Mattioli Woods
Pension Consultants

Mattioli Woods plc
Annual Report 2009

Securing your pension

Pension Consultants

Retirement Wealth Management

Trustees & Administrators

Mattioli Woods plc

Mattioli Woods plc ("Mattioli Woods" or "the Company") was established by Ian Mattioli and Bob Woods in 1991. Mattioli Woods and its subsidiaries ("the Group") provide pension consultancy, scheme administration, trustee services and retirement wealth management primarily to owner-managers, senior executives, professionals and small to medium sized plcs. The Group's focus is at the higher end of the market where clients require bespoke service and specialist advice.

Headquartered in Leicester and employing 165 staff, including 20 pension consultants, Mattioli Woods has a strong network of intermediary contacts throughout the UK. The practice has grown dynamically year-on-year since inception and became a public company on joining the AIM market of the London Stock Exchange in November 2005.

Our objective is to continue to provide Mattioli Woods' clients with a bespoke, personalised service, enhancing our reputation in the pension consultancy market and achieving profitable growth year-on-year. Mattioli Woods' core values provide our staff and our clients with an open, passionate and caring organisation of integrity.

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Highlights

Revenue
2009: £13.28m

+22.6%

Profit before tax and amortisation[1]
2009: £4.13m

+11.3%

Adjusted EPS[1,2]
2009: 17.12p

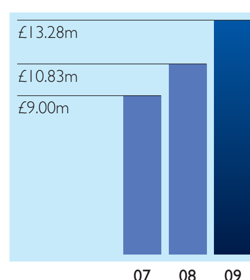
+10.7%

Proposed final dividend
2009: 2.75p

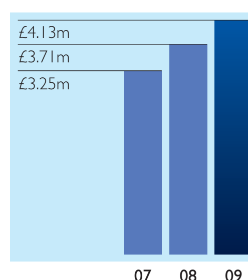
+37.5%

- Revenue up 22.6% to £13.28m (2008: £10.83m)
- Profit before tax and amortisation[1] up 11.3% to £4.13m (2008: £3.71m)
- Adjusted EPS[1,2] up 10.7% to 17.12p (2008: 15.46p)
- Proposed final dividend up 37.5% to 2.75p (2008: 2.00p)
- Advising on £1.46bn (2008: £1.35bn) of core funds under trusteeship
- Core scheme numbers up 5.4% to 2,579 (2008: 2,446)
- Average core scheme value of £0.57m (2008: £0.55m)
- Cash at period end of £4.81m (2008: £2.54m)

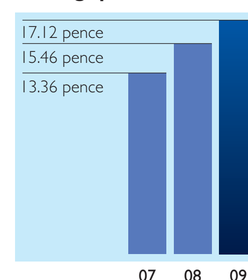
Revenue



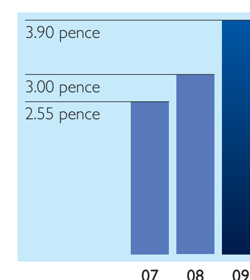
Profit before tax and amortisation[1]



Adjusted earnings per share[1,2]



Full year dividend



[1] Before amortisation of intangible assets other than computer software
[2] Basic EPS up 10.3% to 15.76p (2008:14.29p)

Chairman's statement

I am delighted to report we have achieved strong growth over the 12 months ended 31 May 2009, with revenue up 22.6% and profit before tax and amortisation[1] up 11.3% compared to the prior year.

The last 12 months have been a challenging period for many people contemplating how to fund and manage their retirement. Accordingly, we have focused our efforts on advising existing clients as proactively as possible. The cornerstone of this initiative was a series of client seminars held across the UK. This was very well attended and warmly received, with most clients being complimentary about the effectiveness of our retirement wealth investment strategies.

Whilst the consultancy team has focused on existing clients' financial affairs following the almost unprecedented downturn in global markets, I am delighted we have attracted 236 new SSAS and SIPP schemes during the period (2008: 280). Core funds under trusteeship at 31 May 2009 totalled £1.46bn (2008: £1.35bn).

Market overview

Whilst it is clear there will be no rapid conclusion to the problems brought about by the credit crisis, with such poor returns available from the haven of cash based deposits, clients are increasingly seeking better investment opportunities, although most remain risk averse. This is leading to a growing appetite for structured products and other low risk alternatives to cash. We expect this trend to gather momentum as and when the economic recovery begins.

The shift in responsibility for pension provision from the state and the employer to the individual is further underlined by the continuing demise of defined-benefit schemes. I believe this will leave millions of employees needing professional advice and lead to more people managing their retirement savings through SIPPs and SSASs, due to the control, flexibility and cost-effectiveness these products offer. There is an enormous shortage of independent advice in the UK, leaving ourselves well placed to take advantage of this opportunity as it unfolds.

I also believe a combination of market conditions and political change will heighten public awareness of the need to save more, leading to higher savings ratios than have been experienced in the UK for many years. The Budget 2009 contained an announcement that the availability of higher-rate tax relief on pension contributions to registered pension schemes will be restricted from 6 April 2011 for those earning more than £150,000 a year. The amount of tax relief available will be tapered so that those earning more than £180,000 will have tax relief at the basic rate only. Whilst the details on how these restrictions will work in practice from 2011 are still to be consulted on, the arguments in favour of SIPPs and SSASs will remain compelling for many higher-rate taxpayers.

We are passionate about developing a business that can continue to deliver our highly-personalised services, but to a significantly higher number of clients long-term.

Compliance

It looks increasingly likely that the FSA's Review of Retail Distribution ("RDR") will bring fundamental changes to the sector. The salient proposals are that advisors must agree a fee basis with their clients at the start of the professional relationship, meaning that product providers will not be permitted to pay commission, but will be allowed to facilitate the payment of the advisor's agreed remuneration through a "one for one" increase in product costs.

This proposed approach is similar to that embodied within our existing fees and services agreements, so we do not anticipate any difficulty in complying with these proposals. However, for many IFAs this may well prove to be difficult in moving conceptually from a commission to a fee culture. This is likely to reduce the number of truly independent advisors in the UK, particularly as the FSA is also proposing to "up the ante" insofar as professional qualification requirements are concerned. So just at the time when there will be an increased need for independent advice, this initiative is likely to reduce the number of such advisors.

Most surprisingly the RDR also proposes making it easier for institutions providing "restricted advice" or "basic advice" to sell products to consumers by reducing the requirements for "best advice" and knowledge of the client. In summary we believe these proposals, if they come to pass, would improve our competitive advantage.

Trading results

We achieved significantly increased revenues of £13.28m (2008: £10.83m) in the year ended 31 May 2009, with the two businesses acquired in 2008 contributing £1.78m of revenue during the period (2008: £1.00m). The "credit crisis" led to increased demand for advice from clients, particularly in the first half of the year. Revenues from our fee-based services increased by 35.3% to £6.48m (2008: £4.79m), representing 48.8% of total revenue (2008: 44.3%).

Investment-related revenues were 42.8% of total revenue (2008: 40.4%), while property syndicate revenues fell to 8.4% (2008: 15.3%), with fewer new syndicates being completed during the period. These changes illustrate how the revenue mix adjusts as we take account of changes in economic conditions and the underlying needs of our clients. This resilience was illustrated in the second half of the financial year, when the adverse impact on our banking-related revenues of the Bank of England base rate falling to historic lows was offset by increased revenues from client investment in structured products and cash funds, which offer the prospect of higher yields.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") increased by 16.9% to £4.29m (2008: £3.67m), with profit before tax up 11.1% to £3.90m (2008: £3.51m). The EBITDA margin fell to 32.3% (2008: 33.9%) as a result of the changes in revenue mix during the period. Adjusted earnings per share (adding back amortisation on intangible assets other than computer software) increased by 10.7% to 17.12 pence (2008: 15.46 pence).

Notwithstanding the increased time spent on existing clients' affairs, I am delighted with the organic growth achieved during the period. We have introduced a wide range of new marketing initiatives, which will be added to over the coming financial year. As a result, I expect to see stronger organic growth over the next 12 months.

We also continue to enjoy strong client retention, with an overall client attrition rate of 3.2% (2008: 2.3%).

Staff

Our people continue to demonstrate an enormous amount of enthusiasm and professionalism in responding to the challenges created by the recent turmoil in financial markets. I thank all our employees for their dedication and hard work over the last year, as it is their effort that differentiates Mattioli Woods from its competitors.

We built upon this strong team spirit with the introduction of the Mattioli Woods plc Share Incentive Plan in June 2008, which facilitates wider equity participation throughout the organisation. There has been an enthusiastic response with 76 eligible staff electing to invest via the plan to date.

To accommodate our growth objectives, building capacity remains a high priority and our graduate recruitment programme remains on target with ten new joiners during the year. Our increased business profile as a listed company continues to enhance our ability to recruit both new and experienced staff.

We offer training and financial support for all staff pursuing relevant professional qualifications and encourage all our account managers to obtain the

Revenue has more than doubled over the last four years, whilst the business has remained strongly cash generative. The Board believes it is now appropriate to significantly increase the dividend payout.

Certificate in Financial Planning within two years of joining.

Dividends

When we floated the business on AIM, we set out our intention to pursue a progressive dividend policy that would reflect the long term earnings trend of the Group and allow the Group to maintain an appropriate level of dividend cover. Revenue has more than doubled over the last four years, whilst the business has remained strongly cash generative. The Board believes it is now appropriate to significantly increase the dividend payout. Accordingly, the Board is pleased to recommend the payment of a final dividend for the year ended 31 May 2009 of 2.75 pence (2008: 2.00 pence) per ordinary share. If approved, the final dividend will be paid on 23 October 2009 to shareholders on the register at the close of business on 18 September 2009.

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

Shareholders

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

Outlook

The 2009 financial result, achieved during a period of almost unprecedented turbulence in financial markets, demonstrates the resilience of our fee-based, advice-led approach to retirement planning. This reinforces my belief that we can achieve further growth despite difficult economic circumstances. The market trends outlined above will lead to an increasing number of people with a lack of choice regarding sources of impartial advice, presenting us with a substantial and growing opportunity. We are continuing to enhance our trading platforms to ensure we can take maximum advantage of this.

Trading in the current period is in line with the Board's expectations and we remain confident the increase in marketing activity undertaken throughout the period will enhance our growth prospects, as we continue to develop products tailored to the needs of our clients.

Bob Woods
Chairman
7 September 2009

Bob Woods
Executive Chairman

Our people continue to demonstrate an enormous amount of enthusiasm and professionalism in responding to the challenges created by the recent turmoil in financial markets.

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

Chief Executive's review

I introduced my 2008 review with the words "I am proud we have continued our track record of growth whilst maintaining our strong business ethics and excellent client service". I am delighted our organisation has continued to meet our objectives for all three of these key parameters, despite a significantly different financial backdrop.

Strong business ethics ensure we provide our clients with the most appropriate advice, in what many commentators suggest are the most difficult financial circumstances seen for at least a generation. Our revenue mix has changed as our advice to clients has changed to take account of events in global markets. This inbuilt flexibility of our business model has underpinned our ability to secure further growth despite the difficult economic circumstances.

It is almost four years since Mattioli Woods was admitted to trading on AIM. One of my key objectives upon flotation was to create a platform capable of supporting a much larger business. I believe we have achieved this and I am very excited about the potential to further develop Mattioli Woods as a brand that is recognised as providing bespoke pension, retirement and investment advice to a growing client base.

Business objective and strategy

Our objective is to continue to provide a bespoke, personalised service to clients in the retirement wealth market, achieving profitable growth year-on-year. This is key to achieving the financial and non-financial measures that increase shareholder value.

Revenue streams

The Group's turnover is derived from three key revenue streams: pension consultancy and administration, investment planning and property syndicates.

Pension consultancy and administration

Mattioli Woods' core business is pension consultancy, involving the provision and administration of SIPPs and SSASs. Our client base primarily comprises owner-managers, senior executives and members of the professions. We also provide group scheme consultancy and personal financial planning as complementary services to our core business.

Our main source of income is time-based fees earned for setting up and administering SIPP and SSAS schemes. Additional fees are generated from consultancy services for special one-off activities. Revenues from our fee-based services have increased by 35.3% to £6.48m (2008: £4.79m). The increase reflects the impact of this being the first full year of trading results from the Pension Consulting Limited ("PCL") and JB Group portfolios we acquired last year, coupled with an increased demand for advice from clients as a result of the significant downturn in financial markets seen during the first half of the financial year.

Investment planning

The key feature of our approach to retirement wealth management is the impartial nature of our investment advice. We focus on providing solutions tailored to each individual client's needs and offer the whole of the market, including our own bespoke products.

Our rationale for any new product development is to enhance our clients' existing position. Our clients' desire to protect their capital whilst retaining the possibility of capital growth linked to investment in more volatile and speculative indices led us to develop our capital-guaranteed bond programme. The volatility seen in all major stock markets during the year has increased client demand for this type of structured product. We launched 15 (2008: five) capital-guaranteed bonds during the year with clients subscribing a total of £46.7m (2008: £14.7m).

Our fee-based model reinforces our ability to provide appropriate independent advice to our clients. Whilst our income streams are not directly dependent upon the performance of financial markets or the value of funds under trusteeship, movements in these can influence the appetite of our clients to make investments. Periods of volatility in a particular asset class may see changes in how our investment planning revenues are derived. However, a great strength of our business is that we can continue to derive income from investments in all asset classes, whilst ensuring our clients' investment strategies are appropriately aligned to the prevailing market conditions. Investment planning revenues grew by 30.2% in 2009 to £5.69m (2008: £4.37m).

Property syndicates

Mattioli Woods facilitates commercial property ownership for its clients by way of a syndicated property initiative. We believe commercial property is ideally suited as a retirement investment, with good quality properties typically providing stable long-term income streams. Properties introduced to the Group by our professional property contacts are referred to an independent property adviser, who recommends appropriate properties for syndication.

Notwithstanding the outlook for commercial property over the short to medium term, demand remains within our client base for prime property with the benefit of long leases and strong tenant covenants.

We facilitated the purchase of two (2008: six) new properties during the year with a combined value of £6.51m (2008: £23.03m), with the completion of fewer new property syndicates being offset by clients moving monies into other asset classes. The total number of property syndicates using our administrative services at the year-end increased to 38 (2008: 36). Total income from property syndicates was £1.11m (2008: £1.66m), with £0.75m (2008: £0.71m) of this being derived from our annual administration services. The effect on revenue of completing fewer new syndicates during the period was offset by clients investing monies into other asset classes, such as structured products.

Market conditions may lead to lower price expectations amongst prospective vendors, creating new buying opportunities. We continue to monitor our clients' appetite for direct commercial property investment and will facilitate suitable opportunities when they are available.

Market

Our markets are serviced by a wide range of suppliers offering diverse services to individual and corporate clients. These markets are fragmented and remain highly competitive, although some commentators suggest the regulatory changes outlined below may drive consolidation, particularly in the IFA sector. We will continue to evaluate appropriate acquisition opportunities as they arise.

I believe our holistic service offering, coupled with the introduction of innovative new products, is the most effective way to deliver the increasingly tailored solutions our clients demand.

I believe increased regulation will lead to new acquisition opportunities and our strong balance sheet will enable us, if appropriate, to take advantage of such opportunities as they arise.

Ian Mattioli
Chief Executive

The 2009 financial result, achieved during a period of almost unprecedented turbulence in financial markets, demonstrates the resilience of our fee-based, advice-led approach to retirement planning.

Chief Executive's review

Our goals continue to be the delivery of quality personal service that adds real value to clients, whilst maintaining high ethical standards and enhancing shareholder value.

Regulatory environment

Financial Services Authority

The Group is regulated by a number of different bodies. Mattioli Woods is authorised and regulated by the FSA to provide investment advice and to establish, operate and wind-up personal pension schemes, including SIPPs. The FSA's SIPP regulation regime introduced in 2007 affords additional protection to clients through capital adequacy requirements imposed on the providers of pension schemes. Throughout the period, we have complied with these requirements.

As might be expected in the current economic environment, the FSA has been increasingly active and a summary of how the FSA's recent pronouncements impact the Group is set out below.

FSA Code of practice on remuneration policies

In August 2009, the FSA published the FSA Code of practice on remuneration policies ("the FSA Code"). The remuneration structure for senior executives was put in place at the time of the Company's admission to AIM in November 2005 and has remained broadly unchanged. We intend to undertake a full review of our compensation policies in conjunction with external consultants, considering the general requirement and principles of the FSA Code, as summarised in the Directors' remuneration report on pages 21 to 24.

It is a priority for the Group to continue to attract and retain appropriately qualified staff. The Remuneration Committee expects that a Long Term Incentive Plan ("LTIP") will be a key part of the revised remuneration structure. The principal terms of any such plan are expected to be announced in the early months of 2010.

Review of Retail Distribution

The FSA published a detailed consultation paper on 25 June 2009 setting out draft rules for how the retail investment industry will work from December 2012. There has been relatively little change from the first draft published in July 2007. Under the FSA's proposals, advisers will have to charge customers a fee rather than receiving commission from the companies whose products they recommend.

IFAs will be required to adopt a much stricter remuneration agreement at the outset of a new client relationship, divorced from a specific product sale, together with higher professional standards. I believe the drive to 'adviser-led remuneration' means our well-established, fee-based billing model will give us a competitive advantage over much of the IFA sector.

The implementation of the RDR will not be completed until 2012, although I expect firms to adopt some of the new requirements in the interim. Mattioli Woods has a fee-based business model and provides clients with service and fee agreements at the outset, hence I do not expect the RDR's proposals will change significantly the way we deal with our clients.

Quality of advice on pension switching

In December 2008, the FSA published a report summarising its thematic review "Quality of advice on pension switching", which assessed the quality of advice since A-Day in relation to transfers of personal pensions or SIPPs. As a result of the review highlighting significant failings at several firms, the FSA wrote to over 450 firms asking them to consider past and future sales in light of the review's findings. This is being followed up with a series of visits and desk-based file reviews to assess whether firms have taken sufficient action in response to the FSA's request.

Mattioli Woods was visited as part of this review in April 2007 and I am pleased to report the FSA has not asked for any further work to be undertaken as a result of its visit. It is clear the FSA believes some operators have mis-sold personal pensions and SIPPs, which I believe may lead to negative press comment about the IFA sector in relation to SIPPs when the wider review is underway.

Review of the Prudential Rules for Personal Investment Firms

In November 2008, the FSA published its consultation paper "Review of the Prudential Rules for Personal Investment Firms". If enacted, the FSA's latest proposals are likely to increase the capital adequacy burden on many small and medium sized IFA firms, who may be forced to exit the market, creating new opportunities for Mattioli Woods.

HM Revenue & Customs and The Pensions Regulator

A number of the Group's subsidiaries are registered with HM Revenue & Customs ("HMRC") as scheme administrators for pension schemes (including SSASs). All pension schemes must be registered with The Pensions Regulator.

Whilst concern was expressed in some quarters about Chancellor Alistair Darling's 2009 Budget proposals to restrict tax relief on pension contributions for people with taxable income of £150,000 or more to the basic rate of income tax with effect from 6 April 2011, we are confident this will have a negligible impact on our business. Retirement planning will still be required despite these changes and our focus continues to be on capturing existing retirement wealth, rather than having any significant reliance on new contributions. Following the introduction of the lifetime allowance in April 2006, many high-earners have already stopped or substantially reduced their contribution levels to avoid overfunding their pension schemes.

Legislative changes create complications, which inevitably lead to greater client advisory and planning opportunities for Mattioli Woods.

Compliance

Strong compliance has always been at the heart of our business. We consider carefully all legislative changes and the findings of all FSA and HMRC reviews. Where appropriate, we take action to ensure our systems and processes continue to represent best practice.

We continue to invest in maintaining our staff's technical excellence and developing our administration systems. The majority of our consultancy team joined us as graduate trainees and already hold high-level examinations obtained during their training with us.

We maintain dedicated compliance teams, with systems to proactively monitor client investments, consultancy and administration services, investment advice, financial standing of suppliers, pension transfer advice, FSA rule book compliance and Audit & Pension Schemes Services compliance.

Current and future developments and performance

Group results

Our goals continue to be the delivery of quality personal service that adds real value to clients, whilst maintaining high ethical standards and enhancing shareholder value.

Sales revenues were £13.28m (2008: £10.83m), up 22.6% on the prior year. The businesses of PCL and the JB Group acquired in 2008 contributed £1.78m of revenue during the period (2008: £1.00m).

We are passionate about developing a business that can continue to deliver our highly-personalised services, but to a significantly higher number of clients.

case study: reduced risk, flexible benefits

Tony Alleyne

Tony Alleyne was an executive of one of the UK's largest electrical distributors. He was also the pension administrator of the company's senior management pension scheme and therefore had considerable awareness of pension issues. At the time all the benefits payable from the company pension plan were in a prescribed form, subject to HMRC limits.

The principal disadvantages with the conventional method of pension provision from the company scheme were that the levels of widow's pension and inflation protection had to be fixed at outset. If circumstances changed, these decisions could retrospectively result in poor value.

Mattioli Woods carried out a full audit and review of Tony's pension position and future requirements. Solutions to the problems were found through the establishment of a SIPP, into which a transfer was made from the existing scheme. The SIPP allowed a lump sum to be drawn in stages. This significantly improves the tax-efficiency of the arrangement, enhancing the level of benefits that can be supported over time.

In this case, Tony decided to draw his full tax-free cash in order to avoid the risk of future adverse taxation changes and use the cash for various personal needs. He elected to take a reduced pension because he had been retained by the company on a consultancy basis at that juncture.

Chief Executive's review

Improvements in information systems and technology provide scope for future margin improvement and even better client service going forward.

Organic revenue growth of 17.0% generated an additional £1.67m of income. Operating profit increased by 15.1% to £3.81m (2008: £3.31m).

Cash generated from operations increased to £4.31m (2008: £3.08m) as a result of revenue growth and improved credit control. The conversion of EBITDA to cash also improved to 100.3% (2008: 83.8%).

The EBITDA margin of 32.3% (2008: 33.9%) was impacted by a change in sales mix and increased share-based payment costs of £0.20m (2008: £0.10m) following the introduction of the Mattioli Woods plc Share Incentive Plan ("the SIP") in June 2008. Fee-based revenues increased to 48.8% of total revenue (2008: 44.3%), investment planning related revenues were 42.8% (2008: 40.4%) and property syndicate revenues fell to 8.4% (2008: 15.3%), due to the completion of fewer new syndicates during the period.

Improvements in information systems and technology provide scope for future margin improvement and even better client service going forward.

Acquisitions

Clients acquired as part of the PCL and JB Group acquisitions completed in the previous financial year have continued to integrate well, benefitting from our more proactive approach. Deferred and contingent consideration of up to £0.65m (2008: £1.23m) is payable on these acquisitions over the next two years.

Prior to acquisition, neither PCL nor the JB Group provided the broad range of services that benefits Mattioli Woods' clients. This has allowed us to offer the acquired client bases additional services, such as our syndicated property initiatives and guaranteed investment products.

We are particularly pleased with the strong retention of clients within each portfolio. The average annualised "core" revenues on retained ex-PCL and JB Group schemes (calculated as fee-based revenue plus investment commissions excluding banking, property syndicates and guaranteed investment products) increased during the period, reflecting an increased demand for advice during the "credit crunch".

Growth in the SSAS and SIPP market means organic growth is likely to maintain our overall momentum. However, I believe increased regulation will lead to new acquisition opportunities and our strong balance sheet will enable us, if appropriate, to take advantage of such opportunities as they arise. Growing our presence by acquisition will continue to be an important element of our future growth strategy.

Resources, risks and relationships

Resources

The Group aims to safeguard the assets that give it competitive advantage, including its reputation for quality, proactive advice, its technical competency and its people.

Our core values provide a framework for responsible and ethical business practices. Structures for accountability from our administration teams through to the operational management team and the Group board are clearly defined. The proper operation of the supporting processes and controls are regularly reviewed by the Audit Committee and take into account ethical considerations, including procedures for "whistle-blowing".

Capacity

Our people continue to demonstrate an enormous amount of enthusiasm and commitment in responding to the challenges created by the recent turmoil in financial markets. Maintaining capacity is crucial in an environment of growing demand and our graduate recruitment programme remains on target.

A total of ten new graduates joined the Group (2008: 12), increasing our total headcount at the end of the period to 164 (2008: 147). The Group now employs a total of 21 pension consultants (2008: 20). Our increased business profile as a public company continues to enhance our ability to recruit new and experienced staff.

The development of a scalable technology platform remains a key objective for the Group. We are continuing to invest in developing our bespoke "MWeb" system. This will facilitate enhanced pension administration services, including access to real-time valuation information.

Staff

I have highlighted previously the strong team spirit and commitment we enjoy from all our staff. It remains our aim to build on that culture by continuing to facilitate wider equity participation within the organisation. The introduction of the SIP in June 2008 was an important step towards this objective and has received a very positive reaction from our staff.

The SIP enables our employees to buy shares in the Company out of pre-tax income by having an amount deducted from their salary each month. In addition, participating employees are granted matching shares on a one-for-one basis. I believe employees with a vested interest in the success of the Group are more motivated and share incentive plans have proven to be an effective tool for staff retention.

Principal risks and uncertainties

We believe the most significant risk we face is potential damage to our reputation as a result of poor client service. We address this through ongoing quality control testing and the provision of regular training for all our staff.

Pension regulations will continue to be reviewed. Future changes may not produce an environment that is advantageous to the Group and any changes in regulation may be retrospective. To address this risk, we are committed to ensuring that our views are expressed during consultation exercises and that we respond positively and rapidly to new regulations.

We also recognise that a significant skills shortage would represent a risk to growth. We are mitigating this risk through investment in our graduate recruitment programme and by providing incentives to motivate and retain our existing employees.

Relationships

The Group's performance and value to our shareholders are influenced by other stakeholders, principally our clients, suppliers and employees; Government; and our strategic partners. Our approach to all these parties is founded on the principle of open and honest dialogue based on a mutual understanding of needs and objectives.

Relationships with our clients are managed on an individual basis through our account managers and consultants. Employees have performance development reviews and employee forums provide a communication route between employees and management. Mattioli Woods also participates in trade associations and industry groups, which give us access to client and supplier groups and decision-makers in Government and other regulatory bodies. Mattioli Woods is a member of the Association of Member-directed Pension Schemes and the Quoted Companies Alliance.

The 30.0% increase in the total dividend for the year of 3.90p per share (2008: 3.00p) represents a significant increase in the payout ratio. This demonstrates our desire to deliver value to shareholders and our confidence in the future outlook for the business.

case study: property acquisition

Ramage Transport Limited
Ramage Transport Limited was founded in 1976 and is one of the North East's leading road haulage companies, operating out of Newcastle upon Tyne.

Mattioli Woods conducted a detailed review of the existing SSAS and identified that the commercial property could be purchased utilising a combination of the SSAS and a SIPP. Mattioli Woods was subsequently appointed professional trustee and scheme adviser in place of the existing insurance company.

The directors were concerned about the impact of new pension legislation on their strategy. Giving careful consideration to the existing position and the proposed changes, Mattioli Woods was able to demonstrate that, given the client's particular circumstances, the proposed strategy could take advantage of the pre-April 2006 borrowing rules without adversely affecting the client's benefits under the post-April 2006 rules.

With the transfer completed, a suitable lender was sourced to provide a loan facility to the SIPP, which then enabled the SIPP to purchase the property. From Mattioli Woods' initial involvement to the purchase of the property, the whole transaction was completed within seven weeks. Through our ability to think 'outside the box' and undertake proactive management of the purchase, our client was able to secure the property.

Chief Executive's review

We continue to review our own business model, forging ahead with the changes required to ensure we can continue growing the business.

Financial position

Net financing income

Net financing income was £0.09m (2008: £0.20m). The Group has maintained a positive net cash position throughout the financial year, but net financing income was adversely impacted by falls in the Bank of England base rate to a low of 0.5% at the year-end.

Taxation

The effective rate of taxation on profit on ordinary activities is 30.1% (2008: 29.7%). The net deferred taxation liability carried forward at 31 May 2009 was £0.13m (2008: £0.11m).

Earnings per share and dividend

The basic and diluted earnings per share for the year as per Note 12 were 15.76p (2008: 14.29p). The 30.0% increase in the total dividend for the year of 3.90p per share (2008: 3.00p) represents a significant increase in the payout ratio. This demonstrates our desire to deliver value to shareholders and our confidence in the future outlook for the business. The Board remains committed to growing the dividend progressively, whilst maintaining an appropriate level of dividend cover.

Cash flow

Net cash generated from operations was £4.31m (2008: £3.08m) with EBITDA of £4.29m (2008: £3.67m). The Group converted 100.3% (2008: 83.8%) of EBITDA into operating cash flow, with the increase being due to improved credit control. As at 31 May 2009, the Group was owed £0.12m (2008: £0.53m) by property syndicates.

The cash inflow from working capital was £0.21m (2008: £0.78m). Headline trade debtor days were 70 days (2008: 83 days) and trade creditor days were 28 days (2008: 18 days).

The decrease in trade debtor days is primarily due to improved credit control, with the increase in trade creditor days due to an increase in amounts owed to suppliers at the year-end, primarily in respect of professional services procured on behalf of clients.

Capital expenditure for the year was £0.47m (2008: £0.53m), with significant expenditure on software and computer equipment associated with the continued development of MWeb. Further investment in the Group's information systems and technology is planned over the next year.

Bank facilities

The Group has renegotiated its borrowing facilities with Lloyds TSB Bank plc ("Lloyds TSB"), replacing its previous facilities with Lloyds TSB and the Royal Bank of Scotland plc ("RBS"). The RBS facilities consisted of an overdraft facility of £5.00m with interest payable at the bank's base rate (currently 0.5%) plus 1.0% on the first £1.5m, plus 1.25% on the next £1.5m and plus 1.375% on borrowings in excess of £3.00m. The Lloyds TSB facilities consisted of an overdraft facility of £0.25m with interest payable at 1.0% over the bank's base rate (currently 0.5%).

These arrangements have been replaced by a £3.00m overdraft facility with Lloyds TSB, with interest payable at the bank's base rate plus 1.0% on the first £0.25m and plus 1.375% on borrowings in excess of £0.25m. The Lloyds TSB facility is repayable upon demand and renewable on 31 January 2010.

At 31 May 2009 the Group had unused borrowing facilities of £3.00m (2008: £5.25m).

Capital structure

The Group's capital structure is as follows:

	2009 £	2008 £
Net funds	(4,801,359)	(2,528,985)
Shareholders' equity	16,458,508	14,027,062
Capital employed	11,657,149	11,498,077

Gearing has fallen from 4.9% to (11.5)%, with the Group becoming negatively geared as a result of strong cash generation during the period (see Note 33).

Conclusion

The banking crisis and subsequent volatility in global markets led many people to become increasingly concerned about their retirement wealth.
We continued to deliver proactive advice throughout a period of great uncertainty, taking into account changes in economic conditions and the underlying needs of our clients.

We continue to review our own business model, forging ahead with the changes required to ensure we can continue growing the business appropriately. Our focus on putting in place a platform that will deliver our personalised, advice-led services to a much larger client-base is embodied in the "Small to Big" project we are currently undertaking.

Trading in the period since the end of the financial year has continued in line with our expectations. These are exciting times and we are passionate about engaging all our clients and staff to secure our future success.

Ian Mattioli
Chief Executive
7 September 2009

These are exciting times and we are passionate about engaging all our clients and staff to secure our future success.

About Mattioli Woods
What makes us different?

The key difference between Mattioli Woods and many of our larger competitors is our holistic approach to the use of SSAS and SIPP. Providers who only offer an administration platform without appropriate guidance can leave clients exposed. Our aim is to build long-term relationships by supporting clients fully in an advisory context with a hands-on and bespoke approach.

What are our principal services?

Trusteeship and administration

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

Pension consultancy

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

In addition to SSAS and SIPP services, Mattioli Woods offers consultancy services to companies with group and staff pension arrangements. The last few years have seen significant changes within the final-salary sector. Our specialist consultants can assist employers to control running costs and reduce their liabilities.

Retirement wealth management

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

Our clients

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

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

Our people

The strength of our business is testament to our staff, who are integral to the delivery of the client service we strive to maintain. Mattioli Woods employs 165 staff at Grove Park in Leicester. One of the principal objectives behind our flotation on AIM was to create wider staff ownership in the business. With a focus on developing our people internally, Mattioli Woods enjoys great staff retention and a highly motivated team with a true sense of commitment. Underpinning this is the fact that our management and key personnel are substantially 'home grown'.

Strategic objectives

Pensions legislation remains highly complex despite the changes introduced in 2006 known as 'Pension Simplification'. In addition, the pensions industry is often perceived negatively following a series of scandals, underfunding and the failure of some high profile insurance companies to provide reliable pension arrangements. This environment has led to a significant increase in the uptake of SSAS and SIPP, primarily due to the greater degree of control these schemes offer clients. In addition, we have seen an increase in demand for the broader retirement wealth management services Mattioli Woods provides in conjunction to our core pension consultancy.

We are focused on ensuring that we are able to take full advantage of these opportunities by developing our staff, enhancing client service levels and increasing brand awareness.

Board of Directors

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

Bob Woods, Chairman, age 55
Bob has worked in the pensions industry since graduating from Reading University in 1975. After initially working for Sun Alliance Insurance Group, in 1980 he joined independent pension consultant Pointon York, an early market leader in SSAS, where he was appointed to the Board with responsibility for the promotion of pension-related services to professional advisers. In 1986 he was appointed as Marketing Director, and as a Director of Pointon York's corporate pensioneer trustee. Bob's last major project with Pointon York was the development of the second SIPP to be launched in the UK. In 1991 Bob founded Mattioli Woods in partnership with Ian Mattioli. Bob is responsible for developing Group strategy and identifying new growth areas and opportunities.

Ian Mattioli, Chief Executive, age 46
Ian has worked in the pensions industry since the age of 18. His early experience was gained as a specialist pensions administrator with Phoenix Assurance. In 1983, he moved to Pointon York specialising in small self-administered pension schemes. From 1983 to 1991 Ian progressed from senior administrator to consultant and then Director, advising on all aspects of establishing and running pension schemes for owner-managed businesses and small to medium-sized public companies. Ian is responsible for the operational management of the Group.

Nathan Imlach, Finance Director and Company Secretary, age 40
Nathan qualified as a Chartered Accountant in 1993 with Ernst & Young, moving into corporate finance and advising on a broad range of transactions for quoted and unquoted corporate clients. He joined Johnston Carmichael Corporate Finance in January 2003, becoming a Director and subsequently an Associate of the firm, specialising in providing mergers and acquisitions advice. He is a member of the Institute of Chartered Accountants in Scotland, a fellow of the Securities and Investment Institute and holds the Corporate Finance qualification from the Institute of Chartered Accountants in England and Wales. Nathan is responsible for all financial aspects of Mattioli Woods' strategy and operations and together with Murray Smith led the Group's recent acquisitions of Pension Consulting Limited and the JB Group.

Murray Smith, Marketing and Sales Director, age 40
Murray joined Mattioli Woods in 1995 and has worked in the financial services industry since graduating with an MA in Accountancy from the University of Aberdeen. Progressing from account manager to consultant and ultimately to his appointment to the Board, Murray has specialised in advising on all aspects of pension planning with a particular focus on SSAS and SIPP related consultancy. He has responsibility for managing the Group's consultancy team and marketing activities.

Mark Smith, Operations Director, age 39
Mark joined Mattioli Woods in January 2000 after working in the financial services industry for 12 years. He has previously gained experience with a large insurance company, small IFA firm and most recently with specialist SSAS and SIPP consultancies. As the Group's Compliance Officer, he has been responsible for direct liaison with the FSA on all regulatory issues. Mark was appointed to the Board in June 2008 and has responsibility for the day to day operations of the business including systems, compliance, recruitment and the delivery of services to our clients.

John Redpath, Non-Executive Director, age 64
John's early career was as a management trainee with the North Eastern Electricity Board, which became Northern Electric. He moved to the Northern Regional Health Authority where he carried out large scale efficiency studies. He then joined Northumbrian Water Authority, where he was promoted to Human Resources Director and was heavily involved in the flotation of Northumbrian Water. In 1992 he led the buyout of its subsidiary CPCR Limited, a human resources consultancy specialising in leadership and partnership development, where he was Managing Director until his retirement in 2003. John has held a number of voluntary positions and is a trustee of the Percy Hedley Foundation for cerebral palsy. John is a member of the Chartered Institute of Personnel and Development.

Michael Kershaw, Non-Executive Director, age 52
Michael qualified as a Chartered Accountant in 1981, following a degree in Engineering taken at Queens' College, Cambridge. His subsequent career was spent in investment banking, including many years as a Managing Director of UBS Warburg and latterly with Dresdner Kleinwort Wasserstein. He has provided corporate finance advice to a wide variety of clients, including many in the financial services and private equity industries, and has extensive experience in mergers and acquisitions and in the equity and debt capital markets. Since his retirement in 2003 Michael has studied at Imperial College, London, where he is currently undertaking research for a PhD in the History of Science and Technology.

Directors' report

Report and financial statements

The Directors present their report together with the financial statements for the year ended 31 May 2009. For the purposes of this report, the expression 'Company' means Mattioli Woods plc and the expression 'Group' means the Company and its subsidiaries.

Business review and future development

Mattioli Woods plc is a public limited company incorporated in England and Wales and its shares are quoted on the AIM market of London Stock Exchange plc. The Group's principal activities during the year continued to be pension consulting, investment and administration of small self-administered pension schemes and self-invested personal pensions. The Chairman's Statement on pages 2 to 3 and the Chief Executive's Review on pages 4 to 10 include information about the Group's principal activities, the business and financial performance during the year and indications of likely future developments.

The Directors believe they have adequately discharged their responsibilities under section 417 of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

Results and dividends

The Group profit for the year after taxation amounted to £2.72m, an increase of 10.1% on the previous year. This increase was primarily due to increased demand for the Group's services following a period of extreme volatility in financial markets. In addition, the financial statements include a full 12 months' trading from the client portfolios acquired as part of Pension Consulting Limited in July 2007 and the JB Group in February 2008.

The final dividend in respect of the year ended 31 May 2008 of 2.00p per share was paid in October 2008. An interim dividend in respect of the year ended 31 May 2009 of 1.15p was paid to shareholders in February 2009.

The Directors recommend a final dividend of 2.75p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2009. If approved, the final dividend will be paid on 23 October 2009 to ordinary shareholders whose names were on the register on 18 September 2009.

Directors

A list of current serving Directors and their biographies is given on pages 12 to13. Ian Mattioli, Nathan Imlach and John Redpath retire by rotation and, being eligible, offer themselves for re-election.

Directors' interests

Directors' emoluments, beneficial interests in the shares of the Company and their options to acquire shares are disclosed in the Directors' Remuneration Report.

Employees

The Group continues to involve its staff in the future development of the business. Information is provided to employees through briefing sessions, the Group's web site and its intranet, 'MWeb'.

The Group operates a stakeholder pension plan available to all employees and contributes to the pension schemes of certain Directors and employees. The Group operates an Enterprise Management Incentive scheme and Share Incentive Plan, details of which are given in the Directors' Remuneration Report and the financial statements.

The Group is committed to the principle of equal opportunity in employment, regardless of a person's race, creed, colour, nationality, gender, age, marital status, sexual orientation, religion or disability. Employment policies are fair, equitable and consistent with the skills and abilities of the employees and the needs of the business.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Political and charitable donations

Mattioli Woods has no affiliation to any party or group, and makes no political donations. As part of the Group's commitment to the community in which it operates, contributions totalling £4,428 (2008: £15,128) were made during the year to local charities and community projects.

Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 May 2009, the Group had an average of 28 days' purchases owed to trade creditors (2008: 18 days).

Related party transactions

Details of related party transactions are given in Note 32.

Environmental

The Board believes that good environmental practices, such as the recycling of paper waste, will support its strategy by enhancing the reputation of the Group. However, due to the nature of the business generally, it does not have a significant environmental impact.

Substantial shareholdings

At 7 September 2009 the Company had been notified of the following interests representing 3% or more of its issued share capital:

	Number of ordinary shares	Percentage holding
Ian Mattioli	4,124,887	23.84
Bob Woods	4,124,110	23.83
BlackRock, Inc.	1,719,822	9.94
Unicorn Asset Management Limited	1,082,461	6.26
Close Investments Limited	523,261	3.02

In addition to the above shareholdings 89,181 ordinary 1p shares representing 0.52% of the issued share capital are held by employees of the Group via the Mattioli Woods plc Share Incentive Plan (“the SIP”). The Group intends to actively encourage wider share ownership by its employees through the SIP and other share-based incentive schemes.

CREST

Mattioli Woods plc share dealings are settled on CREST. CREST is the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and also makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of the traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

Annual general meeting

The Annual General Meeting of the Company will be held on 22 October 2009. The Notice of Meeting is set out at the end of this document and contains further information with regard to the ordinary and special business to be proposed at the meeting. The following special business will be proposed:

- Resolution 8, which disapplies pre-emption rights, and in conjunction with Resolution 7, grants authority to the Directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of 5% of the nominal value of the issued ordinary share capital of the Company; and

- Resolution 9, which approves a number of amendments to the Company’s current articles of association, primarily to take account of changes in English company law brought about by the Companies Act 2006.

Financial risk management

Risk is an accepted part of doing business. The Group’s financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control within the context of achieving the Group’s objectives. Our process for identifying and managing risks is set out in more detail on page 20 of the review of Corporate Governance. The key risks and mitigating factors are set out below.

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet the identifiable needs of the Group and to invest cash assets safely and profitably. Short term flexibility is achieved through the use of bank overdraft facilities.

The Group does not undertake any trading activity in financial instruments. All activities are transacted in Sterling. The Group does not engage in any hedging activities.

The Group reviews the credit quality of customers and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

In agreeing budgets, the Board sets limits for debtors’ days and doubtful debts expense against which performance is monitored.

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

Third party indemnity provision for directors

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

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

- Revenue – this is the income (excluding VAT) from all revenue streams;
- EBITDA – this is profit generated from the Group's operating activities before any financing income or costs, taxation, depreciation and amortisation;
- Debtors' days – this is the average number of days' sales outstanding in trade receivables at any time;
- Headcount – this is the number of employees the Group has, which gives the Directors an indication of the capacity of the business at any time;
- Core scheme numbers – this is the number of SSAS and SIPP schemes where the Group is engaged to provide consultancy and administration services to the trustees and members of the scheme;
- Core revenues per scheme – this is the ratio of 'turnover' divided by 'core scheme numbers'; and
- Core funds under trusteeship – this is the value of funds held by those SSAS and SIPP schemes included within 'core scheme numbers' as at the date of the last scheme valuation.

The performance of the Group in the context of the KPIs is discussed in the Chairman's statement on pages 2 to 3 and the Chief Executive's review on pages 4 to 10.

Corporate governance
A full review of Corporate Governance appears on pages 18 to 20.

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

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

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

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

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

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

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

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

Directors' statement as to disclosure of information to auditors
The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 12 to 13. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware; and
- Each Director has taken all the steps they might reasonably be expected to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

Baker Tilly UK Audit LLP, who have been the Group's auditors since 2005, offer themselves for reappointment as auditors in accordance with Section 489 of the Companies Act 2006.

Going concern

On the basis of current financial projections and facilities available, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future, and accordingly, consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

Nathan Imlach
Finance Director and Company Secretary
7 September 2009

Corporate governance

Introduction

The Board is committed to achieving high standards of corporate governance, integrity and business ethics. Under the rules of AIM, the Group is not required to comply with the provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ("the Combined Code"). However, the Group has taken steps to comply with the Combined Code in so far as it can be applied practically, given the size of the Group and the nature of its operations, except where explicitly set out below.

The Board and its committees

Board composition and independence

The Board of Directors comprises five Executive Directors and two independent Non-Executive Directors. Their biographies on pages 12 to 13 demonstrate a range of experience which is vital to the success of the Group.

The roles of Executive Chairman and Chief Executive are distinct, as set out in writing and agreed by the Board. The Executive Chairman is responsible for the effectiveness of the Board, directing strategy and ensuring communication with shareholders. The Chief Executive is responsible for the day-to-day management of the Group.

The Non-Executive Directors are considered by the Board to be independent of management and free from any relationship which might materially interfere with the exercise of independent judgement. The Board does not consider the Non-Executive Directors' shareholdings to impinge on their independence. The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy.

John Redpath is the Senior Independent Non-Executive Director.

A nominations committee has not been appointed, hence paragraph A.4.1 of the Combined Code (which states there should be a nomination committee to lead the process for board appointments) is not complied with. The Board handles nomination issues and considers that given the size and nature of the Group's activities, such non-compliance with the Combined Code is not unreasonable and does not compromise the overall principles of corporate governance, which the Board strongly supports.

All Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. Any Director, on appointment and throughout their service, is entitled to receive any training they consider necessary to fulfil their responsibilities effectively.

The Board meets regularly throughout the year as well as on an ad hoc basis, as required by time critical business needs. This forum provides the principal format for directing the business of the Group.

Operation of the Board

The Board is responsible to shareholders for the proper management of the Group and has a formal schedule of matters specifically reserved to it for decision. These include strategic planning, business acquisitions and disposals, authorisation of major capital expenditure and material contractual arrangements, setting policies for the conduct of business and approval of budgets and financial statements. Other matters are delegated to management, supported by policies for reporting to the Board. The Company maintains appropriate insurance cover in respect of legal action against the Company's Directors, but no cover exists in the event that the Director is found to have acted fraudulently or dishonestly.

The agenda and relevant briefing papers are distributed by the Company Secretary on a timely basis, usually a week in advance of each Board meeting.

Board committees

The Board has delegated authority to two Committees. The Chairman of each Committee provides a report of any meeting of that Committee at the next Board meeting. The Chairman of each Committee is present at the Annual General Meeting to answer questions from shareholders.

Audit committee

The Audit Committee is chaired by Michael Kershaw and also comprises John Redpath. Michael Kershaw replaced John Redpath as Chairman of the Committee on 29 July 2008. Following a review of the composition of the Board's sub-committees, it was determined that Ian Mattioli could not be regarded as independent due to his position as Chief Executive and significant shareholder in the Company, and he resigned from the Committee with effect from 29 June 2009. Following these changes, the Committee is now made up exclusively of non-executive directors.

The Committee meets together with the Finance Director, Nathan Imlach, not less than twice a year. It is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. The Committee considers the appointment of, and fees payable to, the external auditors and discusses with them the scope of the annual audit. The Committee also reviews the external auditors' management letter and detailed presentations are made to the Committee by the Company's auditors.

The Committee reviews the interim report and annual financial statements for compliance with accounting standards, statutory obligations and the requirements of the AIM Rules and the Combined Code. The Committee also reviews the effectiveness of the internal controls of the Group. The presence of other senior executives from the Group may be requested.

Remuneration committee

The Remuneration Committee is chaired by John Redpath and also comprises Michael Kershaw, who replaced Bob Woods as a member of the Committee with effect from 29 June 2009. The Combined Code provides that the Committee should consist exclusively of independent non-executive directors and should comprise at least two such directors.

Following a review of the composition of the Board's sub-committees, it was determined that Bob Woods could not be regarded as independent due to his position as Executive Chairman and significant shareholder in the Company, and he resigned from the Committee with effect from 29 June 2009. Following these changes, the Committee is now made up exclusively of non-executive directors.

The Committee meets not less than twice a year. It is responsible for determining and reviewing the Group's policy on executive remuneration and other benefits and terms of employment, including performance related bonuses and share options.

The Committee administers the operation of the share option and share incentive schemes established by the Company.

The members of the Remuneration Committee have no personal interest in the outcome of their decisions and seek to serve the interests of shareholders to ensure the continuing success of the Company.

The remuneration of the Non-Executive Directors is determined by the Executive Directors and confirmed by the full Board, excluding the Non-Executive Director concerned.

Meetings and attendance

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

	Board meetings	Remuneration committee	Audit committee
Number of meetings in year	16	2	2
Bob Woods	16	2	—
Ian Mattioli	14	—	1
Nathan Imlach	15	—	2
Murray Smith	14	—	1
Mark Smith (since appointment on 3 June 2008)	15	—	—
John Redpath	14	2	1
Michael Kershaw	15	—	2

Note
1. Murray Smith attended one Audit Committee meeting as an alternate attendee for Ian Mattioli.

Induction, training and performance evaluation

New Directors receive an induction on their appointment covering the activities of the Group, its key business and financial risks, the terms of reference of the Board and its Committees and the latest financial information.

The Chairman ensures Directors update their skills, knowledge and familiarity with the Group required to fulfil their roles on the Board and its Committees. Ongoing training is provided as necessary and includes updates from the Company Secretary on changes to the AIM Rules, requirements under the Companies Acts and other regulatory matters. All Directors have access to independent professional advice at the Company's expense where they judge it necessary to discharge their duties, with requests for such advice being authorised by the Chairman or two other directors, one of whom is a non-executive.

Evaluation of the Board's performance

The evaluation of individual Directors' performance is carried out by the Remuneration Committee. Executive Directors' performance is evaluated using an approach which combines business and personal performance objectives with financial and non-financial measures of achievement against those objectives. The annual review cycle starts with objective setting in July, interim reviews in December and performance evaluation in May. The results of interim and annual evaluations are communicated to the Remuneration Committee.

The evaluation of Non-Executive Directors' performance uses self-appraisal and interview with the Chairman to consider aspects of performance including attendance and participation at board meetings, quality of involvement in Committees, commitment and effectiveness of their contribution to Board activities (including the AGM and shareholder communications), the adequacy of training and director independence.

The performance of the Chairman is reviewed annually by the Non-Executive Directors. This review takes into account the views of Executive Directors who were interviewed by the Non-Executive Directors.

Retirement and re-election

All Directors are subject to election by shareholders after their appointment and to re-election thereafter at intervals of no more than three years.

Non-Executive Directors are appointed for specified terms, initially 12 months with the opportunity for renewal by the Company thereafter. The terms and conditions of appointment of the Non-Executive Directors are available for inspection at MW House during normal business hours and prior to the AGM.

Communications with shareholders

The Board is committed to ongoing dialogue with the Company's shareholders. The principal methods of communication with private investors remain the Annual Report and financial statements, the Interim Report, the AGM and the Group's web site (www.mattioli-woods.com).

Internal control and risk management

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can only provide reasonable not absolute assurance against material misstatement or loss.

In accordance with the guidance of the Turnbull Committee on internal control, an ongoing process has been established for identifying, evaluating and managing significant risks faced by the Group. This process has been in place throughout the year under review and up to the date of approval of the Annual Report and financial statements.

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

The Group maintains appropriate insurance cover and reviews the adequacy of the cover regularly, in conjunction with the Group's insurance broker.

There are clearly defined procedures for reviewing and approving all bids, acquisitions and capital expenditure within the Group.

On behalf of the Board

Nathan Imlach
Finance Director and Company Secretary
7 September 2009

Directors' remuneration report

Remuneration policy

The policy of the Remuneration Committee is to set basic salaries at a level which is competitive with that of comparable businesses, with a substantial proportion of the overall remuneration package being linked to individual and corporate performance through participation in short term and long term incentive schemes. The overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhance shareholder value.

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

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

The remuneration structure for senior executives was put in place at the time of the Company's admission to AIM in November 2005 and has remained broadly unchanged. Since then, Mattioli Woods has grown significantly and the requirements of shareholders and regulators in relation to remuneration in financial services businesses have evolved. The Company's existing equity-based incentive plans, which begin to mature in 2010, also require to be replaced.

The Remuneration Committee has resolved to undertake a full review of executive remuneration, in conjunction with external consultants. The intention is to put in place a revised executive remuneration structure from 1 June 2010.

Salaries, fees and benefits

Salaries for Executive Directors are determined by the Remuneration Committee and are reviewed annually by it, taking into account individual performance over the previous 12 months, external benchmark salary data and pay and employment conditions elsewhere in the Group.

Fees for the Non-Executive Directors are determined by the Board, having regard to fees paid to non-executive directors in other UK quoted companies, the time commitment and responsibilities of the role. No options are held by the Non-Executive Directors. Individuals cannot vote on their own remuneration.

Benefits relate to the provision of cars for certain directors, pension contributions and life assurance.

Short term incentive arrangements

Each executive director is entitled to a contractual annual bonus, which is conditional upon the Group's and their own financial performance meeting certain criteria, summarised as follows:

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

The total bonus payable under (a) and (b) to the executive directors in respect of the year ending 31 May 2010 is capped as follows:

Director	Corporate bonus	Personal bonus	Total potential bonus
Ian Mattioli	Up to £120,000	Up to £160,000	£280,000
Bob Woods	Up to £120,000	Up to £113,000	£233,000
Murray Smith	Up to £25,000	Up to £135,000	£160,000
Nathan Imlach	Up to £70,000	Up to £70,000	£140,000
Mark Smith	Up to £36,000	Up to £54,000	£90,000

Share option plans

The Group has adopted the Mattioli Woods Enterprise Management Initiative Share Option Plan ("the Share Option Plan") and the Mattioli Woods Consultants' Share Option Plan ("the Consultants' Share Option Plan") to incentivise certain of its senior managers and Directors. Where possible, and to the limits applied by the legislation, these schemes will benefit from the tax advantages under an Enterprise Management Initiative ("EMI") scheme.

Grant of options under the Share Option Plan

The Company has granted options to Murray Smith, Nathan Imlach, Mark Smith and certain of its senior managers to acquire (in aggregate) up to 5.06% of its share capital. The maximum entitlement of any individual is 1.08%. The options will be exercisable at £1.32 per share.

The options will only be exercisable subject to performance conditions. In summary, the options will be exercisable if the Company meets target profits as agreed by the Board prior to each financial year. The targets must be met for each year up to 31 May 2010 or over two consecutive years up to 31 May 2011. The options will generally be exercisable after approval of the financial statements for the year ended 31 May 2010, 31 May 2011, or on a change of control (if earlier).

Grant of options under the Consultants' Share Option Plan

The Company has granted options to certain of its senior consultants to acquire (in aggregate) up to 2.96% of its share capital. The maximum entitlement of any individual is 0.49%. The options will be exercisable at various prices, depending upon the date the options were granted.

The options will only be exercisable subject to performance conditions. In summary, the options will be exercisable if the option holder achieves certain individual sales revenues. If the performance conditions are not met over the five financial years commencing on 1 June before the date of grant, the options lapse. The options will generally be exercisable after approval of the financial statements for the year ended 31 May 2011, or on a change of control (if earlier).

Unapproved share scheme

Options issued under the Share Option Plan and Consultants' Share Option Plan are intended to be qualifying options for EMI purposes. If they are not qualifying options (for example because they exceed the statutory limit at the date of grant) then they will take effect as unapproved options which cannot benefit from the preferential tax treatments afforded to options granted pursuant to an EMI scheme. The rules for these options will be identical to those for the Share Option Plan or Consultants' Share Option Plan, as appropriate.

Share incentive plan

The Mattioli Woods plc Share Incentive Plan ("the SIP") was introduced in June 2008 and enables employees to buy shares in the Company at an effective discount to the Stock Exchange price by having an amount deducted from pre-tax salary each month. In addition, the Company can grant participating employees matching and/or free shares.

Long term incentive plan

It is a priority for the Group to continue to attract and retain appropriately qualified staff. The new remuneration structure referred to above will be designed to ensure the Group can attract, incentivise and retain key staff of appropriately high calibre, whilst taking into account the requirements of shareholders and regulators (including the FSA Code).

The Remuneration Committee expects that a Long Term Incentive Plan ("LTIP") will be a key part of the revised remuneration structure. The principal terms of any such plan are expected be announced in the early months of 2010.

Directors' remuneration

Directors' remuneration payable in respect of the year ended 31 May 2009 was as follows:

	Basic salary and fees £	Performance related bonuses £	Benefits[1] £	Total emoluments excluding pensions 2009 £	2008 £
Ian Mattioli	160,000	270,000	—	430,000	404,000
Bob Woods	160,000	193,167	—	353,167	327,142
Nathan Imlach	150,000	125,000	—	275,000	266,000
Murray Smith	115,000	145,000	14,954	274,954	281,247
Mark Smith	93,500	61,000	—	154,500	—
John Redpath	23,063	—	—	23,063	25,082
Michael Kershaw	22,500	—	—	22,500	6,202

Notes
1. The benefit package of each Executive Director includes the provision of life assurance under a group scheme.
2. The benefit package of Murray Smith includes the provision of a company car and fuel.
3. Mark Smith was appointed on 3 June 2008.

The criteria applied to the calculation of performance related bonuses were amended during the year, taking into account regulatory guidance on remuneration policies and changes within the business. The total bonus payment under the revised bonus arrangements does not exceed that which would have been payable under the previous arrangements.

Service contracts

It is the Group's policy for all executive Directors to have contracts of employment that contain a termination notice period not exceeding 12 months. Ian Mattioli's and Bob Woods' appointments continue until terminated by either party on giving not less than 12 months' notice to the other party.

The other executive directors' appointments continue until termination by either party on giving not less than six months' notice to the other party.

John Redpath and Michael Kershaw do not have service contracts. A letter of appointment provides for an initial period of 12 months, subject to review.
The remuneration of non-executive directors takes the form solely of fees, which are set by the Board having taken advice on appropriate levels.

Retirement benefits

The Group will pay contributions into a personal pension plan nominated by each Executive Director at a rate of 10% of their basic salary, provided that the Director pays contributions of not less than 5% of such salary in to the same personal pension plan.

Directors' shareholdings

As at 31 May 2009, the interest of the Directors in the issued shares of the Company, as shown in its register maintained under section 809 (2) and (3) of the Companies Act 2006 were:

	No.	2009 %	No.	2008 %
Ian Mattioli	4,124,451	23.86	4,123,703	23.93
Bob Woods	4,124,110	23.86	4,123,703	23.93
Murray Smith	413,838	2.39	411,564	2.39
Nathan Imlach	174,182	1.01	172,815	1.00
Mark Smith (appointed 3 June 2008)	64,974	0.38	—	—
John Redpath	13,000	0.08	13,000	0.08
Michael Kershaw	14,500	0.08	14,500	0.08

Interest in options

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

		Exercise price £	At 31 May 2008 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	At 31 May 2009 No.
Nathan Imlach	(a)	1.32	95,250	—	—	—	95,250
	(b)	1.32	29,750	—	—	—	29,750
			125,000	—	—	—	125,000
Murray Smith	(a)	1.32	95,250	—	—	—	95,250
	(b)	1.32	92,250	—	—	—	92,250
			187,500	—	—	—	187,500
Mark Smith	(a)	1.32	95,250	—	—	—	95,250
	(b)	1.32	92,250	—	—	—	92,250
			187,500	—	—	—	187,500

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

The options are exercisable subject to performance conditions between 1 June 2010 and 31 May 2015. Note 18 to the financial statements contains a detailed schedule of all options granted to Directors and employees as at 31 May 2009. All of the share options were granted for nil consideration.

The mid-market closing price of the Company's ordinary shares at 31 May 2009 was 230p and the range during the financial year was 203p to 284.5p.

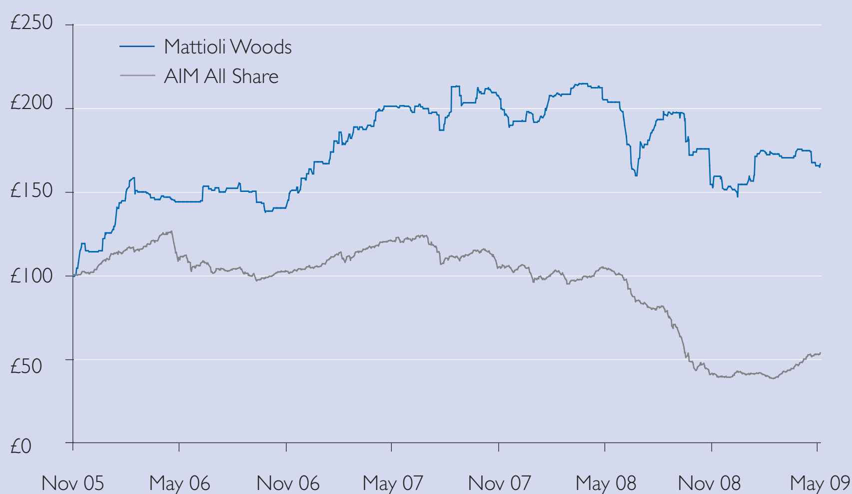
None of the Directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year, other than those disclosed in Note 32 to the financial statements.

The only change in the Directors' shareholdings (all of which are beneficial) and their share options between 31 May 2009 and 7 September 2009 is in respect of contributions to the Mattioli Woods plc Share Incentive Plan made by Nathan Imlach, Murray Smith, Mark Smith and Clare Mattioli, wife of Ian Mattioli.

Total shareholder return performance graph

The graph below illustrates the total shareholder return for the period ended 31 May 2009 in terms of the change in value of an initial investment of £100 invested on 23 November 2005 in a holding of the Company's shares against the corresponding total shareholder returns in hypothetical holdings of shares in the FTSE AIM All Share Index.

The Company is a member of the FTSE AIM All Share Index and accordingly this is considered to be the most appropriate broad equity market index for the purpose of measuring the Company's relative performance.



On behalf of the Board

John Redpath
Chairman of the Remuneration Committee
7 September 2009

Independent auditors' report to the members of Mattioli Woods plc

We have audited the group and parent company financial statements ("the financial statements") on pages 26 to 57. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As more fully explained in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 May 2009 and of the group's profit for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 2 to the financial statements, the group in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board ("IASB").

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

7 September 2009

Consolidated income statement

For the year ended 31 May 2009

	Note	2009 £	2008 £
Revenue	4	**13,283,204**	10,828,151
Employee benefits expense	10	**(6,813,449)**	(5,499,147)
Other administrative expenses		**(1,941,255)**	(1,537,507)
Share based payments	18	**(199,905)**	(104,659)
Amortisation	15	**(299,099)**	(224,313)
Depreciation	14	**(183,178)**	(142,636)
Loss on disposal of property, plant & equipment		**(35,360)**	(14,304)
Operating profit before financing		**3,810,958**	3,305,585
Finance revenue	8	**91,599**	219,033
Finance costs	9	**(5,889)**	(15,434)
Net finance revenue		**85,710**	203,599
Profit before tax		**3,896,668**	3,509,184
Income tax expense	11	**(1,174,410)**	(1,043,945)
Profit for the year		**2,722,258**	2,465,239
Attributable to:			
Equity holders of the parent		**2,722,258**	2,465,239
Earnings per ordinary share:			
Basic (pence)	12	**15.76p**	14.29p
Diluted (pence)	12	**15.76p**	14.29p
Proposed total dividend per share (pence)	13	**3.90p**	3.00p

The operating profit for each period arises from the Group's continuing operations. The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The profit for the financial year of the Company after taxation was £2,722,258 (2008: £2,466,315).

Statement of recognised income and expense

For the year ended 31 May 2009

	Note	2009		2008	
		Group £	**Company £**	Group £	Company £
Deferred tax on share-based payments	11	**(31,968)**	**(31,968)**	65,114	65,114
Income and expense recognised directly in equity		**(31,968)**	**(31,968)**	65,114	65,114
Profit for the year		**2,722,258**	**2,722,258**	2,465,239	2,466,315
Total recognised income and expense for the year		**2,690,290**	**2,690,290**	2,530,353	2,531,429

Balance sheets

As at 31 May 2009

	Note	2009 Group £	2009 Company £	2008 Group £	2008 Company £
Assets					
Property, plant and equipment	14	**638,634**	**638,634**	733,101	733,101
Intangible assets	15	**10,056,466**	**10,056,466**	10,065,182	10,065,182
Deferred tax asset	11	**127,805**	**127,805**	166,328	166,328
Investments	16	**15**	**41,682**	15	41,682
Total non-current assets		**10,822,920**	**10,864,587**	10,964,626	11,006,293
Trade and other receivables	19	**5,021,080**	**5,020,713**	4,689,938	4,689,571
Financial assets	20	**120,392**	**120,392**	529,242	529,242
Cash and short-term deposits	21	**4,808,179**	**4,804,379**	2,537,894	2,534,094
Total current assets		**9,949,651**	**9,945,484**	7,757,074	7,752,907
Total assets		**20,772,571**	**20,810,071**	18,721,700	18,759,200
Equity					
Issued capital	22	**172,855**	**172,855**	172,159	172,159
Share premium	22	**5,769,149**	**5,769,149**	5,601,458	5,601,458
Other reserves	22	**2,456,341**	**2,456,341**	2,372,242	2,372,242
Retained earnings	22	**8,060,163**	**8,061,239**	5,881,203	5,882,279
Total equity attributable to equity holders of the parent	23	**16,458,508**	**16,459,584**	14,027,062	14,028,138
Non-current liabilities					
Trade and other payables	24	**100,000**	**100,000**	365,500	365,500
Interest-bearing loans and borrowings	25	**–**	**–**	10,030	10,030
Deferred tax liability	11	**262,555**	**262,555**	273,929	273,929
Provisions	26	**242,599**	**242,599**	353,326	353,326
Total non-current liabilities		**605,154**	**605,154**	1,002,785	1,002,785
Current liabilities					
Trade and other payables	24	**2,810,554**	**2,846,978**	2,856,231	2,892,655
Interest-bearing loans and borrowings	25	**–**	**–**	18,212	18,212
Income tax payable	11	**559,229**	**559,229**	513,932	513,932
Provisions	26	**339,126**	**339,126**	303,478	303,478
Total current liabilities		**3,708,909**	**3,745,333**	3,691,853	3,728,277
Total liabilities		**4,314,063**	**4,350,487**	4,694,638	4,731,062
Total equities and liabilities		**20,772,571**	**20,810,071**	18,721,700	18,759,200

The financial statements on pages 26 to 57 were approved by the board of directors and authorised for issue on 7 September 2009 and are signed on its behalf by:

Ian Mattioli
Chief Executive

Nathan Imlach
Finance Director

Cash flow statements

For the year ended 31 May 2009

	Note	2009 Group £	2009 Company £	2008 Group £	2008 Company £
Operating activities					
Cash receipts from customers		**12,952,062**	**12,952,062**	9,717,005	9,167,171
Cash paid to suppliers and employees		**(8,644,073)**	**(8,644,073)**	(6,639,453)	(6,434,356)
Cash generated from operations		**4,307,989**	**4,307,989**	3,077,552	2,732,815
Interest paid		**(5,889)**	**(5,889)**	(15,434)	(9,804)
Income taxes paid		**(1,133,932)**	**(1,133,932)**	(1,056,729)	(1,025,982)
Net cashflows from operating activities		**3,168,168**	**3,168,168**	2,005,389	1,697,029
Investing activities					
Proceeds from sale of property, plant and equipment		**2,545**	**2,545**	12,400	12,400
Purchase of property, plant and equipment	14	**(126,616)**	**(126,616)**	(420,956)	(420,956)
Purchase of software	15	**(345,133)**	**(345,133)**	(104,457)	(104,457)
Acquisition of subsidiaries	3	**(206,000)**	**(206,000)**	(1,712,985)	(1,712,985)
Cash received on acquisition of subsidiaries		**–**	**–**	183,805	183,805
Acquisition of businesses	3	**(234,048)**	**(234,048)**	(1,311,327)	(1,351,730)
Acquisition of other investments		**–**	**–**	(15)	(15)
New loans advanced to property syndicates	20	**(1,629,060)**	**(1,629,060)**	(1,493,620)	(1,493,620)
Loan repayments from property syndicates	20	**2,037,910**	**2,037,910**	2,918,693	2,918,693
Interest received		**91,599**	**91,599**	219,033	221,584
Net cashflows from investing activities		**(408,803)**	**(408,803)**	(1,709,429)	(1,747,281)
Financing activities					
Proceeds from the issue of share capital		**84,549**	**84,549**	–	–
Repayment of borrowings	25	**(28,242)**	**(28,242)**	–	–
Repayment of Directors' loans	24	**(2,089)**	**(2,089)**	(19,967)	(19,967)
Dividends paid	13	**(543,298)**	**(543,298)**	(464,850)	(464,850)
Dividends received		**–**	**–**	–	346,212
Net cashflows from financing activities		**(489,080)**	**(489,080)**	(484,817)	(138,605)
Net increase/(decrease) in cash and cash equivalents		**2,270,285**	**2,270,285**	(188,857)	(188,857)
Cash and cash equivalents at start period	21	**2,537,894**	**2,534,094**	2,726,751	2,722,951
Cash and cash equivalents at end period	21	**4,808,179**	**4,804,379**	2,537,894	2,534,094

Notes to the financial statements

1. Corporate information

Mattioli Woods plc ("the Company") is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the AIM market of the London Stock Exchange plc. The consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 7 September 2009.

The principal activities of the Group are described in Note 6.

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Sterling and all values are rounded to the nearest pound (£) except when otherwise indicated.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted for use in the European Union ("EU").

Basis of consolidation

The consolidated financial statements comprise the financial statements of Mattioli Woods plc and its subsidiaries (together referred to as "the Group") as at 31 May each year.

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

2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and International Financial Reporting Interpretation Committee ("IFRIC") interpretations during the year:

- IAS39 Financial Instruments: Recognition and Measurements
- IFRS7 Financial Instruments: Disclosures – Reclassification of Financial Assets
- IFRIC12 Service Concession Arrangements
- IFRIC14 IAS19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

The principal effects of these changes are as follows:

- **Amendment to IAS 39 Financial Instruments: Recognition and Measurements and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets**
  In October 2008, the IASB issued amendments to IAS 39 and IFRS 7, which permit the reclassification of some financial instruments following the deterioration in the state of the world's financial markets. The reclassification can be made from 1 July 2008. The Group does not hold any such financial instruments and hence the amendment has no impact on the financial statements.

- **IFRIC 12 Service Concession Arrangements**
  The Group adopted IFRIC Interpretation 12 as of 1 June 2008, which explains how to account for the obligations undertaken and rights received in service concession arrangements. The Group does not operate any service concession arrangements and hence the Interpretation has no impact on the financial statements.

- **IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**
  The Group adopted IFRIC Interpretation 14 as of 1 June 2008, which provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the financial position or performance of the Group as it does not operate any defined benefit schemes.

The Group elected to early adopt IFRS 8 *Operating Segments* as of 1 June 2007. IFRS 8 introduces the "management approach" to segment reporting, which requires the disclosure of segment information based on the internal reports regularly reviewed by the Board of Directors (the Chief Operating Decision Maker) in order to assess each segment's performance. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14. Additional disclosures about each of these segments are shown in Note 6.

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

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the fair value less cost to sell of the cash-generating unit to which the goodwill is allocated. Estimating a fair value less cost to sell amount requires management to make an estimate of the realisable value of the cash generating unit.

Deferred tax assets

Deferred tax assets include temporary differences related to employee benefits settled via the issue of share options. Recognition of the deferred tax assets assumes share options will have a positive value at the date of vesting, which is greater than the share option cost recognised in the income statement.

Recoverability of accrued time costs

The Group recognises accrued income in respect of time costs incurred on clients' affairs during the accounting period, which have not been invoiced at the balance sheet date. This requires an estimation of the recoverability of the time costs incurred but not invoiced to clients.

Accrued commission income

Accrued commission income is recognised in respect of commissions due to the Group on investments and bank deposits placed during the accounting period which have not been received at the balance sheet date. This requires an estimation of the amount of commission income that will be received subsequent to the balance sheet date in respect of the accounting period.

Contingent consideration

The Group has entered into certain acquisition agreements that provide for a contingent consideration to be paid. A provision is recognised for all amounts management anticipates will be paid under the relevant acquisition agreement. This requires management to make an estimate of the expected future cash flows from the acquired client portfolio and determine a suitable discount rate for the calculation of the present value of those cash flows.

2.4 Summary of significant accounting policies

Property, plant and equipment

Plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its estimated residual value over its expected useful life as follows:

- Computer and office equipment — 20/25% per annum on written down values;
- Fixtures and fittings — 20% per annum on written down values; and
- Motor vehicles — 25% per annum on written down values.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

2.4 Summary of significant accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the purchase accounting method. This involves recognising identifiable assets and liabilities of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on the Group's reporting format determined in accordance with IFRS 8 *Operating Segments*.

If a cash generating unit was to be sold, the difference between the selling price and the net assets and amortised goodwill would be recognised in the income statement.

Intangible assets

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

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

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

The Group amortises individual client portfolios acquired through business combinations on a straight-line basis over an estimated useful life of 25 years, based on the Group's historic experience. Client portfolios acquired through business combinations are allocated for impairment testing purposes to five cash-generating units as follows:

- Individual clients acquired on 2 September 2003 as part of the unincorporated business Mattioli Woods Pension Consultants ("the Partnership portfolio");
- Individual clients acquired as part of the Geoffrey Bernstein portfolio acquired on 20 June 2005;
- Individual clients acquired as part of the Suffolk Life portfolio acquired on 27 January 2006;
- Individual clients acquired as part of the PCL portfolio acquired on 10 July 2007; and
- Individual clients acquired as part of the JBFS portfolio acquired on 18 February 2008.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

	Goodwill	Client portfolios	Software
Useful life	**Indefinite**	**Finite**	**Finite**
Measurement method used	Annual impairment review	Amortised over the useful economic life on a straight-line basis	Amortised over the useful economic life on a reducing balance basis
Internally generated or acquired	Acquired	Acquired	Both

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash generating unit's fair value less cost to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or group of assets.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

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

Goodwill

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

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

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 May either individually or at the cash-generating unit level, as appropriate.

Loans and receivables

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

2.4 Summary of significant accounting policies (continued)

Trade and other receivables

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

Leases

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

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

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

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

Group as a lessee

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

Cash and short-term deposits

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Interest bearing loans and borrowings

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

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

Provisions

General

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

Commissions received on indemnity terms

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

Provision for client claims

A provision is recognised when the Group is notified of a claim. This requires an estimation of the maximum potential loss to the Group should the client's claim be successful.

Provision for dilapidations

A provision is recognised where the Group has an obligation at the end of a property lease to return the property in a specified condition. This requires an estimation of the likely cost of dilapidation payments at the end of the lease term.

Onerous contracts

Provisions for onerous contracts are recognised when the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to arise from the contract, taking into account impairment of fixed assets first.

2.4 Summary of significant accounting policies (continued)

Share based payments

Employees (including senior executives) of the Group receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted and is recognised, together with a corresponding increase in equity, as an expense over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). Fair value is determined using the Black Scholes Merton pricing model.

The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in Note 12).

Revenue recognition

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

Rendering of services

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

Commission income

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

Interest income

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

Taxes

Current income tax

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

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

2.4 Summary of significant accounting policies (continued)

Deferred income tax

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

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

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

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

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

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

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

Sales tax

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

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

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

Pension costs

The Company makes discretionary payments into the personal pension schemes of certain employees. Contributions are charged to the profit and loss account as they are payable.

2.5 Future changes in accounting policies

Standards and interpretations issued but not yet effective

The IASB and IFRIC have issued standards and interpretations with an effective date for periods starting on or after the date on which these financial statements start. The Directors do not anticipate the adoption of these standards and interpretations, wherever relevant to Mattioli Woods, will have a material impact on the Company's or the Group's results or assets and liabilities in the period of initial application.

Standards and interpretations that are not yet effective and have not been early adopted by the Company or Group are explained below.

Amendment to IAS 1 Presentation of Financial Statements

In September 2007, the IASB issued an amendment to IAS 1 *Presentation of Financial Statements*. The main changes are:

- The titles of some of the financial statements have been amended to reflect their function more carefully, for example, "balance sheet" is to be a "statement of financial position". Although the new titles will be used in accounting standards they are not mandatory for use within the financial statements; and
- The introduction of a new component referred to as the Statement of Comprehensive Income. The new component aims to enable the readers to analyse changes in a company's equity resulting from transactions with owners in their capacity as owners (such as dividends, share issues and repurchases) and "non-owner" changes.

The amendment is effective for periods commencing on or after the 1 January 2009. Upon adoption of the revised IAS1, the Group will have to decide whether items of income and expense should be presented as components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (i.e. a separate income statement followed by a statement of comprehensive income).

2.5 Future changes in accounting policies (continued)

IAS 23 Borrowing Costs

A revised IAS 23 *Borrowing Costs*, effective for financial years beginning on or after 1 January 2009, will require directly attributable borrowing costs connected with the acquisition or construction of certain assets to be capitalised. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change and borrowing costs will be capitalised on qualifying assets with a commencement date after 1 June 2009. No changes will be made for borrowings costs incurred to this date that have been expensed.

Second phase of the business combinations project

In January 2008, the IASB revised IFRS 3 *Business Combinations* as part of the second phase of the business combinations project. The second phase of the project was undertaken jointly with the FASB and accompanied amendments to IAS 27 *Consolidated and Separate Financial Statements*.

(a) Amendments to IFRS 3 Business Combinations

The changes to IFRS 3 included changes to the scope of the standard, accounting for contingent consideration and accounting for business combinations achieved in stages. The amendment also permits two methods for the accounting for goodwill along with additional guidance relating to the recognition and measurement of fair values and the assessment of whether transactions fall to be part of the business combination. It is anticipated the amendments will result in the professional costs associated with any future business combinations of the Group being expensed rather than capitalised.

(b) Amendments to IAS 27 Consolidated and Separate Financial Statements

IAS 27 now makes reference to the term "non-controlling interest" which replaces the term "minority interest". The amendment provides guidance relating to the accounting for non-controlling interests in loss making subsidiaries, the acquisition of non-controlling interests and the accounting for subsidiaries when control by the entity is lost. There are no minority interests in the Group and hence this amendment will have no impact on the Group.

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

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

In January 2008, the IASB published amendments to IFRS 2 *Share-based Payment* relating to vesting conditions and cancellations. IFRS 2 provides guidance on the treatment of options which are cancelled by the employer and requires that any unamortised cost be accelerated to the profit and loss in the period of cancellation. The amendment now clarifies that where options are cancelled by the employee (other than on leaving employment), such cancellations should be treated in the same way as cancellations by the employer.

If any of the Group's employees decide to forfeit their right to options the employee cancellations will now fall to be treated in the same way as cancellations by the employer. The amendment is effective for periods commencing on or after 1 January 2009.

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

International Accounting Standards	Effective date
IAS1 *Presentation of Financial Statements* (revised September 2007)	1 January 2009
IAS27 *Consolidated and Separate Financial Statements* (revised May 2008)	1 January 2009
IAS32 *Financial Instruments: Presentation* (revised February 2008)	1 January 2009
IAS39 *Financial Instruments: Recognition and Measurement – reassessment of embedded derivatives* (revised March 2009)	1 January 2009
IAS39 *Eligible Hedged Items* (revised July 2008)	1 July 2009
IFRS1 *First-time Adoption of IFRS* (revised May 2008)	1 July 2009
IFRS7 *Financial Instruments: Disclosures* (revised March 2009)	1 January 2009

International Financial Reporting Interpretations Committee	Effective date
Amendment to IFRIC9 *Reassessment of embedded derivatives*	1 July 2008
IFRIC 13 *Customer Loyalty Programmes*	1 July 2008
IFRIC 15 *Agreements for the Construction of Real Estate*	1 January 2009
IFRIC 18 *Transfer of Assets from Customers*	1 July 2009
IFRIC 17 *Distributions of Non-Cash Assets to Owners*	1 July 2009

2.5 Future changes in accounting policies (continued)

IASB – Annual Improvements Project

The IASB issued its first Annual Improvements Project in May 2008, which resulted in changes to 24 standards. The changes are a collection of miscellaneous, non urgent but necessary amendments needed to resolve inconsistencies between standards and clarify wording. The amendments are effective for accounting periods beginning on or after 1 January 2009 unless specified otherwise, but are not expected to have any impact on the Group's financial statements.

In April 2009, the IASB issued amendments to a further 12 IFRSs. These amendments are effective for periods commencing on or after 1 January 2010 unless specified otherwise, but are not expected to have any impact on the Group's financial statements.

3. Business combinations

Acquisition of Pension Consulting Limited

On 9 July 2007 the Group acquired 100% of the voting shares of Pension Consulting Limited ("PCL"). The total acquisition cost included deferred and contingent consideration of up to £450,000 payable in the two years following completion. During the period, the Group paid a total of £153,909 deferred and contingent consideration to the vendors of PCL. The Directors estimate the net present value of deferred and contingent consideration outstanding at 31 May 2009 is £25,500 (2008: £177,500) and £80,000 (2008: £150,000) respectively (see Notes 24 and 26).

Acquisition of the JB Group

On 18 February 2008 the Group acquired the trade and assets of John Bradley Financial Services ("JBFS") and North Star SIPP LLP (together "the JB Group"). The total acquisition cost included deferred and contingent consideration of up to £1,340,000 payable in the three years following completion. During the period the Group paid a total of £233,505 deferred and contingent consideration to the vendors of the JB Group. The Directors estimate the net present value of deferred and contingent consideration outstanding at 31 May 2009 is £340,000 (2008: £640,000) and £200,000 (2008: £200,000) respectively (see Notes 24 and 26).

4. Revenue

Revenue disclosed in the income statement is analysed as follows:

	2009 £	2008 £
Rendering of services	**7,588,818**	6,454,651
Commission income	**5,694,386**	4,373,500
	13,283,204	10,828,151

No revenue was derived from exchanges of goods or services (2008: £nil).

5. Seasonality of operations

The Group's operations are not subject to any recurrent seasonal fluctuations as a result of external factors. Historically, revenues in the second-half year typically have been higher than in the first half, due to SSAS scheme year-ends being linked to the sponsoring company's year-end, which is often in December or March. The growth in the number of SIPP schemes under administration and further diversification of the Group's revenue streams over recent periods has meant the seasonal impact of SSAS scheme year-ends is no longer material.

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

6. Segment information

The Group is comprised of the following operating segments:

- Pension consultancy and administration – time-based fees earned for setting up and administering pension schemes. Additional fees are generated from consultancy services provided for special one-off activities;
- Investment planning – income generated from the placing of investments on clients' behalf with banks and other financial institutions; and
- Property syndicates – income generated where the Group facilitates commercial property transactions on behalf of its clients.

Each segment represents a revenue stream subject to risks and returns that are different to other operating segments, although each operating segment's products and services are offered to the same market. The Group operates exclusively within the United Kingdom.

There are no transfers between operating segments and hence there are no differences between total segment revenue and consolidated revenue.

Each operating segment utilises the same intangible and tangible assets, and the segments have been financed as a whole, rather than individually. The reportable operating segments are managed together, as one business operating from one location. Accordingly, only employee benefit expenses and other direct costs have been allocated across the reportable operating segments.

Segment profit or loss reflects the measure of segment performance reviewed by the Board of Directors (the Chief Operating Decision Maker). This measure differs from the numbers used in the financial statements prepared in accordance with IFRS as follows:

- *Finance revenue* – Interest revenue from loans receivable and cash at bank is not included in the measure of segment profit or loss as it is not considered part of the core operations of any segment.
- *Finance costs* – Finance costs are not included in the measure of segment profit or loss.
- *Indirect overheads* – Indirect overheads including property costs, amortisation and impairment of intangible assets, depreciation of property, plant and equipment, sales and marketing costs, legal and professional fees and insurance are not included in the measure of segment profit or loss as it is not possible to allocate these overheads to individual segments without making arbitrary allocations.

Segment assets exclude property, plant and equipment, intangible assets, investments, current and deferred tax balances, cash and cash equivalents, as these assets are considered corporate in nature and are not allocated to a specific operating segment.

Operating segments

The following table presents revenue and profit information regarding the Group's operating segments:

Business segments	Pension consultancy and administration		Investment planning		Property syndicates		Total	
	2009 £	2008 £	**2009 £**	2008 £	**2009 £**	2008 £	**2009 £**	2008 £
Revenue	**6,479,102**	4,792,681	**5,694,386**	4,373,500	**1,109,716**	1,661,970	**13,283,204**	10,828,151
Results								
Employee benefits expense (including share based payments)	**(4,947,096)**	(3,645,438)	**(1,155,657)**	(852,733)	**(910,601)**	(1,105,635)	**(7,013,354)**	(5,603,806)
Other administrative expense	**(188,275)**	(215,426)	**(320,819)**	(90,153)	**–**	–	**(509,094)**	(305,579)
Segment results	**1,343,731**	931,817	**4,217,910**	3,430,614	**199,115**	556,335	**5,760,756**	4,918,766
Unallocated indirect overheads							**(1,949,798)**	(1,613,181)
Operating profit before financing							**3,810,958**	3,305,585
Net finance income							**85,710**	203,599
Profit before tax							**3,896,668**	3,509,184
Income tax expense							**(1,174,410)**	(1,043,945)
Net profit for the period							**2,722,258**	2,465,239

6. Segment information (continued)

Total segment assets

The following table compares total segment assets as at 31 May 2009 and 31 May 2008.

	2009 £	2008 £
Pension consultancy and administration	**3,729,921**	3,621,963
Investment planning	**605,377**	642,655
Property syndicates	**647,617**	839,325
Total segment assets	**4,982,915**	5,103,943
Property plant and equipment	**638,634**	733,101
Intangible assets	**10,056,466**	10,065,182
Investments	**15**	15
Deferred tax	**127,805**	166,328
Prepayments and other receivables	**158,557**	115,237
Cash and short term deposits	**4,808,179**	2,537,894
Total consolidated assets	**20,772,571**	18,721,700

7. Auditors' remuneration

Remuneration paid by the Group to its auditors for the audit of the financial statements, fees other than for the audit of the financial statements and the total of non-audit fees for the Group were as follows:

	Associates of Baker Tilly UK Audit LLP 2009 £	Baker Tilly UK Audit LLP 2009 £	Total 2009 £	Total 2008 £
Audit of the financial statements	26,500	–	**26,500**	26,000
Other fees to auditors:				
– taxation services	–	7,088	**7,088**	11,500
– corporate finance services	–	–	**–**	29,949
– interim financial statements	5,500	–	**5,500**	5,000
– other services	–	26,764	**26,764**	13,247
	32,000	33,852	**65,852**	85,696

8. Finance revenue

	2009 £	2008 £
Bank interest receivable	**91,599**	219,033

9. Finance costs

	2009 £	2008 £
Bank loans and overdrafts	**3,860**	9,183
Other loans	**2,029**	6,251
	5,889	15,434

10. Employees benefits expense

The average monthly number of employees during the year was:	2009 No.	2008 No.
Directors	**5**	4
Consultants	**18**	14
Administrators	**81**	63
Support staff	**55**	42
	159	123

Staff costs for the above persons were:	2009 £	2008 £
Wages and salaries	**5,871,320**	4,695,864
Social security costs	**659,974**	521,362
Pension costs and life insurance	**203,695**	184,636
Other staff costs	**78,460**	97,285
	6,813,449	5,499,147

In addition, the cost of share based payments disclosed separately in the income statement was £199,905 (2008: £104,659).

Directors' remuneration:	2009 £	2008 £
Emoluments	**1,533,184**	1,309,673
Company contributions to personal pension schemes	**80,000**	60,000
	1,613,184	1,369,673

The amounts in respect of the highest paid director are as follows:	2009 £	2008 £
Emoluments	**430,000**	404,000
Company contributions to personal pension schemes	**19,000**	16,000
	449,000	420,000

During the year five directors (2008: four) were accruing benefits under personal pension schemes.

11. Income tax

The major components of income tax expense for the years ended 31 May 2009 and 2008 are:

Consolidated income statement	2009 £	2008 £
Current income tax:		
Current income tax charge	**1,179,229**	1,038,541
Deferred income tax:		
Relating to origination and reversal of temporary differences:		
– Current year	**(4,819)**	24,312
– Effect of change in the standard rate of tax in the year	**–**	(18,908)
Income tax expense reported in the income statement	**1,174,410**	1,043,945

11. Income tax (continued)

Factors affecting the tax charge for the period

The tax charge assessed for the period is higher than the standard rate of corporation tax in the UK of 28% (2008: 28%). The differences are explained below:

	2009 £	2008 £
Accounting profit before income tax	**3,896,668**	3,509,184
Multiplied by the standard rate of corporation tax in the UK of 28.0% (2008: 28%)	**1,091,067**	982,572
Effects of:		
Expenses not deductible for tax purposes	**38,577**	27,677
Effect of change in the standard rate of tax in the year:		
– Current income tax	**–**	52,604
– Deferred income tax	**–**	(18,908)
Irrecoverable deferred tax on share options	**44,766**	–
Adjustment in respect of earlier years	**–**	–
Current tax charge for the period	**1,174,410**	1,043,945
Effective income tax rate	**30.1%**	29.7%

Deferred income tax

Deferred income tax at 31 May relates to the following:

Group and Company	2009 £	2008 £
Deferred income tax liability		
Temporary differences on acquisition intangibles	**(262,555)**	(273,929)
Deferred income tax asset		
Temporary differences on accelerated capital allowances	**(62,806)**	(68,518)
Temporary differences on share based payments	**190,611**	234,846
	127,805	166,328
Deferred tax (liabilities)/assets net	**(134,750)**	(107,601)
Reflected in the balance sheet as follows:		
Deferred tax assets	**127,805**	166,328
Deferred tax liabilities	**(262,555)**	(273,929)
Deferred tax (liabilities)/assets net	**(134,750)**	(107,601)

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2008 or 2009.

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

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

The recognition of deferred tax in the income statement arises from the origination and the reversal of temporary differences and the effects of changes in tax rates. The primary component of deferred tax credit for the year ended 31 May 2009 is related to temporary differences arising on share-based payments to employees, based on the market value of the Company's ordinary shares at 31 May 2009.

Total deferred tax derecognised directly in equity was £31,968 for the year ended 31 May 2009 (2008: £65,114 recognised).

12. Earnings per ordinary share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2009 £	2008 £
Net profit and diluted net profit attributable to equity holders of the Company	**2,722,258**	2,465,239
Weighted average number of ordinary shares:	**Thousands**	Thousands
Issued ordinary shares at start period	**17,216**	17,216
Effect of shares issued during the year	**52**	34
Basic weighted average number of shares	**17,268**	17,250
Dilutive potential ordinary shares:		
– Employee share options	**–**	–
Diluted weighted average number of shares	**17,268**	17,250

The Company has granted options under the Share Option Plan and Consultants' Share Option Plan to certain of its senior managers and directors to acquire (in aggregate) up to 8.02% of its issued share capital (see Note 18). Under IAS 33 Earnings Per Share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions (the events triggering the vesting of the option) are satisfied. At 31 May 2009 the conditions are not satisfied. If the conditions had been satisfied, diluted earnings per share would have been 14.59p per share (2008: 13.28p).

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

13. Dividends paid and proposed

	2009 £	2008 £
Declared and paid during the year:		
Equity dividends on ordinary shares:		
– Final dividend for 2008: 2.00p (2007: 1.70p)	**344,788**	292,670
– Interim dividend for 2009: 1.15p (2008: 1.00p)	**198,510**	172,180
Dividends paid	**543,298**	464,850
Proposed for approval by shareholders at the AGM:		
Final dividend for 2009: 2.75p (2008: 2.00p)	**475,890**	344,788

14. Property, plant and equipment

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

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

The figures above include assets held under finance leases and hire purchase contracts as follows:

Group and Company Carrying amount	Motor vehicles £
At 31 May 2009	**–**
At 31 May 2008	29,779
Depreciation provided in the year	7,445

15. Intangible assets

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

Software

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

Client portfolios

Client portfolios represent individual client portfolios acquired through business combinations. Client portfolios are amortised on a straight-line basis over an estimated useful life of 25 years, based on the Group's historic experience.

Goodwill

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

16. Investments

At 1 June 2008 and 31 May 2009	Group £	Company £
Investments in subsidiaries	–	41,667
Other investments	15	15
	15	41,682

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

Subsidiary undertakings	Holding	Proportion of voting rights and shares held	Nature of business
GB Pension Trustees Limited	Ordinary shares	100%	Trustee company
Great Marlborough Street Pension Trustees Limited	Ordinary shares	100%	Trustee company
MW Trustees Limited	Ordinary shares	100%	Trustee company
SLT Trustees Limited	Ordinary shares	100%	Trustee company
Professional Independent Pension Trustees Limited	Ordinary shares	100%	Trustee company
Pension Consulting Limited (trade and assets transferred to the Company on 30 November 2007)	Ordinary shares	100%	Dormant
PC Trustees Limited (held by Pension Consulting Limited)	Ordinary shares	100%	Trustee company
Bank Street Trustees Limited	Ordinary shares	100%	Trustee company
JB Trustees Limited	Ordinary shares	100%	Trustee company
John Bradley Financial Services Limited	Ordinary shares	100%	Dormant
Polaris Pensions Limited	Ordinary shares	100%	Dormant
Polaris Financial Services Limited	Ordinary shares	100%	Dormant
North Star Pensions Limited (formerly Cobco 873 Limited)	Ordinary shares	100%	Dormant

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

16. Investments (continued)

Other Investments

On 1 October 2007, Mattioli Woods subscribed £15 for 15% of the issued share capital of Mainsforth Developments Limited ("Mainsforth"), a company incorporated in England and Wales with its principal activity being the development and selling of real estate. On the same date, Mainsforth entered into two conditional sales agreements ("CSAs") to acquire freehold land.

The first CSA gives Mainsforth the right to acquire certain freehold land ("Land A") with vacant possession for a purchase consideration of £1.0m.

The second CSA gives Mainsforth the right to acquire other freehold land adjacent to Land A ("Land B") with vacant possession for a purchase consideration of £2.8m, subject to an upwards and downwards adjustment if the consideration (the "Development Consideration") payable to Mainsforth on the sale of Land A and Land B (together "the Development Land") is greater or less than £10.0m, subject to the condition that the consideration payable for Land B shall not be reduced below £2.2m.

The effective date of the agreements will be the date on which planning approval is granted for the development of the Development Land as a mixed use scheme where residential property comprises at least 50% of the built area. Any consideration payable by Mainsforth under the CSAs only becomes payable on completion of its sale of the Development Land. If planning approval has not been obtained by 1 December 2010 the agreements will lapse, although the termination dates may be extended to 1 December 2011 if certain conditions are fulfilled.

17. Impairment of goodwill and intangibles with indefinite lives

Goodwill arising on acquisitions has been allocated to three cash generating units for impairment testing, as follows:

	Carrying amount of goodwill	
Group and Company	**2009 £**	2008 £
The Partnership portfolio	**2,347,130**	2,347,130
The PCL portfolio	**1,034,807**	1,050,807
The JB Group direct portfolio	**1,152,181**	1,190,931
	4,534,118	4,588,868

Intangible assets believed to have an indefinite useful life are carried at cost. The recoverable amount of the goodwill arising on the acquired portfolios is based on a fair value less costs to sell calculation, using a bid price estimated from the transactions as there have been no significant changes in economic circumstances in the intervening periods. This accounting treatment resulted in an impairment loss of £nil (2008: £nil).

18. Share based payments

Share Option Plan

The Company operates the Share Option Plan by which certain of the executive directors and other senior executives are able to subscribe for 875,000 ordinary shares in the Company. The exercise price of the options is £1.32, equal to the placing price of the shares issued on 15 November 2005. The options vest if and when profit-based performance conditions between 1 June 2005 and 31 May 2011 are fulfilled. A failure to meet these performance conditions causes the options to lapse. The contractual life of each option once granted expires on 31 May 2015.

Consultants' Share Option Plan

The Company also operates the Consultants' Share Option Plan by which certain senior executives are able to subscribe for ordinary shares in the Company. Options granted under the Consultants' Share Option Plan are summarised as follows:

Date of grant	Exercise price £	At 1 June 2008 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	**At 31 May 2009 No.**
5 September 2006	2.21	255,684	–	–	–	**255,684**
4 September 2007	2.79	255,684	–	–	–	**255,684**
		511,368	–	–	–	**511,368**

The exercise price of the options is equal to the market price of the shares at the close of business on the day immediately preceding the date of grant. The options vest if and when the option holder achieves certain individual performance hurdles. If these performance hurdles, which are linked to individual sales revenues, are not met over the five financial years commencing on 1 June before the date of grant, the options lapse.

18. Share based payments (continued)

Summary of share options

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

	2009 No.	2009 WAEP £	2008 No.	2008 WAEP £
Outstanding as at 1 June	**1,386,368**	**1.76**	1,130,684	1.52
Granted during the year	**–**	**–**	255,684	2.79
Forfeited during the year	**–**	**–**	–	–
Exercised	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Outstanding at 31 May	**1,386,368**	**1.76**	1,386,368	1.76
Exercisable at 31 May	**–**	**–**	–	–

For the share options outstanding as at 31 May 2009, the weighted average remaining contractual life is 6.9 years (2008: 7.9 years). The weighted average fair value of options granted during the year was £nil (2008: £0.70). The WAEP for options outstanding at the end of the year was £1.76 (2008: £1.76).

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black Scholes Merton model, taking into account the terms and conditions upon which the options were granted. The share price at date of grant for options issued under the Share Option Plan and Consultants' Share Option Plan is based on the market value of the shares on that date as agreed by HM Revenue & Customs. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grant were incorporated into the measurement of fair value.

The share price at 31 May 2009 and movements during the year are set out in the Directors' Remuneration Report.

Share Incentive Plan

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

A total of 69,615 new ordinary shares were issued to the 76 employees who participated in the SIP during the year. At 31 May 2009, 68,515 shares were held in the SIP on their behalf.

Share based payments expense

The expense for share based payments made in respect of employee services under the Share Option Plan and the Consultants' Share Option Plan are recognised over their expected vesting periods. The expense recognised during the year ended 31 May 2009 is £116,067 (2008: £104,659), which entirely arises from equity-settled share based payment transactions.

The expense for share based payments in respect of "Matching shares" issued under the SIP is recognised in the period the shares are granted to the participating employee (see Note 22). The expense recognised during the year ended 31 May 2009 is £83,838 (2008: £nil), which entirely arises from equity-settled share based payment transactions.

19. Trade and other receivables (current)

	Group		Company	
	2009 £	2008 £	**2009 £**	2008 £
Trade receivables	**2,563,587**	2,455,739	**2,563,587**	2,455,739
Other receivables	**47,860**	59,048	**47,493**	58,681
Prepayments and accrued income	**2,409,633**	2,175,151	**2,409,633**	2,175,151
	5,021,080	4,689,938	**5,020,713**	4,689,571

Trade receivables are non-interest bearing and are generally on 30-90 days' terms. As at 31 May 2009, trade receivables at nominal value of £301,899 (2008: £217,345) were impaired and fully provided for.

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

	Group		Company	
	2009 £	2008 £	**2009 £**	2008 £
As at 1 June	**217,345**	158,801	**217,345**	158,801
Charge for year	**84,554**	155	**84,554**	–
Acquired on acquisition	**–**	58,389	**–**	58,544
At 31 May	**301,899**	217,345	**301,899**	217,345

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

	Total £	Neither past due nor impaired £	Past due but not impaired < 30 days £	30-60 days £	60-90 days £	>90 days £
2009	**2,563,587**	**910,795**	**714,262**	**306,770**	**180,408**	**451,352**
2008	2,455,739	924,056	785,604	178,970	213,395	353,714

20. Financial assets (current)

Financial assets (current) for the Group and Company of £120,392 (2008: £529,242) represent unsecured short-term loans made by the Company to certain property syndicates to facilitate their purchase of commercial property. These loans generally accrue interest at rates of between 1% and 3% above the Bank of England's base rate.

21. Cash and short-term deposits

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

	Group		Company	
	2009 £	2008 £	**2009 £**	2008 £
Cash at banks and on hand	**3,808,179**	2,537,894	**3,804,379**	2,534,094
Short-term deposits	**1,000,000**	–	**1,000,000**	–
	4,808,179	2,537,894	**4,804,379**	2,534,094
Bank overdrafts	**–**	–	**–**	–
	4,808,179	2,537,894	**4,804,379**	2,534,094

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is £4,808,179 (2008: £2,537,894).

At 31 May 2009, the Group had available £3,000,000 (2008: £5,250,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

22. Issued capital and reserves

Share capital	Ordinary shares of 1p	Ordinary shares of 1p £
Authorised		
At 1 June 2008 and 31 May 2009	30,000,000	300,000
Issued and fully paid		
At 1 June 2007 and 31 May 2008	17,215,910	172,159
Partnership shares issued under the SIP	34,604	346
Matching shares issued under the SIP	34,604	346
Dividend shares issued under the SIP	407	4
At 31 May 2009	**17,285,525**	**172,855**

Rights, preferences and restrictions on shares

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

Share option schemes and share incentive plan

The Company has two share option schemes under which options to subscribe for the Company's shares have been granted to certain executives and senior employees (Note 18).

The Company also introduced a share incentive plan in July 2008. Participants in the SIP are entitled to purchase up to a prescribed number of new ordinary shares in the Company of 1p each at the end of each month ("Partnership shares"). At the Directors' discretion, the Company may also award additional shares ("Matching shares") to participants in the SIP. Ordinary shares issued under the SIP rank pari passu with existing issued ordinary shares of the Company. Dividends paid on shares held within the SIP are used to buy new ordinary shares in the Company of 1p each ("Dividend shares").

Other reserves

Group	Equity-share based payments £	Share premium account £	Capital redemption reserve £	Retained earnings £
1 June 2007	202,469	5,601,458	2,000,000	3,880,814
Share based payments	104,659	–	–	–
Deferred tax asset taken to equity	65,114	–	–	–
Profit for the financial year	–	–	–	2,465,239
Dividends	–	–	–	(464,850)
At 31 May 2008	372,242	5,601,458	2,000,000	5,881,203
Share based payments	116,067	–	–	–
Shares issued under Share Incentive Plan	–	167,691	–	–
Deferred tax asset taken to equity	(31,968)	–	–	–
Profit for the financial year	–	–	–	2,722,258
Dividends	–	–	–	(543,298)
At 31 May 2009	**456,341**	**5,769,149**	**2,000,000**	**8,060,163**

22. Issued capital and reserves (continued)

Company	Equity-share based payments £	Share premium account £	Capital redemption reserve £	Retained earnings £
At 1 June 2007	202,469	5,601,458	2,000,000	3,880,814
Share based payments	104,659	–	–	–
Deferred tax asset taken to equity	65,114	–	–	–
Profit for the financial year	–	–	–	2,466,315
Dividends	–	–	–	(464,850)
At 31 May 2008	372,242	5,601,458	2,000,000	5,882,279
Share based payments	116,067	–	–	–
Shares issued under Share Incentive Plan	–	167,691	–	–
Deferred tax asset taken to equity	(31,968)	–	–	–
Profit for the financial year	–	–	–	2,722,258
Dividends	–	–	–	(543,298)
At 31 May 2009	**456,341**	**5,769,149**	**2,000,000**	**8,061,239**

23. Summary statement of changes in equity

	Group		Company	
	2009 £	2008 £	**2009 £**	2008 £
Profit for the year	**2,722,258**	2,465,239	**2,722,258**	2,466,315
Dividends paid	**(543,298)**	(464,850)	**(543,298)**	(464,850)
Net proceeds of share issue	**84,549**	–	**84,549**	–
Share based payments	**199,905**	104,659	**199,905**	104,659
Deferred tax asset taken to equity	**(31,968)**	65,114	**(31,968)**	65,114
Net addition to equity	**2,431,446**	2,170,162	**2,431,446**	2,171,238
Opening equity attributable to equity holders of the parent	**14,027,062**	11,856,900	**14,028,138**	11,856,900
Closing equity attributable to equity holders of the parent	**16,458,508**	14,027,062	**16,459,584**	14,028,138

24. Trade and other payables

	Group		Company	
Trade and other payables (current)	**2009 £**	2008 £	**2009 £**	2008 £
Trade payables	**141,695**	70,629	**141,695**	70,629
Other taxation and social security	**279,028**	265,033	**279,028**	265,033
Other payables	**11,784**	14,974	**48,208**	51,398
Accruals and deferred income	**2,112,547**	2,053,595	**2,112,547**	2,053,595
Deferred consideration	**265,500**	452,000	**265,500**	452,000
	2,810,554	2,856,231	**2,846,978**	2,892,655

Other payables include Directors' loans of £6,820 (2008: £8,909). For terms and conditions relating to related party loans, refer to Note 32. Terms and conditions of the other financial liabilities set out above are as follows:

- Trade payables are non-interest bearing and are normally settled on 30-day terms;
- Other taxation and social security become interest bearing if paid late and are settled on terms of one or three months;
- Accruals and deferred income are non-interest bearing and are normally settled monthly throughout the financial year; and
- Deferred consideration is settled as set out in the terms of the acquisition agreement (see Notes 3 and 26).

	Group		Company	
Trade and other payables (non-current)	**2009 £**	2008 £	**2009 £**	2008 £
Deferred consideration	**100,000**	365,500	**100,000**	365,500
	100,000	365,500	**100,000**	365,500

25. Interest-bearing loans and borrowings

Group and Company	Effective interest rate %	Maturity	2009 £	2008 £
Current				
Obligations under finance leases and hire purchase contracts (Note 30)	4.40%	2008-2009	**–**	18,212
Bank overdrafts	Base rate + 1.25%	On demand	**–**	–
			–	18,212
Non-current				
Obligations under finance leases and hire purchase contracts (Note 30)	3.91%	2009-2010	**–**	10,030
			–	10,030

The Company's bank overdrafts are secured by a floating charge over the Group's assets.

26. Provisions

Group and Company	Client claims £	Contingent consideration £	Dilapidations £	Onerous contracts £	Clawbacks £	Employees' NIC on share options £	Total £
At 1 June 2008	115,500	98,304	50,000	–	12,674	–	276,478
Acquisitions (Note 3)	–	350,000	–	–	–	–	350,000
Arising during the year	–	–	39,000	31,000	–	–	70,000
Unused amounts reversed	–	(39,674)	–	–	–	–	(39,674)
At 31 May 2008	115,500	408,630	89,000	31,000	12,674	–	656,804
Arising during the year	20,000	–	–	–	16,252	31,487	67,739
Used during the year	–	(50,543)	–	(17,000)	–	–	(67,543)
Unused amounts reversed	–	(75,275)	–	–	–	–	(75,275)
At 31 May 2009	**135,500**	**282,812**	**89,000**	**14,000**	**28,926**	**31,487**	**581,725**
Current 2008	115,500	155,304	–	20,000	12,674	–	303,478
Non-current 2008	–	253,326	89,000	11,000	–	–	353,326
	115,500	408,630	89,000	31,000	12,674	–	656,804
Current 2009	**135,500**	**160,700**	**–**	**14,000**	**28,926**	**–**	**339,126**
Non-current 2009	**–**	**122,112**	**89,000**	**–**	**–**	**31,487**	**242,599**
	135,500	**282,812**	**89,000**	**14,000**	**28,926**	**31,487**	**581,725**

Client claims

A provision is recognised for the excess on the Group's professional indemnity insurance when the Group becomes aware of a possible client claim.

26. Provisions (continued)

Contingent consideration

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. Details of these agreements and the basis of calculation of the net present value of the contingent consideration is summarised below. The Group estimates the net present value of contingent consideration payable within the next 12 months is £160,700 (2008: £155,304).

On 20 June 2005, the Group acquired the client portfolio of Geoffrey Bernstein, a small practice providing professional trusteeship in London and the Home Counties. The total cost for the purchase of business was a cash consideration of £379,987 paid on completion, plus legal fees of £3,804.

In addition, the acquisition agreement provides for contingent consideration to be paid based on an amount equal to 20% of all investment commissions paid to the Group by contracts entered into by the Group during the five years from 20 June 2005. The contingent consideration is payable at 12-monthly intervals following completion of the acquisition. Whilst it is not possible to determine the exact amount of the contingent consideration (as this will depend on commission earned on contracts), the Group estimates the net present value of the earn-out to be £2,812 using cash flow projections approved by the Board covering the contingent consideration period. The discount rate applied to the cash flow projections is 0.5%. The actual consideration payable is expected to be £60,000 less than originally estimated and hence £60,000 of the provision was released during the period.

On 9 July 2007 the Group acquired the entire issued share capital of PCL for an initial consideration of £1,525,000. The acquisition agreement also provides for £240,000 of deferred consideration to be paid in the two years following completion (see Note 24), with a further payment being contingent upon the retention of acquired schemes during the two years following completion. Whilst it is not possible to determine the exact amount of contingent consideration (as this depends on the retention of acquired schemes), the Group estimates the net present value of the contingent consideration at 31 May 2009 to be £80,000.

On 18 February 2008 the Group acquired the trade and assets of the JB Group for an initial consideration of £1,245,000. The acquisition agreement also provides for deferred consideration of £640,000 (see Note 24) plus up to £700,000 of contingent consideration to be paid subject to certain revenue and client retention targets being met during the three years following completion. Whilst it is not possible to determine the exact amount of contingent consideration (as this will depend on revenues earned and client retention during the period), the Group estimates the net present value of the contingent consideration to be £200,000, using cashflow projections approved by the Board covering the contingent consideration period. The discount rate applied to the cashflow projections is 2.0%.

Dilapidations

Under the terms of the lease for the Group's premises at MW House, Grove Park, Enderby, the Group has an obligation to return the property in a specified condition at the end of the lease term in 2025. The Group estimates the net present value of the cost of dilapidations on MW House to be £50,000. The discount rate applied to the cash flow projections is 5.0%.

In February 2008 the Group entered into an agreement to lease additional premises at The Gateway, Grove Park, Enderby. The Group has an obligation to return the property in a specified condition at the end of the lease term in 2018. The Group estimates the net present value of the cost of dilapidations on The Gateway to be £35,000. The discount rate applied to the cash cashflow projections is 5.0%.

As part of the Group's acquisition of the JB Group, it was assigned the lease to premises at St John's, Lutterworth. The Group has an obligation to return the property in a specified condition when it breaks the lease term in 2010. The Group estimates the net present value of the cost of dilapidations at St John's to be £4,000.

Onerous contracts

The St John's property in Lutterworth is currently vacant. As a result, the unavoidable costs of meeting the Group's obligations under the lease exceed the expected benefits. The Group estimates the net present value of the cost of exiting the lease at the earliest permissible date is £14,000.

Clawbacks

The Group receives some initial commission on indemnity terms and hence the Group provides for the expected level of clawback, based on past experience. The provision for commission clawbacks as at 31 May 2009 was £28,926. No discount rate is applied to the projected cash flows due to their short term nature.

27. Commitments and contingences

Operating lease agreements – Group as lessee

The Group has entered into two commercial leases for its premises at Grove Park, Enderby. The lease for the Head Office, MW House, has a duration of 20 years, from 10 June 2005. The amount of annual rental is to be reviewed at three-yearly intervals, commencing 10 June 2008.

The lease for part of the ground floor of The Gateway (an office building adjacent to MW House) has a duration of 10 years, from 1 February 2008. The amount of annual rental is to be reviewed at the end of the fifth year.

As part of the acquisition of the JB Group, the Group acquired operating lease obligations including:

- A five year lease for office premises at St John's Business Park, Lutterworth from January 2007;
- Two five year leases for office equipment commencing August 2005 and January 2007; and
- A three year lease for office equipment commencing January 2007.

There are no restrictions placed upon the Group by entering into these leases. Future minimum rentals payable under non-cancellable operating leases as at 31 May are as follows:

	Office equipment		Land and buildings	
Group and Company	**2009 £**	2008 £	**2009 £**	2008 £
Not later than one year	**6,411**	12,371	**282,600**	264,600
After one year but not more than five years	**4,767**	11,178	**1,079,650**	1,028,650
More than five years	**–**	–	**2,329,500**	2,375,100
	11,178	23,549	**3,691,750**	3,668,350

Finance lease and hire purchase commitments

As at 1 June 2008, the Group had finance leases and hire purchase contracts for various motor vehicles. These leases had terms of renewal but no purchase options and escalation clauses. Renewals were at the option of the Directors. During the year, the Group settled these by paying a lump sum equivalent to the future minimum lease payments under the agreements.

	2009 Minimum payments £	**2009 Present value of payments (Note 25) £**	2008 Minimum payments £	2008 Present value of payments (Note 25) £
Within one year	–	–	19,013	18,212
After one year but not more than five years	–	–	10,912	10,030
Total minimum lease payments	–	–	29,925	28,242
Less amounts representing finance charges	–	–	(1,683)	–
Present value of minimum lease payments	–	–	28,242	28,242

Capital commitments

At 31 May 2009 the Group had no capital commitments (2008: £nil).

28. Pension costs

The Group makes discretionary payments into the personal pension schemes of employees and contributions are charged in the profit and loss account as they become payable. The charge for the period was £134,009 (2008: £153,492).

29. Related party disclosures

Ian Mattioli, Robert Woods and the private pension schemes of Ian Mattioli, Robert Woods, Nathan Imlach and Murray Smith, together with the private pension schemes of certain other employees of the Group, have a beneficial interest in MW Properties (No 16) Limited and MW Properties (No 60) Limited. The Group leases its premises at MW House, Grove Park, Enderby from MW Properties (No 16) Limited and paid rentals of £186,000 during the year. At the year end the Group had prepaid future rentals of £11,721.

The Group leases its premises at Gateway House, Grove Park, Enderby from MW Properties (No 60) Limited and paid rentals of £75,600 during the year. At the year end the Group had prepaid future rentals of £4,764.

Key management personnel receive compensation in the form of short-term employee benefits and equity compensation benefits (see Note 10). Key management personnel, representing the executive directors and four (2008: five) other executives, received total compensation of £1,922,167 for the year ended 31 May 2009 (2008: £1,766,104). Total remuneration is included in "employee benefits expense" and analysed as follows:

	2009 £	2008 £
Short-term employee benefits	**1,799,167**	1,656,878
Post-employment benefits	**86,400**	72,624
Share-based payments	**36,600**	36,600
	1,922,167	1,766,102

At 31 May 2009, Ian Mattioli was owed £6,781 (2008: £6,481) and Robert Woods was owed £39 (2008: £2,428) by the Group. These Directors' loans carry no coupon and have no fixed repayment date.

30. Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans and overdrafts, trade payables and loans given. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets, such as trade receivables and cash and short-term deposits, which arise directly from its operations.

Throughout 2008 and 2009, the Group's policy was that no trading in derivatives would be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's cash and short-term deposits with floating interest rates.

The Group's policy is to manage its interest income using a mix of fixed and variable rate deposits. The Group's policy is to secure competitive rates of interest whilst maintaining sufficient funds available for it to pursue new business opportunities.

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate deposits). There is no impact on the Group's equity.

	Increase/decrease in basis points	Effect on profit before tax £
2009		
£ Sterling	+10	2,998
£ Sterling	-10	(2,998)
2008		
£ Sterling	+10	3,708
£ Sterling	-10	(3,708)

31. Financial risk management objectives and policies (continued)

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and property syndicate loans, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and leases. The table below summarises the maturity profile of the Group's financial liabilities at 31 May 2008 and 2009 based on contractual undiscounted payments:

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

Year ended 31 May 2008	On demand £	Less than 3 months £	3 to 12 months £	1 to 5 years £	> 5 years £	Total £
Interest bearing loans and borrowings	–	–	–	–	–	–
Trade and other payables	–	2,556,231	300,000	–	–	2,856,231
	–	2,556,231	300,000	–	–	2,856,231

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages the capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, calculated as net debt divided by capital. The Group includes within net debt interest bearing loans and borrowings, trade and other payables less cash and cash equivalents. Capital comprises all components of equity (i.e. share capital, share based payments, share premium, retained earnings and other reserves).

The Company's operations are authorised and regulated by the Financial Services Authority ("FSA"). Under the FSA's financial resource requirements for personal investment firms as set out in The Interim Prudential Sourcebook for Investment Business ("IPRU(INV)"), the Company is categorised as a Category B2 Personal Investment Firm. As such, the Company is required to maintain own funds of at least £10,000 (2008: £10,000) at all times.

In addition, as part of the FSA's concessions in relation to the excess on professional indemnity insurance policies maintained by regulated firms, the Company must maintain a further £68,040 (2008: £103,000) of own funds at all times.

The Company is also authorised by the FSA to establish and operate personal pensions schemes, including SIPPs. The Company's scope of permissions allows the Company to control, but not hold, client money, which results in additional financial resource requirements. In addition to the obligation to maintain £78,040 (2008: £113,000) of own funds at all times, the Company is subject to the following additional financial resource requirements:

(a) To have at all times adjusted net current assets of at least £1; and

(b) To have financial resources the higher of:

- 6/52 of its relevant annual expenditure, calculated in accordance with IPRU(INV);
- An amount equal to £400 multiplied by the number of its advisers; and
- £10,000.

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

32. Financial risk management objectives and policies (continued)

The Group policy, which remains unchanged from the year ended 31 May 2008, is to maintain a gearing ratio of less than 50%, to allow the Group to secure access to additional finance at a reasonable cost by maintaining a level of debt capacity which will enable the Group to pursue new business opportunities as they arise. Gearing ratios as at 31 May 2008 and 2009 were as follows:

Gearing	2009 £	2008 £
Trade and other payables	**2,910,554**	3,221,731
less: Cash and short-term deposits	**(4,808,179)**	(2,537,894)
Net (cash)/debt	**(1,897,625)**	683,837
Share capital	**172,855**	172,159
Share premium	**5,769,149**	5,601,458
Fair value and other reserves	**2,456,341**	2,372,242
Retained earnings:		
– At 1 June	**5,881,203**	3,880,814
– Retained earnings for period	**2,178,960**	2,000,389
Capital	**16,458,508**	14,027,062
Gearing ratio:		
Net debt/capital	**(11.5)%**	4.9%

33. Financial instruments

Fair values

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

Interest rate risk

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

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

Year ended 31 May 2008	< 1 year £	1-2 years £	2-3 years £	3-4 years £	4-5 years £	> 5 years £	Total £
Floating rate							
Financial assets (current)	529,242	–	–	–	–	–	529,242
Cash assets	2,537,894	–	–	–	–	–	2,537,894
Bank overdrafts	–	–	–	–	–	–	–

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

Credit risk

The only significant concentrations of credit risk within the Group relates to the Group's bank deposits and exposure to credit risk arising from default of the counterparty. The maximum exposure is equal to the carrying amount of these deposits. At 31 May 2009, the Group's bank deposits were held with Royal Bank of Scotland plc, Lloyds TSB Bank plc and Bank of Scotland plc.

34. Events after the balance sheet date

Fixed Term Deposits

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

The Group and Bank of Scotland plc may agree any number of separate fixed term deposits subject to minimum and maximum periods of three months and 12 months respectively. If during the term of a fixed term deposit the aggregate of client deposits held under the Group's "branch" arrangement with Bank of Scotland plc falls below the aggregate of all unexpired fixed term deposits, the Group is obliged to pay Bank of Scotland plc breakage costs of £250 per day for each unexpired fixed term deposit left uncovered.

35. Ultimate controlling party

The Company has no controlling party.

Company information

Directors:
Robert Woods Executive Chairman
Ian Mattioli Chief Executive
Nathan Imlach Finance Director
Murray Smith Marketing and Sales Director
Mark Smith Operations Director
John Redpath Non-Executive Director
Michael Kershaw Non-Executive Director

Company secretary:
Nathan Imlach

Registered office:
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LE19 1SY

Registered number:
3140521

Nominated adviser and broker:
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LS1 2HH

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

Solicitors:
Cobbetts LLP
1 Whitehall Riverside
Leeds
LS1 4BN

Principal bankers:
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LE1 3GR

Lloyds TSB plc
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Meridian Business Park
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Registrars:
Capita Registrars
Northern House
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Huddersfield
HD8 0GA

Financial calendar

8 September	Preliminary announcement of results for the year ended 31 May 2009
16 September	Ex-dividend date for ordinary shares
18 September	Record date for final dividend
22 October	Annual General Meeting
23 October	Payment of final dividend on ordinary shares

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