Contents

Murgitroyd Group PLC

Registered number SC221766

* voluntary disclosure

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 (resigned 1 July 2003)
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

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 Chancery
12 Suffolk Street
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.

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.

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.

Pierpaolo AME Pacitti
3.

Paolo Pacitti was an Executive Director of Murgitroyd Group PLC and its trading subsidiary, Murgitroyd & Company Limited throughout the financial year. 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.

Paolo resigned as a Director of the company and its trading subsidiary on 1 July 2003 to commence a sabbatical year.

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. 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 Encyclopaedia of Scots Law. Kenneth is an accredited specialist in Intellectual Property Law and is a Director of TIPLO.

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

Christopher Greig is currently Chairman of Belhaven Brewery Group plc and, until recently, was Executive Chairman of William Grant & Sons Limited. He is also Chairman of PPL Therapeutics plc and was previously Managing Director of Invergordon Distillery Limited.

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

Chairman's Statement

Introduction

I am pleased to report a continuing strong performance by the group in the financial year to 31 May 2003, Murgitroyd's first full year as a quoted company. Despite slow economic activity, the group has made significant progress and has remained highly profitable.

Financial review

For the year ended 31 May 2003, the turnover of the group's trading subsidiary, Murgitroyd & Company, increased by 17% to £10.56m (2002: £9.05m). Its profit before tax was up by 11% to £704,000 (2002: £634,000) and its gross margin increased to 67.8% (2002: 65.2%).

The group's basic earnings per share were 1.96p (2002: 2.00p) but adjusted basic earnings per share stood at 6.20p (2002: 4.13p) after adding back goodwill amortisation.

The group's turnover for the second half of the financial year to 31 May 2003 rose by 10.5% year on year to £5.43m (six months to 31 May 2002: £4.92m), which exceeded expectations.

As we announced in January this year, the Board undertook a detailed cost review in anticipation of more difficult trading conditions. A number of prudent decisions were made and implemented in the face of global economic uncertainties. These addressed the level of overheads and, among the consequent measures implemented, Directors' salaries were temporarily cut and bonus entitlements waived. The benefits of this review became apparent in the second half of the financial year as the pre-tax profit of Murgitroyd & Company increased to 9.6% of turnover from the 3.6% earned in the first half.

As previously announced the group has had to provide against £88,000 owed by one of its longstanding clients, Artlite Limited, which unexpectedly went into receivership in February 2003. The Official Receiver's formal review of the circumstances of the receivership is ongoing. During the period under review the group has, for the first time, made a general bad debt provision. Total bad debts either written off or provided against in the year amounted to £241,000 (2002: £38,000). Nevertheless Murgitroyd & Company's bad debt history over the medium term remains good at less than 1% of sales.

Dividend

In accordance with the stated policy at the time of our AIM flotation, the Directors are proposing a dividend of 1.570p per share (2002: 1.329p). Subject to approval at the Annual General Meeting the dividend will be paid on 15 September 2003 to shareholders on the register on 15 August 2003.

Business review

The group has continued to increase turnover and gained a significant number of clients during the period under review, despite what has been generally viewed as an uncertain time in the global Intellectual Property market. New clients require significant levels of investment by the group during the initial stages.

We retained our existing extensive portfolio of clients, which continue to provide us with a steady income.

Chairman's Statement (cont'd)

At the time of our AIM flotation we stated that our growth strategy was based on the development of the truly pan-European service to which we remain committed. During the period we have made further progress in implementing this strategy. We have recently completed the acquisition of Cabinet Bonneau EURL which has entailed relocating our Nice office to nearby Sophia Antipolis, the recruitment of four qualified and part-qualified Attorneys and the addition of several significant clients previously serviced by Cabinet Bonneau.

We are also in the process of expanding our operations in our other European offices and expect to staff our Munich office in the course of the coming financial year. We will consider strategic acquisitions and continue to believe that a number of acquisition opportunities will arise as professionals retire and exit practices.

People

We have always stressed that the ability to recruit, retain and incentivise quality Patent and Trade Mark Attorneys is central to the success of the group. As at 31 May 2003 we employed 20 qualified Attorneys (2002: 17). This number has since risen to 22. The average age profile of these Attorneys is still believed to be significantly below the industry average. We continue to recruit trainee Attorneys and develop our staff-training programmes. In addition we have in place recruitment and development policies for support staff. The total number of staff at 31 May 2003 was 129 (2002: 127).

On 1 July 2003 Paolo Pacitti resigned as an Executive Director to embark on a sabbatical year. Paolo was a longstanding Partner of Murgitroyd & Company and has been of enormous support to me personally. On behalf of all the staff at Murgitroyd, we wish him well.

Operational Issues

The refurbishment of the Glasgow headquarters at Scotland House has been completed on schedule. We have relocated all staff to these premises and terminated the lease on Murgitroyd & Company's previous Head Office at no cost.

Share Price

During the year to 31 May 2003, the middle market price of our shares varied from 108.5p to 150p. The current middle market price is 123.5p. This compares with our flotation price of 121p.

Outlook

Despite difficult market conditions we have made significant progress in achieving the objectives we set at the time of our AIM flotation. We believe the group has built a solid platform with which to continue to meet these aims even if uncertain market conditions prevail. We look forward to the forthcoming year with confidence.

Ian G. Murgitroyd
Chairman

4 August 2003

Directors' Report

for the year ended 31 May 2003

The Directors present their report and the consolidated audited Financial Statements for the year ended 31 May 2003.

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 required to be accounted for as an acquisition and accordingly the consolidated Profit and Loss Account for the period ended 31 May 2002 included only the results of Murgitroyd & Company Limited from the date of acquisition to 31 May 2002. The Directors considered that this presentation, on its own, did not enable a proper understanding of the underlying business's performance year on year and the progress made. Accordingly they presented pro forma financial statements in the Annual Report and Accounts 2002 which aggregated the Profit and Loss Accounts of Murgitroyd & Company Limited and its subsidiary undertakings for the years ended 31 May 2002 and 2001. A similar presentation has been adopted in 2003 for comparative purposes.

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

The review of the business for the year ended 31 May 2003 and the summary of future developments are included in the Chairman's Statement on page 4 to page 5.

Dividends and transfer to reserves

The Directors recommend that a dividend of 1.570p per share (period ended 31 May 2002: 1.329p per share) be paid and the retained profit for the year of £33,000 (period ended 31 May 2002: £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 2003 were equivalent to approximately 144 days' purchases (31 May 2002: 131 days). 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 2003 were equivalent to approximately 40 days' purchases (31 May 2002: 42 days).

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 year ended 31 May 2003

Directors

The Directors who served during the period were as follows:

Ian G Murgitroyd
Norman Pattullo
Pierpaolo AME Pacitti   Resigned 1 July 2003
Keith G Young
Mark N Kemp-Gee*
Dr. Kenneth G Chrystie*
Dr. Christopher G Greig*

*Non-executive Director

Keith G Young and Mark N Kemp-Gee 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. Keith G Young's Service Agreement has a one-year notice period and Mark N Kemp-Gee was appointed under a Letter of Appointment also with a one-year notice period.

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 4 August 2003, 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%
Chase Nominees Limited	826,446	10.0%
Pierpaolo AME Pacitti	581,782	7.0%
BNY (OCS) Nominees Limited	413,223	5.0%
Elizabeth-Anne Thomson	387,526	4.7%
G Edward Murgitroyd	387,526	4.7%
Morgan Nominees Limited	320,207	3.9%

Employee shareholdings

The company operates both 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 year ended 31 May 2003

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 and/or have subsequently purchased shares in the company.

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 year of £4,000 (ten month period ended 31 May 2002: £8,000). There were no political donations (ten month period ended 31 May 2002: £nil).

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

4 August 2003

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

4 August 2003

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 and 23 May 2002 have no performance criteria attached to them as they were granted as part of the flotation arrangements. Subsequent grants of share options will 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 Keith Young have Service Agreements with one-year notice periods. 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 year ended 31 May 2003 (six-month trading period ended 31 May 2002):

	Salary and fees	**Bonus**	**Benefits**	**Money purchase pension contrib'ns**	**2003 Total**	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2002 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Executive										
IG Murgitroyd*	**126**	**-**	**27**	**6**	**159**	60	3	9	3	75
N Pattullo	**109**	**-**	**14**	**5**	**128**	51	3	6	2	62
PAME Pacitti**	**107**	**-**	**17**	**5**	**129**	50	3	7	2	62
KG Young	**95**	**-**	**13**	**4**	**112**	44	3	8	2	57
Non-executive										
MN Kemp-Gee	**12**	**-**	**-**	**-**	**12**	6	-	-	-	6
Dr KG Chrystie	**12**	**-**	**-**	**-**	**12**	6	-	-	-	6
Dr CG Greig	**12**	**-**	**-**	**-**	**12**	4	-	-	-	4

* Highest paid Director
** Resigned 1 July 2003

During the year the Executive Directors waived emoluments (including bonus) amounting to £47,000.

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 year was as follows:

	At 31 May 2003	At 31 May 2002
Ian G Murgitroyd	**3,378,750**	3,378,750
Norman Pattullo	**1,027,970**	1,027,970
Pierpaolo AME Pacitti*	**616,782**	616,782
Keith G Young	**-**	-
Mark N Kemp-Gee	**8,264**	8,264
Dr Kenneth G Chrystie	**1,000**	-
Dr Christopher G Greig	**-**	-

* Resigned 1 July 2003

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. In addition, the shares held by Ian G Murgitroyd, Pierpaolo AME Pacitti, Mark N Kemp-Gee, Dr Kenneth G Chrystie and Dr Christopher G Greig are held by nominee companies.

Directors' share options

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

	At 31 May 2002	Options granted during the period	Options exercised during the period	At 31 May 2003	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	-	-	-	-	-	-	-

* Resigned 1 July 2003

The share price at 31 May 2003 was 120p (31 May 2002: 143p). During the year the share price ranged from 108.5p to 150p (period ended 31 May 2002: 121p to 155p).

On behalf of the Board

Mark N Kemp-Gee
Chairman of the Remuneration Committee

4 August 2003

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 includes overall group strategy, acquisition policy and approval of major capital expenditure.

The Board consists of the Chairman, Chief Executive and Finance Director, another Executive Director 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, corporate and commercial solicitors, who are Company Secretary and provide legal services to the group. The chairman, Ian Murgitroyd, is an 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 four 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 normally attend meetings although the Committee meets with the Auditors without the Executive Directors being in attendance for part of the meeting. 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.

The Risk Assessment Committee

The Risk Assessment Committee is chaired by Dr Kenneth Chrystie and is responsible for all elements of corporate risk. The committee reports to the Directors at every meeting of 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 the same as those in existing offices; systems are therefore harmonised.

In addition to the work of the Risk Assessment Committee, the subsidiary company's Directors have specific responsibilities and authority to manage risk effectively. They report to both the Risk Assessment Committee and 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 Risk Assessment Committee, 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 as will reviews of social, environmental and ethical matters 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

4 August 2003

Independent Auditors' report to the members of Murgitroyd Group PLC

We have audited the Financial Statements on pages 19 to 45. In addition to our audit of the Financial Statements the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare (in addition to that required to be prepared) as if the company were required to comply with the requirements under Schedule 7A to the Companies Act 1985.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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.

In addition to our audit of the Financial Statements the Directors have engaged us to review their Corporate Governance statement as if the company was required to comply with the Listing Rules of the Financial Services Authority in relation to those matters. 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 the unaudited part of the Remuneration Report 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 2003 and of the profit of the group for the year ended 31 May 2003 and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountant and Registered Auditor, Glasgow

4 August 2003

Independent Auditors' report on the pro forma Profit and Loss Account of Murgitroyd & Company Limited for the years ended 31 May 2003 and 31 May 2002

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 23 to 25 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 for the year ended 31 May 2003 and of the company and its subsidiaries for the full year ended 31 May 2002, 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 2003 and 2002 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

4 August 2003

Pro forma Profit and Loss Account of Murgitroyd & Company Limited (2002: the Murgitroyd & Company Limited sub-group)

for the years ended 31 May 2003 and 31 May 2002

	Before exceptional admin. expenses £'000	**Exceptional admin. expenses £'000**	**2003 Year ending 31 May 2003 £'000**	Before exceptional admin. expenses £'000	Exceptional admin. expenses £'000	2002 Year ending 31 May 2002 £'000
Turnover	**10,561**	**-**	**10,561**	9,054	-	9,054
Cost of sales	**(3,403)**	**-**	**(3,403)**	(3,150)	-	(3,150)
Gross profit	**7,158**	**-**	**7,158**	5,904	-	5,904
Administrative expenses						
- standard	**(6,312)**	**-**	**(6,312)**	(5,192)	-	(5,192)
- exceptional*	**-**	**(88)**	**(88)**	-	-	-
Operating profit	**846**	**(88)**	**758**	712	-	712
Interest receivable and similar income	**10**	**-**	**10**	19	-	19
Interest payable and similar charges	**(64)**	**-**	**(64)**	(97)	-	(97)
Profit on ordinary activities before taxation	**792**	**(88)**	**704**	634	-	634

* bad debt provision

Consolidated Profit and Loss Account

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

	Notes	**Before goodwill amortisation**	**Goodwill amortisation**	**2003 Year ending 31 May 2003**	Before goodwill amortisation	Goodwill amortisation	2002 Period ending 31 May 2002
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
Turnover	2	**10,561**	**-**	**10,561**	4,917	-	4,917
Cost of sales		**(3,403)**	**-**	**(3,403)**	(1,674)	-	(1,674)
Gross profit		**7,158**	**-**	**7,158**	3,243	-	3,243
Administrative expenses							
- standard		**(6,313)**	**(351)**	**(6,664)**	(2,794)	(175)	(2,969)
- exceptional*		**(88)**	**-**	**(88)**	-	-	-
Operating profit		**757**	**(351)**	**406**	449	(175)	274
Interest receivable and similar income	6	**10**	**-**	**10**	5	-	5
Interest payable and similar charges	7	**(64)**	**-**	**(64)**	(24)	-	(24)
Profit on ordinary activities before taxation	3	**703**	**(351)**	**352**	430	(175)	255
Tax on profit on ordinary activities	8	**(189)**	**-**	**(189)**	(89)	-	(89)
Profit on ordinary activities after taxation and for the financial year/(period)		**514**	**(351)**	**163**	341	(175)	166
Dividends - equity	9	**(130)**	**-**	**(130)**	(110)	-	(110)
Retained profit for the year/(period)	24	**384**	**(351)**	**33**	231	(175)	56
Earnings per 10p ordinary share	10						
Basic		**-**		**1.96p**	-		2.00p
Diluted		**-**		**1.96p**	-		2.00p
Adjusted, basic before goodwill amortisation		**6.20p**		**-**	4.13p		-
Adjusted, diluted before goodwill amortisation		**6.20p**		**-**	4.12p		-

* bad debt provision

Statement of Total Group Recognised Gains and Losses

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
Profit for the financial year/(period)	**163**	166
Unrealised surplus on revaluation of properties	**10**	36
Total recognised gains and losses relating to the financial year/(period)	**173**	202

Balance sheets

at 31 May 2003 and 31 May 2002

	Notes	**2003** Group £'000	**2003** Company £'000	2002 Group £'000	2002 Company £'000
Fixed assets					
Tangible assets	13	**1,988**	**-**	1,876	-
Investments	14	**9**	**8,056**	-	8,056
Intangible assets	12	**6,501**	**-**	6,852	-
		8,498	**8,056**	8,728	8,056
Current assets					
Work in progress	16	**230**	**-**	241	-
Debtors	17	**4,603**	**1,635**	3,688	1,633
Cash at bank and in hand		**106**	**-**	1,147	1,012
		4,939	**1,635**	5,076	2,645
Creditors: amounts falling due within one year	18	**(3,546)**	**(130)**	(3,909)	(1,137)
Net current assets		**1,393**	**1,505**	1,167	1,508
Total assets less current liabilities		**9,891**	**9,561**	9,895	9,564
Creditors: amounts falling due after more than one year	19	**(224)**	**-**	(272)	-
Provisions for liabilities and charges	20	**(10)**	**-**	(8)	-
Net assets		**9,657**	**9,561**	9,615	9,564
Capital and reserves					
Called up share capital	22	**828**	**828**	828	828
Share premium account	24	**8,694**	**8,694**	8,695	8,695
Revaluation reserve	24	**46**	**-**	36	-
Profit and loss account	24	**89**	**39**	56	41
Shareholders' funds – all equity	25	**9,657**	**9,561**	9,615	9,564

The Financial Statements on pages 19 to 45 were approved by the Board of Directors on 4 August 2003 and were signed on its behalf by:

Ian G Murgitroyd
Chairman

4 August 2003

Consolidated Cash Flow statement

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

	Notes	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
Net cash inflow/(outflow) from operating activities	28	**276**	(2,034)
Returns on investments and servicing of finance			
Interest received		**7**	3
Bank interest paid		**(58)**	(34)
Interest element of hire purchase repayments		**(3)**	(1)
Net cash outflow from returns on investments and servicing of finance		**(54)**	(32)
Taxation		**(179)**	(160)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(246)**	(163)
Proceeds from sale of tangible fixed assets		**-**	-
Net cash outflow from capital expenditure and financial investment		**(246)**	(163)
Acquisitions			
Purchase of subsidiary	14	**(9)**	-
Cash at hand and in bank acquired with subsidiary undertaking		**-**	826
Net cash (outflow)/inflow from acquisitions		**(9)**	826
Equity dividends paid		**(110)**	-
Cash outflow before financing		**(322)**	(1,563)
Financing			
Issue of ordinary share capital for cash	25	**-**	3,000
Expenses of share issues	25	**(1)**	(493)
Decrease in bank loans due outwith one year	29	**(55)**	(25)
Repayment of capital element of hire purchase obligations	29	**(26)**	(15)
Repayment of Loan Notes	29	**(1,012)**	-
Net cash (outflow)/inflow from financing		**(1,094)**	2,467
(Decrease)/increase in cash in the year/period	29	**(1,416)**	904

Notes to the financial statements

for the year ended 31 May 2003 (2002: 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.

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 2003. 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 year ended 31 May 2003 (2002: 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 defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amounts charged to the Profit and Loss Account represent the contributions payable to the schemes 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 year ended 31 May 2003 (2002: 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. Revenue is recognised in the period in which the service is rendered with billings in advance being credited to work in progress.

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 periods, the following was attributable to different geographical markets:

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
United Kingdom	**6,827**	3,376
United States of America	**1,456**	508
Japan	**1,425**	532
Republic of Ireland	**99**	34
France	**180**	65
Germany	**23**	8
Other countries	**551**	394
	10,561	4,917

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

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

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
United Kingdom	**9,761**	4,693
Republic of Ireland	**767**	224
France	**33**	-
	10,561	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

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
Profit on ordinary activities before taxation is stated		
After charging:		
Auditors' remuneration:		
Group - audit	**22**	10
- fees paid to the Auditors and associates in respect of other services	**36**	16
Company - audit	**-**	-
Depreciation written off tangible fixed assets:		
Owned	**139**	68
Held under hire purchase contracts	**42**	22
Amortisation of goodwill	**351**	175
Rental of land and buildings	**196**	71
Hire of office equipment – operating leases	**161**	45
Hire of other assets – operating leases	**153**	75
Loss on disposal of fixed assets	**2**	1
After crediting:		
Exchange gains	**92**	22

Auditors' remuneration for other services mainly relates to taxation, payroll and legal services in the United Kingdom, the Republic of Ireland and France. In addition the Auditors received fees totalling £95,000 in the ten month period ended 31 May 2002 in respect of their work on the placing and flotation that were charged to the share premium account.

Fees charged by McClure Naismith (the corporate and commercial solicitors of which non-executive Director Dr Kenneth G Chrystie is Senior Partner) totalled £15,000 in the year to 31 May 2003 (ten month period ended 31 May 2002: £6,000). In addition McClure Naismith received fees totalling £84,000 in the ten month period ended 31 May 2002 in respect of their work on the placing and flotation that were charged to the share premium account.

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: 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 periods, analysed by category, was as follows:

	Year ending 31 May 2003 Number	Period ending 31 May 2002 Number
Office, management and professional staff	**127**	111
Maintenance, cleaning and catering	**9**	11
	136	122

The aggregate payroll cost was as follows:

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
Wages and salaries	**3,676**	1,576
Social security costs	**342**	154
Pension costs	**141**	49
	4,159	1,779

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

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

6 Interest receivable and similar income

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
Receivable from related undertaking	**3**	1
Bank interest receivable	**-**	3
Other interest	**7**	1
	10	5

7 Interest payable and similar charges

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
On bank loans and overdrafts	**61**	22
Finance charges payable in respect of hire purchase contracts	**3**	2
	64	24

8 Tax on profit on ordinary activities

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
UK corporation tax		
Current tax on profit for the year/period at 30%	**199**	157
Overprovision of tax on profit for previous periods	**(43)**	-
Foreign tax		
Current tax on income for the year/period	**31**	-
Total current tax	**187**	157
Deferred tax (see note 20)		
Creation/(reversal) of timing differences	**2**	(68)
	189	89

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

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

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	**352**	255
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 30%	**105**	77
Effects of:		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	**127**	52
Chargeable gain provision	**-**	(9)
Income not chargeable to tax	**-**	(6)
Capital allowances for period (in excess of)/less than depreciation	**(2)**	68
Capital allowances transferred from group companies	**-**	(25)
Overprovision of tax on profit for previous periods	**(43)**	-
Total current tax charge (see above)	**187**	157

9 Dividends

	Year ending 31 May 2003 £'000	Period ending 31 May 2002 £'000
Equity shares:		
Dividend proposed (1.570p per share, (ten month period ended 31 May 2002: 1.329p per share))	**130**	110

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: 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	**Weighted average number of shares**	**2003 Earnings per share**	Earnings	Weighted average number of shares	2002 Earnings per share
	£'000	**Number**	**p**	£'000	Number	p
Basic earnings per share	**163**	**8,277,887**	**1.96**	166	8,277,887	2.00
Dilutive share options	**-**	**8,579**	**(0.00)**	-	23,479	(0.00)
Diluted earnings per share	**163**	**8,286,466**	**1.96**	166	8,301,366	2.00
Amortisation of goodwill	**351**	**8,286,466**	**4.24**	175	8,301,366	2.12
Adjusted, diluted earnings per share	**514**	**8,286,466**	**6.20**	341	8,301,366	4.12
Adjusted, basic earnings per share	**514**	**8,277,887**	**6.20**	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 of the Companies Act 1985. The company's loss after taxation for the year ended 31 May 2003 amounted to £2,000 (ten month period ended 31 May 2002: profit of £41,000).

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

12 Intangible fixed assets

	Group 2003 £'000	Group 2002 £'000
Goodwill		
Cost		
At start of year/incorporation	**7,027**	-
Additions	**-**	7,027
At end of year/period	**7,027**	7,027
Amortisation		
At start of year/incorporation	**175**	-
Charge for the year/period	**351**	175
At end of year/period	**526**	175
Net book value		
At end of year/period	**6,501**	6,852
At start of year/incorporation	**6,852**	-

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 year ended 31 May 2003 (2002: 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 start of year	1,400	903	29	266	**2,598**
Additions	165	63	41	16	**285**
Revaluations	10	-	-	-	**10**
Disposals	-	(92)	(3)	(60)	**(155)**
At 31 May 2003	1,575	874	67	222	**2,738**
Depreciation					
At start of year	-	546	16	160	**722**
Charge for the year	-	138	9	34	**181**
On disposals	-	(92)	(1)	(60)	**(153)**
At 31 May 2003	-	592	24	134	**750**
Net book value					
At 31 May 2003	1,575	282	43	88	**1,988**
At 31 May 2002	1,400	357	13	106	**1,876**

The net book value of tangible fixed assets includes an amount of £94,000 (2002: £96,000) in respect of assets purchased under hire purchase contracts and a related depreciation charge of £42,000 (2002: £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 2003 at £1,575,000 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 year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

Particulars relating to revalued assets are given below:

Group	2003 £'000	2002 £'000
Investment property		
Valuation – 2003/2002	**1,575**	1,400
Aggregate depreciation thereon	**-**	-
Net book value	**1,575**	1,400
Historical cost	**1,529**	1,364
Aggregate depreciation based on historical cost	**-**	-
Historical cost net book value	**1,529**	1,364

The company has no tangible fixed assets.

14 Fixed asset investments

	2003 Group £'000	2003 Company £'000	2002 Group £'000	2002 Company £'000
Shares in subsidiary undertaking	**9**	**8,056**	-	8,056

	2003 Group £'000	2003 Company £'000	2002 Group £'000	2002 Company £'000
Cost				
At start of year/incorporation	**-**	**8,056**	-	-
Additions (notes 15 and 32)	**9**	**-**	-	8,056
At end of year/period	**9**	**8,056**	-	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

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

The principal subsidiary is wholly owned and registered in Scotland and is included in the consolidated Financial Statements and has a period end accounting date of 31 May. Its capital and reserves amounted to £1,650,000 as at 31 May 2003. In the opinion of the Directors the aggregate value of the investment in the subsidiary undertaking is not less than the amount at which it is stated in the Financial Statements.

15 Acquisitions

During the year the company signed Heads of Terms in relation to the acquisition of the trade and assets of Cabinet Bonneau EURL. The acquisition was completed after the Balance Sheet date (see note 32). The profit after taxation of Cabinet Bonneau EURL for the year ended 31 December 2002 was £39,000 (2001: £67,000).

16 Work in progress

Group	**2003** **£'000**	2002 £'000
Work in progress	**230**	241

The company has no work in progress.

17 Debtors

	2003 **Group** **£'000**	**Company** **£'000**	2002 Group £'000	Company £'000
Trade debtors	**4,320**	**-**	3,442	-
Amount owed by subsidiary undertaking	**-**	**1,635**	-	1,631
Amount owed by related undertakings	**46**	**-**	63	-
Other debtors	**42**	**-**	35	-
Prepayments and accrued income	**195**	**-**	148	2
	4,603	**1,635**	3,688	1,633

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

18 Creditors: amounts falling due within one year

	2003 Group £'000	**2003 Company £'000**	2002 Group £'000	2002 Company £'000
Bank overdrafts (note 19)	**627**	**-**	252	-
Bank loans (note 19)	**86**	**-**	86	-
Obligations under hire purchase contracts (note 19)	**26**	**-**	21	-
Trade creditors	**2,098**	**-**	1,872	15
Loan Notes payable	**-**	**-**	1,012	1,012
Corporation tax	**143**	**-**	134	-
Other taxes and social security	**343**	**-**	292	-
Accruals and deferred income	**93**	**-**	130	-
Dividends proposed	**130**	**130**	110	110
	3,546	**130**	3,909	1,137

The Loan Notes were held by Norman Pattullo's Liferent Trust and Pierpaolo AME Pacitti's Liferent Trust and were in denominations of £1, redeemable in full by 30 November 2006, and carried 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 could obtain Sterling deposits on the outstanding amount of Loan Notes payable half-yearly in arrears. The Loan Notes were redeemed on 28 November 2002.

19 Creditors: amounts falling due after more than one year

	2003 Group £'000	**2003 Company £'000**	2002 Group £'000	2002 Company £'000
Bank loans	**197**	**-**	252	-
Obligations under hire purchase contracts	**27**	**-**	20	-
	224	**-**	272	-

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

Group	**2003 £'000**	2002 £'000
Within one year or on demand	**713**	338
Between one and two years	**86**	87
Between two and five years	**111**	165
In more than five years	**-**	-
	910	590

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

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.

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

Group	**2003 £'000**	2002 £'000
Within one year	**26**	21
Between one and five years	**27**	20
	53	41

20 Provisions for liabilities and charges

Group	**Deferred taxation 2003 £'000**	Deferred taxation 2002 £'000
At start of year/incorporation	**8**	-
Acquired on acquisitions	**-**	77
Charge/(credit) to the Profit and Loss Account in the year/period	**2**	(69)
At end of year/period	**10**	8

Notes to the financial statements (cont'd)
for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

The elements of deferred taxation are as follows:

Group	**2003 £'000**	2002 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**10**	8
Undiscounted provision/deferred tax liability	**10**	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 2003 or 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 2003 was £307,000 (2002: £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 year ended 31 May 2003 (2002: 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	Assets	Liabilities	Weighted average interest rate	2003 Average period for which rate is fixed	Assets	Liabilities	Weighted average interest rate	2002 Average period for which rate is fixed
	£'000	£'000	%	Years	£'000	£'000	%	Years
Fixed rate								
Bank loans	-	283	9.65%	3.96	-	338	9.65%	4.96
Hire purchase contracts	-	53	3.88%	2.43	-	41	5.02%	2.25
	-	336	N/a	N/a	-	379	N/a	N/a
Floating rate								
Cash balances	92	-	0.00%	0	1,124	-	3.84%	N/a
Bank overdrafts	-	611	Bank base rate plus 1.25% to 5.325%	N/a	-	210	Bank base rate plus 1.25%	N/a
Loan Notes	-	-	-	-	-	1,012	4.17%	N/a
	92	611	N/a	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	14	-	N/a	N/a	23	-	N/a	N/a
Other overdrafts	-	16	N/a	N/a	-	42	N/a	N/a
	14	16	N/a	N/a	23	42	N/a	N/a
Total	106	963	N/a	N/a	1,147	1,643	N/a	N/a

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

Company	**Assets**	**Liabilities**	**Weighted average interest rate**	**2003 Average period for which rate is fixed**	Assets	Liabilities	Weighted average interest rate	2002 Average period for which rate is fixed
	£'000	**£'000**	**%**	**Years**	£'000	£'000	%	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

Maturity of financial assets and liabilities

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

Group	**Financial assets**	**2003 Financial liabilities**	Financial assets	2002 Financial liabilities
	£'000	**£'000**	£'000	£'000
In one year or less, or on demand	**106**	**739**	1,147	1,372
Between one and two years	**-**	**106**	-	99
Between two and five years	**-**	**118**	-	172
	106	**963**	1,147	1,643

Company	**Financial assets**	**2003 Financial liabilities**	Financial assets	2002 Financial liabilities
	£'000	**£'000**	£'000	£'000
In one year or less, or on demand	**-**	**-**	1,012	1,012

Borrowing facilities

At 31 May 2003 the group had undrawn committed bank facilities of £396,000 (2002: £790,000) all of which fall due for review within one year.

22 Called up share capital

Group and company	2003 £'000	2002 £'000
Authorised		
8,713,570 ordinary shares of 10 pence each	**871**	871
Allotted, called up and fully paid		
8,277,887 ordinary shares of 10 pence each	**828**	828

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 2003 were as follows:

Exercise price	Date of grant	Date from which exercisable	Expiry date	2003 '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.

24 Reserves

Group	2003 Share premium account £'000	2003 Revaluation reserve £'000	2003 Profit and loss account £'000	2002 Share premium account £'000	2002 Revaluation reserve £'000	2002 Profit and loss account £'000
At start of year/incorporation	**8,695**	**36**	**56**	-	-	-
Retained profit for the year/period	**-**	**-**	**33**	-	-	56
Shares issued	**-**	**-**	**-**	9,188	-	-
Expenses of share issue	**(1)**	**-**	**-**	(493)	-	-
Revaluation arising in year/period	**-**	**10**	**-**	-	36	-
At end of year/period	**8,694**	**46**	**89**	8,695	36	56

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

Company	2003 Share premium account £'000	2003 Profit and loss account £'000	2002 Share premium account £'000	2002 Profit and loss account £'000
At start of year/incorporation	**8,695**	**41**	-	-
Retained (loss)/profit for the year/period	**-**	**(2)**	-	41
Shares issued	**-**	**-**	9,188	-
Expenses of share issue	**(1)**	**-**	(493)	-
At end of year/period	**8,694**	**39**	8,695	41

25 Reconciliation of movements in group equity shareholders' funds

Group	**2003 £'000**	2002 £'000
Profit for the financial year/period	**163**	166
Dividends	**(130)**	(110)
Retained profit for the financial year/period	**33**	56
New shares issued (see below)	**-**	10,016
Expenses of share issue	**(1)**	(493)
Movement in revaluation reserve	**10**	36
Net addition to equity shareholders' funds	**42**	9,615
Opening equity shareholders' funds	**9,615**	-
Closing equity shareholders' funds	**9,657**	9,615

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

New shares issued

Group	Acquisitions £'000	Cash £'000	2003 Total £'000	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 defined contribution, group money purchase pension schemes. Contributions are charged to the Profit and Loss Account as they are payable. The group's contributions are equal to contributions of employees that are 3% or 5% of earnings, with a maximum 5% being paid by the group where an employee's contribution is higher than 5%. The pension cost charge for the year represents contributions payable by the group to the schemes and amounted to £141,000 (ten month period ended 31 May 2002: £49,000).

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

27 Financial commitments

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

Group	Land and buildings £'000	Other £'000	2003 Total £'000	Land and buildings £'000	Other £'000	2002 Total £'000
Expiring within one year	49	22	71	60	37	97
Expiring between two and five years	-	206	206	19	132	151
Expiring in five or more years	71	-	71	54	-	54
Total	120	228	348	133	169	302

At 31 May 2003 there was no capital expenditure authorised by the Board but not provided in the financial statements (2002: £nil). Similarly, there were no contracts placed for future capital expenditure, not provided in the financial statements (2002: £nil).

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

In addition to the above, at the end of the financial year the group had entered into commitments amounting to £nil (2002: £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 (2002: £nil).

28 Net cash inflow/(outflow) from operating activities

Group	**2003 £'000**	2002 £'000
Operating profit	**406**	274
Loss on disposal of tangible fixed assets	**2**	1
Depreciation of tangible fixed assets	**181**	90
Amortisation of intangible assets	**351**	175
Decrease/(increase) in work in progress	**11**	(1)
Increase in debtors	**(912)**	(322)
Increase/(decrease) in creditors	**237**	(2,251)
Net cash inflow/(outflow) from operating activities	**276**	(2,034)

29 Analysis of movement in net debt

Group	At start of year £'000	Cash flow £'000	Other £'000	**At 31 May 2003 £'000**
Cash balances				
Cash at hand and in bank	1,147	(1,041)	-	**106**
Bank overdrafts	(252)	(375)	-	**(627)**
Net cash balances	895	(1,416)	-	**(521)**
Other net debt				
Loan Notes	(1,012)	1,012	-	**-**
Bank loans due within one year	(86)	-	-	**(86)**
Bank loans due after one year	(252)	55	-	**(197)**
Hire purchase obligations	(41)	26	(38)	**(53)**
	(1,391)	1,093	(38)	**(336)**
Net debt	(496)	(323)	(38)	**(857)**

During the year the group entered into hire purchase contracts in respect of assets with a total capital value at inception of the contracts of £38,000 (ten month period ended 31 May 2002: £27,000).

Notes to the financial statements (cont'd)

for the year ended 31 May 2003 (2002: ten month period ended 31 May 2002)

30 Reconciliation of net cash flow to movement in net debt

Group	**2003 £'000**	2002 £'000
(Decrease)/increase in cash in the year/period	**(1,416)**	904
Cash inflow from decrease in debt and hire purchase financing	**1,093**	40
Changes in net debt resulting from cash flows	**(323)**	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	**(38)**	(24)
Movement in net debt in the year/period	**(361)**	(496)
Net debt at start of year/incorporation	**(496)**	-
Net debt at end of year/period	**(857)**	(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.

During the year the group paid rents in the amount of £57,000 (ten month period ended 31 May 2002: £34,000) to Artroyd Securities Limited, a company in which the Chairman, Ian G Murgitroyd, has an interest.

During the year the group also earned interest of £3,000 (ten month period ended 31 May 2002: £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 2003 was £46,000 (2002: £43,000) and it attracts monthly interest at the Bank of England Base rate of interest plus 2.5%.

32 Post Balance Sheet events

The group completed the acquisition of the trade and assets of Cabinet Bonneau EURL, a French Patent and Trade Mark practice, on 9 July 2003 for a cash consideration of £183,000. An advance payment of £9,000 was made prior to the Balance Sheet date and has been recorded as an addition to fixed asset investments (see note 14). A second payment was made on 4 July 2003 in the amount of £81,000 with the balance being paid at quarterly intervals over two years commencing 9 October 2003. The group financed the acquisition partly by way of a bank loan from The Royal Bank of Scotland plc drawn down on 2 July 2003 in the amount of £90,000 repayable in twelve monthly instalments commencing 2 August 2003.

In addition, the group entered into a nine-year lease for office accommodation in Sophia Antipolis, France on 1 June 2003. The annual rental payable under the lease is £24,000.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the company will be held at Scotland House, 165-169 Scotland Street, Glasgow G5 8PL at 11.30am on 2 September 2003 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 year ended 31 May 2003.
2. To approve the proposed dividend.
3. To receive and adopt the report of the Remuneration Committee of the company.
4. To re-elect Keith G Young who retires from the Board in accordance with Article 77, as a Director of the company.
5. To re-elect Mark N Kemp-Gee 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

4 August 2003

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

MURGITROYD GROUP PLC

Form of proxy

FOR USE BY ORDINARY SHAREHOLDERS
Relating to the Annual General Meeting to be held at Scotland House, 165-169 Scotland Street, Glasgow G5 8PL at 11.30am on 2 September 2003.

I/We ________________________________ [FULL NAME(S) IN BLOCK CAPITALS]

of ________________________________ [ADDRESS IN BLOCK CAPITALS]

being holder(s) of ordinary shares of 10 pence each in the company hereby appoint the Chairman of the meeting or (see note 4 below) as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the company to be held on 2 September 2003 and at any adjournment thereof. My/our proxy is to vote on the resolutions as follows:

Ordinary business	For	Against
To receive and adopt the report of the Directors and the Financial Statements for the year ended 31 May 2003.		
To approve the proposed dividend.		
To receive and adopt the report of the Remuneration Committee of the company.		
To re-elect Keith G Young who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-elect Mark N Kemp-Gee who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-appoint KPMG Audit Plc as Auditors and to authorise the Directors to agree their remuneration.		

In the absence of instructions, the proxy is authorised to vote (or abstain from voting) at his or her discretion on the specified resolutions. The proxy is also authorised to vote (or abstain from voting) on any business which may properly come before the meeting.

Signature(s) _________________________ Date _________________________

NOTES:

1. Please indicate how you wish your proxy to vote on the resolutions by inserting "X" in the appropriate space.
2. In the case of a corporation the proxy must be under its common seal (if any) or the hand of its duly authorised agent or officer. In the case of an individual, the proxy must be signed by the appointor or his agent, duly authorised in writing.
3. This proxy should reach the company's registrars, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA, not less than 48 hours before the time fixed for the meeting or adjourned meeting together with the authority (or a notarially certified copy of such authority) under which it is signed.
4. If you wish to appoint a proxy other than the Chairman of the meeting, delete the words "the Chairman of the meeting" and insert the name and address of your proxy in the space provided. Please initial the amendment. A proxy, who need not be a member of the company, must attend the meeting in person to represent you.
5. In the case of joint holders the signature of only one of the joint holders is required but, if more than one vote, the vote of the first named on the register of members will be accepted to the exclusion of other joint holders.
6. The register of Directors' interests required to be kept in accordance with the Companies Act 1985 and copies of the Directors' Service Agreements will be open for inspection for a period of fifteen minutes prior to the Annual General Meeting and during the Annual General Meeting itself.