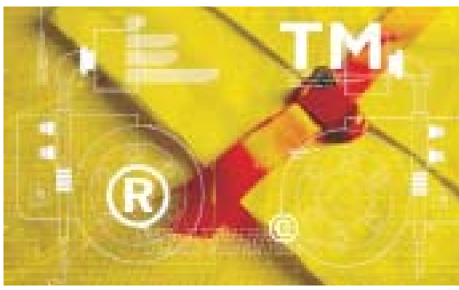
MURGITROYD
GROUP PLC

Annual **Report** and **Accounts** 2004

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 2004 it employed 142 people in Glasgow, Aberdeen, Belfast, Dublin, London, Munich, Muenster 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.

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 (resigned 2 February 2004)
Pierpaolo AME Pacitti	Executive Director (resigned 1 July 2003)
G Edward Murgitroyd	Executive Director (appointed 25 November 2003)
Dr. Roisin MP McNally	Executive Director (appointed 2 February 2004)
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
120 Old Broad Street
London EC2N 1AR

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

Capita Registrars
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 (59)
Chairman, 3.

Ian Murgitroyd is Executive Chairman of Murgitroyd Group PLC and its principal 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 (38)
Chief Executive and Finance Director, 3.

Keith Young is Chief Executive and Finance Director of Murgitroyd Group PLC and Chief Executive of its principal 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.

G Edward Murgitroyd (29)
3.

Edward Murgitroyd is the son of Ian Murgitroyd, Executive Chairman of the Group, and joined the Board of Directors as a second representative of the Murgitroyd family, majority shareholders in the company. A Glasgow University graduate in Mechanical Engineering, Edward has been with Murgitroyd Group PLC's principal subsidiary, Murgitroyd & Company Limited, since 1997 and sits on the Risk Assessment Committee.

Dr. Roisin MP McNally (40)
3.

Roisin McNally is a Director of Murgitroyd & Company Limited, Murgitroyd Group PLC's principal subsidiary. She graduated from Queen's University Belfast with a degree in Biochemistry and Genetics and has a PhD in Molecular Biology. Roisin is a Chartered Patent Agent, European Patent Attorney and a Community Trade Mark Attorney and has worked with Murgitroyd & Company Limited since 1995.

Mark N Kemp-Gee (58)
Non-executive, 1, 2, 3, 4.

Mark Kemp-Gee was, until recently, Chief Executive of Exeter Investment Group plc ("Exeter"). He is also a former Executive Chairman of Greig Middleton & Co. Limited and was a Director of Gerrard Group plc. Mark is a member of the Securities Institute.

Dr. Kenneth G Chrystie (57)
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 (69)
Non-executive, 1, 2, 3.

Christopher Greig was, until recently, non-executive Chairman of The Belhaven Brewery Group plc and of PPL Therapeutics plc. He was previously non-executive Chairman of William Grant & Sons Limited and Managing Director of Invergordon Distillers Group plc.

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

Chairman's Statement

Financial and operating review

I am pleased to report another solid performance by the Group for the financial year to 31 May 2004, reflecting our track record for continual sustained growth.

Group turnover increased by 16% to £12.3m (2003: £10.6m). Earnings before interest, tax and amortisation were up by 37% to £1,032,000 (2003: £757,000). The Group's basic earnings per share were up by 83% to 3.59p (2003: 1.96p).

The Group's turnover for the second half of the financial year to 31 May 2004 rose by 19% year on year to £6.5m (six months to 31 May 2003: £5.4m), which exceeded expectations.

During the period under review, the gross margin was 66.7%, slightly lower than the previous year (2003: 67.8%). This was primarily caused by the historically lower sales prices of Cabinet Bonneau EURL ("Bonneau"), the French Patent and Trade Mark practice whose trade and assets were purchased by the Group in July 2003. The aim is to harmonise prices across the Group over the medium term and significant progress has already been made in this direction.

The Directors are proposing a dividend of 1.99p per share (2003: 1.57p). Subject to approval at the Annual General Meeting, the dividend will be paid on 11 October 2004 to shareholders on the register on 10 September 2004.

Significant improvement has been made in debt collection, with a decrease in debtor days of twenty days. This reduction has, in conjunction with the growth in turnover, facilitated a consequential improvement in supplier payment, with a decrease in creditor days of 42 days. This improvement has, however, not adversely affected Group cash flow, with net cash flow before financing being neutral.

These results contain almost a full year's contribution from the business of Bonneau. The acquisition and integration of Bonneau's business has proven highly successful with turnover generated in France increasing to £991,000 (2003: £33,000). This represents a further step forward in our ability to offer a truly pan-European service and we believe that there are further significant opportunities for growth in France.

The Group's clients, as a result of the acquisition as well as through organic growth, now enjoy representation rights in the UK, Ireland, Germany, France, Monaco and the Netherlands. The Group remains focused on its strategy of establishing itself as the leading pan-European Patent and Trade Mark Attorney through its ongoing expansion programme. Our relationship with US law firm, DrinkerBiddle, remains strong and serves as a high-quality conduit between Europe and the US. The Group further continued to increase revenues through both our existing client portfolio and through new clients.

The Group has added a significant number of clients to its portfolio during the period. Of the top 50 clients, ranked by turnover, seven are recent client wins. As a result of the acquisition of the Bonneau business we also added around 3,000 active cases to our portfolio.

During the period we have piloted a new service, Attorney secondments, where Attorneys work in a quasi in-house capacity for clients. These arrangements accrue benefits to both the client and the Group. For the client, such an arrangement removes the need and cost for a permanent employee to cover certain projects internally; whereas for the Group, it facilitates a more extensive involvement in project processes. The Group anticipates offering this service across a number of existing as well as potential clients.

Chairman's Statement (continued)

The market

We believe the European Intellectual Property market continues to strengthen overall. Key indicators suggest that our pan-European strategy remains robust in the face of the continued demand/supply imbalance with regard to qualified Attorneys. This situation is compounded by the continuing poor average age demographic in the European Patent and Trade Mark profession.

While the Patent market is showing no indication of declining in the near future, mature users of the Intellectual Property system continue to remain cost conscious.

Board changes

As previously announced, in June 2003, Paolo Pacitti, an Executive Director, began a one-year sabbatical and resigned his Directorships with the company and its principal operating subsidiary, Murgitroyd & Company Limited. Since then, Paolo has decided to retire. The Board would like to take this opportunity to thank Paolo for his significant and longstanding contribution to the business and wish him every success in the future.

We were pleased to welcome Edward Murgitroyd and Dr. Roisin McNally as Executive Directors to the Board with effect from 25 November 2003 and 2 February 2004 respectively. Edward has been associated with Murgitroyd & Company Limited since 1997 and has sat on the company's Risk Assessment Committee since its inception. He is an Honours graduate of Glasgow University and joins the Board of Directors as a second representative of the Murgitroyd family, majority shareholders in the company.

Roisin is a Director of Murgitroyd & Company Limited and a graduate of Queen's University Belfast with a degree in biochemistry and genetics. She also has a PhD in molecular biology. Roisin is a Chartered Patent Agent, European Patent Attorney and a Community Trade Mark Attorney and has been with Murgitroyd & Company Limited since 1995.

The Group also announced that Norman Pattullo had resigned as an Executive Director of the company on 2 February 2004. Norman remains on the Board of Murgitroyd & Company Limited.

People

As at 31 May 2004 the Group employed 22 qualified Attorneys (2003: 20). We continue to recruit trainee Attorneys and develop our internal staff-training programmes. The total number of staff at 31 May 2004 was 142 (31 May 2003: 129).

I would like to take this opportunity to thank all our staff for their continued commitment to the Group.

The Group continues to encourage an involvement by its staff in their local communities, not least through our active Charities Committee. The Group also remains cognisant of its wider responsibilities and carries on its business in a manner as environmentally friendly as possible.

Share Price and notifiable interest

During the period, the middle market price of the company's shares fluctuated between 113.7p and 166p. The current middle market price is 114p. This compares with the flotation price of 121p.

The company received notification on 22 October 2003 that Norman Pattullo's Liferent Trust had sold 795,728 ordinary shares in the company. This trust now holds 232,242 ordinary shares in the company, representing 2.81 per cent of the issued share capital. In addition, Pierpaolo AME Pacitti's Liferent Trust, sold 189,541 ordinary shares in the company on 22 October 2003 and now holds 232,241 ordinary shares in the company representing 2.81 per cent of the issued share capital. Both trusts no longer have notifiable interests in the company.

Chairman's Statement (continued)

Schroder Investment Management Limited ("SIM") acquired 700,000 ordinary shares in the company on 22 October 2003. This is equivalent to 8.46 per cent of the current issued share capital and represents SIM's entire shareholding. We are delighted to welcome a new institutional shareholder of the standing of SIM. It remains the company's objective to continue to attract investors of a similar calibre.

Recent developments

In July the Group announced that Murgitroyd & Company Limited had opened and permanently staffed an office in Muenster, Germany. This office complements the Group's pre-existing office facility in Munich and meets our stated objective of staffing a German office to represent the Group's clients' German domestic interests at the German Patent Office.

The office is headed up by Carsten ten Brink, an experienced German and European Patent Attorney with extensive in-house and private practice expertise. This new development means that the Group now operates from eight offices across Europe. This expanding pan-European network continues to differentiate the Group from its competitors and has, we believe, already enhanced our client service offering. We also believe our network is now of a scale that brings significant benefits to clients with regard to their European requirements.

The Group's Aberdeen office was relocated to larger office accommodation during the year, a move that reflects its continued expansion.

Outlook

I believe that we have made significant progress in developing the business. We remain well positioned to sustain our rate of growth as we continue the Group's organic development whilst considering further acquisition opportunities. Bearing in mind the improvement in the operating environment, we believe that the Group is in a strong position to continue its pan-European expansion. The current year has started satisfactorily and we look forward to the remainder of the year with confidence.

Ian G Murgitroyd
Chairman

30 August 2004

Directors' Report

for the year ended 31 May 2004

The Directors present their report and the consolidated audited Financial Statements for the year ended 31 May 2004.

Principal activity

The Group provides a wide range of Intellectual Property advisory services through its trading subsidiaries Murgitroyd & Company Limited and Bonneau Murgitroyd SARL, European Patent and Trade Mark Attorneys.

Review of business and future developments

The consolidated results of Murgitroyd Group PLC for the year are set out in the Profit and Loss Account on page 17.

The review of the business for the year ended 31 May 2004 and the summary of future developments are included in the Chairman's Statement on pages 4 to 6.

Dividends and transfer to reserves

The Directors recommend that a dividend of 1.993p per share (2003: 1.570p per share) be paid and the retained profit for the year of £132,000 (2003: £33,000) 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 the Group at 31 May 2004 were equivalent to approximately 102 days' purchases (31 May 2003: 144 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 the Group at 31 May 2004 were equivalent to approximately 12 days' purchases (31 May 2003: 40 days).

The company had no trade creditors at 31 May 2004 (31 May 2003: £nil).

Overseas branches

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

Directors

The Directors who served during the year were as follows:

Ian G Murgitroyd	
Keith G Young	
Norman Pattullo	Resigned 2 February 2004
Pierpaolo AME Pacitti	Resigned 1 July 2003
G Edward Murgitroyd	Appointed 25 November 2003
Dr. Roisin MP McNally	Appointed 2 February 2004
Mark N Kemp-Gee*	
Dr. Kenneth G Chrystie*	
Dr. Christopher G Greig*	

*Non-executive Director

Directors' Report (continued)

for the year ended 31 May 2004

Dr. Kenneth G Chrystie and Dr. Christopher G Greig 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. Dr. Kenneth G Chrystie and Dr. Christopher G Greig were appointed under Letters of Appointment with one-year notice periods.

The Group 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 30 August 2004, 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%
Chase Nominees Limited	826,446	10.0%
Chase Nominees Limited	700,000	8.5%
State Street Nominees Limited	429,793	5.2%
Elizabeth-Anne Thomson	387,526	4.7%
G Edward Murgitroyd	387,526	4.7%
Speirs & Jeffrey Client Nominees Ltd	333,672	4.0%
BNY (OCS) Nominees Limited	313,223	3.8%

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.

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.

Directors' Report (continued)

for the year ended 31 May 2004

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 (2003: £4,000). There were no political donations (2003: £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

30 August 2004

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 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularity.

By order of the Board

Ian G Murgitroyd
Chairman

30 August 2004

Remuneration Report

(Voluntary disclosure)

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 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.

Directors' Service Agreements

Ian Murgitroyd and Keith Young have Service Agreements with one-year notice periods. Dr. Roisin McNally has a Service Agreement with a six-month notice period. G Edward Murgitroyd has a Contract of Employment with a twelve-week 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.

Remuneration Report (continued)

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 years ended 31 May 2004 and 31 May 2003:

	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2004 Total	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2003 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive										
IG Murgitroyd*	**136**	**5**	**27**	**6**	**174**	126	–	27	6	159
N Pattullo†	**77**	**5**	**10**	**3**	**95**	109	–	14	5	128
PAME Pacitti‡	**9**	**–**	**1**	**–**	**10**	107	–	17	5	129
KG Young	**102**	**–**	**13**	**4**	**119**	95	–	13	4	112
GE Murgitroyd§	**28**	**–**	**–**	**1**	**29**	–	–	–	–	–
Dr. RMP McNally¶	**31**	**–**	**4**	**1**	**36**	–	–	–	–	–
Non-executive										
MN Kemp-Gee	**12**	**–**	**–**	**–**	**12**	12	–	–	–	12
Dr. KG Chrystie	**12**	**–**	**–**	**–**	**12**	12	–	–	–	12
Dr. CG Greig	**12**	**–**	**–**	**–**	**12**	12	–	–	–	12
	419	**10**	**55**	**15**	**499**	473	–	71	20	564

* Highest paid Director

† Resigned 2 February 2004

‡ Resigned 1 July 2003

§ Appointed 25 November 2003

¶ Appointed 2 February 2004

During the year one of the Executive Directors waived a bonus amounting to £5,000. During the year to 31 May 2003 the Executive Directors waived emoluments (including bonus) amounting to £47,000. During the year retirement benefits accrued to six Directors (2003: four).

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 2004	At 31 May 2003
Ian G Murgitroyd	**3,378,750**	3,378,750
Keith G Young	**–**	–
G Edward Murgitroyd	**387,526**	387,526
Dr. Roisin MP McNally	**–**	–
Mark N Kemp-Gee	**8,264**	8,264
Dr. Kenneth G Chrystie	**1,000**	1,000
Dr. Christopher G Greig	**–**	–

Remuneration Report (continued)

Directors' interests are beneficially held. In addition, the shares held by Ian G Murgitroyd, G Edward Murgitroyd, Mark N Kemp-Gee and Dr. Kenneth G Chrystie 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 2003	Options granted during the period	Options exercised during the period	At 31 May 2004	Exercisable price	Date from which exercisable	Expiry date
Ian G Murgitroyd	–	–	–	–	–	–	–
Keith G Young	43,568	–	–	43,568	121p	20/11/2004	19/11/2011
	–	8,216	–	8,216	169p	2/2/2007	1/2/2014
G Edward Murgitroyd	–	–	–	–	–	–	–
Dr. Roisin MP McNally	21,784	–	–	21,784	121p	20/11/2004	19/11/2011
	–	8,216	–	8,216	169p	2/2/2007	1/2/2014
Mark N Kemp-Gee	–	–	–	–	–	–	–
Dr. Kenneth G Chrystie	–	–	–	–	–	–	–
Dr. Christopher G Greig	–	–	–	–	–	–	–

Performance criteria attaching to Directors' share options are disclosed on page 11. The share price at 31 May 2004 was 131.3p (31 May 2003: 120p). During the year the share price ranged from 113.7p to 166p (2003: 108.5p to 150p).

On behalf of the Board

Mark N Kemp-Gee
Chairman of the Remuneration Committee

30 August 2004

Corporate governance

(Voluntary disclosure)

The Combined Code

The Board is committed to high standards of corporate governance and has developed structures intended to, wherever appropriate, comply with the recommendations of the new Combined Code for Corporate Governance issued by the Financial Services Authority.

Details describing how the Group has applied 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 companies' 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, 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, 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.

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.

Corporate governance (continued)

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. Edward Murgitroyd is a member of this committee.

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 companies' management have specific responsibilities and authority to manage risk effectively. They report to both the Risk Assessment Committee and the principal subsidiary company's Board, as required, on financial, operational and compliance risks. In addition, the operational functions, professional practice, finance, IT, HR, training, business development, support services and compliance operate within a developed management structure to ensure that the relevant risks are adequately identified, managed and reported on. Management committees meet regularly and the principal subsidiary company's Board meets every two months. Specific matters are reported on to the Risk Assessment Committee, the principal 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.

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

30 August 2004

Report of the independent Auditors to the members of Murgitroyd Group PLC

We have audited the Financial Statements on pages 17 to 37. 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 Directors' Report and, as described on page 10, the Financial Statements in accordance with applicable United Kingdom law and Accounting Standards. Our responsibilities, as independent Auditors, are established in the United Kingdom by statute, the Auditing Practices Board 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 regarding Directors' remuneration and transactions with the Group is not disclosed.

We read the other information accompanying the Financial Statements and consider whether it is consistent with those 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 Group'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 as at 31 May 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

30 August 2004

Consolidated Profit and Loss Account

for the years ended 31 May 2004 and 31 May 2003

	Notes	**Before goodwill amortisation £'000**	**Goodwill amortisation £'000**	**2004 Year ending 31 May 2004 £'000**	Before goodwill amortisation £'000	Goodwill amortisation £'000	2003 Year ending 31 May 2003 £'000
Turnover	2	**12,287**	**–**	**12,287**	10,561	–	10,561
Cost of sales		**(4,087)**	**–**	**(4,087)**	(3,403)	–	(3,403)
Gross profit		**8,200**	**–**	**8,200**	7,158	–	7,158
Administrative expenses							
– standard		**(7,168)**	**(360)**	**(7,528)**	(6,313)	(351)	(6,664)
– exceptional*		**–**	**–**	**–**	(88)	–	(88)
		(7,168)	**(360)**	**(7,528)**	(6,401)	(351)	(6,752)
Operating profit		**1,032**	**(360)**	**672**	757	(351)	406
Interest receivable and similar income	6	**3**	**–**	**3**	10	–	10
Interest payable and similar charges	7	**(65)**	**–**	**(65)**	(64)	–	(64)
Profit on ordinary activities before taxation	3	**970**	**(360)**	**610**	703	(351)	352
Tax on profit on ordinary activities	8	**(313)**	**–**	**(313)**	(189)	–	(189)
Profit on ordinary activities after taxation and for the financial year		**657**	**(360)**	**297**	514	(351)	163
Dividends – equity	9	**(165)**	**–**	**(165)**	(130)	–	(130)
Retained profit for the year	24	**492**	**(360)**	**132**	384	(351)	33
Earnings per 10p ordinary share	10						
Basic		**–**		**3.59p**	–		1.96p
Diluted		**–**		**3.58p**	–		1.96p
Adjusted, basic before goodwill amortisation		**7.95p**		**–**	6.20p		–
Adjusted, diluted before goodwill amortisation		**7.93p**		**–**	6.20p		–

* bad debt provision

There were no discontinued operations in the current or previous year.

Statement of Total Group Recognised Gains and Losses

for the years ended 31 May 2004 and 31 May 2003

	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000
Profit for the financial year	**297**	163
Unrealised surplus on revaluation of properties	**16**	10
Total recognised gains and losses relating to the financial year	**313**	173

Balance Sheets

at 31 May 2004 and 31 May 2003

	Notes	2004 Group £'000	2004 Company £'000	2003 (restated*) Group £'000	2003 (restated*) Company £'000
Fixed assets					
Intangible assets	12	**6,340**	**–**	6,501	–
Tangible assets	13	**2,075**	**–**	1,988	–
Investments	14	**–**	**8,056**	9	8,056
		8,415	**8,056**	8,498	8,056
Current assets					
Work in progress	16	**265**	**–**	230	–
Debtors	17	**4,621**	**1,670**	4,603	1,635
Cash at bank and in hand		**344**	**–**	106	–
		5,230	**1,670**	4,939	1,635
Creditors: amounts falling due within one year	18	**(3,677)**	**(165)**	(3,546)	(130)
Net current assets		**1,553**	**1,505**	1,393	1,505
Total assets less current liabilities		**9,968**	**9,561**	9,891	9,561
Creditors: amounts falling due after more than one year	19	**(162)**	**–**	(224)	–
Provisions for liabilities and charges	20	**(1)**	**–**	(10)	–
Net assets		**9,805**	**9,561**	9,657	9,561
Capital and reserves					
Called up share capital	22	**828**	**828**	828	828
Share premium account	24	**2,258**	**2,258**	2,258	2,258
Merger reserve	24	**6,436**	**6,436**	6,436	6,436
Revaluation reserve	24	**62**	**–**	46	–
Profit and loss account	24	**221**	**39**	89	39
Shareholders' funds all equity	25	**9,805**	**9,561**	9,657	9,561

* The analysis of prior year reserves has been restated – see note 24.

The Financial Statements on pages 17 to 37 were approved by the Board of Directors on 30 August 2004 and were signed on its behalf by:

Ian G Murgitroyd
Chairman

30 August 2004

Consolidated Cash Flow Statement

for the years ended 31 May 2004 and 31 May 2003

	Notes	**Year ending 31 May 2004 £'000**	Year ending 31 May 2003 £'000
Net cash inflow from operating activities	28	**846**	276
Returns on investments and servicing of finance			
Interest received		**15**	7
Bank interest paid		**(61)**	(58)
Interest element of hire purchase repayments		**(3)**	(3)
Net cash outflow from returns on investments and servicing of finance		**(49)**	(54)
Taxation		**(284)**	(179)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(191)**	(246)
Proceeds from sale of tangible fixed assets		**1**	–
Net cash outflow from capital expenditure and financial investment		**(190)**	(246)
Acquisitions			
Purchase of trade and assets		**(194)**	(9)
Cash outflow from acquisitions		**(194)**	(9)
Equity dividends paid		**(130)**	(110)
Net cash outflow before financing		**(1)**	(322)
Financing			
Expenses of share issues	25	**–**	(1)
Increase in bank loans due within one year	29	**15**	–
Decrease in bank loans due outwith one year	29	**(60)**	(55)
Repayment of capital element of hire purchase obligations	29	**(29)**	(26)
Repayment of Loan Notes		**–**	(1,012)
Net cash outflow from financing		**(74)**	(1,094)
Decrease in cash in the year	29	**(75)**	(1,416)

Notes to the Financial Statements

for the years ended 31 May 2004 and 31 May 2003

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 undertakings made up to 31 May 2004. Unless otherwise stated 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.

On subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

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 and are amortised on a straight line basis over their useful economic lives.

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.

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

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. The Financial Statements of the overseas entity and branches are translated at the rate of exchange ruling at the Balance Sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves.

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.

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.

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

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 2004 £'000	Year ending 31 May 2003 £'000
United Kingdom	**6,935**	6,827
United States of America	**1,887**	1,456
Japan	**1,427**	1,425
Republic of Ireland	**216**	99
France	**1,046**	180
Germany	**60**	23
Other countries	**716**	551
	12,287	10,561

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

	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000
United Kingdom	**10,568**	9,761
Republic of Ireland	**728**	767
France	**991**	33
Germany	**–**	–
	12,287	10,561

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.

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

3. Profit on ordinary activities before taxation

	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000
Profit on ordinary activities before taxation is stated		
After charging:		
Auditors' remuneration:		
Group – audit fees	**26**	22
– tax services	**45**	28
– accountancy services	**4**	2
– legal services	**27**	6
– further assurance services	**7**	–
Company – audit	**–**	–
Depreciation and other amounts written off tangible fixed assets:		
Owned	**134**	139
Held under hire purchase contracts	**42**	42
Amortisation of goodwill	**360**	351
Rental of land and buildings	**180**	196
Hire of office equipment – operating leases	**170**	161
Hire of other assets – operating leases	**131**	153
Loss on disposal of fixed assets	**–**	2
Foreign exchange losses	**115**	–
After crediting:		
Gain on disposal of fixed assets	**1**	–
Foreign exchange gains	**–**	92

Auditors' remuneration for accountancy services includes payroll services in the Republic of Ireland.

Fees charged by McClure Naismith (the corporate and commercial solicitors of which non-executive Director Dr. Kenneth G Chrystie is Senior Partner) totalled £30,000 in the year to 31 May 2004 (2003: £15,000).

4. Directors' emoluments

Details of Directors' emoluments are set out in the Remuneration Report on page 11.

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

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 2004 Number	Year ending 31 May 2003 Number
Office, management and professional staff	**131**	127
Maintenance, cleaning and catering	**7**	9
	138	136

The aggregate payroll cost was as follows:

	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000
Wages and salaries	**4,045**	3,676
Social security costs	**480**	342
Pension costs	**193**	141
	4,718	4,159

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

6 Interest receivable and similar income

	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000
Receivable from related undertaking	**1**	3
Bank interest receivable	**–**	–
Other interest	**2**	7
	3	10

7 Interest payable and similar charges

	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000
On bank loans and overdrafts	**62**	61
Finance charges payable in respect of hire purchase contracts	**3**	3
	65	64

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

8 Tax on profit on ordinary activities

	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000
UK corporation tax		
Current tax on profit for the year at 30%	**284**	199
Under/(over)provision of tax on profit for previous periods	**14**	(43)
Foreign tax		
Current tax on income for the year	**24**	31
Total current tax	**322**	187
Deferred tax (see note 20)		
(Reversal)/creation of timing differences	**(9)**	2
Tax on profit on ordinary activities	**313**	189

The current tax charge for the periods are higher than the standard rate of UK corporation tax of 30% (2003: 30%). The differences are explained below:

	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000
Current tax reconciliation		
Profit on ordinary activities before tax	**610**	352
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 30%	**183**	105
Effects of:		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	**134**	127
Capital allowances for period in excess of depreciation	**(9)**	(2)
Under/(over)provision of tax on profit for previous periods	**14**	(43)
Total current tax charge (see above)	**322**	187

9 Dividends

	Year ending 31 May 2004 £'000	Year ending 31 May 2003 £'000
Equity shares:		
Dividend proposed (1.993p per share, (2003: 1.570p per share))	**165**	130

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

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 potential dilutive shares.

			2004			2003
	Profit for the financial year £'000	**Weighted average number of shares Number**	**Earnings per share p**	Profit for the financial year £'000	Weighted average number of shares Number	Earnings per share p
Basic earnings per share	**297**	**8,277,887**	**3.59**	163	8,277,887	1.96
Dilutive share options	**–**	**18,669**	**(0.01)**	–	8,579	(0.00)
Diluted earnings per share	**297**	**8,296,556**	**3.58**	163	8,286,466	1.96
Amortisation of goodwill	**360**	**8,296,556**	**4.35**	351	8,286,466	4.24
Adjusted, diluted earnings per share	**657**	**8,296,556**	**7.93**	514	8,286,466	6.20
Adjusted, basic earnings per share	**657**	**8,277,887**	**7.95**	514	8,277,887	6.20

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 profit after taxation for the year amounted to £165,000 (2003: £128,000) of which £165,000 (2003: £130,000) was a dividend from Murgitroyd & Company Limited.

12 Intangible fixed assets

	Group 2004 £'000
Goodwill	
Cost	
At start of year	**7,027**
Transferred from investments (notes 14 and 15)	**9**
Additions (note 15)	**190**
At end of year	**7,226**
Amortisation	
At start of year	**526**
Charge for the year	**360**
At end of year	**886**
Net book value	
At end of year	**6,340**
At start of year	**6,501**

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

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

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	1,575	874	67	222	**2,738**
Acquired on acquisitions	–	25	–	–	**25**
Additions	59	126	–	37	**222**
Revaluations	16	–	–	–	**16**
Disposals	–	(22)	(14)	(3)	**(39)**
At 31 May 2004	1,650	1,003	53	256	**2,962**
Depreciation					
At start of year	–	592	24	134	**750**
Charge for the year	–	130	13	33	**176**
On disposals	–	(22)	(14)	(3)	**(39)**
At 31 May 2004	–	700	23	164	**887**
Net book value					
At 31 May 2004	1,650	303	30	92	**2,075**
At 31 May 2003	1,575	282	43	88	**1,988**

The net book value of tangible fixed assets at 31 May 2004 includes an amount of £86,000 (31 May 2003: £94,000) in respect of assets purchased under hire purchase contracts and a related depreciation charge of £42,000 (31 May 2003: £42,000).

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 2004 at £1,650,000 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.

Particulars relating to revalued assets are given below:

	2004 £'000	2003 £'000
Freehold property		
Valuation – 2004/2003	**1,650**	1,575
Aggregate depreciation thereon	**–**	–
Net book value	**1,650**	1,575
Historical cost	**1,588**	1,529
Aggregate depreciation based on historical cost	**–**	–
Historical cost net book value	**1,588**	1,529

The company has no tangible fixed assets.

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

14 Fixed asset investments

	Group £'000	2004 Company £'000
Shares in subsidiary undertakings	–	8,056

	Group £'000	2004 Company £'000
Cost		
At start of year	9	8,056
Additions	–	–
Transferred to goodwill (notes 12 and 15)	(9)	–
At end of year	–	8,056

The subsidiary undertakings are as follows:

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

* Held by Murgitroyd & Company Limited.

Both subsidiary undertakings are included in the consolidated Financial Statements. Murgitroyd & Company Limited is wholly owned and registered in Scotland and has a year end accounting date of 31 May. Its capital and reserves amounted to £2,144,000 at 31 May 2004 (31 May 2003: £1,650,000). Murgitroyd & Company owns 49% of the shares in Bonneau Murgitroyd SARL but by virtue of the Shareholders Agreement exercises control and is entitled to all of the profit and losses. Bonneau Murgitroyd SARL was registered on 4 July 2003 in France and has a period end accounting date of 31 May. Its capital and reserves amounted to £12,000 at 31 May 2004. In the opinion of the Directors the aggregate value of the investment in the subsidiary undertakings is not less than the amount stated in the Financial Statements.

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

15 Acquisitions

During the year the Group acquired the trade and certain tangible fixed assets of EURL Cabinet Bonneau. The following table sets out the book values of the tangible fixed assets EURL Cabinet Bonneau acquired on 9 July 2003 and their fair value to the Group.

	Book value and fair value to Group £'000
Tangible fixed assets acquired	**25**
Consideration including costs of acquisition	**224**
Goodwill	**199**

16 Work in progress

	2004 Group £'000	**2004 Company £'000**	2003 Group £'000	2003 Company £'000
Work in progress	**265**	**–**	230	–

17 Debtors

	2004 Group £'000	**2004 Company £'000**	2003 Group £'000	2003 Company £'000
Trade debtors	**4,394**	**–**	4,320	–
Amount owed by subsidiary undertaking	**–**	**1,670**	–	1,635
Amount owed by related undertakings	**–**	**–**	46	–
Other debtors	**35**	**–**	42	–
Prepayments and accrued income	**192**	**–**	195	–
	4,621	**1,670**	4,603	1,635

18 Creditors: amounts falling due within one year

	2004 Group £'000	**2004 Company £'000**	2003 Group £'000	2003 Company £'000
Bank overdrafts (note 19)	**940**	**–**	627	–
Bank loans (note 19)	**101**	**–**	86	–
Obligations under hire purchase contracts (note 19)	**30**	**–**	26	–
Trade creditors	**1,679**	**–**	2,098	–
Corporation tax	**181**	**–**	143	–
Other taxes and social security	**450**	**–**	343	–
Accruals and deferred income	**131**	**–**	93	–
Dividends proposed	**165**	**165**	130	130
	3,677	**165**	3,546	130

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

19 Creditors: amounts falling due after more than one year

	2004 Group £'000	**2004 Company £'000**	2003 Group £'000	2003 Company £'000
Bank loans	**137**	**–**	197	–
Obligations under hire purchase contracts	**25**	**–**	27	–
	162	**–**	224	–

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

Group	**2004 £'000**	2003 £'000
Within one year or on demand	**1,041**	713
Between one and two years	**86**	86
Between two and five years	**51**	111
In more than five years	**–**	–
	1,178	910

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	**2004 £'000**	2003 £'000
Within one year	**30**	26
Between one and five years	**25**	27
	55	53

20 Provisions for liabilities and charges

Group	**Deferred taxation 2004 £'000**
At start of year	**10**
Credit to the Profit and Loss Account in the year	**(9)**
At end of year	**1**

The elements of deferred taxation are as follows:

Group	**2004 £'000**	2003 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**1**	10
Undiscounted provision/deferred tax liability	**1**	10

The company has no provisions for liabilities and charges.

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

21 Financial instruments

The Group's financial instruments comprise, from time to time, Sterling cash, bank deposits, bank loans and overdrafts, foreign currency swaps, 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 at 31 May 2004 or 31 May 2003.

The main risks from the Group's financial instruments are interest rate risk and significant foreign currency exchange rate movements. The Finance Director reviews and agrees the policies in the context of current market expectations for managing these and other risks. Details of interest rates are summarised below.

The fair value of the fixed rate bank loans at 31 May 2004 was £235,000 (31 May 2003: £307,000). Short term debtors and creditors (other than bank and other borrowings) have been excluded from the following disclosures.

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				2004				2003
	Assets	**Liabilities**	**Weighted average interest rate**	**Average period for which rate is fixed**	Assets	Liabilities	Weighted average interest rate	Average period for which rate is fixed
	£'000	**£'000**	**%**	**Years**	£'000	£'000	%	Years
Fixed rate								
Bank loans	**–**	**223**	**9.65%**	**3.04**	–	283	9.65%	3.96
Hire purchase contracts	**–**	**55**	**3.56%**	**2.05**	–	53	3.88%	2.43
	–	**278**	**N/a**	**N/a**	–	336	N/a	N/a
Floating rate								
Cash balances	**321**	**–**	**0.00%**	**N/a**	92	–	0.00%	N/a
Bank overdrafts	**–**	**940**	**Bank base rate plus 1% to 4.825%**	**N/a**	–	611	Bank base rate plus 1.25% to 5.325%	N/a
Bank loans	**–**	**15**	**Bank base rate plus 1.25%**	**0.17**	–	–	–	–
	321	**955**	**N/a**	**N/a**	92	611	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**	14	–	N/a	N/a
Other overdrafts	**–**	**–**	**–**	**–**	–	16	N/a	N/a
	23	**–**	**N/a**	**N/a**	14	16	N/a	N/a
Total	**344**	**1,233**	**N/a**	**N/a**	106	963	N/a	N/a

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

21 Financial instruments (continued)

Maturity of financial assets and liabilities

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

Group		2004		2003
	Financial assets £'000	**Financial liabilities £'000**	Financial assets £'000	Financial liabilities £'000
In one year or less, or on demand	**344**	**1,071**	106	739
Between one and two years	**–**	**104**	–	106
Between two and five years	**–**	**58**	–	118
	344	**1,233**	106	963

The company has no financial assets and liabilities.

Borrowing facilities

At 31 May 2004 the Group had undrawn committed bank facilities of £63,000 (31 May 2003: £396,000) all of which fall due for review within one year.

22 Called up share capital

Group and Company	**2004 £'000**	2003 £'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 2004 were as follows:

Exercise price	Date of grant	Date from which exercisable	Expiry date	**2004 £'000**
121p	20/11/2001	20/11/2004	19/11/2011	**163**
148p	23/5/2002	23/5/2005	22/05/2012	**22**
169p	2/2/2004	2/2/2007	1/2/2014	**118**
				303

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 (continued)

for the years ended 31 May 2004 and 31 May 2003

24 Reserves

Group	**Share premium account £'000**	**Merger reserve £'000**	**Revaluation reserve £'000**	**2004 Profit and loss account £'000**
At start of year as published	**8,694**	**–**	**46**	**89**
Prior year adjustment*	**(6,436)**	**6,436**	**–**	**–**
At start of year as restated	**2,258**	**6,436**	**46**	**89**
Retained profit for the year	**–**	**–**	**–**	**132**
Revaluation arising in year	**–**	**–**	**16**	**–**
At end of year	**2,258**	**6,436**	**62**	**221**

Company	**Share premium account £'000**	**Merger reserve £'000**	**2004 Profit and loss account £'000**
At start of year as published	**8,694**	**–**	**39**
Prior year adjustment*	**(6,436)**	**6,436**	**–**
At start of year as restated	**2,258**	**6,436**	**39**
Retained profit for the year	**–**	**–**	**–**
At end of year	**2,258**	**6,436**	**39**

* The premium on shares issued in exchange for shares in Murgitroyd & Company Limited qualify for merger relief under section 131 of the Companies Act 1985 and therefore that premium has been transferred from the share premium account to the merger reserve. The prior year figures have been restated accordingly. This adjustment has no impact on the profit before tax or the net assets in either the current or preceding financial year.

25 Reconciliation of movements in Group equity shareholders' funds

Group	**2004 £'000**	2003 £'000
Profit for the financial year	**297**	163
Dividends	**(165)**	(130)
Retained profit for the financial year	**132**	33
Expenses of share issue	**–**	(1)
Movement in revaluation reserve	**16**	10
Net addition to equity shareholders' funds	**148**	42
Opening equity shareholders' funds	**9,657**	9,615
Closing equity shareholders' funds	**9,805**	9,657

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

26 Pension arrangements

The Group operates defined contribution, group money purchase pension schemes. Contributions are charged to the Profit and Loss Account as they become 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 £193,000 (2003: £141,000).

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:

	Land and buildings £'000	**Other £'000**	**2004 Total £'000**	Land and buildings £'000	Other £'000	2003 Total £'000
Expiring within one year	**4**	**54**	**58**	49	22	71
Expiring between two and five years	**38**	**135**	**173**	–	206	206
Expiring in five or more years	**75**	**–**	**75**	71	–	71
Total	**117**	**189**	**306**	120	228	348

At 31 May 2004 there was no capital expenditure authorised by the Board but not provided in the Financial Statements (2003: £nil). Similarly, there were no contracts placed for future capital expenditure, not provided in the Financial Statements (2003: £nil).

In addition to the above, at the end of the financial year the Group had entered into commitments amounting to £nil (2003: £nil) in respect of non-cancellable operating leases, the inception of which occurred after the year end.

The company has no annual commitments under non-cancellable operating leases (2003: £nil).

28 Net cash inflow from operating activities

Group	**2004 £'000**	2003 £'000
Operating profit	**672**	406
(Gain)/loss on disposal of tangible fixed assets	**(1)**	2
Depreciation of tangible fixed assets	**176**	181
Amortisation of intangible assets	**360**	351
(Increase)/decrease in work in progress	**(35)**	11
Increase in debtors	**(30)**	(912)
(Decrease)/increase in creditors	**(296)**	237
Net cash inflow from operating activities	**846**	276

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

29 Analysis of movement in net debt

Group	At start of year £'000	Cash flow £'000	Other £'000	**At 31 May 2004 £'000**
Cash balances				
Cash at hand and in bank	106	238	–	**344**
Bank overdrafts	(627)	(313)	–	**(940)**
Net cash balances	(521)	(75)	–	**(596)**
Other net debt				
Bank loans due within one year	(86)	(15)	–	**(101)**
Bank loans due after one year	(197)	60	–	**(137)**
Hire purchase obligations	(53)	29	(31)	**(55)**
	(336)	74	(31)	**(293)**
Net debt	(857)	(1)	(31)	**(889)**

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 £31,000 (2003: £28,000).

30 Reconciliation of net cash flow to movement in net debt

Group	**2004 £'000**	2003 £'000
Decrease in cash in the year	**(75)**	(1,416)
Cash inflow from decrease in debt and hire purchase financing	**74**	1,093
Increase in net debt resulting from cash flows	**(1)**	(323)
New hire purchase contracts	**(31)**	(38)
Increase in net debt in the year	**(32)**	(361)
Net debt at start of year	**(857)**	(496)
Net debt at end of year	**(889)**	(857)

Notes to the Financial Statements (continued)

for the years ended 31 May 2004 and 31 May 2003

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 to 31 May 2004 the Group paid rents in the amount of £nil (2003: £57,000) to Artroyd Securities Limited, a company in which the Chairman, Ian G Murgitroyd, and one of the other Executive Directors, G Edward Murgitroyd, have a controlling equity interest.

During the year the Group also earned interest of £1,000 (2003: £3,000) on the balance of an outstanding loan owed by SCI Artroyd France, a French limited liability partnership in which the Chairman, Ian G Murgitroyd, and one of the other Executive Directors, G Edward Murgitroyd, have a controlling equity interest. The outstanding amount of the loan at 31 May 2003 was £46,000 and it attracted monthly interest at the Bank of England base rate of interest plus 2.5%. The loan was repaid, in full, on 30 November 2003. The maximum outstanding amount of the loan during the year was £48,000 (2003: £46,000).

Note 3 discloses fees charged by McClure Naismith (the corporate and commercial solicitors of which non-executive Director Dr. Kenneth G Chrystie is Senior Partner).

32 Post Balance Sheet events

The Group opened and permanently staffed a second German office in Muenster in July 2004. The Group registered a German branch in connection with the new Muenster office.

In addition, the Group entered into a three-year lease for office accommodation in Muenster, Germany on 1 June 2004. The annual rental payable under the lease is £10,000.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the company will be held at Cardew Chancery,12 Suffolk Street, London SW1Y 4HG at 11am on 28 September 2004 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 2004.
2. To approve the proposed dividend.
3. To receive and adopt the Report of the Remuneration Committee of the company.
4. To re-elect Dr. Kenneth G Chrystie who retires from the Board in accordance with Article 77, as a Director of the company.
5. To re-elect Dr. Christopher G Greig 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

30 August 2004

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 Cardew Chancery,12 Suffolk Street, London SW1Y 4HG at 11am on 28 September 2004.

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 28 September 2004 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 2004.		
To approve the proposed dividend.		
To receive and adopt the Report of the Remuneration Committee of the company.		
To re-elect Dr. Kenneth G Chrystie who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-elect Dr. Christopher G Greig 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, Capita Registrars, 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.

Pillans & Waddies, Edinburgh. 76909

Aberdeen Office
Exploration House, Exploration Drive
Bridge of Don, Aberdeen AB23 8GX
United Kingdom
Tel: + 44 (0) 1224 706 616 Fax: + 44 (0) 1224 706 617

Belfast Office
Clarence Chambers, 18 Donegall Square East
Belfast BT1 5HE
United Kingdom
Tel: + 44 (0) 28 90 320 441 Fax: + 44 (0) 28 90 320 442

Dublin Office
Unit 1, Block 8, Blanchardstown Corporate Park
Cruiserath Road, Blanchardstown, Dublin 15
Ireland
Tel: + 353 (0) 1 882 9400 Fax: + 353 (0) 1 882 9401

Glasgow Office
Scotland House, 165-169 Scotland Street
Glasgow G5 8PL
United Kingdom
Tel: + 44 (0) 141 307 8400 Fax: + 44 (0) 141 307 8401

London Office
211 Piccadilly, London W1J 9HF
United Kingdom
Tel: + 44 (0) 20 7917 2783 Fax: + 44 (0) 20 7917 2786

Muenster Office
Technologiehof
Mendelstrasse 11
Muenster D-48149
Germany
Tel: + 49 (0) 251 980 1000 Fax: + 49 (0) 251 980 1009

Munich Office
Artemis, Landsberger Strasse 155
Munich D-80687
Germany
Tel: + 49 (0) 895 795 9158 Fax: + 49 (0) 895 795 9258

Nice Office
Immeuble Atlantis
55 Allée Pierre Ziller
06560 Valbonne, Sophia Antipolis
France
Tel: + 33 (0) 4 97 21 52 00 Fax: + 33 (0) 4 97 21 52 01

MURGITROYD
GROUP PLC

email: mail@murgitroyd.com
web: www.murgitroyd.com

Registered in Scotland. No.SC221766