Mattioli Woods plc

Annual Report 2019

We are
one of the UK's leading providers of wealth management and employee benefit services. Discover
Mattioli Woods

Delivering **great outcomes**

Mattioli Woods is one of the UK's leading providers of wealth management and employee benefit services, with total assets under management, administration and advice of £9.4bn (2018: £8.7bn)

Highlights

Revenue
£58.5m
2018: £58.7m

Recurring revenues[1]
90.2%
2018: 84.8%

Operating profit before financing +2.1%
£9.8m
2018: £9.6m
£0.1m (2018: £0.5m) gained on revaluation of Amati option

Adjusted EBITDA[2] +16.0%
£14.5m
2018: £12.5m
Adjusted EBITDA margin[3] of 24.8% (2018: 21.3%)

Profit before tax +4.1%
£10.2m
2018: £9.8m

Adjusted profit before tax[4] +8.8%
£12.3m
2018: £11.3m

Basic EPS
30.8p
2018: 30.8p

Adjusted EPS[5] +8.4%
37.3p
2018: 34.4p

Proposed total dividend +17.6%
20.0p
2018: 17.0p

Net cash[6]
£23.2m
2018: £20.2m

1 Annual pension consultancy and administration fees; ongoing adviser charges; level and renewal commissions; banking income; property, discretionary portfolio and other annual management charges.
2 Earnings before interest, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax).
3 Adjusted EBITDA divided by revenue.
4 Before acquisition–related costs, amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and notional finance income and non-cash interest charges on provisions.
5 Adjusted profit after tax used to derive adjusted EPS is calculated as adjusted profit before tax less income tax at the standard rate of 19.0% (2018: 19.0%).
6 Cash and short-term deposits less £0.1m (2018: £3.5m) of VAT reclaimed on behalf of and to be repaid to clients.

Aberdeen wealth management consultancy team

Operational highlights and recent developments

- Revenue mix remains primarily fee based
- Improved margin through operational efficiencies whilst lowering clients' costs by £3.1m
- Total client assets of the Group and its associate[7] up 7.4% to £9.38bn (2018: £8.73bn)
- Gross discretionary AuM[8] up 9.8% to £2.57bn (2018: £2.34bn)
- Recent acquisitions performing and integrating well
- Continued investment in technology, compliance and training

7 Includes £409.0m (2018: £286.0m) of funds under management by the Group's associate, Amati Global Investors Limited, excluding £31.9m (2018: £27.0m) of Mattioli Woods' client investment and £11.9m (2018: £12.1m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.

8 Includes £452.8m (31 May 2018: £325.1m) of funds under management by Amati Global Investors Limited, including Mattioli Woods' client investment and cross-holdings between TB Amati Smaller Companies Fund and Amati AIM VCT plc.

Contents

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

Growing
our business

Where we operate

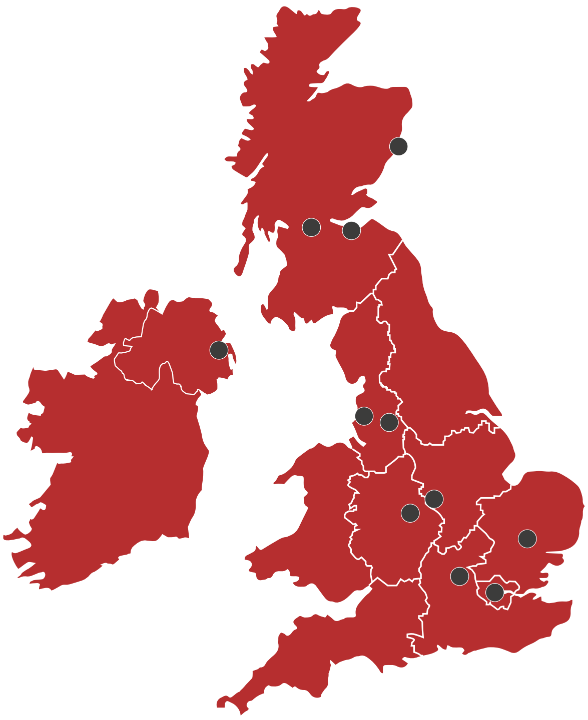
Offices

11

Number of employees

586

Aberdeen
Belfast
Birmingham
Buckingham
Edinburgh
Glasgow
Leicester
London
Manchester
Newmarket
Preston



New acquisitions:

Broughtons Financial Planning:

Based in Oldbury in the West Midlands, Broughtons was founded in 2001 and provides wealth management advice and administration for 250 individual clients, with over £120m of assets under advice.

Broughtons has a similar culture to Mattioli Woods and the combined business gives us opportunities to grow and develop the client offering.

Expanding into Northern Ireland:

With the purchase of Belfast-based SSAS Solutions.

Read more on page 9

Our purpose

Creating and preserving wealth, our trusted advice gives clients the understanding to achieve their objectives.

Our goals

Medium-term goals:

Total client assets

£15bn

Revenue

£100m

EBITDA margin

20%+

Buckingham office

Why invest?

Our model is designed to deliver great client outcomes, leading to strong client retention and sustainable shareholder returns.

Focus on strong shareholder returns

- Clear strategy to grow and diversify revenues
- Operating in growing markets
- Investing in people, technology and infrastructure

Adjusted EBITDA*

£14.5m

2018: £12.5m

Scalable business with integrity at its core

- Lowering clients' costs without compromising on quality
- Retaining existing clients, while seeking new business opportunities
- Right people, right culture, right skills

Recurring revenues**

90.2%

2018: 84.8%

Consolidation in our key markets

- Expanding across the value chain
- Organic and acquired growth strategy
- Pipeline of well-considered acquisition opportunities

Acquisitions since admission to AIM

22

Profit in line with expectations

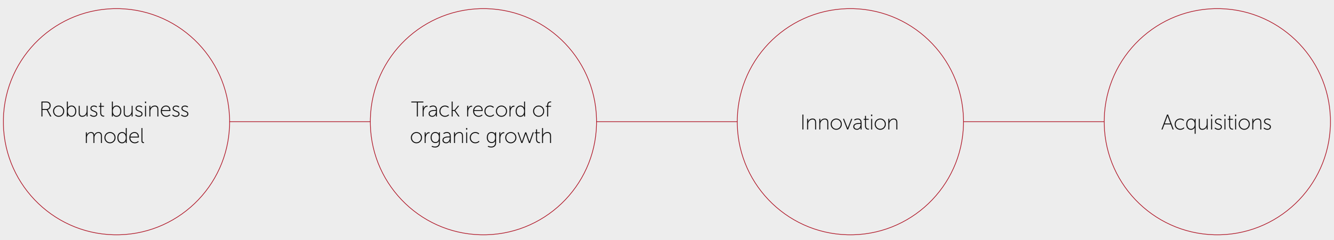
- Securing economies of scale and operational efficiency
- Integration of acquired businesses
- Almost 30 consecutive years of profit growth

Profit before tax

£10.2m

2018: £9.8m

Securing profitable growth



* Earnings before interest, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax).

** Annual pension consultancy and administration fees; ongoing adviser charges; level and renewal commissions; banking income; property, discretionary portfolio and other annual management charges.

We put our clients at the core of everything we do, with the objective of growing and preserving their assets, while giving them control and understanding of their overall financial position

Wealth management

We provide wealth management and administration services to individuals and families, embracing all aspects of financial planning, pensions, personal and trust investment, coupled with estate planning.

Pension consultancy and administration

Mattioli Woods is a leader in the provision of Self Invested Personal Pension ("SIPP") and Small Self-Administered Pension Scheme ("SSAS") arrangements, which are often central to our clients' life planning strategies. We have established a reputation for technical excellence, widely acknowledged within our industry. We maintain our technical edge through our in-depth understanding of UK pension legislation, which translates into meaningful advice given to clients by our consultancy team.

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

Investment and asset management

Discretionary management and the provision of bespoke investment advice sit at the heart of our investment proposition. In meeting our clients' investment needs we generally use third parties' funds, but where we have the particular expertise required we look to meet those needs in-house. This approach has led to the development of our Private Investors Club, Custodian REIT plc and the Mattioli Woods Structured Products Fund, in addition to the funds managed by our associate company Amati Global Investors Limited ("Amati"). Where appropriate, we intend to expand upon these opportunities in the future.

Continued growth in the quantum of assets under management and advice has enhanced the quality of the Group's earnings by increasing the proportion of recurring revenues, while the migration of client assets under advice to assets under management allows us to deliver a more efficient wealth management service to those clients. Our services are delivered by a dedicated team, with many years' experience in finance and investment.

At the same time, we are focused on growing our business, both organically and by acquisition, to deliver strong, sustainable shareholder returns over the long-term.

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

Property management

Our subsidiary company Custodian Capital Limited ("Custodian Capital") facilitates direct property ownership on behalf of pension schemes and private clients and also manages the Mattioli Woods Private Investors Club, which offers alternative investment opportunities to suitable clients by way of private investment structures.

In addition, Custodian Capital is the discretionary fund manager of Custodian REIT plc ("Custodian REIT"), a UK real estate investment trust listed on the Main Market of the London Stock Exchange. We believe investment in good quality properties with institutional grade tenants typically provides stable returns over the long-term and our property team offers years of experience in commercial property investment to help deliver this.

Read more about Custodian REIT on page 11

Employee benefits

We assist our corporate clients with employee engagement, with the aim of improving recruitment, retention and workplace morale.

Employee benefits

This encompasses consultancy and administration on areas such as defined contribution and defined benefit pension schemes, workplace savings, healthcare, international benefit solutions and risk benefits, in addition to the design, implementation and administration of these schemes.

The Group also offers its clients total reward and flexible benefit systems, assisting its clients in the delivery of these to their employees, along with advice, guidance and financial education. Recent changes in legislation are increasing demand for our financial education and wealth management services to be delivered through employers.

Read more about segmental reporting on page 88

Meeting our **clients' needs**

Our best-selling product is peace of mind – we are seeing more and more clients planning for their children's futures. Our tailored solutions mean consideration can be given as to how best to help children, grandchildren or others in financial terms. Whether cascading funds for the mitigation of inheritance tax or simply making sensible plans to meet future expenses, our experienced consultants can help.

Doug Brown on adviser Doug Ryan...

I started a business in the IT sector 31 years ago with my business partner Moira Pollard. We came from the same employer before that and had a pension fund that we transferred using that company's existing pension adviser.

As a start-up, we didn't have much money, so didn't pay much into the pension, but our business became very successful and is still going today – managing the IT infrastructure for hedge funds and lawyers in the City of London.

The pension assets were not performing very well. The company was beginning to generate an income for us, but the pension fund wasn't giving us the growth that the market had experienced.

The advisory firm kept changing our adviser, and every time we got a new one we were switched into different funds. It didn't instil us with confidence. It was working for them; it wasn't working for us.

Mattioli Woods featured in a press article as a rising star in the wealth management sector. We met Doug and explained our woes to him. He was a breath of fresh air. Personality was the key – we clicked with him straight away.

We were quite old in the IT sector, having started the company in our late 30s and early 40s. Doug was in the same age group as our staff and that reassured us he'd be around for a while.

He was very pedantic in going through reams of paperwork to establish the composition of our existing investments and confirm the previous advisory firm hadn't mismanaged them.

In those days I was sceptical of investment advice, but Doug has proven he knows a lot more than me about investment! We quickly adopted the approach of 'what he says goes'.

He has kept us abreast of legislative changes, particularly the cap in pension savings lifetime allowance, and has given us the confidence that we don't need to worry.

When we started the company Moira had already been diagnosed with multiple sclerosis and she'd had breast cancer. We didn't know how quickly her illness would progress. She passed away last September. Doug before, during and since her illness has done an amazing job.

He took the time to learn about us as individuals and has shown great ability in handling our individual situations. Moira was born at the end of the war and abandoned in a hospital. She was married but had no children or other relatives. She had plenty of good friends though – Doug among them. Her needs were based around her health and rapidly increasing care costs. I have two sons and six grandchildren and want to ensure my family has some financial security.

Doug has been very sensitive to Moira's needs. She insisted on dying at home - that's a promise I made to her. It was very expensive, but it didn't matter. Doug made sure the money was there at the drop of a hat. His caring approach sets him apart from any other adviser we've known.

I am still a director of the IT business – I retained 5% and now have Moira's 5% – but look on every day spent in the office as time I could be out in my woodland or on my boat.

Doug's more than an advisor at this stage – he's a very close friend.

Our relationship developed over time and evolved from a purely professional to a personal one.

Doug Ryan on Doug Brown…

Two IT consultancy business owners contacted us in 2006 after reading about our company in a press article. They were looking for an advisory firm to run their pension assets better than they had been in the past.

We were one of three companies they asked to tender for the business. Their pensions were held in a variation of a SSAS. It was incredibly convoluted and had a very complex fee structure that didn't make sense.

My proposition to them was that I wanted to do things a great deal simpler. I suggested setting up a multi-member SIPP with a clear and straightforward fee structure. They would both be trustees of the pension fund alongside us, enabling them to retain ownership of the pension. Our approach seemed to create real traction with them.

I was young at the time – I'd just turned 30 – but they were never prejudiced. As good business people, they focused on the solution. That's undoubtedly why they picked me in the first place.

The next step was to decide upon a diversified investment strategy. Unfortunate timing – coming just before the credit crunch – meant their investments were quite severely affected in the next few years. I got myself straight in front of them to ensure they knew what was going on. That helped to give them confidence. Their investments have since performed well.

Our relationship developed over time and evolved from a purely professional to a personal one. We met every six months and spoke on the phone intermittently. We often discussed our personal lives and how they were going. It was clear to me that they were very nice people.

Every time we met we discussed other areas of their personal finances. Since the initial work on their corporate pension assets, our remit has extended to personal investments and consolidation of other investment strategies. Our overriding aim was to take care of them.

Moira sadly passed away last year, but I had immense respect for her as a businesswoman. I always appreciated it when she imparted a bit of her knowledge. She provided me with some great guidance in terms of my own career.

I have seen young people rising through the ranks of their business and I have been interested to learn how they advanced their careers. A number of these people have subsequently become major shareholders in the business.

I have a really close relationship with Doug. We have an awful lot of trust in each other.

Doug Ryan(L), Doug Brown(R)

Focus on **delivery**

Joanne Lake
Non-Executive Chairman

We believe the opportunity for Mattioli Woods is significant.

I am pleased to report another successful year for Mattioli Woods.

Profit before tax was up 4.1% to £10.2m (2018: £9.8m), with adjusted profit before tax up 8.8% to £12.3m (2018: £11.3m) and adjusted EBITDA up 16.0% to £14.5m (2018: £12.5m). This performance has been achieved despite the ongoing political and economic uncertainties and generally poor investor sentiment during the year ended 31 May 2019.

Throughout the year we maintained our focus on client service and developing our customer proposition. As highlighted in our July trading update, a combination of the Group reducing costs for our clients by £3.1m and the general market conditions, which resulted in reduced levels of investment by clients, led to marginally lower than expected revenue of £58.5m (2018: £58.7m). However, the financial impact of this was more than offset by the realisation of operational efficiencies and other planned administrative cost savings, resulting in an increased operating margin[9] of 16.8% (2018: 16.4%) and adjusted EBITDA margin of 24.8% (2018: 21.3%), meaningfully ahead of our 20%+ target.

9 Revenue divided by operating profit before financing.

Our integrated business model allows us to address more of the value chain across advice, administration, platform, investment management and product provision. We have used the resultant economies of scale and operational efficiencies to reduce clients' costs, while delivering the sustainable returns for our shareholders that we are proud to have delivered over many years.

We remain committed to growing the dividend, while maintaining an appropriate level of dividend cover. Accordingly, the Board is pleased to recommend the payment of an increased final dividend of 13.67 pence per share (2018: 11.5 pence). This makes a proposed total dividend for the year of 20.0 pence (2018: 17.0 pence), a year-on-year increase of 17.6%.

Strategy

Previously, we have set out our ambitions to grow revenue to £100m and total client assets to £15bn, while maintaining an EBITDA margin of 20%+. As we work towards these goals our strategy remains focused on achieving sustainable levels of organic growth, supplemented by strategic acquisitions that enhance value and broaden or deepen our expertise and services to better serve our clients.

In March, we were delighted to announce the acquisition of SSAS Solutions (UK) Limited ("SSAS Solutions"), which is based in Belfast and acts as SSAS practitioner to over 350 schemes with approximately £380m of assets under administration. This followed the acquisition of Broughtons Financial Planning Limited ("Broughtons") in the first half of the financial year, which has integrated well and contributed positively to our trading results since acquisition.

We will seek to build on our track record of successful acquisitions by continuing to assess a diverse pipeline of potential acquisition opportunities that meet our strict criteria, believing further consolidation within our core markets remains likely.

Our people

We are a business built on the integrity and expertise of our people. By putting clients first we are able to continue building a business that is sustainable over the long-term and our people have responded positively as the business has evolved and the financial services industry continues to go through a period of unprecedented change. Operational achievements over the past year include:

» A seamless move to our new freehold office at New Walk in Leicester, incurring significantly lower relocation costs than anticipated. This development allows us to benefit from future rental savings of approximately £0.85m per annum, whilst providing a modern office facility with the capacity for future growth;

» The successful implementation of a cloud-hosted IT architecture across the Group;

» The introduction of an integrated human resource management and payroll system;

» The launch of a refreshed Mattioli Woods brand;

» Implementation of changes to the regulatory regime (General Data Protection Regulations ("GDPR") and the Markets in Financial Instruments Directive II ("MiFID II")) and preparation for the introduction of the Senior Managers and Certification Regime; and

» Continued investment to improve our client and service proposition.

We are committed to developing our staff and building the capacity to deliver sustainable growth over the long-term. As part of our normal planning, we monitor the Group's capabilities and assess what new skills are necessary to strengthen the business over time, taking account of the existing balance of knowledge, experience and diversity.

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

Governance and the board

Good corporate governance continues to be a priority for us. We strive for high standards in our own corporate governance and disclosure, and in July 2018 we adopted the QCA Corporate Governance Code.

The Board remains committed to developing the corporate governance and management structures of the Group to ensure they continue to meet the changing needs of the business. Murray Smith, Group Managing Director, has decided to stand down from the Board at the Company's next Annual General Meeting ("AGM") on 21 October 2019 to continue in a full-time role as Founder Director to the Group, where his focus will be on his client portfolio, acquisitions and acting as an ambassador for Mattioli Woods.

Murray has been instrumental to the success of the Group and we will continue to benefit from his experience and insight in this new role, with Murray's management responsibilities being handed over to our Deputy Group Managing Director, Michael Wright.

Following Murray's cessation as a director, the Company will have a Board with a majority of independent directors, which we believe represents the right governance structure for the business.

Shareholders

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

Outlook

Investment markets look likely to remain volatile but we believe the opportunity for Mattioli Woods is significant, as people seek to take charge of their money and manage it through the generations. At the same time, savings and investments are becoming more complicated and regulatory requirements continue to increase. The inherent agility within our business model allows us to adapt to the changing wealth and asset management marketplace. Clients need long-term advice and personalised strategies more than ever before. We will continue to focus on reducing clients' costs without compromising client service, whilst delivering high quality solutions.

We continue to streamline our business, drive increased efficiency and reinforce our purpose to grow and preserve our clients' assets, while giving them control and understanding of their overall financial position. Uncertainty around Brexit will continue to impact investor and consumer sentiment in the short-term, but we are confident that our focus on addressing the changing needs of our clients will position us well to deliver future growth and continued sustainable shareholder returns.

Joanne Lake
Non-Executive Chairman
2 September 2019

New acquisitions:
Expanding into Northern Ireland

In March 2019, the Group announced its expansion into Northern Ireland with the purchase of Belfast-based SSAS Solutions, which is Northern Ireland's largest independent firm of dedicated SSAS specialists offering business owners bespoke retirement solutions.

Established in 2009, it provides pension administration and trustee services to over 350 SSAS clients, with approximately £380m of assets under administration.

With both companies sharing values such as client-first service, it has been business as usual for the SSAS Solutions team, who have developed great client relationships and solid connections with a number of professional connections throughout Ireland.

We are looking to enhance the team as we expand Mattioli Woods' operations in the region, creating a new administration hub for the Group and developing the existing client offering to include SIPPs.

Track record of **adding value**

2005
- Admission to AIM

2006
- Develop structured products initiative
- Acquisition of Suffolk Life portfolio £0.7m

2007
- Funds under trusteeship exceed £1bn
- Acquisition of Pension Consulting £2.0m

2008
- Revenue exceeds £10m
- Acquisition of JB Group £1.8m

2009

2010
- Acquisition of City Pensions £2.1m and first London office
- Appointed to operate Freedom SIPP
- Acquisition of CP Pensions £0.7m

2011
- Acquisition of Kudos £10.0m, adding Aberdeen and Glasgow offices

2012
- Launch discretionary portfolio management service
- Appointed to operate Pilgrim SIPP

2013
- Acquisition of Atkinson Bolton £6.2m – Newmarket office
- Acquisition of Ashcourt Rowan Pensions £1.2m
- Appointed to operate HD SIPP

2014
- Launch Custodian REIT on main market of the London Stock Exchange

2015
- Acquisition of Taylor Patterson £8.3m – Preston office
- Acquisition of Boyd Coughlan £7.0m – Buckingham office
- Revenue exceeds £30m, with assets under advice and administration of £6bn

2016
- Acquisition of MC Trustees £2.2m
- Open first Manchester office
- Launch the Mattioli Woods Structured Products Fund

2017
- Acquisition of 49% of new associate, Amati Global Investors £3.3m
- Ian Mattioli and Bob Woods awarded MBEs

2018
- Acquisition of Broughtons £4.4m – Birmingham office
- Move to new Leicester office

2019
- Acquisition of SSAS Solutions £4.5m – Belfast office
- Launch new partnership with Alzheimer's Research UK

Custodian REIT

Five years on…

Developed from Mattioli Woods' syndicated property initiative, Custodian REIT plc completed its IPO with admission to the main market of the London Stock Exchange in March 2014.

Upon admission, it acquired a portfolio of £95m of UK commercial property which was sourced from an existing portfolio of 48 properties held by our clients.

By principally targeting sub £10m lot size regional properties, Custodian REIT aims to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

In the five years since its launch, Custodian REIT has gone from strength to strength and the company's market capitalisation has grown from £132m to £443m through managing a portfolio of increasingly well diversified regional properties with a gross value that has increased from £95m at IPO to £573m today.

A platform for **sustainable growth**

Our business model

Integrated model allows us to address more of the value chain:

» Economies of scale

» Operational efficiencies

» Lower client costs

» Sustainable shareholder returns

Adviser

» Trusted expertise

» Close client relationships

» Own distribution through team of 115 consultants with an average age of 38

Administrator

» End-to-end administration

» Proactive, personal service

» 11,100+ SIPP and SSAS schemes

Platform

» Own MWeb pension administration platform

» Investing in technology

» Strategic partnerships with external providers

Asset manager

» Bespoke advice

» Discretionary portfolio management

» Using the best of what we and others provide

Product provider

» Innovative new product development

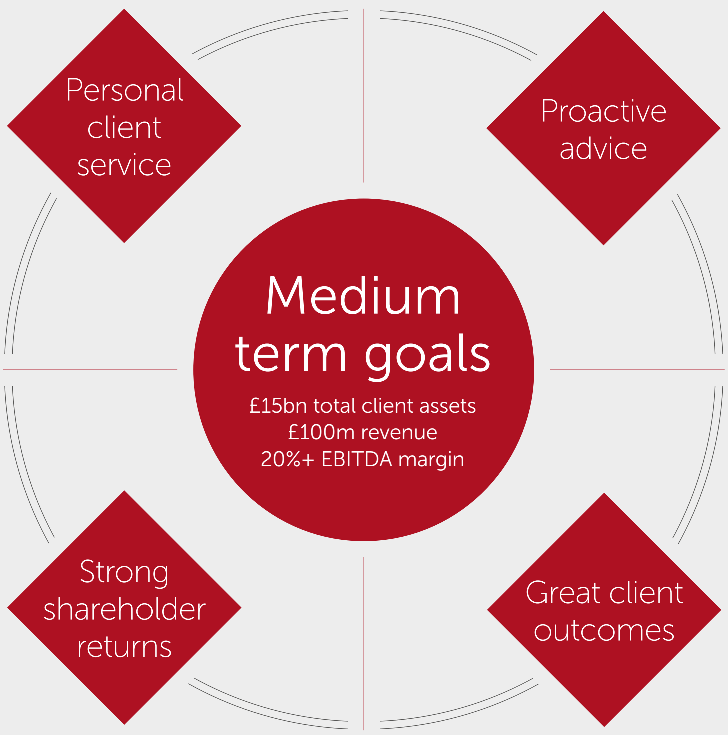
» Addressing clients' needs

» Extending distribution beyond advised clients

Our strategy

- Focus on maintaining close client relationships
- Passion for looking after clients' aspirations and assets
- Adviser, manager and provider

- In-house product offering, with flexibility to offer other providers' products when better suited
- Broadening services



- Organic growth
- Supplemented by value-enhancing acquisitions
- Strong and passionate management team
- Progressive dividend policy

- Strong client satisfaction and retention
- Strong investment performance relative to benchmarks
- Lowering clients' TERs

Invested for the future **to deliver long-term growth**

Ian Mattioli
Chief Executive Officer

Our success is based upon the delivery of quality advice.

Introduction

I am pleased to report another successful year, with operating profit before financing up 2.1% to £9.8m (2018: £9.6m) and profit before tax up 4.1% to £10.2m (2018: £9.8m), enhanced by an increased share of profit of £0.5m (2018: £0.2m) from our 49% associate Amati.

Given the success of this relationship, which in the year ended 31 May 2019 also contributed a £0.1m (2018: £0.5m) gain on the revaluation of our option to acquire the other 51% of Amati, we believe the Group retaining a 49% minority interest is the optimal structure for all stakeholders and in June 2019 we cancelled our option in return for a £0.75m payment from the Amati management team, as agreed in the heads of terms signed prior to the year end.

Adjusted EBITDA was up 16.0% to £14.5m (2018: £12.5m), primarily driven by the economies of scale and operational efficiencies our integrated model offers, which we have used to reduce clients' costs, while delivering sustainable returns for our shareholders. In recent years we have demonstrated that one of the key benefits of operating an integrated model is the ability to reduce our fees and charges where possible, including:

» Reducing the custody charge for all those clients using our core investment platform;

» Reducing the rate of Custodian Capital's property management fees charged to Custodian REIT, plus a step down in the rate of administrative fees charged;

» The launch of the Mattioli Woods Structured Products Fund, charging significantly less than individual structured product plans had done historically; and

» Reducing adviser charges on our clients' investments in Custodian REIT and the Mattioli Woods' Structured Products Fund.

The aggregate impact of these changes in the year ended 31 May 2019 was a £3.1m (2018: £2.4m) reduction in clients' costs, with the negative revenue impact of this, more volatile market conditions and an increase in the number of clients focusing on wealth preservation being partially offset by £1.1m of revenue from acquisitions in the year. Revenue was £58.5m (2018: £58.7m), with growth in prior periods primarily driven by increased client activity following the pension freedoms coming into effect in 2015. Although the flow of new business generated by our consultancy team was impacted by ongoing political and economic uncertainties and generally poor investor sentiment throughout the period, a total of 762 (2018: 1,335) new SIPP, SSAS and personal clients chose to use Mattioli Woods during the year.

We have previously stated our belief that fees for financial services in the UK are generally too expensive. The Financial Conduct Authority ("FCA") is reviewing the impact of the Retail Distribution Review ("RDR") and the Financial Advice Market Review ("FAMR"), and recently published a consultation paper proposing new rules to avoid consumers being hit with unnecessary ongoing advice charges. The FCA has expressed its concern that when combined with multiple layers of charging such as platform charges, fees for discretionary fund management and product charges, advisers are not giving sufficient attention to value for money. This may lead to regulatory pressure on the sector to reduce the cost to consumers. Given the work we've done to date and our long-term aim to reduce clients' total expense ratios ("TERs") towards 1%, we believe we are well-positioned as the market changes and evolves.

Delivering a more vibrant, flexible and collaborative working environment for our people.

A seamless move to the new Leicester office

The move to a new Leicester office in New Walk marks a key milestone in the Group's history. In October 2018, we transitioned nearly 400 of our people into the city centre, a short distance from the Leicester Tigers, sponsored by Mattioli Woods.

The 50,000 sq ft building not only provides us with the capacity to grow in line with our aspirations but also has delivered a more vibrant, flexible and collaborative working environment for our people, which has helped us to achieve closer integration and operational efficiencies.

As part of the project, we introduced a number of technological improvements to support our new and secure agile way of working. These included the implementation of a cloud-hosted IT architecture across the Group, PaperCut printing technology and telephone hot desking.

We have also enhanced our training and development capabilities, with dedicated learning and study areas, and improved our visitor experience with several meeting and hosting spaces.

Our switch to New Walk has breathed new life into an area that is a cornerstone of Leicester's business, academic and retail quarter and enhanced our engagement with the local business community.

Our conference suites and business lounges not only support our programme of seminars and events but also play host to a growing number of external events, exhibitions and meetings for partner organisations.

Benefits

» Space to grow
» A great place to work
» Increased collaboration and integration
» Improved client and visitor experience
» In the heart of the community

We have also sought ways to reduce our clients' costs elsewhere in the value chain, including:

» Reducing ongoing charges within our clients' discretionary portfolios;

» Creating a range of multi asset funds to further reduce costs and improve investment efficiency, administration and reporting for clients; and

» Securing a VAT exemption for the management of certain clients' pension schemes that constitute a 'special investment fund', reclaiming £3.5m of VAT on their behalf.

Retaining the integrity, expertise and passion of our people remains a priority of the board and is at the heart of our success.

In addition to adding new clients, we continue to enjoy strong client retention and anticipate that there will be sustained demand for advice from clients, driven by lifestyle, increasing longevity, tax and other legislative changes, particularly when the implications of the UK's withdrawal from the European Union become clear.

Our success has been based upon the delivery of quality advice, growing our clients' assets and enhancing their financial outcomes. Total client assets under management, administration and advice by the Group and its associate increased by 7.4% to £9.38bn (2018: £8.73bn) notwithstanding the negative market movements during the year.

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

These bespoke investment services enjoyed aggregate net inflows (before market movements) of £265.2m (2018: £452.1m), with gross discretionary assets under management by the Group and its associate increasing to £2.57bn (2018: £2.34bn) at the year end. The value of assets held within our Discretionary Portfolio Management service increased by 3.7% to £1.39bn (2018: £1.34bn), of which £132.3m or 9.5% (2018: £121.0m or 9.0%) is invested within funds managed by the Group and its associate. We plan to continue developing new products and services to better deal with our clients' needs, using the best of what we have and the best of what other providers can offer.

Recent acquisitions are performing and integrating well, with the financial result for the year including positive contributions from Broughtons and SSAS Solutions, which were acquired in August 2018 and March 2019 respectively.

We believe securing economies of scale, such as rebates on fund managers' charges and other benefits of operating our integrated model will allow us to improve client outcomes and reduce clients' TERs. By putting our clients first and building our reputation of integrity through the cycle, we have created a business focused on positive client outcomes that can deliver sustainable shareholder returns over the long-term.

Market overview

Mattioli Woods operates within the UK's financial services industry, which is subject to the effects of volatile markets and economic conditions and regulatory changes. Our markets are highly fragmented and serviced by a wide range of suppliers offering diverse services to both individual and corporate clients. These markets remain highly competitive and in recent years we have seen a period of unprecedented change in regulation and legislation.

As the demand for high-quality, personalised advice and the potential market for our products and services continue to grow, so do the costs of regulation, with the Financial Services Compensation Scheme ("FSCS") announcing an increase in its levy for 2019/20 after an uplift in claims against SIPP operators, resulting in the Group's regulatory fees and levies for the 12 months ending 31 March 2020 almost doubling to £0.7m.

Pricing fairness and competition continue to attract regulatory scrutiny and we believe our focus on client service and the inherent flex within our business model will allow us to continue to adapt to the changing wealth and asset management marketplace.

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

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

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

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

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

Our services

Our core pension and wealth management offering serves the higher end of the market, including controlling directors and owner-managed businesses, professionals, executives and retirees. Our broad range of employee benefit services is targeted towards medium-sized and larger corporates. The Group has developed a broader wealth management proposition in recent years, which has grown from its strong pensions advisory and administration expertise. The mix of income derived from the Group's four key revenue streams changed slightly during the year, summarised as follows:

» 44.4% investment and asset management (2018: 42.7%);

» 34.9% pension consultancy and administration (2018: 37.1%);

» 11.1% property management (2018: 10.1%); and

» 9.6% employee benefits (2018: 10.1%).

We aim to operate a seamless structure, allowing us to cover all aspects of wealth management and employee benefits.

Our key objectives are:

» Maintaining long-term relationships and delivering great outcomes for our clients;

» Proactively anticipating our clients' needs to deliver on their expectations;

» Investing in our people and technology to service greater business volumes at a lower cost;

» Sharing knowledge and ideas between ourselves and others for mutual benefit;

» The development of our market standing through the integrity and expertise of our people;

» Extending our range of products and services, seeking to attract new clients both organically and via strategic acquisitions; and

» Being proud of our charitable and community spirit, supporting staff and local and national charities.

Assets under management, administration and advice

Unlike many wealth managers, the majority of the Group's revenues are fee-based, rather than being linked to the value of assets under management, administration or advice[10], giving our business a revenue profile that is less sensitive to market performance. Acquisitions during the year added £0.50bn of client assets, with Group and its associates total client assets increasing by 7.4% to £9.38bn at 31 May 2019 (2018: £8.73bn) as shown below.

The £653.3m increase in total client assets during the year is analysed as follows:

» A £565.7m increase (2018: £454.6m) in SIPP and SSAS funds under trusteeship, with a 5.6% (2018: 5.1%) increase in the number of schemes being administered at the year end, comprising a 3.7% (2018: 13.5%) increase in the number of direct[11] schemes to 6,051 (2018: 5,834) and a 7.9% increase (2018: 3.7% decrease) in the number of schemes the Group operates on an administration-only basis to 5,068 (2018: 4,699) following the acquisition of SSAS Solutions. In recent years we have been appointed to operate or wind-up a number of SIPP portfolios following the failure of their previous operators, with lost schemes including the transfer of certain members of these distressed portfolios to more appropriate arrangements;

» A £41.2m decrease (2018: £135.6m increase) in the value of assets held in the corporate pension schemes advised by our employee benefits business, following the loss of some larger corporate clients in the year. Revenues in our employee benefits business are not linked to the value of client assets in the way certain of our wealth management revenue streams are;

» A £5.8m (2018: £81.3m) increase in personal wealth and other assets under management and advice, with the acquisition of Broughtons and 254 (2018: 291) new personal clients won during the year driving a 2.5% (2018: 1.5%) increase in the total number of personal clients[12] to 6,052 (2018: 5,902); and

Assets under management, administration and advice[13]	SIPP and SSAS £m [14]	Employee benefits £m	Personal wealth and other assets £m	Sub-total £m	Amati £m [15]	Total £m
At 1 June 2018	5,485.9	1,237.9	1,719.4	8,443.2	286.0	8,729.2
Broughtons	—	—	120.5	120.5	—	120.5
SSAS Solutions	380.0	—	—	380.0	—	380.0
Acquisitions during the year	380.0	—	120.5	500.5	—	500.5
Net inflows/(outflows), including market movements	185.7	(41.2)	(114.7)	29.8	123.0	152.8
At 31 May 2019	**6,051.6**	**1,196.7**	**1,725.2**	**8,973.5**	**409.0**	**9,382.5**

10 Revenue for the year ended 31 May 2019 was split 52% (31 May 2018: 58%) fixed, initial or time-based fees and 48% (31 May 2018: 42%) ad valorem fees based on the value of assets under management, advice and administration.
11 SIPP and SSAS schemes where the Group acts as pension consultant and administrator.
12 Includes personal wealth clients with SIPP and SSAS schemes operated by third parties.
13 Certain pension scheme assets, including clients' own commercial properties, are only subject to a statutory valuation at a benefit crystallisation event.
14 Value of funds under trusteeship in SIPP and SSAS schemes administered by Mattioli Woods and its subsidiaries.
15 Assets under management of £409.0m (2018: £286.0m) excludes £31.9m (2018: £27.0m) of Mattioli Woods' client investment included within SIPP and SSAS, employee benefits and personal wealth and other assets and excludes £11.9m (2018: £12.1m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.

- A £123.0m (2018: £132.2m) increase in Amati's funds under management (excluding Mattioli Woods' client investments), primarily through the growth of the TB Amati UK Smaller Companies Fund to £291.1m (2018: £166.3m) at 31 May 2019.

I would like to congratulate the Amati team on being named 'Fund Manager of the Year' at the Investment Week Fund Manager of the Year Awards in June 2019. Amati is an excellent fund manager that has performed strongly since Mattioli Woods' investment, seeing gross funds under management[16] increase from circa £120.0m to £452.8m (2018: £325.1m) at the year end, winning numerous industry awards and having the TB Amati UK Smaller Companies fund rated by three major fund research houses. As a result of Amati's strong performance the Group's share of its profits increased to £0.5m (2018: £0.2m).

Key performance indicators

The directors consider the key performance indicators ("KPIs") for the Group are as follows on page 19.

Financial performance and future developments

Revenue

Total Group revenue was £58.5m (2018: £58.7m), with the changing revenue mix across each of the Group's operating segments explained in more detail below. With effect from 1 June 2018 the Group adopted the new accounting standard IFRS 15 'Revenue from Contracts with Customers', with there being no material differences between the results for the year ended 31 May 2019 under IAS 18 'Revenue', had it applied, and those reported under IFRS 15.

Revenue included £1.1m (2018: £nil) from the Broughtons and SSAS Solutions businesses acquired during the year. We have identified a number of key strategic objectives to drive efficiency and effectiveness across the Group, streamlining processes, building a scalable operating model and making Mattioli Woods easier to do business with. We expect these changes will deliver further material cost savings for us and our clients.

Our focus remains on delivering great outcomes for our clients as we address their changing needs, with our ambition being to see our brand become an even stronger force in the UK financial services sector.

Employee benefits expense

As in previous years, the major component of the Group's operating costs is our employee benefits expense of £31.2m (2018: £32.1m) representing 53.3% of revenue (2018: 54.7%). Securing economies of scale and operational efficiencies, particularly through the integration of acquired businesses and clients, are key elements of our aim to reduce clients' TERs and we are pleased to have increased average consultant and client relationship manager caseloads during the year.

Due to the lease on the Group's office in Hampton-in-Arden expiring in June 2019 and the proximity of this location to Leicester, we relocated our MC Trustees business to our new Leicester office in the first half of the financial year, resulting in some voluntary redundancies and the Group's average headcount during the year falling to 600 (2018: 618) at 31 May 2019.

We have also reviewed our approach to consultancy development, with the number of consultants reducing to 115 (2018: 133) at the year end, following the retirement of several vendors of acquired businesses on completion of their earn-outs, restructuring of our employee benefits business and a new consultancy development programme going live in December 2018.

We continue to invest in our IT systems, compliance and training across all parts of the Group, with the aim of delivering further operational efficiencies and benefiting from further economies of scale.

Other administrative expenses

Other administrative expenses fell to £11.7m (2018: £12.6m), with the impact of additional regulatory and compliance costs following the introduction of MiFID II, increased IT costs after moving to a cloud-hosted infrastructure and changes in revenue mix increasing irrecoverable VAT being more than offset by the impact of lower headcount on variable costs and significantly lower than anticipated costs incurred on the Group's exit from its previous premises at Grove Park.

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

With effect from 1 June 2018 the Group adopted the new accounting standard IFRS 9 'Financial Instruments', which replaced IAS 39 'Financial Instruments: Recognition and Measurement' and introduces changes to the classification of financial assets and a new impairment model for financial assets, resulting in earlier recognition of impairment losses. The impact, net of tax, of the transition to IFRS 9 on the opening balance of consolidated retained earnings was a reduction in value of £0.25m.

Share based payments

Share based payments costs fell to £1.1m (2018: £1.5m) following the settlement of all outstanding cash-settled options in the prior year, with strong share price growth in previous periods having increased the costs associated with the cash-settled options.

Loss on disposal of property, plant and equipment

The loss on disposals of property, plant and equipment of £0.1m (2018: £0.1m) was incurred primarily on the disposal of consultants' cars.

Gain on revaluation of derivative financial instrument

The gain of £0.1m (2018: £0.5m) represents the increase in value of the Group's option to acquire a further 51% of Amati, which was cancelled following the year end in return for a £0.75m payment from the management team.

Net finance costs

The Group has maintained a positive net cash position throughout the year, with net finance costs of £0.03m (2018: £0.08m) reflecting credit interest of £0.06m (2018: £0.07m) being offset by £0.09m (2018: £0.15m) of non-cash interest charges on the unwinding of discounts on long term provisions.

Taxation

The effective rate of taxation on profit on ordinary activities was 20.0% (2018: 16.2%), above (2018: below) the standard rate of tax of 19.0% (2018: 19.0%), primarily due to certain expenses associated with sponsorship and other business development activities not being deductible for tax purposes.

The lower effective rate in the prior year was due to research and development relief claimed in respect of the two years ended 31 May 2017. The net deferred taxation liability carried forward at 31 May 2019 was £3.8m (2018: £2.8m).

16 Includes Mattioli Woods' client investment and £11.9m (2018: £12.1m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.

Strategy/objective	KPI	How we performed
Organic growth and growth by acquisition See 'Our business model' on page 12 and 'Revenue' on page 18.	**Revenue** – total income (excluding VAT) from all revenue streams.	2019: **£58.5m** 2018: £58.7m 2017: £50.5m
Operating efficiency See 'Profitability and earnings per share' on page 20 and 21.	**Adjusted EBITDA margin** – profit generated from the Group's operating activities before financing income or costs, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax), divided by revenue.	2019: **24.8%** 2018: 21.3% 2017: 21.4%
Shareholder value and financial performance See 'Profitability and earnings per share' on page 20 and 21.	**Adjusted Earnings Per Share ("EPS")** – total comprehensive income for the year, net of taxation, attributable to equity holders of the Company, adjusted to add back acquisition-related costs, gain on revaluation of derivative financial assets, non-cash interest charges on the unwinding of discounts on long-term provisions and the amortisation of acquired intangible assets, divided by the weighted average number of ordinary shares in issue.	2019: **37.3p** 2018: 34.4p 2017: 30.3p
Growth in the value of assets under management, administration and advice See 'Assets under management, administration and advice' on pages 17 and 18.	**Assets under management** – the value of all client assets the business gives advice upon, manages or administers.	2019: **£9.4bn** 2018: £8.7bn 2017: £7.9bn
Excellent client service and retention See 'Segmental review' on pages 22 and 23.	**Client attrition** – the number of direct SSAS and SIPP schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme	2019: **3.4%** 2018: 2.6% 2017: 3.6%
Financial stability See 'Cash flow' on pages 21. See 'Regulatory capital' on page 22.	**Debtors' days** – this is the average number of days' sales outstanding in trade receivables at any time.	2019: **32 days** 2018: 32 days 2017: 40 days
	Surplus on regulatory capital – requirement – this is the aggregate surplus on the total regulatory capital requirement of the Group (see Note 30).	2019: **£17.3m** 2018: £18.8m 2017: £13.4m

Alternative performance measures

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

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

Supporting calculations for alternative performance measures and reconciliations between alternative performance measures and their IFRS equivalents are set out in the Alternative performance measure workings section of the Annual Report.

Profitability and earnings per share

Profit before tax was up 4.1% to £10.2m (2018: £9.8m), with adjusted profit before tax up 8.8% to £12.3m (2018: £11.3m). A continued focus on operational efficiencies and the realisation of one-off and recurring administrative cost savings translated into strong growth in adjusted EBITDA up 16.0% to £14.5m (2018: £12.5m), with adjusted EBITDA margin of 24.8% (2018: 21.3%).

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

	2019 £m	2018 £m
Statutory operating profit before financing	**9.8**	9.6
Amortisation of acquired intangibles	**1.9**	1.8
Amortisation of software	**1.0**	0.5
Depreciation	**1.3**	0.8
EBITDA[17]	**14.0**	12.7
Share of associate profits (net of tax)	**0.5**	0.2
Acquisition-related costs	**0.1**	0.1
Gain on revaluation of Amati option	**(0.1)**	(0.5)
Adjusted EBITDA[18]	**14.5**	12.5

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

	Profit 2019 £m	**EPS 2019 pps**	Profit 2018 £m	EPS 2018 pps
Statutory profit before tax	**10.2**	**38.5**	9.8	36.8
Income tax expense	**(2.0)**	**(7.7)**	(1.6)	(6.0)
Statutory profit after tax / Basic EPS	**8.2**	**30.8**	8.2	30.8
Statutory profit before tax	**10.2**	**38.5**	9.8	36.8
Amortisation of acquired intangibles	**1.9**	**7.2**	1.8	6.6
Gain on revaluation of Amati option	**(0.1)**	**(0.4)**	(0.5)	(2.0)
Non-cash interest charges on provisions	**0.1**	**0.3**	0.2	0.6
Acquisition-related costs	**0.1**	**0.5**	0.1	0.5
Adjusted PBT	**12.3**	**46.1**	11.3	42.5
Income tax expense at standard rate	**(2.3)**	**(8.8)**	(2.1)	(8.1)
Adjusted PAT / Adjusted EPS[19]	**9.9**	**37.3**	9.1	34.4

17 Earnings before interest, taxation, depreciation, amortisation and impairment.
18 Figures in table may not add due to rounding.
19 Figures in table above may not add due to rounding.

As explained in Note 16, client portfolios acquired through business combinations are recognised as intangible assets. The amortisation charge for the year of £1.9m (2018: £1.8m) associated with these intangible assets has been excluded from adjusted PAT and adjusted EPS because the Board reviews the performance of the business before these charges, which are non-cash and do not apply evenly to all business units.

Adjusted EPS[20] increased 8.4% to 37.3p (2018: 34.4p), while basic EPS was 30.8p (2018: 30.8p), with profits for the year stated after recognising a smaller gain on revaluation of the Amati option and £0.6m of accelerated amortisation on existing IT systems. EPS was also impacted by the higher effective tax rate of 20.0% (2018: 16.2%) and the issue of 380,766 shares under the Company's share plans, 77,171 shares as part of the initial consideration for the Broughtons acquisition and 162,654 shares as part of the initial consideration for the SSAS Solutions acquisition. Diluted EPS was 30.7p (2018: 30.8p).

Dividends

The Board is pleased to recommend the payment of an increased final dividend of 13.67p per share (2018: 11.5p). This makes a proposed total dividend for the year of 20.0p (2018: 17.0p), a year-on-year increase of 17.6% (2018: 20.6%), demonstrating our desire to deliver value to shareholders and confidence in the outlook for our business.

The Board remains committed to growing the dividend, while maintaining an appropriate level of dividend cover. If approved, the final dividend will be paid on 25 October 2019 to shareholders on the register at the close of business on 13 September 2019, having an ex-dividend date of 12 September 2019.

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

For the DRIP to apply to the proposed final dividend for the year ended 31 May 2019, shareholders' instructions must be received by Link by 27 September 2019.

Cash flow

Opening cash balances of £23.7m (2018: £23.0m) included £3.5m of VAT reclaimed on behalf of clients, of which £3.4m was distributed during the year, with cash generated from operations falling to £11.0m or 78.0% of EBITDA (2018: £18.2m or 143%). An improvement in operating profit margin before changes in working capital and provisions to 25.8% (2018: 23.3%) was offset by a £4.1m increase (2018: decrease of £4.5m) in the Group's working capital requirement, comprising:

- » A £4.2m decrease (2018: £5.1m increase) in trade and other payables, excluding £0.7m of trade and other payables added on the acquisition of Broughtons and SSAS Solutions, due to:
  - » a £3.4m decrease in other payables due to VAT reclaimed on behalf of clients in the prior financial year being repaid to clients this year;
  - » a £0.6m decrease in trade payables, primarily due to the timing of stage payments on the internal fit-out of the Group's new office in Leicester;
  - » a £0.4m decrease in current income tax liabilities outstanding at the year end, with a £0.4m increase in corporation tax paid during the year; and
  - » a £0.2m increase in social security and other taxes outstanding at the year end;
- » A £0.7m decrease (2018: £1.0m increase) in trade and other receivables, due to:
  - » a £1.2m decrease in other receivables (excluding £0.4m added with recent acquisitions), with £0.8m due to client insurance costs being recharged prior to the year end this year and a £0.3m net repayment of loans advanced to investment syndicates;
  - » a £0.3m increase in prepayments, excluding £0.1m added with recent acquisitions, due to an increasing volume of service contracts as the Group expands; and
  - » a £0.2m increase in trade receivables, excluding £0.1m added on the acquisition of Broughtons and SSAS Solutions; plus
- » A £0.6m decrease (2018: £0.4m increase) in provisions, following the settlement of contingent consideration on prior period acquisitions and the release of dilapidations and onerous contract provisions on the Group's exit from its premises at Grove Park in Leicester.

Cash balances at 31 May 2019 totalled £23.2m (2018: £23.7m), with £4.5m of initial consideration on the two acquisitions completed during the year and £0.8m (2018: £3.5m) of contingent consideration on historic acquisitions paid during the year.

Outstanding trade receivables remained at 32 days' sales (2018: 32 days), with a continued focus on credit control. Trade payables increased to 40 days' purchases (2018: 37 days) with balances at the year end inflated due to the Group being invoiced clients' annual property insurance premiums in May, which are subsequently recharged to clients and paid monthly over the next 12 months.

Capital expenditure of £2.0m (2018: £8.8m) comprised £0.8m incurred on the fit-out of the Group's new offices in Leicester, £0.5m on the purchase of new company cars, £0.4m investment in new computer hardware and office equipment and £0.3m on software development.

In the first half we reviewed our capital investment in IT, which resulted in the accelerated amortisation of some of our existing IT systems. We intend to continue investing in technology to develop our client relationship platforms and improve our client service propositions.

Bank facilities

The Group does not have an overdraft or other bank facility due to the headroom the Group's current cash balances provide on its working capital requirements.

20 Before acquisition–related costs, amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and non-cash interest charges on provisions.

Capital structure

The Group's capital structure is as follows:

	2019 £000	2018 £000
Cash and short-term deposits	**(23,248)**	(23,668)
Shareholders' equity	**85,593**	78,950
Capital employed	**62,345**	55,282

The Group continues to maintain a strong cash position, with cash balances of £23.2m (2018: £23.7m).

Regulatory capital

The Group's regulatory capital requirement has increased in recent years. In addition the Group's capital is reduced when it makes acquisitions due to the requirement for intangible assets arising on acquisition to be deducted from Tier 1 Capital.

However, the Group continues to enjoy significant headroom on its increased regulatory capital requirement, allowing us to pursue further acquisition opportunities (see Note 30).

Segmental review

Investment and asset management

Investment and asset management revenues generated from advising clients on both pension and personal investments increased 3.6% to £26.0m (2018: £25.1m), representing 44.4% (2018: 42.7%) of total Group revenues.

The Group's gross discretionary assets under management ("AuM"), including the multi asset funds which now sit at the heart of our discretionary portfolio management service ("DPM"), Custodian REIT, the Mattioli Woods Structured Products Fund ("MW SPF") and the funds managed by our associate company, Amati, increased by 9.8% to £2.57bn (2018: £2.34bn) as follows:

Income from both initial and ongoing portfolio management charges increased to £15.0m (2018: £14.2m), with £174.8m (2018: £273.7m) of inflows into our discretionary portfolio management service during the year.

Fees for services provided by Custodian Capital to Custodian REIT are included in the 'Property management' segment. The Mattioli Woods' Structured Products Fund was named Retail Investment Product of the Year at the Risk Awards 2018, with the fund offering investors the benefits of collateralisation, instant diversification, continuous availability and liquidity. A combination of new client investment and money from maturing individual structured product plans increased the fund's value to £242.5m at 31 May 2019 (2018: £213.8m), with annual management charges increasing to £1.3m (2018: £0.8m).

Adviser charges based on gross assets under advice of £2.03bn (2018: £2.04bn) fell to £9.7m (2018: £10.1m), with the lower revenue margin illustrating how we are reducing clients' charges and TERs, particularly on those assets invested in Custodian REIT, the MW SPF and Amati funds. Broughtons contributed £0.9m of adviser charges during the year, following its acquisition in August 2018. We continue to see some migration of assets under advice to AuM as clients from acquired portfolios engage with our DPM service.

Growth in total assets under management and advice continues to enhance the quality of earnings through an increase in recurring revenues, with the proportion of investment and asset management revenues which are recurring being 88.9% (2018: 81.7%). Notwithstanding our fee-based advisory model, as with other firms, these income streams are linked to the value of funds under management and advice, and are therefore affected by the performance of financial markets.

We extended our asset management business through our purchase of 49% of Amati, an award-winning specialist fund management business focusing on UK small and mid-sized companies, in February 2017. Amati is the manager of the TB Amati UK Smaller Companies Fund; Amati AIM VCT plc and an AIM IHT portfolio service.

Assets under management	DPM £m	Custodian REIT £m	MW SPF £m	Amati £m	Gross AuM £m	Cross-holdings in DPM [21]	Cross-holdings in Amati funds [22]	Net AuM £m
At 1 June 2018	1,341.1	462.6	213.8	325.1	2,342.6	(121.0)	(12.0)	2,209.5
Inflows	174.8	22.8	45.9	154.9	398.4	(11.3)	–	387.1
Outflows	(114.5)	–	(9.9)	(8.8)	(133.2)	–	0.2	(133.0)
Market movements	(7.4)	(2.1)	(7.3)	(18.4)	(35.2)	–	–	(35.2)
At 31 May 2019	**1,394.0**	**483.3**	**242.5**	**452.8**	**2,572.6**	**(132.3)**	**(11.9)**	**2,428.4**

21 Comprises £29.7m (2018: £30.4m) invested in Custodian REIT, £76.6m (2018: £69.2m) in MW SPF and £26.0m (2018: £21.4m) in Amati funds.
22 Cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.

Pension consultancy and administration

The introduction of the pensions freedoms has combined with a period of political and economic uncertainty driving a broader market shift away from accumulation and steady savings towards wealth preservation and decumulation. Pension consultancy and administration revenues were down 6.4% to £20.4m (2018: £21.8m), representing 34.9% (2018: 37.1%) of Group revenues of which 93.6% (2018: 87.7%) were recurring, with a lower level of client activity partially offset by the total number of SIPP and SSAS schemes administered by the Group increasing 5.6% to 11,119 (2018: 10,533), including the 354 schemes administered by SSAS Solutions.

Direct[23] pension consultancy and administration fees fell 6.6% to £15.5m (2018: £16.6m). Retirement planning remains central to many of our clients' wealth management strategies and the number of direct schemes increased to 6,051 (2018: 5,834), with 471 new schemes gained in the year (2018: 875). Our focus remains on the quality of new business, with the value of a new scheme averaging £0.3m (2018: £0.4m). We continue to enjoy strong client retention, with an increase in the external loss rate[24] to 2.2% (2018: 1.5%) and the overall attrition rate[25] to 3.4% (2018: 2.6%).

The number of SSAS and SIPP schemes the Group operates on an administration-only basis increased to 5,068 (2018: 4,699) at the year end, with scheme numbers enhanced by the acquisition of SSAS Solutions during the year. In prior years the Group has been appointed to administer a number of SIPPs following the previous operators' failure and work continues in connection with certain schemes previously administered by Stadia Trustees Limited, HD Administrators, Pilgrim Trustees Services Limited and The Freedom SIPP Limited. Lost schemes include the transfer of some members of these portfolios to alternative arrangements. Overall, third party administration fees fell 10.4% to £4.3m (2018: £4.8m), with £0.2m of revenue generated by SSAS Solutions since its acquisition at the end of March 2019.

The Group's banking revenue was £0.6m (2018: £0.4m), reflecting the increase in the Bank of England base rate to 0.75% at the start of August 2018.

The pension market continues to evolve, with historic restrictions on annual contributions and annual allowances meaning that gross inflows predominantly come from customers of other operators choosing to move their existing arrangements to Mattioli Woods. There has also been some negative publicity for the pension market over the last few years, with certain SIPP and SSAS operators in the spotlight due to issues with esoteric and non-standard investments, while the general economic environment has reduced some consumers' focus on pension savings.

23 SIPP and SSAS schemes where Mattioli Woods acts as pension consultant and administrator.
24 Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the year.
25 Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the year.

While we anticipate continued regulatory scrutiny of the pension market, the market opportunity remains strong, with SIPP and SSAS arrangements still benefiting from the introduction of the pension freedoms and being favoured as a way of allowing individuals to have greater access, control, flexibility and responsibility over their pension savings. SIPPs are increasingly the pension vehicle of choice for the mass affluent and having been appointed to administer SIPPs previously operated by a number of failed operators in recent years we anticipate there may be some similar opportunities for the Group over the next few years.

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

Property management

Property management revenues increased 10.2% to £6.5m (2018: £5.9m), representing 11.1% of total revenue (2018: 10.1%), with our subsidiary Custodian Capital having assets under management and administration of £585.6m (2018: £542.9m) at 31 May 2019. Recurring annual management charges represented 90.6% (2018: 89.8%) of property management revenues, the majority of which are derived from the services provided by Custodian Capital to Custodian REIT, which currently offers a fully-covered dividend yield of 5.6%, one of the highest[26] among its UK property investment company peer group, coupled with the potential for capital growth from a balanced portfolio of real estate assets.

In addition, Custodian Capital continues to facilitate direct property ownership on behalf of pension schemes and private clients and manages our Private Investors Club, which offers alternative investment opportunities to suitable clients by way of private investor syndicates. This initiative continues to be well supported, with £27.9m (2018: £26.3m) invested in seven (2018: eight) new syndicates during the year, one of which remained open to further investment following the year end.

Employee benefits

Employee benefits revenues fell 5.1% to £5.6m (2018: £5.9m), due to fewer auto-enrolment pension projects compared to previous years as the market approached 'steady state' under the regulations in April 2019, coupled with the loss of some larger corporate clients in the year. Employee benefits revenues now represent 9.6% of total revenue (2018: 10.1%). In June 2018 we were delighted to announce the appointment of Saira Chambers to lead our employee benefits team as Employee Benefits Director and we have progressed a number of strategic projects during the year, including a review of the services provided to smaller clients, resulting in some loss of revenue but improved profitability within this business segment.

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

26 Source: Numis Securities Limited, Investment Companies Datasheet dated 30 August 2019.

Acquisitions

We have invested over £54m since our admission to AIM in 2005 in bringing 22 businesses or client portfolios into the Group, developing considerable expertise and a strong track record in the execution and subsequent integration of such transactions.

The two businesses acquired during the year are integrating well and have contributed positively to the Group's trading results since acquisition, increasing earnings and enhancing value.

With continuing consolidation across the key markets in which we operate, we expect there will be further opportunities to accelerate our growth by acquisition. Our strong balance sheet gives us the flexibility to make further value-enhancing acquisitions.

Relationships

The Group's performance and shareholder value are influenced by other stakeholders, principally our clients, suppliers, employees, the 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 client relationship managers and consultants. Employees have performance development reviews and employee forums also 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.

Resources

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

Our core values provide a framework for integrity, leading to responsible and ethical business practices. Structures for accountability from our administration and consultancy teams through to senior management and the Group's Board are clearly defined. The proper operation of the supporting processes and controls are regularly reviewed by the Audit Committee and the Risk and Compliance Committee and take into account ethical considerations, including procedures for 'whistle-blowing'.

Our people

I thank all our staff for their continued commitment, enthusiasm and professionalism in dealing with our clients' affairs. Our culture is based on professionalism, putting clients first and adopting a collegiate approach. Retaining the integrity, expertise and passion of our people remains a priority of the board and at the heart of our success. We are committed to developing our people and maintaining the capacity to deliver sustainable growth.

As our business grows, the board recognises the continued importance of good communication and will ensure that the strong client-centric behaviours that are embedded within the business are preserved. During the year the board had particular focus on the impact of growth on our culture. Outside of board meetings, non-executive directors have held a number of meetings with employees across the business to share experiences more directly.

Our total headcount at 31 May 2019 had decreased to 586 (2018: 622) and we continue to invest in our graduate and apprenticeship recruitment programmes. During the year 18 (2018: 20) new graduates and 17 (2018: 24) apprentices joined the Group, which was recognised for creating opportunities for young people by being highly commended in the Large Employer of the Year Award category at the National Apprenticeship Awards 2018. We also offer programmes for 'life served' people seeking exciting opportunities for a change in career or a return to work.

We enjoy a strong team spirit and facilitate employee equity ownership through the Mattioli Woods plc Share Incentive Plan ("the Plan") and other share schemes. At the end of the year 57% of eligible staff had invested in the Plan (2018: 58%) and we continue to encourage broader staff participation.

In May 2019 the Mattioli Woods Employee Benefit Trust ("the Trust") commenced making market purchases of the Company's shares. The Trust holds shares for the benefit of the Group's employees and, in particular, to satisfy the vesting of awards made under the Company's various share schemes. The acquisition of shares by the Trust helps to avoid dilution of shareholders by reducing the need for the Company to issue new shares.

Forward-looking statements

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

Principal risks and uncertainties

The Board is ultimately responsible for risk management and regularly considers the most significant and emerging threats to the Group's strategy, as well as establishing and maintaining the Group's systems of internal control and risk management and reviewing the effectiveness of those systems. The Board and senior management are actively involved in a continuous risk assessment process as part of our risk management framework, supported by the annual Internal Capital Adequacy Assessment Process ("ICAAP"), which assesses the principal risks facing the Group. Stress tests include consideration of the impact of a number of severe but plausible events that could impact the business. The work also takes account of the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

Day-to-day, our risk assessment process considers both the impact and likelihood of risk events which could materialise and affect the delivery of the Group's strategic goals.

Throughout the Group, all employees have a responsibility for managing risk and adhering to our control framework.

There are a number of potential risks which could hinder the implementation of the Group's strategy and have a material impact on its long term performance. These arise from internal or external events, acts or omissions which could pose a threat to the Group. The principal risks identified as having a potential material impact on the Group are detailed below, together with the principal means of mitigation. The risk factors mentioned do not purport to be exhaustive as there may be additional risks that materialise over time that the Group has not yet identified or deemed to have a potentially material adverse effect on the business.

An active approach **to risk and responsibility**

Key of change
- ▲ Increase
- ▶ No change
- + New

Industry risks

Risk type	Description	Mitigating factors	Chance	Impact	Change in risk
Changes in investment markets and poor investment performance	Volatility may adversely affect trading and/or the value of the Group's assets under management, administration and advice, from which we derive revenues.	» Majority of clients' funds held within registered pension schemes or ISAs, where less likely to withdraw funds and lose tax benefits. » Broad range of investment solutions enables clients to shelter from market volatility through diversification, while continuing to generate revenues for the Group. » Market volatility is closely monitored by the Investment Committee.	Medium	Medium	▶
Changing markets and increased competition	The Group operates in a highly competitive environment with evolving characteristics and trends.	» The Group seeks to maintain strong working relationships with clients underpinned by high levels of service, quality products and a continued focus on product development and innovation. » Consolidating market position develops the Group's pricing power. » Control over scalable and flexible bespoke pension administration platform. » Experienced management team with a strong track record. » Loyal customer base and strong client retention. » Broad service offering gives diversified revenue streams.	High	High	▶
Evolving technology	The Group's technology could become obsolete if we are unable to develop our systems to accommodate changing client needs, new products and the emergence of new industry standards.	» We partner with leading software providers to assist in our systems development. » High awareness of the importance of technology at Board level. » Expanded systems development with phased implementation of Group-wide platform.	Medium	High	▶
Regulatory risk	The Group may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations.	» Strong compliance culture, with appropriate oversight and reporting supported by training. » External professional advisers are engaged to review and advise upon control environment. » Business model and culture embraces FCA principles, including treating clients fairly. » Decision to withdraw from providing advice on safeguarded pensions. » Financial strength provides comfort should capital resource requirements be increased.	Medium	Medium /High	▶
Changes in tax law	Changes in tax legislation could reduce the attractiveness of long-term savings via pension schemes, particularly SSASs and SIPPs.	» The Government has a desire to encourage long-term savings to plan for an ageing population, which is currently under-provided for. » Changes in pension legislation create the need for clients to seek advice. » The development of the Group's investment and asset management services has reduced dependency on pension planning.	Low	Medium	▶

Key of change
▲ Increase
▶ No change
⊞ New

Operational risks

Risk type	Description	Mitigating factors	Chance	Impact	Change in risk
Damage to the Group's reputation	There is a risk of reputational damage as a result of employee misconduct, failure to manage inside information or conflicts of interest, fraud, improper practice, poor client service or advice.	» Strong compliance culture with a focus on positive customer outcomes. » High level of internal controls, including checks on new staff. » Well-trained staff who ensure the interests of clients are met in the services provided.	Medium	High	▶
Errors, breakdown or security breaches in respect of the Group's software or information technology systems	Serious or prolonged breaches, errors or breakdowns in the Group's software or information technology systems could negatively impact customer confidence. It could also breach contracts with customers and data protection laws, rendering us liable to disciplinary action by governmental and regulatory authorities, as well as to claims by our clients.	» Ongoing review of data security including penetration testing and "phishing" exercise. » IT performance, scalability and security are deemed top priorities by the Board. » Experienced in-house team of IT professionals and established name suppliers.	High	High	▶
Data quality	Inaccurate data or voids in our data could result in inaccurate regulatory and/or client reporting.	» Ongoing initiatives to clean data. » Development of data warehouse to standardise data tables and create 'one source of truth'.	High	Medium	▶
Business continuity	In addition to the failure of IT systems, there is a risk of disruption to the business as a result of power failure, fire, flood, acts of terrorism, re-location problems and the like.	» Periodic review of Business Continuity Plan, considering best practice methodologies. » Disaster recovery plan and a disaster recovery team in place. Business impact analysis has been conducted by each department. » Business interruption insurance.	Medium	Medium	▶
Fraud risk	There is a risk an employee or third party defrauds either the Group or a client.	» The Group ensures the control environment mitigates against the misappropriation of client assets. » Strong corporate controls require dual signatures for all payments and Board approval for all expenditure greater than £100,000. » Assessment of fraud risk every six months discussed with the Audit Committee, Risk and Compliance Committee and external auditors. » Clients have view-only access to information. » Ongoing review of risk of fraud due to external attack on the Group's IT systems.	Medium	Medium	▶

Risk type	Description	Mitigating factors	Chance	Impact	Change in risk
Key personnel risk	The loss of, or inability to recruit, key personnel could have a material adverse effect on the Group's business, results of operations or financial condition.	» Succession planning is a key consideration throughout the Group. » Success of the Group should attract high calibre candidates. » Share-based schemes in operation to incentivise staff and encourage retention. » Recruitment programmes in place to attract appropriate new staff. » Cross functional acquisition team brought into acquisition projects at an early stage.	Low	Medium	
Litigation or claims made against the Group	Risk of liability related to litigation from clients or third parties and assurance that a claim or claims will not be covered by insurance or, if covered, will exceed the limits of available insurance coverage, or that any insurer will become insolvent and will not meet its obligations to provide the Group with cover.	» Appropriate levels of Professional Indemnity insurance cover regularly reviewed with the Group's advisers. » Comprehensive internal review procedures, including compliance sign-off, for advice and marketing materials. » Maintenance of three charging models; time cost, fixed and asset based, which are aligned to specific service propositions and agreed with clients. » Restricted status for our consultants to enable the recommendation of our own products and others in the market.	High	Medium	
Reliance on third parties or outsourcing risk	Any regulatory breach or service failure on the part of an outsourced service provider could expose the Group to the risk of regulatory sanctions and reputational damage.	» Due diligence is part of the selection process for key suppliers. » Ongoing review of relationships and concentration of risk with key business partners. » Review of outsourcing is a key area of focus in Internal Audit plan.	Medium	High	
Strategic risk	Risk that management will pursue inappropriate strategies or implement the Group's strategy ineffectively.	» Experienced management team with successful track record to date. » Management has demonstrated a thorough understanding of the market and monitors this through regular meetings with clients.	Low	Low	
Corporate manslaughter risk	The risk of breaching corporate manslaughter laws as a result of management breach in duty of care.	» Policies and procedures in place to provide employee guidance when driving on company business. » Company cars regularly maintained and serviced with reputable and vetted companies. » Adequate insurance cover. » Responsible employees.	High	Medium	
Conduct risk	The risk that we fail our clients through the flawed design or mis-selling of our products or services, or poor business conduct results in client outcomes that do not meet their needs and circumstances.	» Only appropriately authorised consultants can provide advice. » Robust training and competence scheme in place. » Operation of 'three lines of defence' model, including internal and external reviews to monitor suitability of advice being given to clients.	Medium	Medium	
Information security risk	The risk that the security controls over our IT systems are compromised by internal or external influences, resulting in unauthorised access to our client or corporate confidential data.	» Robust firewalls and patches maintained to prevent unauthorised access to IT systems, including utilisation of third party providers to protect corporate networks. » Electronic data is protected by user access controls. Data privacy training is provided across the Group. » Compliance with the Data Protection Act and registration with the Information Commissioner's Office.	Medium	High	

Key of change
- Increase
- No change
- New

Financial risks

Risk type	Description	Mitigating factors	Chance	Impact	Change in risk
Counterparty default	That the counterparty to a financial obligation will default on repayments.	» The Group trades only with recognised, creditworthy third parties. » Customers who wish to trade on credit terms are subject to credit verification procedures. » All receivables are reviewed on an ongoing basis for risk of non-collection and any doubtful balances are provided against.	Medium	Medium	No change
Bank default	The risk that a bank could fail.	» We only use banks with strong credit ratings. » Client deposits spread across multiple banks. » Regular review and challenge of treasury policy by management.	Medium	High	No change
Concentration risk	A component of credit risk, arising from a lack of diversity in business activities or geographical risk.	» The client base is broad, without significant exposure to any individual client or group of clients. » Broad service offering gives diversified revenue streams.	Medium	Medium	No change
Liquidity risk	The risk the Group is unable to meet liabilities as they become due because of an inability to liquidate assets or obtain adequate funding.	» Cash generative business. » Group maintains a surplus above regulatory and working capital requirements. » Treasury management provides for the availability of liquid funds at short notice.	Low	Low	No change
Interest rate risk	Risk of decline in earnings due to a decline in banking margin or deposit rates received on surplus cash. Low interest rates make it harder to structure compelling capital-protected products for clients.	» Market expectation that interest rates will rise. » Good relationships with key banking partners. » Access to competitive interest rates due to scale of business.	Low	Medium	No change
Underwriting risk	When arranging new products for promotion to the Group's clients, the Group may need to guarantee a minimum aggregate investment to secure appropriate terms for the product. If actual client investment is less than the underwritten amount, we would incur the cost of either acquiring the unsold element of the product or unwinding any hedges underlying the unsold element of the product.	» New products created in line with client demand. » Potential costs are carefully considered by the Investment Committee prior to the launch of each product.	Low	Low	No change

Emerging risks, including legislative and regulatory change, have the potential to impact the Group and its strategy. The Board, Audit Committee and Risk and Compliance Committee continue to monitor emerging risks and threats to the financial services sector including, for example, cyber threats, regulatory change and scenarios potentially arising from geopolitical developments, including Brexit, and intend to focus on operational resilience and enhancing the control environment over the next 12 months.

Brexit is likely to be one of the most significant political and economic events to impact the UK in our lifetimes. The lack of consensus on the UK's strategy creates uncertainty and the longer term implications will not be clear for some time.

We continue to monitor Brexit-related developments closely. As a UK business with no operations in other European Union ("EU") countries, no material dependencies on goods or people from other EU countries and a predominantly UK client base, we anticipate that the operational impacts on our business will be relatively small. In particular Brexit will bring no changes to the basis or nature of the services we provide to the vast majority of our clients and investors who are based in the UK. However, we recognise the impact of Brexit more generally, which could affect the value of our clients' funds under management, advice and administration.

Investors in the Mattioli Woods Structured Product Fund (which is a Luxembourg-based SICAV) are likely to see some changes to the basis on which this fund is delivered. It is also possible that there may be some implications for the small number of our private clients based in other EU countries, depending on the exact nature of the services they receive and regulatory framework agreed in the transitional period or in the event of an exit from the EU without agreement. We continue to review the investment implications of Brexit for client portfolios and our range of funds, and regularly communicate our views through formal and informal briefings to clients and our consultants.

Corporate social responsibility

Our commitment **to operating responsibly**

We believe that running a profitable and growing business, which creates jobs and contributes to the economic success of the areas in which it operates, is a platform for good corporate social responsibility.

We have a long-standing commitment to support our staff in engaging with their local communities and charities. This social awareness is present throughout the business, from our employees to our clients, our professional connections and the suppliers we use. Our continued contribution through the commitment of our people continues to improve lives and build communities.

Sustainability

To deliver strong, sustainable shareholder returns over the long-term the operation of a profitable business is a priority and that means investing for growth. To achieve this, the Group recognises that it needs to operate in a sustainable manner and therefore has adopted core principles to its business operations which provide a framework for both managing risk and maintaining its position as a good 'corporate citizen'.

Charities and communities

We have a high level of engagement within our local communities. Each year, we sponsor business, sports and community awards. Our business has benefited greatly from winning numerous awards and we feel it's right to help other businesses reap the rewards of such accolades. In addition, we sponsor a variety of local clubs, business and sports related events across the country. We believe this brings many benefits to the local community and beyond.

In 2015 we chose our first national charity, Breast Cancer Now, the UK's largest breast cancer charity dedicated to funding research into this devastating disease, raising over £200,000 for the charity. This year, we have launched a new national partnership with Alzheimer's Research UK focused on boosting research, improving treatments and raising awareness about dementia.

Alzheimer's Research

Alzheimer's Research UK will become the Group's charity of the year for the next two years with the aim to raise £150,000 during this partnership to help transform lives, identify life-changing treatments and eventually a cure. We intend to engage employees, clients and partners to raise money for the charity through a series of fundraising events, from bucket collections to payroll giving, sporting events, dinners and seasonal activities.

We believe that dementia is one of the biggest problems facing health services today and one that is impacting the lives of many of our employees and clients. The money raised over the next two years is going to fund ground-breaking research that will change the lives of people impacted by it.

In addition, almost 80 charities throughout the UK benefitted after Mattioli Woods urged its staff to nominate worthy causes as part of a new initiative. Chief Executive Ian Mattioli asked for nominations to help continue a charitable tradition started by the Group's associate company, Amati.

Mattioli Woods launches fight against dementia.

Mattioli Woods launches a new national partnership with Alzheimer's Research UK focused on boosting research, improving treatments and raising awareness about dementia.

Rothley 10k

Over 1,000 runners from Leicestershire and beyond took to the streets of Rothley in June 2019 for the annual Mattioli Woods Rothley 10k. The race has grown year-on-year and is now the largest 10k road race in the county, which is a great showcase of local community spirit.

Rainbows, LOROS, Air Ambulance Service, Age UK, Eye Camps, Vista and RNLI are among the charities to benefit from over £25,000 of funds raised through sponsorship and race entry fees to become the largest fund raising event in its history. Over the years, the race has now generated more than £300,000 for local causes.

Raised for local causes

£300,000

Amati partnership

Every year, Amati has a commitment to donate 10% of its profits to good causes and sharing similar values, we want to further that tradition and continue the good work Amati started.

Staff throughout the Group were asked to suggest causes they felt deserving of a pay-out. The money was distributed after Ian received a "truly heart-warming" response from employees, with a decision to split awards between the requests received resulting in 77 organisations and individuals sharing over £32,800.

Sammi Kinghorn

We have sponsored world champion wheelchair racer Sammi Kinghorn for the past five years. Sammi – now 23 – has gone on to achieve international success, winning three European Championship gold medals in 2014, a bronze in 2015 at the Doha World Championships and two gold medals and a bronze medal at the London 2017 World Championships.

Mattioli Woods has been one of her main sponsors from the start of her wheelchair racing career and, following her recent successes, Sammi and coach Ian Mirfin said the Company's support had been vital to her progress. After returning to shorter distance track racing for the first time in almost two years in May 2019, Sammi has her sights firmly set on the 2019 World Para Athletics Championships in Dubai and the 2020 Paralympics in Tokyo.

Developing **our people**

The Group continues to create opportunities for young people and has launched a new trainee consultant programme for aspiring advisors. We have introduced a 26-week plan to foster small groups of trainee advisers in a classroom setting, two days a week.

Each week is themed, including topics such as tax, pensions and investments, and aims to get trainees who have been with the company for 18 months and have completed their level 4 qualification to the point where they are able to develop financial plans.

Mattioli Woods' graduate and apprenticeship schemes have been running for a number of years, with this new programme highlighting the firm's motivation to 'grow our own'. Trainees work alongside consultants in administrative roles and attend consultant-led client meetings. The scheme will continue to be rolled out for new groups of employees who demonstrate the potential to move into consultant roles at the firm.

Training expenditure

£0.25m

- » 45% professional/regulated training
- » 45% management/talent development
- » 10% general

eLearning hours completed

6,000+

New graduates

18

New apprentices

16

Trainee consultant programme

2018/2019 Mattioli Woods graduating apprentices

Senior Investment Administrator, Asset Management:
Henry Allen

"I wanted to get into the financial services sector but had very little relevant experience."

"So, I started looking at apprenticeships, and applied for the scheme at Mattioli Woods. The programme has allowed me to get my foot in the door with a company becoming ever more prominent in its sector, giving me the foundations I needed for a career in this profession. I have since moved from being a Client Relationship Manager into a senior role within the investment operations team, having gained several qualifications along the way."

Software Development Manager, Information Technology:
Elliott Clarke

"I joined Mattioli Woods as a software developer apprentice. I have progressed through the Information Technology team and have recently been promoted to Software Development Manager."

"Mattioli Woods is a great place to work with a strong culture of investing in its employees. I have been given great opportunities which I've grabbed with both hands."

Consultant, Wealth Management:
Thomas Duckworth

"I joined Mattioli Woods in 2014 having worked in the industry as an adviser and/or administrator for both small IFA practices and multi-national corporations."

"Mattioli Woods combines the collaborative and friendly environment of a smaller company with the experience, knowledge and potential for progression of a larger firm. Since joining I have added a breadth of knowledge that would not be possible in other firms, which continues to make me a better consultant, benefiting every one of my clients."

Diversity and inclusion
We are an equal opportunities employer and it is our policy to ensure that all job applicants and employees are treated fairly and on merit regardless of race, sex, marital/civil partnership status, age, disability, religious belief, pregnancy, maternity, gender reassignment or sexual orientation.

Modern slavery
Mattioli Woods is committed to preventing modern slavery and human trafficking in all its activities, and to ensuring its supply chains are free from modern slavery and human trafficking. We welcomed the introduction of the Modern Slavery Act 2015 and publish a Modern Slavery and Human Trafficking Statement on our website. We have also developed policies, reviewed our due diligence processes for suppliers and provided training to staff.

A copy of our Modern Slavery and Human Trafficking Statement can be found on our website.

Anti-bribery policy
We value our reputation for ethical behaviour and upholding the utmost integrity and we comply with the FCA's clients' best interests rule. We understand that in addition to the criminality of bribery and corruption, any such crime would also have an adverse effect on our reputation and integrity.

Mattioli Woods has a zero tolerance approach to bribery and corruption and we ensure all our employees and suppliers are adequately trained as to limit our exposure to bribery by:

» Setting out clear anti-bribery and corruption policies;

» Providing mandatory training to all employees;

» Encouraging our employees to be vigilant and report any suspected cases of bribery in accordance with the specified procedures; and

» Escalating and investigating instances of suspected bribery and assisting the police or other appropriate authorities in their investigations.

Our core values provide a framework for integrity, leading to responsible and ethical business practices.

Gender pay reporting
The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requires all employers with 250 or more employees in the UK to publish details of their gender pay gap. Its aim is to achieve greater transparency about gender pay difference. The analysis is based on data as at 5 April of each year and shows the differences in the average pay between men and women. The Group has submitted its data on gender pay to the government and published these details on our website.

Approval
The strategic report contains certain forward-looking statements, which are made by the Directors in good faith based on the information available to them at the time of their approval of this annual report. Statements contained within the strategic report should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. The strategic report has been prepared by Mattioli Woods to provide information to its shareholders and should not be relied upon for any other purpose.

Pages 1 to 33 constitute the strategic report, which has been approved by the Board of Directors and signed on its behalf by:

Ian Mattioli MBE
Chief Executive Officer
2 September 2019

Good governance is fundamental **to the way we do business**

Joanne Lake
Non-Executive Chairman

An effective governance framework is in place to give all our stakeholders confidence.

Balanced board

Gender

50/50

Executive/Non-Executive

50/50

Governance overview

The Board is committed to achieving high standards of corporate governance, integrity and business ethics. We recognise the need to ensure an effective governance framework is in place to give all our stakeholders confidence that the business is effectively run, ensuring good outcomes for our clients and looking after the interests of the Group's shareholders and other stakeholders.

Board structure

The Board has established a sub-committee structure comprising Risk and Compliance, Audit, Remuneration and Nomination Committees. During the financial year ended 31 May 2018 the Group undertook internal and external reviews of the effectiveness of the Board, its sub-committees and the senior executive management framework. We created a new Senior Executive Team to execute the strategy determined by the Board, bringing together a senior team with responsibility for all our key operational areas.

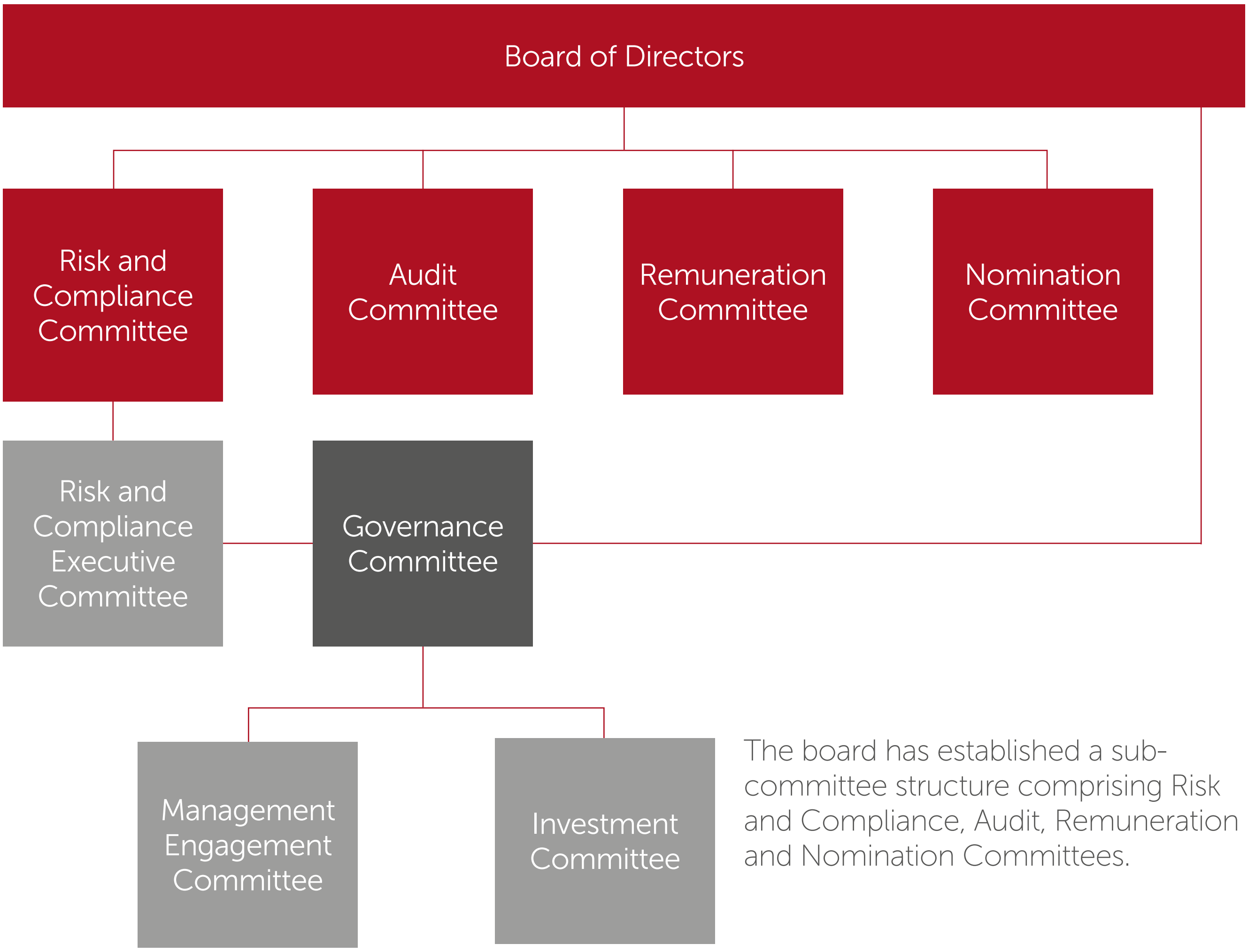
Following the end of the financial year ended 31 May 2019 the Group has again reviewed its management and governance structure, implementing a number of changes designed to improve the management and governance of the Group's key areas of operation, illustrated opposite.

The Senior Executive Team has been restructured into two new committees, comprising the Governance Committee and the Management Engagement Committee.

The Group's investment and asset management business is managed through a single committee, which has been renamed the Investment Committee (formerly the Asset Management Executive Committee), which ensures risk and investment controls are applied consistently across our various products and services.

Each operating subsidiary is managed by its own board, which reports to the Management Engagement Committee. We believe these changes give the business the optimal management structure to secure continued growth.

How our company is structured



The board has established a sub-committee structure comprising Risk and Compliance, Audit, Remuneration and Nomination Committees.

Attendance at meetings

Risk and Compliance Committee	Audit Committee	Remuneration Committee	Nomination Committee
Joanne Lake 8/8	Joanne Lake 5/5	Joanne Lake 3/3	Joanne Lake 4/4
Carol Duncumb 7/8	Carol Duncumb 5/5	Carol Duncumb 3/3	Carol Duncumb 4/4
Anne Gunther 8/8	Anne Gunther 5/5	Anne Gunther 3/3	Anne Gunther 4/4
Ian Mattioli 7/8			

Corporate governance code

In March 2018 the AIM Rules were changed such that all AIM companies were obliged to apply a recognised corporate governance code from September 2018, providing details of that code on its website along with details of how the company complies with or departs from the code.

In July 2018 the Board resolved to adopt the Quoted Companies Alliance ("QCA") revised corporate governance code ("QCA Code"), which requires the Group to apply ten principles focused on the pursuit of medium to long-term value for shareholders and also to publish certain related disclosures.

In preparing to adopt the QCA Code the Board reviewed the Group's risk management framework and resolved to split the Audit, Risk and Compliance Committee into two committees: an Audit Committee and a separate Risk and Compliance Committee, reflecting the continued improvement of the Group's three lines of defence model. The Group's other governance arrangements remain unchanged.

Corporate governance principles applicable to the Group

The ten QCA Code corporate governance principles, which apply to the Group, are:

1. Establish a strategy and business model which promote long-term value for shareholders.
2. Seek to understand and meet shareholder needs and expectations.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.
5. Maintain the Board as a well-functioning, balanced team led by the chair.
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.
8. Promote a corporate culture that is based on ethical values and behaviours.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

Application of the QCA Code and required disclosures

The QCA Code requires us to apply the principles set out above and to publish certain related disclosures in our Annual Report, on our website, or a combination of the two.

We have followed the QCA Code's recommendations and have provided disclosure relating to all principles in a corporate governance statement on our website and summarise our compliance with the following principles in this Annual Report.

Strategy and business model – QCA Principle One

The Group's strategy and business model is described in our Strategic Report on pages 8 and 12.

Effective risk management – QCA Principle Four

The Group embeds risk management throughout the organisation and this is described on pages 40 and 41.

Board Balance and Skills – QCA Principles Five and Six

The Board, led by the Chair, has the necessary skills and knowledge to discharge their duties and responsibilities effectively, setting clear expectations and ensuring stringent measures for corporate governance standards are met, particularly in relation to executive remuneration, risk, compliance and audit. The Executive and Non-executive Directors' skill sets are complementary, and together provide a blend of broad commercial, operational, legal, and financial expertise. The skill set is suitably broad and sufficiently high calibre such that all decision making at Board level is robust and mindful of the fiduciary responsibilities that need to be discharged to all shareholders.

In addition, the Directors are aware of the importance of keeping abreast of the industry's current activities and industry conferences and events throughout the year to keep their skills, contacts and knowledge current and simultaneously engage with the regulator, other operators and service providers to the financial services industry.

We have followed the QCA Code's recommendations and have provided disclosure relating to all principles in a corporate governance statement on our website.

Board Effectiveness – QCA Principle Seven

The Board intends to undertake a self-evaluation during the financial year ending 31 May 2020 and annually thereafter. The criteria against which the Board collectively and individually will be assessed, includes Board composition, roles and responsibilities, meetings and administration, Board committees, Board discussions, Board relationships and stewardships, monitoring and evaluation, strategy and internal control.

The aim of the Board evaluation is to review the effectiveness of the Board's performance and assess its strengths as well as areas for development. As part of our Board evaluation process, the Board is currently considering the Company's approach to succession planning and will work with the Nomination Committee on the Board evaluation process. The executive management team and, at a more junior level, senior departmental managers address progression of employees through annual appraisals and competency reviews. The Group's structured 'Financial Assess' training programme further assists key managers with training and learning opportunities.

The aim of the Board evaluation is to review the effectiveness of the Board's performance and assess its strengths as well as areas for development.

Board of Directors

The Board of Directors comprises three Executive Directors and three independent Non-Executive Directors. A short biography of each director is set out on pages 38 and 39.

Time commitments of Board members

The Group embraces the benefits that are brought by a Board from a range of business backgrounds and who are actively involved in other businesses. The Board also recognises its members must be able to dedicate sufficient time to the Company.

The Board has considered the time commitments of each director and is comfortable that each has sufficient available capacity to carry out the required duties for Mattioli Woods:

- Joanne Lake's time commitment from her other directorships averages eight to nine working days per month.
- Ian Mattioli's time commitment from his roles as Non-Executive Chairman of K3 Capital Group plc and Non-Executive Director of Custodian REIT plc average two and one and a half working days per month respectively.
- Nathan Imlach's time commitment from his other appointments averages two to three working days per month.
- Murray Smith's other business interests outside of the Group are trivial in time commitment.
- Carol Duncumb's time commitment from her other business interests outside of the Group averages nine to ten working days per month.
- Anne Gunther's time commitment from her other directorships averages four and a half working days per month.

Imminent changes to the Board

Murray Smith, Group Managing Director, has decided to stand down from the Board at the Company's AGM on 21 October 2019 to continue in a full-time role as Founder Director to the Group, where his focus will be on his client portfolio, acquisitions and acting as an ambassador for Mattioli Woods.

Murray has been instrumental to the success of the Group and we will continue to benefit from his experience and insight in this new role, with Murray's management responsibilities being handed over to our Deputy Group Managing Director, Michael Wright. Following Murray stepping down as a director the Company will have a Board comprising a majority of independent directors, which we believe represents the right governance structure for the business.

Joanne Lake
Non-Executive Chairman
2 September 2019

Diverse. Experienced. **Committed.**

Joanne Lake
Non-Executive Chairman A C N R

Appointed to the Board: **2012**
Tenure at Mattioli Woods: **7 years**

Joanne was appointed to the Board in July 2012. In June 2015, she became Deputy Chairman ahead of her appointment as Non-Executive Chairman at the Group's Annual General Meeting in October 2016. Joanne has over 30 years' experience in accountancy and investment banking, including with Panmure Gordon, Evolution Securities, Williams de Broë and Price Waterhouse. She is a Chartered Accountant and a Fellow of both the Chartered Institute for Securities & Investment ("CISI") and the Institute of Chartered Accountants in England and Wales ("ICAEW"), and is a member of the ICAEW's Corporate Finance Faculty. Joanne is also deputy chairman of Main Market-listed Henry Boot plc, a land promotion and property development company and a non-executive director of Gateley (Holdings) Plc, the first UK commercial law firm to list on AIM, and Morses Club plc, a UK non-standard consumer finance company.

Ian Mattioli MBE
Chief Executive Officer C

Appointed to the Board: **2005**
Tenure at Mattioli Woods: **28 years**

Ian has over 35 years' experience in financial services, wealth management and property businesses and, together with Bob Woods, founded Mattioli Woods in 1991. Ian is responsible for the vision and operational management of the Group and instigated the development of its investment proposition, including the syndicated property initiative that developed the seed portfolio for the launch of Custodian REIT plc, of which he is founder, non-executive director and Chairman of its discretionary investment manager, Custodian Capital. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award and CEO of the Year in the 2018 City of London Wealth Management Awards.

Ian was awarded an MBE in the Queen's 2017 New Year's Honours list for his services to business and the community in Leicestershire. Ian is also Non-Executive Chairman of K3 Capital Group plc, which is listed on AIM and specialises in business transfer, business brokerage and corporate finance across the UK.

Nathan Imlach
Chief Financial Officer

Appointed to the Board: **2005**
Tenure at Mattioli Woods: **14 years**

Nathan is responsible for all financial aspects of Mattioli Woods' operations and leads the Group's acquisition activity. He qualified as a Chartered Accountant in 1993 with Ernst & Young, specialising in providing mergers and acquisitions advice to a broad range of quoted and unquoted clients in the UK and abroad. He is a Fellow of the CISI and holds the Corporate Finance qualification from the ICAEW. Nathan is Chief Financial Officer and member of the investment committee of the Group's subsidiary Custodian Capital and Company Secretary to Custodian REIT plc, having led its admission to the Main Market of London Stock Exchange in 2014 together with Ian Mattioli and Richard Shepherd-Cross. Nathan is also Non-Executive and Senior Independent Director of AIM-quoted Mortgage Advice Bureau (Holdings) plc, a leading mortgage network, and a trustee of Leicester Grammar School.

Committee key

A Audit Committee
C Risk and Compliance Committee
N Nomination Committee
R Remuneration Committee

● Committee Chair
○ Member of the Committee

Board meeting attendance

Joanne Lake
●●●●●●●● 8/8

Ian Mattioli MBE
●●●●●●●● 8/8

Nathan Imlach
●●●●●●●● 8/8

Murray Smith
●●●●●●●● 8/8

Carol Duncumb
●●●●●●●● 8/8

Anne Gunther
●●●●●●●● 8/8

Murray Smith
Group Managing Director

Appointed to the Board: **2005**
Tenure at Mattioli Woods: **23 years**

Murray graduated with an MA in accountancy and has worked in the financial services industry since 1992. Moving to Mattioli Woods in 1995, Murray built his early career as a consultant, specialising in advice on all aspects of retirement and wealth planning, before taking management responsibility for the Group's sales and marketing functions, culminating in his appointment to the Board in 2005.

As Group Managing Director, Murray is responsible for the strategic development and integration of the Group's wealth management and employee benefits divisions, together with the day-today delivery of the client proposition and consultancy functions. He is also actively involved in the Group's acquisition strategy. Murray has decided to stand down from the Board at the next AGM to continue in a full-time role as Founder Director to the Group.

Carol Duncumb
Non-Executive Director A C N R

Appointed to the Board: **2014**
Tenure at Mattioli Woods: **5 years**

Carol has over 35 years' experience working in consumer-related companies and over the last 10 years has focused on online transactional companies to gain greater experience of changing consumer behaviours. Previously, Carol was the Chief Executive of Intimas plc and Managing Director of Wolsey Limited and has a strong understanding of managing businesses. More recently, her activities have included business angel investing into online consumer businesses. She manages a portfolio of investments, whilst advising successful entrepreneurs and management teams on developing their businesses.

As part of her Non-Executive role, Carol currently chairs Mattioli Woods' Remuneration Committee.

Anne Gunther
Non-Executive Director A C N R

Appointed to the Board: **2016**
Tenure at Mattioli Woods: **3 years**

Anne was appointed to the Board in June 2016 and is Chairman of both the Audit and the Risk and Compliance Committees. Anne has spent nearly 40 years in retail financial services in the UK, with executive experience cross all sectors, from lending to wealth management, and including IPO, merger and acquisition activity. Anne has a significant background in direct channel delivery; her team having launched Lloyds Internet Banking, and then as Chief Executive of both Standard Life Bank and Standard Life Healthcare. She was a founding director of Standard Life Wealth.

Anne is a Chartered Banker and holds an MBA from Warwick Business School and a degree in Physics from Nottingham University. In her non-executive career, Anne has held roles in both the charitable and commercial sectors, and has also chaired Warwick Business School. In addition to her Mattioli Woods role, Anne sits on the Masthaven Bank board and chairs the Audit and Risk Committee, is a Non-Executive and Senior Independent Director and Chair of the Audit Committee for GBGI Limited, an AIM listed specialist health insurer, as well as being a director of the Water Plus Limited group, a jointly owned subsidiary of United Utilities plc and Severn Trent plc.

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 the management team, supported by policies for reporting to the Board. The Company maintains appropriate insurance cover in respect of legal action against the Company's directors, but no cover exists in the event that a director is found to have acted fraudulently or dishonestly.

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

The roles of Chairman and Chief Executive are distinct, as set out in writing and agreed by the Board. The Chairman is responsible for the effectiveness of the Board, directing strategy and ensuring communication with shareholders. The Chief Executive is responsible for overseeing the delivery of this strategy and the day-to-day management of the Group by the executive management team. The Board is committed to developing the corporate governance and management structures of the Group to ensure they continue to meet the changing needs of the business.

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. Anne Gunther is the Senior Independent Director.

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

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

Board committees

The Board has delegated authority to four committees. The Chairman of each committee provides a report of any meeting of that committee at the next Board meeting. The Chairman of each committee is present at the AGM to answer questions from shareholders.

Risk and Compliance Committee

The Risk and Compliance Committee comprises Anne Gunther (Chairman), Carol Duncumb, Joanne Lake, Ian Mattioli as CEO and temporary Compliance Oversight Function. The committee is in the process of replacing Ian with a new appointment to the Compliance Oversight Function. Senior managers and representatives from the internal audit, risk and compliance functions attend committee meetings as necessary.

The Risk and Compliance Committee is principally responsible for monitoring identified risks and the effectiveness of mitigating action, keeping risk assessment processes under review, reviewing the impact of key regulatory changes on the Group, assessing material breaches of risk limits and regulations as well as reviewing client complaints.

Risk management framework

The Group's risk management framework is designed to ensure risks are identified, managed and reported effectively. The Group has been investing in its risk management framework to meet the requirements of key regulatory changes, such as MiFID II, the GDPR and the SM&CR, and the risk management framework remains subject to ongoing review.

We continue to apply a 'three lines of defence' model to support our risk management framework, with responsibility and accountability for risk management summarised as follows:

- First line: Senior management and operational business units are responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk. First-line systems and controls are employed to ensure business activities are conducted in compliance with internal policies and procedures. First-line supervision teams carry out monitoring of business activities on a day-to-day basis.
- Second line: The risk, compliance and anti-money laundering functions maintain a level of independence from the first line. They are responsible for providing oversight and challenge of the first line's day-to-day management, monitoring and reporting of risks to both senior management and governing bodies.
- Third line: The internal audit function is responsible for providing independent assurance to both senior management and governing bodies as to the effectiveness of the group's governance, risk management and internal controls.

Output from first, second and third-line monitoring is reported to the managers and management information is reported to the Executive Risk and Compliance Committee and the Risk and Compliance Committee.

Risk appetite
Risk appetite is defined as both the amount and type of risk the Group is prepared to accept or retain in pursuit of our strategy. Our appetite is subject to regular review to ensure it remains aligned to our strategic goals. At least annually, the Board, Executive Risk and Compliance Committee and the Risk and Compliance Committee will formally review and approve the Group's risk appetite statement and assess whether the firm has operated in accordance with the stated risk appetite measures during the year.

Notwithstanding its continued expectations for business growth, the Board retains a relatively low overall appetite for risk, ensuring that our internal controls mitigate risk to appropriate levels.

Risk assessment process
Identified risks are tracked in a department-level risk register and used as the basis for a consolidated risk register that provides the Risk and Compliance Committee with an overview of the key risks across the organisation. The Board and senior management are actively involved in a continuous risk assessment process as part of our risk management framework, supported by the annual Internal Capital Adequacy Assessment Process ("ICAAP"), which assesses the principal risks facing the Group.

Stress tests include consideration of the impact of a number of severe but plausible events that could impact the business. The work also takes account of the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

The Group's risk assessment process considers both the impact and likelihood of risk events which could materialise, affecting the delivery of strategic goals and annual business plans. A top-down and bottom-up approach ensures that our assessment of key risks is challenged and reviewed on a regular basis, with the Board and its committees receiving regular reports and information from senior management, operational business units and the risk oversight functions.

Activities during the year
The committee met eight times during the year (once in conjunction with the now separate Audit Committee) with future meetings to be structured around the financial calendar of the Company. The committee's activities during the year included:

» Review and challenge of the key components of the Group's risk management framework;

» Review and challenge of the ICAAP, exploring scenarios and stress tests to determine an appropriate regulatory capital requirement prior to recommendation to the Board;

» Review and challenge of the Group's treating customers fairly policy and outcomes;

» Review of the Group's training and competence regime;

» Regulatory changes including MiFID II, GDPR and SM&CR were considered in discussion with management and their impact on the Group assessed;

» Review of the risks associated with the development of the New Walk office in Leicester and subsequent move, including IT infrastructure changes; and

» Review of recommendation of the Group's risk appetite statement and tolerance for key risks to the Board.

Audit Committee
The Audit Committee comprises Anne Gunther (Chairman), Carol Duncumb and Joanne Lake. Anne Gunther is a Chartered Banker and the Board is satisfied that all members of the committee have recent and relevant financial experience. The Board believes the committee is independent, with all members being Non-Executive Directors.

The key responsibilities of the Audit Committee are:

» To review the reporting of financial and other information to the shareholders of the Company and to monitor the integrity of the financial statements;

» To review the Group's accounting procedures and provide oversight of significant judgement areas;

» To review the firm's internal controls and effectiveness of the internal audit function;

» To review the effectiveness of the external audit process and the independence and objectivity of the external auditors; and

» To report to the Board on how it has discharged its responsibilities.

Committee meetings are normally attended by the Chief Executive and the Chief Financial Officer and by representatives of the external and internal auditors by way of invitation. The presence of other senior executives from the Group may be requested. The committee meets with representatives of the external auditors without management present at least once a year.

Audit Committee continued

Activities during the year

The committee met five times during the year (once in conjunction with the now separate Risk and Compliance Committee) with future meetings to be structured around the financial calendar of the Company. The committee considered the significant financial and audit issues, the judgements made in connection with the financial statements and reviewed the narrative within the Annual Report and the Interim Report.

During the year the Audit Committee reviewed the operation of the internal audit function and concluded that outsourcing was the best way to maintain a high quality function. In light of an ever-changing regulatory environment, outsourcing gives the Group access to greater skills externally, while having the ability to shrink or expand our internal audit activities to meet the ongoing demands of the business.

After concluding a competitive tender process, RSM Risk Assurance Services LLP were appointed to provide internal audit services to the Group in December 2018.

The committee also considered the appointment of, and fees payable to, the external auditor and discussed with them the scope of the interim review and annual audit.

Specific audit issues the committee discussed included:

» Management's assessment of the fair value of the call option to acquire the remaining 51% of Amati as at 31 May 2019.

» Provisions recognised in respect of contingent consideration payable on past business combinations and management's key assumptions and estimates applied in reaching these recognition and measurement decisions.

» Additions made during the year as part of the Group's development of a new office at New Walk in Leicester to ensure treatment remains in accordance with IAS 16.

» The purchase price allocation and fair value accounting for the acquisitions of Broughtons and SSAS Solutions during the year.

» The disclosure of the impact of IFRS 9, IFRS 15 and IFRS 16 on the financial statements for the year ended 31 May 2019.

Significant judgements and estimates

Significant critical accounting judgements and key estimates in connection with the Group's financial statements for the year ended 31 May 2019 and other matters considered by the committee included:

Goodwill and intangible assets	
As set out in Note 18 to the Group financial statements, at 31 May 2019, the Group had goodwill of £20.2m with other intangible assets amounting in total to £28.5m. Under IFRSs, these balances are assessed annually for impairment. Impairment testing requires the application of judgement, largely around the assumptions that are built into the calculation of the value in use of the cash generating unit being tested for impairment.	The committee considered the impairment reviews carried out by management. These reviews focused on the assumptions underlying the calculation of the value in use of the cash generating units tested for impairment. The underlying cash flow assumptions were challenged by management and the committee, having regard to historical performance. This was supported by the challenge to the Group's budgets earlier in the year. The main assumptions reviewed by the committee were the achievability of long-term business plans and the discount rate used as outlined in Note 18. These assumptions were subject to sensitivity analysis by management which was also reviewed by the committee. The committee concluded that the carrying values of goodwill and intangibles included in the financial statements are appropriate.

Revenue recognition	
The Group recognises accrued income in respect of time costs and disbursements incurred on clients' affairs during the accounting period, which have not been invoiced at the reporting date ("work in progress" or "WIP"). This requires an estimation of the recoverability of the time costs and disbursements incurred but not invoiced to clients. The carrying amount of accrued time costs and disbursements at 31 May 2019 was £4.6m (2018: £5.6m).	The committee considered management's approach to estimating the recoverability of WIP, including the recovery rate applied and the length of historical data used to calculate that recovery rate. The committee concluded that the valuation of accrued WIP in the financial statements is appropriate.

Acquisition accounting	
Business combinations are accounted for using the purchase accounting method. This involves assessing the fair value of the assets acquired and whether any assets acquired meet the criteria for recognition as separately identifiable intangible assets. Intangible assets are measured on initial recognition at their fair value at the date of acquisition. Client portfolios are valued by discounting their expected future cash flows over their expected useful lives, based on the Group's historical experience. Expected future cash flows are estimated based on the historical revenues and costs associated with the operation of that client portfolio. The discount rates used estimate the cost of capital, adjusted for risk.	The committee reviewed the purchase price allocations prepared by management on the purchase of Broughtons and SSAS Solutions during the year. These reviews focused on the underlying cash flow assumptions and the discount rate used to determine the present value of the cash flows attributable to the subject intangible assets. The committee concluded that the fair values of the identifiable assets and liabilities of Broughtons and SSAS Solutions as at their respective dates of acquisition included in the financial statements are appropriate.
Contingent consideration payable on acquisitions	
The Group has entered into certain acquisition agreements that provide for a contingent consideration to be paid. A financial instrument is recognised for all amounts management anticipates will be paid under the relevant acquisition agreement. This requires management to make an estimate of the expected future cash flows from the acquired business and determine a suitable discount rate for the calculation of the present value of any contingent consideration payments. The carrying amount of contingent consideration provided for at 31 May 2019 was £2.7m (2018: £0.9m).	The committee considered management's assessment of the amounts that will be paid under the relevant acquisition agreements. These reviews focused on the assumptions underlying the cash flows covering the contingent consideration period. Following this review, the committee was satisfied that the judgements exercised were appropriate and that the contingent consideration payable on acquisitions was fairly stated in the financial statements.
Other liability provisioning	
As detailed in Note 26, the Group recognises provisions for client claims, commission clawbacks, dilapidations, onerous contracts and other obligations which exist at the reporting date. These provisions are estimates and the actual amount and timing of future cash flows are dependent on future events. Management reviews these provisions at each reporting date to ensure they are measured at the current best estimate of the expenditure required to settle the obligation. Any difference between the amounts previously recognised and the current estimate is recognised immediately in the statement of comprehensive income.	The committee considered and challenged the nature of the provisions, the potential outcomes, any developments relating to specific claims, and the prior history of obligations, provisions and claims in order to assess whether the provisions recorded are prudent and appropriate. The committee discussed with management the key elements of judgement to assure themselves as to the adequacy and appropriateness of the provisions. Following this discussion, the committee was satisfied that the judgements exercised were appropriate and that the provisions were fairly stated in the financial statements.
Use of alternative performance measures	
The Group has identified certain measures that it believes will assist in the understanding of the performance of the business. These measures are not defined under IFRS but can be used, subject to appropriate disclosure in the Annual Report and Accounts. These alternative performance measures are: recurring revenue, adjusted EBITDA, adjusted profit before tax, adjusted profit after tax and adjusted earnings per share as set out in the Alternative performance measure workings section of the Annual Report.	The committee considered the measures and felt that these alternative performance measures are those considered by management to be important comparables and key measures used within the business for assessing performance. They are not substitute for, or superior to any IFRS measures. The committee was also satisfied that the disclosure of the alternative performance measures was appropriate.
Other matters	
In addition to the above matters, the committee considered a number of other judgements which have been made by management including: IFRS 15 'Revenue from contracts with customers', IFRS 9 'Financial instruments' and IFRS 16 'Leases'.	The committee considered management's approach, proposed disclosures, assessment of impact on the financials and the judgements made in relation to impairment allowances and the factors considered around expected credit losses on financial instruments.

Audit Committee continued

External auditor

An analysis of fees payable to the external audit firm in respect of audit and non-audit services during the year is set out in Note 7 to the financial statements. The Company is satisfied the external auditor remains independent in the discharge of their audit responsibilities.

The Audit Committee determined that the audit would be put out to tender in 2018. Three audit firms were invited to participate in the process. No contractual obligations restricted the Audit Committee's choice of external auditor. Having concluded a competitive tender in line with best practice, Deloitte LLP were appointed at the Company's AGM in October 2018.

Internal audit

The internal audit function is responsible for providing assurance on the internal controls related to the Group's key activities. Our internal audit activity is based around a strategic approach to cyclical internal audit along with consideration of the Group's key priorities and risks. This approach is designed to provide assurance over key areas of FCA oversight, including; conduct risk management, complaints, outsourcing and financial crime and whistleblowing. During the year the internal audit function engaged in a number of activities, including:

» Developing our internal audit plan based on an analysis of the Group's corporate objectives, risk profile and assurance framework, as well as other factors such as emerging issues in our sector;

» Audits over the Group's key financial controls, client payroll and benefit payments, operational resilience, general IT controls and cyber risk management. Each review identified control improvements to enhance our business operations; and

» Consultancy-style reviews, where internal audit has partnered with the business to strengthen a number of key processes.

As the third line of defence, the internal audit function (together with the external auditors in connection with their audit of the financial statements) is building risk awareness within the organisation by challenging the first and second lines of defence to continue improving the controls framework.

Remuneration Committee

The Remuneration Committee comprises Carol Duncumb (Chairman), Joanne Lake and Anne Gunther. The committee meets not less than twice a year. It is responsible for determining and reviewing the Group's policy on executive remuneration and other benefits and terms of employment, including performance related bonuses and share options. The committee also administers the operation of the share option and share incentive schemes established by the Company.

The members of the Remuneration Committee have no personal interest in the outcome of their decisions and seek to serve the interests of shareholders to ensure the continuing success of the Company. The remuneration of the Non-Executive Directors is determined by the Board itself. No director is permitted to participate in decisions concerning their own remuneration.

The committee met three times during the year with key items considered including:

» The Group's remuneration policy;

» Annual review of Executive Directors' and other senior managers' base salaries and bonus arrangements;

» Awards to be granted under the share option and share incentive schemes established by the Company;

» Gender pay reporting;

» Trends in executive pay in the wider market; and

» The implications new corporate governance requirements may have for the design of the Group's remuneration policy and remuneration disclosures.

The Committee continues to review the Group's long-term incentive plans to ensure it can continue to attract, retain and incentivise appropriately qualified staff to achieve its goals.

Nomination Committee

The Nomination Committee comprises Joanne Lake (Chairman), Carol Duncumb and Anne Gunther. The Committee is responsible for reviewing the size, structure and composition of the Board, establishing appropriate succession plans for the Executive Directors and other senior executives in the Group and for the nomination of candidates to fill Board vacancies where required.

The committee works in close consultation with the Executive Directors and met four times during the year, with the main items being considered including Board structure, the possibility of expanding the number of non-executive directors on the Board and management succession.

Meetings and attendance

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

	Board	Risk and Compliance Committee[1]	Audit Committee[1]	Remuneration Committee	Nomination Committee
Meetings in year	8	8	5	3	4
Joanne Lake	8	8	5	3	4
Ian Mattioli[1]	8	7	–	–	–
Nathan Imlach	8	–	–	–	–
Murray Smith	8	–	–	–	–
Carol Duncumb	8	7	5	3	4
Anne Gunther	8	8	5	3	4

Notes:
1 Operated as a combined Audit, Risk and Compliance Committee until 27 July 2018, when split into separate Risk and Compliance and Audit Committees. Ian Mattioli joined the Risk and Compliance Committee on 27 July 2018.

Other committees

These committees will form part of the Corporate Governance framework, but are not sub-committees of the Board. The main committees comprise the Governance Committee, the Management Engagement Committee, the Investment Committee and the Executive Risk and Compliance Committee.

Governance Committee

The Board strongly believes that good governance and strong, responsible, balanced leadership by the Board are critical to creating long-term shareholder value and business success. The committee's role is to assist the Board in shaping the strategy, culture and ethical values of the Group, while supporting the Management Engagement Committee in the day to day management of Mattioli Woods and its subsidiaries.

The key responsibilities of the committee are to:

- Take a leadership role in shaping the corporate governance principles, culture and ethical values of the Group in line with the Group's strategic priorities;
- Oversee the brand and reputation of the Group, ensuring that reputational risk is consistent with the risk appetite approved by the Board and the creation of long-term shareholder value;
- Develop strategy and growth initiatives, such as possible acquisitions and new products and services;
- Implement the agreed strategy and support the day-to-day management of the Group by the Management Engagement Committee;
- Review and discuss the annual business plan and budget prior to its submission to the Board for approval;
- Oversee the Group's compliance with its statutory and regulatory obligations, including conduct of the firm and treating customers fairly; and
- Oversee the Group's conduct in relation to its corporate and societal obligations, including setting the guidance, direction and policies for the Group's corporate responsibility agenda and related activities and advising the Board and management on these matters.

The Governance Committee is chaired by the Chief Executive and comprises functional heads from the appropriate disciplines.

Management Engagement Committee

The Board has delegated its day-to-day operational authority to the Management Engagement Committee, subject to a list of matters which are reserved for decision by the Governance Committee or the full Board only. The Management Engagement Committee is primarily responsible for:

- Developing and monitoring all aspects of the Group's business on a continuing basis;
- Implementing the business strategy and business plans agreed by the Board from time to time;
- Ensuring that day-to-day operations are conducted in accordance with the relevant regulatory and statutory requirements;
- Monitoring the management and performance of the Group's operating subsidiaries (including their results compared to budget, risks and regulatory compliance); and
- Reviewing employee talent management and development programmes, ensuring they take into account diversity, including gender.

The Management Engagement Committee meets at least monthly but more frequently if required. The committee is chaired by the Chief Executive and committee meetings may be attended by any number of a broad range of senior managers from across the Group, depending on the meeting agenda.

Other committees continued

Investment Committee

The Board has delegated authority to the Investment Committee to oversee the Group's investment management approach, developing the 'house view' on economics, investment markets and asset allocation; and considering how the Group should best apply these views.

In particular, the Investment Committee is responsible for developing and implementing the Group's asset management strategy, for developing and monitoring all aspects of the Group's investment business on a continuing basis, receiving reports from the board of Custodian Capital, the Structured Products Fund Oversight Committee and the Multi-Asset Team (including the Asset Allocation Committee). The committee is also responsible for ensuring that the Group's day-to-day investment and asset management operations are conducted in accordance with the relevant regulatory and statutory requirements through the investment research and investment operations teams.

The Investment Committee meets at least six times a year but more frequently if required. The committee is chaired by the Chief Investment Officer and comprises senior members of the investment, wealth management, technical and compliance functions.

Executive Risk and Compliance Committee

The Board has delegated authority to the Executive Risk and Compliance Committee to oversee the operation of the Group's risk and compliance framework and activity. The Executive Risk and Compliance Committee is responsible for ensuring that risk, compliance and internal audit are considered, reviewed and actions implemented across all areas of the Group including wealth management advice, asset management, pension administration and employee benefits. The committee is also responsible for ensuring that risks are fully considered in context of the Group's ICAAP and the impact on the Group's capital requirements.

The Executive Risk and Compliance Committee meets at least four times a year but more frequently if required. The committee is chaired by the Compliance Oversight Function and comprises senior members of the Group's management and compliance function.

Induction, training and performance evaluation

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

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

Evaluation of the Board's performance

During the year ended 31 May 2018 an external review of the Board's effectiveness was undertaken by an independent third party. This involved one-to-one interviews with directors and a review of Board and Board committee papers and minutes. The key points raised in the review were around board composition and succession planning.

In response, we reduced the size of our Board to eliminate duplication of documentation and discussion between the Board and the executive management team, ensuring clearer lines of responsibility within the management team and creating a balanced Board of three Executive Directors and three Non-Executive Directors.

The Board intends to undertake a self-evaluation during the financial year ending 31 May 2020 and annually thereafter. Individual appraisal of each director's performance is undertaken either by the Chief Executive Officer or Chairman each year and involves meetings with each director on a one-to-one basis. The Non-Executive Directors, led by the Senior Independent Director, carry out an appraisal of the performance of the Chairman and Chief Executive Officer.

Retirement and re-election

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

Non-Executive Directors' appointments are initially for 12 months, and continue thereafter until terminated by either party giving six months' prior written notice to expire at any time on or after the initial 12 month period. The terms and conditions of appointment of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours and prior to the AGM.

Communications with shareholders

The Board is committed to maintaining an ongoing dialogue with the Company's shareholders. The principal methods of communication with private investors remain the Annual Report and financial statements, the Interim Report, the AGM and the Group's website (www.mattioliwoods.com).

It is intended that all directors will attend each AGM and shareholders will be given the opportunity to ask questions at the AGM on 21 October 2019. In addition, the Chairman, Chief Executive Officer and Chief Financial Officer welcome dialogue with individual institutional shareholders to understand their views and feed these back to the Board. General presentations are also given to analysts and investors covering the annual and interim results.

Internal control and risk management

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

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

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

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

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

On behalf of the Board

Nathan Imlach
Chief Financial Officer
2 September 2019

Remuneration policy

Mattioli Woods recognises the importance of its employees to the success of the Group and consequently the remuneration policy is designed to be market competitive to attract, motivate and retain high calibre individuals. The main focus of the Group's remuneration policy is to align the interests of the Executive Directors with the Group's strategic priorities and the long-term creation of shareholder value.

The Remuneration Committee reviews the regulatory and legislative framework with the aim of ensuring that the remuneration policy is in line with best practice, including the FCA codes of practice ("the FCA Codes") which set out the standards and policies that regulated firms are required to meet when setting pay and bonus awards for staff. External data is used to validate rather than to benchmark the total reward and the Remuneration Committee takes into consideration the current economic climate, remuneration policies of comparable businesses and pay and employment conditions elsewhere in the Group when considering Executive Directors' and other senior managers' pay.

The remuneration arrangements are designed to:

» Promote value creation;

» Support the business strategy;

» Promote the long-term success of the Group;

» Deliver a competitive level of pay for the Executive Directors and senior management;

» Encourage the retention of staff through deferred variable compensation, where appropriate;

» Ensure greater alignment between the interests of the Executive Directors and the long-term interests of shareholders through significant long-term equity participation;

» Be fair for both the director and the Group, with some element of discretion;

» Comply with financial services rules and regulations;

» Discourage excessive risk taking and short-termism;

» Encourage more effective risk management; and

» Support positive behaviours and a strong and appropriate conduct culture.

The Group's policy is to remunerate Executive Directors and senior management through basic salary and benefits, annual performance-related discretionary bonuses and participation in long-term incentive plans which promote the creation of sustainable shareholder value. The total reward is designed to include a balance of fixed and variable pay with an element of deferral.

Fees for the Non-Executive Directors are determined by the Board and are reviewed annually, having regard to fees paid to non-executive directors in other UK quoted companies, the time commitment and responsibilities of the role. Non-Executive Directors do not receive bonuses or share entitlements. No director is permitted to participate in decisions concerning their own remuneration.

The effective date for changes in directors' remuneration is 1 September, in line with the Group's other employees.

Shareholders will be asked to approve the Directors' Remuneration Report, including the remuneration policy which applies to the directors and employees of the Group, at the Company's next AGM on 21 October 2019.

Single total figure of remuneration for each director

Directors' remuneration payable in respect of the years ended 31 May 2019 and 2018 was as follows:

	Salary and fees		Benefits		Bonus		Long-term incentive plan		Pension-related benefits		Share incentive plan		Total	
	2019 £000	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Executives														
Ian Mattioli[1,3]	**530**	540	**—**	2	**524**	500	**525**	579	**52**	52	**2**	2	**1,633**	1,675
Nathan Imlach[1,2]	**304**	304	**12**	14	**246**	228	**272**	378	**30**	30	**2**	2	**866**	956
Murray Smith[1,2]	**260**	260	**12**	14	**120**	214	**229**	326	**26**	26	**—**	2	**647**	842
Mark Smith[1,2,4,6]	**—**	41	**—**	2	**—**	20	**—**	—	**—**	4	**—**	—	**—**	67
Alan Fergusson[1,3,4,5]	**—**	139	**—**	—	**—**	—	**—**	—	**—**	3	**—**	—	**—**	142
Sub-total	**1,094**	1,284	**24**	32	**890**	962	**1,026**	1,283	**108**	115	**4**	6	**3,146**	3,682
Non-executives														
Joanne Lake[1]	**98**	96	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**98**	96
Carol Duncumb[1]	**49**	47	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**49**	47
Anne Gunther[1]	**57**	50	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**57**	50
Sub-total	**204**	193	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**204**	193
Total	**1,298**	1,477	**24**	32	**890**	962	**1,026**	1,283	**108**	115	**—**	6	**3,350**	3,875

Notes:
1 The benefit package of each Executive Director includes the provision of life assurance under a group scheme.
2 The benefit packages of Nathan Imlach, Murray Smith and Mark Smith include the provision of a company car.
3 The salary packages of Ian Mattioli and Alan Fergusson include a car allowance.
4 Mark Smith and Alan Fergusson ceased to be directors on 15 August 2017.
5 Alan Fergusson received a termination payment of £103,000 on ceasing to be an employee on 1 May 2018.
6 Mark Smith exercised 34,690 share options during the year ended 31 May 2018 after ceasing to be a director, resulting in a gain of £277,518. Mark Smith received a termination payment of £169,666 on ceasing to be an employee on 22 November 2018.

Notes to Directors' remuneration table

Salary

The base salaries of the Executive Directors are reviewed annually having regard to personal performance, divisional or Group performance, significant changes in responsibilities and competitive market practice in their area of operation.

Fees

The Non-Executive Directors are only paid fees, which are not pensionable. In addition to a basic fee, Non-Executive Directors also receive additional responsibility fees in recognition of them being a member of or chairing a committee or being the senior independent director.

Benefits

Benefits for Executive Directors principally relate to the provision of cars, death in service cover and permanent health insurance or cash allowances taken in lieu of such benefits.

Bonus

Awards to Executive Directors and some other senior employees of the Group of profit related bonuses are made from a pool of the Group's earnings before interest, taxation, depreciation and amortisation after payment of bonuses payable to all other staff. For the year ended 31 May 2019, the bonus arrangements for the Executive Directors comprised:

» A corporate award based on actual profit achieved compared to target profit; and

» A personal award based on the achievement of personal objectives assessed on a discretionary basis, considering each executive's performance against their key objectives.

Notes to Directors' remuneration table continued

The payment of corporate award at its maximum level is dependent on outperformance of the Board's approved internal budget for the period. The maximum award as a proportion of salary and the actual award payable in respect of the year ended 31 May 2019 are summarised as follows:

Director	Actual award as a proportion of salary	Maximum award as a proportion of salary	Linked to corporate objectives	Linked to personal objectives
Ian Mattioli	98.9%	105.0%	50.0%	50.0%
Nathan Imlach	80.9%	84.0%	50.0%	50.0%
Murray Smith	46.2%	94.5%	50.0%	50.0%

Personal objectives are reviewed and approved by the Remuneration Committee at the start of each financial year, with the payment of personal awards being made at the committee's discretion. For the year ending 31 May 2020, the short-term incentive arrangements for each Executive Director are as follows:

Director	Maximum award as a proportion of salary	Linked to corporate objectives	Linked to personal objectives
Ian Mattioli	105.0%	50.0%	50.0%
Nathan Imlach	84.0%	50.0%	50.0%
Murray Smith	84.0%	0%	100.0%

Long-term incentive plan

To assist the Group to attract and retain appropriately qualified staff, it adopted the Mattioli Woods 2010 Long-Term Incentive Plan ("the LTIP") to incentivise certain of its senior employees and Executive Directors. Awards made to the Executive Directors under the LTIP are set out below.

Pension related benefits

Executive Directors may participate in the pension arrangements of the Group or elect to have pension payments paid into a personal pension plan or as cash in lieu of pension on the same basis as other employees. Pension payments in respect of Executive Directors are currently 10% of base salary.

Share incentive plan

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

This benefit is the value of the SIP matching shares made in the year. Employees may contribute up to £150 per month to buy partnership shares with contributions matched on a one-for-one basis by the Company.

Mattioli Woods 2010 Long-Term Incentive Plan

The current LTIP was approved by shareholders at the Company's 2010 AGM. During the year ended 31 May 2019 the Remuneration Committee granted further awards under the LTIP in respect of the year ended 31 May 2018. The LTIP allows a significant element of deferred variable remuneration to be paid in equity or a cash equivalent award.

Eligibility

Any employee (including an Executive Director) of the Company or any of its subsidiaries will be eligible to participate in the LTIP at the discretion of the Remuneration Committee.

Form of award

Awards under the LTIP may be in the form of an option granted to the participant to acquire ordinary shares with a nominal exercise price of 1p. Alternatively, the Remuneration Committee may at its discretion grant participants a right to receive a cash amount which relates to the value of a certain number of notional shares.

Performance conditions
Options granted under the LTIP are only exercisable subject to the satisfaction of the following performance conditions which will determine the proportion of the option that will vest at the end of the three-year performance period:

Compound annual growth in EBITDA over the three-year performance period	Percentage of maximum award vesting
<5%	Nil
5%	30%
12%	100%

The percentage of maximum award vesting will be calculated pro rata between the minimum and maximum hurdles. If the performance conditions are not met over the three financial years commencing on 1 June before the date of grant, the options lapse. The options will generally be exercisable after approval of the financial statements for the financial year two years after the year of grant, or on a change of control (if earlier).

The Remuneration Committee has resolved that the performance period for any future awards under the LTIP will be extended to a five-year period after which the option will vest to create greater alignment between award-holders and shareholders and encourage a long-term perspective.

Individual and overall limits
The maximum award for any eligible employee under the LTIP for any one year is 100% of salary. The LTIP is subject to an overall limit on the total number of shares which may be issued within a 10 year period under the LTIP or any other employee share plan operated by the Group of 10% of the issued ordinary share capital of the Company.

Clawback
Vested and unvested LTIP awards are subject to a formal malus and clawback mechanism.

Grant of equity share options under the LTIP
As at 31 May 2019, the Company had granted options to certain of its senior employees and Executive Directors to acquire (in aggregate) up to 2.83% (2018: 3.26%) of its share capital. The maximum entitlement of any individual was 0.75% (2018: 0.80%). The options are exercisable at 1p per share.

Grant of cash-settled options under the LTIP
At 31 May 2019 there were no cash-settled options in issue (2018: nil).

Terms of awards
Options may be granted over newly issued shares, treasury shares or shares purchased in the market. Options are not transferable other than on death. Shares acquired through the LTIP may be delivered to participants by the trustees of the Mattioli Woods 2010 Employee Benefit Trust ("the EBT"), which was established for this purpose. The trustees may either subscribe for new shares from the Company or purchase shares on the market. The EBT may never hold more than 5% of the ordinary share capital of the Company at any time. At 31 May 2019 the EBT held 12,248 shares (2018: nil) and the Company held no shares in treasury (2018: nil).

Mattioli Woods Consultants' Share Option Plan
To attract and retain appropriately qualified staff the Group adopted the Mattioli Woods Consultants' Share Option Plan ("the Consultants' Share Option Plan") to incentivise certain of its senior consultants. Where possible, and to the limits applied by the legislation, the Consultants' Share Option Plan benefits from the tax advantages under an Enterprise Management Initiative ("EMI") scheme.

At 31 May 2019, there were no outstanding options that had been granted under the Consultants' Share Option Plan. At 31 May 2018, the Company had granted options under the plan to certain of its senior consultants to acquire (in aggregate) up to 0.18% of its share capital. The maximum entitlement of any individual was 0.16%. The options were exercisable at a price of 216p per share.

Unapproved share scheme
Options issued under the 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 Consultants' Share Option Plan.

Directors' interest in share options

Outstanding share options granted to Executive Directors under the 2010 LTIP are as follows:

Director	Exercise price £	31 May 2018 No.	Granted during the year No.	Exercised during the year No.	Forfeited during the year No.	31 May 2019 No.
Ian Mattioli	0.01	209,676	62,176	(71,836)	—	**200,016**
Murray Smith	0.01	89,350	28,114	(31,346)	—	**86,118**
Mark Smith[1]	0.01	85,864	14,921	(31,346)	(49,317)	**20,122**
Nathan Imlach	0.01	101,964	29,203	(37,224)	—	**93,943**
Alan Fergusson[1]	0.01	26,247	—	(26,247)	—	**—**
Total		513,101	134,414	(197,999)	(49,317)	**400,199**

Notes:
1 Mark Smith and Alan Fergusson ceased to be directors on 15 August 2017.

The Remuneration Committee intends to grant additional awards under the LTIP following the announcement of the Group's results for the year ended 31 May 2019.

Note 19 to the financial statements contains a detailed schedule of all options granted to directors and employees as at 31 May 2019. All of the options were granted for nil consideration.

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 appointment continues 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.

Joanne Lake, Carol Duncumb and Anne Gunther do not have service contracts. A letter of appointment provides for an initial period of 12 months and continues until terminated by either party giving six months' prior written notice to expire at any time on or after the initial 12 month period.

Directors' shareholdings

As at 31 May 2019, the interest of the directors in the issued shares of the Company, as shown in its register maintained under section 809 (2) and (3) of the Companies Act 2006 were:

Director	2019 No.	%	2018 No.	%
Ian Mattioli	**3,371,876**	**12.60**	3,299,254	12.62
Nathan Imlach	**112,668**	**0.42**	112,039	0.43
Murray Smith	**79,465**	**0.30**	79,246	0.30
Carol Duncumb	**8,800**	**0.03**	8,800	0.03
Joanne Lake	**4,100**	**0.02**	4,100	0.02
Anne Gunther	**4,000**	**0.01**	4,000	0.02

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

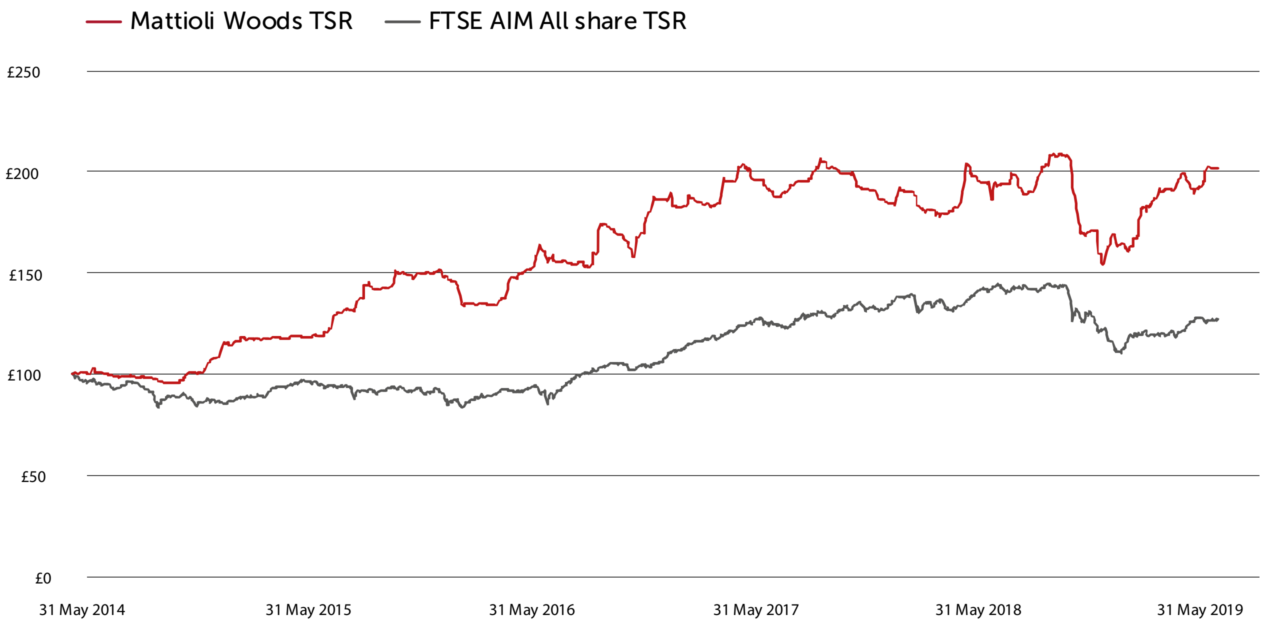
The mid-market closing price of the Company's ordinary shares at 31 May 2019 was 810.0p and the range during the financial year was 625.0p to 857.5p.

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 29 to the financial statements.

There was no change in the directors' shareholdings (all of which are beneficial) or their interests in share options between 31 May 2019 and 2 September 2019.

Total shareholder return performance graph

The graph below illustrates the total shareholder return ("TSR") for the five years ended 31 May 2019 in terms of the change in value of an initial investment of £100 invested on 1 June 2014 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 considers this to be the most appropriate broad equity market index for the purpose of measuring the Company's relative performance.

On behalf of the Board

Carol Duncumb
Chairman of the Remuneration Committee
2 September 2019

Report and financial statements

The directors have pleasure in presenting their report together with the financial statements for the year ended 31 May 2019. For the purposes of this report, the expression 'Company' means Mattioli Woods plc and the expression 'Group' means the Company and its subsidiaries.

Business review

The Group's principal activities continue to be the provision of pension consulting and administration, wealth management, asset management and employee benefits consultancy. The Strategic Report includes further information about the Group's principal activities on pages 4 and 5, and financial performance during the year and indications of likely future developments on pages 18 to 22.

The directors believe they have adequately discharged their responsibilities under section 414(c) of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

Results and dividends

Group profit for the year after taxation amounted to £8.2m (2018: £8.2m), in line with the previous year and revenues, which were £58.5m (2018: £58.7m). The effective rate of taxation was above the standard rate of tax at 20.0% (2018: 16.2%), primarily due to expenses associated with sponsorship and other business development activities not being deductible for tax purposes. The lower effective rate in the equivalent period last year was due to research and development relief claimed in respect of the two years ended 31 May 2017.

The final dividend in respect of the year ended 31 May 2018 of 11.5p per share was paid in October 2018. An interim dividend in respect of the year ended 31 May 2019 of 6.33p per share was paid to shareholders in March 2019. The directors recommend a final dividend of 13.67p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2019. If approved, the final dividend will be paid on 25 October 2019 to ordinary shareholders whose names are on the register at the close of business on 13 September 2019.

Share capital

Mattioli Woods plc is a public limited company incorporated in England and Wales and its shares are quoted on the AIM market of London Stock Exchange plc. The Company's authorised and issued share capital during the year and as at 31 May 2019 is shown in Note 23. The ordinary shares rank pari passu in all respects. Save as agreed at the Annual General Meeting of the shareholders, the ordinary shares have pre-emption rights in respect of any future issues of ordinary shares to the extent conferred by section 561 of the Companies Act 2006.

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

» Certain restrictions that may be imposed from time to time by laws and regulations and pursuant to the Listing Rules of the FCA, whereby certain directors, officers and employees of the Group require the approval of the Group to deal in ordinary shares of the Company;

» Restrictions on the former shareholder of Broughtons as a result of him entering into a lock-in agreement with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 77,171 ordinary shares in Mattioli Woods during the two years ending 8 August 2020; and

» Restrictions on the former shareholders of SSAS Solutions as a result of them entering into a lock-in agreement with Mattioli Woods and Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 162,654 ordinary shares in Mattioli Woods during the two years ending 27 March 2021.

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

Employee share trust

The Mattioli Woods 2010 Employee Benefit Trust ("the EBT") was established to deliver shares for the benefit of employees and former employees of the Group who have been granted an award under one of the Group's employee share schemes. The trustee has agreed to satisfy awards under the Group's employee share schemes. As part of these arrangements the Group funds the EBT, from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in Note 23 of the Financial Statements. The trustee has waived its right to dividends on all shares held within the trust.

During the year ended 31 May 2019 the EBT purchased 12,248 shares in the Company (2018: nil) at a cost of £99,000 (2018: £nil).

CREST

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

Substantial shareholdings

At 2 September 2019, the Company had been notified of the following interests representing 3% or more of its issued share capital:

Shareholder	Number of ordinary shares	Percentage holding
Ian Mattioli	3,371,876	12.6%
BlackRock Investment Management (UK) Limited	2,654,986	9.9%
Liontrust Investment Partners LLP	2,619,391	9.8%
Investec Wealth and Investment Limited	2,582,756	9.6%
Standard Life Aberdeen plc	2,383,687	8.9%
Bob Woods	1,941,692	7.2%
Unicorn Asset Management Limited	1,356,538	5.1%
Livingbridge VC LLP	1,005,914	3.8%

In addition to the above shareholdings, 588,138 ordinary 1p shares representing 2.2% of the issued share capital are held by employees via the Mattioli Woods plc Share Incentive Plan ("the SIP"). The Group intends to actively encourage wider share ownership by its employees through the SIP and other share-based incentive schemes.

Directors

A list of current serving directors and their biographies is given on pages 38 and 39. The Company's articles of association require that any Director who held office at the time of the two preceding AGMs and who did not retire at either of them shall retire from office at the next AGM and may offer himself for re-election. As a matter of good governance however, each of the Directors will stand for re-election at this AGM.

The Board has a process for the evaluation of its own performance and that of the individual Directors and, following the evaluation of the performance of the Directors during the year ended 31 May 2019, it was confirmed that each Director continues to be an effective member of the Board and to demonstrate commitment to the role.

Murray Smith, Group Managing Director, will step down from the Board at the AGM on 21 October 2019.

Directors' interests

Directors' emoluments, beneficial interests in the shares of the Company and their options to acquire shares are disclosed in the Directors' Remuneration Report. During the period covered by this report, no director had a material interest in a contract to which the Company or any of its subsidiaries was a party (other than their own service contract), requiring disclosure under the Companies Act 2006 other than in respect of Custodian REIT plc and the rental of the office premises at MW House and Gateway House as disclosed in Note 29.

Conflicts of interest

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

Directors' indemnity

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

Employees

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

The Group operates 'MyWay', an online flexible benefits platform. Employees can change elements of their benefits choice annually or if they have any lifestyle events. MyWay offers a variety of benefits covering health and wellbeing, finance and lifestyle choices, in addition to a core benefits package, and employees are able to purchase these benefits at group rates. MyWay shows employees the value of their salary and all other benefits as part of a total reward statement. The platform allows individuals to select options to meet their personal needs and since its launch we have seen an increasing take up of flexible benefits each year.

The Group operates a Group Personal Pension plan available to all employees and contributes to the pension schemes of directors and employees. Following the introduction of auto-enrolment every employer must automatically enrol eligible jobholders into a workplace pension scheme. Employers are then required to make contributions to pension schemes, adding to the savings made by employees. Eligible employees may choose to opt out after they have been automatically enrolled. Employers cannot avoid their obligation to automatically enrol eligible employees into a qualifying scheme.

Employees continued

The Group's pension scheme qualifies as an auto-enrolment scheme, with the Group applying the following contribution rates:

Date	Employer contribution	Minimum employee contribution
6 April 2018 to 5 April 2019	3%	3%
6 April 2019 onwards	5%	5%

The Group operates a Share Incentive Plan and Long-Term Incentive Plan, details of which are given in the Directors' Remuneration Report and the financial statements.

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

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

We continue to run a successful graduate training programme as well as the Mattioli Woods Business Academy, have expanded our apprenticeship scheme across the Group and introduced a new entry level training initiative – the Schools and College Leaver Programme. The programme provides focused specialist training and immediate access to funded support towards a professional qualification, the Diploma in Regulated Financial Planning. We continue to provide short duration work experience places to local schools and colleges, while continuing to work in partnership with Gateway College Leicester, offering those considering an alternative route to higher education worthwhile work experience. Apprenticeships and our own training programmes offer work-based training to develop new and existing staff across a range of business areas, fulfilling the Group's commitment to creating opportunities that offer a clear progression path both in the short and long-term.

We operate an eLearning platform in conjunction with the Chartered Insurance Institute's Financial Assess for the continued professional development of our staff. We are committed to continual process improvement and intend to seek further business improvements across our locations.

Research and development

In response to the need for an increasingly sophisticated software solution to manage the broader range of products and services offered by Mattioli Woods, the Group has continued to develop its technology infrastructure, extending the development of its bespoke pension administration and wealth management platform to include employee benefits, with the aim of enhancing the services offered to clients and realising operational efficiencies across the Group as a whole. The costs of this development are capitalised where they are recognised as having an economic value that will extend into the future and they meet the criteria of IAS 38 to be capitalised.

Related party transactions

Details of related party transactions are given in Note 29.

Environmental

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

Annual General Meeting

The AGM of the Company will be held on 21 October 2019. The notice of the meeting together with details of the resolutions proposed and explanatory notes are enclosed with this report and can also be found on the Group's website.

Principal risks and uncertainties

The directors' view of the principal risks and uncertainties facing the business is summarised on pages 24 to 28 of the Chief Executive's Review.

Financial risk management

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

The Group's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control. Our process for identifying and managing risks is set out in more detail on pages 40 and 41 of the review of Corporate Governance. The key risks and mitigating factors are set out on pages 24 to 28.

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. If required, 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.

Loans may be advanced to investment syndicates to secure new investment opportunities. In the event that a syndicate fails to raise sufficient funds to complete the investment, the Group may either take up ownership of part of the investment 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 confirmation of client demand for the investment.

Corporate governance

A full review of Corporate Governance appears on pages 34 to 47.

Auditor

The Audit Committee has recommended to the Board that the incumbent auditor, Deloitte LLP is reappointed for a further term. Deloitte LLP have confirmed their willingness to continue in office as the Group's auditor in accordance with Section 489 of the Companies Act 2006. The Group is satisfied that Deloitte LLP are independent and there are adequate safeguards in place to safeguard their objectivity.

A resolution to approve the appointment of Deloitte LLP will be put to shareholders at the Company's AGM on 21 October 2019.

Directors' statement as to disclosure of information to the auditor

The directors who were members of the Board at the time of approving the Directors' Report are listed on pages 38 and 39. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

» To the best of each director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and

» Each director has taken all the steps they might reasonably be expected to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Going concern

The directors believe the Group is well placed to manage its business risks successfully. The Group's forecasts and projections show that the Group should continue to be cash generative, maintain a surplus on its regulatory capital requirements and be able to operate within the level of its current financing arrangements. Accordingly, the directors continue to adopt the going concern basis for the preparation of the financial statements.

Events after the balance sheet date

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

On behalf of the Board

Nathan Imlach
Chief Financial Officer and Company Secretary
2 September 2019

Directors' responsibilities for the financial statements

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

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

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

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

» Select suitable accounting policies and then apply them consistently;

» Make judgements and estimates that are reasonable and prudent;

» State whether they have been prepared in accordance with IFRSs adopted by the EU; and

» Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

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

Independent auditor's report to the members of Mattioli Woods plc

Opinion

In our opinion:

- the financial statements of Mattioli Woods plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and company statements of financial position;
- the consolidated and company statements of changes in equity;
- the consolidated and company cash flow statement; and
- the related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach	
Key audit matters	The key audit matters that we identified in the current year were: » Revenue recognition » Acquisition accounting » Impairment of goodwill and intangible assets
Materiality	The materiality that we used for the group financial statements was £512,000 which was determined on the basis of 5% of profit before taxation.
Scoping	The group audit includes the full scope audit of Mattioli Woods plc and six other trading subsidiaries. We carried out a review of the results of the recently acquired SSAS Solutions Limited business. This scope covers over 99% of the group's reported results.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition – valuation and recoverability of accrued income	
Key audit matter description	The financial statements report total revenue of £58.5 million (2018: £58.7 million), of which £4.6 million (2018: £5.6 million) represents accrued income in respect of time costs incurred on clients' affairs during the period which has not yet been invoiced. We identified a key audit matter relating to the estimate made by management over the valuation of accrued income, which is based on the expected recovery rate for time charges billed across the portfolio of clients. Management develops the forecast based on the average recovery rate experienced in the last twelve months and makes adjustments for accrued income balances which are more than twelve months old. Inappropriate assumptions for recoverability would result in inaccurate revenue recognition. The accounting policy for revenue recognition is provided in Note 2.3 and the management judgement is discussed in more detail in the key sources of estimation uncertainty section of Note 2.4. Revenue recognised in the year is disclosed in Note 4. This risk was also considered by the audit committee, as set out in "Audit Committee activities during the year" within the Governance section of the Annual Report.
How the scope of our audit responded to the key audit matter	We have obtained an understanding of the relevant controls to evaluate the design and implementation of the controls over the recording of time costs and the setting of the recovery rate for accrued revenue. Our work on the testing of the accrued revenue balance included: » Examining the historical recovery rates to assess whether twelve months is an appropriate period of data to set the current recovery rate and to look for evidence of patterns or outliers that might indicate it is not; » Recalculating the recovery rate from the underlying data and carrying out tests of the arithmetical accuracy of the application of the recovery rate; » Examining a sample of post year-end invoices for evidence that actual billing is in line with the accrued amounts; » Reviewing the movement in recoverability rates post year end for evidence of deterioration in the same; » Testing the cut off of recording of time spent on client matters at the balance sheet date; and » Considering the adequacy of disclosure of the estimation uncertainty for accrued revenue.
Key observations	We are satisfied that the assumptions used to estimate the recovery of accrued income are reasonable and supported by past experience. We did not identify any errors that warranted reporting to the audit committee and, accordingly, the accrued revenue figure appears to be appropriate. We concluded that the disclosure around the nature of the estimate is appropriate.

Acquisition accounting	
Key audit matter description	The group completed two acquisitions during the year ending 31 May 2019 for a total consideration of £9.2 million. IFRS 3 Business Combinations requires that the acquired assets and liabilities of subsidiaries should be recognised initially at fair value and this may include the recognition of certain intangible assets, such as for the value of the existing customer portfolios. Management has carried out a purchase price allocation exercise to determine the fair value of the assets acquired and the liabilities assumed, which is disclosed in Note 3 of the financial statements. The amount paid for both subsidiaries is in excess of the book value of the net assets acquired and management have determined the value of an intangible asset for the existing customer relationships of each business (£5.2 million in aggregate). This requires an estimation of the future income stream from existing customers and the calculation of an appropriate discount rate. Inappropriate assumptions in this regard could lead to a misstatement of the intangible asset recognised, with an opposite error created in the valuation of the goodwill recognised. We identified a key audit matter relating to the revenue forecast and discount rate that support the valuation of the intangible asset. The accounting policy for acquisitions is provided in Note 2.3 and the management judgement is discussed in more detail in the key sources of estimation uncertainty section of Note 2.4. Disclosures related to acquisitions are provided in Note 3. This risk was also considered by the audit committee, as set out in "Audit Committee activities during the year" within the Governance section of the Annual Report.
How the scope of our audit responded to the key audit matter	We have obtained an understanding of the relevant controls to evaluate the design and implementation of the controls over the purchase price allocation exercise. We have also compared the book value of the acquired assets and liabilities to relevant accounting records and considered the results of our audit and review work carried out at 31 May 2019 on the acquired entities. We have challenged the completeness and valuation of intangible assets and other fair value adjustments. This includes identifying that the retained customer list was the only intangible. We have audited the model for each acquisition, comparing forecast results to actual results and using our valuation specialists to review the method applied to determining the value and calculating the discount rate. Our work on the testing of the valuation of the intangible asset included testing of the mechanical accuracy of the intangible asset calculation. We have reviewed the acquisition disclosures provided in Note 3 for consistency with the information and compliance with IFRS 3.
Key observations	The discount rate applied is within our acceptable range. We have concluded that management's estimates over the valuation of the intangible assets are reasonable and that the intangible assets are fairly stated. The disclosures made concerning the acquisitions are appropriate.

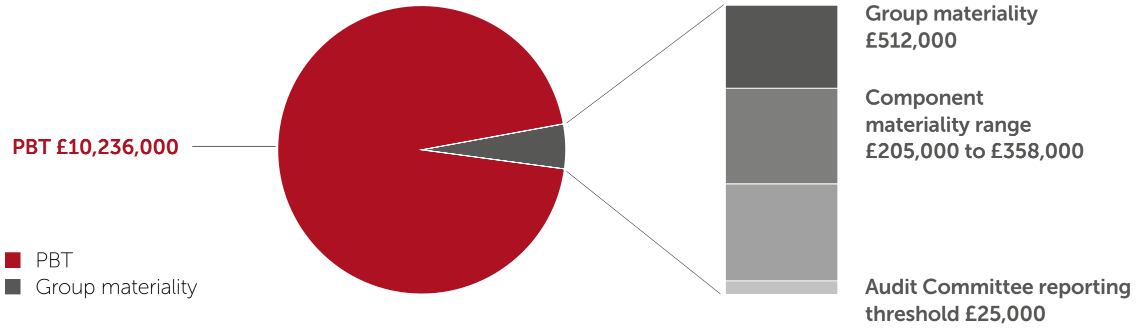
Impairment of goodwill and intangible assets	
Key audit matter description	The group balance sheet shows intangible assets (including goodwill) of £48.7 million (2018: £43.2 million). Management are required by IAS 36 Impairment, to perform an annual impairment review of indefinite life goodwill and for amortising intangible assets where there are indicators of impairment. Management have prepared an impairment model which covers all of the operating segments, because each has goodwill attributed to it. Each operating segment is treated as a cash generating unit ("CGU") for the purposes of the impairment assessment. There is significant headroom in all CGUs, with the exception of the Employee Benefits division. This is broadly consistent with the fact that the market capitalisation of Mattioli Woods plc (over £200 million at 31 May 2019) is significantly in excess of the carrying value of goodwill and intangible assets. Note 16 of the financial statements discloses that there is no impairment to the carrying value of Employee Benefits division goodwill and intangible assets, but that there is no headroom in the model and, accordingly if the division does not meet the earnings forecast, it is possible that it will be impaired in future. Therefore, we have focused our audit work on the assumptions which have been used for the Employee Benefits division, specifically the discount rate and the comparison of the forecast cashflows to historical results. The accounting policy for goodwill is provided in Note 2.3 and the management judgement is discussed in more detail in the key sources of estimation uncertainty section of Note 2.4. Goodwill and intangible assets are disclosed in Note 16. This risk was also considered by the audit committee, as set out in "Audit Committee activities during the year" within the Governance section of the Annual Report.
How the scope of our audit responded to the key audit matter	We have obtained an understanding of the relevant controls to evaluate the design and implementation of the controls over the reviews of the impairment review model. Our work on the impairment review model included: » Reviewing of the EBITDA forecast used in the model against the historical trading of the Employee Benefits division and challenged the reasons for any changes; » Assessing the length of the forecast period and the long term growth rates; » Working with our valuation specialists to evaluate an estimate of the discount rate independently in order to challenge the rate selected by management; » Considering management's assessment of the classification of CGUs for consistency with their operating segments; and » Testing the impairment calculations for mechanical accuracy and consistency. We have also considered the goodwill and intangible assets sensitivity disclosures in Note 16 and assessed whether that they are consistent with our understanding of sensitivities and the potential impairment under those scenarios.
Key observations	Current trading, including post year-end trading performance, indicates that the forecasts for the Employee Benefits division are conservative. The discount rate applied is at the low end of the acceptable range, but this reflects the element of risk already built into the cashflow forecasts. We have concluded that the management judgement not to impair the intangible assets and goodwill is reasonable. The disclosures made concerning the impairment review and the sensitivities that apply to Employee Benefits appear appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£512,000	£358,000
Basis for determining materiality	5% of pre-tax profit.	Parent company materiality equates to 4% of parent company only profit and is capped at 70% of group materiality.
Rationale for the benchmark applied	In determining our materiality benchmark, we considered the focus of the users of the financial statements. Profit before tax is a key performance indicator for the Group as well as being the key metric provided in trading updates, and is an indicator of profits available for distribution to members.	The parent company is also the largest trading entity in the group, so we considered it appropriate to assess materiality based on the parent company profit before tax. We cap the materiality to reflect the proportion of the group's profit that arises in the company.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £25,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, our audit scope focused on the key trading entities in the group, which are Mattioli Woods plc, Custodian Capital Limited, Boyd Coughlan Limited, Taylor Patterson Limited, MC Trustees Limited and Broughtons Financial Planning Limited, plus the property owning entity, Mattioli Woods (New Walk) Limited.

Our audit work included a full scope audit on these UK components. The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in those components. These components represent the principal business units and, together with the consolidation adjustments, account for 99% of the Group's revenue and profit before tax and 98% of the assets. We have carried out review procedures for the remaining balances that were not addressed in our full scope audits.

The parent company and group finance function is located in Leicester and all material balances are audited directly by the group audit team. The consolidation of the results is also carried out at the level of the overall group and there are no sub-consolidations.

Other information	
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.	**We have nothing to report in respect of these matters.**

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 90 for the financial year ended 31 May 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: » we have not received all the information and explanations we require for our audit; or » 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.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	**We have nothing to report in respect of this matter.**

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kieren Cooper (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

2 September 2019

Consolidated statement of comprehensive income

	Note	2019 £000	2018 £000
Revenue	4	**58,464**	58,669
Employee benefits expense	11	**(31,239)**	(32,148)
Other administrative expenses		**(11,741)**	(12,560)
Share based payments	19	**(1,060)**	(1,497)
Amortisation and impairment	16,18	**(2,962)**	(2,225)
Depreciation	15	**(1,288)**	(822)
Impairment loss on trade receivables	20	**(358)**	(273)
Loss on disposal of property, plant and equipment		**(125)**	(67)
Gain on revaluation of derivative financial instrument	17	**100**	540
Operating profit before financing	10	**9,791**	9,617
Finance revenue	8	**60**	73
Finance costs	9	**(86)**	(154)
Net finance costs		**(26)**	(81)
Share of profit from associate, net of tax	17	**480**	240
Profit before tax		**10,245**	9,776
Income tax expense	12	**(2,048)**	(1,586)
Profit for the year		**8,197**	8,190
Other comprehensive income for the year, net of tax		**6**	9
Total comprehensive income for the year, net of tax		**8,203**	8,199
Attributable to:			
Equity holders of the parent		**8,203**	8,199
Earnings per ordinary share:			
Basic (pence)	13	**30.8**	30.8
Diluted (pence)	13	**30.7**	30.8
Proposed total dividend per share (pence)	14	**20.0**	17.0

The operating profit for each period arises from the Group's continuing operations. The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements.

As at 31 May 2019

Consolidated and Company statements of financial position

	Note	2019 Group £000	2019 Company £000	2018 Group £000	2018 Company £000
Assets					
Property, plant and equipment	15	**16,665**	**3,469**	16,483	2,892
Intangible assets	16	**48,734**	**38,505**	43,199	40,931
Deferred tax asset	12	**512**	**509**	674	664
Investments in subsidiaries	17	**—**	**12,803**	—	18,572
Investment in associate	17	**4,211**	**4,211**	3,725	3,725
Derivative financial asset	21	**750**	**750**	650	650
Total non-current assets		**70,872**	**60,247**	64,731	67,434
Trade and other receivables	20	**16,384**	**28,111**	16,946	28,906
Investments	17	**80**	**80**	81	81
Cash and short-term deposits	22	**23,248**	**14,095**	23,668	17,880
Total current assets		**39,712**	**42,286**	40,695	46,867
Total assets		**110,584**	**102,533**	105,426	114,301
Equity					
Issued capital	23	**268**	**268**	261	261
Share premium	23	**32,137**	**32,137**	31,283	31,283
Merger reserve	23	**10,639**	**10,639**	8,781	8,781
Equity – share based payments	23	**2,356**	**2,356**	3,010	3,010
Capital redemption reserve	23	**2,000**	**2,000**	2,000	2,000
Own shares	23	**(99)**	**—**	—	—
Retained earnings	23	**38,292**	**33,883**	33,615	28,468
Total equity attributable to equity holders of the parent		**85,593**	**81,283**	78,950	73,803
Non-current liabilities					
Deferred tax liability	12	**4,345**	**3,150**	3,455	3,218
Financial liabilities and provisions	26	**1,976**	**1,951**	596	17,506
Total non-current liabilities		**6,321**	**5,101**	4,051	20,724
Current liabilities					
Trade and other payables	25	**14,527**	**12,806**	17,988	15,972
Income tax payable		**536**	**—**	695	101
Financial liabilities and provisions	26	**3,607**	**3,343**	3,742	3,701
Total current liabilities		**18,670**	**16,149**	22,425	19,774
Total liabilities		**24,991**	**21,250**	26,476	40,498
Total equities and liabilities		**110,584**	**102,533**	105,426	114,301

The profit of the Company for the financial year, after taxation, was £8.9m (2018: £7.8m).

The financial statements on pages 66 to 123 were approved by the Board of directors and authorised for issue on 2 September 2019 and are signed on its behalf by:

Ian Mattioli MBE
Chief Executive Officer

Nathan Imlach
Chief Financial Officer

Registered number: 3140521

Consolidated and Company statements of changes in equity

Group	Issued capital (Note 23) £000	Share premium (Note 23) £000	Merger reserve (Note 23) £000	Equity – share based payments (Note 23) £000	Capital redemption reserve (Note 23) £000	Own shares (Note 23) £000	Retained earnings (Note 23) £000	Total equity £000
As at 1 June 2017	258	30,314	8,781	2,571	2,000	—	28,671	72,595
Profit for the year	—	—	—	—	—	—	8,190	8,190
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**8,190**	**8,190**
Transactions with owners of the Group, recognised directly in equity								
Share of other comprehensive income from associates	—	—	—	—	—	—	9	9
Issue of share capital	3	969	—	—	—	—	—	972
Share-based payment transactions	—	—	—	1,020	—	—	—	1,020
Deferred tax recognised in equity	—	—	—	(62)	—	—	—	(62)
Current tax taken to equity	—	—	—	92	—	—	—	92
Reserves transfer	—	—	—	(611)	—	—	611	—
Dividends	—	—	—	—	—	—	(3,866)	(3,866)
As at 31 May 2018	261	31,283	8,781	3,010	2,000	—	33,615	78,950
Adjustment on initial application of IFRS 9 (net of tax)	—	—	—	—	—	—	(250)	(250)
Adjusted balance at 1 June 2018	261	31,283	8,781	3,010	2,000	—	33,365	78,700
Profit for the year	—	—	—	—	—	—	8,197	8,197
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**8,197**	**8,197**
Transactions with owners of the Group, recognised directly in equity								
Share of other comprehensive income from associates	—	—	—	—	—	—	6	6
Issue of share capital	7	854	1,858	—	—	—	—	2,719
Share-based payment transactions	—	—	—	799	—	—	—	799
Deferred tax recognised in equity	—	—	—	(160)	—	—	—	(160)
Current tax taken to equity	—	—	—	134	—	—	—	134
Reserves transfer	—	—	—	(1,427)	—	—	1,427	—
Own shares	—	—	—	—	—	(99)	—	(99)
Dividends	—	—	—	—	—	—	(4,703)	(4,703)
As at 31 May 2019	**268**	**32,137**	**10,639**	**2,356**	**2,000**	**(99)**	**38,292**	**85,593**

Company	Issued capital (Note 23) £000	Share premium (Note 23) £000	Merger reserve (Note 23) £000	Equity – share based payments (Note 23) £000	Capital redemption reserve (Note 23) £000	Retained earnings (Note 23) £000	Total equity £000
As at 1 June 2017	258	30,314	8,781	2,571	2,000	23,892	67,816
Profit for the year	—	—	—	—	—	7,822	7,822
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**7,822**	**7,822**
Transactions with owners of the Company, recognised directly in equity							
Share of other comprehensive income from associates	—	—	—	—	—	9	9
Issue of share capital	3	969	—	—	—	—	972
Share-based payment transactions	—	—	—	1,020	—	—	1,020
Deferred tax recognised in equity	—	—	—	(62)	—	—	(62)
Current tax taken to equity	—	—	—	92	—	—	92
Reserves transfer	—	—	—	(611)	—	611	—
Dividends	—	—	—	—	—	(3,866)	(3,866)
As at 31 May 2018	261	31,283	8,781	3,010	2,000	28,468	73,803
Adjustment on initial application of IFRS 9 (net of tax)	—	—	—	—	—	(230)	(230)
Adjusted balance at 1 June 2018	261	31,283	8,781	3,010	2,000	28,238	73,573
Profit for the year	—	—	—	—	—	8,915	8,915
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**8,915**	**8,915**
Transactions with owners of the Company, recognised directly in equity							
Share of other comprehensive income from associates	—	—	—	—	—	6	6
Issue of share capital	7	854	1,858	—	—	—	2,719
Share-based payment transactions	—	—	—	799	—	—	799
Deferred tax recognised in equity	—	—	—	(160)	—	—	(160)
Current tax taken to equity	—	—	—	134	—	—	134
Reserves transfer	—	—	—	(1,427)	—	1,427	—
Dividends	—	—	—	—	—	(4,703)	(4,703)
As at 31 May 2019	**268**	**32,137**	**10,639**	**2,356**	**2,000**	**33,883**	**81,283**

As permitted by s408 of the Companies Act 2006, no separate profit or loss account or statement of comprehensive income is presented in respect of the parent Company. The profit attributable to the Company is disclosed in the footnote to the Company's statement of financial position.

Consolidated and Company statements of cash flows

	Note	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Operating activities					
Profit for the year					
Adjustments for:		**8,197**	**8,915**	8,190	7,822
Depreciation	15	**1,288**	**840**	822	815
Amortisation	16	**2,962**	**2,723**	2,225	2,004
Impairment	17	**—**	**14,935**	—	—
Investment income	8	**(60)**	**(512)**	(73)	(458)
Interest expense	9	**86**	**691**	154	551
Share of profit from associate	17	**(480)**	**(480)**	(240)	(240)
Gain on revaluation of derivative financial asset	17, 31	**(100)**	**(100)**	(540)	(540)
Loss on disposal of property, plant and equipment		**125**	**114**	67	68
Equity-settled share-based payments	19	**1,060**	**1,060**	1,378	1,378
Cash-settled share-based payments		**—**	**—**	119	119
Dividend income		**—**	**(18,835)**	—	(2,500)
Income tax expense	12	**2,048**	**1,116**	1,586	886
Cash flows from operating activities before changes in working capital and provisions		**15,126**	**10,467**	13,688	9,905
Decrease/(increase) in trade and other receivables		**656**	**1,101**	(957)	(5,043)
(Decrease)/increase in trade and other payables		**(4,231)**	**(3,580)**	5,100	5,187
(Decrease)/increase in provisions		**(537)**	**(687)**	344	325
Cash generated from operations		**11,014**	**7,301**	18,175	10,374
Interest paid		**(1)**	**—**	(1)	(1)
Income taxes paid		**(2,221)**	**(1,640)**	(1,840)	(1,419)
Net cash flows from operating activities		**8,792**	**5,661**	16,334	8,954
Investing activities					
Proceeds from sale of property, plant and equipment		**117**	**117**	72	68
Purchase of property, plant and equipment	15	**(1,680)**	**(1,648)**	(7,773)	(1,627)
Purchase of software	16	**(297)**	**(297)**	(980)	(980)
Contingent consideration paid on acquisition of subsidiaries	26	**(763)**	**(763)**	(3,506)	(3,506)
Acquisition of subsidiaries	3	**(4,537)**	**(4,537)**	—	—
Cash transferred on hive up of group companies		**—**	**—**	—	3,765
Cash received on acquisition of subsidiaries	3	**1,845**	**—**	—	—
Other investments	17	**—**	**—**	9	9
Loans advanced to property syndicates		**(211)**	**(211)**	(2,332)	(2,332)
Loan repayments from property syndicates		**467**	**467**	2,032	2,032
Interest received	8	**54**	**34**	73	65
Dividends received		**—**	**1,500**	—	2,500
Net cash flows from investing activities		**(5,005)**	**(5,338)**	(12,405)	(6)
Financing activities					
Proceeds from the issue of share capital		**595**	**595**	626	626
Cost of own shares acquired		**(99)**	**—**	—	—
Dividends paid	14	**(4,703)**	**(4,703)**	(3,866)	(3,866)
Net cash flows from financing activities		**(4,207)**	**(4,108)**	(3,240)	(3,240)
Net (decrease)/increase in cash and cash equivalents		**(420)**	**(3,785)**	689	5,708
Cash and cash equivalents at start of year	22	**23,668**	**17,880**	22,979	12,172
Cash and cash equivalents at end of year	22	**23,248**	**14,095**	23,668	17,880

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 nature of the Group's operations and its principal activities are set out in the Chief Executive's Review.

2. Basis of preparation and accounting policies
2.1 Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The financial statements comprise the financial statements of Mattioli Woods plc and its subsidiaries ("the Group") as at 31 May each year. The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value (Notes 17, 21 and 26), and are presented in pounds, with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The principal accounting policies adopted are set out in this note and, unless otherwise stated, have been applied consistently to all periods presented in the financial statements. The financial statements were authorised for issue in accordance with a resolution of the directors on 2 September 2019.

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

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

Transition
The Group has taken advantage of the exemption from restating comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 June 2018. Accordingly, the information presented for the year ended 31 May 2018 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The impact, net of tax, of transition to IFRS 9 on the opening balance of consolidated retained earnings was a reduction in value of £250,000 (Company: £230,000). Our provisional evaluation of the application of IFRS 9 indicated an expected reduction in value of £400,000 but on further review of our methodology for measuring historic credit losses we adopted a methodology using specific rates for each Group company, to better reflect the historic loss rates experienced by each company.

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

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

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

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

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

2.2 Developments in reporting standards and interpretations continued

IFRS 9 Financial Instruments continued

Classification and measurement of financial assets and financial liabilities continued

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

Group financial assets	Original classification under IAS39	Carrying value under IAS39 £000	New classification under IFRS 9	Carrying value under IFRS9 £000
Cash and short-term deposits	Loans and receivables	23,668	Amortised cost	23,668
Derivative financial asset	FVTPL	650	FVTPL	650
Investments	Held to maturity investments	81	Amortised cost	81
Other financial assets	Loans and receivables	16,016	Amortised cost	15,708
Total		40,415		40,107

Company financial assets	Original classification under IAS39	Carrying value under IAS39 £000	New classification under IFRS 9	Carrying value under IFRS9 £000
Cash and short-term deposits	Loans and receivables	17,880	Amortised cost	17,880
Derivative financial asset	FVTPL	650	FVTPL	650
Investments	Held to maturity investments	81	Amortised cost	81
Other financial assets	Loans and receivables	12,377	Amortised cost	12,092
Total		30,988		30,703

The basis of classification for financial liabilities under IFRS 9 remains unchanged from under IAS 39. Financial liabilities are classified as measured at amortised cost or at FVTPL. Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

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

Impairment of financial assets

Under IFRS 9, an expected credit loss ("ECL") model replaces the incurred loss model, meaning there no longer needs to be a triggering event to recognise impairment losses. A credit loss provision must be made for the amount of any loss expected to arise, whereas under IAS 39, credit losses are recognised when they are incurred.

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

» 12 month ECLs (losses resulting from possible defaults within the next 12 months); or

» Lifetime ECLs (losses resulting from possible defaults over the remaining life of the financial asset).

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

Measurement of ECLs

The Group's trade and other receivables are generally short term and do not contain significant financing components. Therefore, the Group has applied a practical expedient by using a provision matrix to calculate lifetime ECLs based on actual credit loss experience over the past 12 months and will consider forward looking factors where relevant. Adoption of this practical expedient is only available for trade receivables and amounts receivable under contracts.

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

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

Group financial assets – Trade and other receivables	Carrying value under IAS39 £000	Carrying value under IFRS9 £000	Additional ECL provision £000
Other trade receivables	5,133	4,912	221
Accrued income	3,927	3,865	62
Accrued time costs and disbursements	5,556	5,542	14
Other receivables	1,400	1,389	11
Total	16,016	15,708	308

Company financial assets – Trade and other receivables	Carrying value under IAS39 £000	Carrying value under IFRS9 £000	Additional ECL provision £000
Other trade receivables	5,043	4,826	217
Accrued income	1,245	1,191	54
Accrued time costs and disbursements	5,556	5,542	14
Other receivables	533	533	—
Total	12,377	12,092	285

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses are presented separately on the statement of comprehensive income.

IFRS 15 Revenue from Contracts with Customers

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

Transition

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of applying the standard recognised at the date of adoption, with no restatement of the comparative period. The impact, net of tax, of transition to IFRS 15 on the opening balance of retained earnings was £nil. There are no material differences between the results for the year ended 31 May 2019 under IAS 18, had it applied, and IFRS 15.

Impact on financial statements for the year ended 31 May 2019

The Group has considered the impact of adopting IFRS 15 on its existing revenue streams, as well as on its policy of capitalising the cost of obtaining customer contracts. Subsequent to the assessment of the Group's revenue recognition policies, the majority are the same under IFRS 15 and IAS 18. The matters below were considered in more detail as potential differences, but did not impact the financial statements for the year ended 31 May 2018.

Property management fees and adviser charges

Included within property management fees are initial fees charged on the establishment of private investment syndicates. Under IFRS 15, the Group has identified the only performance obligation is the establishment of the private investment syndicate and hence these fees can be recognised when the performance obligation has been satisfied.

Included within adviser charges are initial adviser charges, which are recognised on a 'point in time' basis as being earned at the point when an investment of funds has been made by the client and submitted to the product provider, which can include private investment syndicates.

Costs to obtain a contract

The Group pays certain employees bonuses partly based on the revenues generated from their client portfolios and incurs various direct marketing costs. IFRS 15 requires incremental costs to obtain any contract with a customer to be capitalised if those costs relate directly to a contract or anticipated contract, generate or enhance the resources of the entity, and the entity expects to recover them.

The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense bonus and marketing costs (£1,756,000 included under employee benefits expense and £1,092,000 included in other administrative expenses respectively) because the amortisation period of the asset that the Group otherwise would have used is one year or less.

2.2 Developments in reporting standards and interpretations continued

Standards not affecting the financial statements

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

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

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

Future new standards and interpretations

A number of new standards and amendments to standards and interpretations will be effective for future annual periods and, therefore, have not been applied in preparing these consolidated financial statements. At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

Standard or interpretation		Periods commencing on or after
Annual Improvements to IFRSs 2015-2017 Cycle		1 January 2019
IFRS 9 (amended)	Financial Instruments	1 January 2019
IFRS 16	Leases	1 January 2019
IFRIC 23	Accounting for uncertain tax treatments	1 January 2019
IAS 28 (amended)	Long-term Interests in Associates and Joint Ventures	1 January 2019
IAS 19 (amended)	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards		1 January 2020
IFRS 3 (amended)	Business Combinations	1 January 2020
IAS 1 and IAS 8 (amendments)	Definition of Material	1 January 2020
IFRS 17	Insurance Contracts	1 January 2021

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

IFRS 16 Leases

IFRS 16 'Leases' was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. IFRS 16 primarily changes lease accounting for lessees. Lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right-of-use asset and interest on the lease liability. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but will be substantially different to existing accounting for operating leases where rental charges are currently recognised on a straight-line basis and no lease asset or lease loan obligation is recognised.

Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting and is not expected to have a material impact for the Group.

The Group has estimated the impact of the following accounting changes that will arise under IFRS 16:

» Right-of-use assets with an estimated value of £3,500,000 as at 31 May 2019 will be recorded for assets that are leased by the Group (see Note 27). Currently, no leased assets are included on the Group's consolidated statement of financial position for operating leases. These assets primarily comprise office properties with lease periods between one and ten years and multifunction printers.

» Estimated liabilities of £3,500,000 as at 31 May 2019 will be recorded in the Group's consolidated statement of financial position, representing the present value of future cash flows the Group will pay over the "reasonably certain" period of the lease, which may include future lease periods for which the Group has extension options. A critical accounting judgement is determining appropriate discount rate assumptions. IFRS 16 sets out that the lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the lessee's incremental borrowing rate. The Group does not have the necessary historical data to determine the interest rates implicit in the leases and hence the estimated liabilities at transition have been calculated using the Group's estimated incremental borrowing rates, which are the rates of interest the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. Currently, liabilities are generally not recorded for future operating lease payments, which are disclosed as commitments unless they are considered onerous. At 31 May 2019, the Group has recognised provisions of £348,000 for dilapidations (see Note 26).

» In the year ending 31 May 2020 we expect to recognise estimated depreciation on right-of-use assets of £839,000 and estimated interest costs on the unwinding of discounted lease liabilities of £135,000. These total costs of £974,000 are £54,000 higher than the expected rental costs of £920,000 that would be recognised under IAS 17, where operating lease rentals are expensed on a straight-line basis over the lease term within other administrative expenses, because interest will typically be higher in the early stages of a lease and reduce over the term.
» Operating lease cash flows are currently included within operating cash flows in the consolidated statement of cash flows. Under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities (borrowings) and related interest.

The Group expects the accounting changes that will arise under IFRS 16 to have a material impact on the consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows from 1 June 2019:

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

IFRS 16 was adopted by the Group on 1 June 2019 and therefore will impact the Group's financial statements for the year ending 31 May 2020. The group plans to use the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance sheet at 1 June 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 June 2019 and identified as leases in accordance with IAS 17.

2.3 Principal accounting policies

Basis of consolidation

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

Business combinations

Business combinations are accounted for using the purchase accounting method. This involves assessing whether any assets acquired meet the criteria for recognition as separately identifiable intangible assets. Intangible assets are measured on initial recognition at their fair value at the date of acquisition. Client portfolios are valued by discounting their expected future cash flows over their expected useful lives, based on the Group's historical experience. Expected future cash flows are estimated based on the historical revenues and costs associated with the operation of that client portfolio. The discount rates used estimate the cost of capital, adjusted for risk.

Associates

The Company's share of profits from associates is reported separately in the Statement of Comprehensive income and the investment is recognised in the Statement of Financial Position using the equity method. The investment is initially recorded at cost and subsequently adjusted to reflect the Company's share of the cumulative profits of the associate since acquisition. Appropriate adjustments to the Company's share of the profits or losses after acquisition are made to account for additional amortisation of the associate's amortisable assets based on the excess of their fair values over their carrying amounts at the time the investment was acquired.

Group re-organisations

On 31 December 2017 the trade and assets of Boyd Coughlan Limited were transferred to the Company. The trade and assets were exchanged for loan notes equal to the book value of the assets and assumed liabilities of Boyd Coughlan Limited as at 31 December 2017, attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

On 31 August 2016 the trade and assets of Taylor Patterson Group Limited and its subsidiaries Taylor Patterson Financial Planning Limited and Taylor Patterson Associates Limited (together "the Business") were transferred to the Company. The trade and assets were exchanged for loan notes equal to the book value of the assets and assumed liabilities of the Business as at 31 August 2016, attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

On 31 May 2019 the loan notes were waived by way of in-specie dividend and the capital and reserves of Boyd Coughlan Limited, Taylor Patterson Group Limited and its subsidiaries were each reduced to £2. The net impact on the consolidated financial position of the Group was £nil. The net impact on the financial position of the Company was a gain of £2,400,000, comprising a gain on the waiver of the loan notes of £17,335,000, offset by impairment of the Company's investment in these subsidiaries of £14,935,000.

2.3 Principal accounting policies continued

Property, plant and equipment

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

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

» Assets under construction	0% until asset becomes available for use;
» Freehold buildings	2% per annum on cost;
» Computer and office equipment	20/25% per annum on written down values;
» Fixtures and fittings	20% per annum on written down values;
» Motor vehicles	25% per annum on written down values; and
» Leasehold improvements	Straight line over the remaining term of the lease.

Assets under construction are not depreciated until construction is complete and the asset is available for use. At the point when the asset becomes available for use, it will be transferred to the appropriate asset class and depreciated in line with the above policy.

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

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

Investments

The Group accounts for its investments in subsidiaries using the cost model and investments in associates using the equity method.

Short-term investments

Short-term investments include units in private property syndicates, which are measured at fair value.

Goodwill

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

Each unit or group of units to which the goodwill is allocated:

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

If a cash generating unit was to be sold, the difference between the selling price and the net assets and goodwill would be recognised in the statement of comprehensive income. Where the Group reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill is reallocated to the units affected.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets assessed as having finite lives are amortised over their useful economic life as follows:

- Purchased software — 25% per annum on written down values; and
- Internally generated software — Straight line over 10 years.

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

The Group amortises individual client portfolios acquired through business combinations on a straight-line basis over an estimated useful life based on the Group's historic experience.

Client portfolios acquired through business combinations are as follows:

Client portfolio	Date of acquisition	Estimated useful life
Mattioli Woods Pension Consultants ("the Partnership Portfolio")	2 September 2003	25 Years
Geoffrey Bernstein	20 June 2005	25 Years
Suffolk Life	27 January 2006	25 Years
PCL	10 July 2007	25 Years
JBFS	18 February 2008	25 Years
CP Pensions	30 April 2010	25 Years
City Pensions	9 August 2010	20 Years
Kudos	26 August 2011	20 Years
Ashcourt Rowan	23 April 2013	10 Years
Atkinson Bolton	29 July 2013	20 Years
UK Wealth Management	8 August 2014	10 Years
Torquil Clark	23 January 2015	10 Years
Boyd Coughlan	23 June 2015	20 Years
Taylor Patterson	8 September 2015	20 Years
Lindley Trustees	5 October 2015	10 Years
Maclean Marshall Healthcare	22 January 2016	10 Years
Stadia Trustees	15 February 2016	10 Years
MC Trustees	7 September 2016	20 Years
Broughtons	8 August 2018	15 Years
SSAS Solutions	27 March 2019	20 Years

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

	Goodwill	Client portfolios	Software	Other intangibles
Useful life	Indefinite	Finite	Finite	Finite
Measurement method used	Annual impairment review	Amortised over a useful economic life of between 10 and 25 years on a straight-line basis	Amortised over a useful economic life of four years on a reducing balance basis or 10 years on a straight-line basis if internally generated	Amortised over a useful economic life of three years
Internally generated or acquired	Acquired	Acquired	Both	Both

2.3 Principal 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 statement of comprehensive income.

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 the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at revalued amount, in which case reversal is treated as a revaluation increase, except in relation to goodwill.

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

Goodwill

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

Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets, which have solely payments of principal and interest that are held with the intention of collecting the cashflows. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method, less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Derivative financial assets

Derivative financial assets comprise an option contract to acquire the remaining ordinary share capital of an associate of the Group. Derivative financial assets are carried at fair value, with gains and losses arising from changes in fair value taken directly to the Statement of Comprehensive Income. Fair values of derivatives are determined using valuation techniques, including discounted cash flow models and option pricing models as appropriate.

Impairment of non-derivative financial assets

At each reporting date the Group recognises loss allowances for expected credit losses for all financial assets at amortised cost. The Group measures loss allowances at an amount equal to lifetime expected credit losses, except for bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12 month expected credit losses. When estimating expected credit loss by determining whether credit risk has increased significantly since initial recognition, the Group considers reasonable and supportive information that is relevant and available without undue cost or effort, including historic rates of loss from the issue of credit notes or increases in specific provisions for bad debt and will consider forward looking factors where relevant. The carrying amount of the receivable is reduced through use of an allowance account.

Financial liabilities

Trade and other payables

Trade and other payables are recognised at cost, due to their short term nature. Accruals and deferred income are normally settled monthly throughout the financial year, with the exemption of bonus accruals which are typically paid annually.

Leases

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

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

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

Group as a lessee

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

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Contingent consideration

Where the Group has entered into an acquisition agreement under which contingent consideration may be payable, management reviews the agreement and monitors the financial and other targets to be met to estimate the fair value of any amounts payable. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income.

Provisions

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

Provisions include financial liabilities. Where the Group has entered into certain acquisition agreements that provide for contingent consideration to be paid the Board estimates the net present value of contingent consideration payable.

2.3 Principal accounting policies continued

Share based payments

The Group engages in share-based payment transactions in respect of services received from certain employees. In relation to equity settled share based payments, the fair value of services received is measured by reference to the fair value of the shares or share options granted on the date of grant 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"). The fair value of share options 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 elapsed and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

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.

For cash-settled share-based payments, a liability is recognised for the services received, measured initially at the fair value of the liability. At the date on which the liability is settled, and at the date of each statement of financial position between grant date and settlement, the fair value of the liability is remeasured with any changes in fair value recognised in the statement of comprehensive income for the year.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in Note 13).

Own shares

Own shares consist of shares held within an employee benefit trust. The Company has an employee benefit trust for the granting of shares to applicable employees.

Own shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to retained earnings.

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 receivable for each contractual obligation, excluding discounts, rebates, and other sales taxes or duty. Terms of business with customers typically include payment periods of up to 60 days, although specific payment terms can be agreed between the parties. The following information details the nature and timing of the satisfaction of performance obligations in contracts with customers.

Investment and asset management

Commission income and adviser charges are recognised as follows:

» At a point in time: Initial commission (less provision for clawbacks, as explained in Note 26) and initial adviser charges are recognised on a 'point in time' basis as being earned at the point when an investment of funds has been made by the client and submitted to the product provider.

» Over time: Ongoing adviser charges, based on the value of assets invested, are recognised on an 'over time' basis during the period the assets are held in the portfolio or investment fund and have been compared to observable rates from other providers on a stand-alone basis, with initial charges recognised by the residual approach to ensure that the allocation of the selling price remains appropriate.

Discretionary portfolio management ("DPM") charges are recognised as follows:

» At a point in time: Initial charges on the placing of investments are recognised on a 'point in time' basis as being earned at the point when an investment of funds has been made by the client and submitted to the product provider.

» Over time: Ongoing DPM charges based on the value of assets invested are recognised on an 'over time' basis during the period the assets are held in the portfolio or investment fund.

Our ongoing adviser and DPM charges have been compared to observable rates from other providers on a stand-alone basis, with initial charges being recognised by the residual approach, to ensure that the allocation of the selling price remains appropriate.

Pension consultancy and administration

Pension consultancy and administration fees are recognised as follows:

- » At a point in time: Mattioli Woods generally invoices pension clients on a six monthly basis in arrears for costs incurred in advising on and administering their affairs. Where revenue is contingent on completion of a service, revenue is recognised on a 'point in time' basis at the point that those contractual performance conditions are satisfied. No revenue is recognised if there are significant uncertainties regarding recovery of the time incurred.
- » Over time: To the extent that the Group has a contractual right to invoice for services rendered, revenue is recognised on an 'over time' basis as time is incurred on the provision of services, with an estimate being made of what proportion of uninvoiced time costs will be recoverable. Recoverability is measured as a percentage of the total time costs incurred on clients' affairs compared to the proportion of historical time costs actually invoiced.

Pension consultancy and administration fees have been compared to observable rates from other providers on a stand-alone basis, with establishment charges being recognised by the residual approach, to ensure that the allocation of the selling price remains appropriate.

Property management

Property management fees are recognised as follows:

- » At a point in time: Initial charges on the establishment of a private investment syndicate are recognised on a 'point in time' basis when the syndicate completes its investment.
- » Over time: Fund management and private investment syndicate charges, including charges based on the value of assets held, are recognised on an 'over time' basis during the period the assets are held in the fund or syndicate.

Employee benefits

Employee benefits fees are recognised as follows:

- » At a point in time: Fee income from services provided on the set up of an employee benefits scheme or provision of non-recurring employee benefits services are recognised on a 'point in time' basis on completion of rendering those services, being the point that those contractual performance conditions are satisfied.
- » Over time: Ongoing management charges on employee benefits schemes are recognised on an 'over time' basis over the period to which they relate.

Interest income

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

Taxes

Current income tax

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

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

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax balances are recognised for all taxable temporary differences, except where the deferred income tax balance arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

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

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

2.3 Principal accounting policies continued

Taxes continued

Deferred income tax continued

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

Sales tax

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

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

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

Dividend recognition

Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are declared and paid, or if earlier, in the accounting period when the dividend is approved by the Company's shareholders at the Annual General Meeting.

Pension costs

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

2.4 Critical accounting judgements and sources of significant estimation uncertainty

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

Critical accounting judgements

Interests in associates

Associates are entities in which the Group owns less than 100% of voting rights and has significant influence, but not control or joint control over the financial and operating policies. In determining whether control exists, this requires significant judgements in assessing factors such as the structure of the investment and the contractual agreement. The only associate at 31 May 2019 is Amati, in which the Group owns 49% of the voting rights, with the controlling 51% owned by Amati Global Partners LLP. The existence of significant influence is evidenced by the Group having representation on the board and the ability to participate in decisions but not being able to control the vote. The carrying amount of the investment in associate at 31 May 2019 was £4.2m (2018: £3.7m).

Sources of significant estimation uncertainty

Impairment of acquired client portfolios and goodwill

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

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

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

Value in use calculations are utilised to calculate recoverable amounts of a CGU. Value in use is calculated as the net present value of the projected pre-tax cash flows of the CGU in which the client portfolio is contained. The net present value of cash flows is calculated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset, based on the Group's pre-tax Weighted Average Cost of Capital ("WACC"). The Group has applied a WACC of 10.2% to each of its operating segments.

The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and expenses during the period covered by the calculations. Changes to revenue and costs are based upon management's expectation. The Group prepares its annual budget and five-year cash flow forecasts derived therefrom, thereafter extrapolating these cash flows using a long-term growth rate of 2.5% (2018: 2.5%), which management considers conservative against industry average long-term growth rates.

The carrying amount of client portfolios at 31 May 2019 was £26.8m (2018: £23.5m). No impairment provisions have been made during the year (2018: £nil) based upon the Directors' review.

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the CGUs to which the goodwill has been allocated. In assessing value in use, the estimated future cash flows expected to arise from the CGU are discounted to their present value using a pre-tax discount rate of 10.2%, reflecting current market assessments of the time value of money and the risks specific to that asset, based on the Group's WACC.

The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and costs during the period covered by the calculations, based upon management's expectation. The carrying amount of goodwill at 31 May 2019 was £20.2m (2018: £17.3m). No impairment provisions have been made during the year (2018: £nil) based upon the Directors' review.

Recoverability of accrued time costs and disbursements

The Group recognises accrued income in respect of time costs and disbursements incurred on clients' affairs during the accounting period, which have not been invoiced at the reporting date. This requires an estimation of the recoverability of the time costs and disbursements incurred but not invoiced to clients. The carrying amount of accrued time costs and disbursements at 31 May 2019 was £4.6m (2018: £5.6m).

The sensitivity of a 1.0% change in the estimated recoverability of time costs and disbursements incurred but not invoiced to clients, with all other variables held constant, is £0.1m of the Group's profit before tax. There is no material impact on the Group's equity.

Acquisitions and business combinations

When an acquisition arises the Group is required under IFRS to calculate the Purchase Price Allocation ("PPA"). The PPA requires companies to report the fair value of assets and liabilities acquired and it establishes useful lives for identified assets. The identification and the valuation of the assets and liabilities acquired involves estimation and judgement when determining whether the recognition criteria are met. The classification of consideration payable as either purchase consideration or remuneration is an area of judgement and estimate.

Subjectivity is also involved in the PPA with the estimation of the future value of brands, technology, customer relationships and goodwill. The fair value of separately identifiable intangible assets acquired during the year was £5.2m (2018: £nil), with the key assumptions used to calculate these fair values being those around the estimated useful lives of the acquired customer relationships, the estimated future cash flows expected to arise from these relationships and the appropriate discount rate to be used to discount these cash flows to their present value.

Contingent consideration payable on acquisitions

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

Using cash flows approved by the Board covering the contingent consideration period the Board expects the maximum contingent consideration will be payable. A material change to the carrying value would only occur if the acquired business achieved 80% or less of the target earnings. The carrying amount of contingent consideration provided for at 31 May 2019 was £2.7m (2018: £0.9m).

Provisions

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

3. Business combinations

The Group completed two acquisitions during the year. Transaction costs of £0.1m (2018: £0.1m) incurred during the course of the acquisitions have been expensed and are included in administrative expenses in the consolidated statement of comprehensive income and operating cash flows in the consolidated statement of cash flows in the period in which they were incurred.

Acquisition of Broughtons Financial Planning Limited

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

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

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Property, plant and equipment	10	—	10
Client portfolio	2,296	2,296	—
Cash at bank	757	—	757
Prepayments and accrued income	110	—	110
Other receivables	304	—	304
Assets	3,477	2,296	1,181
Trade and other payables	(27)	—	(27)
Accruals and deferred income	(31)	—	(31)
Other taxation and social security	(3)	—	(3)
Income tax	(147)	—	(147)
Provisions	(25)	—	(25)
Deferred tax liability	(390)	(390)	—
Liabilities	(623)	(390)	(233)
Total identifiable net assets at fair value	2,854		
Goodwill	1,493		
Total acquisition cost	4,347		
Analysed as follows:			
Initial cash consideration	2,100		
Acquired net assets adjustment to initial consideration	448		
New shares in Mattioli Woods	600		
Contingent consideration	1,300		
Discounting of contingent consideration	(101)		
Total acquisition cost	4,347		
Cash outflow on acquisition			
Cash paid	2,100		
Cash acquired	(757)		
Acquired net assets adjustment paid	387		
Acquisition costs	70		
Net cash outflow	1,800		

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

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

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

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

From the date of acquisition Broughtons has contributed £0.9m to revenue and £0.4m to the Group profit for the period. If the combination had taken place at the beginning of the period, Group revenue from continuing operations would have been £58.7m and the profit for the period would have been £8.3m.

Acquisition of SSAS Solutions (UK) Limited

On 27 March 2019, Mattioli Woods acquired the entire issued share capital of SSAS Solutions (UK) Limited ("SSAS Solutions"), a bespoke, specialist pension advisory business acting as SSAS practitioner based in Belfast, Northern Ireland.

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

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Property, plant and equipment	20	—	20
Client portfolio	2,893	2,893	—
Cash at bank	1,088	—	1,088
Prepayments and accrued income	68	—	68
Other receivables	171	(2)	173
Assets	4,240	2,891	1,349
Trade and other payables	(24)	—	(24)
Accruals and deferred income	(148)	—	(148)
Other taxation and social security	(74)	—	(74)
Income tax	(106)	—	(106)
Provisions	(43)	(43)	—
Deferred tax liability	(495)	(492)	(3)
Liabilities	(890)	(535)	(355)
Total identifiable net assets at fair value	3,350		
Goodwill	1,469		
Total acquisition cost	4,819		
Analysed as follows:			
Initial cash consideration	1,250		
Acquired net assets adjustment to initial consideration	915		
New shares in Mattioli Woods	1,260		
Contingent consideration	1,500		
Discounting of contingent consideration	(106)		
Total acquisition cost	4,819		
Cash outflow on acquisition			
Cash paid	1,250		
Cash acquired	(1,088)		
Estimated net assets adjustment paid on completion	800		
Acquisition costs	157		
Net cash outflow	1,119		

3. Business combinations continued

Acquisition of SSAS Solutions (UK) Limited continued

SSAS Solutions was established in 2009 and provides a bespoke, specialist pension advisory service for the operation of small self-administered pension schemes. Based in Belfast and employing 12 staff, the business provides personal service and expert technical advice to owner-managed businesses throughout the UK, acting as SSAS practitioner to 350 schemes with approximately £380m of assets under administration.

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

- Revenue synergies expected to be available to Mattioli Woods as a result of the transaction;
- The workforce;
- The knowledge and know-how resident in SSAS Solutions' modus operandi; and
- New opportunities available to the combined business, as a result of both SSAS Solutions and the Group's 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 historical experience.

From the date of acquisition SSAS Solutions has contributed £0.17m to revenue and £0.06m to the Group profit for the period. If the combination had taken place at the beginning of the period, Group revenue from continuing operations would have been £59.3m and the profit for the period would have been £8.5m.

Contingent consideration

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. These agreements and the basis of calculation of the net present value of the contingent consideration are summarised below. While it is not possible to determine the exact amount of contingent consideration (as this will depend on the performance of the acquired businesses during the period), the Group estimates the fair value of the remaining contingent consideration payable is £2.7m (2018: £0.9m) (see Note 26).

On 27 March 2019 the Group acquired SSAS Solutions for total consideration of up to £4.9m, comprising initial consideration of £1.25m in cash plus 162,654 new ordinary shares of 1p each in Mattioli Woods plus contingent consideration of up to £1.5m payable in cash in the two years following completion if certain financial targets based on growth in earnings before interest, tax, depreciation and amortisation are met. The Group estimates the fair value of the remaining contingent consideration at 31 May 2019 to be £1.4m (2018: £nil) using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable.

On 8 August 2018 the Group acquired Broughtons for total consideration of up to £4.4m, comprising initial consideration of £2.5m in cash plus 77,171 new ordinary shares of 1p each in Mattioli Woods plus contingent consideration of up to £1.3m payable in cash in the two years following completion if certain financial targets based on growth in earnings before interest, tax, depreciation and amortisation are met. The Group estimates the fair value of the remaining contingent consideration at 31 May 2019 to be £1.3m (2018: £nil) using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable.

Contingent consideration payable on the previous acquisitions of MC Trustees and Taylor Patterson was settled in full during the year (see Note 26).

4. Revenue

The Group derives its revenue from the rendering of services over time and at a point in time across all operating segments. The timing of recognition of the revenues of each operating segment is analysed as follows:

Timing of revenue recognition	**2019 £000**	2018 £000
At a point in time:		
Investment and asset management	**2,873**	4,633
Pension consultancy and administration	**1,276**	2,639
Property management	**620**	570
Employee benefits	**973**	1,087
	5,742	8,929
Over time:		
Investment and asset management	**23,124**	20,463
Pension consultancy and administration	**19,129**	19,183
Property management	**5,823**	5,348
Employee benefits	**4,646**	4,746
	52,722	49,740
	58,464	58,669

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period:

Contract liabilities	Group 2019 £000	Company 2019 £000
Investment and asset management	—	—
Pension consultancy and administration	2,353	1,205
Property management	36	—
Employee benefits	491	491
	2,880	**1,696**

The Group expects that 100% of the transaction price allocated to the unsatisfied contracts as at 31 May 2019 will be recognised as revenue during the next reporting period, amounting to £2,880,000.

The following table shows the movement in contract liabilities in the period:

Contract liabilities	Group 2019 £000	Company 2019 £000
At 1 June 2018	2,253	1,644
Revenue recognised on completion of performance obligations	(2,253)	(1,644)
Consideration received allocated to performance obligations that are unsatisfied at the period end	2,880	1,696
At 31 May 2019	**2,880**	**1,696**

5. Seasonality of operations

Historically, revenues in the second half-year have been typically higher than in the first half. Time or activity-based pension consultancy and administration fees are impacted by SSAS scheme year ends being linked to the sponsoring company's year end, which is often in December or March, coupled with there typically being increased activity on SSAS and SIPP schemes prior to the end of the fiscal year on 5 April.

Despite further diversification of the Group's wealth management and employee benefits revenue streams, the directors believe there is still some seasonality of operations, although a substantial element of the Group's revenues are now geared to the prevailing economic and market conditions.

6. Segment information

The Group's objective is to fully integrate the businesses it acquires, to enable it to deliver holistic solutions across its wide and diverse client base. During the year ended 31 May 2018, the Group transferred the trade and assets of Boyd Coughlan Limited into Mattioli Woods. The Group's operating segments comprise the following:

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

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

Operating segments

The operating segments defined above all utilise the same intangible assets, property, plant and equipment and the segments have been financed as a whole, rather than individually. The Group's operating segments are managed together as one business. Accordingly, certain costs are not allocated across the individual operating segments, as they are managed on a group basis. Segment profit or loss reflects the measure of segment performance reviewed by the Board of Directors (the Chief Operating Decision Maker).

The following tables present revenue and profit information regarding the Group's operating segments for the two years ended 31 May 2019 and 2018 respectively.

Year ended 31 May 2019	Investment and asset management £000	Pension consultancy and administration £000	Property management £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
Revenue							
External client	25,997	20,405	6,443	5,619	58,464	—	58,464
Total revenue	25,997	20,405	6,443	5,619	58,464	—	58,464
Results							
Segment profit before tax	7,085	4,355	1,463	677	13,580	(3,335)	10,245

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

Segment assets

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

	31 May 2019 £000	31 May 2018 £000
Pension consultancy and administration	**26,825**	23,790
Investment and asset management	**28,092**	23,023
Property management	**1,559**	1,159
Employee benefits	**9,626**	11,177
Segment operating assets	**66,102**	59,149
Corporate assets	**44,482**	46,277
Total assets	**110,584**	105,426

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

Reconciliation of assets	31 May 2019 £000	31 May 2018 £000
Segment operating assets	**66,102**	59,149
Property, plant and equipment	**16,665**	16,483
Intangible assets	**1,766**	2,475
Deferred tax asset	**512**	674
Derivative financial asset	**750**	650
Prepayments and other receivables	**1,461**	2,246
Investments	**80**	81
Cash and short-term deposits	**23,248**	23,668
Total assets	**110,584**	105,426

Acquired intangibles and amortisation thereon relate to a specific transaction and are allocated between individual operating segments based on the headcount or revenue mix of the cash generating units at the time of acquisition. The subsequent delivery of services to acquired clients may be across a number or all operating segments, comprising different operating segments to those the acquired intangibles have been allocated to.

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

Corporate costs

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

6. Segment information continued

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.

Reconciliation of profit before tax	31 May 2019 £000	31 May 2018 £000
Total segments	**13,580**	13,149
Depreciation	**(1,288)**	(822)
Amortisation and impairment	**(1,054)**	(469)
Irrecoverable VAT	**(868)**	(829)
Professional indemnity insurance	**(513)**	(466)
Finance costs	**(321)**	(154)
Loss on disposal of assets	**(125)**	(67)
Acquisition-related costs	**(123)**	(132)
Bank charges	**(18)**	(18)
Gain on revaluation of derivative financial asset	**100**	540
Finance income	**292**	73
Decrease/(Increase) in provisions	**583**	(1,029)
Group profit before tax	**10,245**	9,776

Country-by-country reporting

HM Treasury has transposed the requirements set out under the Capital Requirements Directive IV ("CRD IV") and issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014. The legislation requires Mattioli Woods plc (together with its subsidiaries) to publish certain additional information split by country, on a consolidated basis, for the year ended 31 May 2019.

Mattioli Woods plc and its subsidiaries (see Note 17) are all incorporated in and operate from the United Kingdom. All employees (see Note 11) of the Group hold contracts of employment in the United Kingdom. All turnover (revenue) and profit before tax is recognised on activities based in the United Kingdom. All tax paid and any subsidies received are paid to and received from UK institutions.

7. Auditor's remuneration

Remuneration paid by the Group to its auditor, Deloitte LLP (2018: RSM UK Audit LLP), and its associates 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:

	2019 £000	2018 £000
Audit-related services:		
Audit of the Company	**91**	82
Audit of subsidiaries	**52**	24
Interim review	**25**	20
Other assurance – CASS reporting	**18**	9
	186	135
Non-audit services:		
Indirect tax advice	**14**	—
Corporate finance	**—**	5
Other non audit services	**—**	23
	14	28
Total	**200**	163

8. Finance revenue

	2019 £000	2018 £000
Bank interest receivable	**60**	73
	60	73

9. Finance costs

	2019 £000	2018 £000
Unwinding of discount on provisions	**86**	154
	86	154

10. Operating profit

Included in operating profit before financing:	2019 £000	2018 £000
Depreciation (Note 15)	**(1,288)**	(822)
Amortisation and impairment of intangible assets (Notes 16 and 18)	**(2,962)**	(2,225)
Minimum lease payments recognised as an operating lease expense (Note 27)	**(1,054)**	(1,030)
Gain on revaluation of derivative financial instrument (Note 17)	**100**	540

11. Employee benefits expense

The average monthly number of employees during the year was:

	Group 2019 No.	Group 2018 No.	Company 2019 No.	Company 2018 No.
Executive directors	**3**	3	**3**	3
Consultants	**119**	124	**115**	117
Administrators	**258**	259	**239**	239
Support staff	**220**	232	**202**	195
	600	618	**559**	554

Staff costs for the above persons were:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Wages and salaries	**26,504**	27,640	**24,419**	25,080
Social security costs	**3,028**	3,290	**2,847**	3,028
Pension costs and life insurance	**889**	681	**807**	617
Other staff costs	**886**	537	**861**	506
	31,307	32,148	**28,934**	29,231

In addition, the cost of share based payments disclosed separately in the consolidated statement of comprehensive income was £1,060,000 (2018: £1,497,000).

Details of the remuneration payable to each director in respect of the year ended 31 May 2019 is disclosed in the Directors' Remuneration Report on page 49.

	2019 £000	2018 £000
Emoluments	**2,296**	2,544
Company contributions to personal pension schemes	**—**	10
Benefits in kind	**24**	32
	2,320	2,586

Three directors (2018: five) accrued benefits under personal pension schemes, or through an equivalent cash award when they have reached their maximum lifetime allowance. During the year 119,493 share options were issued to directors (2018: 152,425) and directors exercised 140,406 share options (2018: 191,952). The aggregate amount of gains made by directors on the exercise of share options during the year was £1,026,000 (2018: £1,283,000).

11. Employee benefits expense continued

The amounts in respect of the highest paid director are as follows:

	2019 £000	2018 £000
Emoluments	**1,106**	1,092
Company contributions to personal pension schemes	**—**	—
Benefits in kind	**—**	2
	1,106	1,094

The amount of gains made by the highest paid director on the exercise of share options during the year was £525,000 (2018: £579,000).

12. Income tax

The major components of income tax expense for the years ended 31 May 2019 and 2018 are:

Consolidated statement of comprehensive income	2019 £000	2018 £000
Current tax	**2,106**	2,013
Over provision in prior periods	**(64)**	(343)
	2,042	1,670
Deferred tax credit	**(79)**	(232)
Adjustments in respect of change in tax rate	**—**	—
Adjustments in respect of prior periods	**85**	148
Income tax expense reported in the statement of comprehensive income	**2,048**	1,586

The over provision for current tax in prior periods includes £40,000 (2018: £149,000) arising from a Research and Development tax credit in respect of the financial year ending 31 May 2018 (2018: 31 May 2016 and 2017).

For the year ended 31 May 2019, the current tax credit on the Group's share based payment arrangements recognised directly in equity was £134,000 (2018: £92,000). Deferred tax charged directly to equity was £160,000 (2018: £62,000).

Factors affecting the tax charge for the period

The tax charge assessed for the period is higher (2018: lower) than the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are explained below:

	2019 £000	2018 £000
Accounting profit before income tax	**10,245**	9,776
Multiplied by standard rate of UK corporation tax of 19.0% (2018: 19.0%)	**1,947**	1,857
Effects of:		
Expenses not deductible for tax	**150**	93
Changes in tax rates	**23**	27
Other tax rates	**—**	—
Deferred tax on share options	**(2)**	(94)
Income not taxable	**(91)**	(102)
Over/(under) provision in prior periods	**21**	(195)
Income tax expense for the year	**2,048**	1,586
Effective income tax rate	**20.0%**	16.2%

Changes to the UK corporation tax rates were enacted as part of the Finance Act 2016 which received Royal Assent on 23 September 2016, including the reduction of the main rate of corporation tax to 17% from 1 April 2020 and hence UK deferred tax has been recognised at 17%.

Deferred income tax

Deferred income tax at 31 May relates to the following:

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Deferred income tax liability				
Temporary differences on:				
Acquired intangibles	**(4,050)**	(3,347)	**(2,969)**	(3,110)
Accelerated capital allowances	**(158)**	—	**(44)**	—
Derivative financial asset	**(137)**	(108)	**(137)**	(108)
Deferred tax liability	**(4,345)**	(3,455)	**(3,150)**	(3,218)
Deferred income tax asset				
Temporary differences on:				
Provisions	**153**	74	**152**	63
Accelerated capital allowances	**1**	10	**—**	11
Share based payments	**358**	590	**357**	590
Deferred tax asset	**512**	674	**509**	664
Net deferred tax liability	**(3,833)**	(2,781)	**(2,641)**	(2,554)

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2018 or 2019.

The primary components of the entity's recognised deferred tax assets include temporary differences related to share-based payments, provisions and other items. The primary components of the entity's deferred tax liabilities include temporary differences related to property, plant and equipment and intangible assets.

The recognition of deferred tax in the statement of comprehensive income arises from the origination and the reversal of temporary differences and the effects of changes in tax rates. The components of the deferred tax credit for the year ended 31 May 2019 are summarised as follows:

Deferred tax in statement of comprehensive income	2019 £000	2018 £000
Under/(over) provision for capital allowances in prior period	**89**	(7)
Deferred tax on capital allowances	**75**	(55)
Deferred tax on share based payments	**73**	(70)
Under provision for intangibles	**54**	47
Deferred tax on derivative financial asset	**29**	103
Over provision on share options	**—**	118
Effect of changes in the standard rate of tax	**—**	26
Deferred tax on intangible assets	**(2)**	(38)
Deferred tax on provisions	**(21)**	22
Overprovision for provisions in prior period	**(57)**	(9)
Deferred tax on amortisation of client portfolios	**(234)**	(220)
Deferred tax credit/(charge)	**6**	(83)

12. Income tax continued

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

Deferred tax reconciliation	2019 £000	2018 £000
Opening net deferred tax liability	**(2,781)**	(2,802)
(Credit)/charge recognised in statement of comprehensive income	**(6)**	83
Deferred tax credit recognised in equity	**(160)**	(62)
Deferred tax arising on acquisitions	**(886)**	—
Closing net deferred tax liability	**(3,833)**	(2,781)

The deferred tax charged on the Group's outstanding share based payment arrangements recognised directly in equity was £160,000 (2018: £62,000).

Impact of future tax changes

On 15 September 2016 the Finance Bill 2016 received Royal Assent, enacting proposals that were announced in the 2016 budget, the Autumn Statement 2015 and the Summer Budget 2015. The rate of corporation tax fell to 19% in April 2017 and will fall to 17% from April 2020. These rate changes will affect the amount of future cash tax payments to be made by the Group and will also reduce the size of the Group's deferred tax assets and liabilities in the Group's statement of financial position.

13. Earnings per ordinary share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year, excluding own shares of 12,248 (2018: nil).

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

The income and share data used in the basic and diluted earnings per share computations is as follows:

	2019 £000	2018 £000
Net profit and diluted net profit attributable to equity holders of the Company	**8,197**	8,190

Weighted average number of ordinary shares:	000s	000s
Issued ordinary shares at start of period	**26,150**	25,789
Effect of shares issued during the year ended 31 May 2018	**—**	455
Effect of shares issued during the year ended 31 May 2019	**440**	317
Basic weighted average number of shares	**26,590**	26,561
Effect of dilutive options at the statement of financial position date	**77**	9
Diluted weighted average number of shares	**26,667**	26,570

The Company has granted options under the Share Option Plan, the Consultants' Share Option Plan and the LTIP to certain of its senior managers and directors to acquire (in aggregate) up to 2.83% of its issued share capital (see Note 19). Under IAS 33 'Earnings Per Share', contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions (the events triggering the vesting of the option) are satisfied. At 31 May 2019 the conditions attached to 680,440 options granted under the LTIP were not satisfied (2018: 787,202). If the conditions had been satisfied, diluted earnings per share would have been 30.0p per share (2018: 29.9p).

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

- The issue of 8,693 ordinary shares to satisfy the exercise of options under the LTIP; and
- The issue of 18,932 ordinary shares under the Mattioli Woods plc Share Incentive Plan.

14. Dividends paid and proposed

	2019 £000	2018 £000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
– Final dividend for 2018: 11.5p (2017: 9.4p)	**3,024**	2,430
– Interim dividend for 2019: 6.33p (2018: 5.5p)	**1,679**	1,436
Dividends paid	**4,703**	3,866
Proposed for approval by shareholders at the AGM:		
Final dividend for 2019: 13.67p (2018: 11.5p)	**3,664**	3,022

15. Property, plant and equipment

Group	Assets under construction £000	Land and buildings £000	Computer and office equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Gross carrying amount:						
At 1 June 2017	7,438	—	2,024	930	1,211	11,603
Additions	7,019	—	229	30	495	7,773
Disposals	—	—	(116)	—	(214)	(330)
At 31 May 2018	14,457	—	2,137	960	1,492	19,046
Additions	790	27	323	72	468	1,680
Arising on acquisitions	—	—	5	25	—	30
Disposals	—	—	(144)	(2)	(394)	(540)
Reclassifications	(15,247)	10,753	27	4,467	—	—
At 31 May 2019	**—**	**10,780**	**2,348**	**5,522**	**1,566**	**20,216**
Depreciation:						
At 1 June 2017	—	—	977	576	379	1,932
Charged for the year	—	—	391	192	239	822
On disposals	—	—	(52)	—	(139)	(191)
At 31 May 2018	—	—	1,316	768	479	2,563
Charged for the year	—	168	259	597	264	1,288
On disposals	—	—	(92)	—	(208)	(300)
At 31 May 2019	**—**	**168**	**1,483**	**1,365**	**535**	**3,551**
Carrying amount:						
At 31 May 2019	**—**	**10,612**	**865**	**4,157**	**1,031**	**16,665**
At 31 May 2018	14,457	—	821	192	1,013	16,483
At 31 May 2017	7,438	—	1,047	354	832	9,671

15. Property, plant and equipment continued

Company	Assets under construction £000	Leasehold improvements £000	Computer and office equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Gross carrying amount:						
At 1 June 2017	—	56	1,868	796	1,202	3,922
Transfer from group companies	—	—	7	—	—	7
Reclassification	—	(56)	—	56	—	—
Additions	877	—	225	30	495	1,627
Disposals	—	—	(116)	—	(199)	(315)
At 31 May 2018	877	—	1,984	882	1,498	5,241
Additions	790	—	321	69	468	1,648
Disposals	—	—	(137)	—	(394)	(531)
Reclassification	(1,667)	—	27	1,640	—	—
At 31 May 2019	**—**	**—**	**2,195**	**2,591**	**1,572**	**6,358**
Depreciation:						
At 1 June 2017	—	1	838	501	373	1,713
Reclassification	—	(1)	—	1	—	—
Charged for the year	—	—	386	190	239	815
On disposals	—	—	(52)	—	(127)	(179)
At 31 May 2018	—	—	1,172	692	485	2,349
Charged for the year	—	—	255	321	264	840
On disposals	—	—	(92)	—	(208)	(300)
At 31 May 2019	**—**	**—**	**1,335**	**1,013**	**541**	**2,889**
Carrying amount:						
At 31 May 2019	**—**	**—**	**860**	**1,578**	**1,031**	**3,469**
At 31 May 2018	877	—	812	190	1,013	2,892
At 31 May 2017	—	55	1,030	295	829	2,209

16. Intangible assets

Group	Internally generated software £000	Software £000	Client portfolios £000	Goodwill £000	Other £000	Total £000
Gross carrying amount:						
At 1 June 2017	1,589	1,541	33,354	17,253	35	53,772
Additions	104	876	—	—	—	980
At 31 May 2018	1,693	2,417	33,354	17,253	35	54,752
Arising on acquisitions	—	—	5,190	2,962	—	8,152
Additions	97	248	—	—	—	345
Disposals	(217)	(738)	—	—	—	(955)
At 31 May 2019	**1,573**	**1,927**	**38,544**	**20,215**	**35**	**62,294**
Amortisation and impairment:						
At 1 June 2017	494	671	8,128	—	35	9,328
Amortisation during the year	162	307	1,756	—	—	2,225
At 31 May 2018	656	978	9,884	—	35	11,553
Amortisation during the year	270	785	1,907	—	—	2,962
Disposals	(217)	(738)	—	—	—	(955)
At 31 May 2019	**709**	**1,025**	**11,791**	**—**	**35**	**13,560**
Carrying amount:						
At 31 May 2019	**864**	**902**	**26,753**	**20,215**	**—**	**48,734**
At 31 May 2018	1,037	1,439	23,470	17,253	—	43,199
At 31 May 2017	1,095	870	25,226	17,253	—	44,444

Company	Internally generated software £000	Software £000	Client portfolios £000	Goodwill £000	Total £000
Gross carrying amount:					
At 1 June 2017	1,589	1,430	25,260	14,891	43,170
Transfer from group companies	—	—	3,719	1,493	5,212
Additions	104	876	—	—	980
At 31 May 2018	1,693	2,306	28,979	16,384	49,362
Additions	97	200	—	—	297
Disposals	(217)	(738)	—	—	(955)
At 31 May 2019	**1,573**	**1,768**	**28,979**	**16,384**	**48,704**
Amortisation and impairment:					
At 1 June 2017	494	591	5,342	—	6,427
Amortisation during the year	162	287	1,555	—	2,004
At 31 May 2018	656	878	6,897	—	8,431
Amortisation during the year	270	774	1,679	—	2,723
Disposals	(217)	(738)	—	—	(955)
At 31 May 2019	**709**	**914**	**8,576**	**—**	**10,199**
Carrying amount:					
At 31 May 2019	**864**	**854**	**20,403**	**16,384**	**38,505**
At 31 May 2018	1,037	1,428	22,082	16,384	40,931
At 31 May 2017	1,095	839	19,918	14,891	36,743

16. Intangible assets continued

Software

Software is amortised over its useful economic life of four years on a reducing balance basis. Internally generated software represents the development costs of the Group's bespoke customer relationship management, administration and trading platform. The directors believe this technology will be the principal technology platform used throughout the Group for the foreseeable future. Internally generated software is amortised on a straight-line basis over an estimated useful life of 10 years.

Client portfolios

Client portfolios represent individual client portfolios acquired through business combinations. Client portfolios are amortised on a straight-line basis over an estimated useful life of between 10 and 25 years, based on the Group's historic experience.

Goodwill

Goodwill arises where the price paid for an acquisition is greater than the fair value of the net assets acquired. Goodwill arising on business combinations is subject to annual impairment testing (see Note 18).

Other intangibles

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

17. Investments

Investments in subsidiaries

Investments in subsidiaries	Group £000	Company £000
At 31 May 2017	—	15,187
Investment in Old Station Road Holdings Limited	—	2,385
Investment in M C Trustees (Pensions)	—	1,000
At 31 May 2018	**—**	**18,572**
Investment in Broughtons Financial Planning Limited	—	4,347
Investment in SSAS Solutions UK Limited	—	4,819
Reduction in value of Boyd Coughlan Limited	—	(7,388)
Reduction in value of Taylor Patterson Group Limited	—	(7,547)
At 31 May 2019	**—**	**12,803**

On 31 May 2019 certain loan notes payable by the Company were waived and the capital and reserves of Boyd Coughlan Limited, Taylor Patterson Group Limited and its subsidiaries were each reduced to £2. Following this distribution the value of the Company's investments in Boyd Coughlan Limited and Taylor Patterson Group Limited were impaired down to the value of the residual assets held by each subsidiary.

Details of the investments in subsidiaries 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	Share class held	Voting rights and shares held	Nature of business
GB Pension Trustees Limited	Ordinary	100%	Trustee company
Great Marlborough Street Pension Trustees Limited	Ordinary	100%	Trustee company
M.W. Trustees Limited	Ordinary	100%	Trustee company
SLT Trustees Limited	Ordinary	100%	Trustee company
Professional Independent Pension Trustees Limited	Ordinary	100%	Trustee company
Pension Consulting Limited ("PCL")	Ordinary	100%	Holding company
PC Trustees Limited (held by PCL)	Ordinary	100%	Trustee company
Bank Street Trustees Limited	Ordinary	100%	Trustee company
JB Trustees Limited	Ordinary	100%	Trustee company
John Bradley Financial Services Limited	Ordinary	100%	Dormant
Mattioli Woods Legal Limited	Ordinary	100%	Dormant
Mayflower Trustees Limited	Ordinary	100%	Trustee company
Custodian Capital Limited ("CCL")	Ordinary	100%	Property and fund management
CP SSAS Trustees Limited	Ordinary	100%	Trustee company
CP SIPP Trustees Limited	Ordinary	100%	Trustee company
City Pensions Limited	Ordinary	100%	Dormant
City Trustees Limited	Ordinary	100%	Trustee company
TCF Global Independent Financial Services Limited ("TCF")	Ordinary	100%	Holding company
Kudos Financial Services Limited (held by TCF)	Ordinary	100%	Dormant
AR Pension Trustees Limited	Ordinary	100%	Trustee company
Robinson Gear (Management Services) Limited	Ordinary	100%	Trustee company
Thoroughbred Wealth Management Limited ("TWM")	Ordinary	100%	Holding company
Atkinson Bolton Consulting Limited (held by TWM)	Ordinary	100%	Dormant
Simmonds Ford Trustees Limited	Ordinary	100%	Trustee company
Acomb Trustees Limited	Ordinary	100%	Trustee company
Ropergate Trustees Limited	Ordinary	100%	Trustee company
Chapel Trustees Limited	Ordinary	100%	Trustee company
Mattioli Woods (New Walk) Limited	Ordinary	100%	Property development
Boyd Coughlan Limited	Ordinary	100%	Non-trading subsidiary
Taylor Patterson Group Limited ("TPG")	Ordinary	100%	Non-trading subsidiary
Taylor Patterson Associates Limited (held by TPG)	Ordinary	100%	Non-trading subsidiary
Taylor Patterson Financial Planning Limited (held by TPG)	Ordinary	100%	Non-trading subsidiary
Taylor Patterson Trustees Ltd	Ordinary	100%	Trustee company
Lanson House Limited	Ordinary	100%	Dormant
Lindley Trustees Limited	Ordinary	100%	Trustee company
MWV Solutions Limited	Ordinary	50%	Dormant joint venture
Old Station Road Holdings Limited ("OSRHL")	Ordinary	100%	Holding company
M C Trustees (Pensions) Limited (held by OSRHL)	Ordinary and preference	100%	Pension administration
M C Trustees (Administration) Limited (held by OSRHL)	Ordinary	100%	Pension administration
MCT (Properties) Limited (held by OSRHL)	Ordinary	100%	Non-trading subsidiary
M C Trustees Limited (held by OSRHL)	Ordinary	100%	Trustee company

17. Investments continued

Subsidiary undertakings	Share class held	Voting rights and shares held	Nature of business
MC Nominees Limited (held by OSRHL)	Ordinary	100%	Dormant
Broughtons Financial Planning Limited	Ordinary	100%	Wealth management
SSAS Solutions (UK) Ltd	Ordinary	100%	Pension administration
MW Personal Equity (Harbinger Self Storage) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (102) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (103) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (105) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (106) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Beech Properties) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Welbeck Land) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (CITU) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Proseed) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Prosperity Liverpool) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Heaton Group) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Equity (Harbinger Self Storage) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Tungsten Witney) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Versant) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Piper Homes) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (The Square) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Expedia) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Belfast Expedia 2) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Belfast Expedia 3) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Belfast Expedia 4) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (The Priest House Hotel) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Walrus) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (103) EPUT Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Clear Nursery) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Equity (Rotherhill) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Equity (March Projects) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Equity (Tungsten Handcross) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties (Huntingdon Geared) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties (Huntingdon Non-Geared) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties (No 42) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties (No 46) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties (No 49) Limited (held by CCL)	Ordinary	100%	Trustee company

Subsidiary undertakings	Share class held	Voting rights and shares held	Nature of business
MW Properties (No 50) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties (No 60) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties No 17 Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties No 20 Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties No 25 Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties No 32 Limited (held by CCL)	Ordinary	100%	Trustee company
MW Properties No 35 Limited (held by CCL)	Ordinary	100%	Trustee company
APUK14001 Limited (held by CCL)	Ordinary	100%	Trustee company
APUK14002 Limited (held by CCL)	Ordinary	100%	Trustee company
APUK15001 Limited (held by CCL)	Ordinary	100%	Trustee company
APUK15002 Limited (held by CCL)	Ordinary	100%	Trustee company
APUK15003 Limited (held by CCL)	Ordinary	100%	Trustee company
CC Private (201) Limited (held by CCL)	Ordinary	100%	Trustee company
CC Private (202) Limited (held by CCL)	Ordinary	100%	Trustee company
CC Private (204) Limited (held by CCL)	Ordinary	100%	Trustee company
CC Private (205) Limited (held by CCL)	Ordinary	100%	Trustee company
CC Private (207) Limited (held by CCL)	Ordinary	100%	Trustee company
Brogan Group Investments Limited (held by CCL)	Ordinary	100%	Trustee company
Eltek House Limited (held by CCL)	Ordinary	100%	Trustee company
Welbeck Strategic Land III Limited (held by CCL)	Ordinary	100%	Trustee company

The principal place of business of all the subsidiaries is the United Kingdom. The Company accounts for its investments in subsidiaries using the cost method. The registered office for all subsidiary undertakings is 1 New Walk Place, Leicester, LE1 6RU except for the following:

Subsidiary undertaking	Registered office
TCF Global Independent Financial Services Limited	8 Queens Terrace, Aberdeen, AB10 1XL
Kudos Financial Services Limited	8 Queens Terrace, Aberdeen, AB10 1XL
Broughtons Financial Planning Limited	5a Swallowfield Courtyard, Wolverhampton Road, Oldbury, West Midlands, B69 2JG
SSAS Solutions (UK) Limited	Rivers Edge, 11 Ravenhill Road, Belfast, BT6 8DN

17. Investments continued

Investment in associate and related derivative

Investment in associate

On 6 February 2017 the Group acquired 49% of the ordinary share capital of Amati Global Investors Limited ("Amati") from Amati Global Partners LLP plus an option to acquire the remaining 51% ordinary share capital of Amati in the two years commencing 6 February 2019 for a total consideration of £3.39m, comprising £1.65m in cash and £1.74m of new ordinary shares in Mattioli Woods.

Amati is a fund management firm founded in 2010 following the management buyout of Noble Fund Managers Limited. Amati's principal place of business is the United Kingdom. It focuses on small and mid-sized companies, with a universe ranging from fully listed constituents of the FTSE Mid 250 and FTSE Small Cap indices, to stocks quoted on AIM. At the date of investment Amati had approximately £120m of assets under management, including the TB Amati UK Smaller Companies Fund; two AIM Venture Capital Trusts (Amati VCT plc and Amati VCT 2 plc); and an AIM IHT portfolio service.

During the year the shareholders of Amati VCT plc voted to approve its merger with Amati VCT 2 plc, which has been renamed Amati AIM VCT plc. Amati's gross assets under management at 31 May 2019 had increased to over £453m.

The Group exercises significant influence by virtue of its contractual right to appoint a minority of directors to Amati's board of directors. The option held by the Group to acquire the remaining shares in Amati was not exercised at 6 February 2019 as the Company had agreed heads of terms with the counterparty to cancel the option in exchange for a payment of £750,000 from the counterparty. The agreement completed after the year end (Note 32). The Group has no other rights which would allow it to exercise control over Amati's operations. Therefore, the Group is not judged to control Amati and it is not consolidated.

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

Investment in associate – Group and Company	2019 £000	2018 £000
At 1 June	**3,725**	3,476
Investment in Amati Global Investors Limited	**—**	—
Share of profit for the year	**548**	308
Amortisation of fair value intangibles	**(68)**	(68)
Share of profit from associates in statement of comprehensive income	**480**	240
Share of other comprehensive income	**6**	9
At 31 May	**4,211**	3,725

Other comprehensive income represents a movement in Amati's revaluation reserve recognised directly in equity.

The results of Amati and its aggregated assets and liabilities as at 31 May 2019 are as follows:

Name	Country of incorporation	Assets £000	Liabilities £000	Revenue £000	Profit £000	Interest held
Amati Global Investors Limited	Scotland	4,504	1,364	4,418	1,116	49%
Group's share of profit					548	

The net assets of Amati as at 31 May 2018 were £2,011,000. At 31 May 2019 the net assets of Amati had increased by £1,130,000 to £3,140,000, increasing the Group's interest in the associate (net of tax) by £553,000 during the year, comprising Mattioli Woods' share of Amati's profit after tax recognised in the statement of comprehensive income and Mattioli Woods' share of the movement in Amati's revaluation reserve recognised directly in equity.

Derivative financial instruments

As part of the transaction to acquire its holding in Amati, Mattioli Woods also entered into an option agreement with the Seller which entitles Mattioli Woods to acquire the remaining 51% of Amati in the two years commencing 6 February 2019 for a mixture of cash and Mattioli Woods' ordinary shares ("the Option"). If Mattioli Woods does not exercise the Option to acquire the remaining stake from the Seller, the Seller has an option to buy Mattioli Woods' shareholding back for the original consideration paid.

The fair value of the option contract at the date of acquisition was £17,000. During the year the Company signed heads of terms to cancel the option agreement in exchange for £750,000. The cancellation of the agreement was completed after the year end (Note 32). At 31 May 2019, the fair value of the option contract was £750,000. (2018: £650,000) (Note 21) with a gain of £100,000 recognised during the year (2018: £540,000).

Other investments	Group £000	Company £000
At 1 June 2017	86	86
Impairment	(1)	(1)
Revaluation	5	5
Disposal	(9)	(9)
At 31 May 2018	81	81
Impairment	—	—
Revaluation	(1)	(1)
At 31 May 2019	**80**	**80**

As at 31 May 2019 the Group held an investment with a market value of £40,000 (2018: £41,000) in the FP Mattioli Woods Balanced Fund (Note 29).

Mattioli Woods owns 15% of the issued share capital of Mainsforth Developments Limited ("Mainsforth"), a company incorporated in England and Wales with its principal activity being the development and selling of real estate. Mainsforth had entered into two conditional sale agreements ("the Agreements") to acquire freehold land with vacant possession (the "Development Land"). However, the Agreements have been terminated and at 31 May 2019 the Company's investment in Mainsforth was valued at £nil (2018: £nil).

At 1 June 2017 the Company owned 9.40% of the shareholding in MW Properties (No.25) Limited ("MWPS25"), acquired at a total cost of £91,000. MWPS25 owns part of the Development Land. At 31 May 2019 these shares are included within investments at a value of £26,000 (2018: £26,000).

At 1 June 2017 the Company owned 2.04% of the shareholding in MW Properties (Huntingdon Non-Geared) Limited, acquired at a total cost of £15,000. The company is incorporated in England and Wales and its principal activity is investment in real estate. At 31 May 2019 these shares are included within investments at a value of £14,000 (2018: £14,000).

18. Impairment of goodwill and client portfolio intangible assets

Goodwill and client portfolio intangible assets arising on acquisitions are allocated to the cash generating units comprising the acquired businesses. Allocation to cash-generating units is based on headcount or revenues at the date of acquisition. Where the Group reorganises its operating and reporting structures in a way that changes the composition of one or more cash-generating units to which goodwill and client portfolio assets have been allocated, the goodwill and client portfolio assets are reallocated to the units affected.

The cash-generating units comprise the same groups of assets as the four operating segments, which represent the smallest individual groups of assets generating cash flows. Goodwill and client portfolio assets have been allocated between the Group's operating segments for impairment testing, as follows:

Group	Pension consultancy and admin £000	Investment and asset management £000	Property management £000	Employee benefits £000	Total £000
At 1 June 2017	14,392	18,132	287	9,668	42,479
Amortisation during the year	(709)	(642)	(8)	(397)	(1,756)
At 31 May 2018	13,683	17,490	279	9,271	40,723
Arising on acquisitions	4,362	3,790	—	—	8,152
Amortisation during the year	(731)	(772)	(8)	(396)	(1,907)
At 31 May 2019	**17,314**	**20,508**	**271**	**8,875**	**46,968**
Goodwill	**7,166**	**9,205**	**188**	**3,656**	**20,215**
Client portfolios	**10,148**	**11,303**	**83**	**5,219**	**26,753**
At 31 May 2019	**17,314**	**20,508**	**271**	**8,875**	**46,968**

Company	Pension consultancy and admin £000	Investment and asset management £000	Property management £000	Employee benefits £000	Total £000
At 1 June 2017	12,058	14,664	287	7,800	34,809
Transferred from Group companies	—	3,388	—	1,824	5,212
Amortisation during the year	(632)	(562)	(8)	(353)	(1,555)
At 31 May 2018	11,426	17,490	279	9,271	38,466
Amortisation during the year	(632)	(643)	(8)	(396)	(1,679)
At 31 May 2019	**10,794**	**16,847**	**271**	**8,875**	**36,787**
Goodwill	**4,828**	**7,712**	**188**	**3,656**	**16,384**
Client portfolios	**5,966**	**9,135**	**83**	**5,219**	**20,403**
At 31 May 2019	**10,794**	**16,847**	**271**	**8,875**	**36,787**

The determination of whether goodwill and client portfolio assets are impaired requires an assessment of the fair value less cost to sell and estimation of the value in use of the operating segments to which the assets have been allocated. The recoverable amount of goodwill and client portfolio assets on a fair value less costs to sell calculation is based on the closing share price of the Group on 31 May 2019 of 810.0p, giving a market capitalisation of £216.8m. Comparing this to the net asset value of the Group of £85.6m, the directors believe the value of goodwill and client portfolio assets is not impaired at 31 May 2019.

In assessing value in use, the estimated future cash flows of each operating segment are discounted to their present value using a pre-tax discount rate of 10.2% (2018: 8.3%), reflecting current market assessments of the time value of money and the risks specific to the asset, based on the Group's WACC. The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and costs during the period covered by the calculations, based upon management's expectation. The estimated cash flows for each segment are derived by extrapolating the budgeted cash flows for the year ending 31 May 2020 assuming annual fee growth of 5.0% (2018: 5.0%) over the next four years and a long-term growth rate of 2.5% (2018: 2.5%), which management considers conservative against actual average long-term growth rates.

The value in use calculated at 31 May 2019 was £162.1m. Comparing this to the net asset value of the operating segments identified above, the directors believe the value of goodwill is not impaired at 31 May 2019. This accounting treatment resulted in an impairment loss of £nil (2018: £nil).

The value in use calculations at 31 May 2019 indicate there is very little headroom on the value of acquired client portfolios and goodwill allocated to the Employee Benefits operating segment. If the pre-tax discount rate used to calculate the value in use of each segment increased by 1.0%, with all other variables held constant, this would result in an £0.6m reduction in the value in use, resulting in an impairment loss of £0.6m (2018: £nil). If the rate of growth in cash flows generated by the Employee Benefits segment in years two to five of the period covered by the calculations reduced by 3.0%, with all other variables held constant, this would result in an £0.8m reduction in the value in use, resulting in an impairment loss of £0.8m (2018: £nil).

The introduction of a charge cap on auto-enrolment pension schemes in April 2015, followed by the abolition of provider commissions in April 2016, resulted in a number of changes and challenges within the employee benefits market, reducing corporate pension revenues but leading to higher fee-based recurring revenues going forward. The market continues to evolve with employers now bound to provide pensions to almost all staff. Pricing in this area remains competitive as the industry settles into a "post-RDR" fee model, but management is confident the business can deliver further improvement in the Employee Benefits segment's results. The directors consider that reasonably likely changes in assumptions would not create an impairment in any of the other operating segments.

19. Share based payments

Consultants' Share Option Plan

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

Date of grant	Exercise price £	At 1 June 2018 No.	Exercised during the year No.	**At 31 May 2019 No.**
8 September 2009	2.16	46,861	(46,861)	**—**
Outstanding		46,861	(46,861)	**—**
Exercisable		46,861	(46,861)	**—**

The exercise price of the options is equal to the market price of the shares at the close of business on the day immediately preceding the date of grant. The options vest when the option holders achieve certain individual performance hurdles. No options vested during the year as a result of the associated performance conditions being fulfilled. If the performance hurdles, which are linked to individual sales revenues, are not met over the five financial years commencing on 1 June before the date of grant, the options lapse.

Long-Term Incentive Plan

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

LTIP options	**31 May 2019 Equity-settled No.**	**31 May 2019 Cash-settled No.**	31 May 2018 Equity-settled No.	31 May 2018 Cash-settled No.
Outstanding as at 1 June	**806,489**	**—**	807,445	118,501
Granted during the year	**241,756**	**—**	238,825	—
Exercised during the year	**(233,718)**	**—**	(203,194)	(118,501)
Forfeited during the year	**(57,064)**	**—**	(36,587)	—
Outstanding at 31 May	**757,463**	**—**	806,489	—
Exercisable at 31 May	**77,023**	**—**	19,287	—

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

19. Share based payments continued

Share Incentive Plan

The Company operates the Mattioli Woods plc Share Incentive Plan ("the SIP"). Participants in the SIP are entitled to purchase, at market value, up to a prescribed number of new 1p ordinary shares in the Company each year for which they will receive a like for like conditional 'matching share', subject to their continued employment for the three years following award of the matching share. These ordinary shares rank pari passu with existing issued ordinary shares of the Company. Movements in the shares held in the SIP on behalf of employees during the year were as follows:

SIP shares	31 May 2019 No.	31 May 2018 No.
Scheme shares as at 1 June	**593,019**	553,658
Employee shares purchased	**50,989**	50,216
Matching shares awarded	**50,989**	50,216
Matching shares recycled	**(16,072)**	(7,000)
Reinvestment of dividends	**14,281**	10,492
Shares transferred out	**(106,807)**	(64,563)
Scheme shares at 31 May	**586,399**	593,019
Conditional matching shares at 31 May	**117,817**	105,385

A total of 359 (2018: 363) employees participated in the SIP during the year.

Share based payments expense

The expense for share based payments made in respect of employee services under the LTIP is recognised over the expected vesting period of the awards. The expense recognised during the year ended 31 May 2019 is £825,000 (2018: £1,150,000), of which £825,000 arises from equity-settled share based payment transactions (2018: £1,031,000) and £nil arises from cash-settled share based payment transactions (2018: £119,000).

The expense for share based payments made in respect of employee services under the Consultants' Share Option Plan is recognised over the expected vesting period of the awards. The expense recognised during the year ended 31 May 2019 was £nil (2018: £nil), which arises entirely from equity-settled share based payment transactions.

The expense for share based payments in respect of matching shares issued under the SIP is recognised over the expected vesting period of the shares granted to the participating employee (see Note 23). The expense recognised during the year ended 31 May 2019 is £235,000 (2018: £347,000), which arises entirely from equity-settled share based payment transactions.

Reserves transfer

The Group has reduced the value of the Equity – share based payments reserve by £359,000, reduced deferred tax assets by £68,000 and increased retained earnings by £291,000 in the year ended 31 May 2019 to reflect the impact of recognising the cost of 'matching shares' awarded under the Mattioli Woods plc Share Incentive Plan ("SIP") over the expected vesting period of the shares and the associated impact on deferred tax assets. Matching shares awarded under the SIP are subject to a three year continued employment condition. Previously, the cost of matching shares was recognised in full at the date of the award.

Summary of share options

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

Share options	2019 No.	2019 WAEP £	2018 No.	2018 WAEP £
Outstanding as at 1 June	**853,350**	**1.53**	907,798	0.27
Granted during the year	**241,756**	**0.01**	238,825	0.01
Exercised	**(280,579)**	**0.37**	(256,686)	0.55
Forfeited during the year	**(57,064)**	**0.01**	(36,587)	0.01
Outstanding at 31 May	**757,463**	**0.01**	853,350	0.13
Exercisable at 31 May	**77,023**	**0.01**	66,148	1.53

The weighted average share price at the date of exercise for share options exercised during the year was £7.27 (2018: £7.96). For the share options outstanding at 31 May 2019, the weighted average remaining contractual life is 4.0 years (2018: 4.0 years). The WAEP for options outstanding at the end of the year was £0.01 (2018: £0.13).

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 following table lists the inputs to the model used to estimate the fair value of options granted during the year ended 31 May 2019:

	LTIP
Share price at date of grant	£8.32
Option exercise price	£0.01
Expected life of option (years)	4.5
Expected share price volatility (%)	17.5
Dividend yield (%)	2.04
Risk-free interest rate (%)	0.76

The share price at date of grant for options issued under the LTIP is based on the market value of the shares on that date. 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 2019 and movements during the year are set out in the Directors' Remuneration Report.

20. Trade and other receivables (current)

	Group 2019 £000	**Company 2019 £000**	Group 2018 £000	Company 2018 £000
Trade receivables due from Group companies	**—**	**13,969**	—	13,783
Other trade receivables	**5,143**	**4,020**	5,133	5,043
Other receivables	**437**	**530**	1,400	532
Prepayments and accrued income	**10,804**	**9,592**	10,413	9,548
	16,384	**28,111**	16,946	28,906

Trade receivables due from related parties are recognised at amortised cost and eliminate on consolidation. For terms and conditions relating to related party loans, refer to Note 29. None of the related party receivables were overdue at the reporting date.

Non-related party trade receivables are non-interest bearing and are generally on 30-90 days' terms. As at 31 May 2019, the nominal value of non-related party trade receivables impaired and fully provided for, and movements in the lifetime loss provision for impairment (with no 12 month expected credit losses or transfers between stages) of receivables were as follows:

	Group 2019 £000	**Company 2019 £000**	Group 2018 £000	Company 2018 £000
As at 1 June	**1,114**	**931**	1,051	863
Charge for year	**358**	**309**	273	295
Utilised during the year	**(156)**	**(156)**	(210)	(227)
Acquired on acquisition	**16**	**—**	—	—
At 31 May	**1,332**	**1,084**	1,114	931

At 31 May 2019, the analysis of non-related party trade receivables that were past due but not impaired is as follows:

			Past due but not impaired			
	Total £000	Neither past due nor impaired £000	< 30 days £000	30-60 days £000	60-90 days £000	>90 days £000
2019	**5,143**	**2,227**	**1,952**	**491**	**260**	**213**
2018	5,133	2,199	1,495	561	299	579

20. Trade and other receivables (current) continued

Prepayments and accrued income balances include the following contract assets accrued under IFRS 15:

Contract assets accrued	Group £000	Company £000
At 1 June 2018	9,448	8,651
Arising from acquisitions	143	—
Net increase/(decrease) in contract assets accrued	99	(100)
At 31 May 2019	**9,690**	**8,551**

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

21. Derivative financial asset

	Group 2019 £000	**Company 2019 £000**	Group 2018 £000	Company 2018 £000
Derivative financial asset (Notes 17 and 32)	**750**	**750**	650	650
	750	**750**	650	650

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

22. Cash and short-term deposits

For the purpose of the statement of cashflows, cash and cash equivalents comprise the following at 31 May 2019:

	Group 2019 £000	**Company 2019 £000**	Group 2018 £000	Company 2018 £000
Cash at banks and on hand	**23,248**	**14,095**	23,668	17,880
Bank overdrafts	**—**	**—**	—	—
Cash and cash equivalents	**23,248**	**14,095**	23,668	17,880

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 £23.2m (2018: £23.7m).

Due to the headroom the Group's current cash balances provide on its projected working capital requirements, the Group has not renewed its overdraft facility. Management will continue to review the level of bank facilities the Group may require.

23. Issued capital and reserves

Group and Company	Ordinary shares of 1p	Share capital £000	Share premium £000	Merger reserve £000
Authorised				
At 1 June 2017, 31 May 2018 and 31 May 2019	**30,000,000**	**300**	**—**	**—**
Issued and fully paid				
At 1 June 2017	25,789,164	258	30,314	8,781
Exercise of employee share options	256,686	2	139	—
Shares issued under the SIP	103,924	1	830	—
Shares issued for consideration	—	—	—	—
At 31 May 2018	26,149,774	261	31,283	8,781
Exercise of employee share options	280,579	3	101	—
Shares issued under the SIP	100,187	1	753	—
Shares issued for consideration	239,825	3	—	1,858
At 31 May 2019	**26,770,365**	**268**	**32,137**	**10,639**

Rights, preferences and restrictions on shares

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. However:

» The former shareholder of Broughtons ("the Broughtons Seller") has entered into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 77,171 ordinary shares in Mattioli Woods during the two years ending 8 August 2020; and

» The former shareholders of SSAS Solutions ("the SSAS Solutions Sellers") have entered into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 162,654 ordinary shares in Mattioli Woods during the two years ending 27 March 2021.

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 schemes and share incentive plan

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

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

23. Issued capital and reserves continued

Own shares

The following movements in own shares occurred during the year:

	Number of shares	Own shares £000
At 1 June 2017 and 1 June 2018	—	—
Acquired during the year	12,248	99
At 31 May 2019	**12,248**	**99**

Own shares represent the cost of the Company's own shares, either purchased in the market or issued by the Company, that are held by the Company or in an employee benefit trust to satisfy future awards under the Group's share-based payment schemes (Note 19). At 31 May 2019 12,248 (2018: nil) shares were held in the Mattioli Woods Employee Benefit Trust.

Other reserves

Movements recognised in other reserves in the year are disclosed in the statement of changes in equity. The following table describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share premium	Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
Merger reserve	Where shares are issued as consideration for >90% of the shares in a subsidiary, the excess of the fair value of the shares acquired over the nominal value of the shares issued is recognised in the merger reserve.
Capital redemption reserve	Amounts transferred from share capital on redemption of issued shares.
Equity – share based payments	The fair value of equity instruments granted by the Company in respect of share based payment transactions less options exercised.
Own shares	The cost of the Company's own shares, purchased in the market, that are held in an employee benefit trust to satisfy future awards under the Group's share-based payment schemes (Note 19).
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

The Company has issued options to subscribe for the Company's shares under two employee share schemes (Note 19). The cost of exercised or lapsed share options has been derecognised from equity-share based payments and re-allocated to retained earnings as required by IFRS2 'Share-based Payments'.

24. Cash flows arising from financing liabilities

The financing liabilities of the Group are £nil (2018: £nil).

The financing liabilities of the Company are £nil (2018: £16,940,000), with financing liabilities in the prior year comprising loan notes due from subsidiary undertakings issued on the hive up of the trade and assets of certain subsidiaries (Note 26). During the year, the interest accrued on these loan notes and the subsequent waiver of the balance by way of in-specie dividend did not give rise to any financing cash flows as reported in the Statement of Cash Flows of the Company. However, the gain on the waiver of loan notes of £17,335,000 was reported as part of non-cash dividend income in the Statement of Cash Flows of the Company.

The net cash flows from financing activities of the Group and the Company, as reported in the Statements of Cash Flows, relate entirely to financing balances reported within equity.

25. Trade and other payables

Trade and other payables (current)	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Trade payables due to related parties	**—**	**1,308**	—	57
Other trade payables	**1,765**	**812**	2,347	1,517
Other taxation and social security	**1,876**	**1,706**	1,628	1,568
Other payables	**627**	**517**	3,767	3,663
Accruals and deferred income	**10,259**	**8,463**	10,246	9,167
	14,527	**12,806**	17,988	15,972

Trade payables due to related parties eliminate on consolidation.

For terms and conditions relating to related party loans, refer to Note 29. Terms and conditions of the other financial liabilities set out above are as follows:

- Trade payables are non-interest bearing and are normally settled on 30-day terms;
- Other taxation and social security becomes interest bearing if paid late and are settled on terms of one or three months; and
- Accruals and deferred income are non-interest bearing and are normally settled monthly throughout the financial year.

26. Financial liabilities and provisions

Group	Contingent consideration £000	Client claims £000	Dilapidations £000	Clawbacks £000	Employers' NIC on share options £000	Onerous contracts £000	LTIP cash liability £000	FSCS levy £000	Total £000
At 1 June 2017	4,418	527	517	124	737	75	844	—	7,242
Unwinding of discount	142	—	12	—	—	—	13	—	167
Arising during the year	—	697	122	181	315	913	132	100	2,460
Paid during the year	(3,506)	(225)	(13)	(181)	(401)	—	(989)	—	(5,315)
Unused amounts reversed	(168)	(17)	(7)	—	(24)	—	—	—	(216)
At 31 May 2018	886	982	631	124	627	988	—	100	4,338
Unwinding of discount	75	—	10	—	—	—	—	—	85
Arising during the year	2,657	728	102	141	278	145	—	50	4,101
Arising on acquisitions	—	43	25	—	—	—	—	—	68
Paid during the year	(763)	(230)	(376)	(142)	(263)	(368)	—	—	(2,142)
Unused amounts reversed	—	(245)	(44)		(40)	(545)	—	—	(874)
Reclassification	(200)	207	—	—	—	—	—	—	7
At 31 May 2019	**2,655**	**1,485**	**348**	**123**	**602**	**220**	**—**	**150**	**5,583**
Current 2018	886	982	316	124	346	988	—	100	3,742
Non-current 2018	—	—	315	—	281	—	—	—	596
At 31 May 2018	886	982	631	124	627	988	—	100	4,338
Current 2019	**1,260**	**1,485**	**—**	**123**	**369**	**220**	**—**	**150**	**3,607**
Non-current 2019	**1,395**	**—**	**348**	**—**	**233**	**—**	**—**	**—**	**1,976**
At 31 May 2019	**2,655**	**1,485**	**348**	**123**	**602**	**220**	**—**	**150**	**5,583**

26. Financial liabilities and provisions continued

Company	Loan notes £000	Contingent consideration £000	Client claims £000	Dilapidations £000	Clawbacks £000	Employers' NIC on share options £000	Onerous contracts £000	LTIP cash liability £000	FSCS levy £000	Total £000
At 1 June 2017	8,525	4,418	452	487	106	737	75	844	—	15,644
Finance costs	397	142	—	12	—	—	—	13	—	564
Arising during the year	8,018	—	698	89	177	315	913	132	100	10,442
Transfer from Group companies	—	—	25	33	13	—	—	—	—	71
Paid during the year	—	(3,506)	(212)	(13)	(177)	(401)	—	(989)	—	(5,298)
Unused amounts reversed	—	(168)	(17)	(7)	—	(24)	—	—	—	(216)
At 31 May 2018	16,940	886	946	601	119	627	988	—	100	21,207
Finance costs	606	75	—	10	—	—	—	—	—	691
Arising during the year	—	2,657	641	102	137	278	145	—	50	4,010
Paid during the year		(763)	(194)	(376)	(137)	(263)	(368)	—	—	(2,101)
Unused amounts reversed	—	—	(168)	(14)	—	(40)	(545)	—	—	(767)
Waiver of loan note	(17,335)	—	—	—	—	—	—	—	—	(17,335)
Reclassification	(211)	(200)	—	—	—	—	—	—	—	(411)
At 31 May 2019	**—**	**2,655**	**1,225**	**323**	**119**	**602**	**220**	**—**	**150**	**5,294**
Current 2018	—	886	946	316	119	346	988	—	100	3,701
Non-current 2018	16,940	—	—	285	—	281	—	—	—	17,506
At 31 May 2018	16,940	886	946	601	119	627	988	—	100	21,207
Current 2019	**—**	**1,260**	**1,225**	**—**	**119**	**369**	**220**	**—**	**150**	**3,343**
Non-current 2019	**—**	**1,395**	**—**	**323**	**—**	**233**	**—**	**—**	**—**	**1,951**
At 31 May 2019	**—**	**2,655**	**1,225**	**323**	**119**	**602**	**220**	**—**	**150**	**5,294**

Loan notes due to subsidiary undertakings

On 31 December 2017 the trade and assets of Boyd Coughlan Limited were transferred to the Company. The trade and assets were exchanged for loan notes equal to the book value of the assets and assumed liabilities of Boyd Coughlan Limited as at 31 December 2017, attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

On 31 August 2016 the trade and assets of the Taylor Patterson Group Limited and its subsidiaries Taylor Patterson Financial Planning Limited and Taylor Patterson Associates Limited (together "the Taylor Patterson Group") were transferred to the Company. The trade and assets were exchanged for loan notes equal to the book value of the assets and assumed liabilities of the Taylor Patterson Group as at 31 August 2016, attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

On 31 May 2019 the loan notes were waived and the capital and reserves of Boyd Coughlan Limited, Taylor Patterson Group Limited and its subsidiaries were each reduced to £2.

During the year the Company reclassified £0.2m of residual loan note balances owed to the subsidiary undertakings against current receivables due to the Company from them.

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 are summarised in Note 3. The Group estimates the net present value of the financial liability payable within the next 12 months is £1.3m (2018: £0.9m) and the Group expects to settle the non-current balance of £1.4m (2018: £nil) within the next two years.

The balance reclassified in the year of £0.2m represents consideration which is no longer considered contingent but has yet to be paid, which is therefore recognised within Other Payables.

Client claims

A provision is recognised for the estimated potential liability when the Group becomes aware of a possible client claim. The value of the provision recognised is determined based on the nature of the potential liability, the Group's historic experience and any insurance recovery expected. No discount rate is applied to the projected cash flows due to their short-term nature.

The balance of £0.2m reclassified in the year represents potential liabilities of the Group recoverable under indemnities provided by the vendor of an acquired subsidiary, which are now recognised within Other Receivables.

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

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

Onerous contracts
Onerous lease provisions on property leases are recognised when a leased property is expected to become vacant and no longer used in the Group's operations. Amounts recognised in the prior period represented the Group's best estimate of the unavoidable costs committed to under three commercial leases for its previous premises at Grove Park, Leicester, based on the expected void period between the premises being vacated and subsequently sub-let after the Group took occupation of its new office at New Walk (see Note 26).

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

LTIP cash liability
In prior periods the Group has granted cash settled options to certain Executive Directors. The amounts of any cash entitlement on vesting of an award will be directly linked to the value of a specified number of the Company's shares at the vesting date. At 31 May 2019 there were no cash awards outstanding (2018: nil).

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

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The Group contributes to the investment intermediation levy class and accrues levy costs for future levy years when the obligation arises. A provision of £150,000 has been made in these financial statements for FSCS interim levies expected in the year ending 31 May 2020 (2018: £100,000).

27. Commitments and contingencies

Operating lease agreements – Group as lessee
Mattioli Woods plc had previously entered into three commercial leases for its premises at Grove Park, Enderby. The first lease for part of the ground floor of Gateway House had a duration of ten years from 1 February 2008. A second lease for part of the ground floor of Gateway House has a duration of ten years from 1 December 2009. In August 2018, the Company served notice under the first Gateway House lease to vacate the premises by 31 October 2018. In addition, the Company surrendered the second Gateway House lease on 31 October 2018 by way of a surrender premium payment to the landlord reflecting all rent and business rates due from the surrender date to lease expiry, along with the cost of dilapidations.

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

Mattioli Woods plc has entered into an intra-group lease, with subsidiary Mattioli Woods (New Walk) Limited as lessor, for its premises at New Walk, Leicester. The lease carries an annual rental of £875,000 and is renewed on an annual rolling basis.

Mattioli Woods plc has also entered into commercial leases for its premises at:

» Aberdeen, 8 Queens Terrace, which expires on 31 May 2023. The annual rental is £148,000;
» Newmarket, Cheveley House, Fordham Road, which expires on 24 December 2023, with next break on 24 December 2018. The annual rental is £115,500;
» Preston, Lanson House, Winckley Gardens, Mount Street, which expires on 31 July 2022. The annual rental is £62,000;
» Buckingham, Investment House, 22-26 Celtic Court, Ballmoor, which expires on 11 April 2022. The annual rental is £35,000;
» Glasgow, 120 West Regent Street, which expires on 31 January 2022. The annual rental is £48,844 plus £2,500 per annum for car parking;
» Manchester, Suite 310, 76 King Street, lease term is a rolling 6 months. The annual rental is £31,800;
» London, 3rd Floor, 87/89 Baker Street, lease expires on 31 October 2021. The annual rental is £92,500; and
» Edinburgh, 8 Coates Crescent, which expires on 14 August 2028, with a break on 14 August 2023. The annual rental is £101,850.

27. Commitments and contingencies continued

Operating lease agreements – Group as lessee continued

As part of certain acquisitions, the Group acquired operating lease obligations for office equipment. No restrictions were placed upon the Group by entering into these leases. Future minimum rentals payable under non-cancellable operating leases as at 31 May are as follows:

	Office equipment		Land and buildings	
Group	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Not later than one year	**196**	151	**724**	845
After one year but not more than five years	**506**	525	**1,903**	2,802
More than five years	**—**	—	**646**	491
	702	676	**3,273**	4,138

	Office equipment		Land and buildings	
Company	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Not later than one year	**196**	150	**636**	1,438
After one year but not more than five years	**506**	522	**1,721**	2,610
More than five years	**—**	—	**429**	491
	702	672	**2,786**	4,539

Group operating lease charges during the year were £861,000 (2018: £939,000) for land and buildings and £193,000 (2018: £91,000) for office equipment.

Capital commitments

At 31 May 2019 the Group had no capital commitments (2018: £0.8m).

Sponsorship agreement

As part of the Group's strategy to strengthen its brand awareness the Group has a three-year sponsorship agreement with rugby giants Leicester Tigers, which ended on 30 June 2019. The agreement includes shirt sponsorship on the Tigers' home and away shirts, a dedicated Mattioli Woods stand at the 26,000 capacity Welford Road stadium, corporate hospitality rights and the provision of exclusive content to Tigers fans. In November 2018 the Group entered into a new three-year sponsorship agreement with Leicester Tigers, which commenced on 1 July 2019 at a total cost of £1,230,000 over the three years of the agreement.

Client claims

The Group operates in a legal and regulatory environment that exposes it to certain litigation risks. As a result, the Group occasionally receives claims in respect of products and services provided and which arise in the ordinary course of business. The Group provides for potential losses that may arise out of contingencies.

In-specie pension contributions

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

Irrespective of the result of HMRC's appeal, the impact on the financial position of the Group is expected to be neutral, with any liability expected to be recovered from the affected clients whose tax liability it is.

Transfers from defined benefit schemes

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

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

28. Pension costs

The Group makes discretionary and contractual payments into the personal pension schemes of employees and contributions are charged in the statement of comprehensive income as they become payable. The charge for the year was £644,000 (2018: £413,000).

29. Related party disclosures

Custodian REIT plc

In March 2014 the Company's subsidiary, Custodian Capital, was appointed as the discretionary investment manager of Custodian REIT, a closed-ended property investment company listed on the Main Market of the London Stock Exchange. The terms of the Investment Management Agreement ("IMA") between Custodian Capital and Custodian REIT were amended on agreement of a further three year term with 12 months' notice to Custodian Capital's ongoing engagement from 1 June 2017, with the fees payable to Custodian Capital under the IMA amended to include:

- A step down in the property management fee from 0.75% to 0.65% of net asset value ("NAV") applied to NAV in excess of £500m; and
- A step down in the administrative fee from 0.125% to 0.08% of NAV applied to NAV between £200m and £500m and a further step down to 0.05% of NAV applied to NAV in excess of £500m.

All other key terms of the IMA remain unchanged.

The Company's Chief Executive Officer, Ian Mattioli, is a non-independent Non-Executive Director of Custodian REIT and the Company's Chief Financial Officer, Nathan Imlach, is Company Secretary of Custodian REIT. Ian Mattioli received £33,500 (2018: £28,250) of director's fees from Custodian REIT during the year. Fees for Nathan Imlach's services are charged by Custodian Capital directly to Custodian REIT and are included in the annual management charges noted below.

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

During the year the Group received revenues of £4.0m (2018: £3.8m) in respect of annual management charges, administration and marketing fees from Custodian REIT. Custodian REIT owed the Group £59,000 at 31 May 2019 (2018: £44,000).

During the year the Group paid rent of £257,000 (2018: £367,000), service charges and other property related costs of £50,000 (2018: £29,000) and dilapidations on exit of £138,000 (2018: £nil) in respect of its former office premises at MW House and Gateway House, Leicester where Custodian REIT was the lessor.

Amati Global Investors Limited

On 6 February 2017 the Company purchased 49% of the issued share capital of Amati. The Company also entered into an option agreement to acquire the remaining 51% of the issued share capital of Amati in the two years commencing 6 February 2019 for a mixture of cash and Mattioli Woods' ordinary shares. On 4 January 2019 the Group signed heads of terms agreeing to cancel its option in return for a payment of £0.75m, equivalent to the fair value of the option at 30 November 2018. This transaction completed following the end of the reporting period (Note 32).

Three of the Company's senior management team were appointed to the board of Amati on the date of investment. Ian Mattioli is Deputy Chairman, the Group's Chief Investment Officer, Simon Gibson, is a Non-Executive Director and former Chief Operating Officer, Mark Smith was an Executive Director until he resigned on 22 November 2018. During the year Ian Mattioli and Simon Gibson were paid £5,215 (2018: £5,063) and Mark Smith was paid £2,575 (2018: £5,063) of directors' fees by Amati.

On 14 August 2018 the Group entered into a 10-year agreement to sub-let part of the Group's Edinburgh office to Amati at an annual rent of £48,000. During the year rent and other property related costs of £39,000 were recharged to Amati (2018: £nil).

The Group received revenues of £nil (2018: £1,000) in respect of consultancy services provided to Amati Global Investors Limited during the year.

Gateley (Holdings) Plc

The Company's Chairman, Joanne Lake, is a Non-Executive Director of Gateley (Holdings) Plc, which is the holding company of Gateley Plc, a provider of commercial legal services. During the year, the Group paid Gateley Plc a total of £2,000 (2018: £34,000) in respect of corporate legal services provided to the Group and its subsidiaries. In addition, the Group received revenues of £34,000 (2018: £29,000) in respect of employee benefits services provided to Gateley Plc during the year.

29. Related party disclosures continued

Worldwide Broker Network Limited
The Company's former Managing Director of Employee Benefits, Alan Fergusson, is an executive director of Worldwide Broker Network Limited. Worldwide Broker Network Limited is the holding company of Worldwide Broker Network (US) Inc., an international network of financial services introducers. During the year, the Group paid £25,000 (2018: £19,000) to Worldwide Broker Network (US) Inc. in respect of network membership fees.

Vista Insurance Brokers Limited
Vista Insurance Brokers Limited, a broker of insurance products, is party to a dormant joint venture agreement with the Company. The Group received revenues of £2,000 (2018: £4,000) in respect of employee benefits services provided to Vista Insurance Brokers Limited during the year. Fees of £nil (2018: £12,000) were paid to Vista Insurance Brokers Limited in the year under a referral fee share arrangement.

Key management compensation
Key management personnel, representing those Executive Directors that served throughout the year and 14 (2018: 18) other executives, received compensation in the form of short-term employee benefits and equity compensation benefits (see Note 11) which totalled £5.9m for the year ended 31 May 2019 (2018: £7.2m).

Total compensation is included in "employee benefits expense" and analysed as follows:

	2019 £000	2018 £000
Wages and salaries	**4,907**	6,036
Social security costs	**803**	993
Pension	**86**	61
Benefits in kind	**96**	159
	5,892	7,249

In addition, the cost of share based payments disclosed separately in the statement of comprehensive income was £0.7m (2018: £0.9m).

Transactions with other related parties
Following the transfer of Mattioli Woods' property syndicate business to Custodian Capital, the legal structure of the arrangements offered to investors changed to a limited partnership structure, replacing the previous trust-based structure. Each limited partnership is constituted by its general partner and its limited partners (the investors), with the general partner being a separate limited company owned by Custodian Capital (see Note 17).

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

FP Mattioli Woods Balanced Fund
The Company is the investment manager of the FP Mattioli Woods Balanced Fund, an open ended investment company which aims to achieve long-term growth while managing volatility so that, other than on very short-term measures, outperformance comes with a lower beta than the benchmark. As at 31 May 2019 the Group held an investment with a market value of £40,000 (2018: £41,000) in the FP Mattioli Woods Balanced Fund.

MW Properties (Huntingdon Non-Geared) Limited
The Company holds a 2.04% interest in MW Properties (Huntingdon Non-Geared) Limited, a nominee for a property syndicate. The Group received dividend income of £nil (2018: £1,000) from MW Properties (Huntingdon Non-Geared) Limited during the year, with the market value of the investment being £14,000 (2018: £14,000) at the year end.

30. Financial risk management

Financial assets principally comprise trade and other receivables, cash and short-term deposits, which arise directly from its operations. Financial liabilities comprise certain provisions and trade and other payables. The main risks arising from financial instruments are market risk (including interest rate risk, foreign exchange risk and price risk), credit risk, and liquidity risk. Each of these risks is discussed in detail below.

The Group monitors financial risks on a consolidated basis, with its financial risk management based upon sound economic objectives and good corporate practice. No hedging transactions have taken place during the years presented.

Market risk

(a) Interest rate risk

Interest rate risk is the risk that the Group will sustain losses from adverse movements in interest bearing assets. There is an exposure to interest rates on banking deposits held in the ordinary course of business. At 31 May 2019 the value of financial instruments on the Group's statement of financial position exposed to interest rate risk was £23.2m (2018: £23.7m), and Company £14.1m (2018: £17.9m), comprising cash and cash equivalents. This exposure is monitored to ensure that the Group is managing its interest earning potential within accepted liquidity and credit constraints. Other than short-term overdrafts, the Group has no external borrowings and as such is not exposed to interest rate or refinancing risk on borrowings. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are also made for varying periods of between one day and 12 months depending on the immediate cash requirements of the Group and earn interest at the respective fixed term deposit rates.

A source of revenue is based on the value of client cash under administration. The Group has an indirect exposure to interest rate risk on these cash balances held for clients. These balances are not on the Company or Group statements of financial position.

The following table demonstrates the sensitivity to a 100bps (1%) change in interest rates, with all other variables held constant, of the Group's and Company'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	Group Effect on profit before tax £000	Company Effect on profit before tax £000
2019			
£ Sterling	+100	83	**(132)**
£ Sterling	-100	(83)	**132**
2018			
£ Sterling	+100	194	197
£ Sterling	-100	(194)	(197)

(b) Foreign exchange translation and transaction risk

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates. With all of the Group's business located within the UK, the Group has no material exposure to foreign exchange translation or transaction risk and does not hedge any foreign current assets or liabilities.

(c) Price risk

Price risk is the risk that a decline in the value of assets adversely impacts the profitability of the Group as a result of an asset not meeting its expected value. The Group is exposed to price risk on corporate investments recognised in the Group's statement of financial position. At 31 May 2019, the fair value of investments and derivative financial assets recognised in the Group's and Company's statement of financial position was £830,000 (2018: £731,000). A movement in the value of these investments could have a material impact on the Group's financial position or results.

Property administration fees, discretionary management charges and adviser charges for intermediation are based on the value of client assets under administration and hence the Group has an indirect exposure to security price risk on investments held by clients. These assets are not on the Group's statement of financial position. The risk of lower revenues is partially mitigated by asset class diversification. The Group does not hedge its revenue exposure to movements in the value of client assets arising from these risks and so the interests of the Group are aligned to those of its clients.

30. Financial risk management continued

Credit risk

The Group and Company trades only with third parties it recognises as being creditworthy. In addition, receivable balances are monitored on an ongoing basis and under the simplified approach, provisions for credit risk are assessed under the lifetime losses approach with all assets assessed as one portfolio.

Credit risk from the other financial assets of the Group and Company, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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 and the Company's financial liabilities at 31 May 2019 and 2018 based on contractual payments:

	Maturity of liability					
Group	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	> 5 years £000	Total £000
Trade and other payables	—	9,771	—	—	—	9,771
Contingent consideration	—	—	1,300	1,500	—	2,800
At 31 May 2019	**—**	**9,771**	**1,300**	**1,500**	**—**	**12,571**
Trade and other payables	—	14,107	—	—	—	14,107
Contingent consideration	—	398	500	—	—	898
At 31 May 2018	—	14,505	500	—	—	15,005

	Maturity of liability					
Company	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	> 5 years £000	Total £000
Trade and other payables	—	9,404	—	—	—	9,404
Contingent consideration	—	—	1,300	1,500	—	2,800
At 31 May 2019	**—**	**9,404**	**1,300**	**1,500**	**—**	**12,204**
Trade and other payables	—	12,760	—	—	—	12,760
Contingent consideration	—	398	500	—	—	898
Loan notes	—	—	—	—	16,940	16,940
At 31 May 2018	—	13,158	500	—	16,940	30,598

Capital management

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

» To comply with the regulatory capital requirements set by the FCA;

» To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

» To maintain a strong capital base to support the development of its business.

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital of the Group at 31 May 2019 was £85.6m (2018: £78.9m) and Company was £81.3m (2018: £73.7m). The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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

All regulated entities within the Group are required to meet the Pillar 1 Capital Resources Requirements set out in the CRD. The latest version of the CRD legislation ("CRD IV") came into effect on 1 January 2014. The Group is also required to comply with the CRD's requirements under Pillar 2 (Operational Risk) and Pillar 3 (Disclosure). The CRD requires continual assessment of the Group's risks to ensure that the higher of Pillar 1 and 2 requirements is met. Under the Pillar 3 requirements, the Group must disclose regulatory capital information and has done so by making the disclosures available on the Group's website at www.mattioliwoods.com.

The Company and regulated subsidiary companies submit quarterly returns to the FCA relating to their capital resources. At 31 May 2019 the total regulatory capital requirement across the Group was £12.3m (2018: £10.9m) and the Group had an aggregate surplus of £17.3m (2018: £18.8m), including: shares issued during the year and admitted to Core Equity Tier 1 capital following the year end; the proposed final dividend; and retained earnings for the year. All the regulated firms within the Group maintained surplus regulated capital throughout the year. The regulated subsidiaries are limited in the distributions that can be paid up to the Company by each of their individual capital resource requirements.

31. Financial instruments

The carrying amount of financial assets and financial liabilities recorded by category is as follows:

Financial assets	**Group 2019 £000**	**Company 2019 £000**	Group 2018 £000	Company 2018 £000
Cash and short-term deposits	**23,248**	**14,095**	23,668	17,880
Fair value through profit or loss (including derivative financial asset and investments) (Note 17)	**830**	**830**	731	731
Amortised cost loans and receivables (including trade and other receivables) (Note 20)	**15,329**	**27,112**	16,016	28,090
	39,407	**42,037**	40,415	46,701

Financial liabilities	**Group 2019 £000**	**Company 2019 £000**	Group 2018 £000	Company 2018 £000
Amortised cost (including trade and other payables and loan notes payable)	**9,771**	**9,404**	14,107	29,700
Fair value through profit and loss (including contingent consideration) (Note 26)	**2,655**	**2,655**	886	886
	12,426	**12,059**	14,993	30,586

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. The following table summarises the fair value measurements recognised in the statement of financial position by class of asset or liability and categorised by level according to the significance of the inputs used in making the measurements:

Group and Company	Carrying amount as at 31 May 2019 £000	Quoted prices in active markets for identical instruments Level 1 £000	Significant other observable inputs Level 2 £000	Significant unobservable inputs Level 3 £000
Financial assets				
Derivative financial instruments (Note 21)	750	–	–	750
At 31 May 2019	**750**	**—**	**—**	**750**
Financial liabilities				
Contingent consideration (Note 3)	2,655	–	–	2,655
At 31 May 2019	**2,655**	**—**	**—**	**2,655**

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

31. Financial instruments continued

Derivative financial instruments

At 31 May 2019, the fair value of the option contract was determined to be £750,000 (2018: £650,000) after the Company signed heads of terms with the counterparty to the option contract during the year, which completed following the end of the reporting period (Note 32), whereby the counterparty has agreed to pay £750,000 in return for cancellation of the option agreement.

The gain relating to the derivative financial instrument is included within 'operating profit'. There were no other gains or losses arising from changes in the fair value of financial instruments categorised as level 3 within the fair value hierarchy.

Contingent consideration

As set out in Note 3, the Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. While the exact amounts payable cannot be determined (as these depend on the future performance of the acquired businesses) the Group estimates the fair value of contingent consideration payable on acquisitions to be £2.7m (2018: £0.9m).

Interest rate risk

The following table sets out the carrying amount after taking into account provisions for impairment, by maturity, of the Company's and the Group's financial instruments that are exposed to interest rate risk:

Group 31 May 2019 **Floating rate**	**< 1 year** **£000**	**1-2 years** **£000**	**2-3 years** **£000**	**3-4 years** **£000**	**4-5 years** **£000**	**> 5 years** **£000**	**Total** **£000**
Financial assets (current)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Cash assets	**23,248**	**—**	**—**	**—**	**—**	**—**	**23,248**
Bank overdrafts	**—**	**—**	**—**	**—**	**—**	**—**	**—**

Group 31 May 2018 Floating rate	< 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	> 5 years £000	Total £000
Financial assets (current)	—	—	—	—	—	—	—
Cash assets	23,688	—	—	—	—	—	23,688
Bank overdrafts	—	—	—	—	—	—	—

Company 31 May 2019 **Floating rate**	**< 1 year** **£000**	**1-2 years** **£000**	**2-3 years** **£000**	**3-4 years** **£000**	**4-5 years** **£000**	**> 5 years** **£000**	**Total** **£000**
Financial assets (current)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Cash assets	**14,095**	**—**	**—**	**—**	**—**	**—**	**14,095**
Bank overdrafts	**—**	**—**	**—**	**—**	**—**	**—**	**—**

Company 31 May 2018 Floating rate	< 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	> 5 years £000	Total £000
Financial assets (current)	—	—	—	—	—	—	—
Cash assets	17,880	—	—	—	—	—	17,880
Bank overdrafts	—	—	—	—	—	—	—

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

Credit risk

The Group's principal financial assets are cash and short term deposits and trade and other receivables. The only significant concentrations of credit risk relate to the Group's bank deposits and exposure to credit risk arising from default of the counterparty. The maximum exposure is equal to the carrying amount of these deposits. At 31 May 2019, the Group's bank deposits were held with Royal Bank of Scotland plc, Lloyds Bank plc, Bank of Scotland plc, Barclays Bank UK plc, Metro Bank plc, Santander UK plc, Cater Allen Limited, Investec Bank plc and Northern Bank Limited (Danske Bank).

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

32. Events after the reporting date

Cancellation of Amati option

On 19 June 2019 the Group signed an agreement to cancel its option to acquire the remaining 51% of Amati in return for a payment of £750,000.

33. Ultimate controlling party

The Company has no controlling party.

Recurring revenue

A measure of sustainable revenue, calculated as revenue earned from ongoing services as a percentage of total revenue.

Timing of revenue recognition	**2019 £000**	2018 £000
At a point in time:		
Investment and asset management	**2,873**	4,633
Pension consultancy and administration	**1,276**	2,639
Property management	**620**	570
Employee benefits	**973**	1,087
Non recurring revenue	**5,742**	8,929
Over time:		
Investment and asset management	**23,124**	20,463
Pension consultancy and administration	**19,129**	19,183
Property management	**5,823**	5,348
Employee benefits	**4,646**	4,746
Recurring revenue	**52,722**	49,740
Total revenue	**58,464**	58,669
Recurring revenue	**90.2%**	84.8%

Adjusted EBITDA

A measure of the underlying profitability, excluding items that are non-cash or affect comparability between periods, calculated as statutory operating profit before financing income or costs, tax, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition related costs, including share of profit from associates (net of tax).

	2019 £000	2018 £000
Statutory operating profit before financing	**9,791**	9,617
Amortisation of acquired intangibles	**1,907**	1,756
Amortisation of software	**1,055**	469
Depreciation	**1,288**	822
EBITDA	**14,041**	12,664
Share of profit from associates, net of tax	**480**	240
Acquisition related costs	**126**	125
Gain on revaluation of derivative financial instrument	**(100)**	(540)
Adjusted EBITDA	**14,547**	12,489

Adjusted PBT

A measure of profitability before taxation, excluding items that are non-cash or affect comparability between periods, calculated as statutory profit before tax excluding amortisation of acquired intangibles, acquisition related costs, non-cash interest charges on provisions and changes in valuation of derivative financial instruments.

	2019 £000	2018 £000
Statutory profit before tax	**10,245**	9,776
Amortisation of acquired intangibles	**1,907**	1,756
Acquisition related costs	**126**	125
Non-cash interest charges on provisions	**85**	166
Gain on revaluation of derivative financial instrument	**(100)**	(540)
Adjusted PBT	**12,263**	11,283

Adjusted PAT

A measure of profitability, net of taxation, excluding items that are non-cash or affect comparability between periods, calculated as statutory profit before tax excluding amortisation of acquired intangibles, acquisition related costs, non-cash interest charges on provisions, changes in valuation of derivative financial instruments and deducting tax at the standard rate of 19%.

	2019 £000	2018 £000
Adjusted PBT	**12,263**	11,283
Income tax expense at standard rate of 19%	**(2,330)**	(2,144)
Adjusted PAT	**9,933**	9,139

Adjusted EPS

A measure of total comprehensive income for the year, net of taxation, attributable to equity holders of the Company, adjusted to add back acquisition related costs, changes in valuation of derivative financial instruments, non-cash interest charges on provisions and the amortisation of acquired intangible assets, divided by the weighted average number of ordinary shares in issue.

	2019 £000	2018 £000
Adjusted PAT	**9,933**	9,139
Basic weighted average number of shares (see Note 13)	**26,590**	26,561
Adjusted EPS	**37.3p**	34.4p

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

Company secretary:
Petershill Securities Limited

Registered office:
1 New Walk Place
Leicester
LE1 6RU

Registered number:
3140521

Nominated adviser and broker:
Canaccord Genuity Limited
88 Wood Street
London
EC2V 7QR

Joint broker:
N+1 Singer
1 Bartholomew Lane
London
EC2N 2AX

Auditor:
Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ

Principal solicitors:
Walker Morris LLP
33 Wellington Street
Leeds
LS1 4DL

DWF LLP
2 Lochrin Square
96 Fountainbridge
Edinburgh
EH3 9QA

Principal bankers:
Lloyds Bank plc
1 Lochrin Square
92 Fountainbridge
Edinburgh
EH3 9QA

Bank of Scotland plc
1 Lochrin Square
92 Fountainbridge
Edinburgh
EH3 9QA

Registrars:
Link Market Services Limited
Link Asset Services
40 Dukes Place
London
EC3A 7NH

Five year summary (unaudited)

	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Revenue	**58,464**	58,669	50,533	42,950	34,565
Employee benefits expense	**(31,239)**	(32,148)	(28,711)	(24,552)	(20,042)
Other administrative expenses	**(12,099)**	(12,833)	(9,558)	(7,807)	(6,604)
Share based payments	**(1,060)**	(1,497)	(1,902)	(1,594)	(790)
Loss on disposal of property, plant and equipment	**(125)**	(67)	(61)	(56)	(44)
Gain on revaluation of derivative financial instrument	**100**	540	93	—	—
EBITDA	**14,041**	12,664	10,394	8,941	7,085
Acquisition-related costs	**126**	125	378	339	272
Gain on derivative financial asset	**(100)**	(540)	(93)	—	—
Share of profit from associates	**480**	240	103	—	—
Adjusted EBITDA	**14,547**	12,489	10,782	9,280	7,357
Amortisation and impairment	**(2,962)**	(2,225)	(1,996)	(1,816)	(1,279)
Depreciation	**(1,288)**	(822)	(606)	(497)	(387)
Operating profit before financing	**9,791**	9,617	7,792	6,628	5,419
Net financing (costs)/income	**(26)**	(81)	(246)	(337)	(129)
Share of profit from associate, net of tax	**480**	240	103	—	—
Profit before tax	**10,245**	9,776	7,649	6,291	5,290
Income tax expense	**(2,048)**	(1,586)	(1,293)	(1,046)	(1,268)
Profit for the year	**8,197**	8,190	6,356	5,245	4,022
Assets under management, administration and advice (£m)	**9,382.5**	8,729.2	7,925.3	6,605.9	5,410.4
Headline debtors' ratio (days)	**32.1**	31.9	39.5	46.4	52.2
External client loss rate	**2.2%**	1.5%	2.1%	2.4%	2.8%
EBITDA margin	**24.0%**	21.6%	20.6%	20.8%	20.5%
Adjusted EBITDA margin	**24.9%**	21.3%	21.4%	21.6%	21.3%
Basic EPS (pence)	**30.8**	30.8	24.2	20.4	18.8
Adjusted EPS (pence)	**37.3**	34.4	30.3	27.2	25.4
Dividends paid and proposed (pence)	**20.0**	17.0	14.1	12.5	10.5

Financial calendar

3 September 2019	Announcement of final results for the year ended 31 May 2019
12 September 2019	Ex-dividend date for ordinary shares
13 September 2019	Record date for final dividend
21 October 2019	Annual General Meeting
25 October 2019	Payment of final dividend on ordinary shares

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Mattioli Woods plc
1 New Walk Place
Leicester
LE1 6RU

Tel: 0116 240 8700
Fax: 0116 240 8701
info@mattioliwoods.com

www.mattioliwoods.com