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MURGITROYD GROUP PLC

Annual Report and Accounts 2007

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
David WJ Castle	Executive Director
Graham J Murnane	Executive Director
G Edward Murgitroyd	Executive Director
Mark N Kemp-Gee*	
Dr. Kenneth G Chrystie*	
Dr. Christopher G Greig*	

*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
191 West George Street
Glasgow G2 2LJ

SOLICITORS

McClure Naismith
292 St. Vincent Street
Glasgow G2 5TQ

PRINCIPAL BANKERS

Clydesdale Bank PLC
Financial Solutions Centre
20 Waterloo Street
Glasgow G2 6DB

REGISTRARS AND RECEIVING AGENTS

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

FINANCIAL PUBLIC RELATIONS ADVISER

Cardew Group
12 Suffolk Street
London SW1Y 4HQ

Board of Directors

Ian G Murgitroyd (62)
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, UK and Community Trade Mark Attorney. He founded the business that is now Murgitroyd & Company in 1975. Ian is non-executive Chairman of Strathclyde University Incubator Limited and a Director of Gizmo Packaging Limited.

David WJ Castle (51)
3.

David Castle was, until it was acquired by Murgitroyd & Company Limited, Managing Director and majority shareholder of London-based Trade Mark Attorneys, Castles (the trading name of David WJ Castle & Co. Limited). He is a UK and Community Trade Mark & Design Attorney and established Castles in 1986 after having been a Partner in Barlin, Barnes & Castle. David is also a Director of Murgitroyd & Company Limited, Murgitroyd Group PLC's principal subsidiary where he is in the Trade Mark Group, Chairs the Business Development Group and sits on the Management Board.

G Edward Murgitroyd (32)
3.

Edward Murgitroyd is a Glasgow University graduate in Mechanical Engineering. He is a UK and European Patent Attorney, Registered Irish Patent Agent and Community Trade Mark & Design Attorney, and sits on the Risk Assessment Committee. He is "Director, Group Operations" with Murgitroyd Group PLC's principal subsidiary, Murgitroyd & Company Limited, which he joined from university in 1997. He is a member of Murgitroyd & Company Limited's Management Board and sits on its Business Development Group.

Dr. Kenneth G Chrystie (60)
Non-executive, 1, 3.

Kenneth Chrystie was, until recently, the Senior Partner of corporate and commercial solicitors, McClure Naismith where he is still an active consultant with a corporate and commercial law practice. 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, a Director of TIPLO and is a non-executive Director of Strathclyde University Incubator Limited. Kenneth chairs the Risk Assessment Committee.

Keith G Young (41)
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, is a Chartered Accountant and joined the business from KPMG in 1996.

Graham J Murnane (48)
3.

Graham Murnane is a Chartered Engineer, has an MA in Engineering from Cambridge University and is a UK and European Patent Attorney, and UK and Community Trade Mark & Design Attorney. Graham is also a Director of Murgitroyd & Company Limited, Murgitroyd Group PLC's principal subsidiary where he is "Director, Professional Practice" and Chairs the Practice Board. Graham previously worked as an Examiner at the European Patent Office in Munich and has served as a member of the European Qualifying Examination Committee.

Mark N Kemp-Gee (61)
Non-executive (senior), 1, 2, 3, 4.

Mark Kemp-Gee was, until 1999, Executive Chairman of Greig Middleton & Co. Limited and a Director of Gerrard Group plc. Subsequently he served as Chief Executive of Exeter Investment Group plc until its acquisition by Iimia Group plc in 2004. Mark is a member of the Securities Institute.

Dr. Christopher G Greig (72)
Non-executive, 1, 2, 3.

Christopher Greig was, until 2004, non-executive Chairman of The Belhaven 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

Group turnover increased 21.3% to £22.8 million (2006: £18.8 million). Operating profit rose by 66.2% to £2.57 million (2006: £1.55 million) and, before goodwill amortisation (EBITA) rose by 55.5% to £3.22 million (2006: £2.07 million), exceeding market expectations. These results are due to the integration of Fitzpatricks filtering through, continued organic growth, economies of scale, and a proportionate reduction in overheads for the second consecutive year.

The Group's basic earnings per share increased 110% to 16.41p (2006: 7.83p) during the period under review, and net cash flow after financing for the period was positive at £435,000.

Profit before tax increased by 70.8% to £2.30 million (2006: £1.35 million).

At the time of the Interim results in January 2007, Murgitroyd highlighted an improved gross margin of 65.8% for the Group, for the six months ended 30 November 2006. This was a direct result of a move towards increased time-based charging, and reflected improved time recording systems. During the second half of the year, the Group continued to benefit from this higher-margin, time-based charging and, with continuing systems improvements, the gross margin for the current year improved to 65.8% (2006: 62.8%).

The company anticipates the adoption of International Financial Reporting Standards for the financial year ended 31 May 2008. The Directors are currently assessing the likely areas of financial impact following transition and these will be reported at the time of announcement of the 2008 interim results.

Operating review

At the beginning of the current financial year, the Group announced the acquisition of Fitzpatricks, one of the UK's longest established and leading providers of Patent and Trade Mark services, for a consideration of £1.3 million (excluding costs), in addition to approximately £270,000 for net assets. The acquisition was immediately earnings enhancing, strengthening the corporate client base and extending the service offering for the Group. The integration of Fitzpatricks continues and the stringent cost controls adopted by the Group are generating the anticipated post acquisition synergies. No significant client losses have occurred since the acquisition and all fee earners employed by Fitzpatricks at acquisition have been retained. As part of the integration process the Group plans to sublet the leasehold property previously occupied by Fitzpatricks, and a number of third parties are actively interested in doing so.

Murgitroyd's agreement with Coats plc ("Coats"), a global leader in sewing, thread and needlecraft products, continues to prove extremely successful. Under the terms of the agreement, the Group has taken over the functions of Coats' Intellectual Property department at a fixed annual fee, a service that the Group is looking to replicate.

The Group continues with its Attorney secondment programmes, both to and from key clients. This is an excellent way of cementing relationships and has proved successful over the past few years.

The new offices in Milan and Edinburgh, and a sales office in Raleigh, North Carolina, USA, are now fully operational, bringing the Group's network to twelve offices in eight countries. All three offices have recruited additional new staff and Milan and Edinburgh are already contributing to earnings while the US sales office has further raised the Group's profile in that important market. Additionally, trainee Attorneys will be brought into the new Italian office during the current financial year. Murgitroyd's clients now enjoy direct representation rights before Patent and Trade Mark Offices in the UK, Ireland, Germany, France, Italy, Monaco, the Netherlands, Austria and Switzerland.

The market

The market continues to remain buoyant. The European Patent Office ("EPO") and Community Trade Mark ("CTM") Office statistics are used as benchmarks for the number of new filings for Intellectual Property Rights. For the calendar year 2006 the EPO showed a 7% year-on-year increase in the number of European Patents filed while the CTM office demonstrated a considerable 20% increase in new Community Trade Marks filed. These statistics are reflected by the Group's own new business pipeline.

Chairman's Statement (continued)

The demographic, market-wide, problem of a lack of qualified Patent Attorneys is ever present. Murgitroyd's internal training programme, combined with its expansion strategy, continues to counteract this. The Group continues to be watchful of this imbalance and investment in ''in-house'' training remains a primary focus for the Group.

People

The total number of employees as at 31 May 2007 was 194 (2006: 167). This figure includes a total of 46 qualified Attorneys (2006: 37). During the period, 25 people, including eight qualified Attorneys, joined the Group as a result of the acquisition of Fitzpatricks. Our recruitment programme, which identifies experienced, qualified staff as well as candidates for Attorney training, has continued successfully. Our internal training is an integral part of the Group's culture. The success of the internal training and exam preparation has become more and more evident, with an increasing number of newly qualified Attorneys being retained. The year saw a number of Attorneys gaining second Attorney qualifications, either as European Attorneys or as nationally qualified Attorneys. Training currently occurs in each of the Group's four principal legal jurisdictions: the UK, Ireland, France and Germany.

In October 2006, Graham Murnane was appointed as an Executive Director to the Board, following Roisin McNally's resignation in September 2006. Mr Murnane possesses a wealth of expertise and his experience is already proving a valuable asset to the Board.

I am pleased to announce that David Castle has agreed to stay with the Group after the end of his three-year contract, following the acquisition of Castles in January 2005. David will become Deputy Chairman and continue in a client-facing capacity, based in the Group's South London office. He will also continue to chair the Business Development Management Group, a key driving force behind the Group's organic growth.

Edward Murgitroyd has moved from a fee-earning role to a role as head of Group Operations. Group Operations consolidates strategic IT development and implementation; internal control, quality and auditing; and translation support services. Edward also retains a focus on business development in the US.

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

Share price

During the period, the middle market price of the company's shares fluctuated between 257.5p and 529p. The current middle market price is 460p. This compares with the flotation price of 121p in November 2001.

Dividend

As in previous years, the Board did not recommend an interim dividend. However, a final dividend of 9p per share (2006: 4.65p) is being proposed. Subject to approval at the Annual General Meeting, the dividend will be paid on 30 October 2007 to shareholders on the register on 12 October 2007.

Outlook

Murgitroyd has delivered sustainable growth and increased its market share for the sixth consecutive year since its flotation. The Group's aim is to continue to achieve predictable long term growth, both organically and, where appropriate, through selective acquisitions. Although acquisition opportunities present themselves on a regular basis, our stringent assessment criteria require any potential acquisition to be immediately earnings enhancing and have a long term additional fee earning capacity as well as a range of good quality new clients.

The market remains strong with a healthy number of existing new business opportunities to tender for meaningful Intellectual Property portfolios and we have no reason to believe that this positive trend will not continue.

Murgitroyd's clear strategy and the current market environment provide the solid platform upon which the Group can consolidate whilst continuing to deliver predictable returns for shareholders. In the wake of a promising start to the first half, the Board looks at the current financial year with confidence.

Ian G Murgitroyd
Chairman

31 August 2007

Directors' Report

for the year ended 31 May 2007

The Directors present their report and the consolidated audited Financial Statements for the year ended 31 May 2007.

Principal activity

The Group provides a wide range of Intellectual Property advisory services through its trading subsidiaries Murgitroyd & Company Limited and 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 19.

The review of the business for the year ended 31 May 2007 and the summary of future developments are included in the Chairman's Statement on page 4 to page 5.

Dividends

The Directors recommend that a dividend of £751,000, being 9p per share, (2006: £386,000, being 4.651p per share) be paid. This has not been included within creditors as it was not approved before the year end.

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 2007 were equivalent to approximately 63 days' purchases (31 May 2006: 66 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 2007 were equivalent to approximately 13 days' purchases (31 May 2006: 14 days).

The company had no trade creditors at 31 May 2007 (31 May 2006: £nil).

Overseas branches

In addition to its UK-based operations, the Group's principal subsidiary, Murgitroyd & Company Limited, operates from four registered overseas branches in the Republic of Ireland, France, Germany and Italy. The Group also has a sales office in the United States of America.

Directors

The Directors who served during the year were as follows:

Ian G Murgitroyd	
Keith G Young	
David WJ Castle	
Dr. Roisin MP McNally	Resigned 30 September 2006
Graham J Murnane	Appointed 26 October 2006
G Edward Murgitroyd	
Mark N Kemp-Gee*	
Dr. Kenneth G Chrystie*	
Dr. Christopher G Greig*	

*Non-executive Director

Directors' Report (continued)

for the year ended 31 May 2007

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. Mark N Kemp-Gee was appointed under a Letter of Appointment also with a one-year notice period.

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 31 August 2007, 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	2,878,750	34.5%
State Street Nominees Limited	706,290	8.5%
Chase Nominees Limited	657,856	7.9%
Chase Nominees Limited	500,000	6.0%
Elizabeth-Anne Thomson	387,526	4.6%
G Edward Murgitroyd	387,526	4.6%
BNY (OCS) Nominees Limited	316,997	3.8%

Employee shareholdings

The company operates an unapproved share option scheme in order to motivate senior executives.

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.

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.

Directors' Report (continued)

for the year ended 31 May 2007

Principal risks and uncertainties

The principal risks and uncertainties affecting the group include the following:

- Foreign currency exchange: the Group monitors closely short, medium- and long-term exchange rates and has a policy of hedging against currency fluctuations.

- Clients: the Group maintains strong relationships with key clients and has established credit control parameters. Specific credit terms are agreed with major clients where appropriate and are closely managed.

- Major disruption/disaster: business continuity planning is the responsibility of the Risk Assessment Committee and is reviewed regularly. In addition, a formal Business Disaster Recovery Plan has been trialled and implemented.

- The effect of legislation or other regulatory activities: the Group, with the assistance of its professional advisers, monitors forthcoming and current legislation regularly.

- New services risk: the company develops and introduces new services. All new service offerings involve business risk both in terms of possible abortive expenditure, reputational risk and potentially client dissatisfaction. Such risks could materially impact the Group.

- Litigation: the Group can be involved in litigation from time to time. The outcome of legal action is always uncertain and there is always the risk that it may prove more costly and time consuming than expected. There is a risk that litigation could be instigated in the future which could materially impact the Group. In some liability cases legal expenses are covered by insurance.

- Competitive risk: The Group operates in highly competitive markets. Service innovations or advances by competitors could adversely affect the Group.

Key areas of strategic development and performance of the business include:

- Business development: new and replacement business is being won continually; new markets have been developed in line with the Group's strategy of pan-European expansion; client relationships are monitored on a regular basis through client audits.

- Services: new services continue to be developed for both existing and potential clients; efficiencies have been gained and new initiatives for process and efficiency improvements are constantly being developed.

- Health and Safety: accident and absenteeism rates are monitored and the Group continues to seek ways of ensuring that a safe and healthy environment is provided.

- Competitive advantage: the Group focuses on areas where it has a competitive advantage, centering on the provision of pan-European Intellectual Property advisory services, which places it well in terms of long-term income/cash flow growth potential.

Directors' Report (continued)

for the year ended 31 May 2007

Key financial performance indicators, including the management of profitability and working capital, monitored on an ongoing basis by management are set out below.

Indicator	2007	2006 (restated*)	Measure
Profitability ratios			
Gross Margin	**65.8%**	62.8%	Gross profit as a percentage of turnover
Operating Margin	**11.3%**	8.2%	Operating profit as a percentage of turnover
Net Margin	**10.1%**	7.1%	Profit before tax as a percentage of turnover
EBITA margin	**14.1%**	11.0%	Profit before interest, tax and amortisation as a percentage of turnover
Return on capital employed [ROCE]	**19.0%**	13.1%	Profit before interest and tax [EBIT] divided by opening shareholders' funds plus borrowings† due outwith one year
Return on owners' equity [ROOE]	**12.6%**	6.4%	Profit after tax divided by opening shareholders' funds
Return on investment [ROI]	**10.0%**	5.5%	Profit after tax divided by "capital employed" [see definition above]
Liquidity ratios			
Current ratio	**166.3%**	159.5%	Current assets divided by current liabilities
Liquid ("quick" or "acid test") ratio	**148.9%**	142.7%	Current assets less prepayments and work in progress divided by current liabilities
Solvency ratios			
Gearing ratio	**17.8%**	12.9%	Borrowings† due outwith one year divided by shareholders' funds plus borrowings† due outwith one year
Debt: equity ratio	**381.8%**	281.2%	Borrowings‡ divided by share capital
Interest cover	**9.09**	7.53	Profit before interest and tax [EBIT] divided by interest
Other indicators			
Debtor days	**95**	96	Year end debtors expressed as the number of preceding days' gross sales
Bad debt exposure	**0.5%**	0.7%	Bad debts written off or provided against as a percentage of net sales
Turnover per Pound of salary cost	**£2.67**	£2.77	Net sales divided by payroll costs

* See Note 1
† borrowings due outwith one year includes obligations under hire purchase contracts
‡ borrowings includes bank overdrafts and obligations under hire purchase contracts

Financial instruments

It is the Group's policy not to enter into complex financial instruments. More detail on financial instruments is given in note 21 to the Financial Statements.

Directors' Report (continued)

for the year ended 31 May 2007

Charitable and political donations

The Group made charitable donations during the year of £4,000 (2006: £5,000). There were no political donations (2006: £nil).

Disclosure of information to Auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's Auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the company's Auditors are aware of that information.

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

31 August 2007

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law they have elected to prepare the Group and parent company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and parent company Financial Statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

By order of the Board

Ian G Murgitroyd
Chairman

31 August 2007

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. David Castle has a fixed term, three-year Service Agreement. Graham J Murnane and Edward Murgitroyd have Service Agreements with six-month 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 Report (continued)

Remuneration of non-executive Directors

The Board sets the remuneration levels for non-executive Directors. They do not receive any pension, 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 years ended 31 May 2007 and 31 May 2006:

	Salary and fees	**Bonus**	**Benefits**	**Money purchase pension contrib'ns**	**2007 Total**	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2006 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Executive										
IG Murgitroyd*	**200**	**14**	**6**	**10**	**230**	184	13	6	8	211
KG Young	**150**	**–**	**1**	**7**	**158**	136	–	7	6	149
DWJ Castle	**145**	**14**	**4**	**9**	**172**	127	5	3	6	141
Dr. RMP McNally†	**42**	**–**	**1**	**2**	**45**	117	13	2	5	137
GJ Murnane‡	**73**	**13**	**1**	**4**	**91**	–	–	–	–	–
GE Murgitroyd	**80**	**5**	**1**	**3**	**89**	59	–	1	2	62
Non-executive										
MN Kemp-Gee	**15**	**–**	**2**	**–**	**17**	15	–	1	–	16
Dr. KG Chrystie	**15**	**–**	**–**	**–**	**15**	15	–	–	–	15
Dr. CG Greig	**15**	**–**	**–**	**–**	**15**	15	–	–	–	15
	735	**46**	**16**	**35**	**832**	668	31	20	27	746

* Highest paid Director

† Resigned 30 September 2006

‡ Appointed 26 October 2006

Bonuses are discretionary. Benefits represent private healthcare insurance premiums and the provision of company cars. During the year one of the Executive Directors waived a bonus amounting to £13,000 (2006: £13,000). During the year retirement benefits accrued to six Directors (2006: five).

Remuneration Report (continued)

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 2007	At 31 May 2006
Ian G Murgitroyd	**2,878,750**	3,378,750
Keith G Young	**–**	–
David WJ Castle	**15,000**	15,000
Graham J Murnane	**19,784**	8,000
G Edward Murgitroyd	**387,526**	387,526
Mark N Kemp-Gee	**2,000**	10,000
Dr. Kenneth G Chrystie	**1,000**	1,000
Dr. Christopher G Greig	**5,000**	5,000

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 during the financial year had the following interests in share options:

	At 31 May 2006	Options granted during the period	Options exercised/ lapsed* during the period	At 31 May 2007	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
	20,000	–	–	20,000	181p	31/5/2008	30/5/2015
David WJ Castle	40,000	–	–	40,000	181p	31/5/2008	30/5/2015
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
	10,000	–	(10,000)*	–	181p	31/5/2008	30/5/2015
Graham J Murnane	21,784	–	(21,784)	–	121p	20/11/2004	19/11/2011
	8,216	–	–	8,216	169p	2/2/2007	1/2/2014
	20,000	–	–	20,000	181p	31/5/2008	30/5/2015
G Edward Murgitroyd	–	–	–	–	–	–	–
Mark N Kemp-Gee	–	–	–	–	–	–	–
Dr. Kenneth G Chrystie	–	–	–	–	–	–	–
Dr. Christopher G Greig	–	–	–	–	–	–	–

† Resigned 30 September 2006

Performance criteria attaching to Directors' share options are disclosed on page 12. The share price at 31 May 2007 was 385p (31 May 2006: 265p). During the year the share price ranged from 257.5p to 529p (2006: 160p to 288p).

Mark N Kemp-Gee
Chairman of the Remuneration Committee

31 August 2007

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, three other Executive Directors and the three non-executive Directors. One of the non-executive Directors, Dr. Kenneth Chrystie, is not considered independent as he was, until recently, 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.

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.

Corporate governance (continued)

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 Management 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 Directors meet every month. The principal subsidiary company's Board has also delegated a number of operational responsibilities to its Management Board and a number of professional practice responsibilities to a Practice Board. Both these groups meet every two months. Specific matters are reported on to the Risk Assessment Committee, the principal subsidiary company's Management and/or Practice Board, 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.

The Board has considered the need for an Internal Audit function but has decided the size of the Group does not justify it at present. However, it will keep the decision under review.

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

31 August 2007

Independent Auditors’ Report to the members of Murgitroyd Group PLC

We have audited the Group and parent company Financial Statements (the ”Financial Statements”) of Murgitroyd Group PLC for the year ended 31 May 2007 which comprise the Consolidated Profit and Loss Account, the Group and company Balance Sheets, the Consolidated Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

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’ responsibilities for preparing the Annual Report and the Financial Statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors’ Responsibilities on page 11.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors’ Report is consistent with the Financial Statements. In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group’s and 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.

Independent Auditors' Report to the members of Murgitroyd Group PLC (continued)

Opinion

In our opinion:

- the Financial Statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 May 2007 and of the Group's profit for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Glasgow

31 August 2007

Consolidated Profit and Loss Account

for the years ended 31 May 2007 and 31 May 2006

	Notes	**Before goodwill amortisation**	**Goodwill amortisation**	**2007 Year ended 31 May 2007**	Before goodwill amortisation (restated)*	Goodwill amortisation	2006 Year ended 31 May 2006 (restated)*
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
Turnover	2	**22,843**	**–**	**22,843**	18,837	–	18,837
Cost of sales		**(7,814)**	**–**	**(7,814)**	(7,012)	–	(7,012)
Gross profit		**15,029**	**–**	**15,029**	11,825	–	11,825
Administrative expenses		**(11,806)**	**(652)**	**(12,458)**	(9,752)	(527)	(10,279)
Operating profit		**3,223**	**(652)**	**2,571**	2,073	(527)	1,546
Interest receivable and similar income	6	**11**	**–**	**11**	5	–	5
Interest payable and similar charges	7	**(284)**	**–**	**(284)**	(206)	–	(206)
Profit on ordinary activities before taxation	3	**2,950**	**(652)**	**2,298**	1,872	(527)	1,345
Tax on profit on ordinary activities	8	**(934)**	**–**	**(934)**	(697)	–	(697)
Profit for the financial year	24	**2,016**	**(652)**	**1,364**	1,175	(527)	648
Earnings per 10p ordinary share	10						
Basic				**16.41p**			7.83p
Diluted				**15.90p**			7.67p

*See Note 1

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

There is no difference between the profit for the financial year and the historical cost equivalent.

Statement of Total Group Recognised Gains and Losses

for the years ended 31 May 2007 and 31 May 2006

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 (restated)* £'000
Profit for the financial year	**1,364**	648
Unrealised surplus on revaluation of properties	**56**	63
Total recognised gains and losses relating to the financial year	**1,420**	711
Prior year adjustment as explained in note 1	**(54)**	
Total recognised gains and losses since last Annual Report	**1,366**	

*See Note 1

Balance Sheets

at 31 May 2007 and 31 May 2006

	Notes	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Fixed assets					
Intangible assets	12	**9,757**	**–**	8,695	–
Tangible assets	13	**2,570**	**–**	2,252	–
Investments	14	**–**	**8,056**	–	8,056
		12,327	**8,056**	10,947	8,056
Current assets					
Work in progress	16	**481**	**–**	317	–
Debtors	17	**7,334**	**1,591**	5,981	1,505
Cash at bank and in hand		**453**	**–**	298	–
		8,268	**1,591**	6,596	1,505
Creditors: amounts falling due within one year	18	**(4,971)**	**–**	(4,136)	–
Net current assets		**3,297**	**1,591**	2,460	1,505
Total assets less current liabilities		**15,624**	**9,647**	13,407	9,561
Creditors: amounts falling due after more than one year	19	**(3,531)**	**–**	(2,499)	–
Provisions for liabilities and charges	20	**(101)**	**–**	(73)	–
Net assets		**11,992**	**9,647**	10,835	9,561
Capital and reserves					
Called up share capital	22	**834**	**834**	828	828
Share premium account	24	**2,337**	**2,337**	2,258	2,258
Merger reserve	24	**6,436**	**6,436**	6,436	6,436
Revaluation reserve	24	**222**	**–**	166	–
Profit and loss account	24	**2,163**	**40**	1,147	39
Shareholders' funds	25	**11,992**	**9,647**	10,835	9,561

The Financial Statements on pages 19 to 44 were approved by the Board of Directors on 31 August 2007 and were signed on its behalf by:

Ian G Murgitroyd
Chairman

31 August 2007

Consolidated Cash Flow Statement

for the years ended 31 May 2007 and 31 May 2006

	Notes	**Year ended 31 May 2007 £'000**	Year ended 31 May 2006 £'000
Net cash inflow from operating activities	28	**2,559**	1,740
Returns on investments and servicing of finance			
Interest received		**11**	5
Bank interest paid		**(194)**	(121)
Interest element of hire purchase repayments		**(4)**	(5)
Net cash outflow from returns on investments and servicing of finance		**(187)**	(121)
Taxation		**(822)**	(578)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(356)**	(203)
Proceeds from sale of tangible fixed assets		**–**	–
Net cash outflow from capital expenditure and financial investment		**(356)**	(203)
Acquisitions			
Purchase of subsidiary undertaking		**(856)**	(692)
Cash at bank and in hand acquired with subsidiary undertaking		**47**	–
Cash outflow from acquisitions		**(809)**	(692)
Equity dividends paid		**(386)**	(275)
Net cash outflow before financing		**(1)**	(129)
Financing			
Issue of ordinary share capital for cash	25	**85**	–
Increase in bank loans due within one year	29	**101**	45
Increase in bank loans due outwith one year	29	**796**	102
Repayment of capital element of hire purchase obligations	29	**(46)**	(51)
Repayment of Loan Notes	29	**(500)**	(300)
Net cash inflow/(outflow) from financing		**436**	(204)
Increase/(decrease) in cash in the year	29	**435**	(333)

Notes to the Financial Statements

for the years ended 31 May 2007 and 31 May 2006

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 except for a change in accounting policy for the valuation of share options in accordance with FRS20 ‘‘Share-based payments’’. The comparative figures for the year ended 31 May 2006 have also been restated on adoption of FRS20 ‘‘Share-based payments’’.

The impact of introducing FRS20 on the company's financial position has been to recognise a cumulative charge of £92,000 (2006: £54,000). The impact of the change on the Profit and Loss Account has been to reduce the profit before tax for the year ended 31 May 2007 by £38,000 (2006: £41,000).

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 2007. 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
Leasehold improvements	Over the term of the lease
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 2007 and 31 May 2006

1. Principal accounting policies (continued)

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 elements 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. A deferred tax asset is recognised when recovery against future taxable profits is likely.

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.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the Balance Sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the Financial Statements.

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.

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

1. Principal accounting policies (continued)

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.

Share based payments

The share option scheme allows employees to acquire shares of the company. The fair value of options granted after 7 November 2002 and those not yet vested as at 1 June 2006 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

2. Segmental information

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

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
United Kingdom	**13,958**	11,666
United States of America	**3,101**	2,613
France	**1,890**	1,407
Japan	**1,105**	1,411
Republic of Ireland	**467**	304
Germany	**347**	234
Italy	**39**	45
Canada	**249**	165
Australia	**179**	146
Other countries (each less than £100,000)	**1,508**	846
	22,843	18,837

On 30 June 2006 the Group acquired the entire share capital of Fitzpatricks (Group) Limited (‘‘Fitzpatricks’’). Following the acquisition, the trade, assets and liabilities of Fitzpatricks were transferred to Murgitroyd & Company Limited, the Group's principal trading company.

As the Group is managed on an office and functional basis the post acquisition results of the previous Fitzpatricks business have not been separately identified and therefore the turnover and operating profit attributable to the Fitzpatricks business cannot be disclosed.

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

2. Segmental information (continued)

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

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
United Kingdom	**20,741**	17,412
Republic of Ireland	**865**	644
France	**972**	668
Germany	**241**	113
Italy	**24**	–
	22,843	18,837

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 not monitored by management and is therefore not provided.

3. Profit on ordinary activities before taxation

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Profit on ordinary activities before taxation is stated		
After charging:		
Amounts receivable by Auditors and their associates in respect of:		
Group – audit of financial statements of group pursuant to legislation	**41**	31
– other services pursuant to such legislation	**5**	–
– other services relating to taxation	**71**	110
– services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the company or the Group	**59**	3
Depreciation and other amounts written off tangible fixed assets:		
Owned	**195**	145
Held under hire purchase contracts	**37**	44
Amortisation of goodwill	**652**	527
Rental of land and buildings	**420**	217
Hire of office equipment operating leases	**215**	223
Hire of other assets operating leases	**19**	31
Loss on disposal of fixed assets	**–**	5
After crediting:		
Foreign exchange gains	**237**	137

Amounts paid to the company's Auditors in respect of services to the company, other than the audit of the company's Financial Statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis. Fees charged by the Auditors in the year for work in connection with the acquisition of Fitzpatricks (Group) Limited (note 15) totalled £65,000.

Fees charged by McClure Naismith (the corporate and commercial solicitors of which non-executive Director Dr. Kenneth G Chrystie was, until recently, Senior Partner) totalled £63,000 in the year to 31 May 2007 (2006: £35,000). As at 31 May 2007, the outstanding amount owed to McClure Naismith amounted to £8,000 (31 May 2006: £42,000).

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

4. Directors' emoluments

The following emoluments were paid to Directors during the years ended 31 May 2007 and 31 May 2006:

	Salary and fees	**Bonus**	**Benefits**	**Money purchase pension contrib'ns**	**2007 Total**	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2006 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Executive										
IG Murgitroyd*	**200**	**14**	**6**	**10**	**230**	184	13	6	8	211
KG Young	**150**	**–**	**1**	**7**	**158**	136	–	7	6	149
DWJ Castle	**145**	**14**	**4**	**9**	**172**	127	5	3	6	141
Dr. RMP McNally†	**42**	**–**	**1**	**2**	**45**	117	13	2	5	137
GJ Murnane‡	**73**	**13**	**1**	**4**	**91**	–	–	–	–	–
GE Murgitroyd	**80**	**5**	**1**	**3**	**89**	59	–	1	2	62
Non-executive										
MN Kemp-Gee	**15**	**–**	**2**	**–**	**17**	15	–	1	–	16
Dr. KG Chrystie	**15**	**–**	**–**	**–**	**15**	15	–	–	–	15
Dr. CG Greig	**15**	**–**	**–**	**–**	**15**	15	–	–	–	15
	735	**46**	**16**	**35**	**832**	668	31	20	27	746

* Highest paid Director

† Resigned 30 September 2006

‡ Appointed 26 October 2006

Bonuses are discretionary. Benefits represent private healthcare insurance premiums and the provision of company cars. During the year one of the Executive Directors waived a bonus amounting to £13,000 (2006: £13,000). During the year retirement benefits accrued to six Directors (2006: five).

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

5 Employees

The average number of persons (including Executive Directors) employed by the Group during the years, analysed by category, was as follows:

	Year ended 31 May 2007 Number	Year ended 31 May 2006 Number
Professional staff	**68**	56
Office, management and support staff	**123**	111
	191	167

The aggregate payroll cost was as follows:

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 (restated)* £'000
Wages and salaries	**7,355**	5,826
Social security costs	**837**	677
Pension costs	**319**	251
Share based payments	**38**	41
	8,549	6,795

*See Note 1.

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

The company has no employees except for the non-executive Directors.

6 Interest receivable and similar income

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Bank interest receivable	**10**	4
Other interest	**1**	1
	11	5

7 Interest payable and similar charges

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
On bank loans and overdrafts	**193**	122
On Loan Notes	**87**	79
Finance charges payable in respect of hire purchase contracts	**4**	5
	284	206

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

8 Tax on profit on ordinary activities

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
UK corporation tax		
Current tax on profit for the year at 30%	**861**	613
(Over)/under provision of tax on profit for previous periods	**(25)**	13
Foreign tax		
Current tax on income for the year	**47**	9
Under/(over) provision of tax on income for previous periods	**32**	(26)
Total current tax	**915**	609
Deferred tax (see note 20)		
Reversal of timing differences	**19**	88
Tax on profit on ordinary activities	**934**	697

The current tax charges for the periods are higher than the standard rate of UK corporation tax of 30% (2006: 30%). The differences are explained below:

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 (restated)* £'000
Current tax reconciliation		
Profit on ordinary activities before tax	**2,298**	1,345
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 30%	**689**	404
Effects of:		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	**239**	190
FRS 20 charge	**11**	12
Other timing differences	**(33)**	15
Capital allowances for period in excess of depreciation	**(7)**	(8)
Under/(over) provision of tax for previous periods	**7**	(13)
Lower tax rates on overseas earnings	**(4)**	–
Utilisation of tax losses	**(1)**	–
Other items	**14**	9
Total current tax charge (see above)	**915**	609

* See Note 1

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

9 Dividends

	Year ended 31 May 2007 £'000	Year ended 31 May 2006 £'000
Equity shares:		
Dividend (4.651p per share, (2006: 3.322p per share))	**386**	275

The Directors recommend that a dividend of £751,000, being 9p per share, (2006: £386,000, being 4.651p per share) be paid. Subject to approval at the Annual General Meeting, the dividend will be paid 30 October 2007 to shareholders on the register on 12 October 2007.

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 year. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive shares.

	Profit for the financial year £'000	Weighted average number of shares Number	2007 Earnings per share p	Profit for the financial year (restated)* £'000	Weighted average number of shares (restated)* Number	2006 Earnings per share (restated)* p
Basic earnings per share	**1,364**	**8,307,012**	**16.41**	648	8,277,887	7.83
Dilutive share options	**–**	**266,787**	**(0.51)**	–	169,975	(0.16)
Diluted earnings per share	**1,364**	**8,573,799**	**15.90**	648	8,447,862	7.67
Amortisation of goodwill	**652**	**8,573,799**	**7.60**	527	8,447,862	6.24
Adjusted, diluted earnings per share	**2,016**	**8,573,799**	**23.50**	1,175	8,447,862	13.91
Adjusted, basic earnings per share	**2,016**	**8,307,012**	**24.26**	1,175	8,277,887	14.19

* See Note 1

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

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

11 Company Profit and Loss Account

The company has not presented its own Profit and Loss Account as permitted by Section 230 (4) of the Companies Act 1985. The company's profit after taxation for the year amounted to £387,000 (2006: £275,000).

12 Intangible fixed assets

	Group 2007 £'000
Goodwill	
Cost	
At start of year	**10,538**
Additions (note 15)	**1,714**
At end of year	**12,252**
Amortisation	
At start of year	**1,843**
Charge for the year	**652**
At end of year	**2,495**
Net book value	
At end of year	**9,757**
At start of year	**8,695**

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 2007 and 31 May 2006

13 Tangible fixed assets

Group	Property (including short leasehold improvements) £'000	Office equipment £'000	Motor vehicles £'000	Fixtures and fittings £'000	**Total £'000**
Cost/valuation					
At start of year	1,775	989	53	408	**3,225**
Acquired on acquisitions	152	137	–	–	**289**
Additions	157	121	65	13	**356**
Revaluations	56	–	–	–	**56**
Disposals	–	(76)	(2)	(30)	**(108)**
At 31 May 2007	2,140	1,171	116	391	**3,818**
Depreciation					
At start of year	–	638	47	288	**973**
Acquired on acquisitions	38	112	–	–	**150**
Charge for the year	38	143	8	43	**232**
On disposals	–	(76)	(1)	(30)	**(107)**
At 31 May 2007	76	817	54	301	**1,248**
Net book value					
At 31 May 2007	2,064	354	62	90	**2,570**
At 31 May 2006	1,775	351	6	120	**2,252**

The net book value of tangible fixed assets at 31 May 2007 includes an amount of £61,000 (31 May 2006: £98,000) in respect of assets purchased under hire purchase contracts and a related depreciation charge of £37,000 (2006: £44,000). The net book value of 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 2007 at £1,850,000 on the basis of open market value for existing use by Colliers CRE, independent chartered surveyors, in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors. Particulars relating to revalued assets are given below.

Group	**2007 £'000**	2006 £'000
Freehold property		
Valuation – 2007/2006	**1,850**	1,775
Additions between valuation and balance sheet date	**–**	–
Aggregate depreciation thereon	**–**	–
Net book value	**1,850**	1,775
Historical cost	**1,628**	1,609
Aggregate depreciation based on historical cost	**–**	–
Historical cost net book value	**1,628**	1,609

The company has no tangible fixed assets.

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

14 Fixed asset investments

	Group £'000	2007 Company £'000
Shares in subsidiary undertakings	–	8,056
Cost – at start and end of year	–	8,056

Subsidiary undertaking	Principal activity	Country of registration	Percentage ownership	Year end accounting date	2007 Capital and reserves £'000	2006 Capital and reserves (restated)* £'000
Murgitroyd & Company Limited	Patent and Trade Mark Attorney and technical support services	Scotland	100%	31 May	**5,289**	4,053
Murgitroyd SARL† (formerly Bonneau Murgitroyd SARL)	French Patent and Trade Mark Attorney services	France	49%	31 May	**60**	30
Murgitroyd (London) Limited † (formerly David WJ Castle & Co. Limited)	Patent and Trade Mark Attorney services	England	100%	31 May	**653**	653
Murgitroyd (Fitzpatricks Group) Limited† (formerly Fitzpatricks (Group) Limited – note 15)	Intermediate holding company	Scotland	100%	31 May	**115**	n/a
Murgitroyd (Fitzpatricks) Limited‡ (formerly Fitzpatricks Limited – note 15)	Patent and Trade Mark Attorney services	Scotland	100%	31 May	**589**	n/a

* See Note 1

† Held by Murgitroyd & Company Limited.

‡ Held by Murgitroyd (Fitzpatricks Group) Limited

All subsidiary undertakings are included in the consolidated Financial Statements and 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. By virtue of a Shareholders Agreement, Murgitroyd & Company Limited exercises control over, and is entitled to all of the profit and losses of, Murgitroyd SARL.

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

15 Acquisitions

On 30 June 2006, the Group acquired Fitzpatricks (Group) Limited. The following table sets out the final agreed book values of the net assets acquired and their fair value to the Group.

	Book value £'000	Fair value adjustments £'000	Fair value to Group £'000
Intangible fixed assets	**183**	**(183)**	**–**
Tangible fixed assets	**139**	**–**	**139**
Work in progress	**168**	**–**	**168**
Debtors	**757**	**–**	**757**
Cash at bank and in hand	**130**	**–**	**130**
Creditors: amounts falling due within one year	**(890)**	**–**	**(890)**
Creditors: amounts falling after more than one year	**(207)**	**–**	**(207)**
Provision for liabilities and charges	**(9)**	**–**	**(9)**
Net assets	**271**	**(183)**	**88**
Consideration:			
Cash			**700**
Deferred cash payment			**389**
Loan Notes issued			**557**
			1,646
Costs of acquisition			**156**
			1,802
Goodwill			**1,714**

Total cash outflow in relation to acquisitions was £1,356,000 including £500,000 in connection with the repayment of Loan Notes issued in connection with a previous acquisition (2006: £992,000)

The profit after taxation of Fitzpatricks (Group) Limited group for the period 1 January 2005 to 30 June 2006 was £44,000 (Year ended 31 December 2004: loss of £39,000).

The Group made no new acquisitions in the year ended 31 May 2006.

16 Work in progress

	2007 Group £'000	Company £'000	2006 Group £'000	Company £'000
Work in progress	**481**	**–**	317	–

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

17 Debtors

	Group £'000 2007	Company £'000 2007	Group £'000 2006	Company £'000 2006
Trade debtors	**6,837**	**–**	5,533	–
Amount owed by subsidiary undertaking	**–**	**1,591**	–	1,505
Other debtors	**110**	**–**	72	–
Prepayments and accrued income	**387**	**–**	376	–
	7,334	**1,591**	5,981	1,505

18 Creditors: amounts falling due within one year

	Group £'000 2007	Company £'000 2007	Group £'000 2006	Company £'000 2006
Bank overdrafts (note 19)	**209**	**–**	489	–
Bank loans (note 19)	**364**	**–**	189	–
Obligations under hire purchase contracts (note 19)	**8**	**–**	38	–
Trade creditors	**1,868**	**–**	1,752	–
Loan Notes payable (note 19)	**800**	**–**	500	–
Corporation tax	**452**	**–**	328	–
Other taxes and social security	**701**	**–**	547	–
Accruals and deferred income	**370**	**–**	293	–
Other creditors	**199**	**–**	–	–
	4,971	**–**	4,136	–

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

19 Creditors: amounts falling due after more than one year

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Bank loans	**2,605**	**–**	1,602	–
Obligations under hire purchase contracts	**–**	**–**	10	–
Loan Notes	**731**	**–**	887	–
Other creditors	**195**	**–**	–	–
	3,531	**–**	2,499	–

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

Group	2007 £'000	2006 £'000
Within one year or on demand	**1,373**	1,178
Between one and two years	**1,069**	677
Between two and five years	**1,125**	832
In more than five years	**1,142**	980
	4,709	3,667

All of the bank loans are repayable by instalments.

The Group has granted a standard security to Clydesdale Bank PLC over its freehold property in respect of outstanding bank borrowings. Clydesdale Bank PLC also has a bond and floating charge over the assets of the Group and cross guarantees are in place between Group companies.

Clydesdale Bank PLC has also provided a guarantee to the Loan Note holders in respect of the outstanding Loan Notes.

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

Group	2007 £'000	2006 £'000
Within one year	**8**	38
Between one and five years	**–**	10
	8	48

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

20 Deferred tax

Group	2007 £'000
At start of year	**73**
Acquired on acquisitions	**9**
Charge to the Profit and Loss Account in the year	**19**
At end of year	**101**

The elements of deferred taxation are as follows:

Group	2007 £'000	2006 £'000
Difference between accumulated depreciation and amortisation and capital allowances	**143**	118
Other timing differences	**(42)**	(45)
Deferred tax liability	**101**	73

The company has no provisions for liabilities and charges.

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 2007 or 31 May 2006.

The main risks from the Group's financial instruments are interest rate risk and significant foreign currency exchange rate movements. The Chief Executive 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.

There were no fixed rate loans outstanding at 31 May 2007 or at 31 May 2006 and therefore the fair value of all loans equates to book value. Short term debtors and creditors (other than bank and other borrowings) have been excluded from the following disclosures.

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

21 Financial instruments (continued)

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	2007 Average period for which rate is fixed	Assets	Liabilities	Weighted average interest rate	2006 Average period for which rate is fixed
	£'000	£'000	%	Years	£'000	£'000	%	Years
Fixed rate								
Hire purchase contracts	–	8	3.54%	0.36	–	48	3.20%	1.23
Floating rate								
Cash balances	225	–	2.84%	N/a	195	–	2.61%	N/a
Bank overdrafts	–	201	6.44%	N/a	–	472	Bank base rate plus 0.9%	N/a
Bank loans	–	2,969	Bank base rate plus 1%	N/a	–	1,791	Bank base rate plus 1%	N/a
Loan Notes	–	1,531	Bank base rate	N/a	–	1,387	Bank base rate	N/a
	225	4,701	N/a	N/a	195	3,650	N/a	N/a
Other financial assets and liabilities on which no interest is earned or paid								
Other cash balances	228	–	N/a	N/a	103	–	N/a	N/a
Other overdrafts	–	8	N/a	N/a	–	17	N/a	N/a
	228	8	N/a	N/a	103	17	N/a	N/a
Total	453	4,717	N/a	N/a	298	3,715	N/a	N/a

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

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	2007 Financial assets £'000	2007 Financial liabilities £'000	2006 Financial assets £'000	2006 Financial liabilities £'000
In one year or less, or on demand	**453**	**1,381**	298	1,216
Between one and two years	**–**	**1,069**	–	687
Between two and five years	**–**	**1,125**	–	832
After more than five years	**–**	**1,142**	–	980
	453	**4,717**	298	3,715

The company has no financial assets and liabilities.

Borrowing facilities

At 31 May 2007 the Group had undrawn committed bank facilities of £1,471,000 (31 May 2006: £1,145,000) all of which fall due for review within one year.

22 Called up share capital

Group and Company	2007 £'000	2006 £'000
Authorised		
18,713,570 ordinary shares of 10 pence each	**1,871**	871
Allotted, called up and fully paid		
8,343,239 (31 May 2006: 8,277,887) ordinary shares of 10 pence each	**834**	828

During the year the company issued 65,352 10p ordinary shares for a consideration of £85,000, settled in cash to satisfy share options exercised.

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

23 Share options

The company operates an unapproved share option scheme under which options have been granted to employees and Directors. No new options were granted during the financial year. The options exercised and either forfeited or lapsed during the year, and those outstanding at 31 May 2007, were as follows:

Exercise price	Date of grant	Date from which exercisable	Expiry date	2006 '000	**Exercised during the year '000**	**Forfeited/ lapsed during the year '000**	**2007 '000**
121p	20/11/2001	20/11/2004*	19/11/2011	163	**(44)**	**–**	**119***
148p	23/5/2002	23/5/2005	22/05/2012	22	**(22)**	**–**	**–**
169p	2/2/2004	2/2/2007*	1/2/2014	88	**–**	**(8)**	**80***
163p	11/1/2005	11/1/2008	10/1/2015	30	**–**	**–**	**30**
181p	31/5/2005	31/5/2008	30/5/2015	240	**–**	**(10)**	**230**
				543	**(66)**	**(18)**	**459**

* Exercisable as at 31 May 2007.

	2007 Weighted averaged exercise price p	**2007 Number of options '000**	2006 Weighted averaged exercise price p	2006 Number of options '000
Outstanding at start of year	**159**	**543**	159	543
Granted during the year	**–**	**–**	–	–
Exercised during the year	**130**	**(66)**	–	–
Forfeited during the year	**176**	**(18)**	–	–
Outstanding at end of year	**162**	**459**	159	543

The weighted average share price at the date of exercise of share options exercised during the year was 432p (2006: n/a). The options outstanding at the year end have an exercise price in the range of 121p to 181p and a weighted average contractual life of 6.8 years.

Details of the performance criteria of the share options are included in the Remuneration Report.

The fair value of the services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value is measured using a Black Scholes model. The main assumptions used in the model are the expected volatility (20.9%), expected option life (6.5 years), expected dividend yield (1.8%) and risk-free rate (4.4%).

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

24 Reserves

Group	Share premium account £'000	Merger reserve £'000	Revaluation reserve £'000	2007 Profit and loss account £'000
At start of year	2,258	6,436	166	1,147
Profit for the financial year	–	–	–	1,364
Dividends (note 9)	–	–	–	(386)
FRS 20 charge for equity settled transactions	–	–	–	38
New shares issued (note 22)	79	–	–	–
Revaluation arising in year	–	–	56	–
At end of year	2,337	6,436	222	2,163

In accordance with FRS 19 no provision is made for deferred tax in relation to the revaluation reserve. If the property was disposed of at its book value no material tax charge would arise.

Company	Share premium account £'000	Merger reserve £'000	2007 Profit and loss account £'000
At start of year	2,258	6,436	39
Profit for the financial year	–	–	387
Dividends (note 9)	–	–	(386)
New shares issued (note 22)	79	–	–
At end of year	2,337	6,436	40

25 Reconciliation of movements in equity shareholders' funds

	2007 Group £'000	2007 Company £'000	2006 Group £'000	2006 Company £'000
Profit for the financial year	1,364	387	648	275
Dividends	(386)	(386)	(275)	(275)
Retained profit for the financial year	978	1	373	–
New shares issued (note 22)	85	85	–	–
FRS 20 charge for equity settled transactions	38	–	41	–
Movement in revaluation reserve	56	–	63	–
Net addition to equity shareholders' funds	1,157	86	477	–
Opening equity shareholders' funds	10,835	9,561	10,358	9,561
Closing equity shareholders' funds	11,992	9,647	10,835	9,561

* See Note 1

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

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 £319,000 (2006: £251,000).

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			**2007**			2006
	Land and buildings	**Other**	**Total**	Land and buildings	Other	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Expiring within one year	**44**	**3**	**47**	27	2	29
Expiring between two and five years	**228**	**220**	**448**	143	182	325
Expiring in five or more years	**148**	**5**	**153**	119	–	119
Total	**420**	**228**	**648**	289	184	473

At 31 May 2007 there was no capital expenditure authorised by the Board but not provided in the Financial Statements (2006: £nil). Similarly, there were no contracts placed for future capital expenditure, not provided in the Financial Statements (2006: £nil).

In addition to the above, at the end of the financial year the Group had entered into commitments amounting to £nil (2006: £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 (2006: £nil).

28 Net cash inflow from operating activities

Group	**2007**	2006 (restated)*
	£'000	£'000
Operating profit	**2,571**	1,546
Loss on disposal of tangible fixed assets	**–**	5
Depreciation of tangible fixed assets	**232**	189
Share based payments	**38**	41
Amortisation of intangible assets	**652**	527
Decrease in work in progress	**4**	112
Increase in debtors	**(595)**	(672)
Decrease in creditors	**(343)**	(8)
Net cash inflow from operating activities	**2,559**	1,740

* See Note 1

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

29 Analysis of movement in net debt

Group	At 1 June 2006 £'000	Cash flow £'000	Acquisition £'000	Other £'000	**At 31 May 2007 £'000**
Cash balances					
Cash at hand and in bank	298	155	–	–	**453**
Bank overdrafts	(489)	280	–	–	**(209)**
Net cash balances	(191)	435	–	–	**244**
Other net debt					
Loan Notes	(1,387)	500	(557)	(87)	**(1,531)**
Bank loans due within one year	(189)	(101)	(74)	–	**(364)**
Bank loans due after one year	(1,602)	(796)	(207)	–	**(2,605)**
Hire purchase obligations	(48)	46	(6)	–	**(8)**
	(3,226)	(351)	(844)	(87)	**(4,508)**
Net debt	(3,417)	84	(844)	(87)	**(4,264)**

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 £nil (year ended 31 May 2006: £nil).

30 Reconciliation of net cash flow to movement in net debt

Group	**2007 £'000**	2006 £'000
Increase/(decrease) in cash in the year	**435**	(333)
Cash (inflow)/outflow from (increase)/decrease in debt and hire purchase financing	**(351)**	204
Decrease/(increase) in net debt resulting from cash flows	**84**	(129)
Bank loans acquired with subsidiary undertaking	**(281)**	–
Increase in Loan Notes	**(644)**	(79)
New hire purchase contracts	**–**	–
Hire purchase contracts acquired with subsidiary undertaking	**(6)**	–
Increase in net debt in the year	**(847)**	(208)
Net debt at start of year	**(3,417)**	(3,209)
Net debt at end of year	**(4,264)**	(3,417)

Notes to the Financial Statements (continued)

for the years ended 31 May 2007 and 31 May 2006

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 ended 31 May 2007 the Group made sales of £nil 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 (2006: £8,000). As at 31 May 2007, the outstanding amount owed by Artroyd Securities Limited amounted to £nil (31 May 2006: £nil).

During the year ended 31 May 2007 the Group made sales of £77,000 to Gizmo Packaging Limited, a company in which the Chairman, Ian G Murgitroyd, is a Director (2006: £42,000). As at 31 May 2007, the outstanding amount owed by Gizmo Packaging Limited amounted to £29,000 (31 May 2006: £19,000).

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

32 Post Balance Sheet events

There are no post balance sheet events to report.

Five year financial summary

at 31 May 2007

	2007 Year ended 31 May 2007 £'000 Before goodwill amortisation	2006 Year ended 31 May 2006 £'000 Before goodwill amortisation (restated)*	2005 Year ended 31 May 2005 £'000 Before goodwill amortisation	2004 Year ended 31 May 2004 £'000 Before goodwill amortisation	2003 Year ended 31 May 2003 £'000 Before goodwill amortisation
Turnover	**22,843**	18,837	14,456	12,287	10,561
Cost of sales	**(7,814)**	(7,012)	(4,784)	(4,087)	(3,403)
Gross profit	**15,029**	11,825	9,672	8,200	7,158
Administrative expenses	**(11,806)**	(9,752)	(8,170)	(7,168)	(6,401)
Operating profit	**3,223**	2,073	1,502	1,032	757
Interest receivable and similar income	**11**	5	4	3	10
Interest payable and similar charges	**(284)**	(206)	(130)	(65)	(64)
Profit on ordinary activities before taxation	**2,950**	1,872	1,376	970	703
Earnings per 10p ordinary share					
Adjusted, Basic before goodwill amortisation	**24.26p**	14.19p	11.39p	7.95p	6.20p
Adjusted, Diluted before goodwill amortisation	**23.50p**	13.91p	11.38p	7.93p	6.20p
Proposed dividend per share	**9p**	4.651p	3.322p	1.993p	1.570p

* See Note 1

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 11am on 25 October 2007 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 2007.
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

31 August 2007

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 11am on 25 October 2007.

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 25 October 2007 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 2007.		
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 appointer or his agent, duly authorised in writing.
3. This proxy should reach the company's registrars, Capita Registrars, Proxies Dept, PO Box 25, 34 Beckenham Road, Beckenham, Kent BR3 4TU, 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.

MURGITROYD GROUP PLC

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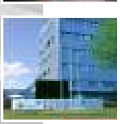

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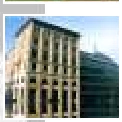

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