Harwood
Wealth Management Group plc

A sound platform for growth

Annual Report & Accounts 2017

Harwood Wealth Management Group is a leading financial planning and discretionary wealth management firm. We have grown organically and through our proven acquisition model.

Highlights

£3.8bn

ASSETS UNDER INFLUENCE

+81% (2016: £2.1bn)

£25.9m

REVENUE

+123% (2016: £11.6m)

£4.3m

ADJUSTED EBITDA*

+59% (2016: £2.7m)

FINANCIAL HIGHLIGHTS

- Assets under influence (AUI) up 81% to £3.8bn (2016: £2.1bn)
- Revenue up 123% to £25.9m (2016: £11.6m) with the newly acquired Network Direct contributing £9.8m of this
- Gross margin of 43% (2016: 61%). Gross margin excluding Network Direct (a structurally lower margin business) was 65%
- Profit after tax of £0.7m (2016: £0.1m)
- Adjusted EBITDA* is up 59% to £4.3m (2016: £2.7m)
- Net cash generated by operations of £3.7m (2016: £2.4m) and total cash balances at the period end of £19.0m (2016: £10.5m)
- Seven acquisitions completed during the period for an aggregate consideration of £2.3m
- Successful placing in April 2017 raising £10.0m after expenses to continue the Group's acquisition strategy

* Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation and exceptional costs. It is a non-IFRS measure which the Group uses to assess its performance and it is also commonly used as a performance measure by market commentators.

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For the latest information view our website:

harwoodwealth.co.uk

At a Glance

Harwood Wealth Management Group is a leading financial planning and discretionary wealth management firm. We have grown organically and through our proven acquisition model.

WHO WE ARE

Harwood Wealth Management Group was created by bringing together Compass Wealth Management Group, which was founded in 2001 by Neil Dunkley and Mark Howard, and Wellian Investment Solutions, led by Alan Durrant.

Supporting a network of offices from our headquarters in Waterlooville, Hampshire, we provide services throughout the UK, both to retail investment clients and to companies.

OUR SERVICES

The wealth management and financial planning services offered by our financial advisers include investment management, pension and retirement planning, tax and inheritance planning, life cover and family protection, and mortgages.

In addition, we offer Discretionary Investment Management services, the Wellian investment administration platform and operate the Discovery range of Multi Manager funds, which supports our investment management offering to our clients.

OUR APPROACH

Most of our 179 FCA-regulated financial advisers are self-employed, and are remunerated based on a share of the annual fee income that they generate.

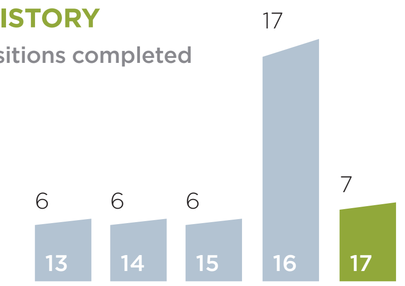
The Group is supported by a team of more than 50 investment management, operations, compliance and IT infrastructure staff.

OUR ACQUISITION MODEL

We have a successful record of acquiring financial advisory and wealth management businesses, built upon established processes and our sound reputation in the sector. Our proactive approach to acquisitions is complemented with organic growth from valued relationships with existing clients and from new clients who come to us via referral or our marketing initiatives.

AQUISITION HISTORY

Number of acquisitions completed



- £3.8bn assets under influence (including approximately £1bn from the acquisition of Network Direct Ltd).
- 179 FCA-regulated financial advisers
- 60 businesses acquired to date

INVESTMENT PROPOSITION

1. Profitable, highly cash generative business with a strong balance sheet and high levels of recurring revenue (75%+).

2. Track record of delivery against strategy.

3. Capitalising on opportunities for market consolidation and from regulatory change.

4. Proven model of sourcing, executing and integrating acquisitions.

5. Established platform for future growth.

6. Experienced Board and senior management team.

HARWOOD STRUCTURE

Harwood Wealth Management Group plc

FINANCIAL PLANNING

- Compass Wealth Management Consultants
- Active Financial Partners
- Retirement and Investment Solutions
- Compass B2B
- Merchants Wealth Management

INVESTMENT MANAGEMENT

- Wellian Investment Solutions
- IMS Capital

NETWORK SERVICES

- Network Direct

Chairman's Statement

I am delighted to report another set of strong results, and look forward to building on our success.

ANOTHER SUCCESSFUL YEAR

I am pleased to say that, once again, the Group has performed ahead of expectations, and in the manner we said we would – by consistent execution of our strategy: strong financial services advice revenues, good quality investment performance and increasing assets, and further acquisitions.

I would particularly like to draw attention to the acquisition of Network Direct Limited ("NDL"). Not only did this bring a different geographical footprint to where Harwood has focused its activity, but, as the name implies, it is a network, which offers a different delivery structure for the Group. The network is responsible for the advice given by the advisers, who are registered individuals. They are often not employed, however, the network has a regulatory responsibility. The acquisition of NDL has diversified our route to market and has also widened the number of advisers to whom we can offer our centralised investment processes and in-house investment solutions.

In April 2017, the Company returned to the market to complete a secondary fundraise, raising £10.0m after expenses. We were delighted that this was well received by existing and new investors, and we raised the full amount anticipated. As communicated, we are deploying the proceeds by buying businesses that will generate revenue across our various offerings.

FAVOURABLE MARKET DRIVERS

This is a good time to be in the business of giving regulated financial advice, as there has been a favourable flow of regulation from both the government and the industry regulator. Since the introduction of pension liberalisation, we are seeing individuals be more creative and thinking more about their retirement funds. Previously, there were limited advice opportunities once the individual had purchased their mandatory annuity, but the pension freedoms have given the opportunity for a longer-term and more intimate relationship with clients. For example, if you are buying an income draw down product where you're drawing down from your pension pot every year, there is almost a mandatory series of advice points.

The markets have also been buoyant, which is good for us as a business that derives a portion of our income from assets under management. Another trend has been the ongoing shift from defined benefit to defined contribution schemes. Some firms are heavily involved in that area, but we are choosing to participate judiciously in that market, in line with our risk appetite and clear governance frameworks. Moving a customer's pension pot from one environment to another is a major decision, and needs a high quality, rigorous and sustainable process such as ours. We do not expose ourselves to unnecessary risk, so we are availing ourselves of the opportunity but in a manner that the industry regulator would wish to see. Our advisers have the freedom to express themselves, but within very clear parameters around matching our sensible and well governed appetite for risk.

We have had a relatively interesting regulatory environment this past year with further things on the horizon. There is increased regulatory focus on value and transparency to the end client, and we believe we have robust processes and structures in both of these areas. Regarding the outcome of the FCA's Asset Management Market Study, the general consensus is that, for active management, there may be slight downward pressure on investment management margins. Certain larger asset managers have already made alterations to their pricing structure, which is positive for customer outcomes. This should make financial products and advice more affordable and therefore accessible to more people, which will benefit the Company. The other side to the argument is that it will push individuals towards passive products, which is also beneficial to the Company as we have passive products in our offerings. The regulator is now moving on to look into platforms. This is currently a work in progress so the outcome is unknown, but it's not unreasonable to assume that this will benefit customers in one way or another. We use platforms, so if there are benefits to customers then we stand to benefit there too.

MiFID II came into force in January 2018, and we have made sure that we comply with the procedural and disclosure changes required. As we outsource the business of fund management and also the business of platforms, the principal effect is on our suppliers, although we do have to be cognisant of how the regulations apply to us and make sure that we are compliant and that we work with companies that are also compliant. There is also the General Data Protection Regulation (GDPR), which is a requirement for individuals to have a better grasp of the data held about them by third party institutions, which has the potential to also impact procedures.

With regard to technological changes, these affect us to the degree that advancements should increase efficiency in fund management, from which we would benefit. We have reached a scale that we are an important client for the people we do business with, therefore if they differentiate their service propositions, they differentiate in our favour. We keep a close eye on automated wealth managers (robo-advisers), but it is currently too early in its development stage for us to commit significant capital.

THE HARWOOD DIFFERENCE

We do what we say we're going to do. What makes Harwood a good aggregator in the market? We apply rigorous standards – it's a readily repeatable formula that we repeat readily! We know what return we need from a business, we know how to integrate a business into our systems and processes, and we know how to treat their customers fairly. We do this almost metronomically making it the DNA of our business. When we develop new offerings or services, we do it at the right time, for the right reason.

Harwood is a well governed institutionalised business that grows, but yet maintains that entrepreneurial, small business culture. It has a very unusual blend of the disciplines of an institutional business, while at the same time retaining the feel of a family business. Our staff and our advisers see us as a trusted partner, almost as a family. It's ingrained in the psyche and the culture, from Board level and throughout the Group.

We are very much about customer, client, people centricity. It's just intuitive. We pay a fair market rate for businesses, and I would think that a high proportion of the firms that join us do so because of the people. We tend to align ourselves with like-minded businesses, and, when we choose not to acquire a business, often it's around cultural as well as financial fit.

As a Board, we are very active in the business and marketplace. I meet with clients and speak with potential new clients frequently. Christopher Mills is a seasoned investor and talks to the investment community daily. Paul Tuson is very in touch with the finances of the business.

A PROGRESSIVE DIVIDEND

In line with our progressive dividend policy, we paid an interim dividend of 1.00 pence per share, and the Board will be recommending a final dividend of 2.24 pence per ordinary share, subject to shareholder approval at the Annual General Meeting on 18 April 2018. The final dividend will be paid on 11 May 2018 to shareholders on the register at the close of business on 27 April 2018 bringing the full year dividend pay-out to 3.24 pence.

WELL POSITIONED FOR FUTURE GROWTH

I wish to thank our shareholders for their continued support, and management, staff and advice partners for another successful year.

As ever, there are uncertainties ahead, with Brexit and its potential ramifications on the financial services sector a particularly difficult area to predict. However, uncertainty tends to drive the need for financial advice, and as we look to the year ahead and beyond, we remain confident that our simple, proven strategy will continue to provide plentiful opportunity for profitable organic and acquisitive growth.

Peter Mann
Chairman
22 January 2018

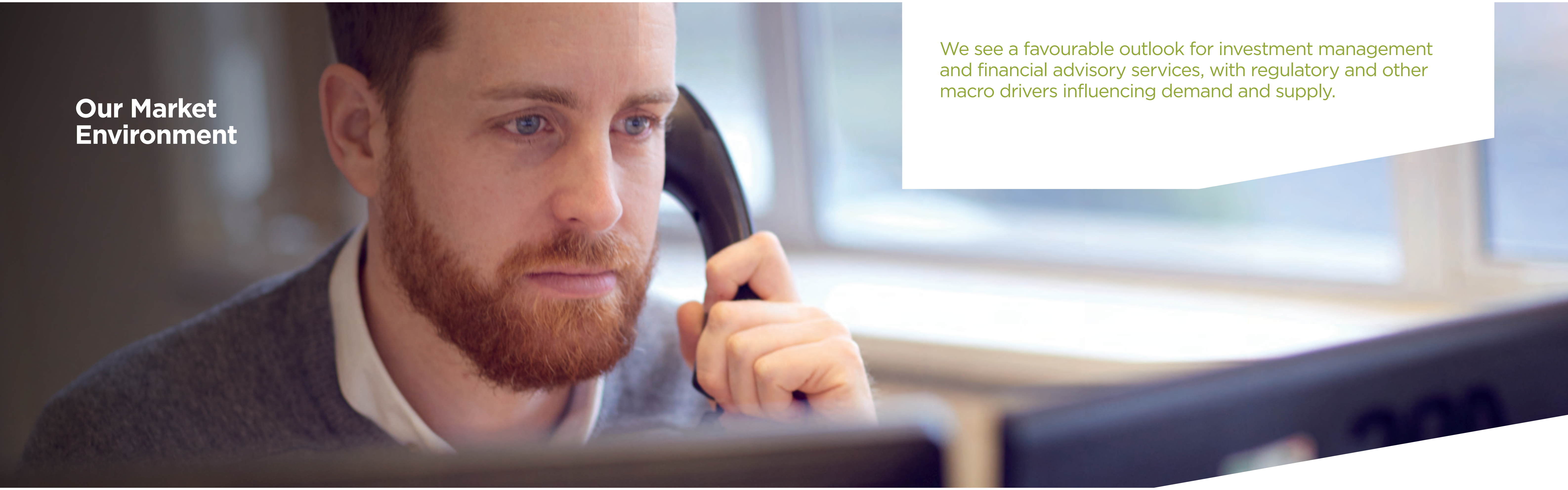
We work in close partnership with our clients

"They work in a genuine partnership with us, with high levels of management contact and very clear insight into their investment processes and the rationale behind their recommendations."

CHRIS GILCHRIST, DIRECTOR
FiveWays Financial Planning
ISA partners of Wellian Investment Solutions

Strategic Report

Our Market Environment



We see a favourable outlook for investment management and financial advisory services, with regulatory and other macro drivers influencing demand and supply.

THERE IS AN INCREASING NEED FOR ADVICE

Consumers' requirement for financial advice is being driven by several fundamental trends:

AGING POPULATION

Demographic trends support demand for financial advice, as individuals enjoy greater longevity. Those approaching or in retirement are of a generation with substantial personal wealth, accumulated in an era of generous employer pension contributions and rising house prices. Total investable assets of the UK population are estimated to total approximately £3.5 trillion. These have grown steadily, and are estimated at around £4 trillion in 2018[1].

PENSION FREEDOMS

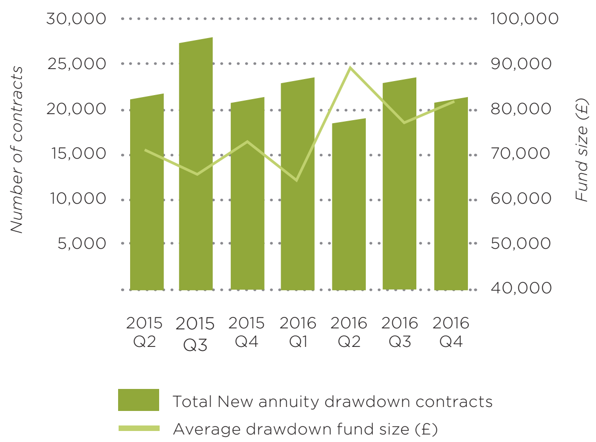
April 2015 saw the introduction of pension reforms that sought to provide those approaching retirement with greater flexibility in when and how they use their pension pots. Previously, pensioners over the age of 75 were required to purchase annuities, and their pension funds and requirement for on-going advice were therefore lost to the investment industry. Pensioners now have the option of remaining invested during retirement and, in so doing, continue to generate investment, advice and administration fees for wealth management professionals. Data from the Association of British Insurers show that for Q4 2016:

- £1.67 billion was invested in 22,000 income drawdown products, giving an average fund size of just over £76,000.
- £1.17 billion was invested in 20,100 annuities, making the average fund size just over £58,100.

The charts below show the data over time since the pension freedoms were introduced:

Annuity Sales by quarter

Drawdown Sales by quarter



1 *FT Adviser, 19 July 2016 ("FCA admits RDR contributed to advice gap")*

Ernst & Young, IFG Capital Markets Day Presentation, September 2015

Our Market Environment continued

INITIATIVES TO DRIVE CONSUMER ENGAGEMENT WITH PENSIONS

Auto-enrolment: Under a law introduced in 2012, all employers must eventually offer a workplace pension scheme and automatically enrol eligible workers in it. This requirement has applied to larger employers since October 2012 and will apply to all employers by 2018. Employees choosing to opt out of their employer's workplace pension scheme will forego their employer's contribution to their pension, as well as the government's contribution in the form of tax relief.

Pensions dashboard: the government recently approved proposals to provide individuals with an online "pensions dashboard" covering all the schemes they may have, to enhance consumer engagement and help people make better decisions. The dashboard will bring all of the 64m pension pots online from 2019, showing individuals what they have saved at different employers, plus their state pension entitlements. It will integrate data from hundreds of different pension companies as well as the government's National Insurance database.

INCREASING NEED FOR FINANCIAL SELF-RELIANCE

Historically, individuals were able to rely on the government and employers for their pensions. As the State Pension Age has been pushed back and defined benefit schemes have become a thing of the past, society has had to become increasingly self-reliant, with private provision for retirement and care costs becoming a major consideration in financial planning.

LOW INTEREST RATES

In the context of an unprecedentedly long period of low interest rates, clients have a greater need for guidance to generate returns on their savings and investments.

REGULATORY CHANGE HAS DRIVEN A FUNDAMENTAL RESTRUCTURING OF THE PROVISION OF ADVICE

At the same time that these demand dynamics have been at work, the firms supplying financial services have faced new challenges. At the forefront of these has been the regulatory environment, notably the Retail Distribution Review (RDR).

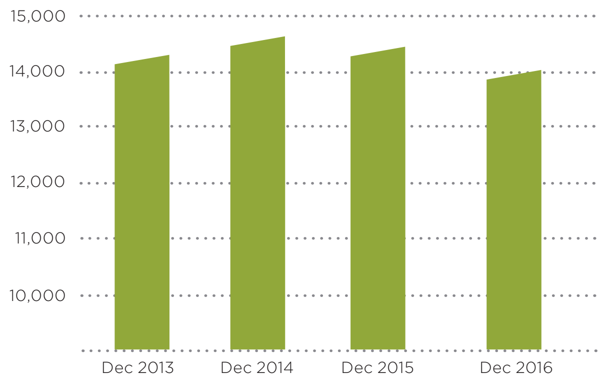
Historically, the majority of investment distribution in the UK was through a combination of smaller advisory firms and the advisory arms of larger organisations such as banks, building societies and insurers. Typically, advisers were paid for their services via commission from the providers of the products they recommended, thus consumers did not have to pay for the advice. This approach was not transparent for consumers, however, as it was unclear whether they were receiving impartial advice or simply being sold the product that generated the highest commission for the adviser.

Effective from 1 January 2013, the RDR aimed to improve professional standards within the intermediary sector, introducing greater clarity between the different types of service available, and making the charges associated with advice and services clearer. Changes included the manner in which regulated financial and other advisers are remunerated, the minimum levels of qualification required to be obtained by regulated financial advisers and the minimum level of regulatory capital they must maintain. This drive to higher standards, has, however, contributed to a reduction in adviser numbers (see Figure 1). Many larger institutions, such as banks and insurance companies, exited the market, leaving a fragmented base of smaller advisory firms.

Figure 1: Number of advisers

The Financial Adviser Market: In Numbers, APFA, March 2016

Figure 2: Number of Financial Advice Firms



The Financial Adviser Market: In Numbers, APFA, 2017

As shown in Figure 2, as at 31 December 2016, there were 14,054 firms offering financial advice as their main regulated activity registered with the FCA (down from 14,491 in 2015), with an average of 4.5 advising staff per firm.

The end of commission paid by product providers to advisers (which is how many people had previously paid for their advice), has also contributed to a reported 'advice gap' for customers who seek to make investments but who do not access advice for reasons including cost, trust or awareness of the benefits of advice[2]. Concerns over this led to HMRC and the FCA launching the Financial Advice Market Review in August 2015. Published in March 2016, the report set out 26 recommendations aimed to stimulate the development of a market that provides affordable and accessible financial advice and guidance for everyone at all stages of their lives.

Other regulatory influences include the FCA's Asset Management Review, which investigated transparency and competition in the sector. Proposals include that companies should charge a single 'all-in fee' to replace the current system, under which investors are charged a range of fees, and that funds should appoint at least two independent directors to their boards. The FCA stated that reforms would be implemented in a number of stages, with some of the measures dependent on the outcome of consultation. The FCA is now investigating investment platforms.

MiFID II, implemented from January 2018, is a package of EU regulatory reforms designed to offer greater protection to investors and improve transparency across all asset classes. A high profile requirement relates to how asset managers pay for the research they use to make investment decisions. Historically this was offered free of charge, with costs being recouped as part of trading fees, typically paid by fund managers' clients. MiFID II calls for fees to be split, such that analyst research must be paid for separately to trading commission.

Aside from the regulatory landscape, some wealth management firms, fund managers and platforms have sought to develop automated propositions to cater for clients currently falling in the 'advice gap', typically by offering portfolios of passive funds. While these low-cost solutions will appeal to some consumers, others will continue to value the trusted, tailored advice offered as part of a full discretionary service.

All of these developments contribute to a favourable environment for acquisitions in the regulated financial advisory sector, with Figure 2 above showing the decline in the number of firms in recent years. Many small advisers and wealth managers lack the scale to continually invest in the technology, compliance and operational support needed in order to remain in business. These factors, coupled with the increase in the minimum capital reserve requirements for advisory firms, leave the sector well positioned for further consolidation and rationalisation.

2 *FT Adviser, 19 July 2016 ("FCA admits RDR contributed to advice gap")*

We create value for our stakeholders through our acquisition-based model and by leveraging our centralised, scalable infrastructure.

Our Business Model

WHAT SETS US APART

In addition to the key strengths outlined in our investment case on page 2, our competitive advantages of particular relevance to other stakeholders are:

- Our offer is structured such that our adviser partners are able to offer financial solutions tailored to their clients' needs
- Our culture and mindset blend the rigorous processes of a larger group with an entrepreneurial, dynamic and family feel
- Our tried and tested acquisition process meets vendor and adviser needs efficiently

WHAT WE DO

We operate a vertically integrated model, outsourcing non-core functions to specialist providers

Financial planning
Pensions, savings, investment and life insurance related advice.

Investment management
Investment management and portfolio management services for external advisers.

Administration
An investment fund platform, with service and technology outsourced to a specialist provider.

OUR ROUTE TO MARKET

We offer centralised services to financial advisers, who provide financial solutions to retail and corporate clients

Harwood Wealth Management Group
- Investment management
- Regulatory and compliance
- Risk management
- Back office functions

Financial advisers
- Employed
- Self-employed
- Registered individuals

Clients
- Mass affluent individuals
- Corporate clients

HOW WE CREATE VALUE

We create value from diversified revenue streams, acquisition synergies and economies of scale

Client fees
We earn fees for the provision of financial advice services and for the related management and platform administration of client funds. Most fees are recurring.

Economies of scale
Our centralised structure allows us to apply robust processes and to derive efficiencies.

The investment research we undertake from our head office allows us to provide disciplined investment management to internal and external clients.

We derive operating leverage from our centralised, scalable infrastructure supporting local offices.

Acquisition synergies
The majority of our growth in client assets has been achieved via acquisition. We target small to medium-sized financial advisory and wealth management businesses, and also consider larger opportunities should they arise. We generate synergies by increasing the revenues from acquired client lists and by reducing the cost of servicing those clients.

HOW WE SHARE VALUE

...and share this with our stakeholders

Clients
Investment performance

Excellent service

75%+
recurring revenues

Shareholders
Strong cash generation

Track record of profitable growth

3.24p
per ordinary share dividend in respect of 2017

Financial advisers
Centralised infrastructure and compliance

Competitive remuneration

179
FCA-regulated financial advisers

Employees
Attractive career prospects

Competitive remuneration and benefits

We seek to create sustainable value by continuing to execute our simple strategy, built on driving organic growth, acquisitions and efficiency.

Our Strategy

OUR OBJECTIVES	ORGANIC GROWTH – EXISTING CLIENTS	ORGANIC GROWTH – NEW CLIENTS	GROWTH FROM ACQUISITIONS	EFFICIENCY IN OPERATIONS
WHAT THIS MEANS	Growth from existing clients accumulating and inheriting wealth, from increasing the proportion of their wealth that we manage and/or from the greater number of 'advice points' following the introduction of pension freedoms.	Growth from existing FCA-regulated financial advisers or registered individuals seeking to grow their individual practices. Growth from other regulated financial advisers approaching us to seek assistance in supporting their own clients.	Growth from business or share purchases.	Efficiency through operating leverage from our size and scalable infrastructure, enabling good client outcomes, investment, enhancing productivity and allowing competitive pricing.
HOW WE DO THIS	By building long-term, trusted relationships with existing clients, we are their first port of call for additional requirements for financial advice, investment management and administration services. We have also historically achieved growth by reactivating dormant clients from the client lists of businesses we have acquired. By offering a broader range of products and services we can capture revenue that would otherwise have gone to external providers.	By driving word-of-mouth referrals and local marketing initiatives to benefit from inbound enquiries as more individuals seek financial advice, and to attract additional regulated financial advisers and registered individuals to the Group. We also seek to attract further external advisers to our portfolio management services with articles in trade publications and through our dedicated sales and marketing team.	We target small to medium-sized financial advisory and wealth management businesses. We have acquired 60 businesses to date. Our reputation as a cash buyer attracts prospective vendors, directly, or via personal or professional networks. Professional brokers are the primary source of deals.	By integrating acquisitions into our centralised infrastructure, we generate better outcomes for clients and efficiencies through our scale, locations and expertise. Use of our own investment administration platform allows us to capture revenues that might otherwise be paid to insurance or platform providers, and to assist in delivering a high-quality solution to clients at a competitive price. We have two proprietary processes to assist with fund selection and asset allocation, intended to simplify the process for regulated financial advisers and to provide a decision-making audit trail.

Joint Chief Executives' Review

We delivered our strategy ahead of expectations, and the acquisition of Network Direct and £10m fund raise give us a sound platform for growth.

£3.8bn

ASSETS UNDER INFLUENCE

+81% (2016: £2.1bn)

£4.3m

ADJUSTED EBITDA*

+59% (2016: £2.7m)

"We have achieved a pleasing set of results this year. Revenue grew by 123% to £25.9m (2016: £11.6m), and we generated £4.3m of adjusted EBITDA* (2016: £2.7m). As of 31 October 2017, our assets under influence (AUI) were £3.8bn (31 October 2016: £2.1bn)."

PERFORMANCE AGAINST STRATEGY: GROWTH FROM ACQUISITIONS

Looking back at the year, we have continued to execute our simple, proven business model: acquire businesses, raise capital to redeploy, integrate acquisitions and provide a good and reliable service to all of our stakeholders, whether shareholders, employees, partner advisers or clients. We are good at what we do, and are operating in a good space in terms of the fragmentation of the market, with regulatory demands serving to favour consolidation.

April 2017 saw a successful placing of 6,954,000 new ordinary shares at a price of 150 pence per share, raising £10.0m net of expenses to allow us to continue to pursue our acquisition-focused strategy. We made seven acquisitions during the year, the most notable being that of Network Direct Limited (NDL), which was acquired in February 2017 for an aggregate consideration of £0.9m. Adding approximately £1bn in AUI, the scale of the acquisition was unprecedented for the Group, and NDL's services provided to a network of appointed representatives have brought a new strategic dimension to Harwood, upon which we can build. We now have access to a far greater number of financial advisers, to whom we can speak about the investment solutions that we can offer – via them – to their clients. Building these relationships also positions us well should some of these financial advisers wish to sell their businesses in future.

Our main focus over the months since we acquired Network Direct has been to work closely with their advisers to understand their needs, and we have designed an investment solution accordingly. Rather than pushing an existing product at them, we involved Network Direct members in designing a product that they wanted to offer to their clients, that perhaps wasn't available elsewhere.

Although we are keen to benefit from efficiencies of scale where possible, we have structured the product suite to meet the individual needs of the individual businesses. It isn't about one size fits all. Where a particular type of adviser believes they need a particular type of product, that's fine and the investment management business is built on a modular basis. We already have all of the ingredients to meet different needs, with very little or no additional cost or work required. By offering solutions to meet the genuine wants and needs of clients, we make it easier for the adviser to understand and recommend to the client, easier for us to manage and there is far less chance of the client having an unsatisfactory outcome further down the line, because they have something that is right for them from the start.

The size of the prospective acquisitions we are looking at is getting larger, and a positive consequence of the IPO and our strong performance is that more businesses approach us meaning that our acquisition pipeline is very healthy. We are used to making acquisitions and are skilled at doing this. Vendors know we have the systems and processes in place, the financial ability to pay any upfront consideration and the reassurance that we can satisfy our obligations for any deferred payment we put in place.

Different vendors have different reasons for selling their businesses, but they know their clients will be looked after and see us as a good cultural fit.

PERFORMANCE AGAINST STRATEGY: ORGANIC GROWTH

Our organic growth is underpinned by the ongoing need for the professional management of client assets, given structural factors such as the aging population and pension freedoms, now that consumers are no longer required to buy an annuity their needs have become more bespoke and complex and the requirement for advice also continues over a longer period.

The discretionary fund management business has had a successful year, with some good mandate wins. We are not trying to compete with the mass multi manager market, which is very well served. Instead we take a similar approach to how we deal with our internal clients. We show them the ingredients and work with them to develop a genuine partnership, by building a range of portfolios, a range of solutions, a range of funds that meets exactly the needs of their business. We sit down with the partners of the business and ask them what the fees need to look like, what the investment strategy needs to look like and what the margins need to look like. There are very few firms operating in that space as most design a product then go out to try to sell it. When we win mandates they tend to be sizeable, and our established cost base allows us to benefit from operating leverage.

* Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation and exceptional costs. This is commonly used as a performance measure by market commentators.

Joint Chief Executives' Review continued

PERFORMANCE AGAINST STRATEGY: EFFICIENCY IN OPERATIONS

When we think about operations, we think about how we can make these more efficient and more robust for the next stage of growth. We seek to put in place robust platforms on which we can build, and outsource to specialist providers where this is not a core activity.

For example, rather than having internal custody of client assets, which is a low margin and complex undertaking, we have outsourced this to a specialist provider, AJ Bell. We have largely completed the transition from holding client assets on our in-house administration onto the AJ Bell platform, and now have the potential to add new revenue streams to that platform.

As part of our on-going operational reviews, we also renegotiated a large contract with an IT provider that will generate economies of scale as we grow, and transferred our desktop IT to Microsoft 365 as this is more secure as well as more efficient.

MARKET ENVIRONMENT

The last 12 months have been interesting politically, yet equity and bond markets have behaved very resiliently over that period. Our own investment performance is testimony to the fact that we don't take bold asset allocation decisions based on which way politics and economies may go, rather we build portfolios that aim to deliver to their objectives and those of the clients over the long-term, and that approach has stood us in good stead.

In terms of the regulatory landscape, MiFID II brings widespread changes to some areas of financial markets. Having spent much time looking at the potential impact on our business, we believe that the implications are minor compared with the impact on firms involved with stockbroking or direct securities, for example. We have to pay for a small amount of investment research, but this is not a material figure. The level of reporting will be onerous for some firms, but we believe this will be much less onerous for us. It is fair to say that some of the practical implications will remain unclear though, even after MiFID II's implementation.

Although they were introduced previously, last year saw the first significant take-up of pension freedoms. These reforms have unquestionably led to more complicated client needs and we have gained new business as a result with greater numbers of clients seeking advice, about an asset size that is typically larger and over a longer period of time than when they were forced to buy an annuity.

The FCA published a report on the consolidation and acquisition of client banks. As a result of this we have reviewed our acquisition processes, and recruited additional resource into our acquisition team to enhance our activity in respect of client communication and treating customers fairly.

The FCA's Asset Management Review came out in May. Following an internal review, we do not feel there are significant implications for our business. Also coming up is the Senior Managers and Certification regime change. This is at consultation stage, but the sector anticipates that in the last quarter of 2018 there will be a change to removing some controlled functions to a new regime of senior management roles and responsibilities.

OUTLOOK

We have delivered against all three elements of our growth strategy – with existing clients, new clients and via acquisition – and all have contributed to our results. Our performance is testament to the expertise and strong relationships of our advice partners and our valued colleagues, whom we wish to thank.

Looking forward, in the context of what might happen to markets in light of external factors such as Brexit, we are in the fortunate position of being paid to deal with confusing things. One of the elements that drives customers to us and to our sector is that things are confusing, and change constantly to become yet more confusing. We know that there will be changes in forthcoming budgets to various elements, and that those will create a need for more advice.

In short, we see plenty of opportunity to continue working to our proven strategy, we have a robust pipeline of potential acquisitions and continue to seek additional advisers to join the Group to serve our growing client base. Coupled with our strong financial position and efficient operating model, we are confident that we will continue to deliver profitable growth.

Neil Dunkley **Alan Durrant**
Joint Chief Executive Officers
22 January 2018

Finance Review

ASSETS UNDER INFLUENCE (AUI) AND ASSETS UNDER MANAGEMENT (AUM)

We are pleased to report that the Group's total AUI has shown very strong growth of 81% to £3.8bn (2016: £2.1bn). This includes approximately £1bn from the acquisition of Network Direct Ltd (NDL) that was completed in February 2017.

AUM (a component of AUI) increased by an impressive 71% to £1.2bn (2016: £0.7bn). The discretionary fund management business, Wellian Investment Solutions, performed strongly and increased its AUM to £627m (2016: £284m) including winning new mandates from third party businesses. The advised investment management business, IMS Capital, increased its AUM to £587m (2016: £409m) representing the capture of assets previously external to the Group (a key element to the Group's strategy).

REVENUE

Group revenue for the financial year ended 31 October 2017 increased by 123% (2016: 47%) to £25.9m (2016: £11.6m). As a result of following the Group's strategy the revenue growth derives from the following:

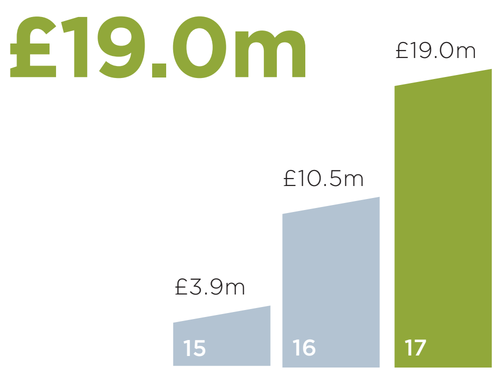
- The full-year effect of acquisitions that were completed in the 2016 financial year
- The partial effect of acquisitions completed in this financial year
- The growth in assets under management (as highlighted above)
- New business derived from newly acquired and existing client portfolios
- The increase in the number of financial advisers
- Any movement in market asset values

Source of revenues	2017 £'ms	2016 £'ms
Financial Planning	12.9	9.5
Investment Management	3.2	2.1
Network	9.8	–
	25.9	11.6

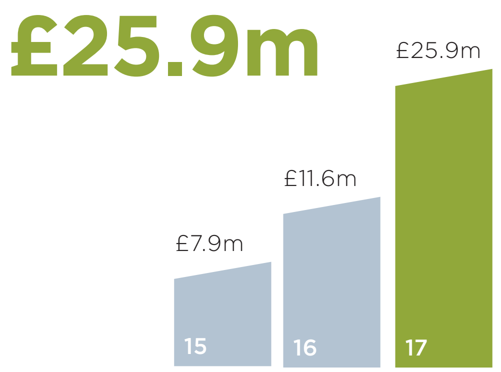
All areas of the Group reported year on year growth in revenue. Investment Management showed strong growth of 52% as a direct result of the increased assets under management highlighted above. Financial Planning revenues increased by 36% as a result of acquisitions and organic growth. The acquisition of Network Direct in February contributed £9.8m to this year's revenue.

Source of gross profits and margin	2017 £'ms	2017 %	2016 £'ms	2016 %
Financial Planning	7.4	57	5.2	55
Investment Management	3.0	94	1.9	90
Network	0.8	8	–	–
	11.2	43	7.1	61

The gross margin reduced to 43% (2016: 61%). There was a four-percentage point increase in the Investment Management business as a result of economies of scale and a two-percentage point increase in the Financial Planning business as a result of the mix of acquisitions and new business. As in the previous year, there were no material changes to individual financial adviser commission arrangements. The addition of the newly acquired Network Direct business lowered the Group's weighted average gross margin as their margin was 8%. Overall gross profit grew by 58% to £11.2m (2016: £7.1m) and was more than double the 2015 result.



CASH BALANCE



REVENUE +123%

Finance Review continued

We are pleased to report that the Group's total AUI has shown very strong growth of 81% to £3.8bn (2016: £2.1bn).

ADMINISTRATIVE EXPENSES

The total administrative expenses of the business increased to £9.4m (2016: £6.3m). The previous year included £0.3m of exceptional costs mainly associated with the IPO and the additional running costs associated with being a publicly listed company. Amortisation increased by 63% to £2.6m (2016: £1.6m). Administrative expenses excluding amortisation and exceptional items were £6.8m (2016: £4.4m) and represents 26% of revenue (2016: 38%) reflecting both economies of scale as the overall business grows and the impact of the acquisition of Network Direct.

TAXATION

The current corporation tax charge for the period was £0.8m (2016: £0.5m). This was an effective tax rate of 18% (2016: 17%) compared with adjusted EBITDA as £0.5m of amortisation was an allowable expense against taxable profits as it related to asset acquisitions completed prior to July 2015.

PROFITABILITY

Profit before tax for the period was £1.2m (2016: £0.4m) after nil exceptional costs (2016: £0.3m), and £2.6m (2016: £1.6m) of depreciation and amortisation costs.

ADJUSTED EBITDA (ADJUSTED TO EXCLUDE EXCEPTIONAL COSTS)

Adjusted EBITDA for the period was £4.3m, an increase of 59% over the previous period (2016: £2.7m). As a consequence of the Group's accelerated acquisition growth strategy, amortisation costs increased significantly to £2.6m (2016: £1.6m) as did finance costs to £0.6m (2016: £0.5m).

EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended 31 October 2017 was 1.19 pence (2016: 0.24 pence) based on a weighted average of 59,323,130 shares (2016: 49,242,615).

ADJUSTED EBITDA PER SHARE

The adjusted EBITDA per share, for the year ended 31 October 2017, was 7.28 pence (2016: 5.55 pence).

DIVIDENDS

The Board is proposing a final dividend of 2.24 pence per ordinary share for 2017, which is subject to shareholder approval at the AGM on 18 April 2018 and will be paid to shareholders on 11 May 2018 based on the register of shareholders at close of business on 27 April 2018.

FINANCIAL ADVISERS AND STAFF HEADCOUNT

The number of financial advisers (employed, self-employed, and members of the network services business) increased by 96 to 179 (2016: 83). The acquisition of NDL added 89 network services members. Ten new advisers joined the financial planning business this year with four retirees and network services added one new adviser since February.

Staff headcount grew to 120 (2016: 92) incorporating 17 staff from the Network Direct transaction.

ACQUISITIONS

The Group completed seven acquisitions during the period of which two were share acquisitions and five were asset acquisitions. The total aggregate consideration of £2.3m comprises £1.6m paid in cash on completion and discounted deferred consideration of £0.7m. In addition, the provisional value of acquisitions accounted for in the prior year were revised, resulting in a net increase in the total consideration for these acquisitions of £0.3m and an equivalent increase in deferred consideration and deferred tax liabilities.

CASH POSITION

The Group had cash balances of £19.0m at 31 October (2016: £10.5m). Net cash generated by operations in the period increased by 54% to £3.7m (2016: £2.4m). Net cash generated from financing activities in the period was £8.7m (2016: £8.6m), derived from the net proceeds from the issue of shares of £10.0m less the final 2016 dividend payment of £1.3m. The net cash used in investing activities was £4.0m (2016: £4.4m).

The Group had discounted deferred consideration commitments of £4.3m at 31 October (2016: £5.4m).

FINANCIAL POSITION

The Group has generated strong cashflow from operations which is expected to continue into 2018. These cashflows, together with available cash, ensure the Group is in a robust financial position from which to continue its strategy to grow the business both organically and through acquisition in the next trading period.

EVENTS AFTER THE REPORTING DATE

Acquisition of Finance for Life Limited

On 3 November 2017 the Company acquired the entire share capital of Finance for Life Ltd for a total consideration of £0.9m of which £0.5m was paid on completion, with the balance based on future revenue over the next two years.

2017 Interim dividend

On 10 November 2017 the Company paid an interim dividend of 1.00 pence per ordinary share based on the register of shareholders at close of business on 27 October 2017 totalling £0.6m.

Acquisition of the business and assets of Peter John Vickery

On 7 November 2017 the Group agreed to buy the financial advisory business carried on by Peter John Vickery. Following an initial payment of £0.1m the transaction completed on 12 December 2017. In addition, further amounts totalling £0.06m are to be paid on the first and second anniversaries of completion contingent upon results.

Acquisition of Anthony Harding & Partners Ltd

On 10 January 2018 the Company acquired the entire share capital of Anthony Harding & Partners Ltd for a total consideration of £1.1m of which £0.6m was paid on completion, with the balance based on future revenue over the next two years.

Current trading

Early indications are that the new financial year has started well. AUI is encouraging and together with the current market asset values and the events after the reporting date (highlighted above), this reinforces the confidence expressed earlier by the Chairman.

Nick Bravery
Chief Financial Officer
22 January 2018

Principal Risks and Uncertainties

THE PRINCIPAL RISKS TO ACHIEVING OUR STRATEGY

The Board has ultimate responsibility for setting our risk appetite and ensuring there is an adequate and appropriate risk management framework in place.

Risk Management

We have a formal risk governance framework that provides a structured process for identifying, evaluating and mitigating risks deemed by the Board as being of significant relevance to the Group in view of its risk profile and risk appetite. The process seeks to understand and mitigate, rather than eliminate, risks and therefore can provide reasonable rather than absolute assurance against loss. The Board regularly reviews a register of principal risks and uncertainties, which is maintained on behalf of the Board by the Chief Financial Officer. The Risk Register is reviewed by the Board on a quarterly basis and a detailed review is undertaken on at least an annual basis.

The risks and uncertainties described below are those considered by the Board most likely to impact our ability to deliver our strategy:

Risk	Description	Key mitigators	Trend
Business and Strategic Risks			
Underperformance	Volatility in capital markets may adversely affect trading activity and/or the value of the Group's assets under administration or management, from which we derive revenues. The on-going negotiations concerning the UK's exit from the EU are causing increased levels of political and economic uncertainty.	• Diversified range of flexible investment products, designed to deliver value to clients in all market conditions • Investment model with explicit risk parameters	↑
Growth through acquisition	Our ability to identify suitable targets and execute transactions is not assured. Expansion of the business may place additional demands on the Group's management, administration and infrastructure, and may call for additional capital expenditure.	• Risk appetite set by the Board • Rigorous process for screening prospective targets • Independent legal, accounting and regulatory due diligence where appropriate • Track record of successfully integrating businesses and treating clients fairly	→
Regulatory change	Changes to the regulatory framework may impact our ability to grow. In particular, there are uncertainties in relation to the MiFiD II regulations that come into force in January 2018, and to the FRC's review of investment management, which is at consultation stage.	• Regular updates provided to the Board on the status and potential impact of imminent regulatory changes • Active dialogue with regulators and industry bodies • Business model that is responsive to prospective regulatory changes	↑

Risk	Description	Key mitigators	Trend
Operational Risks			
Ability to attract and retain key people	Loss of key management or other key personnel (including regulated financial advisers) could have adverse consequences for the Group's performance.	• Equity ownership among Directors • Competitive remuneration structure • Attractive working environment	→
Business continuity and disaster recovery	A physical event or system failure could impair our ability to perform core business activities.	• Disaster recovery and business continuity plans, both for the Group and key suppliers	→
Client privacy, data protection and online security	We may be subject to IT security breaches or collusion to defraud, launder money or other illegal activities.	• Anti-money laundering procedures • Processes to protect against fictitious transactions or collusions	→
Misconduct	We are exposed to the risk of being bound to transactions exceeding authorised risk limits, unsuccessful transactions being concealed, or the misuse of confidential information, resulting in regulatory sanctions.	• Rigorous internal risk management processes • Professional indemnity insurance • Restrictive covenants to protect against the risk of former employees and/or self-employed advisers taking clients with them	→

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development and performance, the financial position of the Group, its cash flows and liquidity position are set out in the Strategic Report on pages 7 to 23. In addition, Notes 22, 27 and 28 set out the Group's objectives for managing its capital, its financial instruments and its exposures to the market, credit and liquidity risk.

Based on this assessment, the directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Nick Bravery
Chief Financial Officer
22 January 2018

We are open and accessible

"They are always willing to have a chat – we can even speak with their fund managers. They are very open about their views, and are also accessible to our clients, if we need that."

LOUISE MORRIS, DIRECTOR
AV Trinity
ISA partners of Wellian Investment Solutions

Governance

Board of Directors

The Group's co-founding Directors, Mark Howard and Neil Dunkley, have spent their careers in the financial advisory sector and they remain fully committed as Executive Directors. Their experience is complemented by Alan Durrant's investment management background and Nick Bravery's financial and general management track record. The non-executive directors – Peter Mann, Christopher Mills and Paul Tuson – add a considerable wealth of financial services, investment and listed company experience. The Board believes that this combination of skills and knowledge provides the Group with leadership necessary to achieve the Company's strategy of profitable growth.

Brief biographical details of the Directors are set out below:

PETER MANN (59)

NON-EXECUTIVE CHAIRMAN

BACKGROUND AND RELEVANT EXPERIENCE

Peter was appointed Vice Chairman of Old Mutual Wealth following his time as Managing Director UK, when the Skandia businesses merged in 2012 to form Old Wealth Mutual. Prior to that was CEO of Skandia UK, the UK's largest retail platform, overseeing rapid growth over a five-year period. Before joining Skandia in 2008 as Chief Development Officer, Peter was CEO of Bankhall, a leading supplier of support services to financial advisers. In this role Peter was an active member of the AIFA panel, lobbying the FSA, Ombudsman, product providers and other market participants, as well as regularly being a spokesperson on industry panel debates. Prior to this Peter was an independent financial adviser in Glasgow and held senior roles in sales and distribution at Scottish Amicable and Prudential respectively.

Member of the Audit Committee and Remuneration Committee.

NEIL DUNKLEY (44)

JOINT CHIEF EXECUTIVE OFFICER

Neil was one of the co-founders of Compass Wealth Management Group (now Harwood Wealth) and has been instrumental in leading and growing the Group since its inception. He continues to be responsible for overall business direction, setting strategies and, together with joint CEO Alan Durrant, leads the senior management team. His entire career has been devoted to the financial advisory industry where he has accumulated 18 years' experience. Neil qualified as a financial adviser in 1998 and went on to become one of the most successful advisers in Prudential's high net worth division. He left Prudential in 2001 in order to co-found the Company.

ALAN DURRANT (46)

JOINT CHIEF EXECUTIVE OFFICER

Alan joined Wellian following its acquisition by Harwood Capital in May 2015. He was formerly the Group Chief Investment Officer at The National Bank of Abu Dhabi (NBAD), Head of Asset Management at Gulf Finance House and Chief Investment Officer at Skandia Investment Management where he won best Multi-Manager at the Money Marketing Awards for three consecutive years. Previously to that Alan was at Hargreaves Lansdown for 12 years, latterly as Investment Director.

MARK HOWARD (45)

CHIEF COMMERCIAL OFFICER

Mark is a law graduate and postgraduate in Financial Decision Analysis. Mark qualified as a financial adviser in 1997 working for the high net worth division of Prudential. Mark was a co-founder of Compass Wealth Management Group (now Harwood Wealth). As well as having Board responsibility for the acquisition strategy of the Group, Mark also has oversight of legal and compliance matters.

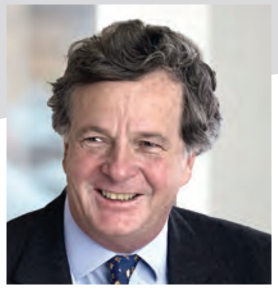
NICK BRAVERY (59)

CHIEF FINANCIAL OFFICER

Nick's professional life began at Unilever Plc in 1977 where he held various financial positions and qualified as an Associate of the Chartered Institute of Management Accountants in 1984. He subsequently joined the Automobile Association in 1988 to broaden his experience in general management roles that included leading a successful start-up business. In 2000 he became the AA's Director of Business Services, a position he held until 2003. He then moved into Financial Services with Simplyhealth, becoming the Director of Customer Service until 2009 and the Finance Director of P&I Ltd from 2010 to 2014, prior to joining the Company in 2014.

CHRISTOPHER MILLS (65)

NON-EXECUTIVE DIRECTOR



Christopher founded Harwood Capital Management in 2011, a successor from its former parent company J O Hambro Capital Management, which he co-founded in 1993. He is investment manager of North Atlantic Smaller Companies Investment Trust plc and is a non-executive director of several companies. Christopher was a director of Invesco MIM, where he was head of North American investments and venture capital, and of Samuel Montagu International.

Member of the Remuneration Committee and Member of the Audit Committee.

PAUL TUSON (51)

NON-EXECUTIVE DIRECTOR

Paul is a qualified chartered accountant, with over twenty years' post-qualification experience, who has served as CFO or Finance Director for numerous companies in the media and technology industries. Most recently, he served as CFO of Lombard Risk Management plc, one of four AIM-listed companies for which he has held this position. He previously served as Finance Director for Aspire Technology Ltd which was sold to Synnex Corporation, and has overseen two IPOs. His career began with seven years of public accounting experience at KPMG.

Chairman of the Audit Committee and Chairman of the Remuneration Committee.

Corporate Governance

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

"We understand the importance of sound corporate governance and of adopting the principles of good governance across the business. We aim to maintain an efficient and effective management framework that enables long-term, sustainable growth for our shareholders."

Peter Mann
Chairman

CORPORATE GOVERNANCE

The Directors take of account of the requirements of the UK Corporate Governance Code ("the Code") to the extent they consider it appropriate and having regard to the Company's size, Board structure, stage of development and resources.

The Company holds regular Board meetings. The Directors are responsible for formulating, reviewing and approving the Company's strategy, budget and major items of capital expenditure.

The Company's shares are listed on the AIM market and it is subject to the AIM Admission Rules of the London Stock Exchange and consequently is not required to comply with the provisions of, or report in accordance with, the Code issued by the Financial Reporting Council. However, the Board is committed to the principles of corporate governance covering leadership, effectiveness, accountability, remuneration and shareholder relations as outlined in the Code. The Directors have applied the Code as far as is practicable and appropriate for a public company of the Group's size.

THE MAIN PRINCIPLES OF THE CODE ARE:

Leadership

- Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.
- There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.
- The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.
- As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Effectiveness

- The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.
- There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.
- All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.
- All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.
- The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.
- The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
- All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Accountability

- The board should present a fair, balanced and understandable assessment of the company's position and prospects.
- The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.
- The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Remuneration

- Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.
- There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Relations with shareholders

- There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.
- The board should use general meetings to communicate with investors and to encourage their participation.

Source: Financial Reporting Council – The UK Corporate Governance Code April 2016

BOARD OF DIRECTORS

The Board consists of seven Directors including the Chairman. The Board meets at least four times a year and has full and timely access to all the relevant information to enable it to carry out its duties. The Board monitors and reviews the Group's progress towards its goals and the implementation of its strategy, leaving the day-to-day operations to the Executive Directors and management.

The Board has access to its advisers and the Company Secretary to keep up to date with corporate governance matters and to ensure that relevant rules and regulations are followed.

BOARD COMMITTEES

The Board has delegated specific responsibilities to the Audit and Remuneration Committees. The Board believes that all members of each committee have the appropriate experience without having conflicts of interest.

AUDIT COMMITTEE

The Audit Committee comprises Paul Tuson (Chairman), Christopher Mills and Peter Mann. It meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly recorded and monitored on a regular basis. This includes reviews of the annual and interim accounts, results announcements, internal control systems and procedures and accounting policies.

The Audit Committee has responsibility for recommending the appointment of the external auditor. It will review the cost effectiveness, independence, and objectivity of the current auditors.

During the period RSM UK Audit LLP were re-appointed as auditors for the Group.

Corporate Governance continued

REMUNERATION

The Remuneration Committee comprises Paul Tuson (Chairman), Peter Mann and Christopher Mills. It meets at least twice a year and is responsible for determining the Group's policy on the remuneration of the Executive Directors. It is also responsible for making any recommendations for the introduction of share options schemes and long-term incentive plans for the Executive Directors.

Details of the Directors' remuneration are disclosed in the notes to the accounts.

Attendance by individual Directors at scheduled meetings

	Board	Audit Committee	Remuneration Committee
Number of scheduled meetings •	4	2	2
Attendance			
Peter Mann	4	2	2
Paul Tuson	4	2	2
Christopher Mills	3	1	2
Neil Dunkley	4	■	■
Alan Durrant	4	■	■
Mark Howard	3	■	■
Nick Bravery	4	2*	■

■ Not a member of this Committee

* Whilst not a member of this Committee, the Director was in attendance

• Additional unscheduled meetings of the Board or Committees were held during the year

INTERNAL CONTROL

The Board is responsible for ensuring there is an adequate system of internal control and reviewing its effectiveness. The system is intended to mitigate risk to an acceptable level. These internal controls include controls over financial, operations and compliance risk factors. The Board is satisfied that the current level of internal control meets the current needs of the Group maintaining risk exposure to an acceptable level.

The Board recognises that as the Group develops the internal controls should be reviewed and where necessary enhanced to ensure the risk exposure does not exceed the Board's risk appetite.

FINANCIAL REPORTING

Financial reporting procedures have been established so that the Board has access to reliable and timely financial reports on a monthly and quarterly basis. Financial reporting includes monitoring performance against budgets, forecasts, and prior year results as well as cash flow forecasts.

CORPORATE RESPONSIBILITY

Employees – the Group believes in equal opportunities and people's development. The Group policy is to appoint staff entirely on the basis of merit, and fully in accordance with current legislation.

Anti-bribery – the Group operates zero tolerance towards bribery.

Legislative compliance – the Group complies with all relevant legislation.

Financial Conduct Authority – the Group's subsidiaries that are directly authorised and regulated by the FCA comply with the relevant rules and guidelines in all material respects.

Directors' Report

RELATIONS WITH SHAREHOLDERS

The Group provides up to date information to its shareholders through market announcements and copies of all results and announcements are available online at **www.harwoodwealth.co.uk**

Investor presentations are also available for potential and current shareholders to attend.

Shareholders receive at least 21 days' notice of the Annual General Meeting. This represents an important opportunity for shareholders to meet with the Board of Directors. The AGM is scheduled for 18 April 2018 at 3pm at the office of Harwood Capital LLP at 6 Stratton Street London W1J 8LD.

The Directors present their annual report and financial statements for the year ended 31 October 2017.

PRINCIPAL ACTIVITIES

The Group's principal activity is the provision of financial advice and investment management to the retail market.

DIRECTORS

The Directors who held office during the period and up to the date of signing these financial statements were:

Executive Directors

Neil Dunkley	Joint Chief Executive Officer
Alan Durrant	Joint Chief Executive Officer
Mark Howard	Chief Commercial Officer
Nick Bravery	Chief Financial Officer

Non-executive Directors

Peter Mann	Non-executive Chairman
Christopher Mills	Non-executive Director
Paul Tuson	Non-executive Director

To read all of our Directors' biographies, see pages 26 and 27.

DIRECTORS' SHAREHOLDINGS

Substantial shareholdings

At 31 October 2017 the shareholdings noted below, representing 3% or more of the issued share capital, had been notified to the Company.

Name of shareholder	Number of shares	Proportion of total
Funds managed by Harwood Capital LLP*	19,200,000	30.70%
Mark Howard	10,033,006	16.04%
Neil Dunkley	6,893,856	11.02%
Canaccord Genuity Group	3,831,220	6.13%
Sian Dunkley	3,139,150	5.02%
Lombard Odier Asset Management (Europe) Ltd	3,121,000	4.99%
Alan Durrant	2,352,000	3.76%

*Harwood Capital LLP is controlled by Christopher Mills, a non-executive director.

Directors' Report continued

RESULTS AND DIVIDENDS

The results for the year are set out on page 40.

An interim dividend was paid on 10 November 2017 amounting to 1.00 pence per ordinary share (£625,429). The Directors propose a final dividend of 2.24 pence per ordinary share (£1,400,962) making a dividend for the year of £2,026,391.

EVENTS AFTER THE REPORTING DATE

Full details of events after the reporting date are set out in our strategic report on page 21.

FUTURE DEVELOPMENTS

Full details of future developments can be found in the Chairman's statement on pages 4 to 5 and in the strategic report on pages 18 and 21.

DIRECTORS' INDEMNITY

The Group maintains Directors' and Officers' liability insurance which gives cover against legal action that may be taken against them.

RISKS

The principal risks of the Group are included in the Strategic Report on pages 22 to 23, with financial risk management set out in Note 27.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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 the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and 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 for the Group financial statements whether they have been prepared in accordance with IFRSs as adopted by the EU, and for the Company financial statements state whether applicable UK accounting standards have been followed subject to any material departures disclosed and explained in the Company financial statements; 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 the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and for taking reasonable steps for the prevention and detecting fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the www.harwoodwealth.co.uk website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AUDITORS

RSM UK Audit LLP were re-appointed auditors of the Group during the financial year.

STATEMENT OF DISCLOSURE TO AUDITORS

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information of which the Company's auditors are unaware. Additionally, the Directors individually have taken all the necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

Mr Neil Dunkley

Joint Chief Executive Officer
22 January 2018

We offer tailored solutions

"They are willing to work with you to find solutions that meet your financial goals and they support that with very clear data and recommendations."

DAVID HOBBS, RETAIL CLIENT

Financial Statements

Independent Auditor's Report

OPINION

We have audited the financial statements of Harwood Wealth Management Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 October 2017 which comprise consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 October 2017 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- The financial statements have been prepared in accordance with the requirements 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 FRC's Ethical Standard as applied to SME 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The directors' use of the going concern basis of accounting in the 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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) we identified, including 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.

Acquisition of Network Direct Limited ("NDL")

The company acquired NDL during the year for initial cash consideration of £0.9m, and maximum contingent consideration of £3m, as set out in Note 19 to the financial statements. The Group applied IFRS 3, Business Combinations to identify and value the identifiable net assets, and the fair value of the consideration. The identification and valuation of the separate net assets acquired and the determination of the fair value of the contingent consideration are areas of considerable judgement which depend on a number of assumptions about the future revenues and cash flows which will accrue to the Group from the acquisition, the discount rate to be used in the valuations, and the correct identification of the intangible assets, other assets, and liabilities acquired.

Our response to the risk was as follows:

We evaluated management's determination of the fair value of the net assets acquired, focussing on the valuation of intangible assets and the liabilities recognised at the acquisition date, and of the fair value of the contingent consideration.

Consulting with our internal valuation specialists we challenged management's methodology and assumptions in the recognition of intangible assets by:

- Evaluating the valuation model used by the Group to value the adviser relationship;
- Checking the arithmetical accuracy of the model;
- considering whether there were any other intangible assets included in the acquisition which had not been identified;
- Assessing and recalculating the discount and growth rates used by management based on external market data;
- Reviewing the forecast revenues in comparison with past performance, and the adviser attrition rate against historical actual performance. We obtained independent evidence of the numbers of advisers who had left the business over an eight year period and recalculated the attrition rate used by management based on this evidence; and
- Checking the valuations by performing parallel calculations using our own proprietary models and based on the same underlying data.

We challenged management's assumptions in the calculation of the fair value of the contingent consideration by:

- Comparing management's forecasts of the level of Funds under Management that may be introduced by NDL's representatives with the amounts introduced since acquisition;
- Evaluating the appropriate discount rate used based on external market data;
- Checking the arithmetical accuracy of the calculation; and
- Reviewing legal advice in respect of retentions.

We challenged management's assumptions underlying the valuation of certain specific liabilities acquired by:

- Consulting with our internal taxation specialists;
- Checking the arithmetical accuracy of the amounts presented; and
- Reviewing legal advice on the scope and amount of specific liabilities.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £322,000 which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £8,050 as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report continued

An overview of the scope of our audit

The Group has seventeen components, of which three are non-trading or dormant. Of the remaining fourteen, five were subject to full scope audits by RSM UK Audit LLP, and nine were subject to a programme of desk-top analytical review procedures, also carried out by RSM UK Audit LLP.

The components subject to full scope audits accounted for 94% of group turnover, and 96% of group assets.

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 this regard.

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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 32 to 33, 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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's 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.

Geoff Wightwick (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants

Portland
25 High Street
Crawley
West Sussex
RH10 1BG

22 January 2018

Consolidated Statement of Comprehensive Income

for the year ended 31 October 2017

	Notes	2017 £'000	2016 £'000
Revenue	4	25,885	11,605
Cost of sales		(14,719)	(4,513)
Gross profit		11,166	7,092
Administrative expenses		(9,410)	(5,940)
Exceptional items	5	–	(336)
Operating profit	7	1,756	816
Investment income	11	19	18
Finance costs	12	(577)	(463)
Profit before taxation		1,198	371
Income tax expense	13	(492)	(253)
Profit and total comprehensive income for the year attributable to equity owners of the parent		706	118

		pence	pence
Earnings per share			
Basic and fully diluted	15	1.19	0.24

The income statement has been prepared on the basis that all operations are continuing operations.

Consolidated Statement of Financial Position

as at 31 October 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Intangible assets	16	15,033	14,749
Property, plant and equipment	17	24	20
		15,057	14,769
Current assets			
Trade and other receivables	20	1,075	621
Cash and cash equivalents		18,959	10,526
		20,034	11,147
Total assets		35,091	25,916
Current liabilities			
Trade and other payables	21	5,160	3,879
Accruals and deferred income		1,284	341
Current tax liabilities		474	882
		6,918	5,102
Net current assets		13,116	6,045
Non-current liabilities			
Trade and other payables	21	252	2,219
Deferred tax liabilities	23	1,161	1,266
		1,413	3,485
Total liabilities		8,331	8,587
Net assets		26,760	17,329
Equity			
Called up share capital	25	156	139
Share premium account		25,500	15,541
Retained earnings		1,104	1,649
Total equity attributable to the owners of the parent		26,760	17,329

The financial statements were approved by the Board of directors and authorised for issue on 22 January 2018.

Signed on its behalf by:

Mr Neil Dunkley
Joint Chief Executive Officer
Company Registration No. 04987966

Consolidated Statement of Changes in Equity

for the year ended 31 October 2017

	Notes	Share capital £'000	Share premium account £'000	Retained earnings £'000	Total £'000
		Attributable to the owners of the parent			
Balance at 1 November 2015		100	3,979	1,885	5,964
Year ended 31 October 2016:					
Profit and total comprehensive income for the year		–	–	118	118
Issue of share capital		39	12,558	–	12,597
Dividends		–	–	(354)	(354)
Costs of share issue		–	(996)	–	(996)
Total transactions with owners recognised directly in equity		39	11,562	(354)	11,247
Balance at 31 October 2016		139	15,541	1,649	17,329
Year ended 31 October 2017:					
Profit and total comprehensive income for the year		–	–	706	706
Issue of share capital	25	17	10,414	–	10,431
Dividends	14	–	–	(1,251)	(1,251)
Costs of share issue		–	(455)	–	(455)
Total transactions with owners recognised directly in equity		17	9,959	(1,251)	8,725
Balance at 31 October 2017		156	25,500	1,104	26,760

Share premium comprises consideration received for shares issued above their nominal value net of transaction costs.

Retained earnings comprise accumulated profits and losses, less amounts distributed to shareholders.

Consolidated Statement of Cash Flows

for the year ended 31 October 2017

	2017		2016	
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
Profit before income tax		1,198		371
Non-cash adjustments				
Depreciation, amortisation and impairment	2,563		1,581	
Net finance costs	558		445	
		3,121		2,026
Working capital adjustments				
(Increase) in trade and other receivables	(316)		(12)	
Increase in trade and other payables	917		78	
		601		66
Cash inflow from operating activities		4,920		2,463
Income tax paid	(1,212)		(63)	
		(1,212)		(63)
Net cash generated by operations		3,708		2,400
Investing activities				
Purchase of intangible assets	(1,690)		(3,601)	
Interest received	19		18	
Acquisition of subsidiaries net of cash acquired	(2,317)		(802)	
Purchase of property, plant and equipment	(12)		–	
Net cash used in investing activities		(4,000)		(4,385)
Financing activities				
Proceeds from issue of shares (net of costs)	9,976		8,974	
Repayment of borrowings	–		(12)	
Dividends paid	(1,251)		(354)	
Net cash generated from financing activities		8,725		8,608
Net increase in cash and cash equivalents		8,433		6,623
Cash and cash equivalents at beginning of year		10,526		3,903
Cash and cash equivalents at end of year		18,959		10,526

Significant non-cash transactions include deferred contingent consideration arising on acquisition of subsidiaries totalling £850,000 (2016: £4,577,000).

Notes to the Financial Statements

for the year ended 31 October 2017

1 ACCOUNTING POLICIES

Company information

Harwood Wealth Management Group plc is a public company limited by shares, which is listed on the Alternative Investment Market of the London Stock Exchange and is incorporated and domiciled in England and Wales. The registered office is 5 Lancer House, Hussar Court, Westside View, Waterlooville, Hampshire, PO7 7SE.

The principal activity of the Company is to act as a holding company. The principal activity of the Group is the provision of financial advice and investment management to the retail market.

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, (except as otherwise stated).

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of financial liabilities at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000, except where indicated otherwise.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (the subsidiaries) made up to the accounting reference date each year. Control is achieved when the Company has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

1.2 Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred to the former owners of the acquiree, and the equity interest issued by the Group in exchange for control of the acquiree. The consideration transferred includes the fair value of any liability resulting from a contingent consideration arrangement. Acquisition related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that assets or liabilities related to deferred tax or to employee benefit arrangements are recognised and measured in accordance with International Accounting Standard (IAS) 12 Income Taxes and IAS 19 Employee Benefits respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

1.3 Going concern

The Group's business activities, together with the factors likely to affect its future development and performance, the financial position of the Group, its cash flows and liquidity position are set out in the Strategic Report on pages 7 to 23. In addition, Notes 22, 27 and 28 set out the Group's objectives for managing its capital, its financial instruments and its exposures to the market, credit and liquidity risk.

Based on this assessment, the directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

1.4 Revenue

Revenue from financial planning services comprises firstly the initial fees receivable from clients on inception of a new policy or investment product, and then the recurring service fees (trail income) that follow.

Initial fees are recognised when a client has signed a service and fee agreement, and the policy or investment has commenced. Provision is made for the potential cancellation of policies where fees are received under indemnity terms. Recurring fees are recognised when due from the client, whether payable directly to the Group or to the financial provider.

Fees for investment management, administration charges and other services are recognised as the services are provided. Income is shown net of any Value Added Tax.

Revenue from network services, which is a network of Appointed Representative financial advisers, comprises firstly the initial fees receivable from clients on inception of a new policy or investment product, and then the recurring service fees (trail income) that follow.

Interest income represents bank interest receivable on cash balances and is recognised as it is earned.

1.5 Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less impairment losses.

The gain on a bargain purchase is recognised in profit or loss in the period of the acquisition.

Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently annually or as necessary if circumstances emerge that indicate that the carrying value may not be recoverable.

For the purposes of impairment testing, goodwill is allocated to the cash-generating units expected to benefit from the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not subsequently reversed.

Notes to the Financial Statements continued

for the year ended 31 October 2017

1 ACCOUNTING POLICIES CONTINUED

1.6 Intangible assets other than goodwill

Other than goodwill, intangible assets with finite useful lives that are acquired externally are carried at cost less accumulated amortisation and impairment losses.

Expenditure on acquired client portfolios or on adviser relationships, which may be recognised either by way of a business combination or as an asset purchase, is capitalised in the period in which the acquisition is completed.

The cost of a purchased intangible asset acquired, other than in a business combination, is the purchase price which comprises an initial cash payment together with deferred contingent consideration payable dependant upon actual revenues acquired, discounted to present value.

Client portfolios and adviser relationships acquired in a business combination are valued at cost, which is the fair value at the date of acquisition.

Amortisation is recognised on a combined reducing balance / straight line method basis starting from the month of acquisition, over the estimated useful lives of the assets as below. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Acquired client portfolios are amortised over their expected useful lives of 15 years, calculated at 17.5% on the reducing balance for eight years, and the remainder straight line over the remaining seven years.

Adviser relationships are amortised over their expected useful life of 20 years on a straight-line basis.

1.7 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives on the following bases:

Leasehold land and buildings	over the life of the lease
Equipment	15–33% reducing balance

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income statement.

1.8 Impairment of tangible and intangible assets

At each reporting end date, the company reviews the carrying amounts of each tangible and intangible asset with finite life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts.

1.10 Financial assets

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Financial assets are initially measured at fair value plus transaction costs, other than those classified as fair value through profit and loss, which are measured at fair value.

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the instrument have been affected.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

1.11 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Contingent consideration to be settled in cash is recognised at fair value at the acquisition date. Any subsequent change to its fair value is recognised in profit or loss.

Derecognition of financial liabilities

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition. Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

Notes to the Financial Statements continued

for the year ended 31 October 2017

1 ACCOUNTING POLICIES CONTINUED

1.12 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.13 Taxation

The tax expense in the consolidated statement of comprehensive income represents the sum of the current and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.14 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.15 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Rentals payable under operating leases, less any lease incentives received, are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time periods in which economic benefits from the lease asset are consumed.

1.17 Segmental information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of operating segments.

The chief operating decision maker has been identified as the board of directors.

1.18 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

2 ADOPTION OF NEW AND REVISED STANDARDS AND CHANGES IN ACCOUNTING POLICIES

In the current year, there have been no new and revised Standards and Interpretations that have been adopted by the company and have an effect on the current period or a prior period.

Standards which are in issue but not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not yet been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IAS 7 (amended)	Disclosure initiative
IFRS 2 (amended)	Share-based Payment
IFRS 9	Financial Instruments
IFRS 10 (amended)	Consolidated Financial Statements
IFRS 15	Revenue
IFRS 16	Leases

Other than additional disclosures within the financial statements the Directors do not expect the adoption of these standards to have a material effect on the financial statements of the Group in future periods, although the impact of IFRS 16 is still being assessed in detail.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Critical estimates

Fair value of intangibles acquired

The fair values of adviser relationships, which have a carrying amount of £3.3m at the reporting date are based on initial recognition of the income expected to be earned from the Group's relationships with its appointed representatives and external advisers.

This depends on forecasts which rely on fees to be generated by the advisers and representatives, the likely attrition rate, and the running costs of the cash generating unit concerned. Management's forecasts are based on historic results, detailed budgets and their best estimates of likely future outcomes.

Notes to the Financial Statements continued

for the year ended 31 October 2017

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

Intangible asset life

Intangible assets with a carrying value of £13,837,000 are amortised over their estimated useful lives. In the case of acquired client portfolios, this estimation reflects the Directors' expectation of client attrition, based on the Group's experience of similar portfolios. The expected useful life is 15 years, but the directors believe the pattern of expected attrition is higher in the earlier years. For this reason, the rate of amortisation has been selected as 17.5% on the reducing balance for the first eight years of the expected useful life, and straight line for the remaining period.

Intangible assets classified as adviser relationships represent businesses acquired that the directors consider have a useful life of 20 years.

Fair value of contingent consideration

The estimation of contingent consideration in respect of client portfolios requires the Directors to predict the trail income arising over the earn-out period. The estimate of contingent consideration in respect of adviser relationships requires the directors to predict the level of client funds introduced to the Group's investment management services. The directors also decide on the level of the discount rate to be applied. The discount rate applied in the year was 12%. The total value of contingent consideration payable at the year end was £4,294,000 (2016: £5,433,000).

4 OPERATING SEGMENTS

For management purposes the following information is provided to the chief operating decision maker and best describes the way the Group is managed and provides a meaningful insight into the operations of the Group.

An analysis of the company's operating segments is as follows:

	Financial Planning		Investment Management		Network		Total	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Revenue	12,913	9,521	3,197	2,084	9,775	–	25,885	11,605
Cost of sales	(5,553)	(4,340)	(206)	(173)	(8,960)	–	(14,719)	(4,513)
Gross profit	7,360	5,181	2,991	1,911	815	–	11,166	7,092

Financial Planning revenue is derived from either employed or self-employed financial advisers. Network revenue is derived through a network of Appointed Representative financial advisers – a different business model. Investment Management is derived from assets under management, under a discretionary or non-discretionary basis.

There were no customers from whom 10% or more of revenues were derived.

	2017 £'000	2016 £'000
Revenues attributable to the principal activity undertaken wholly in the UK	25,885	11,605

5 EXCEPTIONAL ITEMS

	2017 £'000	2016 £'000
IPO Listing costs	–	263
Acquisition costs	–	73
	–	336

6 EXPENSES BY NATURE

An analysis of the Group's expenditure is as follows:

	2017 £'000	2016 £'000
Advisers' costs	14,719	4,511
Staff and director costs	4,382	2,735
Amortisation	2,552	1,572
Depreciation	11	9
Premises costs	850	617
Regulatory fees	793	387
Other expenses	822	622
	24,129	10,453

7 OPERATING PROFIT

	2017 £'000	2016 £'000
Operating profit for the year is stated after charging/(crediting):		
Depreciation of property, plant and equipment	11	9
Amortisation of intangible assets	2,522	1,572
Operating lease rentals – land and buildings	209	185
Gains on financial instruments measured at fair value through profit and loss	(3)	–
Impairment losses	30	–
Acquisition costs	23	73

8 AUDITOR'S REMUNERATION

	2017 £'000	2016 £'000
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the company's financial statements	38	38
Audit of the company's subsidiaries	19	21
	57	59
For other services		
Tax services	5	9
Other services – audit related	16	5
– other services	5	–
Corporate finance services – charged to share premium	–	165
Corporate finance services – charged to statement of comprehensive income	–	100
Total non-audit fees	26	279

Notes to the Financial Statements continued

for the year ended 31 October 2017

9 EMPLOYEES

The average monthly number of persons (including directors) employed by the company during the year was:

	2017 Number	2016 Number
Employed advisers	9	8
Management and administration	104	75
	113	83

Their aggregate remuneration comprised:

	2017 £'000	2016 £'000
Wages and salaries	4,025	2,483
Social security costs	341	245
Pension costs	16	7
	4,382	2,735

10 DIRECTORS' REMUNERATION

	2017 £'000	2016 £'000
Executive directors		
Short-term remuneration	838	315
Benefits	23	14
Non-executive director fees	166	71
	1,027	400

Below is a summary of the total remuneration paid to each director:

	2017 £'000	2016 £'000
M Howard	224	116
N Dunkley	221	112
N Bravery	200	36
A Durrant	216	65
P Mann	100	52
P Tuson	66	19
C Mills	–	–
	1,027	400

The number of directors to whom retirement benefits are accruing under money purchase benefit is four (2016: nil) and the cost of this benefit is less than £500 for each director.

11 INVESTMENT INCOME

	2017 £'000	2016 £'000
Interest income		
Bank deposits	19	18

12 FINANCE COSTS

	2017 £'000	2016 £'000
Unwinding of discount on contingent consideration	577	463
Finance costs	577	463

13 INCOME TAX EXPENSE

	2017 £'000	2016 £'000
Current tax		
Current year taxation	769	463
Adjustments in respect of prior periods	–	81
	769	544
Deferred tax		
Origination and reversal of temporary differences	(210)	(271)
Effect of change in tax rate	(67)	(20)
	(277)	(291)
Total tax charge	492	253

The charge for the year can be reconciled to the profit per the income statement as follows:

	2017 £'000	2016 £'000
Profit before taxation	1,198	371
Expected tax charge based on a corporation tax rate of 19.41% (2016: 20.00%)	232	74
Expenses not deductible in determining taxable profit	260	179
Tax charge for the year	492	253

Factors that may affect future tax charges:

Changes to the rate of Corporation Tax were substantively enacted on 7 September 2016 resulting in a rate of Corporation Tax of 17% with effect from 1 April 2020.

Deferred tax balances have been re-measured in accordance with this rate.

Notes to the Financial Statements continued

for the year ended 31 October 2017

14 DIVIDENDS

	2017 £'000	2016 £'000
Amounts recognised as distributions to equity holders:		
Ordinary		
Interim dividend for the year ended 31 October 2017: £nil per ordinary share of 0.25 pence (2016: £3.54 pre-subdivision)	–	354
Final dividend for the year ended 31 October 2016: £0.02 per ordinary share (2016: £nil)	1,251	–
	1,251	354

An interim dividend for the year ended 31 October 2107 of 1.00 pence per ordinary share was declared on 29 June 2017 and paid on 10 November 2017.

The proposed final dividend for the year ended 31 October 2017 is:

	Total 2017 £'000
Proposed final dividend: 2.24 pence per ordinary share of 0.25 pence	1,401

The interim dividend was still at the discretion of the directors at 31 October 2017 and has not therefore been included as a liability in these financial statements.

The proposed final dividend is subject to approval by shareholders and has not been included as a liability in these financial statements.

15 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit attributable to equity shareholders of the company by the weighted average number of ordinary shares in issue during the year. There are no dilutive or potential shares.

	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for basic earnings per share	59,323	49,243

	£'000	£'000
Earnings		
Profit for the period from continued operations	706	118
Earnings for basic and diluted earnings per share being net profit attributable to equity shareholders of the company for continued operations	706	118

	pence	pence
Basic and diluted earnings per share	1.19	0.24

Adjusted earnings per share

The adjusted earnings per share are based on:

		2017 £'000	2016 £'000
Profit for the period		706	118
Add:	Corporation tax	492	253
	Net finance expense	558	445
	Depreciation	11	9
	Amortisation	2,552	1,572
	Exceptional items	–	336
Adjusted earnings for basic and diluted earnings per share		4,319	2,733

	pence	pence
Adjusted basic and diluted earnings per share	7.28	5.55

Notes to the Financial Statements continued

for the year ended 31 October 2017

16 INTANGIBLE ASSETS

		Goodwill £'000	Acquired client portfolios £'000	Adviser relationships £'000	Total £'000
Cost					
At 1 November 2015		245	6,502	–	6,747
Additions:	Business combinations	210	3,267	3,363	6,840
	Asset acquisitions	–	4,769	–	4,769
At 31 October 2016		455	14,538	3,363	18,356
Additions:	Business combinations	741	371	315	1,427
	Asset acquisitions	–	1,409	–	1,409
At 31 October 2017		1,196	16,318	3,678	21,192
Amortisation and impairment					
At 1 November 2015		–	2,035	–	2,035
Amortisation charge for the year		–	1,483	89	1,572
At 31 October 2016		–	3,518	89	3,607
Amortisation charge for the year		–	2,194	328	2,522
Impairment charge for the year		–	30	–	30
At 31 October 2017		–	5,742	417	6,159
Carrying amount					
At 31 October 2017		1,196	10,576	3,261	15,033
At 31 October 2016		455	11,020	3,274	14,749
At 31 October 2015		245	4,467	–	4,712

The goodwill added in the year arose on the acquisition of Network Direct Limited ("NDL") and represents the anticipated benefit of funds that may be introduced to the Group's investment management service.

The acquired client portfolio additions were acquired through either business combinations (including NDL in the current year) or asset purchases.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, which is determined by reference to the original businesses acquired. Using commonly recognised valuation techniques based on future cash flows. Impairment is determined for the NDL goodwill by assessing the estimated funds introduced, or may be introduced, to the Group's investment service and the present value of the associated cashflows.

An impairment test of goodwill is a comparison of the carrying value of the cash generating unit to their recoverable amount. Where it is higher than the recoverable amount, an impairment results. Any amortisation and impairment charges are included in operating expenses in the Statement of Comprehensive Income.

Recoverable amounts have been measured based on value in use. Detailed forecasts for the expected remaining life of two of the three cash generating units ("CGU") have been used (maximum 20 years), based on approved annual budgets and strategic projections representing the best estimate of future performance. The estimated cash flows are based on the anticipated revenues from the of the CGUs, with an expected attrition rate of 15% for revenues based on historical observed rates, and discounted at the Group's weighted average cost of capital, estimated at 12%.

Value in use for the third CGU, relating to NDL, is based on the anticipated incremental revenues which will be generated for the Group over ten years, discounted to present value, using a discount rate of 12%. No attrition is expected in relation to this CGU.

17 PROPERTY, PLANT AND EQUIPMENT

		Leasehold land and buildings £'000	Equipment £'000	Total £'000
Cost				
At 1 November 2015		2	83	85
Business combinations		–	11	11
At 31 October 2016		2	94	96
Additions:	purchased	–	12	12
	business combinations	–	3	3
At 31 October 2017		2	109	111
Accumulated depreciation and impairment				
At 1 November 2015		1	66	67
Charge for the year		–	9	9
At 31 October 2016		1	75	76
Charge for the year		1	10	11
At 31 October 2017		2	85	87
Carrying amount				
At 31 October 2017		–	24	24
At 31 October 2016		1	19	20
At 31 October 2015		1	16	17

Notes to the Financial Statements continued

for the year ended 31 October 2017

18 SUBSIDIARIES

Details of the company's subsidiaries at 31 October 2017 are as follows:

	Country of incorporation (and registered office)	Proportion of ownership interest (%)	Proportion of voting power held (%)	Nature of business
Compass Wealth Management Consultants Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
Active Financial Partners Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
IMS Capital Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
Merchants Wealth Management Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
4 Most Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
Compass B2B Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
Meon Valley Financial Planning Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
Waterside Independent Financial Advisers Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
John Clive Enterprises Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
Absolutely Independent Financial Advisers Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
Network Direct Ltd*	UK (1)	100.00%	100.00%	Network services
WT Financial Ltd*	UK (1)	100.00%	100.00%	Financial advisory services
Wellian Investment Solutions Ltd*	UK (2)	100.00%	100.00%	Financial advisory services
Vue Platform Services Ltd	UK (2)	100.00%	100.00%	Dormant
Stephens Nominees Limited	UK (2)	100.00%	100.00%	Dormant
Fund Intelligence (Nominees) Limited	UK (2)	100.00%	100.00%	Dormant

* Directly held

(1) 5 Lancer House, Hussar Court, Westside View, Waterlooville Hants PO7 7SE

(2) 77 Mount Ephraim, Tunbridge Wells, TN4 8BS

Harwood Wealth Management Group plc has provided a guarantee in accordance with section 479c of the Companies Act 2006 on behalf of the following subsidiaries, in order to provide them with exemption from audit of their individual accounts. The company has guaranteed all liabilities to which each subsidiary company is subject at the financial year end, until they are satisfied in full. The amount of such liabilities is set out below.

	Company number	Value of liabilities
Active Financial Partners Ltd	04266233	£212,073
IMS Capital Ltd	07324558	£126,660
Merchants Wealth Management Ltd	09035363	£49,100
4 Most Ltd	04805244	£8,142
Meon Valley Financial Planning Ltd	03415179	£53,488
Compass B2B Ltd	06906047	£80,348
Waterside Independent Financial Advisers Ltd	04184825	£–
Absolutely Independent Financial Advisers Ltd	03834429	£–
John Clive Enterprises Ltd	06622245	£–
WT Financial Ltd	08442987	£10,408

19 ACQUISITIONS

Business combinations

During the year the Group made the following business combinations:

Network Direct Ltd

On 1 February 2017, the Group acquired the entire issue of share capital of Network Direct Limited ("NDL"), an independent financial adviser network, in order to expand the scope of services offered by the Group. The assets and liabilities acquired were as follows:

	Book Value £'000	Fair value adjustment £'000	Fair value £'000
Adviser relationships	–	315	315
Property, plant and equipment	3	–	3
Receivables	125	–	125
Cash & equivalents	262	–	262
Payables	(493)	–	(493)
Deferred tax	–	(53)	(53)
	(103)	262	159

The business combination has been recognised as follows:

	£'000
Cash consideration on completion	900
Contingent cash consideration	–
	900
Net assets acquired per above	(159)
Goodwill arising	741

Acquisition related costs of £23,000 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year.

The maximum undiscounted additional consideration payable is £3m and is contingent upon the level of NDL's clients' funds under management being introduced to the Group's investment service over a five year period, subject to individual client suitability and consent.

The contingent consideration arrangement requires the Group to pay £286,000 in cash to the former owners of Network Direct Ltd for every £100m of the client's Funds Under Management introduced to the Group's investment platforms by the network's representatives, up to £700m, plus £1m in the event total Funds under Management introduced in this way reach £800m. The arrangement ceases on the 5th anniversary of completion, being 1 February 2022, at which time any contingent consideration becomes payable. The fair value of the contingent consideration was estimated by applying the income approach, using a discount factor of 12% and assumed probability of the funds to be introduced, adjusted for retentions by the Company.

There has been no change in the expected level of Funds to be introduced at the reporting date.

Goodwill recognised on the acquisition represents the expected incremental profitability of the Group as a result of the future increased use of its investment services by NDL clients.

Notes to the Financial Statements continued

for the year ended 31 October 2017

19 ACQUISITIONS CONTINUED

Included in Receivables of £125,000 are trade receivables with a fair value of £125,000. The gross contractual amount for trade receivables due is £125,000 of which £nil is expected to be uncollectable.

The post-acquisition results of the acquired company in the year of acquisition, together with estimated results for the full year of the Group if the acquisition had been at the start of that year, were as follows:

	Revenue £'000	Net profit/ (loss) £'000
Post-acquisition results – acquisition	9,775	(52)
Pro-forma results for full year – Group	27,896	508

WT Financial Ltd

On 19 January 2017, the Group acquired the entire issued share capital of WT Financial Ltd, an independent financial adviser business, in order to expand the advisory services offered. The assets and liabilities acquired were as follows:

	Book Value £'000	Fair value adjustment £'000	Fair value £'000
Acquired client portfolios	–	371	371
Receivables	14	–	14
Cash & equivalents	4	–	4
Payables	(18)	–	(18)
Deferred tax	–	(63)	(63)
	–	308	308

The business combination has been recognised as follows:

	£'000
Consideration on completion	176
Contingent cash consideration	132
	308
Net assets acquired per above	(308)
Goodwill arising	–

The acquisition agreements specify that contingent consideration will be payable on the first and second anniversaries of the acquisition and will be based on actual trail income from the portfolios, with no cap.

It is discounted to present value and adjusted annually when forecasts are updated or when payments become certain. Adjustments go through profit or loss.

The post-acquisition results of the acquired company in the year of acquisition, together with estimated results for the full year of the Group if the acquisition had been at the start of that year, were as follows:

	Revenue £'000	Net profit £'000
Post-acquisition results – acquisition	76	9
Pro-forma results for full year – Group	27,896	508

Asset purchases

A number of client portfolios were acquired as follows:

	2017 Number	2016 Number
Portfolios acquired	5	12

	£'000	£'000
Cost	1,101	4,769
Immediate cash consideration	583	2,635
Contingent cash consideration	518	2,134
	1,101	4,769

The contingent consideration is payable on the first and second anniversaries of the acquisition and is based on actual trail income from the portfolios, with no cap.

The contingent consideration is discounted to present value and adjusted annually when forecasts are updated or when payments become certain. Adjustments go through profit or loss.

20 TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Trade receivables	255	58
Accrued income	546	388
Prepayments	274	175
	1,075	621

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The directors consider that the carrying amount of trade and other receivables does not differ from their fair value.

No significant receivable balances are impaired at the reporting end date. The Group's experience of default rates of trade receivables is that default is very rare.

21 TRADE AND OTHER PAYABLES

	Current		Non-current	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade payables	136	77	–	–
Other payables	672	329	–	–
Deferred contingent consideration	4,042	3,214	252	2,219
Social security and other taxation	310	259	–	–
	5,160	3,879	252	2,219

Notes to the Financial Statements continued

for the year ended 31 October 2017

22 FINANCIAL INSTRUMENTS

There is an exposure to the risks that arise from the financial instruments. The policies for managing those risks and the methods to measure them are described in Note 27. Further quantitative information in respect of these risks is presented below and throughout the financial statements.

Financial assets

The following financial assets were held, all classified as loans or receivables:

	2017 £'000	2016 £'000
Trade receivables	255	58
Accrued income	546	388
Cash and cash equivalents	18,959	10,526

Financial liabilities

The following financial liabilities were held, all classified as other financial liabilities at amortised cost:

	2017 £'000	2016 £'000
Trade and other payables	808	406
Accruals	1,284	341

The directors believe that the carrying amounts of financial liabilities carried at amortised cost in the financial statements approximate to their fair values.

The following financial liabilities (deferred contingent consideration) are at fair value through profit or loss:

	2017 £'000	2016 £'000
Deferred contingent consideration	4,294	5,433

This is a level 3 fair value measurement as the inputs are not based on observable market data. The movement in level 3 items relates to acquisitions less amounts settled and unwinding of the discount in the period.

Deferred contingent consideration

	2016 £'000
Deferred contingent consideration at 1 November 2016	5,433
On acquisitions in the year	650
Adjustments to acquisitions in prior year	251
Unwinding of discount	577
Fair value adjustment	(3)
Payments	(2,614)
Deferred contingent consideration at 31 October 2017	4,294

23 DEFERRED TAXATION

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting period are as follows:

	Total £'000
Deferred tax liability at 1 November 2015	383
Deferred tax movements in prior year	
Credit to profit or loss	(291)
On acquisition of subsidiaries	(1,174)
Deferred tax liability at 1 November 2016	1,266
Deferred tax movements in current year	
Credit to profit or loss	(277)
On valuation adjustments	56
On acquisition of subsidiaries	116
Deferred tax liability at 31 October 2017	1,161

	2017 £'000	2016 £'000
Deferred tax liabilities	1,161	1,266
The deferred tax liability comprises:		
Temporary differences on acquired client portfolios	1,161	1,266

24 RETIREMENT BENEFIT SCHEMES

Defined contribution schemes

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

The total costs charged to income in respect of defined contribution plans is £16,000 (2016: £7,000).

25 SHARE CAPITAL

	2017 £'000	2016 £'000
Ordinary share capital		
Issued and fully paid		
62,542,927 Ordinary shares of 0.25p each	156	139

The company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the company.

Reconciliation of movements during the year:

	Ordinary Number
At 1 November 2016	55,588,927
Issue of fully paid shares	6,954,000
At 31 October 2017	62,542,927

On 19 April 2017 6,954,000 ordinary shares of 0.25 pence each were issued at the price of 150 pence per share.

Notes to the Financial Statements continued

for the year ended 31 October 2017

26 OPERATING LEASE COMMITMENTS

Lessee

Amounts recognised in profit or loss as an expense during the period in respect of operating lease arrangements are as follows:

	2017 £'000	2016 £'000
Lease payments under operating leases	209	185

At the reporting date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Within one year	98	145
Between two and five years	316	334
In over five years	190	267
	604	746

27 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to certain financial risks: market risk, credit risk and liquidity risk, as explained below. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Directors, who identify and evaluate financial risks in close co-operation with key staff.

- Market risk is the risk of loss that may arise from changes in market factors such as competitor pricing and interest rates. The direct risk is considered to be minimal, although there is an indirect risk to fee income based on client investment values which can be affected by changes in interest rate.
- Credit risk is the financial loss to the Group if a client or counterparty to financial instruments fails to meet its contractual obligation. Credit risk arises from the Group's cash and cash equivalents and receivables balances. Cash is held with Bank of Scotland, an institution with an A credit rating.
- Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. This risk relates to the Group's liquidity risk management and implies maintaining sufficient cash. The Directors monitor rolling forecasts of liquidity, cash and cash equivalents based on expected cash flow.

28 CAPITAL RISK MANAGEMENT

The company is not subject to any externally imposed capital requirements.

Certain subsidiaries are regulated by the Financial Conduct Authority and subject to its capital adequacy requirements. These requirements have not been breached during the year.

The Group is funded by equity. The components of shareholders' equity are:

(a) Share capital and share premium

(b) Retained earnings, reflecting comprehensive income to date less distributions

The objective when managing capital is to maintain adequate financial flexibility to preserve the ability to meet financial obligations, both current and long-term. The capital structure is managed and adjusted to reflect changes in economic conditions. Expenditures on commitments are funded from existing cash and cash equivalent balances, primarily arising from equity sources.

Financing decisions are made based on forecasts of the expected timing and level of capital and operating expenditure required to meet commitments and development plans.

29 EVENTS AFTER THE REPORTING DATE

Acquisition of Finance for Life Limited

On 3 November 2017 the Company acquired the entire share capital of Finance for Life Ltd for a total consideration of £0.9m of which £0.5m was paid on completion, with the balance based on future revenue over the next two years.

2017 Interim dividend

On 10 November 2017 the Company paid an interim dividend of 1.00 pence per ordinary share based on the register of shareholders at close of business on 27 October 2017 totalling £0.6m.

Acquisition of the business and assets of Peter John Vickery

On 7 November 2017 the Group agreed to buy the financial advisory business carried on by Peter John Vickery. Following an initial payment of £0.1m the transaction completed on 12 December 2017. In addition, further amounts totalling £0.06m are to be paid on the first and second anniversaries of completion contingent upon results.

Acquisition of Anthony Harding & Partners Ltd

On 10 January 2018 the Company acquired the entire share capital of Anthony Harding & Partners Ltd for a total consideration of £1.1m of which £0.6m was paid on completion, with the balance based on future revenue over the next two years.

30 RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

The remuneration of the directors and the chief financial officer, who are key management personnel, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2017 £'000	2016 £'000
Short-term employee benefits	1,027	400
Social security	95	48
	1,122	448

Other transactions with related parties

The Group has purchased services in the normal course of business from certain companies related to individuals who were directors of the Group:

	2017 £'000	2016 £'000
SAS Corporate Services LLP	–	1

SAS Corporate Services LLP is a partnership operated by family members of Mr M Howard and Mr N Dunkley.

During the year Mrs S Dunkley (the wife of the director Mr N Dunkley) was paid a salary of £11,634 (2016: £10,250).

31 DIRECTORS' TRANSACTIONS

Dividends totalling £401,320 (2016: £227,622) were paid in the year in respect of shares held by two of the company's directors (Mr M Howard £200,660 (2016: £113,811) and Mr N Dunkley £200,660 (2016: £113,811).

The head office premises are leased from Mr M Howard and Mr N Dunkley at a total annual rent of £48,000, expiring on 31 March 2025.

Further premises are leased from Compass Legal Services LLP, a company owned by Mr M Howard and Mr N Dunkley, at an annual rent of £9,600.

Company Statement of Financial Position

as at 31 October 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Intangible assets	4	6,326	6,490
Investments	5	14,441	10,588
		20,767	17,078
Current assets			
Trade and other receivables	6	587	395
Cash at bank and in hand		15,913	8,783
		16,500	9,178
Creditors: amounts falling due within one year			
Trade and other payables	7	5,113	3,976
Taxation and social security		32	26
		5,145	4,002
Net current assets		11,355	5,176
Total assets less current liabilities		32,122	22,254
Creditors: amounts falling due after more than one year			
Trade and other payables	7	252	2,219
Net assets		31,870	20,035
Capital and reserves			
Called up share capital		156	139
Share premium account		25,500	15,542
Revaluation reserve		1,828	1,828
Profit and loss account		4,386	2,526
Total equity		31,870	20,035

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account. The company's profit for the year was £3,111,000 (2016: £2,512,000).

The financial statements were approved by the Board of directors and authorised for issue on 22 January 2018 Signed on its behalf by:

Mr Neil Dunkley
Director
Company Registration No. 04987966

Company Statement of Changes in Equity

for the year ended 31 October 2017

	Notes	Share capital £'000	Share premium account £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 November 2015		100	3,979	1,828	368	6,275
Year ended 31 October 2016:						
Profit and total comprehensive income for the year		–	–	–	2,512	2,512
Issue of share capital		39	12,558	–	–	12,597
Dividends	3	–	–	–	(354)	(354)
Costs of share issue		–	(995)	–	–	(995)
Total transactions with owners recognised directly in equity		39	11,562	–	(354)	11,247
Balance at 31 October 2016		139	15,542	1,828	2,526	20,035
Year ended 31 October 2016:						
Profit and total comprehensive income for the year		–	–	–	3,111	3,111
Issue of share capital		17	10,414	–	–	10,431
Dividends	3	–	–	–	(1,251)	(1,251)
Costs of share issue		–	(455)	–	–	(455)
Total transactions with owners recognised directly in equity		17	9,959	–	(1,251)	8,725
Balance at 31 October 2017		156	25,500	1,828	4,386	31,870

The share premium account comprises consideration received for shares issued above their nominal value net of transaction costs.

Retained earnings comprise accumulated profits and losses, less amounts distributed to shareholders.

The revaluation reserve comprises the cumulative revaluation gains and losses in respect of fixed asset investments.

Notes to the Company Financial Statements

for the year ended 31 October 2017

1 ACCOUNTING POLICIES

Company information

Harwood Wealth Management Group plc is a public company limited by shares, which is listed on the Alternative Investment Market of the London Stock Exchange and is incorporated and domiciled in England and Wales. The registered office is 5 Lancer House, Hussar Court, Westside View, Waterlooville, Hampshire, PO7 7SE.

The principal activity of the Company is to act as a holding company. The principal activity of the Group is the provision of financial advice and investment management to the retail market.

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1.1 Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The financial statements have been prepared on the historical cost basis as modified by the revaluation of investments and the valuation of financial liabilities at fair value through profit and loss.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £'000.

The principal accounting policies adopted are set out below.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements in accordance with FRS 101:

- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67of IFRS 3 Business Combinations;
- The requirements of paragraph 33 (c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- The requirements of IFRS 7 Financial Instruments: Disclosures;
- The requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment (iii) paragraph 118 (e) of IAS 38 Intangibles Assets, (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property and (v) paragraph 50 of IAS 41 Agriculture;
- The requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 39 to 40, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- The requirements of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- The requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- The requirements of paragraphs 134(d–134(f) and 135(c)–135(e) of IAS 36 Impairment of Assets.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets, business combinations, discontinued operations and related party transactions.

Equivalent disclosures are given in the Group accounts of Harwood Wealth Management Group plc, in which the company is consolidated.

The following accounting policies are the same as for the Group which are set out in Note 1 to the consolidated financial statements:

- Revenue
- Going concern
- Intangible assets other than goodwill
- Impairment of tangible and intangible assets
- Cash and cash equivalents
- Financial assets
- Financial liabilities
- Equity instruments
- Taxation
- Employee benefits
- Retirement benefits
- Leases

1.2 Fixed asset investments

Fixed asset investments are accounted for at an initial cost including discounted deferred contingent consideration, less accumulated impairment losses.

2 EMPLOYEES

The average monthly number of persons (including directors) employed by the company during the year was:

	2017 Number	2016 Number
Management and administration	21	20

Their aggregate remuneration comprised:

	2017 £'000	2016 £'000
Wages and salaries	1,384	742
Social security costs	92	73
Pension costs	1	–
	1,477	815

Notes to the Company Financial Statements continued

for the year ended 31 October 2017

3 DIVIDENDS

	2017 £'000	2016 £'000
Ordinary shares		
Interim dividend for the year ended 31 October 2017: £nil per ordinary share of 0.25 pence (2016: £3.54 pre-subdivision)	–	354
Final dividend for the year ended 31 October 2016:		
£0.02 per ordinary share (2016: £nil)	1,251	–
	1,251	354

The proposed final dividend for the year ended 31 October 2017 is:

	Total £'000
Final dividend: 2.24 pence per ordinary share of 0.25 pence	1,401

An interim dividend for the year ended 31 October 2107 of 1.00 pence per ordinary share was declared on 29 June 2017 and paid on 10 November 2017.

The proposed final dividend for the year ended 31 October 2017 is:

	Total £'000
Proposed final dividend: 2.24 pence per ordinary share of 0.25 pence	1,401

The interim dividend was still at the discretion of the directors at 31 October 2017 and has not therefore been included as a liability in these financial statements.

The proposed final dividend is subject to approval by shareholders and has not been included as a liability in these financial statements.

4 INTANGIBLE FIXED ASSETS

	Acquired client portfolios £'000
Cost	
At 31 October 2016	7,764
Additions	1,060
At 31 October 2017	8,824
Amortisation and impairment	
At 31 October 2016	1,274
Charge for the year	1,224
At 31 October 2016	2,498
Carrying amount	
At 31 October 2017	6,326
At 31 October 2016	6,490

5 INVESTMENTS

	2017 £'000	2016 £'000
Investments in subsidiaries	14,441	10,588
	14,441	10,588

Movements fixed asset investments

	£'000
Cost or valuation	
At 31 October 2016	10,588
Additions	3,853
At 31 October 2017	14,441
Impairment	
At 1 November 2016 & 31 October 2017	–
Carrying amount	
At 31 October 2017	14,441
At 31 October 2016	10,588

A list of subsidiaries is set out in Note 18 of the consolidated financial statements.

6 TRADE AND OTHER RECEIVABLES

	2017 £'000	2016 £'000
Other receivables	5	5
Amounts due from subsidiary undertakings	560	364
Prepayments	22	26
	587	395

7 TRADE AND OTHER PAYABLES

	Current		Non-current	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade payables	30	5	–	–
Deferred contingent consideration	3,985	3,163	252	2,219
Amounts due to subsidiary undertakings	617	625	–	–
Accruals	480	182	–	–
Other payables	1	1	–	–
	5,113	3,976	252	2,219

Notes to the Company Financial Statements continued

for the year ended 31 October 2017

8 DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting period.

	Arising on acquired client portfolios £'000
Deferred tax liability at 1 November 2015	231
Deferred tax movements in prior year	
Credit to profit or loss	(231)
Deferred tax liability at 1 November 2016	–
Deferred tax liability at 31 October 2017	–

9 EVENTS AFTER THE REPORTING DATE

Details of events after the reporting date can be found in Note 29 of the consolidated financial statements.

Company Information

DIRECTORS

Mr Nick Bravery
Mr Neil Dunkley
Mr Alan Durrant
Mr Mark Howard
Mr Peter Mann
Mr Christopher Mills
Mr Paul Tuson

SECRETARY

Mr Matthew Hills

COMPANY NUMBER

04987966

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