

31 January 2012

**Mattioli Woods plc**

(“Mattioli Woods” or “the Group”)

**Interim Results**

Mattioli Woods plc (AIM: MTW.L), the specialist pensions consultancy and wealth management business, today reports its Interim Results for the six months ended 30 November 2011.

**Highlights**

- Revenue up 17.0% to £8.69m (1H11: £7.43m)
- Adjusted profit before tax<sup>1</sup> down 17.4% to £2.00m (1H11: £2.42m)
- Adjusted EPS<sup>12</sup> down 18.7% to 8.57p (1H11: 10.54p)
- Interim dividend up 12.1% to 1.85p (1H11: 1.65p)
- Assets under administration and advice up 28.8% to £2.86bn (1H11: £2.22bn)
- Acquisition of Kudos in August 2011 and integration progressing well
- Custodian Capital launched in October 2011
- Strong balance sheet with net cash at period end of £3.36m (1H11: £1.75m)

**Commenting on the Interim Results, Bob Woods, Executive Chairman, said:**

“I am pleased to report further progress in the development of the Group, with the recent Kudos acquisition bedding-in well.

“Although revenues were up during the period, adjusted profit before tax fell. We had anticipated a contraction in margin as we invest in the business to secure continued growth, which was coupled with a slowdown in investment activity in the first half. Our response to the Eurozone crisis has been to keep clients informed and recommend the maintenance of defensive positions. While uncertainties over

<sup>1</sup> Before acquisition costs expensed under IFRS3 (Revised), amortisation and impairment of intangible assets other than computer software.

<sup>2</sup> Basic EPS down 36.3% to 5.61p (1H11: 8.80p).

Europe persist, we expect to see increased activity in the second half of this financial year as we advise on the repositioning of clients' retirement and investment strategies.

"We are awaiting permission from the FSA to launch our new discretionary portfolio management service ("DPM"), which will provide a lower cost and more efficient investment process for certain clients, while enhancing our recurring revenue streams.

"I am also pleased to announce the payment of an increased interim dividend, up 12.1% to 1.85 pence (1H11: 1.65 pence) per ordinary share. We remain committed to growing the dividend sensibly, whilst maintaining an appropriate level of dividend cover."

**Ian Mattioli, Chief Executive, said:**

"Our total assets under administration and advice were up 28.8% to £2.86bn at the period end (1H11: £2.22bn), with the total number of SIPP and SSAS schemes serviced by the Group up 4.1% to 4,525 (1H11: 4,348).

"Kudos has proven to be an excellent cultural fit and represents an exciting step forward in the development of the Group as a broader wealth management business.

"Our updated brand has been well received and we are starting to see our investment in this and other marketing initiatives bear fruit, with the launch of DPM set to significantly enhance our wealth management proposition. I anticipate we will see increased activity during the remainder of this financial year. If this proves to be the case, I believe we can maintain our record of revenue and profit growth for the full year."

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**Analyst presentation**

There will be an analyst presentation to discuss the results at 9.30am today at Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB.

Those analysts wishing to attend are asked to contact Jack Hickey at FTI Consulting on +44 20 7269 7196 or at [jack.hickey@fticonsulting.com](mailto:jack.hickey@fticonsulting.com).

## Interim statement

We are pleased to report further progress in accelerating growth through the development of additional services complementary to our core business. Revenues in the six months ended 30 November 2011 were up 17.0% to £8.69m (1H11: £7.43m), with the acquisition of Kudos Independent Financial Services Limited (“Kudos”) in August 2011 adding revenues of £1.18m during the period.

We have, however, seen an anticipated contraction in margin as we invest to secure continued growth. This margin compression in the first half was exacerbated by the on-going uncertainty caused by the Eurozone crisis. Our response to the nervousness caused by these challenging investment conditions was to keep clients informed and recommend the maintenance of defensive positions. This resulted in a deferral of investment activity, with adjusted earnings per share<sup>3</sup> being down 18.7% to 8.57p (1H11: 10.54p) for the period. While uncertainties over Europe persist, there are indications of some signs of improvement in the economic environment. As a result, we expect to see increased activity in the second half of this financial year as we advise on the repositioning of clients’ retirement and investment strategies.

Total assets under administration and advice were up 28.8% to £2.86bn at the period end (1H11: £2.22bn), with the total number of self-invested personal pension (“SIPP”) and small self-administered pension schemes (“SSAS”) serviced by the Group up 4.1% to 4,525 (1H11: 4,348), including those schemes advised by Kudos.

The number of direct<sup>4</sup> SIPP and SSAS schemes won in the period increased to 146 (1H11: 121). We have a strong enquiry pipeline and our focus remains on the quality of new business, with the average new scheme being in excess of £0.30m. We continue to enjoy strong client retention, with an external loss rate<sup>5</sup> of 2.7% (1H11: 2.6%) and the overall attrition rate<sup>6</sup> increasing to 3.4% (1H11: 3.0%), partly as a result of recent acquisitions.

Our recent rebranding as a pension consultancy and wealth manager has been well received by our clients and network of professional referrers, positioning us to broaden our range of services and deliver these to a wider audience. We are awaiting permission from the Financial Services Authority (“FSA”) to launch our new discretionary portfolio management service (“DPM”), which will provide a lower cost and more efficient investment process for certain clients, while enhancing our recurring revenue streams. We hope to receive this permission sometime over the next three months.

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<sup>3</sup> Before acquisition costs expensed under IFRS3 (Revised), amortisation and impairment of intangible assets other than computer software.

<sup>4</sup> SIPP and SSAS schemes where Mattioli Woods acts as pension consultant and administrator.

<sup>5</sup> Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the period.

<sup>6</sup> Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period.

## Assets under administration and advice

Total assets under administration and advice are analysed as follows:

	30 Nov 2011 £m	30 Nov 2010 £m	31 May 2011 £m
SSAS	1,196.8	1,175.4	1,221.7
SIPP	912.6	853.8	888.6
Total SSAS and SIPP assets	2,109.4	2,029.2	2,110.3
Employee benefits	482.9	157.0	149.9
Personal assets	266.6	37.2	44.2
Assets under administration and advice <sup>7</sup>	2,858.9	2,223.4	2,304.4

While the majority of these assets comprise pension wealth, we anticipate significant growth in personal investment planning following the launch of our DPM service.

## Market overview

It would be naïve to suggest the on-going Eurozone crisis will not affect investment appetite. We believe people are worried about their financial futures and this concern manifests itself in a number of ways: from a more cautious approach to business, to seeking ever-better value and adopting more defensive investment positions.

The stresses the financial services industry is experiencing are expected to bring about significant change. The FSA's retail distribution review ("RDR") is widely predicted to reduce the number of independent advisers and will change the nature of adviser remuneration from a commission-based model to a fee-based model, which sits well with an increasingly sophisticated investor community.

At the same time, against a backdrop of enduring economic weakness and low investment returns, we expect investors to focus increasingly on total expense ratios ("TERs").

As a primarily advisory business, we anticipate all of these shifts will bring new opportunities to the Group.

## Regulation

The RDR is less than a year away from its implementation on 1 January 2013. The FSA has published a number of papers clarifying some of the more detailed rules during the period, with further papers due over the coming months. We believe we are well placed to benefit from the changes RDR will bring. Our predominantly fee-based model and the development of our in-house investment research team

<sup>7</sup> Note certain scheme assets, including clients' own commercial properties, are only subject to a statutory valuation at a benefit crystallisation event.

over the last few years endorses some of the key principles and puts us in a strong position for the transition.

Our consultancy team is well on the way to obtaining the new level of qualifications required and remain committed to the business going forward.

The FSA has shown an increasing focus on the SIPP market, having undertaken a detailed review of small SIPP providers. An update on this review is expected in the coming months, highlighting any concerns the FSA has. In the meantime, we are pleased to have received very positive feedback from the FSA as a result of our participation in this review.

The FSA is also scheduled to publish further consultation on the capital resources requirements for SIPP providers. Increasing regulatory pressure is expected to lead other SIPP providers to revisit their business models and charging structures, ultimately leading to further consolidation in the SIPP market.

### **Strategy and acquisitions**

We plan to continue expanding Mattioli Woods' operations, both organically and by acquisition. The Kudos acquisition is bedding-in well, with an increasing flow of new enquiries being generated from our joint marketing initiatives. Kudos has proven to be an excellent cultural fit and represents an exciting step forward in the development of the Group as a broader wealth management business. Kudos strengthens our employee benefits capabilities and in addition to extending our reach geographically, provides a new distribution channel for Mattioli Woods' services. The acquisition is on track to be earnings enhancing in this current financial year.

### **Trading results**

Robust demand for direct pension consultancy and administration saw these revenues maintained at £3.99m (1H11: £4.04m) despite a fall in investment activity. A full period's contribution from City Trustees increased third-party administration revenues by 95.5% to £0.43m (1H11: £0.22m).

Investment-related revenues fell 4.0% to £2.43m (1H11: £2.53m), with our response to the Eurozone crisis leading to a controlled slowdown of investment activity:

- Investment commissions were broadly flat at £1.46m (1H11: £1.47m), as clients remained cautious around challenging investment markets.
- Structured product revenues were £0.47m (1H11: £0.58m) with clients subscribing £12.5m (1H11: £17.05m) in new capital protected bond issues.
- Although the Bank of England base rate remains at a historic low, banking income increased 4.2% to £0.50m (1H11: £0.48m), following the negotiation of enhanced terms for clients and ourselves with the Group's key banking partners. Aggregate cash balances in our direct clients' SSAS and SIPP schemes were £333.4m (1H11: £320.5m) at the period end.

During the period we transferred our property syndicate business into a separate subsidiary, Custodian Capital Limited (“Custodian Capital”), to develop this initiative outside of our existing client base. Revenues increased 4.8% to £0.66m (1H11: £0.63m) with £5.15m (1H11: £5.70m) of property secured for new syndicates during the first half. Direct property ownership appeals to a growing number of clients, attracted by the opportunity to develop a well-diversified portfolio of prime commercial property with conservative levels of gearing. Our objective is to deliver a long-term income stream with the possibility of capital growth.

Cash generated from operations increased to £1.52m or 80.4% of EBITDA (1H11: £1.50m or 61.0%). Cash at 30 November 2011 was £3.36m (1H11: £1.75m), with a net cash outflow of £2.21m on the acquisition of Kudos. At the period end we had advanced £0.17m of short-term loans to new property syndicates, which have been repaid following the period end. Our strong balance sheet is enhanced by the availability of £5.00m of on demand overdraft facilities.

As anticipated, underlying EBITDA (excluding one-off costs<sup>8</sup>) fell 11.1% to £2.25m (1H11: £2.53m). Reported EBITDA fell 23.2% to £1.89m (1H11: £2.46m), with the fall in first half EBITDA margin to 21.7% (1H11: 33.1%) being exacerbated by those one-off costs incurred during the period. Profit before tax was down 30.2% to £1.48m (1H11: £2.12m). Despite this first half fall, we believe we have the strategy and technical skills to deliver revenue and profit growth for the full year.

## **Dividend**

The board is pleased to recommend the payment of an increased interim dividend, up 12.1% to 1.85 pence (1H11: 1.65 pence) per ordinary share. We are committed to growing the dividend sensibly, whilst maintaining an appropriate level of dividend cover. The interim dividend will be paid on 2 March 2012 to shareholders on the register at the close of business on 10 February 2012.

## **Staff**

Our staff continue to show real passion, enthusiasm and professionalism in dealing with our clients' affairs. The “small to big” initiative launched some two years ago has further improved client service levels. Strong, proactive consultancy, supported by high service standards, remains core to the business and provides a strong foundation for further growth in an increasingly competitive market. We would like to thank all our staff for their commitment and dedication to our core values.

We are particularly pleased with the development of our consultancy team. Six new consultants joined the Mattioli Woods team during the last 12 months. This growth, combined with the acquisition of Kudos and the further development of our property syndicate business, increased the total number of

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<sup>8</sup> £0.26m of acquisition costs and £0.10m of costs associated with the development of our rebranded corporate identity.

consultants within the Group to 46 at the period end (1H11: 23). The RDR is well planned for through our consultancy training programme and we expect no “down time” as we move into this new regime.

Following the appointment of Helen Keays as a Non-Executive Director in July 2011, Michael Kershaw formally leaves the board on 31 January 2012 to pursue other interests. We thank him for his valuable contribution to the Group’s growth over the last four years and wish him well for the future. The Nominations Committee has initiated a search process to replace Michael and a number of suitable candidates have been identified.

We remain committed to encouraging wider employee equity participation. The Mattioli Woods plc Share Incentive Plan (“the Plan”) is designed to attract and retain appropriately qualified staff. To date, 47.9% of eligible staff have elected to invest via the Plan (1H11: 48.8%) and we expect broader participation in the Plan following the launch of a new flexible benefits platform next month.

## **Shareholders**

We have expanded our free float by satisfying part of the initial consideration payable on the Kudos acquisition through the issue of new ordinary shares in Mattioli Woods. We are committed to expanding the excellent institutional shareholder base we have enjoyed since joining the AIM market. We are also working to develop broader private client interest in the shares and employee equity participation. Our desire is to communicate effectively with all our shareholders and the wider market, building further awareness of Mattioli Woods and its services and advice.

## **Outlook**

Our updated brand has been well received by both clients and our network of professional referrers. We are starting to see our investment in this and other marketing initiatives bear fruit and the launch of DPM is set to significantly enhance our wealth management proposition.

As noted in our recent trading update, revenues and profits for the first half were below our initial expectations. Although uncertainty around the current economic outlook continues to impact clients’ investment appetite, I anticipate we will see increased activity during the remainder of this financial year as we advise on the re-positioning of clients’ retirement and investment strategies. If this proves to be the case, we believe we can maintain our record of revenue and profit growth for the full year.

**Bob Woods**  
Chairman

**Ian Mattioli**  
Chief Executive

30 January 2012

## **Independent review report to Mattioli Woods plc**

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 November 2011 which comprises the condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and associated notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

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

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

### **Our responsibility**

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

## **Scope of review**

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

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 November 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and the AIM Rules of the London Stock Exchange.

**Baker Tilly UK Audit LLP**  
Chartered Accountants  
2 Whitehall Quay  
Leeds  
LS1 4HG

30 January 2012

**Interim condensed consolidated statement of comprehensive income  
For the six months ended 30 November 2011**

	Note	<b>Unaudited Six months ended 30 Nov 2011 £</b>	<i>Unaudited Six months ended 30 Nov 2010 £</i>	<i>Audited Year ended 31 May 2011 £</i>
<b>Revenue</b>	6	<b>8,694,786</b>	7,427,573	15,363,474
Employee benefits expense		<b>(4,811,598)</b>	(3,742,975)	(7,911,763)
Other administrative expenses		<b>(1,923,401)</b>	(1,162,333)	(2,208,133)
Share based payments		<b>(65,584)</b>	(64,681)	(142,454)
Amortisation and impairment		<b>(305,583)</b>	(265,036)	(381,256)
Depreciation		<b>(131,640)</b>	(97,257)	(219,705)
Loss on disposal of property, plant and equipment		<b>(7,410)</b>	(69)	(10,830)
<b>Operating profit before financing</b>		<b>1,449,570</b>	2,095,222	4,489,333
Finance revenue		<b>27,107</b>	24,058	59,304
Finance costs		<b>(686)</b>	(14)	(357)
Net finance revenue		<b>26,421</b>	24,044	58,947
<b>Profit before tax</b>		<b>1,475,991</b>	2,119,266	4,548,280
Income tax expense	9	<b>(474,714)</b>	(580,533)	(1,219,344)
<b>Profit for the period</b>		<b>1,001,277</b>	1,538,733	3,328,936
Other comprehensive income, net of tax		-	-	-
<b>Total comprehensive income for the period, net of tax</b>		<b>1,001,277</b>	1,538,733	3,328,936
<b>Attributable to:</b>				
Equity holders of the parent		<b>1,001,277</b>	1,538,733	3,328,936
<b>Earnings per ordinary share:</b>				
Basic (pence)	7	<b>5.61</b>	8.80	18.92
Diluted (pence)	7	<b>5.33</b>	8.38	17.96
Proposed total dividend per share (pence)	8	<b>1.85</b>	1.65	4.95

The revenue and operating profit for each period arises from the Group's continuing operations.

**Interim condensed consolidated statement of financial position  
As at 30 November 2011**

Registered number: 3140521

	Note	<b>Unaudited 30 Nov 2011</b> £	<i>Unaudited 30 Nov 2010</i> £	<i>Audited 31 May 2011</i> £
<b>Assets</b>				
Property, plant and equipment		<b>1,020,826</b>	865,531	934,708
Intangible assets	5	<b>23,465,873</b>	13,009,233	12,939,389
Deferred tax asset	9	<b>129,512</b>	341,781	210,788
Investments	14	<b>15</b>	15	15
<b>Total non-current assets</b>		<b>24,616,226</b>	14,216,560	14,084,900
Trade and other receivables		<b>7,822,668</b>	6,532,561	7,611,845
Financial assets		<b>165,095</b>	2,452,019	873,569
Cash and short-term deposits		<b>3,358,228</b>	1,751,105	4,612,689
<b>Total current assets</b>		<b>11,345,991</b>	10,735,685	13,098,103
<b>Total assets</b>		<b>35,962,217</b>	24,952,245	27,183,003
<b>Equity</b>				
Issued capital		<b>180,824</b>	173,832	175,840
Share premium		<b>7,534,793</b>	5,987,758	6,289,891
Other capital reserves		<b>2,646,072</b>	2,769,408	2,764,132
Retained earnings		<b>13,277,169</b>	11,371,789	12,872,187
<b>Total equity attributable to equity holders of the parent</b>		<b>23,638,858</b>	20,302,787	22,102,050
<b>Non-current liabilities</b>				
Trade and other payables		-	120,000	120,000
Deferred tax liability	9	<b>2,540,386</b>	576,831	552,559
Provisions	11	<b>3,322,165</b>	310,744	325,721
<b>Total non-current liabilities</b>		<b>5,862,551</b>	1,007,575	968,280
<b>Current liabilities</b>				
Trade and other payables		<b>3,435,402</b>	2,544,363	3,248,381
Income tax payable	9	<b>653,807</b>	629,648	584,766
Provisions	11	<b>2,371,599</b>	467,872	279,526
<b>Total current liabilities</b>		<b>6,460,808</b>	3,641,883	4,112,673
<b>Total liabilities</b>		<b>12,323,359</b>	4,649,458	5,080,953
<b>Total equities and liabilities</b>		<b>35,962,217</b>	24,952,245	27,183,003

**Interim condensed consolidated statement of changes in equity  
For the six months ended 30 November 2011**

<i>Note</i>	<i>Issued capital £</i>	<i>Share premium £</i>	<i>Capital redemption reserve £</i>	<i>Equity – share based payments £</i>	<i>Retained earnings £</i>	<i>Total equity £</i>
<b>As at 1 June 2010 - Audited</b>	<b>173,473</b>	<b>5,918,314</b>	<b>2,000,000</b>	<b>552,579</b>	<b>10,336,920</b>	<b>18,981,286</b>
<b>Total comprehensive income for period</b>						
Profit for the period	-	-	-	-	1,538,733	1,538,733
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for period	-	-	-	-	1,538,733	1,538,733
<b>Transactions with owners of the Company, recognised directly in equity</b>						
Issue of share capital	359	69,444	-	-	-	69,803
Share-based payment transactions	-	-	-	41,351	-	41,351
Deferred tax asset taken to equity	-	-	-	175,478	-	175,478
Dividends	-	-	-	-	(503,864)	(503,864)
<b>As at 30 November 2010 - Unaudited</b>	<b>173,832</b>	<b>5,987,758</b>	<b>2,000,000</b>	<b>769,408</b>	<b>11,371,789</b>	<b>20,302,787</b>
<b>Total comprehensive income for period</b>						
Profit for the period	-	-	-	-	1,790,203	1,790,203
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for period	-	-	-	-	1,790,203	1,790,203
<b>Transactions with owners of the Company, recognised directly in equity</b>						
Issue of share capital	2,008	302,133	-	-	-	304,141
Share-based payment transactions	-	-	-	41,348	-	41,348
Deferred tax asset taken to equity	-	-	-	(46,624)	-	(46,624)
Dividends	-	-	-	-	(289,805)	(289,805)
<b>As at 31 May 2011 - Audited</b>	<b>175,840</b>	<b>6,289,891</b>	<b>2,000,000</b>	<b>764,132</b>	<b>12,872,187</b>	<b>22,102,050</b>

**Interim condensed consolidated statement of changes in equity (continued)**  
**For the six months ended 30 November 2011**

	<i>Note</i>	<i>Issued capital £</i>	<i>Share premium £</i>	<i>Capital redemption reserve £</i>	<i>Equity – share based payments £</i>	<i>Retained earnings £</i>	<i>Total equity £</i>
<b>As at 1 June 2011 - Audited</b>		<b>175,840</b>	<b>6,289,891</b>	<b>2,000,000</b>	<b>764,132</b>	<b>12,872,187</b>	<b>22,102,050</b>
<b>Total comprehensive income for period</b>							
Profit for the period		-	-	-	-	1,001,277	1,001,277
Other comprehensive income		-	-	-	-	-	-
<b>Total comprehensive income for period</b>		-	-	-	-	1,001,277	1,001,277
<b>Transactions with owners of the Company, recognised directly in equity</b>							
Issue of share capital	4	4,984	1,244,902	-	-	-	1,249,886
Share-based payment transactions		-	-	-	24,483	-	24,483
Deferred tax asset taken to equity		-	-	-	(142,543)	-	(142,543)
Dividends		-	-	-	-	(596,295)	(596,295)
<b>As at 30 November 2011 - Unaudited</b>		<b>180,824</b>	<b>7,534,793</b>	<b>2,000,000</b>	<b>646,072</b>	<b>13,277,169</b>	<b>23,638,858</b>

**Interim condensed consolidated statement of cash flows**  
**For the six months ended 30 November 2011**

	<i>Unaudited Six months ended 30 Nov 2011</i>	<i>Unaudited Six months ended 30 Nov 2010</i>	<i>Audited Year ended 31 May 2011</i>
Note	£	£	£
<b>Operating activities</b>			
Profit for the period	1,001,277	1,538,733	3,328,936
Adjustments for:			
Depreciation	131,640	97,257	219,705
Amortisation and impairment	305,583	265,036	381,256
Investment income	(27,107)	(24,058)	(59,304)
Interest expense	686	14	357
Loss on disposal of property, plant and equipment	7,410	69	10,830
Equity-settled share-based payments	65,584	64,681	142,454
Income tax expense	474,714	580,533	1,219,344
<b>Cash flows from operating activities before changes in working capital and provisions</b>	<b>1,959,787</b>	<b>2,522,265</b>	<b>5,243,578</b>
Decrease/(increase) in trade and other receivables	356,422	(749,312)	(1,828,596)
(Decrease)/increase in trade and other payables	(649,407)	(331,265)	452,117
(Decrease)/increase in provisions	(151,597)	57,677	(80,910)
<b>Cash generated from operations</b>	<b>1,515,205</b>	<b>1,499,365</b>	<b>3,786,189</b>
Interest paid	(686)	(14)	(357)
Income taxes paid	(584,738)	(689,088)	(1,342,684)
<b>Net cash flows from operating activities</b>	<b>929,781</b>	<b>810,263</b>	<b>2,443,148</b>
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment	2,500	6,391	17,057
Purchase of property, plant and equipment	(106,158)	(208,225)	(448,477)
Purchase of software	(99,741)	(66,739)	(96,750)
Acquisition of subsidiaries	4 (4,328,503)	(2,141,529)	(2,141,529)
Cash received on acquisition of subsidiaries	4 2,182,364	456,766	456,766
Acquisition of businesses	-	(8,481)	(108,481)
New loans advanced to property syndicates	(165,095)	(2,452,019)	(3,325,588)
Loan repayments from property syndicates	873,569	-	2,452,019
Interest received	27,107	24,058	59,304
<b>Net cash from investing activities</b>	<b>(1,613,957)</b>	<b>(4,389,778)</b>	<b>(3,135,679)</b>
<b>Financing activities</b>			
Proceeds from the issue of share capital	22,288	46,473	314,188
Proceeds/(repayments) of Directors' loans	3,722	(2,281)	(5,591)
Dividends paid	8 (596,295)	(503,864)	(793,669)
<b>Net cash from financing activities</b>	<b>(570,285)</b>	<b>(459,672)</b>	<b>(485,072)</b>
Decrease in cash and cash equivalents	(1,254,461)	(4,039,187)	(1,177,603)
Cash and cash equivalents at start period	4,612,689	5,790,292	5,790,292
<b>Cash and cash equivalents at end period</b>	<b>3,358,228</b>	<b>1,751,105</b>	<b>4,612,689</b>

## **Notes to the interim condensed consolidated financial statements**

### **1 Corporate information**

Mattioli Woods plc (“the Company”) is a public limited company incorporated and domiciled in England and Wales. The Company’s ordinary shares are traded on the AIM market of the London Stock Exchange plc. The interim condensed consolidated financial statements for the six months ended 30 November 2011 comprise the Company and its subsidiaries (together referred to as the “Group”). The interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 30 January 2012.

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

### **2 Basis of preparation and accounting policies**

#### *2.1 Basis of preparation*

The interim condensed consolidated financial statements for the six months ended 30 November 2011 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements as at 31 May 2011.

The information relating to the six months ended 30 November 2011 and the six months ended 30 November 2010 is unaudited and does not constitute statutory accounts. The comparative figures for the year ended 31 May 2011 are not the statutory accounts for that financial year. The statutory accounts for the year ended 31 May 2011 were prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted for use in the European Union and have been reported on by the Group’s auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006. The interim financial statements are unaudited but have been reviewed by the auditors and their report to the board of Mattioli Woods plc is included within these financial statements.

#### *2.2 Significant accounting policies*

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 May 2011 except for the adoption of new Standards and Interpretations, which did not have any effect on the financial position or performance of the Group.

### *Standards and Interpretations issued but not yet effective*

The IASB and International Financial Reporting Interpretation Committee (“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 anticipate the adoption of these Standards and Interpretations, wherever relevant to Mattioli Woods, will not have a material impact on the Company’s or the Group’s financial statements in the period of initial application.

### *Financial statements for the year ending 31 May 2012*

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements will be consistent with those to be followed in the preparation of the Group’s annual financial statements for the year ending 31 May 2012, except for the adoption of new Standards and Interpretations not yet issued.

#### *2.3 Basis of consolidation*

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

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

#### *2.4 Significant accounting judgements estimates and assumptions*

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

#### *Valuation of intangibles on acquisition*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in business combinations is its fair value as at the date of acquisition. Client portfolios are valued by discounting the future expected cash flows of the acquired schemes over their expected useful lives. Expected future cash flows are estimated based on the historic revenues and costs associated with the operation of that client portfolio, adjusted for risk. The discount rates used estimate the cost of capital.

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

### *Commissions received on indemnity terms*

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

### *Contingent consideration*

The Group has entered into certain acquisition agreements that provide for 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 also to choose a suitable discount rate for the calculation of the present value of those cash flows.

### 3. Seasonality of operations

Historically, revenues in the second half-year typically have been higher than in the first half, primarily due to SSAS scheme year-ends being linked to the sponsoring company's year-end, which is often in December or March, coupled with the end of the fiscal year being 5 April. With the growth in the number of SIPP schemes under administration and further diversification of the Group's revenue streams following the recent acquisition of Kudos, the directors believe there is no longer a material seasonality of operations, with a substantial element of the Group's revenues being geared to the prevailing economic and market conditions.

### 4. Business combinations

#### *Acquisition of Kudos*

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

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

	<i>Fair value recognised on acquisition (unaudited) £</i>	<i>Previous carrying value (unaudited) £</i>
Plant and equipment	121,509	121,509
Client portfolio	7,332,089	-
Cash and short-term deposits	2,182,364	2,182,364
Trade receivables	416,140	416,140
Prepayments and accrued income	151,106	151,106
<b>Total assets</b>	<b>10,203,208</b>	<b>2,871,119</b>
Trade payables	(104,412)	(104,412)
Accruals	(505,177)	(505,177)
Deferred income and other payables	(321,307)	(321,307)
Deferred tax liabilities	(1,917,434)	(11,091)
Provisions	(490,115)	(490,115)
<b>Total liabilities</b>	<b>(3,338,445)</b>	<b>(1,432,102)</b>
Total identifiable net assets at fair value	6,864,763	
Goodwill arising on acquisition	3,400,237	
<b>Total acquisition cost</b>	<b>10,265,000</b>	

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

The interim condensed consolidated financial statements include the results of Kudos for the three month period from the acquisition date. From the date of acquisition, Kudos has contributed £1,182,071 to revenue and £247,346 to the profit of the Group. If the combination had taken place at the beginning of the period, the profit for the Group would have been £1,299,390 and revenue from continuing operations would have been £9,896,575.

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

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

None of the recognised goodwill is expected to be deductible for income tax purposes. The client portfolio will be amortised on a straight-line basis over an estimated useful life of 20 years, based on the Group's historic experience.

Transaction costs of £263,257 incurred on the acquisition have been expensed, and are included in administrative expenses in the condensed consolidated statement of comprehensive income and condensed consolidated statement of cash flows.

### *Contingent consideration*

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. These agreements and the basis of calculation of the net present value of the contingent consideration are summarised below. 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 contingent consideration payable within the next 12 months is £1,633,333 (1H11: £280,000).

As noted above, on 26 August 2011 the Group acquired Kudos for a total initial consideration of £5,515,000 (excluding cash acquired with the business) comprising £4,328,503 in cash and 462,572 ordinary shares in Mattioli Woods ("the Consideration Shares", which were valued at £1,186,497 based on the closing price of a Mattioli Woods share on 26 August 2011), plus contingent consideration of up to £4,750,000 payable in cash in the three years following completion if certain financial targets are met based on growth in recurring revenues and earnings before interest, tax, depreciation and amortisation generated during that period.

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

On 30 April 2010, the Group acquired the trade and assets of the pension administration and employee benefits businesses of CP Pensions for an initial consideration of £575,000. The acquisition agreement also provides for £300,000 of deferred consideration plus up to £300,000 of contingent consideration to be paid subject to certain revenue and client retention targets being met during the two years following completion. The Group estimates the net present value of the contingent consideration at 30 November 2011 to be £50,000, using cash flows approved by the Board covering the contingent consideration period. Consequently, £100,000 of provision for contingent consideration has been credited to the income statement during the period. The effect of discounting the cash flow projections at a rate equivalent to the benchmark yield on a six-month UK government bond is not material.

## 5. Intangible assets

	<i>Internally generated software</i> £	<i>Software</i> £	<i>Client portfolios</i> £	<i>Goodwill</i> £	<i>Total</i> £
<i>Gross carrying amount:</i>					
At 1 June 2010	166,874	491,719	7,123,956	4,454,828	12,237,377
Additions	38,765	338	-	-	39,103
Arising on acquisitions	-	-	1,198,324	1,044,803	2,243,127
Adjustment to consideration	-	-	-	(85,511)	(85,511)
At 30 Nov 2010	205,639	492,057	8,322,280	5,414,120	14,434,096
Additions	45,162	12,485	-	-	57,647
Arising on acquisitions	-	-	-	51,146	51,146
Disposals	-	(436)	-	-	(436)
Adjustment to consideration	-	-	-	(34,782)	(34,782)
At 31 May 2011	250,801	504,106	8,322,280	5,430,484	14,507,671
Additions	75,481	24,259	7,332,089	-	7,431,829
Arising on acquisitions	-	-	-	3,400,237	3,400,237
At 30 November 2011	326,282	528,365	15,654,369	8,830,721	25,339,737
<i>Amortisation and impairment:</i>					
At 1 June 2010	-	177,404	1,009,699	-	1,187,103
Amortisation and impairment in period	-	4,455	233,305	-	237,760
At 30 November 2010	-	181,859	1,243,004	-	1,424,863
Amortisation in period	-	46,908	96,588	-	143,496
Disposals	-	(77)	-	-	(77)
At 31 May 2011	-	228,690	1,339,592	-	1,568,282
Amortisation in period	14,539	26,954	264,089	-	305,582
At 30 November 2011	14,539	255,644	1,603,681	-	1,873,864
<i>Carrying amount:</i>					
<b>At 30 November 2011</b>	<b>311,743</b>	<b>272,721</b>	<b>14,050,688</b>	<b>8,830,721</b>	<b>23,465,873</b>
At 30 November 2010	205,639	310,198	7,079,276	5,414,120	13,009,233
At 31 May 2011	250,801	275,416	6,982,688	5,430,484	12,939,389

## 6. Segment information

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

- Direct pension consultancy and administration – fees earned by Mattioli Woods for setting up and administering pension schemes under an advice-led model. Additional fees are generated from consultancy services provided for special one-off activities;
- Third party administration – this is a new segment representing fees earned by City Pensions for setting up and administering pension schemes under an administration-only model;
- Investment planning – income generated by Mattioli Woods from the placing of investments on clients' behalf with banks and other financial institutions;
- Property syndicates – income generated where the Group facilitates commercial property transactions on behalf of its clients; and
- Kudos – this is a new segment representing income generated by the employee benefits and wealth management operations of the Group's recently acquired subsidiary, Kudos.

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.

The pension consultancy and administration and investment planning operating segments of Mattioli Woods utilise the same intangible and tangible assets, and the segments have been financed as a whole, rather than individually. These operating segments are managed together, as one business operating from one location. Accordingly, certain costs are not allocated between the individual operating segments, as they are managed on a group basis.

*Operating segments*

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 November 2011 and 2010, and the year ended 31 May 2011 respectively:

<b>Operating segments</b>	<i>Direct pension consultancy and administration</i>	<i>Third-party administration</i>	<i>Investment planning</i>	<i>Property syndicates</i>	<i>Kudos</i>	<i>Total segments</i>	<i>Corporate costs and eliminations</i>	<i>Consolidated</i>
Six months ended 30 Nov 2011	£	£	£	£	£	£	£	£
<b>Revenue</b>								
External client	3,985,708	431,258	2,432,926	662,823	1,182,071	8,694,786	-	8,694,786
Inter-segment	-	-	-	69,086	-	69,086	(69,086)	-
<b>Total revenue</b>	<b>3,985,708</b>	<b>431,258</b>	<b>2,432,926</b>	<b>731,909</b>	<b>1,182,071</b>	<b>8,763,872</b>	<b>(69,086)</b>	<b>8,694,786</b>
<b>Results</b>								
Segment result	706,484	(12,074)	1,814,305	215,544	284,897	3,009,156	(1,533,165)	1,475,991

Inter-segment revenues of £69,086 are eliminated on consolidation.

Operating segments

Six months ended 30 Nov 2010	<i>Direct pension consultancy and administration</i> £	<i>Third-party administration</i> £	<i>Investment planning</i> £	<i>Property syndicates</i> £	<i>Kudos</i> £	<i>Total segments</i> £	<i>Corporate costs and eliminations</i> £	<i>Consolidated</i> £
<b>Revenue</b>								
External client	4,044,124	219,142	2,533,518	630,789	-	7,427,573	-	7,427,573
Inter-segment	-	-	-	-	-	-	-	-
<b>Total revenue</b>	<b>4,044,124</b>	<b>219,142</b>	<b>2,533,518</b>	<b>630,789</b>	<b>-</b>	<b>7,427,573</b>	<b>-</b>	<b>7,427,573</b>
<b>Results</b>								
Segment result	1,092,540	21,453	1,950,343	354,819	-	3,419,155	(1,299,889)	2,119,266
<b>Year ended 31 May 2011</b>	<b><i>Direct pension consultancy and administration</i> £</b>	<b><i>Third-party administration</i> £</b>	<b><i>Investment planning</i> £</b>	<b><i>Property syndicates</i> £</b>	<b><i>Kudos</i> £</b>	<b><i>Total segments</i> £</b>	<b><i>Corporate costs and eliminations</i> £</b>	<b><i>Consolidated</i> £</b>
<b>Revenue</b>								
External client	8,341,760	623,841	4,905,174	1,492,699	-	15,363,474	-	15,363,474
Inter-segment	-	-	-	-	-	-	-	-
<b>Total revenue</b>	<b>8,341,760</b>	<b>623,841</b>	<b>4,905,174</b>	<b>1,492,699</b>	<b>-</b>	<b>15,363,474</b>	<b>-</b>	<b>15,363,474</b>
<b>Results</b>								
Segment result	1,771,915	(34,597)	3,879,466	1,183,341	-	6,800,125	(2,251,845)	4,548,280

The following table presents segment assets of the Group's operating segments as at 30 November 2011 and 2010, and at 31 May 2011 (the date of the last annual financial statements):

	<b>Unaudited</b> <b>30 Nov</b> <b>2011</b> £	<i>Unaudited</i> <i>30 Nov</i> <i>2010</i> £	<i>Audited</i> <i>31 May</i> <i>2011</i> £
Direct pension consultancy and administration	<b>5,150,073</b>	4,864,737	5,699,949
Third-party administration	<b>954,139</b>	668,444	968,017
Investment planning	<b>608,705</b>	663,510	807,337
Property syndicates	<b>1,251,232</b>	512,407	573,169
Kudos	<b>1,711,375</b>	-	-
<b>Total segments</b>	<b>9,675,524</b>	6,709,098	8,048,472
Corporate assets	<b>26,286,693</b>	18,243,147	19,134,531
<b>Total assets</b>	<b>35,962,217</b>	24,952,245	27,183,003

Segment assets exclude certain property, plant and equipment, intangible assets (other than computer software), investments, current and deferred tax balances, and certain cash balances, as these assets are considered corporate in nature and are not allocated to a specific operating segment. Although acquired client portfolios and purchased goodwill can be allocated to a specific transaction at the date of acquisition, the subsequent delivery of services to those acquired clients may be across all operating segments. Consequently, these intangible assets are not allocated between individual operating segments because the intangible assets are managed on a group basis.

#### *Adjustments and eliminations*

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 allocated between the pension consultancy and administration and investment planning segments as they are managed on a unified basis and utilise the same intangible and tangible assets.

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

	<i>Unaudited</i> <b>30 Nov</b> <b>2011</b> £	<i>Unaudited</i> <b>30 Nov</b> <b>2010</b> £	<i>Audited</i> <b>31 May</b> <b>2011</b> £
<b>Reconciliation of profit</b>			
Total segments	<b>3,009,156</b>	3,419,155	6,800,125
Unallocated indirect overheads	<b>(1,315,764)</b>	(960,718)	(1,695,264)
Depreciation	<b>(111,550)</b>	(93,882)	(206,080)
Amortisation and impairment	<b>(304,667)</b>	(264,391)	(381,230)
Loss on disposal of assets	<b>(7,410)</b>	(69)	(10,830)
Finance income	<b>20,611</b>	23,980	59,166
Finance costs	<b>(5,230)</b>	(4,809)	(17,607)
Inter-segment recharges	<b>190,845</b>	-	-
Group profit before tax	<b>1,475,991</b>	2,119,266	4,548,280

	<i>Unaudited</i> <b>30 Nov</b> <b>2011</b> £	<i>Unaudited</i> <b>30 Nov</b> <b>2010</b> £	<i>Audited</i> <b>31 May</b> <b>2011</b> £
<b>Reconciliation of assets</b>			
Segment operating assets	<b>9,675,524</b>	6,709,098	8,048,472
Property plant and equipment	<b>832,072</b>	780,731	854,420
Intangible assets	<b>23,441,643</b>	12,982,677	12,938,291
Investments	<b>15</b>	15	15
Deferred tax asset	<b>129,512</b>	341,781	210,788
Prepayments and other receivables	<b>612,442</b>	2,749,453	1,067,625
Cash and short-term deposits	<b>1,271,009</b>	1,388,490	4,063,392
Total assets	<b>35,962,217</b>	24,952,245	27,183,003

## 7. 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 period.

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

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

	<b>Unaudited Six months ended 30 Nov 2011 £</b>	<i>Unaudited Six months ended 30 Nov 2010 £</i>	<i>Audited Year ended 31 May 2011 £</i>
Net profit and diluted net profit attributable to equity holders of the Company	<b>1,001,277</b>	1,538,733	3,328,936
Weighted average number of ordinary shares:	<b>Thousands</b>	<i>Thousands</i>	<i>Thousands</i>
Issued ordinary shares at start period	<b>17,584</b>	17,347	17,347
Effect of shares issued during year ended 31 May 2011	<b>-</b>	125	232
Effect of shares issued in the current period	<b>255</b>	18	18
Basic weighted average number of shares	<b>17,839</b>	17,490	17,597
Effect of options exercisable at the balance sheet date	<b>936</b>	875	936
Diluted weighted average number of shares	<b>18,775</b>	18,365	18,533

The Company has granted options under the Mattioli Woods Pension Consultants Limited Enterprise Management Incentive Share Option Plan (“the EMI Option Plan”) and the Mattioli Woods plc Consultants’ Share Option Plan (“the Consultants’ Option Plan”) to certain of its senior managers and directors to acquire (in aggregate) up to 7.53% of its issued share capital. Under IAS 33 *Earnings Per Share*, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions (the events triggering the vesting of the option) are satisfied. At 30 November 2011 the conditions attaching to 426,140 options granted under the Consultants’ Option Plan are not satisfied. If the conditions had been satisfied, diluted earnings per share would have been 5.21 pence per share (1H11: 8.08 pence).

The only transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements has been the issue of 6,048 ordinary shares on 7 December 2011 and 8,300 ordinary shares on 9 January 2012 under the Mattioli Woods plc Share Incentive Plan.

## 8. Dividends paid and proposed

	<b>Unaudited Six months ended 30 Nov 2011 £</b>	<b>Unaudited Six months ended 30 Nov 2010 £</b>	<b>Audited Year ended 31 May 2011 £</b>
<i>Paid during the period:</i>			
Equity dividends on ordinary shares:			
- Final dividend for 2011: 3.30p (2010: 2.90p)	<b>596,295</b>	503,864	503,864
- Interim dividend for 2011: 1.65p (2010: 1.45p)	-	-	289,805
<b>Dividends paid</b>	<b>596,295</b>	503,864	793,669
 <i>Proposed for approval:</i>			
Equity dividends on ordinary shares:			
- Interim dividend for 2012: 1.85p (2011: 1.65p)	<b>334,883</b>	289,805	-
- Final dividend for 2011: 3.30p (2010: 2.90p)	-	-	596,295
<b>Dividends proposed</b>	<b>334,883</b>	289,806	596,295

The proposed interim dividend was approved on 24 January 2012.

## 9. Income tax

### *Current tax*

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

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

### *Deferred income tax*

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the estimated average annual effective income tax rate for the interim periods presented. The primary component of the entity's recognised deferred taxed assets include temporary differences relates to share-based payments to employees.

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

The recognition of deferred tax in the income statement arises from the origination and the reversal of temporary differences and the effects of changes in tax rates. The primary component of the deferred tax debit for the six months ended 30 November 2011 of £39,099 (1H11: credit of £50,519) is related to temporary differences arising on share-based payments to employees.

The total deferred tax asset no longer recognised in equity for the six months ended 30 November 2011 was £142,543 (1H11: recognised asset of £175,478). Deferred tax assets and liabilities have been recognised assuming the rate of tax expected to be enacted or substantively enacted at the balance sheet date was 26.0%.

#### *Reconciliation of effective tax rates*

The current tax expense for the six months ended 30 November 2011 was calculated based on the estimated average annual effective income tax rate of 32.2% (1H11: 27.4%), as compared to the tax rates expected to be enacted or substantively enacted at the balance sheet date of 26.0% (1H11: 27.0%). Differences between the estimated average annual effective income tax rate and statutory rate include, but are not limited to the effect of non-deductible expenses (primarily acquisition costs), tax incentives not recognised in profit or loss and under/(over) provisions in previous periods.

#### **10. Cash flows from operating activities using the direct method**

IAS 7 *Cash Flow Statements* permits entities to present the cash flow from operating activities under the indirect method by showing the revenues and expenses disclosed on the condensed consolidated statement of comprehensive income and the changes during the period in operating receivables and payables. Alternatively, the cash generated from operations may be presented under the direct method as follows:

	<b><i>Unaudited Six months ended 30 Nov 2011 £</i></b>	<i>Unaudited Six months ended 30 Nov 2010 £</i>	<i>Audited Year ended 31 May 2011 £</i>
<b>Cash flows from operating activities</b>			
Cash receipts from customers	<b>9,117,608</b>	6,678,260	13,534,877
Cash paid to suppliers and employees	<b>(7,602,403)</b>	(5,178,895)	(9,748,688)
<b>Cash generated from operations</b>	<b>1,515,205</b>	1,499,365	3,786,189

## 11. Provisions

<i>Group</i>	<i>Client claims</i> £	<i>Contingent consideration</i> £	<i>Dilapidations</i> £	<i>Clawback</i> £	<i>E'ees' NIC on share options</i> £	<i>Total</i> £
At 1 June 2010	142,500	493,991	85,000	33,903	34,537	789,931
Arising during period	8,000	-	-	3,469	46,207	57,676
Acquisitions	-	-	25,000	-	-	25,000
Used during period	-	(93,991)	-	-	-	(93,991)
Unused amounts reversed	-	-	-	-	-	-
At 30 Nov 2010	150,500	400,000	110,000	37,372	80,744	778,616
Arising during period	51,000	-	-	-	-	51,000
Used during period	-	(54,347)	-	-	-	(54,347)
Unused amounts reversed	-	(150,000)	-	(4,999)	(15,023)	(170,022)
At 31 May 2011	201,500	195,653	110,000	32,373	65,721	605,247
Arising during period	37,200	-	-	-	(40,223)	(3,023)
Acquisitions (Note 4)	138,500	4,750,000	20,000	331,615	-	5,240,115
Used during period	-	(45,653)	-	-	-	(45,653)
Unused amounts reversed	-	(100,000)	-	(2,922)	-	(102,922)
<b>At 30 Nov 2011</b>	<b>377,200</b>	<b>4,800,000</b>	<b>130,000</b>	<b>361,066</b>	<b>25,498</b>	<b>5,693,764</b>
Current	377,200	1,633,333	-	361,066	-	2,371,599
Non-current	-	3,166,667	130,000	-	25,498	3,322,165
At 30 Nov 2011	377,200	4,800,000	130,000	361,066	25,498	5,693,764
<i>Client claims</i>						

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

### *Contingent consideration*

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. Details of these agreements and the basis of calculation of the net present value of the contingent consideration is summarised in Note 4. The Group estimates the net present value of contingent consideration payable within the next 12 months is £1,633,333 (1H11: £280,000).

### *Dilapidations*

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

### *Clawbacks*

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

## **12. Related party transactions**

### *Transactions with key management personnel*

The private pension schemes of Ian Mattioli, Robert Woods, Nathan Imlach, Murray Smith and Mark Smith, together with the private pension schemes of other employees of the Group, have beneficial interests 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 £93,000 during the six months ended 30 November 2011 (1H11: £93,000). At 30 November 2011 the Group had prepaid future rentals of £12,230 (1H11: £12,230).

The Group leases its premises at Gateway House, Grove Park, Enderby from MW Properties (No 60) Limited and paid rentals of £71,550 during the six months ended 30 November 2011 (1H11: £58,512). At 30 November 2011 the Group had prepaid future rentals of £9,409 (1H11: £7,695).

Both leases have been negotiated on arms' length terms, with rent payable at the market rate.

Key management personnel receive compensation in the form of short-term employee benefits and equity compensation benefits. Key management personnel, representing the executive directors and six (1H11: six) senior executives, received total compensation of £1,001,536 for the six months ended 30 November 2011 (1H10: £1,015,929). Total remuneration is included in "employee benefits expense".

### *Transactions with other related parties*

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

The general partner and the initial limited partner enter into a limited partnership agreement, which govern the operation of the partnership and also sets out the rights and obligations of the investors. The general partner will appoint Custodian Capital as the operator of the partnership pursuant to an operator agreement between the general partner and Custodian Capital. At 30 November 2011 the Company had advanced £165,095 of short-term loans to new property syndicate partnerships, which have been repaid following the period end.

### **13. Contingencies**

#### *Client claims*

The Group operates in a legal and regulatory environment that exposes it to certain litigation risks. As a result, the Group does occasionally receive claims in respect of products and services provided and which arise in the ordinary course of business. The Group provides for potential losses that may arise out of contingencies where the estimated potential liability is not covered by the Group's professional indemnity insurance (Note 11).

A number of claims were notified to the Group's professional indemnity insurers ("the insurers") in respect of the period from 18 February 2010 to 17 August 2011. The insurers have declined to indemnify the Group in respect of certain of these claims. The Group is of the opinion that the insurers' position is without any merit and is challenging their view. The estimated compensation payable should the clients' claims be successful, with no indemnity provided by the insurers, is £401,000. To the extent the Group believes it is possible but not probable that a claim will succeed and result in an economic outflow, no additional provision is made in these financial statements.

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

## *FSCS levy*

The Financial Services Compensation Scheme (“FSCS”) has warned the failure of MF Global and Arch Cru, coupled with the FSCS paying more compensation than predicted in relation to the failures of Keydata, Wills & Co and other stockbroking firms, may cause it to raise an interim levy on the investment intermediation sector this year, although it has yet to take a final decision on this.

In the year ended 31 May 2011 the FSCS raised an interim levy of £326 million from advisers and fund managers to pay for the costs of compensating clients in Keydata products and other investment failures, to which the Group contributed £115,507. No provision has been made in these financial statements for any FSCS interim levy during the year ending 31 May 2012.

## **14. Events after the reporting period**

### *Investments*

On 1 October 2007, Mattioli Woods subscribed £15 for 15% of the issued share capital of Mainsforth Developments Limited (“Mainsforth”), a company incorporated in England and Wales with its principal activity being the development and selling of real estate. On the same date, Mainsforth entered into two conditional sale agreements (the “Agreements”) to acquire two adjacent areas of freehold land with vacant possession (the “Development Land”).

The Agreements lapsed on 1 December 2010 because planning approval had not been granted for the development of the Development Land and certain conditions which would have extended the termination date of the Agreements to 1 December 2011 had not been fulfilled.

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

Since 4 October 2011 the Development Land has benefited from a local authority resolution to grant planning permission, subject to the completion of an agreement under section 106 of the Town and Country Planning Act 1990 (as amended) to provide for a limited package of planning gain. On 5 October 2011 Mainsforth changed its name to MDL First Limited and Ensco 858 changed its name to Mainsforth Developments Limited.

At 30 November 2011 the Company’s investment in Mainsforth Developments Limited was valued at £15 under the cost method and the Company had advanced Mainsforth Developments Limited £75,000

of shareholder loans. The directors regard the value of the Company's investment in MDL First Limited as having been impaired to nil (1H11: £15).

#### *Bank facility*

At 30 November 2011, the Group had a £3.0 million overdraft facility with interest payable at the bank's base rate plus 1.0% on the first £0.25 million and plus 1.375% on borrowings in excess of £0.25 million. The Lloyds TSB Bank plc facility is repayable upon demand and renewable on 31 January 2011.

In January 2012, the Group renegotiated its borrowing facilities with Lloyds TSB Bank plc. The existing arrangement will be replaced by a £5.0 million overdraft facility with interest payable at the bank's base rate plus 1.1875% on the first £0.5 million and plus 1.375% on borrowings in excess of £0.50 million. The new facility is repayable upon demand and renewable on 31 January 2013.

#### *Taxation*

The UK government has enacted tax changes which will have a significant effect on the Group's future tax position. The rate of UK corporation tax will reduce from 26% to 25% from 1 April 2012, with further annual reductions of 1% annually leading to a rate of 23% from 1 April 2014.

These rate changes will affect the future cash tax payments to be made by the Group and will also reduce the size of the Group's balance sheet deferred tax assets and liabilities. Changes to the UK capital allowances regime have also been proposed, to take effect from 1 April 2012.

#### **15. Copies of interim report**

Copies of the interim report will be posted to shareholders in due course and are available from the Group head office at: MW House, 1 Penman Way, Grove Park, Enderby, Leicester LE19 1SY.