Murgitroyd
Group PLC

Annual Report and Accounts 2002

Background Company Information

Murgitroyd Group PLC ("the group"), the holding company of Murgitroyd & Company Limited, a European Patent and Trade Mark Attorney practice, was floated on the Alternative Investment Market ("AiM") of the London Stock Exchange on 30 November 2001. The business was founded by Ian Murgitroyd as a sole-trader in 1975, evolved into a partnership and became a limited company in 1993. At 31 May 2002 it employed 127 people in Glasgow, Aberdeen, Belfast, Dublin, London, Munich and Nice.

The group specialises in the provision of Intellectual Property ("IP") services, including filing, prosecuting, litigating, licensing, assigning and renewing Patents, Trade Marks, Designs and advising on Copyright. Services span the major sectors of the global economy including technology, engineering, electronics, chemistry and biotechnology. Clients range from large multi-national corporations to individual inventors and both in-house and external Patent Attorneys.

From an early stage the company sought to differentiate its services from its competitors and to devise innovative client solutions. To achieve this, the management has developed an infrastructure, based on an IT network, which extends throughout all its staffed offices and office facilities. The systems were selected, integrated and are supported by an in-house IT team. Direct client access can be provided to case record information. A technical support group provides assistance with searching, translation and Patent illustration including 3D modelling services for inventors and evidence presentation for Patent litigators. This strategy resulted in Murgitroyd & Company attaining average compound turnover growth of around 20% per annum in the fifteen years prior to its acquisition by the group.

Contents

Murgitroyd Group PLC

Registered number SC221766

Directors and Advisers

DIRECTORS

Ian G Murgitroyd	Chairman
Keith G Young	Chief Executive and Finance Director
Norman Pattullo	Executive Director
Pierpaolo AME Pacitti	Executive Director
Mark N Kemp-Gee*	
Dr. Kenneth G Chrystie*	
Dr. Christopher G Greig*	

All of Scotland House, 165-169 Scotland Street, Glasgow G5 8PL

*Non-executive

COMPANY SECRETARY

McClure Naismith
292 St. Vincent Street
Glasgow G2 5TQ

REGISTERED OFFICE

Scotland House
165-169 Scotland Street
Glasgow G5 8PL

NOMINATED ADVISER

Noble & Company Limited
76 George Street
Edinburgh EH2 3BU

NOMINATED BROKER

Noble & Company Limited
1 Frederick's Place
London EC2R 8AB

INDEPENDENT AUDITORS

KPMG Audit Plc
24 Blythswood Square
Glasgow G2 4QS

SOLICITORS

McClure Naismith
292 St. Vincent Street
Glasgow G2 5TQ

PRINCIPAL BANKERS

The Royal Bank of Scotland plc
100 West George Street
Glasgow G2 1PP

REGISTRARS AND RECEIVING AGENTS

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

FINANCIAL PUBLIC RELATIONS ADVISER

Cardew & Co.
12 Suffolk Place
London SW1Y 4HQ

Board of Directors

Ian G Murgitroyd
Chairman, 3.

Ian Murgitroyd is Executive Chairman of Murgitroyd Group PLC and its trading subsidiary, Murgitroyd & Company Limited. Ian gained a BSc in mechanical engineering from the University of Strathclyde and is a Chartered Patent Agent, European Patent Attorney, Registered Trade Mark Agent and Community Trade Mark Attorney. He founded the business that is now Murgitroyd & Company in 1975. Ian is a non-executive Director of Strathclyde University Incubator Limited.

Norman Pattullo
3.

Norman Pattullo is an Executive Director of Murgitroyd Group PLC and its trading subsidiary, Murgitroyd & Company Limited. Norman gained a BSc in chemistry from Edinburgh University and is a Chartered Patent Agent, European Patent Attorney, Registered Trade Mark Agent and Community Trade Mark Attorney. He formed the partnership with Ian Murgitroyd that created Murgitroyd & Company in 1978.

Mark N Kemp-Gee
Non-executive, 1, 2, 3, 4.

Mark Kemp-Gee is Chief Executive of Exeter Investment Group plc (“Exeter”). Prior to joining Exeter he was Executive Chairman of Greig Middleton & Co. Limited and a Director of Gerrard Group plc. Mark is a member of the Securities Institute.

Dr. Christopher G Greig
Non-executive, 1, 2, 3.

Dr. Christopher Greig is currently non-executive Chairman of William Grant & Sons Limited and was previously Managing Director of Invergordon Distillers Limited. He is also Chairman of Belhaven Brewery Group plc and PPL Therapeutics plc.

Keith G Young
Chief Executive and Finance Director, 3.

Keith Young is Chief Executive and Finance Director of Murgitroyd Group PLC and Chief Executive of its trading subsidiary, Murgitroyd & Company Limited. Keith gained a B. Admin. from Dundee University and is a Chartered Accountant. He joined the business from KPMG in 1996.

Pierpaolo AME Pacitti
3.

Paolo Pacitti is an Executive Director of Murgitroyd Group PLC and its trading subsidiary, Murgitroyd & Company Limited. Paolo gained a BSc in Electronic and Electrical Engineering from Glasgow University and is a Chartered Patent Agent, European Patent Attorney, Registered Trade Mark Agent and Community Trade Mark Attorney. He joined Murgitroyd & Company as a Partner in 1979.

Dr. Kenneth G Chrystie
Non-executive, 1, 3.

Kenneth Chrystie is the Senior Partner of corporate and commercial solicitors, McClure Naismith. He is a founder member of The Intellectual Property Lawyers' Organisation (“TIPLO”) and is the author of the commercial credits section of the Encyclpaedia of Scots Law. Kenneth is an accredited specialist in Intellectual Property Law and is a Director of TIPLO.

1. Member of Audit Committee
2. Member of Remuneration Committee
3. Member of Nomination Committee
4. Senior non-executive Director

Chairman's Statement

Operating and Financial Review

I am pleased to be able to report a strong performance by Murgitroyd Group PLC ("the group") for this, its first, reporting period as a public company. The group joined the Alternative Investment Market ("AiM") on 30 November 2001 and we have achieved the initial aims set out in our Prospectus of expanding our pan-European Intellectual Property offering, progressively restructuring the financial base of the group, and enhancing our trading performance.

Murgitroyd Group PLC was incorporated on 1 August 2001 because the group's flotation required the formation of a new holding company. For the benefit of ongoing financial performance comparisons, this report provides pro-forma results for the twelve months to 31 May 2002 of the group's trading subsidiary, Murgitroyd & Company Limited, as well as the consolidated results for the ten months, since its incorporation, of the group.

The events of 11 September 2001 have not had an identifiable long-term impact on your Group's trading activity. The underlying performance of Murgitroyd & Company has been better than expected at the time of flotation in terms of turnover, gross margin and profit. In the twelve months to 31 May 2002, Murgitroyd & Company's turnover has increased by 16.8% from £7,749,000 to £9,054,000. Gross margin percentage has increased from 60.7% to 65.2% and profit before taxation (excluding exceptional items) has increased by 49.2% from £425,000 to £634,000.

Corporate Strategy

Our primary growth strategy continues to be based on the development of a truly pan-European service. This strategy has at its core the recruitment of Patent and Trade Mark Attorneys qualified in European countries and the establishment of additional offices in mainland Europe. I am pleased to report that we are ahead of plan with regard to opening of new offices. Our Irish office is now fully operational and has moved to new premises in Blanchardstown near Dublin Airport. Our French office has opened in the Arenas area of Nice, a few minutes walk from Nice Airport. Interviews for employment in our German office, in Munich, have been ongoing and are nearing completion; new office accommodation nearby the European Patent Office, has been identified and leased.

Our offices in Aberdeen and Belfast continue to both expand and operate successfully and our London office provides a convenient facility for servicing a number of Murgitroyd & Company's clients.

In May 2002 we entered into a "strategic alliance" with Drinker Biddle & Reath LLP, a substantial US law firm, which will act as the company's preferred supplier for work carried out for clients in the US. This "alliance" provides a significant growth opportunity because Murgitroyd & Company is now Drinker Biddle & Reath LLP's preferred European supplier, servicing their offices in Philadelphia, Washington, New York, Phoenix, Los Angeles and San Francisco.

People

Our in-house training program continues to produce encouraging results in developing existing personnel and external recruitment of Attorneys has proved better than expected in a difficult market place. During Murgitroyd & Company's financial year, we have increased the number of qualified Attorneys by 55%, from eleven to seventeen, total technical staff from 32 to 38 and total staff numbers from 98 to 127. Year-on-year, qualified Attorneys continue to represent a significantly higher proportion of the overall pool of technical staff (45% compared to 34%), which reflects positively on the company's in-house training program.

Chairman's Statement (cont'd)

Since our AiM flotation we have welcomed Dr Christopher Greig on to the Board of the Group as a non-executive Director. Dr Greig is a highly experienced public company Director and is currently Chairman of Belhaven Brewery plc, PPL Therapeutics plc and William Grant & Sons Limited.

AiM Flotation

The flotation in November 2001 was at a time of difficult market conditions. It was a significant challenge which was met admirably. With the assistance of Noble & Company Limited as Nominated Advisers and Brokers, we raised £3 million on AiM (£2.51 million after issue costs and expenses) at a price of 121p per share. The shares commenced trading on 30 November, and have subsequently traded in a range of 129¼p to 159p.

Dividend

The Directors are proposing a maiden dividend of 1.329p per share for the period ended 31 May 2002. Subject to approval at the Annual General Meeting the dividend will be paid on 8 November 2002 to shareholders on the register on 11 October 2002.

Outlook

I am pleased to be able to report to shareholders continued growth for the period under review. The period has seen considerable expansion and we have laid firm foundations for the future. I am delighted to say that Murgitroyd & Company continues to attract a considerable number of new clients and an encouraging number of invitations to tender. Demand for Intellectual Property advisory services is still believed to exceed the supply of available Attorneys and the group ends its first reporting period as a quoted company committed to continue its progress towards fully achieving the aims set out in the flotation Prospectus.

Ian G Murgitroyd
Chairman

27 September 2002

Directors' Report

for the period ended 31 May 2002

The Directors present their report and the consolidated audited Financial Statements for the period ended 31 May 2002.

Principal activity

The group provides a wide range of Intellectual Property advisory services through its trading subsidiary Murgitroyd & Company Limited, a practice of European Patent and Trade Mark Attorneys.

Review of business and future developments

On 20 November 2001 Murgitroyd Group PLC acquired all of the issued share capital of Murgitroyd & Company Limited and did not trade prior to this. The purchase requires to be accounted for as an acquisition and accordingly the consolidated Profit and Loss Account includes only the results of Murgitroyd & Company Limited from the date of acquisition to 31 May 2002. The Directors consider that this presentation, on its own, does not enable a proper understanding of the underlying business's performance year on year and the progress made. Accordingly they have presented pro forma financial statements which aggregate the Profit and Loss Accounts of Murgitroyd & Company Limited and its subsidiary undertakings for the years ended 31 May 2002 and 2001.

The consolidated results of Murgitroyd Group PLC for the period are set out in the Profit and Loss Account on page 19.

The review of the business for the period ended 31 May 2002 and the summary of future developments are included in the Chairman's Statement on page 4 to 5.

Dividends and transfer to reserves

The Directors recommend that a dividend of 1.329p per share be paid and the retained profit for the period of £56,000 will be transferred to reserves.

Supplier payment policy

Although the group does not follow any code or standard on payment practice, its payment policy in respect of all suppliers, as far as is practicable and excluding disputes over price, delivery and/or quality of service, is to settle agreed outstanding accounts in accordance with the terms and conditions agreed with suppliers. Trade creditors for both the group and the company at 31 May 2002 were equivalent to approximately 131 days' purchases. It is common practice in dealings between Patent and Trade Mark Attorneys around the world to offer each other significantly extended credit terms. Excluding outstanding accounts owed to other Attorneys, the trade creditors for both the group and the company at 31 May 2002 were equivalent to approximately 42 days' purchases.

Overseas branches

In addition to its UK-based operations, the group's trading subsidiary, Murgitroyd & Company Limited, operates from two, registered overseas branches in the Republic of Ireland and France.

Directors' Report (cont'd)

for the period ended 31 May 2002

Directors

The Directors who served during the period were as follows:

Lycidas Nominees Limited	Appointed 1 August 2001, resigned 18 October 2001
Lycidas Secretaries Limited	Appointed 1 August 2001, resigned 18 October 2001
Ian G Murgitroyd	Appointed 18 October 2001
Norman Pattullo	Appointed 18 October 2001
Pierpaolo AME Pacitti	Appointed 18 October 2001
Keith G Young	Appointed 18 October 2001
G Edward Murgitroyd	Appointed 18 October 2001, resigned 20 November 2001
Mark N Kemp-Gee*	Appointed 22 November 2001
Dr. Kenneth G Chrystie*	Appointed 22 November 2001
Dr. Christopher G Greig*	Appointed 28 January 2002

*Non-executive Director

Ian G Murgitroyd and Norman Pattullo, who were appointed Directors during the period, retire by rotation in accordance with Article 77 of the company's Articles of Association and, being eligible, will be proposed for re-election at the Annual General Meeting. Their Service Agreements expire and are renewable after the 2002 Annual General Meeting.

The company has made adequate provision for indemnity insurance on behalf of the Directors.

Directors' interests in shares and share options

Details of Directors' interests in shares and share options are disclosed in the Remuneration Report.

Substantial shareholdings

As at 27 September 2002, the Board had been formally notified of, or was otherwise aware of, the following interests representing 3% or more of the company's issued share capital:

Shareholder	Number of ordinary shares	Percentage of issued share capital
Ian G Murgitroyd	3,378,750	40.8%
Norman Pattullo	1,027,970	12.4%
Pierpaolo AME Pacitti	616,782	7.5%
Direct Nominees Limited	413,223	5.0%
Chase Nominees Limited	413,223	5.0%
RBSTB Nominees Limited	413,223	5.0%
Elizabeth-Anne Thomson	387,526	4.7%
G Edward Murgitroyd	387,526	4.7%
Morgan Nominees Limited	289,256	3.5%

Employee shareholdings

The company operates an unapproved share option scheme in order to motivate senior executives and established a Phantom Share Option Scheme in November 2001.

Directors' Report (cont'd)
for the period ended 31 May 2002

Employees

Murgitroyd Group PLC aims to be an equal opportunities employer with a commitment to help people develop their potential. In relation to disabled people or minority groups, Murgitroyd Group PLC has a policy of giving them full and fair consideration for all vacancies for which they are suitably qualified. Employees who become disabled during their working life will be retained in employment wherever possible and will be given help with any necessary rehabilitation or training.

The Directors recognise that a key element in the success of Murgitroyd Group PLC is the quality and commitment of our employees. Murgitroyd Group PLC places very considerable importance on the contributions of our employees and our policy is to communicate to all employees relevant information about our clients and our business using our email system and briefings by management. The recruitment and training of employees is aimed at the development of each individual to their full potential and the whole team being supportive of others in providing service to our clients.

Our commitment to involve employees in the success of our business includes the introduction of a Phantom Share Option Scheme under which employees have been awarded "shadow" shares whereby future, performance-related awards will be made which are linked to the company's share price. In addition a number of employees became shareholders at the time of the flotation.

Environmental policy

The group recognises the importance of environmental responsibility. The nature of its activities has a minimal effect on the environment but where it does the group aims to act responsibly and is aware of its obligations at all times.

Charitable and political donations

The group made charitable donations during the period of £8,000. There were no political donations.

Auditors

The Auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board

Ian G Murgitroyd
Chairman
27 September 2002

Directors' Responsibilities Statement

Company law requires the Directors to prepare Financial Statements for each financial period which give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the profit or loss of the group for that period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group to enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Ian G Murgitroyd
Chairman
27 September 2002

Remuneration Report

The Remuneration Committee comprises Mark Kemp-Gee (Chairman) and Dr Christopher Greig, (both independent non-executive Directors) and meets at least annually to determine the remuneration and other benefits of the executive Directors.

The group has applied the Principles of Good Governance relating to Directors' remuneration as described below.

The purpose of the Remuneration Committee is to:

- ensure that the executive Directors of the group are fairly rewarded for their individual contribution to the overall performance of the group; and
- demonstrate to shareholders that the remuneration of the executive Directors of the company is set by a committee whose members have no personal interest in the outcome of their decisions and who will have due regard to the interests of the shareholders.

Procedures for developing policy and fixing remuneration

The Board has shown a commitment to formal procedures for developing a remuneration policy, fixing executive remuneration and ensuring that no Director is involved in deciding his or her own remuneration. The Committee is authorised to obtain outside professional advice and expertise and consults with the Chairman and Chief Executive of the company as necessary.

The Remuneration Committee is authorised by the Board to investigate any matter within its terms of reference. It is authorised to seek any information that it requires from any employee.

The Remuneration Committee determines any bonuses and any other element of remuneration of an executive that is performance-related.

Share options

The Remuneration Committee supervises the share option schemes, approves the exercise price of options and the performance criteria to be satisfied before exercise is permitted, and monitors the effectiveness of the share option schemes as an incentive to the executives and staff. Options are awarded in order to motivate senior executives with a view to increasing shareholder value.

The share options granted on 20 November 2001 have no performance criteria attached to them as they were granted as part of the flotation arrangements. Subsequent grants of share options have, as a performance criteria, the necessity that there is a greater than inflationary improvement in the group's earnings per share between the date of grant and the first date of exercise.

Remuneration Report (cont'd)

Directors' Service Agreements

Ian Murgitroyd, Norman Pattullo and Pierpaolo Pacitti have Service Agreements with one-year notice periods. Keith Young had a three-year Service Agreement with the group's subsidiary company, Murgitroyd & Company Limited, terminating on 31 May 2004 renewable, at his request, for a further three years unless and until terminated on six-months' notice expiring on each third anniversary of renewal. On 26 September 2002 however, Keith Young entered into a replacement Service Agreement on the same terms and conditions as the pre-existing Service Agreement except that the new agreement has a one-year notice period. The non-executive Directors are appointed under Letters of Appointment with one-year notice periods. The Letters of Appointment provide continuity and bind the non-executives to the group. There is no provision for compensation on termination of their appointment.

Remuneration of non-executive Directors

The Board sets the remuneration levels for non-executive Directors. They do not receive any pension or other benefits, nor do they participate in share option schemes. Their level of remuneration is based on outside advice and a review of current practices in other companies.

Details of the remuneration policy

The basic salaries to be paid to the executive Directors are decided by the Remuneration Committee. The Committee also considers pension arrangements and other benefits applicable to the executives. The Remuneration Committee gives full consideration in framing its remuneration policy to Section 1.B of the Code of Best Practice.

Directors' emoluments

The following emoluments were paid to Directors during the six-month trading period ended 31 May 2002:

	Salary and fees	Benefits	Money purchase pension contributions	Total
	£'000	£'000	£'000	£'000
Ian G Murgitroyd*	63	9	3	75
Norman Pattullo	54	6	2	62
Pierpaolo AME Pacitti	50	7	5	62
Keith G Young	47	8	2	57
Mark N Kemp-Gee	6	-	-	6
Dr Kenneth G Chrystie	6	-	-	6
Dr Christopher G Greig	4	-	-	4

* Highest paid Director

No emoluments were paid to Directors who retired during the financial period.

Remuneration Report (cont'd)

Directors' interests in shares

The number of ordinary shares of 10p each in the company held by the Directors who held office at the end of the financial period was as follows:

	At 31 May 2002	At incorporation
Ian G Murgitroyd	3,378,750	-
Norman Pattullo	1,027,970	-
Pierpaolo AME Pacitti	616,782	-
Keith G Young	-	-
Mark N Kemp-Gee	8,264	-
Dr Kenneth G Chrystie	-	-
Dr Christopher G Greig	-	-

Directors' interests are beneficially held with the exception of Norman Pattullo who holds the legal interest in 1,027,970 ordinary shares as a trustee and Pierpaolo Pacitti who holds the legal interest in 616,782 ordinary shares as a trustee.

Directors' share options

The Directors who held office at the end of the financial period had the following interests in share options:

	Options granted during the period	Options exercised during the period	At 31 May 2002	Exercisable price	Date from which exercisable	Expiry date
Ian G Murgitroyd	-	-	-	-	-	-
Norman Pattullo	-	-	-	-	-	-
Pierpaolo AME Pacitti	-	-	-	-	-	-
Keith G Young	43,568	-	43,568	121p	20/11/2004	19/11/2011
Mark N Kemp-Gee	-	-	-	-	-	-
Dr Kenneth G Chrystie	-	-	-	-	-	-
Dr Christopher G Greig	-	-	-	-	-	-

The share price at 31 May 2002 was 143p. During the period the share price ranged from 121p to 155p.

On behalf of the Board

Mark N Kemp-Gee
Chairman of the Remuneration Committee
27 September 2002

Corporate governance

The Combined Code

The Board is committed to high standards of corporate governance and intends to complete the development of effective structures to comply with the recommendations of the Combined Code for Corporate Governance issued by the Financial Services Authority.

Details describing how the group has applied certain of the principles of the code as far as it is appropriate to do so, given the group's current stage of development, are set out below.

The Board

The Board meets every two months to consider all aspects of the group's activities. Reports from the Chairman and the Chief Executive, and the subsidiary company's operations are discussed. A formal schedule of matters reserved for the Board has been developed and includes overall group strategy, acquisition policy and approval of major capital expenditure.

The Board consists of the Chairman, Chief Executive and Finance Director, two other Executive Directors and the three non-executive Directors. One of the non-executive Directors, Dr Kenneth Chrystie, is not considered independent as he is Senior Partner of McClure Naismith, solicitors, who are Company Secretary and provide legal services to the group. The chairman, Ian Murgitroyd, is an executive Director. Mark Kemp-Gee is senior non-executive Director. All Directors have access to the advice and services of the Company Secretary. A third of the Directors will submit themselves for re-election every year.

Committees of the Board

The Board has established three Committees, all of which have written terms of reference. The minutes of the Committees are circulated to and reviewed by the Board.

The Audit Committee

The Audit Committee comprises the three non-executive Directors and is chaired by Dr Christopher Greig. The Auditors, KPMG Audit Plc, and executive Directors will normally attend meetings although, at least annually, the Committee meets with the Auditors without the executive Directors being in attendance. The Committee meets at least half yearly to:

- review the Interim and Annual Accounts;
- review reports from the Auditors;
- monitor the adequacy and effectiveness of the systems of internal control; and
- review annually the effectiveness of the Auditors.

The Remuneration Committee

The Remuneration Committee comprises Mark Kemp-Gee (chairman) and Dr Christopher Greig. The Remuneration Committee is responsible for all elements of the remuneration of the executive Directors. The committee oversees the company's share option schemes. Further details of the Committee are included in the Remuneration Report.

Corporate governance (cont'd)

The Nominations Committee

The Nominations Committee comprises all the Directors and is chaired by Ian Murgitroyd. The Nominations Committee considers the appointment of Directors to the Board.

Relations with shareholders

The Chairman and the Chief Executive hold meetings with the company's institutional shareholders to discuss the company's strategy and financial performance. Attendance of shareholders at the company's Annual General Meeting is encouraged.

Internal controls

The Board is responsible for the group's systems of internal control and for reviewing their effectiveness. It must, however, be recognised that any system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. Any such system of internal control can at best provide reasonable but not absolute assurance against material misstatement or loss.

The Board is committed to operating in accordance with the guidance "Internal Control - Guidance for Directors on the Combined Code" ("the Turnbull Report") as far as it is appropriate to do so given the current stage of development of the group. The Audit Committee discusses the effectiveness of the systems of internal control with the Auditors. The Board regularly reviews the process for identifying, evaluating and managing any significant risks faced by the group.

Systems of internal control continue to develop as the group's activity expands. The internal controls in the newly opened offices are necessarily the same as those in existing offices; systems are therefore harmonised.

The subsidiary company's Directors have specific responsibilities and authority to manage risk effectively. They report to the subsidiary company's Board, as required, on financial, operational and compliance risks. In addition, the operational functions, finance, IT, HR, training, business development, support services and compliance operate within a developed Management Group structure to ensure that the relevant risks are adequately identified, managed and reported on. Management Groups meet regularly and the Management Group leaders meet every two months. Specific matters are reported on to the subsidiary company's Board, the Board and, if necessary, to the Audit Committee and these provide the basis on which the Committee reviews internal controls.

New processes to embed risk management throughout the group will continue to be reviewed and implemented as appropriate. In addition, a review of social, environmental and ethical matters will be undertaken to ensure that all significant risks to the business of the group arising from these matters are adequately addressed.

Corporate governance (cont'd)

Going concern

The Directors consider that the group has adequate financial resources to enable it to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

On behalf of the Board

Ian G Murgitroyd
Chairman
27 September 2002

Independent Auditors' report to the members of Murgitroyd Group PLC

We have audited the Financial Statements on pages 19 to 43.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 9 this includes responsibility for preparing the Financial Statements in accordance with applicable United Kingdom law and Accounting Standards.

Our responsibility, as independent Auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession’s ethical guidance.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on page 13 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report including the Corporate Governance statement and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

Opinion

In our opinion the Financial Statements give a true and fair view of the state of affairs of the company and the group at 31 May 2002 and of the profit of the group for the period from incorporation to 31 May 2002 and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountant and Registered Auditor, Glasgow
27 September 2002

Independent Auditors' report on the pro forma Profit and Loss Account of the Murgitroyd & Company Limited sub-group for the years ended 31 May 2002 and 31 May 2001

Accounting policies

The accounting policies adopted in the preparation of the pro forma Profit and Loss Accounts of the Murgitroyd & Company Limited sub-group set out on page 18 are the same as those set out on pages 22 to 24 except for the basis of consolidation. As explained in their report on page 6 the Directors do not consider that the statutory accounts presentation enables a proper understanding of the group's performance year on year. As such pro forma Profit and Loss Accounts, which aggregate the results of the company and its subsidiaries for the full years ended 31 May 2002 and 2001, have also been presented. This information has been derived from the audited financial statements of each company for those years.

Audit opinion in respect of pro forma financial statements

The pro forma Profit and Loss Accounts for the years ended 31 May 2002 and 2001 are not covered by the audit opinion on page 16. We have, however, reviewed these pro forma Profit and Loss Accounts and, in our opinion, so far as the calculations are concerned, they have been properly compiled on the basis set out above.

KPMG Audit Plc
Chartered Accountant and Registered Auditor, Glasgow
27 September 2002

Pro forma Profit and Loss Account of the Murgitroyd & Company Limited sub-group

for the years ended 31 May 2002 and 31 May 2001

	Before exceptional items £'000	Exceptional items £'000	**Year ending 31 May 2002 £'000**	Before exceptional items £'000	Exceptional items £'000	**Year ending 31 May 2001 £'000**
Turnover	9,054	-	**9,054**	7,749	-	**7,749**
Cost of sales	(3,150)	-	**(3,150)**	(3,045)	-	**(3,045)**
Gross profit	5,904	-	**5,904**	4,704	-	**4,704**
Administrative expenses	(5,192)	-	**(5,192)**	(4,080)	-	**(4,080)**
Exceptional loan write off	-	-	**-**	-	(233)	**(233)**
Operating profit	712	-	**712**	624	(233)	**391**
Impairment of fixed assets	-	-	**-**	-	(201)	**(201)**
Interest receivable and similar income	19	-	**19**	43	-	**43**
Interest payable and similar charges	(97)	-	**(97)**	(242)	-	**(242)**
Profit/(loss) on ordinary activities before taxation	634	-	**634**	425	(434)	**(9)**

Consolidated Profit and Loss Account

for the ten month period ended 31 May 2002

	Notes	Before goodwill amortisation £'000	Goodwill amortisation £'000	**Period ending 31 May 2002 Acquisitions £'000**
Turnover	2	4,917	-	**4,917**
Cost of sales		(1,674)	-	**(1,674)**
Gross profit		3,243	-	**3,243**
Administrative expenses		(2,794)	(175)	**(2,969)**
Operating profit		449	(175)	**274**
Interest receivable and similar income	6	5	-	**5**
Interest payable and similar charges	7	(24)	-	**(24)**
Profit on ordinary activities before taxation	3	430	(175)	**255**
Tax on profit on ordinary activities	8	(89)	-	**(89)**
Profit on ordinary activities after taxation and for the financial period		341	(175)	**166**
Dividends - equity	9	(110)	-	**(110)**
Retained profit for the period	24	231	(175)	**56**
Earnings per 10p ordinary share	10			
Basic		-		**2.00p**
Diluted		-		**1.96p**
Adjusted, basic before goodwill amortisation		4.13p		**-**
Adjusted, diluted before goodwill amortisation		4.04p		**-**

Statement of Total Group Recognised Gains and Losses

for the ten month period ended 31 May 2002

	Period ending 31 May 2002 £'000
Profit for the financial period	**166**
Unrealised surplus on revaluation of properties	**36**
Total recognised gains and losses relating to the financial period	**202**

Balance sheets
at 31 May 2002

	Notes	Group 2002 £'000	Company 2002 £'000
Fixed assets			
Tangible assets	13	**1,876**	**-**
Investments	14	**-**	**8,056**
Intangible assets	12	**6,852**	**-**
		8,728	**8,056**
Current assets			
Work in progress	16	**241**	**-**
Debtors	17	**3,688**	**1,633**
Cash at bank and in hand		**1,147**	**1,012**
		5,076	**2,645**
Creditors: amounts falling due within one year	18	**(3,909)**	**(1,137)**
Net current assets		**1,167**	**1,508**
Total assets less current liabilities		**9,895**	**9,564**
Creditors: amounts falling due after more than one year	19	**(272)**	**-**
Provisions for liabilities and charges	20	**(8)**	**-**
Net assets		**9,615**	**9,564**
Capital and reserves			
Called up share capital	22	**828**	**828**
Share premium account	24	**8,695**	**8,695**
Revaluation reserve	24	**36**	**-**
Profit and loss account	24	**56**	**41**
Shareholders' funds – all equity	25	**9,615**	**9,564**

The Financial Statements on pages 19 to 43 were approved by the Board of Directors on 27 September 2002 and were signed on its behalf by:

Ian G Murgitroyd
Chairman
27 September 2002

Consolidated Cash Flow statement

for the ten month period ended 31 May 2002

	Notes	**Period ending 31 May 2002 £'000**
Net cash outflow from operating activities	28	**(2,034)**
Returns on investments and servicing of finance		
Interest received		**3**
Bank interest paid		**(34)**
Interest element of hire purchase repayments		**(1)**
Net cash outflow from returns on investments and servicing of finance		**(32)**
Taxation		**(160)**
Capital expenditure and financial investment		
Purchase of tangible fixed assets		**(163)**
Proceeds from sale of tangible fixed assets		**-**
Net cash outflow from capital expenditure and financial investment		**(163)**
Acquisitions		
Purchase of subsidiary	15	**-**
Cash at hand and in bank acquired with subsidiary undertaking		**826**
Net cash inflow from acquisitions		**826**
Cash outflow before financing		**(1,563)**
Financing		
Issue of ordinary share capital for cash	25	**3,000**
Expenses of share issues	25	**(493)**
Decrease in bank loans due outwith one year	29	**(25)**
Repayment of capital element of hire purchase obligations	29	**(15)**
Net cash inflow from financing		**2,467**
Increase in cash in the period	29	**904**

Notes to the financial statements
for the ten month period ended 31 May 2002

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's Financial Statements. The group has adopted FRS 17 "Retirement benefits", FRS 18 "Accounting policies" and FRS 19 "Deferred tax" in these Financial Statements.

Basis of preparation

The Financial Statements have been prepared in accordance with applicable Accounting Standards, and under the historical cost accounting rules, modified to include the revaluation of buildings.

Basis of consolidation

The consolidated Financial Statements include the Financial Statements of the company and its subsidiary undertaking made up to 31 May 2002. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated Profit and Loss Account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own Profit and Loss Account.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

In the company's Financial Statements, investments in subsidiary undertakings are stated at cost less amounts written off.

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost. Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably.

Notes to the financial statements (cont'd)
for the ten month period ended 31 May 2002

Tangible fixed assets

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal annual instalments over their estimated useful economic lives as follows:

Freehold property	Nil
Motor vehicles	25%
Furniture and fixtures	10% to 20%
Office equipment	20%

Freehold property is not depreciated as the Directors believe any annual or accumulated depreciation would be immaterial. Any impairment will be charged to profit although annual testing carried out does not indicate that any such impairment has taken place.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the Balance Sheet date and the gains or losses on translation are included in the Profit and Loss Account.

Hire purchase contracts and leases

Assets acquired under hire purchase contracts are capitalised and the capital element of outstanding future hire purchase obligations are shown in creditors.

Costs in respect of operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term.

Post retirement benefits

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged to the Profit and Loss Account represents the contributions payable to the scheme in respect of the accounting period.

Work in progress

Work in progress is stated at the lower of direct cost and net realisable value. Cost comprises direct salary costs and a proportion of attributable overhead costs.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the Balance Sheet date, except as otherwise required by FRS 19.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of services to third party customers.

Cash and liquid resources

Cash, for the purpose of the Cash Flow Statement, comprises cash in hand and deposits recoverable on demand, less overdrafts repayable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Financial instruments

The group's financial assets and liabilities are recorded at historical cost except for foreign currency assets and liabilities as described above. Income and expenditure arising on financial instruments is recognised on an accruals basis and taken to the Profit and Loss Account in the financial period in which it arises.

2. Segmental information

Turnover is attributable to the principal activity of the group and, during the period, the following was attributable to different geographical markets:

	Period ending 31 May 2002 £'000
United Kingdom	**3,376**
Japan	**532**
United States of America	**508**
Other countries	**501**
	4,917

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

The analysis of turnover by geographic areas of operation is as follows:

	Period ending 31 May 2002 £'000
United Kingdom	**4,693**
Republic of Ireland	**224**
France	**-**
	4,917

The group does not manage its business by reference to separate geographical locations. Consequently, any analysis of net assets and operating profit by location is of limited relevance and is therefore not provided.

3. Profit on ordinary activities before taxation

		Period ending 31 May 2002 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Group	- audit	**10**
	- fees paid to the Auditors and its associates in respect of other services	**16**
Company	- audit	**-**
Depreciation written off tangible fixed assets:		
Owned		**68**
Held under hire purchase contracts		**22**
Amortisation of goodwill		**175**
Rental of land and buildings		**71**
Hire of office equipment – operating leases		**45**
Hire of other assets – operating leases		**75**
Loss on disposal of fixed assets		**1**
after crediting:		
Exchange gains		**22**

Auditors' remuneration for other services mainly relates to taxation and legal services.

In addition the Auditors received fees totalling £95,000 in respect of their work on the placing and flotation. These costs have been charged to the share premium account.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

4. Directors' emoluments

Details of Directors' emoluments are set out in the Remuneration Report starting on page 10.

5 Employees

The average number of persons (including executive Directors) employed by the group during the period, analysed by category, was as follows:

	Period ending 31 May 2002 Number
Office, management and professional staff	111
Maintenance, cleaning and catering	11
	122

The aggregate payroll cost was as follows:

	Period ending 31 May 2002 £'000
Wages and salaries	1,576
Social security costs	154
Pension costs	49
	1,779

Further information on pension arrangements is set out in note 26.

6 Interest receivable and similar income

	Period ending 31 May 2002 £'000
Receivable from related companies	1
Bank interest receivable	3
Other interest	1
	5

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

7 Interest payable and similar charges

	Period ending 31 May 2002 £'000
On bank loans and overdrafts	22
Finance charges payable in respect of hire purchase contracts	2
	24

8 Tax on profit on ordinary activities

	Period ending 31 May 2002 £'000
UK corporation tax	
Current tax on profit for the period at 30%	157
Foreign tax	
Current tax on income for the period	-
Total current tax	157
Deferred tax (see note 20)	
Reversal of timing differences	(68)
	89

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

The effective tax rate for the period is higher than the standard rate of UK corporation tax (30%). The differences are explained below:

	Period ending 31 May 2002 £'000
Current tax reconciliation	
Profit on ordinary activities before tax	255
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 30%	77
Effects of:	
Expenses not deductible for tax purposes (primarily goodwill amortisation)	52
Chargeable gain provision	(9)
Income not chargeable to tax	(6)
Depreciation for period in excess of capital allowances	68
Capital allowances transferred from group companies	(25)
Total current tax charge (see above)	157

9 Dividends

	Period ending 31 May 2002 £'000
Equity shares:	
Dividend proposed	110

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

10 Earnings per share

Earnings per 10p ordinary share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential shares.

	Earnings £'000	Weighted average number of shares Number	**2002 earnings per share p**
Basic earnings per share	166	8,277,887	**2.00**
Dilutive share options	-	185,164	**(0.04)**
Diluted earnings per share	166	8,463,051	**1.96**
Amortisation of goodwill	175	8,463,051	**2.08**
Adjusted, diluted earnings per share	341	8,463,051	**4.04**
Adjusted, basic earnings per share	341	8,277,887	**4.13**

Adjusted earnings per share have been shown in order to demonstrate the performance of the group before goodwill amortisation.

11 Company Profit and Loss Account

The company has not presented its own Profit and Loss Account as permitted by section 230(4) of the Companies Act 1985. The company's profit after taxation for the period amounted to £41,000.

Notes to the financial statements (cont'd)
for the ten month period ended 31 May 2002

12 Intangible fixed assets

	Group 2002 £'000
Goodwill	
Cost	
At incorporation	**-**
Additions (note 15)	**7,027**
At 31 May 2002	**7,027**
Amortisation	
At incorporation	**-**
Charge for the period	**175**
At 31 May 2002	**175**
Net book value	
At 31 May 2002	**6,852**
At incorporation	**-**

Goodwill arising on significant acquisitions is amortised over its useful economic life which for acquisitions to date is assessed as twenty years.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

13 Tangible fixed assets

Group	Freehold property £'000	Office equipment £'000	Motor vehicles £'000	Fixtures and fittings £'000	**Total** **£'000**
Cost					
At incorporation	-	-	-	-	**-**
Acquired on acquisitions	1,315	846	31	221	**2,413**
Additions	49	93	-	45	**187**
Revaluations	36	-	-	-	**36**
Disposals	-	(36)	(2)	-	**(38)**
At 31 May 2002	1,400	903	29	266	**2,598**
Depreciation					
At incorporation	-	-	-	-	**-**
Acquired on acquisitions	-	510	15	144	**669**
Charge for the period	-	72	2	16	**90**
On disposals	-	(36)	(1)	-	**(37)**
At 31 May 2002	-	546	16	160	**722**
Net book value					
At 31 May 2002	1,400	357	13	106	**1,876**
At incorporation	-	-	-	-	**-**

The net book value of tangible fixed assets includes an amount of £96,000 in respect of assets purchased under hire purchase contracts and a related depreciation charge of £22,000.

The net book value of freehold property does not include any amounts in respect of assets purchased under hire purchase contracts nor any related depreciation charge.

The group's interest in its freehold property at Scotland House, 165-169 Scotland Street, Glasgow was valued as at 31 May 2002 at £1,400,000 on the basis of open market value for existing use by Campbell & Company Commercial Property Consultants, independent chartered surveyors, in accordance with the guidelines issued by the Royal Institute of Chartered Surveyors.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

Particulars relating to revalued assets are given below:

Group	2002 £'000
Investment property	
Valuation – 2002	1,400
Aggregate depreciation thereon	-
Net book value	1,400
Historical cost	1,364
Aggregate depreciation based on historical cost	-
Historical cost net book value	1,364

The company has no tangible fixed assets.

14 Fixed asset investments

Company	2002 £'000
Shares in subsidiary undertakings	8,056

Company	2002 £'000
Cost	
At incorporation	-
Additions (note 15)	8,056
At 31 May 2002	8,056

The principal subsidiary undertaking is as follows:

Name	Principal activity
Murgitroyd & Company Limited	Provision of European Patent and Trade Mark Attorney and technical support services

The principal subsidiary is wholly owned and registered in Scotland. The company also has a number of dormant subsidiaries not detailed in the above listing. All subsidiaries are included in the consolidated Financial Statements and have year end accounting dates of 31 May.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

In the opinion of the Directors the aggregate value of investments in subsidiary undertakings is not less than the amount at which they are stated in the Financial Statements.

The group has no fixed asset investments.

15 Acquisitions

During the period the company made one acquisition.

The following table sets out the book values of the identifiable assets and liabilities of Murgitroyd & Company Limited acquired on 20 November 2001 and their fair value to the group.

	Book value and fair value to group £'000
Tangible fixed assets	**1,744**
Work in progress	**240**
Debtors	**3,364**
Cash at bank and in hand	**826**
Creditors: amounts falling due within one year	**(4,779)**
Creditors: amounts falling due after more than one year	**(289)**
Provision for liabilities and charges	**(77)**
Net assets	**1,029**
Goodwill	**7,027**
	8,056
Satisfied by:	
Shares issued	**7,016**
Loan Notes issued	**1,000**
	8,016
Costs of acquisition	**40**
	8,056

The loss after taxation of Murgitroyd & Company Limited and subsidiaries for the year ended 31 May 2001 was £172,000 and the profit after taxation of Murgitroyd & Company Limited and subsidiaries for the period 1 June 2001 to the date of acquisition was £128,000.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

16 Work in progress

Group	2002 £'000
Work in progress	241

The company has no work in progress.

17 Debtors

	Group 2002 £'000	Company 2002 £'000
Trade debtors	3,442	-
Amount owed by subsidiary undertaking	-	1,631
Amount owed by related companies	63	-
Other debtors	35	-
Prepayments and accrued income	148	2
	3,688	1,633

18 Creditors: amounts falling due within one year

	Group 2002 £'000	Company 2002 £'000
Bank overdrafts (note 19)	252	-
Bank loans (note 19)	86	-
Obligations under hire purchase contracts (note 19)	21	-
Trade creditors	1,872	15
Loan Notes payable	1,012	1,012
Corporation tax	134	-
Other taxes and social security	292	-
Accruals and deferred income	130	-
Dividends proposed	110	110
	3,909	1,137

The group has granted a standard security to The Royal Bank of Scotland plc over its freehold property in respect of outstanding bank borrowings. The Royal Bank of Scotland plc also has a bond and floating charge over the assets of the group.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

The Loan Notes are held by Norman Pattullo's Liferent Trust and Pierpaolo AME Pacitti's Liferent Trust and are in denominations of £1, redeemable in full by 30 November 2006, and carry a coupon at a rate equal to the higher of (i) the base rate of The Royal Bank of Scotland plc and (ii) the rate at which the company can obtain Sterling deposits on the outstanding amount of Loan Notes payable half-yearly in arrears.

19 Creditors: amounts falling due after more than one year

	Group 2002 £'000	Company 2002 £'000
Bank loans	252	-
Obligations under hire purchase contracts	20	-
	272	-

The maturity analysis of the bank and other borrowings is as follows:

Group	2002 £'000
Within one year or on demand	338
Between one and two years	87
Between two and five years	165
In more than five years	-
	590

All of the bank loans are repayable by instalments, none of which fall due after more than five years.

The maturity analysis of obligations under hire purchase contracts is as follows:

Group	2002 £'000
Within one year	21
Between one and five years	20
	41

The company has no bank and other borrowings or obligations under hire purchase contracts.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

20 Provisions for liabilities and charges

Group	**Deferred taxation 2002 £'000**
At incorporation	**-**
Acquired on acquisitions	**77**
Credit to the Profit and Loss Account in the period	**(69)**
At 31 May 2002	**8**

The elements of deferred taxation are as follows:

Group	**2002 £'000**
Difference between accumulated depreciation and amortisation and capital allowances	**8**
Undiscounted provision/deferred tax liability	**8**

The company has no provisions for liabilities and charges.

21 Financial instruments

The group's financial instruments comprise Sterling cash, bank deposits, bank loans and overdrafts, obligations under hire purchase contracts, together with various balances such as accounts receivable and accounts payable that arise directly from its operations. There are no significant balances in foreign currencies as at 31 May 2002.

The main risk from the group's financial instruments is interest rate risk. The Finance Director reviews and agrees the policies in the context of current market expectations for managing this and other risks and details of the rates are summarised below.

The fair value of the fixed rate bank loans at 31 May 2002 was £358,000. Short term debtors and creditors (other than bank and other borrowings) have been excluded from the following disclosures.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

Interest rate risk profile

The interest rate risk profile of financial assets and liabilities together with an indication of weighted average interest rates is as follows:

Group	2002 Assets £'000	2002 Liabilities £'000	Weighted average interest rate %	Average period for which rate is fixed Years
Fixed rate				
Bank loans	-	338	9.65%	4.96
Hire purchase contracts	-	41	5.02%	2.25
	-	379	N/a	N/a
Floating rate				
Cash balances	1,124	-	3.84%	N/a
Bank overdrafts	-	210	Bank base rate plus 1.25%	N/a
Loan Notes	-	1,012	4.17%	N/a
	1,124	1,222	N/a	N/a
Other financial assets and liabilities on which no interest is earned or paid				
Other cash balances	23	-	N/a	N/a
Other overdrafts	-	42	N/a	N/a
	23	42	N/a	N/a
Total	1,147	1,643	N/a	N/a

Company	2002 Assets £'000	2002 Liabilities £'000	Weighted average interest rate %	Average period for which rate is fixed Years
Floating rate				
Cash balances	1,012	-	4.17%	N/a
Loan Notes	-	1,012	4.17%	N/a
Total	1,012	1,012	N/a	N/a

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

Maturity of financial assets and liabilities

The maturity analysis of the group's financial assets and liabilities was as follows:

Group	2002 Financial assets £'000	2002 Financial liabilities £'000
In one year or less, or on demand	1,147	1,372
Between one and two years	-	99
Between two and five years	-	172
	1,147	1,643

Company	2002 Financial assets £'000	2002 Financial liabilities £'000
In one year or less, or on demand	1,012	1,012

Borrowing facilities

At 31 May 2002 the group had undrawn committed bank facilities of £790,000 all of which fall due for review within one year.

22 Called up share capital

Group and company	**2002 £'000**
Authorised	
8,713,570 ordinary shares of 10 pence each	**871**
Allotted, called up and fully paid	
8,277,887 ordinary shares of 10 pence each	**828**

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

The company was incorporated on 1 August 2001 with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each. 2 ordinary shares of £1 each were issued in connection with the incorporation of the company.

On 20 November 2001 each existing ordinary share of £1 each was subdivided into 10 ordinary shares of 10 pence each and the authorised share capital was, firstly, increased to £579,856 by the creation of 5,298,560 ordinary shares of 10 pence each and, thereafter, increased to £871,357 by the creation of 2,915,010 ordinary shares of 10 pence each

During the period the company issued the following ordinary shares of 10 pence each:

- 5,798,534 shares at £1.21 per share in connection with the acquisition of the business and net assets of Murgitroyd & Company Limited on 20 November 2001; and

- 2,479,353 shares by way of a placing at £1.21 per share to provide the company with funds to accelerate its expansion plans and settle its Loan Notes' liabilities on 30 November 2002.

The issue price of the shares issued in connection with the acquisition of Murgitroyd & Company Limited reflects the market value when control of the business passed to Murgitroyd Group PLC.

23 Share options

The company operates an unapproved share option scheme under which options have been granted to employees and Directors.

The options outstanding at 31 May 2002 were as follows:

Exercise price	Date of grant	Date from which exercisable	Expiry date	**2002 '000**
121p	20/11/2001	20/11/2004	19/11/2011	**163**
148p	23/05/2002	23/05/2005	22/05/2012	**22**
				185

No options have lapsed or been exercised. Details of the performance criteria of the share options are included in the Remuneration Report.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

24 Reserves

Group	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At incorporation	-	-	-
Retained profit for the period	-	-	56
Shares issued	9,188	-	-
Expenses of share issue	(493)	-	-
Revaluation arising in period	-	36	-
At 31 May 2002	8,695	36	56

Company	Share premium account £'000	Profit and loss account £'000
At incorporation	-	-
Retained profit for the period	-	41
Shares issued	9,188	-
Expenses of share issue	(493)	-
At 31 May 2002	8,695	41

25 Reconciliation of movements in group equity shareholders' funds

Group	**2002 £'000**
Profit for the financial period	**166**
Dividends	**(110)**
Retained profit for the financial period	**56**
New shares issued (see below)	**10,016**
Expenses of share issue	**(493)**
Movement in revaluation reserve	**36**
Net addition to equity shareholders' funds	**9,615**
Opening equity shareholders' funds	**-**
Closing equity shareholders' funds	**9,615**

New shares issued.

Group	Acquisitions £'000	Cash £'000	**2002 Total £'000**
Nominal value of shares issued	580	248	**828**
Share premium	6,436	2,752	**9,188**
New shares issued	7,016	3,000	**10,016**

26 Pension arrangements

The group operates a defined contribution, group money purchase pension scheme. Contributions are charged to the Profit and Loss Account as they are payable. The group's contributions are equal to the contributions of the employee which are between 3% and 5% of earnings, with a maximum 5% being paid by the group where the employee's contribution is higher than 5%. The pension cost charge for the period represents contributions payable by the group to the scheme and amounted to £49,000.

There were no outstanding or prepaid contributions at the end of the financial period.

27 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

Group	Land and buildings £'000	Other £'000	**2002 Total £'000**
Expiring within one year	60	37	**97**
Expiring between two and five years	19	132	**151**
Expiring in five or more years	54	-	**54**
Total	133	169	**302**

At 31 May 2002 there was no capital expenditure authorised by the Board but not provided in the Financial Statements. Similarly, there were no contracts placed for future capital expenditure, not provided in the Financial Statements.

In addition to the above, at the end of the financial period the group had entered into commitments amounting to £9,000 in respect of non-cancellable operating leases, the inception of which occur after the year end.

The company has no annual commitments under non-cancellable operating leases.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

28 Net cash outflow from operating activities

Group	2002 £'000
Operating profit	**274**
Loss on disposal of tangible fixed assets	**1**
Depreciation of tangible fixed assets	**90**
Amortisation of intangible assets	**175**
Increase in work in progress	**(1)**
Increase in debtors	**(322)**
Decrease in creditors	**(2,251)**
Net cash outflow from operating activities	**(2,034)**

29 Analysis of movement in net funds/(debt)

Group	At incorporation £'000	Cash flow £'000	Acquisitions £'000	Other £'000	At 31 May 2002 £'000
Cash balances					
Cash at hand and in bank	-	1,147	-	-	**1,147**
Bank overdrafts	-	(243)	(9)	-	**(252)**
Net cash balances	-	904	(9)	-	**895**
Other net funds/(debts)					
Loan Notes	-	-	(1,012)	-	**(1,012)**
Bank loans due within one year	-	-	(86)	-	**(86)**
Bank loans due after one year	-	25	(277)	-	**(252)**
Hire purchase obligations	-	15	(32)	(24)	**(41)**
	-	40	(1,407)	(24)	**(1,391)**
Net funds/(debt)	-	944	(1,416)	(24)	**(496)**

During the period the group entered into hire purchase contracts in respect of assets with a total capital value at inception of the contracts of £27,000.

Notes to the financial statements (cont'd)

for the ten month period ended 31 May 2002

30 Reconciliation of net cash flow to movement in net funds/(debt)

Group	2002 £'000
Increase in cash in the period	904
Cash inflow from decrease in debt and hire purchase financing	40
Changes in net funds resulting from cash flows	944
Bank overdrafts acquired with subsidiary undertaking	(9)
Loan Notes issued on acquisitions	(1,012)
Loans and obligations under hire purchase contracts acquired with subsidiary undertaking	(395)
New hire purchase contracts	(24)
Movement in net debt in the period	(496)
Net funds at incorporation	-
Net debt at end of period	(496)

31 Related party disclosures

The group has taken advantage of the exemptions under FRS 8 not to disclose any transactions or balances between group entities that have been eliminated on consolidation.

The group paid rents in the amount of £34,000 to Artroyd Securities Limited, a company in which the Chairman, Ian G Murgitroyd, has an interest.

The group also earned interest of £1,000 on the balance of an outstanding loan owed by SCI Artroyd France, a French limited liability partnership in which the Chairman, Ian G Murgitroyd, has an equity interest. The outstanding amount of the loan as at 31 May 2002 was £43,000 and it attracts monthly interest at the Bank of England base rate of interest plus 2.5%.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the company will be held at Cardew & Co, 12 Suffolk Place, London SW7Y 4HQ at 11am on 23 October 2002 for the purposes of considering and, if thought fit, passing the following resolutions:

ORDINARY BUSINESS

Ordinary resolutions:

1. To receive and adopt the report of the Directors and the Financial Statements for the period ended 31 May 2002.
2. To approve the proposed dividend.
3. To receive and adopt the report of the Remuneration Committee of the company.
4. To re-elect Ian G Murgitroyd who retires from the Board in accordance with Article 77, as a Director of the company.
5. To re-elect Norman Pattullo who retires from the Board in accordance with Article 77, as a Director of the company.
6. To re-appoint KPMG Audit Plc as Auditors and to authorise the Directors to agree their remuneration.

By order of the Board

McClure Naismith
Company secretary

27 September 2002

Registered office: Scotland House, 165-169 Scotland Street, Glasgow G5 8PL