Company's Registered Number 5498937

HEARTWOOD WEALTH GROUP LIMITED

REPORT AND ACCOUNTS
For the year ended

30 APRIL 2010

HEARTWOOD WEALTH GROUP LIMITED

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HEARTWOOD WEALTH GROUP LIMITED

DIRECTORS AND ADVISERS

DIRECTORS	D A B Lough (Chairman) S N Lough (Chief Executive) B N Carter S R Clark S J Dixon D J Gamble (Non Executive) J E Heskett (Senior Non Executive) G A Hudson G Rogerson
SECRETARY	S R Clark
REGISTERED OFFICE	77 Mount Ephraim Tunbridge Wells Kent TN4 8BS
BANKERS	Barclays Bank Plc 73/75 Calverley Road Tunbridge Wells Kent TN1 2UZ
AUDITORS	Nexia Smith & Williamson Chartered Accountants 25 Moorgate London EC2R 6AY
ACCOUNTANTS AND TAX ADVISERS	Smith & Williamson Chartered Accountants 25 Moorgate London EC2R 6AY
SOLICITORS	Speechly Bircham 6 St Andrews Street London EC4A 3LX
COMPANY'S REGISTERED NUMBER	5498937

HEARTWOOD WEALTH GROUP LIMITED

DIRECTORS' REPORT

The directors present their report and the audited accounts for the year ended 30 April 2010

Activities

The company is a holding company for a company which provides investment and integrated wealth management services in the UK, and other dormant indirect subsidiaries

Business review

The directors are satisfied with the trading results and profitability of their trading subsidiary, Heartwood Wealth Management Limited, during the financial year ended 30 April 2010

At the subsidiary level, profits after tax declined from £2,216,000 in 2008/9 to £2,091,000 for 2009/10 Revenues fell by 1% overall to £11 2m (2009 £11 3m) but a 30% increase in discretionary funds under management and steady wealth advisory fees led to a 15% increase in recurring fee income to £8 3m (2009 £7 2m) This was offset, as forecast a year ago, by a sharp decline in interest income revenues as a result of the unusual external market interest rate structure and by a reduction in dealing income, leading to a fall in revenue from £4 1m to £2 9m under these two headings

The increase in custody funds under management (from £896m to £1,141m) was due to a combination of substantial new business, very strong retention of existing client funds and improvement in market levels Costs at the subsidiary level (measured by administrative expenses) were flat year-on-year at £8 5m, reflecting cost-cutting actions taken during the previous financial year offset by continued investment in the quality of investment and distribution staff required to keep our proposition highly competitive At the Group level, administrative expenses were slightly lower at £9 4m (2009 £9 5m)

In this respect, Heartwood Wealth Management made progress during the year against each of the three priorities set out in previous years' reports Firstly, it implemented a new multi-asset fund range to complement its revised investment proposition These funds are expected to account for approximately 35% of discretionary funds under management by July of 2010 Secondly, it developed additional distribution channels through leading professional advisers and through the acquisition of new client directors Thirdly, it completed the implementation of a new integrated IT system, which provides a more scalable platform for anticipated growth

As noted in last year's report, each initiative has required substantial investment in time and money but the directors remain convinced that these have been necessary steps in order to continue building a leading, sustainable investment and wealth management business This progress was recognised within the industry by the winning of PAM's 'Best overall wealth solutions - High Net Worth' award

The period of investment has coincided with recession and, as a result, has led to a short term plateau in profitability It is anticipated that profitability will remain at a similar level during 2010/11 before climbing appreciably thereafter

As with other businesses of its type, Heartwood is highly dependent on the quality of its people and how well they work together We continue to invest significant sums in the training, development, engagement and remuneration of our staff, the majority of whom are shareholders in the parent company We are fortunate to have a team who show such commitment to teamwork, the company's clients and to the business The Board is very appreciative of their efforts

Post balance sheet event

After the year-end, and following approval from the FSA, subordinated loans totalling £368,000 to the subsidiary company were repaid

HEARTWOOD WEALTH GROUP LIMITED

DIRECTORS' REPORT (Continued)

Regulation

Heartwood Wealth Group Limited does not carry on regulated activities and is not subject to regulatory capital requirements The company's subsidiary, Heartwood Wealth Management Limited, is regulated by the Financial Services Authority (FSA) and is subject to certain regulatory capital requirements

Heartwood Wealth Management, together with Heartwood Wealth Group Limited, meets the conditions in BIPRU 8 of the FSA handbook that allow it to apply the investment group consolidation waiver An appropriate waiver has been granted by the FSA to this effect and as a result the regulatory capital requirements are principally based on the regulated Heartwood Wealth Management's financial position

Capital Requirements Directive

Heartwood Wealth Management is subject to the European Capital Requirements Directive In the UK this is implemented through rules issued by the FSA through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU")

Heartwood Wealth Management determines its capital under three pillars

1 Pillar I – this sets out the minimum capital requirements that allow Heartwood Wealth Management to meet its credit, market and operational risk requirements
2 Pillar II – this requires Heartwood Wealth Management to determine whether additional capital should be held against risks not sufficiently covered under Pillar I This is called the Internal Capital Adequacy Assessment Process ("ICAAP")
3 Pillar III – this requires Heartwood Wealth Management to disclose certain details about its risk and capital management process

ICAAP

Under its existing risk management framework, Heartwood Wealth Management assesses the key risks facing the business, including impact analysis and probability of occurrence As part of its ICAAP, Heartwood Wealth Management additionally carries out an annual assessment of its capital adequacy to meet these risks, including whether to hold any additional capital above that required under Pillar I

Identified risks are tested against agreed risk appetite statements and categorised into various levels according to the impact of the risk, the probability of occurrence and strength of the controls Risks that fall into the top level are only tolerated to the extent that there are clear interim action plans in place to strengthen controls, that there is individual Executive ownership over these plans and, finally, visibility and robust review at the highest levels within the firm

In addition, the Executive Committee and Board monitor the actual and projected adequacy of its financial and capital resources and stress test these against a number of market and business scenarios

The ICAAP is reviewed and challenged by the Heartwood Wealth Group Board

Financial risk

The group has an established risk management framework, central to which is a register which assesses each risk for its impact, likelihood of occurrence and level of controls that are in place to mitigate or minimise its effect Each risk identified has been assigned a risk owner who is accountable for the management, mitigation, control and monitoring of this specific risk

The main risk categories faced by the business are in the ICAAP and include

Credit risk

These are limited to small amounts due from clients where fees cannot be debited directly from an investment portfolio or to the extent that certain expenses are prepaid

Financial risk (Continued)

Market risk

Heartwood does not take proprietary market risk and is not exposed to movements in exchange rates Heartwood's investment process involves different levels of market risk with different investment strategies but does allow strong conviction positions to be taken within a disciplined framework This is clearly explained to clients during the take-on process and at client meetings Investment performance risk is managed through a diversified investment approach and strong portfolio management controls

Operational risk

This represents the single largest risk category, as is common for the sector in which we operate As risks increase in impact, they are only taken to the extent they can be insured or that optimum controls permit

Liquidity risk

The cash required for the firm's short term needs is kept on an overnight basis and any surplus funds are generally deposited at different durations based on monthly cash flow projections Cash held on behalf of clients is generally deposited on a very short term basis to allow immediate withdrawal or investment

Capital adequacy

Heartwood Wealth Management's capital resources at 30 April 2010 were made up as follows

• Total tier one resources, net of deductions for intangible assets	£4 33m
• Tier two resources	£0 41m
• Less deductions for illiquid assets	(£1 22m)
• Total capital resources	£3 52m

Under Pillar I of the FSA rules, Heartwood Wealth Management's regulatory capital requirement throughout the year to 30 April 2010 was £1 73m Heartwood Wealth Management maintained capital resources well above this figure throughout the year and at 30 April 2010 carried a surplus capital level of £1 79m, or 204% of its minimum requirement

Under Pillar II, the ICAAP for the financial year to April 2010 concluded that it was prudent to hold an additional level of capital above the regulatory minimum

Capital summary at 30 April 2010

	£m
Total capital resources	3 52
Pillar I minimum	1 73
Combined Pillar I and Pillar II	2 37
Surplus capital resources	**1.15**

As part of the most recent ICAAP, it was concluded that the firm had sufficient capital resources to meet its five year business plan and to withstand the extreme market and business scenarios stress tested. Heartwood Wealth Management's combined Pillar I and Pillar II capital requirement for the year to 30 April 2011 was determined as £2 56m

Full Pillar III disclosure is available at the registered office

Results for the period and dividends

The Heartwood Wealth Group profit for the year after taxation was £1,126,000 (2009 £1,169,000) The company paid its first interim dividend during the year of 20 0p (2009 £nil) and recommends payment of a final dividend of 10 0 pence per share (2009 22 5 pence per share)

Directors

The directors who served during the year and at the year end were

D A B Lough (Chairman)
S N Lough (Chief Executive)
B N Carter
S R Clark
S J Dixon
D J Gamble (Non Executive)
J E Heskett (Senior Non Executive)
G A Hudson
G Rogerson

Disclosure of information to the auditors

In the case of each person who was a director at the time this report was approved

- so far as that director was aware there was no relevant available information of which the company's auditors were unaware of, and
- that director had taken all steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors were aware of that information

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006

Auditors

The auditors, Nexia Smith & Williamson, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting

Approved by the board of directors and signed on behalf of the board

David Lough
Director and Chairman

HEARTWOOD WEALTH GROUP LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the accounts in accordance with applicable law and regulations

Company law requires the directors to prepare accounts for each financial year Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period In preparing these accounts, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts,
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business

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

Nexia Smith & Williamson

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEARTWOOD WEALTH GROUP LIMITED

We have audited the accounts of Heartwood Wealth Group Limited for the year ended 30 April 2010 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 25 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view Our responsibility is to audit the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on accounts
In our opinion the accounts

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 April 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company accounts 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

Nexia Smith & Williamson

Giles Murphy
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

Date 19 August 2010

HEARTWOOD WEALTH GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 30 APRIL 2010

	Notes	2010 £000	2010 £000	2009 £000	2009 £000
Turnover	2		11,195		11,314
Administrative expenses excluding amortisation of goodwill		8,952		9,015	
Amortisation of goodwill		441		441	
Administrative expenses			(9,393)		(9,456)
Operating profit			1,802		1,858
Interest receivable and similar income			32		125
Interest payable and similar charges	5		(118)		(168)
Profit on ordinary activities before taxation	6		1,716		1,815
Tax on profit on ordinary activities	7		(590)		(646)
Profit on ordinary activities after taxation	17		1,126		1,169
Profit on ordinary activities before amortisation of goodwill and taxation			2,157		2,256
Amortisation of goodwill			(441)		(441)
Profit on ordinary activities before taxation			1,716		1,815

All of the group's operations are classed as continuing There were no gains or losses in the year other than those included in the above profit and loss account

HEARTWOOD WEALTH GROUP LIMITED

CONSOLIDATED BALANCE SHEET as at 30 APRIL 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Intangible assets	8	6,875	7,316
Tangible assets	9	1,051	1,118
		7,926	8,434
Current assets			
Debtors	11	2,061	1,731
Cash at bank		4,261	4,623
		6,322	6,354
Creditors: amounts falling due within one year	12	(3,046)	(3,143)
Net current assets		3,276	3,211
Total assets less current liabilities		11,202	11,645
Creditors: amounts falling due after more than one year	13	(90)	(1,069)
		11,112	10,576
Provision for liabilities	15	(62)	(40)
Net assets		11,050	10,536
Capital and reserves			
Called up share capital	16	62	60
Share premium account	17	2,202	2,086
Other reserve	17	243	166
Merger reserve	17	5,120	5,120
Profit and loss account	17	4,035	3,291
Own shares	17	(612)	(187)
Equity shareholders' funds	17	11,050	10,536

The accounts were approved by the Board of Directors on 26/7/10 and were signed on its behalf by

Simon Clark
Director

Registered number : 5498937

HEARTWOOD WEALTH GROUP LIMITED

COMPANY BALANCE SHEET as at 30 APRIL 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Investment in subsidiary	10	5,049	4,972
		5,049	4,972
Current assets			
Debtors due within one year	11	691	501
Debtors due after one year	11	-	415
Cash at bank		23	18
		714	934
Creditors: amounts falling due within one year	12	(999)	(957)
Net current liabilities		(285)	(23)
Total assets less current liabilities		4,764	4,949
Creditors: amounts falling due after more than one year	13	-	(1,015)
Net assets		4,764	3,934
Capital and reserves			
Called up share capital	16	62	60
Share premium account	17	2,202	2,086
Other reserve	17	243	166
Profit and loss account	17	2,869	1,809
Own shares	17	(612)	(187)
Equity shareholders' funds	17	4,764	3,934

The accounts were approved by the Board of Directors on 26/7/10 and were signed on its behalf by

Simon Clark
Director

HEARTWOOD WEALTH GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT for the year ended 30 APRIL 2010

	Notes	2010 £000	2009 £000
Net cash inflow from operating activities	21	1,997	764
Returns on investments and servicing of finance			
Interest received		32	125
Interest paid		(118)	(168)
Net cash outflow from returns on investments and servicing of finance		(86)	(43)
Taxation paid		(687)	(647)
Capital expenditure			
Payments to acquire tangible fixed assets		(153)	(327)
Equity dividends paid		(262)	(90)
Cash inflow/(outflow) before financing		809	(343)
Financing			
Issue of ordinary share capital		118	22
Net purchase of own shares held in EBT		(545)	(83)
Repayment of long term loans		(725)	(500)
Repayment of finance leases		(19)	(15)
Net cash outflow from financing		(1,171)	(576)
Decrease in cash in the year	22	(362)	(919)

HEARTWOOD WEALTH GROUP LIMITED

NOTES TO THE ACCOUNTS for the year ended 30 APRIL 2010

1. Accounting policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practices A summary of the more important accounting policies adopted are described below

Basis of accounting

The accounts have been prepared under the historical cost convention, and on a going concern basis

Basis of consolidation

The group accounts consolidate the accounts of the company and its subsidiary undertaking drawn up to 30 April each year The results of subsidiaries bought or sold are consolidated for periods from or to the date on which control passed Acquisitions are accounted for under the acquisition method No profit and loss account is presented for Heartwood Wealth Group Limited as provided by Section 408 of the Companies Act 2006

Where, as part of an acquisition, shares have been issued in return for shares in the acquired company and the acquisition has resulted in, in excess of 90% of the company being acquired, in accordance with Section 612 of the Companies Act 2006 the company has not recorded any share premium in respect of the share for share exchange In the company the shares issued are included within cost of investment at nominal value On consolidation, the difference between the joint value of the shares issued and their nominal value has been taken to a merger reserve

Tangible fixed assets

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets concerned The following annual rates are used

Furniture and equipment	-	20% straight line
Fixtures	-	over the life of the lease - straight line
Computer equipment	-	20%-33% straight line

Goodwill

To the extent that the fair value of the cost of acquisition exceeds the fair value of the identifiable assets and liabilities acquired the difference is treated as purchased goodwill and is included within intangible fixed assets in the consolidated balance sheet and amortised over its expected useful life of 20 years

Deferred taxation

Deferred tax is provided for on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date No timing differences are recognised in respect of gains on sale of assets where those gains have been rolled over into replacement assets Deferred tax assets are recognised to the extent that they are recoverable, that is, on the basis of all available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted Any assets and liabilities recognised have not been discounted

1. Accounting policies (continued)

Pension costs

Contributions to money purchase and private pension schemes are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

Investments

Investments are held at cost less any provision for impairments

Revenue recognition

Turnover, which excludes value added tax, represents the value of services earned

Revenue is recognised as follows

Investment management fees and advice based services are recognised on an accruals basis, when the income has been earned

Commission receivable is recognised on the trade date

Leases

Assets held under finance leases are included in fixed assets and the capital element of the related lease commitment is shown as obligations under finance leases The lease rentals are treated as consisting of capital and interest elements The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit over the period of the lease

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the lease term

Share based payments

The group has applied the requirements of FRS 20, Share Based Payments

The cost of share-based employee compensation arrangements, whereby some employees receive remuneration in the form of B shares or options over B shares in the company, is recognised as an employee expense in the profit and loss account of the relevant company in accordance with UITF 44 - Group and Treasury Share Transactions Awards to employees of the subsidiary company are shown as an increase in the Investment in Subsidiary

All awards have a vesting/restricted period of up to three years, and share options must be exercised within 10 years from the grant date

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value at the date of grant

The fair value of standard share options is measured by the use of a binomial pricing model Inputs to the model include the share price at the date of grant, the exercise price, the risk free interest rate and expected volatility of the share price over the life of the award The share price at the date of grant is discounted to reflect minority interests and non-marketability of B shares Further adjustments to fair value are then made to reflect non-transferability of options during vesting periods and the possibility of options lapsing

The fair value of restricted shares is measured by discounting the share price at award to reflect similar factors as with options

1. Accounting policies (continued)

Heartwood Wealth Group Employee Benefit Trust

The company's accounts include the Heartwood Wealth Group Employee Benefit Trust ("The Trust") The directors consider that the company has control of the shares held by the Trust and bears their benefits and risks Shares held by the Trust are shown as a deduction from shareholders' funds Amounts transferred which are awaiting investment in the company's shares are included in debtors Administration expenses are charged to the profit and loss account as they accrue Profits and losses on the sale of shares held by The Trust are accounted for via the Profit & Loss Reserve of the Company

2. Turnover

	2010 £000	2009 £000
The turnover can be analysed as follows		
Investment management	8,743	8,967
Integrated wealth management services	2,452	2,347
	11,195	11,314

3. Directors' emoluments

	2010 £000	2009 £000
All directors		
Aggregate emoluments	1,335	1,361
Company contributions to money purchase pension schemes	26	48
	1,361	1,409

3 directors had pension contributions paid to personal pensions during the period Aggregate emoluments include £294,631 (2009 £304,334), which has been recharged to the subsidiary, Heartwood Wealth Management Limited as part of an annual agreement for the provision of directors services

During the year one director exercised 1,580 options at an exercise price of £nil over B shares in the parent company (2009 two directors exercised 3,000 options at an exercise price of £3 79 and 3,681 options at an exercise price of £nil over B shares in the parent company) The highest paid director did not exercise any options during the year (2009 nil)

Highest paid director	2010 £000	2009 £000
Salary	198	197
Discretionary performance award	66	94
Benefits in kind	2	3
	266	294

The highest paid director received 11,000 options over B shares in the parent company, Heartwood Wealth Group Limited at an exercise price of £24 33 (2009 4,000 options at an exercise price of £30 00) The options must be exercised within 10 years from the grant date

4. Employee information

The average monthly number of persons, including directors employed by the group during the year was	2010 Number	2009 Number
Investment team	29	28
Client Facing and Wealth Structuring	24	21
Administration	26	34
	79	83

Staff costs for the above persons were	£000	£000
Wages and salaries	5,027	5,687
Share based payments	77	45
Social security costs	577	570
Pension costs	435	502
Benefits in kind	63	73
	6,179	6,877

Share based payments

The profit and loss account includes charges for 4 different types of share based payments

a) Awards under the 2005 and 2006 share incentive plans
b) Share options issued at nil, in lieu of a discretionary performance award (details of each issue are given in note 16)
c) Standard share options for which an exercise price is payable (details of each issue are given in note 16)
d) Restricted shares issued at nil, in lieu of a discretionary performance award

Share based payments have been made to employees of both Heartwood Wealth Management Limited and Heartwood Wealth Group Limited

Awards under the former Heartwood Wealth Management Limited share incentive plan and nil paid share options/restricted shares, in lieu of a discretionary performance award are granted by the Employee Benefit Trust

Holders of restricted shares are entitled to receive dividends, although are not entitled to vote or transfer shares during the restricted period

4. Employee information (continued)

a) Outstanding awards under the 2005 and 2006 share incentive plans:	**Company**		**Group**	
	2010 Number	**Weighted average fair value £**	**2010 Number**	**Weighted average fair value £**
Outstanding at 1 May 2009	148	7 42	1,529	7 53
Transferred to own name during the year	(89)	6 29	(870)	6 33
Lapsed during the year	-	-	-	-
Outstanding at 30 April 2010	59	9 12	659	9 12
Excercisable at 30 April 2010	-	-	-	-

Movements in the awards under the 2005 and 2006 share incentive plans for the year ended 30 April 2009 were

	Company		**Group**	
	2009 Number	**Weighted average fair value £**	**2009 Number**	**Weighted average fair value £**
Outstanding at 1 May 2008	174	7 05	2,327	7 18
Transferred to own name during the year	(26)	4 97	(798)	6 52
Lapsed during the year	-	-	-	-
Outstanding at 30 April 2009	148	7 42	1,529	7 53
Exercisable at 30 April 2009	-	-	-	-

HEARTWOOD WEALTH GROUP LIMITED

NOTES TO THE ACCOUNTS for the year ended 30 April 2010 (continued)

4. Employee information (continued)

b) Outstanding nil paid options issued in lieu of discretionary performance award :

	Company		Group	
	2010 Number	Weighted averaged exercise price £	2010 Number	Weighted averaged exercise price £
Outstanding at 1 May 2009	1,580	nil	2,650	nil
Lapsed during the year	-	-	-	-
Exercised during the year	(1,580)	nil	(2,163)	nil
Outstanding at 30 April 2010	-	nil	487	nil
Exercisable at 30 April 2010	-	nil	487	nil

For Nil paid options exercised in the year, the weighted average share price at the date of exercise was £29 01 The weighted average contractual life remaining for options outstanding was 5 years

Movements in Nil paid options during the year to 30 April 2009 were

	Company		Group	
	2008 Number	Weighted averaged exercise price £	2008 Number	Weighted averaged exercise price £
Outstanding at 1 May 2008	5,052	nil	7,106	nil
Lapsed during the year	-	-	-	-
Exercised during the year	(3,472)	-	(4,456)	nil
Outstanding at 30 April 2009	1,580	nil	2,650	nil
Exercisable at 30 April 2009	1,580	nil	2,650	nil

4. Employee information (continued)

c) Outstanding standard share options:

	Company		Group	
	2010 Number	Weighted averaged exercise price £	2010 Number	Weighted averaged exercise price £
Outstanding at 1 May 2009	49,500	16 53	99,069	18 00
Granted during the year	8,921	21 10	55,152	23 72
Exercised during the year	-	-	(6,800)	11 43
Lapsed during the year	(1,421)	21 10	(1,421)	21 10
Outstanding at 30 April 2010	57,000	17 13	146,000	20 44
Exercisable at 30 April 2010	32,500	13 15	64,681	16 67

For options exercised during the year, the weighted average share price at the date of exercise was £24 77

The weighted average contractual life remaining for options outstanding was 8 years The options have exercise prices in the range £3 79-£34 25

Movements in standard share options during the year ended 30 April 2009 were

	Company		Group	
	2009 Number	Weighted averaged exercise price £	2009 Number	Weighted averaged exercise price £
Outstanding at 1 May 2008	51,000	16 16	109,300	18 16
Granted during the year	-	-	11,269	32 74
Exercised during the year	(1,500)	3 79	(5,000)	4 41
Lapsed during the year	-	-	(16,500)	33 23
Outstanding at 30 April 2009	49,500	16 53	99,069	18 00
Exercisable at 30 April 2009	43,500	9 82	66,300	10 06

4. Employee information (continued)

d) Outstanding nil paid restricted shares issued in lieu of discretionary performance award:

	Company		Group	
	2010 Number	Weighted averaged exercise price £	2010 Number	Weighted averaged exercise price £
Outstanding at 1 May 2009	-	-	-	-
Granted during the year	2,209	nil	7,892	nil
Lapsed during the year	-	-	-	-
Outstanding at 30 April 2010	2,209	nil	7,892	nil
Exercisable at 30 April 2010	-	-	-	-

Valuation of share options

The value of the standard share options issued in the year is measured by the use of a binomial pricing model The inputs into the binomial model were

Share price at grant date	£21 10 - £30 03*
Exercise price	£21 10 - £30 03
Volatility	25%
Risk free interest rate	3 0%
Expected Dividend yield	1%
Expected Life	7 years

For the purpose of the binomial model, an assumption of 25% volatility was made as an adjustment for private companies compared to public companies

* a composite discount of 50% was applied to these prices to reflect minority interests in an unlisted Company, the non marketability of the B shares and the non-transferability of the options

Valuation of restricted shares

The fair value of restricted shares issued in the period is based on the share price at grant date, discounted by 50% to reflect minority interests in an unlisted company, the non marketability of the B shares and the non-transferability during the restricted period

Impact on profit & loss account

The fair value of share based payments, after adjusting for expected levels of vesting, is charged to the profit and loss account over the vesting period of the award

For standard share options, the charge is calculated using the binomial model described above Nil paid options, awards under the company's former share incentive plan and restricted shares are charged at the fair value of the cash discretionary performance award sacrificed by the employee

The group recognised total expenses of £77,391 related to equity settled share based payment transactions in 2010 (2009 £44,844)

5. Interest payable and similar charges

	2010 £000	2009 £000
Bank loans	58	88
Debenture and other loans	52	72
Amounts payable on finance leases	8	8
	118	168

6. Profit on ordinary activities before taxation

	2010 £000	2009 £000
is stated after charging		
Depreciation - owned assets	281	184
Depreciation - held under finance leases	18	16
Operating leases – other	422	217
Amortisation of goodwill	441	441

During the year the group obtained the following services from the company's auditor and its associates

	2010 £000	2009 £000
- Fees payable to the company auditor for the audit of the parent company and consolidated accounts	19	12
- Fees payable to the company's auditor and its associates for other services		
The audit of the company's subsidiaries pursuant to legislation	23	24
Other services pursuant to legislation	9	29
Tax services	26	22

HEARTWOOD WEALTH GROUP LIMITED

NOTES TO THE ACCOUNTS for the year ended 30 April 2010 (continued)

7. Taxation

	2010 £000	2009 £000
UK Corporation tax at 28 00% (2009 28 00%)	636	670
Adjustments in respect of prior years	(43)	(13)
	593	657
Deferred tax (see note 15)	(3)	(11)
	590	646

Tax reconciliation

	2010 £000	2009 £000
Profit on ordinary activities before taxation	1,716	1,815
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28 00% (2009 28 00%)	480	508
Tax effects of		
Expenses not deductible for tax purposes	42	25
Amortisation of goodwill	105	123
Capital allowances for the year less than/(in excess of) depreciation	7	(15)
Other short term differences	2	29
Adjustment in respect of prior years	(43)	(13)
Total current tax charge	593	657

8. Intangible assets - Group

Goodwill	**£000**
Cost	
At 1 May 2009	8,816
At 30 April 2010	8,816
Amortisation	
At 1 May 2009	1,500
Charge for year	441
At 30 April 2010	1,941
Net book value	
At 30 April 2010	6,875
At 30 April 2009	7,316

Goodwill arising on consolidation comprises the difference between the fair value of consideration paid and the fair value of net assets acquired on the acquisition of Heartwood Wealth Management Limited

HEARTWOOD WEALTH GROUP LIMITED

NOTES TO THE ACCOUNTS for the year ended 30 APRIL 2010 (continued)

9. Tangible fixed assets - Group

	Fixtures fittings and equipment £000	Computer equipment £000	Total £000
Cost			
At 1 May 2009	303	1,278	1,581
Additions	79	153	232
Disposals	(18)	(427)	(445)
At 30 April 2010	364	1,004	1,368
Depreciation			
At 1 May 2009	194	269	463
Charge for the year	52	247	299
Disposals	(18)	(427)	(445)
At 30 April 2010	228	89	317
Net book value			
At 30 April 2010	136	915	1,051
At 30 April 2009	109	1,009	1,118

Fixtures fittings and equipment include assets with a net book value of £92,162 (2009 £56,138) held under a finance lease During the year £18,221 (2009 £16,413) was charged in respect of depreciation of these assets

Computer equipment includes assets with a net book value of £845,544 (2009 £939,165) in respect of the development of an integrated IT platform that was completed and put into service during July 2009 Subsequent expenditure which is considered capital in nature will be depreciated over the remaining term of the 5 year maintenance agreement The net book value of assets relating to the previous IT platform has been fully written off and is included in the disposals shown above

10. Investments in subsidiaries - Company

	Investment in subsidiaries £000
Cost	
At 1 May 2009	4,972
Capital contribution	77
At 30 April 2010	5,049

The company owns directly or indirectly 100% of the ordinary share capital of the following principal subsidiaries

	Percentage of holding	Ordinary Shares held	Principal activity	Share capital and reserves £000
Heartwood Wealth Management Limited	100%	1,319,205	Wealth management services	4,763
Heartwood Nominees Limited*	100%	2	Dormant	-
Heartwood Second Nominees Limited*	100%	5	Dormant	-
Private Office Limited*	100%	2	Dormant	-
Transfer Nominees Limited*	100%	100	Dormant	-

All companies are incorporated in Great Britain

The consolidated accounts do not include the dormant subsidiaries on the basis that they have not traded during the period and are immaterial to the group accounts

All shares are £1 shares except those in Heartwood Wealth Management Limited which are 10p shares

* Held via Heartwood Wealth Management Limited

11. Debtors

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Trade debtors	156	164	-	-
Amounts owed by group undertakings	-	-	664	848
Other debtors	17	21	-	-
Prepayments and accrued income	1,888	1,546	27	68
	2,061	1,731	691	916

12. Creditors: amounts falling due within one year

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Bank loans (note 14)	375	500	375	500
Trade creditors	230	90	-	-
Amounts owed to group undertaking	-	-	155	365
Corporation tax	327	422	-	-
Other creditors	479	931	-	-
Other taxation and social security	425	221	-	22
Finance lease obligations	29	16	-	-
Subordinated loans (note 14)	783	368	415	-
Accruals and deferred income	398	595	54	70
	3,046	3,143	999	957

13. Creditors: amounts falling due after more than one year

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Bank loans (note 14)	-	600	-	600
Finance lease obligations	90	54	-	-
Subordinated loans (note 14)	-	415	-	415
	90	1,069	-	1,015

14. Borrowings

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Falling due within one year				
Amortising loan	375	500	375	500
Subordinated loans	783	368	415	-
	1,158	868	790	500
Falling due after more than one year				
Bullet loan	-	225	-	225
Amortising loan	-	375	-	375
Subordinated loans	-	415	-	415
	-	1,015	-	1,015

The amortising and bullet loans are secured by way of a debenture of the borrower and a charge over the voting issued share capital of Heartwood Wealth Management Limited The amortising loan is repayable over 5 years and the bullet loan after 5 years of issue (December 2005) Interest is charged at RBS base rate plus 1 75% on the amortising loan and at base plus 2% on the bullet loan During the year the final balance on the bullet loan was repaid, ahead of schedule

At the year end, three subordinated loans totalling £368,000 (2009 £368,000) were outstanding between Heartwood Wealth Management Limited and three of its directors or their spouses The loans are subordinated in all respects to the rights of other creditors The loans are repayable upon the expiry of one month's written notice, which may be given after the second year anniversary of the loan agreements originally signed on 1 November 2003 and subject to prior approval from the FSA and Royal Bank of Scotland Plc Interest payable on the loans is the sum of LIBOR plus 6% per annum At the year end the company applied to the FSA for approval to re-pay these loans, this has since been received and the loans repaid

A further five subordinated loans totalling £415,000 were outstanding between Heartwood Wealth Group Limited and current and previous directors, employees and their spouses, and Heartwood SPV Limited The loans are subordinated in all respects to the rights of other creditors The loans are repayable upon the expiry of one month's written notice, which may be given after the fifth year anniversary of the loan agreements originally signed on 7 December 2005, and subject to prior approval from the FSA and Royal Bank of Scotland Plc Interest payable on the loans is the sum of LIBOR plus 5% per annum

15. Provision for liabilities

	Dilapidations on leasehold properties £000	Deferred tax £000	Total £000
At 1 May 2009	-	40	40
Charge/(Credit) to the P&L account	25	(3)	22
At 30 April 2010	25	37	62

Provision for Deferred tax	**2010 £000**	**2009 £000**
Short term timing differences	(22)	(25)
Accelerated capital allowances	59	65
	37	40

16. Called up share capital

	2010	2009
	£000	£000
Authorised		
800,000 A Ordinary shares of 10p each	80	80
200,000 B Ordinary shares of 10p each	20	20
	100	100
Allotted and called up		
575,103 (2009 569,616) A ordinary shares of 10p each	58	57
42,565 (2009 39,078) B ordinary shares of 10p each	4	3
	62	60

All classes of shares rank pari passu in relation to dividends, voting rights and the return of capital on liquidation or reduction of capital.

Options

Between 1 May 2009 and 30 April 2010, 8,963 options over B ordinary 10p shares were exercised Of these 2,300 had been issued at an exercise price of £5 35 each, 1,000 at an exercise price of £7 66 each 3,000 at an exercise price of £16 50 each and 2,163 at a nil exercise price in lieu of discretionary performance awards

Existing options over B shares total 146,487 and at 30 April 2010 comprised

- 1,000 options over B ordinary shares at an exercise price of £3 79 The exercise date of the options is between 1 January 2006 at 30 April 2013

- 14,000 options over B ordinary shares at an exercise price of £5 35 The exercise date of the options is between 11 April 2009 and 10 April 2015

- 1,000 options over B ordinary shares at an exercise price of £7 66 The exercise date of the options is between 18 May 2009 and 17 May 2015

- 487 options over B ordinary shares at nil The exercise date of the options is between 2 August 2009 and 1 August 2015

- 8,500 options over B ordinary shares at an exercise price of £12 60 The exercise date of the options is between 30 April 2009 and 29 April 2016

- 24,000 options over B ordinary shares at an exercise price of £16 50 The exercise date of the options is between 28 August 2009 and 28 August 2016

- 32,500 options over B ordinary shares at an exercise price of £23 00 The exercise date of the options is between 30 July 2010 and 29 July 2017

- 7,269 options over B ordinary shares at an exercise price of £34.25 The exercise date of the options is between 18 December 2008 and 29 April 2018.

- 4,000 options over B ordinary shares at an exercise price of £30 00 The exercise date of the options is between 22 December 2008 and 21 December 2018

HEARTWOOD WEALTH GROUP LIMITED

NOTES TO THE ACCOUNTS for the year ended 30 APRIL 2010 (continued)

16. Called up share capital (continued)

- 1,875 options over B ordinary shares at an exercise price of £21 10 The exercise date of the options is between 4 May 2012 and 3 May 2019
- 1,250 options over B ordinary shares at an exercise price of £21 10 The exercise date of the options is between 29 May 2012 and 28 May 2019
- 12,684 options over B ordinary shares held in a CSOP at an exercise price of £21 10 The exercise date of the options is between 21 May 2012 and 20 May 2019
- 5,816 options over B ordinary shares at an exercise price of £21 10 The exercise date of the options is between 21 May 2012 and 20 May 2019
- 23,500 options over B ordinary shares at an exercise price of £24 33 The exercise date of the options is between 9 July 2009 and 8 July 2019
- 4,375 options over B ordinary shares at an exercise price of £28.17 The exercise date of the options is between 3 December 2012 and 2 December 2019
- 4,231 options over B ordinary shares at an exercise price of £30 03 The exercise date of the options is between 28 January 2013 and 27 January 2020

17. Shareholders' funds
Group

	Share capital £000	Share premium £000	Other reserve £000	Merger reserve £000	Profit and loss account £000	Own shares held in the Heartwood Employee Benefit Trust £000	Total £000
At 1 May 2009	60	2,086	166	5,120	3,291	(187)	10,536
Shares issued	2	116	-	-	-	-	118
Retained profit for the year	-	-	-	-	1,126	-	1,126
Dividends paid	-	-	-	-	(262)	-	(262)
Share based payments charge	-	-	77	-	-	-	77
EBT acquisitions	-	-	-	-	(5)	(1,073)	(1,078)
EBT disposals	-	-	-	-	(68)	601	533
EBT awards	-	-	-	-	(47)	47	-
At 30 April 2010	62	2,202	243	5,120	4,035	(612)	11,050

Shareholders' funds
Company

	Share capital £000	Share premium £000	Other reserve £000	Profit and loss account £000	Own shares held in the Heartwood Employee Benefit Trust £000	Total £000
At 1 May 2009	60	2,086	166	1,809	(187)	3,934
Shares issued	2	116	-	-	-	118
Retained profit for the year	-	-	-	1,442	-	1,442
Dividends paid	-	-	-	(262)	-	(262)
Share based payments charge	-	-	77	-	-	77
EBT acquisitions	-	-	-	(5)	(1,073)	(1,078)
EBT disposals	-	-	-	(68)	601	533
EBT awards	-	-	-	(47)	47	-
At 30 April 2010	62	2,202	243	2,869	(612)	4,764

The profit on ordinary activities for the company after taxation was £1,442,000 (2009 £702,000)

NOTES TO THE ACCOUNTS for the year ended 30 APRIL 2010 (continued)

18. Lease commitments

At 30 April 2010 the group had the following annual commitments on operating leases expiring

	Land and buildings 2010 £000	2009 £000
Within one year	175	117
Within two to five years	225	217
	400	334

19. Capital commitments

The group has no further capital commitments under its contract with suppliers of the new IT platform (see note 9) (2009: £47,500) The Group does have annual support and maintenance payments for the period to 31 March 2014

20. Related party transactions

The following directors or their spouse's have provided subordinated loans to the company either directly or through their pension funds and Heartwood SPV Limited (SPV) Heartwood SPV Limited is an investment company listed on the Channel Islands Stock Exchange and related to the Group by common shareholders

	2010		2009	
	Direct £000	SPV £000	Direct £000	SPV £000
D A B Lough	-	150	-	150
G Rogerson	-	25	-	25
D J Gamble (Non-executive Director)	-	25	-	25
J E Heskett (Non-executive Director)	30	-	30	-
	30	200	30	200

The following directors, who are also directors of Heartwood Wealth Management Limited, or their spouse's have provided subordinated loans to a subsidiary

	2010 £000	2009 £000
D A B Lough	217	217
S N Lough	135	135
G Rogerson	16	16
	368	368

20. Related party transactions (continued)

The terms of the loans are set out in note 14 At the balance sheet date no interest payable was unpaid (2009 £nil)

Additionally, Heartwood Wealth Group Limited incurred costs of £11,202 (2009 £10,940) payable to Volaw Limited, for administration of Heartwood SPV Limited At the year end there was no amount (2009 £nil) was outstanding

21. Reconciliation of operating profit to net cash inflow from operating activities

	2010 £000	2009 £000
Operating profit	1,802	1,858
Depreciation	299	200
Amortisation of goodwill	441	441
Share based payments	77	45
(Increase)/decrease in debtors	(316)	538
Decrease in creditors	(306)	(2,318)
Net cash inflow from operating activities	1,997	764

22. Reconciliation of net cash flow to movement in net funds

	2010 £000	2009 £000
Decrease in cash in the year	(362)	(919)
Cash outflow from decrease in debt	725	500
Cash outflow from finance leases	19	15
Change in net funds resulting from cash flows	382	(404)
New finance leases	(67)	-
Net funds at 1 May 2009	2,669	3,073
Net funds at 30 April 2010	2,984	2,669

23. Analysis of net funds

	At 1 May 2009 £000	Cash flow £000	Non-cash movements £000	At 30 April 2010 £000
Cash at bank	4,623	(362)	-	4,261
Debt due after one year	(1,015)	600	415	-
Debt due within one year	(868)	125	(415)	(1,158)
Finance lease	(71)	19	(67)	(119)
	2,669	382	(67)	2,984

24. Ultimate controlling party

The ultimate controlling parties are D Lough and S Lough by virtue of their majority shareholding

25. Post balance sheet event

At the year end three subordinated loans totalling £368,000 (2009: £368,000) were outstanding between Heartwood Wealth Management Limited and three of its directors or their spouses Prior to the year end the company applied to the FSA for approval to re-pay these loans, this has since been received and the loans repaid

HEARTWOOD WEALTH GROUP LIMITED

Company profit and loss account for the year ended

30 APRIL 2010

This does not form part of the audited accounts.

HEARTWOOD WEALTH GROUP LIMITED

DETAILED PROFIT AND LOSS ACCOUNT for the year ended 30 APRIL 2010

	2010 £000	2009 £000
Turnover		
Dividends from HWM	2,038	1374
Management Fees	295	354
Gross profit	2,333	1,728
Administrative expenses	(832)	(938)
Operating profit	1,501	790
Interest receivable and similar income	23	34
Interest payable and similar charges	(82)	(122)
Profit on ordinary activities before taxation	1,442	702