for the Broughtons acquisition. Diluted EPS was 16.8p (1H18: 16.8p).

15. Earnings before interest, taxation, depreciation, amortisation and impairment.

16. Figures in table above may not add due to rounding.

Cash flow

Opening cash balances of £23.7m (1H18: £23.0m) included £3.5m of VAT reclaimed on behalf of clients, with £3.1m repaid during the period. Excluding these payments cash generated from operations fell to £3.5m or 46.1% of EBITDA (1H18: £3.9m or 57.4%), despite operating profit margin before changes in working capital and provisions improving to 28.4% (1H18: 25.7%), with an increase in the Group's working capital requirement of £7.9m (1H18: £3.4m) comprising:

- £7.4m (1H18: £2.4m) decrease in trade and other payables, primarily due to:
  - £3.4m decrease in accruals following the payment of £4.7m (1H18: £3.9m) of staff bonuses for the year ended 31 May 2018, in which results were ahead of target and the timing of directors' bonus payments changed;
  - £2.6m decrease in other payables, primarily due to client VAT reclaims repaid during the period;
  - £1.5m decrease in trade payables, primarily due to the timing of £0.5m of stage payments on the internal fit out of the Group's new Leicester office and £0.2m of other capital expenditure, together with payment of £0.3m of annual insurance premiums outstanding at the start of the period; and
  - £0.1m increase in social security and other taxes outstanding at the period end;
- £1.0m (1H18: £0.4m) decrease in provisions following the settlement of contingent consideration on prior period acquisitions and the release of dilapidations and onerous contract provisions on the Group's exit from its premises at Grove Park in Leicester; and
- £0.5m decrease (1H18: £0.6m increase) in trade and other receivables following a lower level of client activity during the period.

Cash balances at 30 November 2018 totalled £16.8m (1H18: £14.8m), with an initial net cash outflow of £1.7m (1H18: £nil) on the acquisition of Broughtons, £0.8m (1H18: £2.7m) of contingent consideration on historic acquisitions paid during the period and £0.4m of client VAT reclaims to be repaid following the period end.

Capital expenditure of £1.4m (1H18: £5.8m) during the period was in line with expected spend, comprising £0.8m on the fit out of the new Leicester office, £0.4m of investment in new computer hardware, software and office equipment and £0.2m on the purchase of new company cars.

Regulatory capital

The Board considers it prudent for the Group to target headroom of circa 25% over the FCA regulatory capital requirement. The Group's regulatory capital requirement has increased in recent years, and in addition its capital is eroded when it makes acquisitions due to the requirement for intangible assets arising on acquisition to be deducted from Tier 1 Capital.

The Group continues to enjoy significant headroom on its increased regulatory capital requirement allowing us to pursue further acquisition opportunities.

Segmental review

The mix of income derived from the Group's four key revenue streams changed slightly during the period, summarised as follows:

- 45.2% investment and asset management (1H18: 43.0%);
- 36.0% pension consultancy and administration (1H18: 37.7%);
- 9.6% property management (1H18: 9.5%); and
- 9.2% employee benefits (1H18: 9.8%).

We aim to operate a seamless structure, allowing us to cover all aspects of wealth management and employee benefits, without confusing strategy for individual service lines.

Investment and asset management

Investment and asset management revenues generated from advising clients on both pension and personal investments increased 8.2% to £13.2m (1H18: £12.2m).

The Group's gross discretionary assets under management ("AuM"), including the multi asset funds which now sit at the heart of our discretionary portfolio management service ("DPM"), Custodian REIT, the Mattioli Woods Structured Products Fund ("MW SPF") and the funds managed by Amati, increased by 0.9% to £2.36bn (31 May 2018: £2.34bn) as follows:

Assets under management	DPM £m	Custodian REIT £m	MW SPF £m	Amati £m	Gross AuM £m	Cross-holdings in DPM[17] £m	Cross-holdings in Amati funds[18] £m	Net AuM £m
At 1 June 2018	1,341.1	462.6	213.8	325.1	2,342.6	(121.0)	(12.1)	2,209.5
Inflows	100.5	7.0	22.8	82.0	212.3	1.4	1.2	214.9
Outflows	(60.4)	—	(2.4)	(9.0)	(71.8)	—	—	(71.8)
Market movements	(55.7)	(12.8)	(5.6)	(50.0)	(124.1)	—	—	(124.1)
At 30 November 2018	**1,325.5**	**456.8**	**228.6**	**348.1**	**2,359.0**	**(119.6)**	**(10.9)**	**2,228.5**

Income from both initial and ongoing portfolio management charges increased to £7.5m (1H18: £6.7m) with £100.5m (1H18: £140.4m) of inflows into our discretionary portfolio management service during the period.

Fees for services provided by Custodian Capital to Custodian REIT are included in the 'Property management' segment, with annual management charges on the MW SPF increasing to £0.6m (1H18: £0.3m) due to growth in the fund's AuM.

Adviser charges based on the value of assets under advice were £5.1m (1H18: £5.2m), with gross assets under advice increasing to £2.14bn (31 May 2018: £2.04bn) following the acquisition of Broughtons during the period.

Growth in funds under management and advice enhances the quality of earnings through an increase in recurring revenues, with the proportion of the Group's total revenues which are recurring increasing to 89.7% (1H18: 84.5%) across all segments. As with other firms, those income streams that are linked to the value of funds under management and advice are affected by the performance of financial markets.

Pension consultancy and administration

Pension consultancy and administration revenues were down 1.9% to £10.5m (1H18: £10.7m), with a lower level of client activity partially offset by the total number of SIPP and SSAS schemes administered by the Group increasing 2.7% to 10,498 (1H18: 10,225).

Direct[19] pension consultancy and administration fees fell 2.4% to £8.0m (1H18: £8.2m). Retirement planning remains central to many of our clients' wealth management strategies and the number of direct schemes increased to 5,912 (1H18: 5,453), with 233 new schemes gained in the first half (1H18: 424). Our focus remains on the quality of new business, with the value of a new scheme averaging £0.3m (1H18: £0.4m). We also enjoy strong client retention, with an external loss rate[20] of 1.7% (1H18: 1.3%) and an overall attrition rate[21] of 2.0% (1H18: 1.6%).

The number of SSAS and SIPP schemes the Group operates on an administration-only basis fell to 4,586 (1H18: 4,772) at the period end, with lost schemes including the transfer of members of distressed portfolios acquired in the last few years to alternative arrangements. Overall, third party administration fees decreased 8.3% to £2.2m (1H18: £2.4m).

The Group's banking revenue increased to £0.3m (1H18: £0.1m), reflecting the increase in the Bank of England base rate to 0.75% at the start of August 2018.

17. Comprises £30.7m (31 May 2018: £30.4m) invested in Custodian REIT, £66.3m (31 May 2018: £69.2m) in MW SPF and £22.6m (31 May 2018: £21.4m) in Amati funds.
18. Cross-holdings between TB Amati Smaller Companies Fund and Amati AIM VCT plc.
19. SIPP and SSAS schemes where Mattioli Woods acts as pension consultant and administrator.
20. Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the period.
21. Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period.

Interim business review continued

We like to see our clients withdrawing funds to enjoy in their retirement. Following the introduction of the pensions freedoms and a broader market shift away from accumulation and steady savings, we anticipate there will be some natural outflows from our clients' SIPP and SSAS schemes, particularly as the "baby boom" generation reaches retirement. We expect any such decumulation to have a positive impact on the Group's results, linking-in with the provision of advice around the cascading of wealth through the generations, inheritance tax and other planning.

Property management

Property management revenues increased 3.7% to £2.8m (1H18: £2.7m), with our subsidiary Custodian Capital having assets under management and administration of £550.5m (1H18: £499.8m) at the period end. The majority of our property management revenues are derived from the services provided by Custodian Capital to Custodian REIT, which currently offers a fully-covered dividend yield of 5.7%, one of the highest yields[22] among its UK property investment company peer group, coupled with the potential for capital growth from a balanced portfolio of real estate assets.

In addition, Custodian Capital continues to facilitate direct property ownership on behalf of pension schemes and private clients and also manages our "Private Investors Club", which offers alternative investment opportunities to suitable clients by way of private investor syndicates. This initiative continues to be well supported, with £15.4m (1H18: £19.2m) invested and two (1H18: five) new syndicates completed during the period.

Employee benefits

Employee benefits revenues fell 3.6% to £2.7m (1H18: £2.8m). In June 2018 we were delighted to announce the appointment of Saira Chambers to lead our employee benefits team as Employee Benefits Director and we have progressed a number of strategic projects within our employee benefits business over recent months, including further development of the Group's proposition.

Employers are increasingly encouraging staff wellbeing and retirement savings, which we expect to drive a period of steady growth in the UK employee benefits market, and we believe the Government's emphasis on workplace advice will present new opportunities for us to realise further synergies between our employee benefits and wealth management businesses.

Our people

We are a business built on the integrity and expertise of our people. As an Investors in People accredited company we are committed to developing our people and maintaining the capacity to deliver sustainable growth.

We continue to invest in our graduate and apprenticeship recruitment programmes. During the period seven (1H18: 10) graduates and 14 (1H18: 19) apprentices joined the Group, which has been recognised for creating opportunities for young people by being highly commended in the Large Employer of the Year Award category at the National Apprenticeship Awards 2018. We also offer programmes for 'life served' people seeking exciting opportunities for a change in career or a return to work.

We enjoy a strong team spirit and facilitate employee equity ownership through the Mattioli Woods plc Share Incentive Plan ("the Plan") and other share schemes. At the end of the period 61% of eligible staff had invested in the Plan (1H18: 62%) and we continue to encourage broader staff participation.

We are dedicated to maintaining our culture of putting clients first, encouraging a collegiate approach and preserving our integrity. We would like to thank all our staff for their continued commitment, enthusiasm and professionalism in dealing with our clients' affairs.

Shareholders

During the period we have engaged with shareholders through various channels, including company-hosted events, group meetings and one-to-one meetings. We are fortunate to have a number of supportive institutional shareholders with a significant investment in the Group and welcome opportunities to talk to all our shareholders, large and small. We will continue to maintain a regular and constructive dialogue with them, while seeking to broaden our shareholder base.

22. Source: Numis Securities Limited, Investment Companies Datasheet dated 1 February 2019.

Dividend
The Board is pleased to recommend the payment of an increased interim dividend, up 15.1% to 6.33p per share (1H18: 5.5p), demonstrating our desire to deliver value to shareholders and confidence in the outlook for our business. The Board remains committed to growing the dividend, while maintaining an appropriate level of dividend cover. The interim dividend will be paid on 29 March 2019 to shareholders on the register at the close of business on 15 February 2019.

The Company offers shareholders the option to invest their dividends in a Dividend Reinvestment Plan ("DRIP"). The DRIP is administered by the Company's registrar, Link Asset Services ("Link"), which uses cash dividend payments to which participants in the DRIP are entitled to purchase shares in the market, which means the Company does not need to issue new shares and avoids diluting existing shareholdings.

For the DRIP to apply to the interim dividend for the six months ended 30 November 2018, shareholders' instructions must be received by Link by 1 March 2019.

Acquisitions
We have invested over £50m since our admission to AIM in 2005 bringing 21 businesses or client portfolios into the Group, developing considerable expertise and a strong track record in the execution and subsequent integration of such transactions.

The Broughtons business acquired during the period is integrating well and has contributed positively to the Group's trading results since acquisition, increasing earnings and enhancing value. With increasing complexity and continuing consolidation across the key markets in which we operate, we expect there will be further opportunities to accelerate our growth by acquisition. Our strong balance sheet gives us the flexibility to make further value-enhancing acquisitions.

Outlook
With many geopolitical uncertainties in the world at present, this is the time to engage with our clients and ensure we address their changing needs and requirements for advice, administration and review. Although there is some caution around markets, we believe the Group is well placed to secure further growth, both organically and by acquisition, and further consolidation within our core markets remains likely.

We intend to continue managing our clients' assets and the Group's cost base with care. Our profit outlook for the year remains in line with management's expectations and we remain confident we can secure further progress towards the ambitious longer-term goals we have set.

Joanne Lake
Non-Executive Chairman

Ian Mattioli MBE
Chief Executive Officer
4 February 2019

Independent auditor's review report to Mattioli Woods plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 November 2018 which comprises the condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and associated Notes 1 to 19. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of and has been approved by the directors. The directors are responsible for preparing and presenting the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in Note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 November 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union, and the AIM Rules of the London Stock Exchange.

Deloitte LLP
Statutory Auditor
Birmingham, UK
4 February 2019

Interim condensed consolidated statement of comprehensive income
For the six months ended 30 November 2018

	Note	**Unaudited Six months ended 30 Nov 2018 £000**	Unaudited Six months ended 30 Nov 2017 £000	Audited Year ended 31 May 2018 £000
Revenue	5	**29,165**	28,433	58,669
Employee benefits expense		**(15,483)**	(15,714)	(32,148)
Other administrative expenses		**(5,395)**	(5,370)	(12,833)
Share-based payments	14	**(713)**	(859)	(1,497)
Amortisation and impairment		**(1,647)**	(1,015)	(2,225)
Depreciation		**(498)**	(465)	(822)
Loss on disposal of property, plant and equipment		**(106)**	(59)	(67)
Gain on revaluation of derivative financial instrument		**100**	401	540
Operating profit before financing		**5,423**	5,352	9,617
Finance revenue		**20**	34	73
Finance costs		**(37)**	(93)	(154)
Net finance costs		**(17)**	(59)	(81)
Share of profit from associate, net of tax	11	**223**	93	240
Profit before tax		**5,629**	5,386	9,776
Income tax expense	8	**(1,151)**	(966)	(1,586)
Profit for the period		**4,478**	4,420	8,190
Other comprehensive income for the period, net of tax		**—**	—	—
Total comprehensive income for the period, net of tax		**4,478**	4,420	8,190
Attributable to:				
Equity holders of the parent		**4,478**	4,420	8,190
Earnings per ordinary share:				
Basic (pence)	6	**17.0**	16.9	31.1
Adjusted (pence)	6	**20.1**	18.4	34.7
Diluted (pence)	6	**16.8**	16.8	31.0
Proposed dividend per share (pence)	7	**6.33**	5.5	17.0

The operating profit before financing for each period arises from the Group's continuing operations.

Interim condensed consolidated statement of financial position
As at 30 November 2018

	Note	**Unaudited 30 Nov 2018 £000**	Unaudited 30 Nov 2017 £000	Audited 31 May 2018 £000
Assets				
Property, plant and equipment	9	**17,041**	14,631	16,483
Intangible assets	10	**45,501**	43,712	43,199
Deferred tax asset	8	**610**	676	674
Investment in associate	11	**3,943**	3,574	3,725
Derivative financial asset	12	**750**	511	650
Total non-current assets		**67,845**	63,104	64,731
Trade and other receivables		**16,368**	17,096	16,946
Investments		**81**	88	81
Cash and short-term deposits		**16,778**	14,760	23,668
Total current assets		**33,227**	31,944	40,695
Total assets		**101,072**	95,048	105,426
Equity				
Issued capital		**264**	260	261
Share premium		**31,753**	30,876	31,283
Merger reserve		**9,380**	8,781	8,781
Equity – share-based payments		**3,096**	2,854	3,010
Capital redemption reserve		**2,000**	2,000	2,000
Retained earnings		**35,081**	31,070	33,615
Total equity attributable to equity holders of the parent		**81,574**	75,841	78,950
Non-current liabilities				
Deferred tax liability	8	**3,640**	3,533	3,455
Financial liabilities and provisions	16	**1,124**	515	596
Total non-current liabilities		**4,764**	4,048	4,051
Current liabilities				
Trade and other payables		**10,736**	10,494	17,988
Income tax payable	8	**1,311**	833	695
Financial liabilities and provisions	16	**2,687**	3,832	3,742
Total current liabilities		**14,734**	15,159	22,425
Total liabilities		**19,498**	19,207	26,476
Total equities and liabilities		**101,072**	95,048	105,426

Registered number: 03140521

Interim condensed consolidated statement of changes in equity

For the six months ended 30 November 2018

	Note	Issued capital £000	Share premium £000	Merger reserve £000	Equity – share-based payments £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
As at 1 June 2017 – Audited		**258**	**30,314**	**8,781**	**2,571**	**2,000**	**28,671**	**72,595**
Total comprehensive income for period								
Profit for the period		–	–	–	–	–	4,420	4,420
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income for period		–	–	–	–	–	4,420	4,420
Transactions with owners of the Company, recognised directly in equity								
Share of other comprehensive income from associated companies	11	–	–	–	–	–	5	5
Issue of share capital		2	562	–	–	–	–	564
Share-based payment transactions	14	–	–	–	557	–	–	557
Deferred tax asset recognised in equity		–	–	–	(69)	–	–	(69)
Current tax taken to equity		–	–	–	199	–	–	199
Reserves transfer		–	–	–	(404)	–	404	–
Dividends	7	–	–	–	–	–	(2,430)	(2,430)
As at 30 November 2017 – Unaudited		**260**	**30,876**	**8,781**	**2,854**	**2,000**	**31,070**	**75,841**
Total comprehensive income for period								
Profit for the period		–	–	–	–	–	3,770	3,770
Other comprehensive income		–	–	–	–	–	–	–
Total comprehensive income for period		–	–	–	–	–	3,770	3,770
Transactions with owners of the Company, recognised directly in equity								
Share of other comprehensive income from associated companies	11	–	–	–	–	–	4	4
Issue of share capital	14	1	407	–	–	–	–	408
Share-based payment transactions		–	–	–	463	–	–	463
Deferred tax taken to equity		–	–	–	7	–	–	7
Current tax taken to equity		–	–	–	(107)	–	–	(107)
Reserves transfer		–	–	–	(207)	–	207	–
Dividends	7	–	–	–	–	–	(1,436)	(1,436)
As at 31 May 2018 – Audited		**261**	**31,283**	**8,781**	**3,010**	**2,000**	**33,615**	**78,950**

Interim condensed consolidated statement of changes in equity continued

For the six months ended 30 November 2018

	Note	Issued capital £000	Share premium £000	Merger reserve £000	Equity – share-based payments £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
As at 31 May 2018 – Audited		**261**	**31,283**	**8,781**	**3,010**	**2,000**	**33,615**	**78,950**
Adjustment on initial application of IFRS 9 (net of tax)	2	—	—	—	—	—	(256)	(256)
Adjustment on initial application of IFRS 15 (net of tax)	2	—	—	—	—	—	—	—
Adjusted balance at 1 June 2018 – Unaudited		261	31,283	8,781	3,010	2,000	33,359	78,694
Total comprehensive income for period								
Profit for the period		—	—	—	—	—	4,478	4,478
Other comprehensive income		—	—	—	—	—	—	—
Total comprehensive income for period		—	—	—	—	—	4,478	4,478
Transactions with owners of the Company, recognised directly in equity								
Share of other comprehensive income from associated companies	11	—	—	—	—	—	(5)	(5)
Issue of share capital		3	470	599	—	—	—	1,072
Share-based payment transactions	14	—	—	—	511	—	—	511
Deferred tax asset derecognised in equity		—	—	—	(126)	—	—	(126)
Current tax taken to equity		—	—	—	(26)	—	—	(26)
Reserves transfer		—	—	—	(273)	—	273	—
Dividends	7	—	—	—	—	—	(3,024)	(3,024)
As at 30 November 2018 – Unaudited		**264**	**31,753**	**9,380**	**3,096**	**2,000**	**35,081**	**81,574**

Interim condensed consolidated statement of cash flows

For the six months ended 30 November 2018

	Note	**Unaudited Six months ended 30 Nov 2018 £000**	Unaudited Six months ended 30 Nov 2017 £000	Audited Year ended 31 May 2018 £000
Operating activities				
Profit for the period		**4,478**	4,420	8,190
Adjustments for:				
Depreciation	9	**498**	465	822
Amortisation and impairment	10	**1,647**	1,015	2,225
Investment income		**(20)**	(34)	(73)
Interest expense		**37**	93	154
Share of profit from associate		**(223)**	(93)	(240)
Gain on revaluation of derivative financial asset	12	**(100)**	(401)	(540)
Loss on disposal of property, plant and equipment		**106**	59	67
Equity-settled share-based payments	14	**713**	740	1,378
Cash-settled share-based payments	14	**—**	119	119
Income tax expense		**1,151**	966	1,586
Cash flows from operating activities before changes in working capital and provisions		**8,287**	7,349	13,688
Decrease/(increase) in trade and other receivables		**498**	(646)	(957)
(Decrease)/increase in trade and other payables		**(7,374)**	(2,369)	5,100
(Decrease)/increase in provisions		**(1,025)**	(417)	344
Cash generated from operations		**386**	3,917	18,175
Interest paid		**—**	—	(1)
Income taxes paid		**(922)**	(904)	(1,840)
Net cash (outflows)/inflows from operating activities		**(536)**	3,013	16,334
Investing activities				
Proceeds from sale of property, plant and equipment		**53**	33	72
Purchase of property, plant and equipment	9	**(1,205)**	(5,517)	(7,773)
Purchase of software	10	**(160)**	(283)	(980)
Consideration paid on acquisition of subsidiaries		**(3,249)**	(2,704)	(3,506)
Cash received on acquisition of subsidiaries		**757**	—	—
Other investments		**—**	—	9
Interest received		**13**	34	73
Loans advanced to investment syndicates		**(167)**	(2,002)	(2,332)
Loan repayments from investment syndicates		**360**	1,243	2,032
Net cash from investing activities		**(3,598)**	(9,196)	(12,405)
Financing activities				
Proceeds from the issue of share capital		**268**	394	626
Repayment of borrowings acquired in business combinations		**—**	—	—
Dividends paid	7	**(3,024)**	(2,430)	(3,866)
Net cash from financing activities		**(2,756)**	(2,036)	(3,240)
Net (decrease)/increase in cash and cash equivalents		**(6,890)**	(8,219)	689
Cash and cash equivalents at start of period		**23,668**	22,979	22,979
Cash and cash equivalents at end of period		**16,778**	14,760	23,668

Notes to the interim condensed consolidated 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 traded on the AIM market of the London Stock Exchange plc. The interim condensed consolidated financial statements comprise the Company and its subsidiaries ("the Group"). The interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 4 February 2019.

The principal activities of the Group are described in Note 5.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's financial statements for the year ended 31 May 2018, which were 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 ("IFRIC") of the IASB (together "IFRS") as adopted by the European Union, and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The information relating to the six months ended 30 November 2018 and the six months ended 30 November 2017 is unaudited and does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 May 2018 have been reported on by its auditor and delivered to the Registrar of Companies. The report of the auditor was unqualified and did not draw attention to any matters by way of emphasis, or contain a statement under section 498(2) or (3) of the Companies Act 2006.

The interim condensed consolidated financial statements have been reviewed by the auditor and their report to the Board of Mattioli Woods plc is included within this interim report.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 May 2018, other than for the adoption of IFRS 9 and IFRS 15.

Standards and interpretations adopted during the current reporting period

This is the first set of the Group's financial statements where IFRS 9 and IFRS 15 have been applied. These new standards were adopted from 1 June 2018. Under the transition methods chosen, comparative information is not restated. Changes to significant accounting policies are described in Note 2.

IFRS 9 Financial instruments

IFRS 9 'Financial instruments' replaces IAS 39 and introduces changes to the classification of financial assets and a new impairment model for financial assets, which will result in earlier recognition of impairment losses.

Transition

The Group has taken advantage of the exemption from restating comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 June 2018. Accordingly, the information presented for the six months ended 30 November 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings was a reduction in value of £256,000.

Classification and measurement of financial assets and financial liabilities

The basis of classification for financial assets under IFRS 9 is different from that under IAS 39. Financial assets are classified into one of three categories: amortised cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"). The held to maturity, loans and receivables and available for sale categories available under IAS 39 have been removed.

The classification criteria for allocating financial assets between categories under IFRS 9 require the Group to document the business models under which its assets are managed, distinguishing whether:

» its objective is to hold assets to collect contractual cash flows;
» its objective is both to collect contractual cash flows and to sell the asset; or
» it represents another type of business model (e.g. trading).

The Group is also required to review contractual terms and conditions to determine whether the cash flows arising on these assets are solely payments of principal and interest on the principal amount outstanding.

All of the Group's financial assets as at 1 June 2018 were managed within business models whose objective is solely to collect contractual cash flows, except derivative financial instruments which are classified as FVTPL.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 June 2018 relates solely to new impairment requirements, described further below. The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 June 2018:

Financial assets	Original classification under IAS 39	Carrying value under IAS 39 £000	New classification under IFRS 9	Carrying value under IFRS 9 £000
Cash and short-term deposits	Loans and receivables	23,668	Amortised cost	23,668
Derivative financial asset	FVTPL	650	FVTPL	650
Investments	Held to maturity investments	81	Amortised cost	81
Other financial assets	Loans and receivables	16,016	Amortised cost	15,708
Total		40,415		40,107

The basis of classification for financial liabilities under IFRS 9 remains unchanged from under IAS 39. The two categories are amortised cost or FVTPL (either designated as such or held for trading).

The only financial liability recorded by the Group as FVTPL is deferred contingent consideration payable on acquisitions, which remain as FVTPL on the application of IFRS 9 and so no change in carrying value has been recorded on adopting IFRS 9.

Notes to the interim condensed consolidated financial statements
continued

2. Basis of preparation and accounting policies continued
2.2 Significant accounting policies continued
Impairment of financial assets
Under IFRS 9, an expected credit loss ("ECL") model replaces the incurred loss model, meaning there no longer needs to be a triggering event to recognise impairment losses. A credit loss provision must be made for the amount of any loss expected to arise, whereas under IAS 39, credit losses are recognised when they are incurred.

Under the ECL model, a dual measurement approach applies whereby a financial asset will attract an ECL allowance equal to either:

- 12 month ECLs (losses resulting from possible defaults within the next 12 months); or
- Lifetime ECLs (losses resulting from possible defaults over the remaining life of the financial asset).

The latter applies if there has been a significant deterioration in the credit quality of the asset, albeit lifetime ECLs will always be recognised for assets without a significant financing component. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs
The Group's trade and other receivables are generally short term and do not contain significant financing components. Therefore, the Group has applied a practical expedient by using a provision matrix to calculate lifetime ECLs based on actual credit loss experience over the past 12 months.

Applying this methodology as at 1 June 2018 resulted in an impairment loss provision of £1,422,000 under IFRS 9 relating to trade and other receivables (31 May 2018: £1,114,000 under IAS 39). This methodology has also been applied at the interim reporting date.

The following table sets out the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 June 2018:

Financial assets – Trade and other receivables	Carrying value under IAS 39 £000	Carrying value under IFRS 9 £000	Additional ECL provision £000
Other trade receivables	5,133	4,912	221
Accrued income	3,927	3,865	62
Accrued time costs and disbursements	5,556	5,542	14
Other receivables	1,400	1,389	11
Total	16,016	15,708	308

Presentation of impairment
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses are presented under 'other operating expenses'. No losses are presented separately on the statement of comprehensive income and there have been no reclassifications of amounts previously recognised under IAS 39.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 changes how and when revenue is recognised from contracts with customers and the treatment of the costs of obtaining a contract with a customer. The standard requires that the recognition of revenue is linked to the fulfilment of identified performance obligations that are enshrined in the customer contract. It also requires that the incremental cost of obtaining a customer contract should be capitalised if that cost is expected to be recovered. The standard replaces existing revenue recognition guidance, particularly that under IAS 18.

Transition

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of applying the standard recognised at the date of adoption, with no restatement of the comparative period. The impact, net of tax, of transition to IFRS 15 on the opening balance of retained earnings was £nil.

Impact on financial statements for the six months ended 30 November 2018

The Group has considered the impact of adopting the standard on its existing revenue streams, as well as on its policy of capitalising the cost of obtaining customer contracts.

Fee and commission income

Included within fee and commission income are initial fees in relation to certain business activities. Under IFRS 15, the Group has made an assessment as to whether the work performed to earn such fees constitutes the transfer of services and, therefore, fulfils any performance obligation(s). If so, then these fees can be recognised when the relevant performance obligation has been satisfied; if not, then the fees can only be recognised in the period in which the services are provided.

The timing of recognition of some non-recurring revenues has been deferred where contract performance conditions are deemed not to have been met at the reporting date, but as at 31 May 2018 £nil revenue had been accrued under the revenue recognition policies impacted by IFRS 15.

Contract costs

Under IFRS 15, the scope requirements for capitalising contract costs, incremental payments that were made to secure investment management contracts, are broader. Incremental costs to obtain any contract with a customer should be capitalised if those costs relate directly to a contract or anticipated contract, generate or enhance the resources of the entity, and the entity expects to recover them.

Having reviewed the incremental costs incurred by the Group in obtaining its contracts with customers with an expected life of greater than one year, we have concluded that the value of capitalised contract costs as at 31 May 2018 is £nil.

Notes to the interim condensed consolidated financial statements
continued

2. Basis of preparation and accounting policies continued

2.2 Significant accounting policies continued

Standards not affecting the financial statements

In addition to IFRS 9 and IFRS 15 the following new and revised standards and interpretations have been adopted in the current period:

Standard or interpretation		Periods commencing on or after
Annual Improvements to IFRSs 2014-2016 Cycle		1 January 2018
IFRS 2 (amended)	Classification and Measurement of Share-based Payments	1 January 2018
IAS 40 (amended)	Transfers of Investment Property	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018

Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements or give rise to additional disclosures.

Future new standards and interpretations

A number of new standards and amendments to standards and interpretations will be effective for future annual and interim periods and, therefore, have not been applied in preparing these condensed consolidated interim financial statements. 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 16	Leases	1 January 2019
IFRIC 23	Accounting for uncertain tax treatments	1 January 2019
IAS 28 (amended)	Long Term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle		1 January 2019
IAS 19 (amendments)	Plan amendment, curtailment or settlement	1 January 2019
IFRS 9 (amendments)	Prepayment Features with Negative Compensation	1 January 2019
Amendments to references to the conceptual framework in IFRS standards		1 January 2020
IFRS 3 (amendments)	Business combinations	1 January 2020
IAS 1 and IAS 8 (amendments)	Definition of material	1 January 2020
IFRS 17	Insurance contracts	1 January 2021

IFRS 16 'Leases' is expected to have a significant effect on the condensed consolidated interim financial statements and the consolidated financial statements of the Group. Other than to expand certain disclosures within the financial statements, the Directors do not expect the adoption of the other standards and interpretations listed above will have a material impact on the financial statements of the Group in future periods.

IFRS 16 Leases

IFRS 16 'Leases' was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019, will be adopted by the Group on 1 June 2019 and therefore will impact the Group's financial statements for the year ending 31 May 2020.

IFRS 16 will primarily change lease accounting for lessees. Lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right-of-use asset and interest on the lease liability. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but will be substantially different to existing accounting for operating leases where rental charges are currently recognised on a straight-line basis and no lease asset or lease loan obligation is recognised.

Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting and is not expected to have a material impact for the Group. The Group is assessing the impact of the following accounting changes that will arise under IFRS 16:

- Right-of-use assets will be recorded for assets that are leased by the Group; currently no lease assets are included on the Group's consolidated statement of financial position for operating leases.
- Liabilities will be recorded for discounted future lease payments in the Group's consolidated statement of financial position for the "reasonably certain" period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are generally not recorded for future operating lease payments, which are disclosed as commitments unless they are considered onerous. The amount of lease liabilities will not equal the lease commitments reported on 31 May 2019, but may not be dissimilar.
- Lease expenses will be recognised as depreciation of right-of-use assets and interest on lease liabilities; interest will typically be higher in the early stages of a lease and reduce over the term. Currently operating lease rentals are expensed on a straight-line basis over the lease term within operating expenses.
- Operating lease cash flows are currently included within operating cash flows in the consolidated statement of cash flows; under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities (borrowings) and related interest.

The Group is continuing to assess the impact of these and other accounting changes that will arise under IFRS 16 and expects the changes highlighted to have a material impact on the consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows after adoption on 1 June 2019:

- EBITDA is likely to rise because the lease expense under IAS 17 for operating leases will be removed and replaced with additional depreciation and finance costs. The profit profile of the business will also change as more expense is recognised in earlier periods and less in later periods compared to the straight-line amount recognised under IAS 17.
- For leases classified as operating leases under IAS 17, there will be a significant impact on the Statement of Financial Position as these assets and corresponding liabilities have to be recognised. This will impact on gearing levels and potentially on covenants provided to prospective lenders and others.

When IFRS 16 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with their cumulative retrospective impact applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS 16 on each line item in the financial statements in the reporting period.

Depending on the adoption method that is utilised, certain practical expedients may be applied on adoption. The Group has not yet determined which method will be adopted or which expedients will be applied on adoption of these standards.

Notes to the interim condensed consolidated financial statements
continued

2. Basis of preparation and accounting policies continued

2.2 Significant accounting policies continued

Financial statements for the year ending 31 May 2019

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements will be consistent with those to be followed in the preparation of the Group's annual financial statements for the year ending 31 May 2019, except for the adoption of new standards and interpretations not yet issued.

2.3 Basis of consolidation

The interim condensed consolidated financial statements consolidate the financial statements of the Company and its subsidiary undertakings as at 30 November each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

2.4 Key sources of judgements and estimation uncertainty

The preparation of the condensed consolidated 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.

Critical accounting judgements

Interests in associates

Associates are entities in which the Group owns less than 100% of voting rights and has significant influence, but not control or joint control over the financial and operating policies. In determining whether control exists, this requires significant judgements in assessing factors such as the structure of the investment and the contractual agreement. The existence of significant influence is evidenced by the Group having representation on the board and the ability to participate in decisions but not being able to control the vote. The carrying amount of the investment in associate at 30 November 2018 was £3.9m (1H18: £3.6m).

Sources of significant estimation uncertainty

Impairment of acquired client portfolios and goodwill

For the purposes of impairment testing, acquired client portfolios and goodwill are allocated to the group of cash-generating units ("CGUs") that are expected to benefit from the business combination.

The Group reviews whether acquired client portfolios are impaired on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This comprises an estimation of the fair value less cost to sell and the value in use of the acquired client portfolios.

The key assumptions 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.

Value in use calculations are utilised to calculate recoverable amounts of a CGU. Value in use is calculated as the net present value of the projected pre-tax cash flows of the CGU in which the client portfolio is contained. The net present value of cash flows is calculated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset, based on the Group's pre-tax Weighted Average Cost of Capital ("WACC"). The Group has applied a WACC of 10.4% to each of its operating segments.

The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and expenses 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% (1H18: 2.5%), which management considers conservative against industry average long-term growth rates.

The carrying amount of client portfolios at 30 November 2018 was £24.9m (1H18: £24.3m). No impairments have been made during the period (1H18: £nil) based upon the Directors' review.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGUs to which the goodwill has been allocated. In assessing value in use, the estimated future cash flows expected to arise from the CGU are discounted to their present value using a pre-tax discount rate of 10.4%, reflecting current market assessments of the time value of money and the risks specific to that asset, based on the Group's WACC.

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 30 November 2018 was £18.7m (1H18: £17.3m). No impairments have been made during the period (1H18: £nil) based upon the Directors' review.

If the discount rate used increased to 11.5%, with all other variables held constant, this would result in an £11.7m reduction in the value in use but would not impair the carrying value of the acquired client portfolios or goodwill. There is no material impact on the Group's equity.

Notes to the interim condensed consolidated financial statements
continued

2. Basis of preparation and accounting policies continued

2.4 Key sources of judgements and estimation uncertainty continued

Accrued income and recoverability of accrued time costs and disbursements

Accrued income is recognised in respect of adviser charges and 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 income that will be received subsequent to the reporting date in respect of the accounting period, which is based on the value of historic receipts and investments placed by clients under management and advice. The carrying amount of accrued income at 30 November 2018 was £4.2m (1H18: £4.1m).

The Group also recognises accrued income in respect of time costs and disbursements 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 and disbursements incurred but not invoiced to clients. The carrying amount of accrued time costs at 30 November 2018 was £5.3m (1H18: £5.0m).

The sensitivity of a 1.0% change in the estimated recoverability of time costs and disbursements incurred but not invoiced to clients, with all other variables held constant, is £0.08m of the Group's profit before tax. There is no material impact on the Group's equity.

Contingent consideration payable on acquisitions

The Group has entered into certain acquisition agreements that provide for a contingent consideration to be paid. A financial instrument 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 business and determine a suitable discount rate for the calculation of the present value of any contingent consideration payments.

Using cash flows approved by the Board covering the contingent consideration period the Board expects the maximum contingent consideration will be payable. A material change to the carrying value would only occur if the acquired business achieved 80% or less of the target earnings. The carrying amount of contingent consideration provided for at 30 November 2018 was £1.2m (1H18: £1.7m).

Provisions

As detailed in Note 16, the Group recognises provisions for client claims, contingent consideration payable on acquisitions, commission clawbacks, dilapidations, onerous contracts 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. Seasonality of operations

Historically, revenues in the second half-year have been typically 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 further diversification of the Group's wealth management and employee benefits revenue streams, the Directors believe there is still some seasonality of operations, although a substantial element of the Group's revenues are now geared to the prevailing economic and market conditions.

4. Business combinations

On 8 August 2018, Mattioli Woods acquired the entire issued share capital of Broughtons Financial Planning Limited ("Broughtons"), a financial planning and wealth management business based in Oldbury in the West Midlands.

The fair values of the identifiable assets and liabilities of Broughtons as at the date of acquisition are set out in the table below:

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Property, plant and equipment	10	—	10
Client portfolio	2,296	2,296	—
Cash at bank	757	—	757
Prepayments and accrued income	110	—	110
Other receivables	304	—	304
Assets	3,477	2,296	1,181
Trade and other payables	(27)	—	(27)
Accruals and deferred income	(31)	—	(31)
Other taxation and social security	(3)	—	(3)
Income tax	(147)	—	(147)
Provisions	(25)	—	(25)
Deferred tax liability	(390)	(390)	—
Liabilities	(623)	(390)	(233)

Total identifiable net assets at fair value	2,854
Goodwill	1,493
Total acquisition cost	4,347

Analysed as follows:	
Initial cash consideration	2,100
Acquired net assets adjustment to initial consideration	448
New shares in Mattioli Woods	600
Contingent consideration	1,300
Discounting of contingent consideration	(101)
Total acquisition cost	4,347

Cash outflow on acquisition	
Cash paid	2,100
Cash acquired	(757)
Acquired net assets adjustment	387
Acquisition costs	70
Net cash outflow	1,800

Notes to the interim condensed consolidated financial statements
continued

4. Business combinations continued

Broughtons specialises in the provision of bespoke wealth management services and impartial advice. It is an excellent cultural and strategic fit with Mattioli Woods' existing business, providing services to clients with over £120m of assets under advice. The acquisition brings additional scale to Mattioli Woods' existing operations and offers the opportunity to promote additional services to existing and prospective clients of Broughtons.

In addition, the acquisition adds further specialist expertise to the Group and Broughtons experienced staff have remained with the business. The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of Broughtons with those of the Group. The primary components of this residual goodwill comprise:

- Revenue synergies expected to be available to Mattioli Woods as a result of the transaction;
- The workforce;
- The knowledge and know-how resident in Broughtons' modus operandi; and
- New opportunities available to the combined business, as a result of both Broughtons and the existing business becoming part of a more sizeable listed company.

None of the recognised goodwill is expected to be deductible for income tax purposes. The client portfolio will be amortised on a straight-line basis over an estimated useful life of 15 years based on the Group's historic experience.

5. Segment information

The Group's operating segments comprise the following:

- Pension consultancy and administration – fees earned by Mattioli Woods for setting up and administering pension schemes. Additional fees are generated from consultancy services provided for special one-off activities and the provision of bespoke scheme banking arrangements;
- Investment and asset management – income generated from the placing of investments on behalf of clients;
- Property management – income generated where Custodian Capital manages collective property investment vehicles, facilitates direct commercial property investments on behalf of clients or acts as the external discretionary manager for Custodian REIT plc; and
- Employee benefits – income generated by the Group's employee benefits business 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 the same market. The Group operates exclusively within the United Kingdom.

Operating segments

The operating segments defined above all utilise the same intangible assets, property, plant and equipment 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).

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 November 2018 and 2017, and the year ended 31 May 2018 respectively:

							Unaudited Six months ended 30 Nov 2018
	Investment and asset management £000	Pension consultancy and administration £000	Property management £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
Revenue							
External client	**13,164**	**10,547**	**2,756**	**2,698**	**29,165**	**—**	**29,165**
Total revenue	**13,164**	**10,547**	**2,756**	**2,698**	**29,165**	**—**	**29,165**
Profit before tax							
Segment result	**4,519**	**1,957**	**365**	**241**	**7,082**	**(1,453)**	**5,629**

							Unaudited Six months ended 30 Nov 2017
	Investment and asset management £000	Pension consultancy and administration £000	Property management £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
Revenue							
External client	12,268	10,688	2,670	2,807	28,433	—	28,433
Total revenue	12,268	10,688	2,670	2,807	28,433	—	28,433
Profit before tax							
Segment result	3,756	2,438	507	(31)	6,670	(1,284)	5,386

							Audited Year ended 31 May 2018
	Investment and asset management £000	Pension consultancy and administration £000	Property management £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
Revenue							
External client	25,096	21,822	5,918	5,833	58,669	—	58,669
Total revenue	25,096	21,822	5,918	5,833	58,669	—	58,669
Profit before tax							
Segment result	8,306	3,714	1,016	113	13,149	(3,373)	9,776

Notes to the interim condensed consolidated financial statements
continued

5. Segment information continued

The following table presents segment assets of the Group's operating segments as at 30 November 2018 and 2017, and at 31 May 2018 (the date of the last annual financial statements):

	Unaudited 30 Nov 2018 £000	Unaudited 30 Nov 2017 £000	Audited 31 May 2018 £000
Pension consultancy and administration	**23,590**	24,015	23,790
Investment and asset management	**26,763**	23,606	23,023
Property management	**1,286**	1,486	1,159
Employee benefits	**10,959**	11,354	11,177
Total segments	**62,598**	60,461	59,149
Corporate assets	**38,474**	34,587	46,278
Total assets	**101,072**	95,048	105,427

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 headcount or revenue mix of the cash generating units at the time of acquisition. 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.

Corporate costs

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

Finance income and expenses, gains and losses on the disposal of assets, taxes, computer software 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.

	Unaudited 30 Nov 2018 £000	Unaudited 30 Nov 2017 £000	Audited 31 May 2018 £000
Reconciliation of profit			
Total segments	**7,082**	6,670	13,149
Amortisation and impairment	**(731)**	(137)	(469)
Depreciation	**(498)**	(465)	(822)
Irrecoverable VAT	**(425)**	(311)	(829)
Professional indemnity insurance	**(245)**	(246)	(466)
Loss on disposal of assets	**(106)**	(59)	(67)
Acquisition-related costs	**(63)**	—	(132)
Finance costs	**(37)**	(93)	(154)
Bank charges	**(11)**	(12)	(18)
Finance income	**20**	34	73
Gain on revaluation of derivative financial asset	**100**	401	540
Decrease/(increase) in provisions	**543**	(396)	(1,029)
Group profit before tax	**5,629**	5,386	9,776

	Unaudited 30 Nov 2018 £000	Unaudited 30 Nov 2017 £000	Audited 31 May 2018 £000
Reconciliation of assets			
Segment operating assets	**62,598**	60,461	59,149
Property, plant and equipment	**17,041**	14,631	16,483
Intangible assets	**1,904**	2,111	2,475
Investments	**81**	88	81
Deferred tax asset	**610**	676	675
Prepayments and other receivables	**1,310**	1,810	2,246
Derivative financial asset	**750**	511	650
Cash and short-term deposits	**16,778**	14,760	23,668
Total assets	**101,072**	95,048	105,427

Notes to the interim condensed consolidated financial statements
continued

6. Earnings per ordinary share

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

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 period 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:

	Unaudited Six months ended 30 Nov 2018 £000	Unaudited Six months ended 30 Nov 2017 £000	Audited Year ended 31 May 2018 £000
Net profit and diluted net profit attributable to equity holders of the Company	**4,478**	4,420	8,190
Weighted average number of ordinary shares:	**000s**	000s	000s
Issued ordinary shares at start period	**26,150**	25,789	25,789
Effect of shares issued during the year ended 31 May 2018	**—**	291	455
Effect of shares issued during the current period	**194**	102	102
Basic weighted average number of shares	**26,344**	26,182	26,346
Effect of dilutive options at the statement of financial position date	**267**	114	45
Diluted weighted average number of shares	**26,611**	26,296	26,391

The Company has granted options under the Mattioli Woods plc Consultants' Share Option Plan ("the Consultants' Option Plan") and the Mattioli Woods 2010 Long Term Incentive Plan ("the LTIP") to certain of its senior managers and directors to acquire (in aggregate) up to 3.67% of its issued share capital. 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 30 November 2018 the conditions attaching to 684,840 options granted under the LTIP are not satisfied. If the conditions had been satisfied, diluted earnings per share would have been 16.4 pence per share (1H18: 16.3 pence).

Adjusted basic earnings per share amounts are calculated by adding back acquisition costs expensed under IFRS 3 (Revised), amortisation and impairment of intangible assets other than computer software, changes in the fair value of derivative financial assets, notional finance income and charges to the net profit attributable to ordinary equity holders of the Company ("Adjusted Net Profit") and dividing Adjusted Net Profit by the weighted average number of ordinary shares outstanding during the period.

Since the reporting date and the date of completion of these financial statements the following transactions have taken place involving ordinary shares or potential ordinary shares:

» The issue of 7,250 ordinary shares to satisfy the exercise of options under the LTIP; and
» The issue of 19,926 ordinary shares under the Mattioli Woods plc Share Incentive Plan.

7. Dividends paid and proposed

	Unaudited Six months ended 30 Nov 2018 £000	Unaudited Six months ended 30 Nov 2017 £000	Audited Year ended 31 May 2018 £000
Paid during the period:			
Equity dividends on ordinary shares:			
– Final dividend for 2018: 11.5p (2017: 9.4p)	**3,024**	2,430	2,430
– Interim dividend for 2018: 5.5p (2017: 4.7p)	**—**	—	1,436
Dividends paid	**3,024**	2,430	3,866
Proposed for approval:			
Equity dividends on ordinary shares:			
– Interim dividend for 2019: 6.33p (2018: 5.5p)	**1,671**	1,434	—
– Final dividend for 2018: 11.5p (2017: 9.4p)	**—**	—	3,024
Dividends proposed	**1,671**	1,434	3,024

The interim dividend was approved on 4 February 2019.

8. Income tax

Current tax

Current tax expense for the interim periods presented is the expected tax payable on the taxable income for the period, calculated as the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

Current tax for current and prior periods is classified as a current liability to the extent that it is unpaid. Any amounts paid in excess of amounts owed would be classified as a current asset.

Deferred income tax

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, with deferred tax assets and liabilities recognised at the rate of corporation tax enacted or substantively enacted at the reporting date.

The primary component of the Group’s recognised deferred tax assets include temporary differences related to share-based payments, provisions and other items.

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

Notes to the interim condensed consolidated financial statements
continued

8. Income tax continued

Deferred income tax continued

The recognition of deferred tax in the consolidated statement of comprehensive income arises from the origination and the reversal of temporary differences and the effects of changes in tax rates. The primary components of the deferred tax credit for the six months ended 30 November 2018 of £0.2m (1H18: £0.01m) are due to temporary differences on the amortisation of client portfolios and share-based payments at the reporting date.

The total deferred tax asset derecognised in the consolidated statement of changes in equity for the six months ended 30 November 2018 was £0.12m (1H18: £0.07m recognised in equity).

Deferred tax assets and liabilities at 30 November 2018 have been recognised using the corporation tax rate of 17% (1H18: 17%) to be effective from 1 April 2020 as introduced by the Finance Bill 2016, which received Royal Assent in September 2016.

Reconciliation of effective tax rates

The current tax expense for the six months ended 30 November 2018 was calculated based on the estimated average annual effective income tax rate of 20.4% (1H18: 17.9%), as compared to the standard rate of UK corporation tax at the reporting date of 19.0% (1H18: 19.0%). Differences between the estimated average annual effective income tax rate and statutory rate include, but are not limited to non-deductible expenses, tax incentives not recognised in profit or loss and under/(over) provisions in previous periods.

Impact of future tax changes

On 15 September 2016 the Finance Bill 2016 received Royal Assent, enacting proposals that were announced in the 2016 budget, the Autumn Statement 2015 and the Summer Budget 2015. The rate of corporation tax fell to 19% in April 2017 and will fall to 17% from April 2020.

These rate changes will affect the amount of future cash tax payments to be made by the Group and will also reduce the size of the Group's deferred tax assets and liabilities in the Group's statement of financial position.

9. Property, plant and equipment

	Assets under construction £000	Computer and office equipment £000	Fixtures and fittings £000	Motor vehicles £000	Land and buildings £000	Total £000
Gross carrying amount:						
At 1 June 2017	7,438	2,024	930	1,211	—	11,603
Additions	5,168	114	28	207	—	5,517
Disposals	—	(116)	—	(85)	—	(201)
At 30 November 2017	12,606	2,022	958	1,333	—	16,919
Additions	1,851	115	2	288	—	2,256
Disposals	—	—	—	(129)	—	(129)
At 31 May 2018	14,457	2,137	960	1,492	—	19,046
Arising on acquisitions	—	4	6	—	—	10
Additions	791	187	21	206	—	1,205
Reclassification	(15,248)	27	4,468	—	10,753	—
Disposals	—	(138)	—	(218)	—	(356)
At 30 November 2018	**—**	**2,217**	**5,455**	**1,480**	**10,753**	**19,905**
Depreciation:						
At 1 June 2017	—	977	576	379	—	1,932
Charged for the period	—	227	125	113	—	465
On disposals	—	(52)	—	(57)	—	(109)
At 30 November 2017	—	1,152	701	435	—	2,288
Charged for the period	—	164	67	126	—	357
On disposals	—	—	—	(82)	—	(82)
At 31 May 2018	—	1,316	768	479	—	2,563
Charged for the period	—	140	176	138	44	433
On disposals	—	(93)	—	(104)	—	(197)
At 30 November 2018	**—**	**1,363**	**944**	**513**	**44**	**2,799**
Carrying amount:						
At 30 November 2018	**—**	**854**	**4,511**	**967**	**10,709**	**17,041**
At 30 November 2017	12,606	2,870	257	898	—	14,631
At 31 May 2018	14,457	821	192	1,013	—	16,483

Notes to the interim condensed consolidated financial statements
continued

10. Intangible assets

	Internally generated software £000	Software £000	Client portfolios £000	Goodwill £000	Other £000	Total £000
Gross carrying amount:						
At 1 June 2017	1,589	1,541	33,354	17,253	35	53,772
Arising on acquisitions	—	—	—	—	—	—
Additions	35	248	—	—	—	283
At 30 November 2017	1,624	1,789	33,354	17,253	35	54,055
Additions	69	628	—	—	—	697
At 31 May 2018	1,693	2,417	33,354	17,253	35	54,752
Arising on acquisitions	—	—	2,296	1,493	—	3,789
Additions	33	127	—	—	—	160
At 30 November 2018	**1,726**	**2,544**	**35,650**	**18,746**	**35**	**58,701**
Amortisation and impairment:						
At 1 June 2017	494	671	8,128	—	35	9,328
Amortisation	73	64	878	—	—	1,015
At 30 November 2017	567	735	9,006	—	35	10,343
Amortisation in period	89	243	878	—	—	1,210
At 31 May 2018	656	978	9,884	—	35	11,553
Amortisation in period	159	572	916	—	—	1,647
At 30 November 2018	**815**	**1,550**	**10,800**	**—**	**35**	**13,200**
Carrying amount:						
At 30 November 2018	**911**	**994**	**24,850**	**18,746**	**—**	**45,501**
At 30 November 2017	1,057	1,054	24,348	17,253	—	43,712
At 31 May 2018	1,037	1,439	23,470	17,253	—	43,199

11. Investment in associate

The movement in the Group's investment in associate is as follows:

	Unaudited Six months ended 30 Nov 2018 £000	Unaudited Six months ended 30 Nov 2017 £000	Audited Year ended 31 May 2018 £000
Investment in associate			
At 1 June	**3,725**	3,476	3,476
Share of profit for the period	**257**	127	308
Amortisation of fair value intangibles	**(34)**	(34)	(68)
Share of profit from associates in statement of comprehensive income	**223**	93	240
Share of other comprehensive income	**(5)**	5	9
At end of period	**3,943**	3,574	3,725

Other comprehensive income represents a movement in Amati's revaluation reserve recognised directly in equity. The results of Amati from the beginning of the period and its aggregated assets and liabilities as at 30 November 2018 are as follows:

Name	Country of incorporation	Assets £000	Liabilities £000	Revenue £000	Profit £000	Interest held
Amati Global Investors Limited	Scotland	3,808	(1,284)	2,152	524	49%
Group's share of profit					257	

The net assets of Amati as at 1 June 2018 were £2,010,530. At 30 November 2018 the net assets of Amati had increased by £513,605 to £2,524,135, increasing the Group's interest in the associate by £251,666 during the period, comprising Mattioli Woods' share of Amati's profit after tax, recognised in the statement of comprehensive income and Mattioli Woods' share of the movement in Amati's revaluation reserve recognised directly in equity.

12. Derivative financial asset

The only derivative financial instrument held by the Group is an option contract over shares in the Group's associate. The option contract is carried at fair value.

	Unaudited Six months ended 30 Nov 2018 £000	Unaudited Six months ended 30 Nov 2017 £000	Audited Year ended 31 May 2018 £000
Derivative financial asset			
At 1 June	**650**	110	110
Movement in fair value	**100**	401	540
At end of period	**750**	511	650

The fair value of the option contract at 1 June 2018 was £649,699. At 30 November 2018, the fair value of the option contract was determined to be £750,000 (1H18: £510,897) after the Company signed heads of terms with the counterparty to the option contract following the period end, whereby the counterparty has agreed to pay £750,000 in return for cancellation of the option agreement.

Notes to the interim condensed consolidated financial statements
continued

13. Cash flows from operating activities using the direct method

The cash generated from operations may be presented under the direct method as follows:

	Unaudited Six months ended 30 Nov 2018 £000	Unaudited Six months ended 30 Nov 2017 £000	Audited Year ended 31 May 2018 £000
Cash flows from operating activities			
Cash receipts from customers	**29,575**	27,786	57,713
Cash paid to suppliers and employees	**(29,189)**	(23,869)	(39,538)
Cash generated from operations	**386**	3,917	18,175

14. Share-based payments

Consultants' Share Option Plan

The Company 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:

	Exercise price	At 31 May 2018 No.	Granted during the period No.	Exercised during the period No.	Lapsed during the period No.	**At 30 Nov 2018 No.**
Date of grant						
8 September 2009	£2.16	46,861	—	(4,755)	—	**42,106**
		46,861	—	(4,755)	—	**42,106**

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. All options have vested as a result of the option holders achieving certain individual performance hurdles. The contractual life of each option expires 10 years after the date of grant. At 30 November 2018 the total number of options exercisable under the Consultants' Share Option Plan was 42,106 (1H18: 50,255).

Long Term Incentive Plan

During the period, Mattioli Woods granted awards to the Company's executive directors and certain senior employees under the LTIP. Conditional share awards ("Equity-settled") grant participating employees a conditional right to become entitled to options with an exercise price of 1 pence over ordinary shares in the Company. Conditional cash awards ("Cash-settled") grant participating employees a conditional right to be paid a cash amount based on the proceeds of the sale of a specified number of ordinary shares following the vesting of the award. Movements in the LTIP scheme during the period were as follows:

	Unaudited 30 Nov 2018 Equity-settled No.	**Unaudited 30 Nov 2018 Cash-settled No.**	Unaudited 30 Nov 2017 Equity-settled No.	Unaudited 30 Nov 2017 Cash-settled No.	Audited 31 May 2018 Equity-settled No.	Audited 31 May 2018 Cash-settled No.
Number of options						
Outstanding at start of period	**806,489**	**—**	807,445	118,501	807,445	118,501
Granted during the period	**241,756**	**—**	238,825	—	238,825	—
Exercised during the period	**(68,666)**	**—**	(142,104)	(118,501)	(203,194)	(118,501)
Forfeited during the period	**(54,964)**	**—**	(1,470)	—	(36,587)	—
Outstanding at end of period	**924,615**	**—**	902,696	—	806,489	—
Exercisable at end of period	**239,775**	**—**	80,377	—	19,287	—

The LTIP awards are subject to the achievement of corporate profitability targets measured over a three year performance period and will vest following publication of the Group's audited results for the year. The amounts shown below represent the maximum opportunity for the participants in the LTIP:

	Exercise price	At 1 June 2018 No.	Granted during the period No.	Forfeited during the period No.	Exercised during the period No.	**At 30 Nov 2018 No.**
Date of grant						
5 September 2013	£0.01	1,388	—	—	—	**1,388**
16 September 2014	£0.01	17,899	—	—	(4,532)	**13,367**
15 October 2015	£0.01	289,154	—	—	(64,134)	**225,020**
6 September 2016	£0.01	269,067	—	(12,758)	—	**256,309**
4 September 2017	£0.01	228,981	—	(25,985)	—	**202,996**
6 September 2018	£0.01	—	241,756	(16,221)	—	**225,535**
		806,489	241,756	(54,964)	(68,666)	**924,615**

Share Incentive Plan

The Company also operates the Mattioli Woods plc Share Incentive Plan ("the SIP"). Participants in the SIP are entitled to purchase up to a prescribed number of new ordinary shares in the Company at the end of each month. A total of 59,364 (1H18: 51,864) new ordinary shares were issued to the 351 employees who participated in the SIP during the period. At 30 November 2018, 595,645 shares were held in the SIP on their behalf. There were no forfeited shares not allocated to any specific employee.

Notes to the interim condensed consolidated financial statements
continued

14. Share-based payments continued

Share-based payment expense

The amounts recognised in the statement of comprehensive income in respect of share-based payments were as follows:

	Unaudited 30 Nov 2018 Equity-settled No.	**Unaudited 30 Nov 2018 Cash-settled No.**	Unaudited 30 Nov 2017 Equity-settled No.	Unaudited 30 Nov 2017 Cash-settled No.	Audited 31 May 2018 Equity-settled No.	Audited 31 May 2018 Cash-settled No.
LTIP	**510**	**—**	570	119	1,031	119
SIP	**203**	**—**	170	—	347	—
Total	**713**	**—**	740	119	1,378	119

Valuation assumptions

Assumptions used in the Black Scholes model to determine the fair value of options at the date of grant were as follows:

	LTIP (Equity-settled) 2018	LTIP (Equity-settled) 2017	LTIP (Equity-settled) 2016	LTIP (Equity-settled) 2015	LTIP (Equity-settled) 2014	CSOP 2009
Share price at grant date (£)	8.32	8.41	6.55	6.13	4.32	2.13
Exercise price (£)	0.01	0.01	0.01	0.01	0.01	2.16
Expected volatility (%)	17.5	17.0	17.5	20.0	20.0	17.0
Expected life (years)	4.5	4.5	4.5	4.5	4.5	7.0
Risk free rate (%)	0.76	0.5	0.81	1.25	2.02	3.33
Expected dividend yield (%)	2.04	1.84	2.21	2.30	2.30	1.60

The expected volatility assumption is based on statistical analysis of the historical volatility of the Company's share price. For the LTIP, the mid-market value of the shares under option at the date of grant is based on the average price over the five days immediately preceding (but not including) the day of grant.

15. Financial instruments

The table below analyses the Group's financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value:

	Carrying amount as at 30 November 2018 £000	Quoted prices in active markets for identical instruments Level 1 £000	Significant other observable inputs Level 2 £000	Significant unobservable inputs Level 3 £000
Financial assets				
Derivative financial instruments	750	—	—	750
At 30 November 2018	**750**	**—**	**—**	**750**
Financial liabilities				
Contingent consideration	1,219	—	—	1,219
At 30 November 2018	**1,219**	**—**	**—**	**1,219**

The fair value of cash and short-term deposits, accounts receivable and accounts payable approximate their carrying values due to their short-term nature.

16. Provisions

Group	Contingent consideration £000	Client claims £000	Dilapidations £000	Clawback £000	Employers' NIC on share options £000	Onerous Contracts £000	LTIP cash liability £000	FSCS levy £000	Total £000
At 1 June 2017	4,418	527	517	124	737	75	844	—	7,242
Arising during period	—	506	122	75	165	274	132	100	1,374
Used during period	(2,703)	(112)	(13)	(76)	(333)	—	(989)	—	(4,226)
Unwinding of discount	80	—	—	—	—	—	13	—	93
Unused amounts reversed	(128)	(1)	(7)	—	—	—	—	—	(136)
At 30 November 2017	1,667	920	619	123	569	349	—	100	4,347
Arising during period	—	191	—	—	150	639	—	—	980
Used during period	(803)	(113)	—	106	(68)	—	—	—	(878)
Unwinding of discount	62	—	12	(105)	—	—	—	—	(31)
Unused amounts reversed	(40)	(16)	—	—	(24)	—	—	—	(80)
At 31 May 2018	886	982	631	124	627	988	—	100	4,338
Arising during period	65	558	102	105	(17)	—	—	—	813
Used during period	(763)	(121)	(359)	(106)	(70)	(369)	—	—	(1,788)
Acquisitions	1,199	—	25	—	—	—	—	—	1,224
Unwinding of discount	32	—	5	—	—	—	—	—	37
Unused amounts reversed	—	(2)	(44)	—	(23)	(544)	—	—	(613)
Reclassification	(200)	—	—	—	—	—	—	—	(200)
At 30 November 2018	**1,219**	**1,417**	**360**	**123**	**517**	**75**	**—**	**100**	**3,811**
Current	575	1,417	—	123	397	75	—	100	2,687
Non-current	644	—	360	—	120	—	—	—	1,124
At 30 November 2018	1,219	1,417	360	123	517	75	—	100	3,811

Contingent consideration

The Group has entered into certain acquisition agreements that provide for 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 fair value of contingent consideration payable within the next 12 months is £0.6m (1H18: £1.7m).

On 8 August 2018 the Group acquired Broughtons for initial consideration comprising cash of £2.5m (excluding cash acquired with the business) and 77,171 shares in Mattioli Woods, plus contingent consideration of £1.3m payable in cash in the two years following completion if certain profit targets are met. The fair value of the remaining contingent consideration at 30 November 2018 is £1.2m (1H18: £nil).

Notes to the interim condensed consolidated financial statements
continued

16. Provisions continued

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 when management believes it is probable the claim will crystallise. No discount rate is applied to the projected cash flows due to their short-term nature.

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 each lease term. The Group provides for the estimated fair 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.

Onerous contracts

Onerous lease provisions on property leases are recognised when a leased property is expected to become vacant and no longer used in the Group's operations. Amounts recognised in the prior period represented the Group's best estimate of the unavoidable costs committed to under three commercial leases for its previous premises at Grove Park, Leicester, based on the expected void period between the premises being vacated and subsequently sub-let after the Group took occupation of its new office at New Walk.

The Group acquired onerous contracts for the provision of certain IT systems on the acquisition of Ashcourt Rowan's pension business and on the acquisition of UKWM Pensions. Management has assessed the expected benefits and costs associated with these contracts and concluded that the costs of the obligation exceed the benefits to the extent that it is appropriate to provide against these contracts in full.

LTIP cash liability

In prior periods the Group has granted cash settled options to certain of its Executive Directors and senior managers. The amounts of any cash entitlement on vesting of an award are directly linked to the value of a specified number of the Company's shares at the vesting date. At 30 November 2018 there were no cash awards outstanding.

FSCS levy

The arrangements put in place by the Financial Services Compensation Scheme ("FSCS") to protect depositors and investors from loss in the event of failure of financial institutions have resulted in significant levies on the industry in recent years.

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The Group contributes to the investment intermediation levy class and accrues levy costs for future levy years when the obligation arises. A provision of £0.1m has been made in these financial statements for FSCS interim levies expected in the year ending 31 May 2019.

17. Related party transactions

Custodian REIT plc

In March 2014 the Company's subsidiary, Custodian Capital, was appointed as the discretionary investment manager of Custodian REIT plc ("Custodian REIT"), a closed-ended property investment company listed on the Main Market of the London Stock Exchange.

The Company's Chief Executive, Ian Mattioli, is a non-independent Non-Executive Director of Custodian REIT and the Company's Chief Financial Officer and Company Secretary, Nathan Imlach, is Company Secretary of Custodian REIT. Ian Mattioli received £16,750 of director's fees from Custodian REIT during the six months ended 30 November 2018 (1H18: £14,000). Fees for Nathan Imlach's services are charged by Custodian Capital directly to Custodian REIT and are included in the annual management charges noted below.

Ian Mattioli, Nathan Imlach, Richard Shepherd-Cross (the Managing Director of Custodian Capital), Ed Moore (the Finance Director of Custodian Capital) and the private pension schemes of Ian Mattioli, Nathan Imlach, Richard Shepherd-Cross, Murray Smith, Joanne Lake and Carol Duncumb have a beneficial interest in Custodian REIT.

During the six months ended 30 November 2018 the Group received revenues of £2.0m (1H18: £1.9m) in respect of annual management charges, administration and marketing fees from Custodian REIT. Custodian REIT owed the Group £nil (1H18: £nil) at 30 November 2018.

During the six months ended 30 November 2018 the Group paid rent of £246,515 (1H18: £174,000) and dilapidations, service charges and other property related costs of £178,347 (1H18: £20,251) in respect of its former office premises at MW House and Gateway House at Grove Park, Enderby where Custodian REIT was lessor.

The first lease for part of the ground floor of Gateway House (an office building adjacent to MW House) had 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. In August 2018, the Company served notice under the first Gateway House lease to vacate the premises by 31 October 2018. In addition, the Company surrendered the second Gateway House lease on 31 October 2018 by way of a surrender premium payment to the landlord reflecting all rent and business rates due from the surrender date to lease expiry, along with the cost of dilapidations.

On 26 November 2018, the Company assigned the MW House lease to a third party sub-tenant for the remainder of the lease term. Under the terms of the assignment, no further rent should be paid to Custodian REIT plc, but in the event of default by the assignee, the Group retains the liability for rents due over the remaining lease term.

Notes to the interim condensed consolidated financial statements
continued

17. Related party transactions continued

Amati Global Investors Limited

On 6 February 2017 the Company purchased 49% of the issued share capital of Amati. The Company has also entered into an option agreement to acquire the remaining 51% of the issued share capital of Amati in the two years commencing 6 February 2019 for a mixture of cash and Mattioli Woods' ordinary shares.

Three of the Company's senior management team were appointed to the board of Amati on the date of investment. Ian Mattioli is Deputy Chairman, the Group's Chief Investment Officer, Simon Gibson, is a Non-Executive Director and former Chief Operating Officer, Mark Smith was a Non-Executive Director until he resigned on 22 November 2018. During the six months ended 30 November 2018 each of these individuals were paid £2,575 (1H18: £2,500) of directors' fees by Amati.

On 14 August 2018 the Group entered into an agreement to sublet space in its Edinburgh office to Amati for a term of five years, including an initial rent-free period of five months. During the six months ended 30 November 2018 the Group received rent of £nil from Amati as lessee, £527 from the recharge of other property-related costs and accrued rental income of £14,435 in the period.

Gateley (Holdings) plc

The Company's Non-Executive Chairman, Joanne Lake, is a non-executive director of Gateley (Holdings) Plc, which is the holding company of Gateley Plc, a provider of commercial legal services. During the period the Group paid Gateley Plc a total of £1,638 (1H18: £2,753) in respect of corporate legal services provided to the Group and its subsidiaries. In addition, the Group received revenues of £14,175 (1H18: £12,147) in respect of the employee benefits services provided to Gateley Plc in the period.

Vista Insurance Brokers Limited

Vista Insurance Brokers Limited, a broker of insurance products, is party to a dormant joint venture agreement with the Company. The Group received revenues of £1,148 (1H18: £1,120) in respect of employee benefits services provided to Vista Insurance Brokers Limited during the period.

Key management compensation

Key management personnel receive compensation in the form of short-term employee benefits and equity compensation benefits. Key management personnel, representing the executive directors and 17 (1H18: 18) other executives, received total compensation of £3.3m for the six months ended 30 November 2018 (1H18: £3.9m). Total remuneration is included in "employee benefits expense" and analysed as follows:

	Unaudited Six months ended 30 Nov 2018 £000	Unaudited Six months ended 30 Nov 2017 £000	Audited Year ended 31 May 2018 £000
Wages and salaries	**2,771**	3,006	6,036
Social security costs	**355**	689	993
Pension	**36**	93	61
Benefits in kind	**88**	81	159
	3,250	3,869	7,249

In addition, the cost of share-based payments disclosed separately in the statement of comprehensive income was £0.4m (1H18: £0.5m).

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 changed to a limited partnership structure, replacing the previous trust-based structure. Each limited partnership is constituted by its general partner and its limited partners (the investors), with the general partner being a separate limited company owned by Custodian Capital.

The general partner and the initial limited partner enter into a limited partnership agreement, which governs the operation of the partnership and sets out the rights and obligations of the investors. The general partners have appointed Custodian Capital as the operator of the partnerships pursuant to an operator agreement between the general partner and Custodian Capital.

FP Mattioli Woods Balanced Fund

The Company is the investment manager of the FP Mattioli Woods Balanced Fund, an open ended investment company which aims to achieve long-term growth while managing volatility so that, other than on very short term measures, outperformance comes with a lower beta than the benchmark. As at 30 November 2018 the Group held an investment with a market value of £40,020 (1H18: £49,139) in the FP Mattioli Woods Balanced Fund.

MW Properties (Huntingdon Non-Geared) Limited

The Company holds a 2.04% interest in MW Properties (Huntingdon Non-Geared) Limited, a nominee for a property syndicate. During the period, the Group received dividend income of £nil (1H18: £1,020) from MW Properties (Huntingdon Non-Geared) Limited. As at 30 November 2018 the Group held an investment with a market value of £14,201 (1H18: £14,137) in the syndicate.

18. Commitments and contingencies

Sponsorship agreement

As part of the Group's strategy to strengthen its brand awareness the Group has a three-year sponsorship agreement with rugby giants Leicester Tiger, which ends on 30 June 2019. The agreement includes shirt sponsorship on the Tigers' home and away shirts, a dedicated Mattioli Woods stand at the 26,000 capacity Welford Road stadium, corporate hospitality rights and the provision of exclusive content to Tigers fans. In November 2018 the Group entered in to a new three-year sponsorship agreement with Leicester Tigers, which commences on 1 July 2019.

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 these contingencies (Note 16).

Notes to the interim condensed consolidated financial statements
continued

18. Commitments and contingencies continued

In-specie pension contributions

As has been widely reported in the media, HMRC has challenged all SIPP providers on whether pension contributions could be made in-specie. As a result there are a number of tax relief claims made on behalf of our clients that have been challenged and we have received or are awaiting assessment notices which are expected to amount to £0.9m. These assessments have been appealed, with proceedings stayed pending the outcome of HMRC's appeal against the First-Tier Tribunal's ruling in favour of another SIPP operator in a similar case.

Irrespective of the result of HMRC's appeal, the impact on the financial position of the Group is expected to be neutral.

Transfers from defined benefit schemes

The FCA has been conducting an industry wide review of the advice being provided on transfers from defined benefit to defined contribution schemes since October 2015 ("the Review").

As previously reported, following consideration of the increasing costs of professional indemnity insurance, additional regulatory controls and the resources we would have to dedicate to this small part of our business, we have stopped giving pension transfer advice to individuals with safeguarded or defined benefits. The impact of this decision and the Review on the Group's financial performance is not expected to be material.

FSCS levy

The arrangements put in place by the Financial Services Compensation Scheme ("FSCS") to protect depositors and investors from loss in the event of failure of financial institutions has resulted in significant levies on the industry in recent years.

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The Group contributes to the investment intermediation levy class and accrues levy costs for future levy years when the obligation arises.

A provision of £0.1m has been made in these financial statements for FSCS interim levies expected in the year ending 31 May 2019 (Note 16).

19. Events after the reporting period

Cancellation of Amati option

On 4 January 2019 the Group signed heads of terms agreeing to cancel its option to acquire the remaining 51% of Amati in return for a payment of £0.75m, equivalent to the fair value of the option at 30 November 2018.

Company information

Directors

Joanne Lake – Non-Executive Chairman
Ian Mattioli MBE – Chief Executive Officer
Nathan Imlach – Chief Financial Officer
Murray Smith – Group Managing Director
Anne Gunther – Non-Executive Director
Carol Duncumb – Non-Executive Director

Company secretary

Nathan Imlach

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Registrars

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Link Asset Services
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EC3A 7NH

Financial calendar

5 February 2019	Announcement of interim results for the six months ended 30 November 2018
14 February 2019	Ex-date for interim dividend on ordinary shares
15 February 2019	Record date for interim dividend on ordinary shares
29 March 2019	Payment of interim dividend on ordinary shares

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