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MURGITROYD GROUP PLC

Directors' report and financial statements

Murgitroyd Group PLC

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Registered number SC221766
31 May 2008

Contents

Highlights

Turnover increased by 12.7% to £25.7m *(2007: £22.8m)*

Gross profit up 14.7% to £17.2m *(2007: £15.0m)*

Operating profit (before onerous lease provision) rose 6.3% to £3.4m *(2007: £3.2m)*

Operating profit £3.2m *(2007: £3.2m)*

Profit on ordinary activities before tax £2.9m *(2007: £2.9m)*

Earnings per share (before onerous lease provision) of 26.35p *(2007: 24.15p)*

Basic earnings per share of 23.96p *(2007: 24.15p)*

Proposed final dividend of 6.5p per share, giving a total dividend for the year of 9.5p *(2007: 9p)*

Acquisition and successful integration of Kennedys Patent Agency Limited

Ian Murgitroyd, Chairman of Murgitroyd Group PLC said:

"I am pleased to present a good set of results, following what has been a year of consolidation for the Group having made two acquisitions in as many years. During the period we have acquired and successfully integrated Kennedys which has added further strength and depth to the Group's service offerings.

Murgitroyd has delivered years of consistent growth, both organically and by acquisition, and has built an impressive network of European offices with rights of representation in five jurisdictions. The outlook for Patents and Trade Marks remains positive and despite an uncertain global economic environment, we remain confident of our ability to generate continued steady growth and value for shareholders."

Directors and advisers

Directors	Ian G Murgitroyd	Executive Chairman
	David WJ Castle	Executive Deputy Chairman
	Keith G Young	Chief Executive and Finance Director
	Graham J Murnane	Executive Director
	G Edward Murgitroyd	Executive Director
	Mark N Kemp-Gee	Non-executive Director
	Dr. Kenneth G Chrystie	Non-executive Director
	Dr. Christopher G Greig	Non-executive Director

Company secretary
McClure Naismith LLP
292 St. Vincent Street
Glasgow G2 5TQ

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

Nominated adviser
Noble & Company Limited
76 George Street
Edinburgh EH2 3BU

Nominated broker
Noble & Company Limited
120 Old Broad Street
London EC2N 1AR

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

Independent Auditors
KPMG Audit Plc
191 West George Street
Glasgow G2 2LJ

Solicitors
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Glasgow G2 5TQ

Registrars and receiving agents
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Financial PR adviser
Cardew Group
12 Suffolk Street
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Chairman's statement

Financial review

This is the first full year the Group's Directors' report and financial statements have been presented under Adopted International Financial Reporting Standards ("IFRSs as adopted by the EU") which involved restating our figures for prior periods back to the date of transition on 1 June 2006.

This has been a successful year of consolidation for the Group. Group turnover increased by 12.7% to £25.7m (2007: £22.8m). Gross profit rose by 14.7% to £17.2m (2007: £15.0m). Operating profit was £3.23m (2007: £3.21m). This was reduced by the effect of the Onerous Lease ("OL") provision, as disclosed in the Interim Statement. Excluding the impact of the OL provision operating profit was £3.43m. Including the impact of the OL provision, profit before tax was in line with expectations at £2.9m.

The Group closely monitors exchange rates between Sterling and both the Euro and US Dollar, and successfully managed its exposure through relatively turbulent markets in late 2007. Foreign exchange gains were £417,000 (2007: £237,000). As a net purchaser of the Euro, the Group could be impacted by any further decline in the value of Sterling against the Euro, and will therefore continue to closely monitor the performance of Sterling against this and other currencies, particularly the US Dollar.

In spite of difficult macro-economic conditions, the Group's bad debt exposure remains less than 1% of sales.

As explained in the Interim Statement, an accounting provision has been made in connection with the Group's lease of the former Fitzpatricks offices. When Murgitroyd acquired Fitzpatricks, it was decided that these offices would be emptied and Fitzpatricks staff would relocate to the Group's Head Office at Scotland House thereby realising the operational efficiencies that would accrue from all Glasgow staff being on one site. The leasing costs associated with the property were fully anticipated and built into the acquisition purchase price, management's expectations and analyst post-acquisition forecasts. Therefore, whilst a sub-letting of the property has been actively pursued since the property was emptied, it was never taken for granted that a new tenant would be found for a relatively short unexpired lease.

The Group sub-let the property in 2007 and the terms thereof should result in the Group generating £150,000 in unforecast earnings over the remainder of the lease term (to 2010).

However, accounting rules require that future costs be brought forward where specific income generated by such a sub-let does not completely offset related lease costs and the amount of the provision represents the difference between the remaining costs attaching to the property and the income that should be generated from the proposed sub-let over the same period. This OL provision has no cash flow effect and will be released over the remaining lease term.

Chairman's statement *(continued)*

Operating review

In February 2008 the Group announced the acquisition of Kennedys Patent Agency Limited ("Kennedys"), a European Patent and Trade Mark Attorney practice, headquartered in Glasgow with additional offices in Aberdeen and Newcastle, for a consideration of approximately £3.4 million (including costs). Fifteen fee earning staff joined the Group from Kennedys, including six qualified Attorneys.

This acquisition was typical of Murgitroyd's selective acquisition policy, being immediately earnings enhancing, while also strengthening both the Group's client base and service offering. Kennedys has been fully integrated into the Group, and all those permanent staff who joined Murgitroyd as part of the acquisition remain with the Group. All major clients have also been retained. Murgitroyd expects to benefit from the full effect of the acquisition in the current financial year.

Under the terms of the agreement, £2.4 million was paid in cash upon completion, with the remainder being paid over three years.

The Group continues to have access to a good pipeline of acquisition opportunities, which are assessed against the Group's strict selective acquisition policy.

The Group now has a network of thirteen offices in eight countries and continues its growth and development. New staff have been recruited to the Milan, Edinburgh and York offices. As a result of the acquisition of Kennedys, the Group now also has a Newcastle office. Murgitroyd's increased commitment to business development is fuelling growth across the Group, including the expansion of the US Sales Office, which has further raised Murgitroyd's profile in that important market.

People

The total number of employees as at 31 May 2008 was 226 (2007: 194). This figure included a total of 65 qualified Attorneys (2007: 46).

During the year, 21 people in total joined the Group as a result of the acquisition of Kennedys. In addition, Murgitroyd's recruitment programme has continued successfully, with the Group attracting four new Attorneys in the period. The Group also remains committed to in-house training. Nine professional staff have qualified in the period, which although involving a cost to the Group, is an excellent medium and long term investment. The efficiency of Murgitroyd's internal training is reflected in the examination results of its employees as, since the year end, four Attorneys successfully completed the European Qualifying Examinations and qualified as European Patent Attorneys. This takes the total number of qualified Attorneys in the Group to 66.

The Group is pleased to report that it has retained the key senior personnel from the former Castles practice after the completion of their post-acquisition contractual terms. David Castle, Mark Hickey and Emma Hodson all remain with the Group, with David Castle having been appointed Executive Deputy Chairman in February 2008. This role allows David to continue in a client-facing capacity. He also continues to chair the Business Development Management Group, a key driving force behind the Group's organic growth.

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

Chairman's statement *(continued)*

The market

Despite the impact of the volatile global economic environment, market conditions remain positive. The Annual Report of the European Patent Office, published on 19 June 2008, showed that the number of applications for European Patents grew by 3.6% in 2007, reflecting continued growth in that core market, whilst comparative statistics from the European Community Trade Mark ("CTM") office showed CTM applications were 13.9% higher in 2007 than in the previous year.

Share price

The Group's share price was undoubtedly affected by wider market conditions. During the period, the middle market price of the company's shares fluctuated between 320p and 498p.

The current middle market price is 332.5p.

Dividend

A maiden interim dividend of 3p per share was paid, reflecting the Board's confidence in the continued performance of the Group. A final dividend of 6.5p per share is being proposed, taking the dividend for the year to 9.5p (2007: 9p).

Subject to approval at the Annual General Meeting, the dividend will be paid on 17 November 2008 to shareholders on the register on 31 October 2008.

IFRSs as adopted by the EU

These are the first Directors' report and financial statements presented under IFRSs as adopted by the EU and, as with other companies reporting for the first time in this new format, this has involved restating our financial statements for prior periods.

The main changes which shareholders will note are changes in accounting for goodwill amortisation, employee benefits and deferred tax.

The impact of IFRSs as adopted by the EU is explained in detail in note 31.

Chairman's statement *(continued)*

Outlook

Murgitroyd has delivered sustainable revenue growth for the seventh consecutive year since its flotation. This has been a year of successful consolidation for the Group, following two successful acquisitions in as many years.

While market conditions remain good, the Group remains cautious in light of the current uncertain economic environment. The new financial year has started positively and we are confident of our ability to generate continued steady growth and value for shareholders.

Ian G Murgitroyd, *Chairman*
29 August 2008

Board of Directors

Details of the Directors, their roles and their backgrounds are as follows:

Ian G Murgitroyd, 63 - *Chairman, 3*
Ian is also Executive Chairman of Murgitroyd Group PLC's principal subsidiary, Murgitroyd & Company Limited. He 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, 52 - *Deputy Chairman, 3*
David 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 a Director of Murgitroyd & Company Limited, where he is in the Trade Mark Group, Chairs the Business Development Group and sits on the Management Board.

Keith Young, 42 - *Chief Executive and Finance Director, 3*
Keith is also Chief Executive of Murgitroyd & Company Limited. He gained a B. Admin. from Dundee University, is a Chartered Accountant and joined the business from KPMG in 1996.

Graham J Murnane, 49 - *Executive Director, 3*
Graham 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. He is a Director of Murgitroyd & Company Limited, 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.

G Edward Murgitroyd, 33 - *Executive Director, 3*
Edward 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. Based in Raleigh, NC, in the United States, he is "Director, Group Operations" with 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.

Mark N Kemp-Gee, 62 - *Senior Non-executive Director, 1, 2, 3*
Mark 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, 73 - *Non-executive Director, 1, 2, 3*
Christopher 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.

Dr Kenneth C Chrystie, 61 - *Non-executive Director, 1, 3*
Kenneth was formerly 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.

1. Member of Audit Committee
2. Member of Remuneration Committee
3. Member of Nomination Committee

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2008.

Principal activities

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 results of Murgitroyd Group PLC for the year are set out in the income statement on page 20. A review of the business, results and dividends, and likely future developments of the company are contained in the Chairman's statement on pages 3 to 6.

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.

Staff: key elements in the Group's provision of services are the quality and commitment of its staff. Importance is put on communicating to all employees relevant information, and recruitment, training, appraisal and career development is aimed at maximising staff retention.

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.

Directors' report *(continued)*

Principal risks and uncertainties *(continued)*

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, centring on the provision of pan-European Intellectual Property advisory services, which places it well in terms of long-term income/cash flow growth potential.

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

Indicator	**2008**	2007	Measure
Profitability ratios			
Gross Margin	**66.8%**	65.8%	Gross profit as a percentage of revenue
Operating Margin	**12.6%**	14.1%	Operating profit as a percentage of revenue
Net Margin	**11.2%**	12.9%	Profit before income tax as a percentage of revenue
EBITA margin	**12.6%**	14.1%	Profit before financial income and expense, income tax and amortisation as a percentage of revenue
Return on capital employed [ROCE]	**17.6%**	22.8%	Profit before financial income and expense and income tax [EBIT] divided by opening total equity plus borrowings** due outwith one year
** borrowings due outwith one year includes obligations under hire purchase contracts			
Return on owners' equity [ROOE]	**15.8%**	18.7%	Profit after income tax divided by opening total equity
Return on investment [ROI]	**10.9%**	14.2%	Profit after income tax divided by "capital employed" [see definition above]
Liquidity ratios			
Current ratio	**137.6%**	164.2%	Current assets divided by current liabilities
Liquid ("quick" or "acid test") ratio	**121.8%**	147.0%	Current assets less prepayments and work in progress divided by current liabilities
Solvency ratios			
Gearing ratio	**31.3%**	23.7%	Borrowings** due outwith one year divided by total equity plus borrowings** due outwith one year
Debt:equity ratio	**1,027.6%**	565.6%	Borrowings*** divided by share capital
*** borrowings includes bank overdrafts and obligations under hire purchase contracts			
Interest cover	**8.7**	11.3	Profit before financial income and expense and income tax [EBIT] divided by financial expense
Other indicators			
Revenue days	**98**	95	Year end trade receivables expressed as the number of preceding days' gross revenue
Bad debt exposure	**0.7%**	0.7%	Bad debts written off or provided against as a percentage of net revenue
Turnover per Pound of salary cost	**£2.52**	£2.67	Net revenue divided by payroll costs

Directors' report *(continued)*

Charitable and political donations

The Group made charitable donations during the year of £27,000 (2007: £4,000). There were no political donations (2007: £nil).

Dividends

The Directors recommend that a dividend of £548,000, being 6.5p per share, (2007: £751,000, being 9p per share) be paid. This has not been included within creditors as it was not approved before the year end.

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.

Directors and directors' interests

The Directors of the company during the year were as noted on page 2.

The company's Articles of Association require one-third of the Directors who are subject to retirement by rotation to retire from office and be subject to re-election at the Annual General Meeting ("AGM"). Graham Murnane and Kenneth Chrystie will stand for re-election at the forthcoming AGM.

Details of Directors' interests in shares and share options are disclosed in the Remuneration Report on pages 13 to 15.

Directors' report *(continued)*

Substantial shareholdings

At 29 August 2008, the Board had been formally notified 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 Murgitroyd	2,461,750	29.2%
Chase Nominees Limited	1,343,853	15.9%
State Street Nominees Limited	661,382	7.8%
Elizabeth-Anne Thomson	387,526	4.6%
Edward Murgitroyd	387,526	4.6%

Creditor payment policy

It is the company's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the company and its suppliers, provided all trading terms and conditions are met. Normally this results in payment in the month after the receipt of an invoice. Trade creditors for the Group at 31 May 2008 were equivalent to approximately 92 days' purchases (31 May 2007: 63 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 2008 were equivalent to approximately 46 days' purchases (31 May 2007: 13 days).

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.

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.

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.

Directors' report *(continued)*

Statement of Directors' responsibilities in respect of the Directors' report and financial statements

The Directors are responsible for preparing the Directors' report and financial statements and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable laws and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company. In preparing each of the Group and parent company 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 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.

Statement as to 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

In accordance with Section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG Audit Plc as Auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board,

Ian G Murgitroyd, *Chairman*
29 August 2008

Remuneration report: voluntary disclosure

As an AIM listed company, Murgitroyd Group PLC is not required to comply with Schedule 7A of the Companies Act, however the Directors feel it is appropriate to provide the following information to shareholders.

Remuneration committee

The company's Remuneration Committee comprises Mark Kemp-Gee (Chairman) and Christopher Greig. The purpose of the Remuneration Committee is to:

- make recommendations to the Board on an overall remuneration policy for Executive Directors in order to retain, attract and motivate high quality executives capable of achieving the company's objectives; 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 decision, 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 formalising procedures for developing a remuneration policy, fixing Executive Director remuneration and ensuring that no Director is involved in deciding his own remuneration. The committee is authorised to obtain outside professional advice and expertise, and consults with the Chief Executive 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 committee determines any bonuses and any other element of remuneration of an Executive Director that is performance related.

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 Executive Directors. The details of individual components of the remuneration package are discussed below:

Basic salary and benefits
Salary and benefits are reviewed annually in May and become effective from 1 June and may be increased but not decreased. Benefits principally comprise private healthcare.

Performance related bonuses
The company may also, but should not be bound to, pay such additional remuneration by way of bonus related to the profits of the company as the Board or its Remuneration Committee may decide.

Executive share options
The company operates an executive share plan scheme pursuant to which Directors and senior executives may be granted options to acquire ordinary shares in the company at a fixed option price.

Pension contributions
The company makes contributions of between and 3% and 5% of basic salary into defined contribution pension schemes for the Executive Directors.

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.

Directors' service agreements

Ian Murgitroyd, David Castle and Keith Young have service agreements with one-year notice periods. Graham 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

Directors' emoluments

The following emoluments were paid to Directors during the year ended 31 May 2008 and 31 May 2007:

	Salary and fees	**Bonus**	**Benefits**	**Money purchase pension contrib'ns**	**2008 Total**	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2007 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Executive										
Ian Murgitroyd*	**198**	**14**	**33**	**10**	**255**	200	14	6	10	230
David Castle	**175**	**14**	**5**	**8**	**202**	145	14	4	9	172
Keith Young	**170**	**-**	**1**	**8**	**179**	150	-	1	7	158
Roisin McNally**	**-**	**-**	**-**	**-**	**-**	42	-	1	2	45
Graham Murnane***	**140**	**14**	**2**	**7**	**163**	73	13	1	4	91
Edward Murgitroyd	**104**	**9**	**4**	**5**	**122**	80	5	1	3	89
Non-executive										
Mark Kemp-Gee	**20**	**-**	**2**	**-**	**22**	15	-	2	-	17
Kenneth Chrystie	**18**	**-**	**-**	**-**	**18**	15	-	-	-	15
Christopher Greig	**18**	**-**	**-**	**-**	**18**	15	-	-	-	15
	843	**51**	**47**	**38**	**979**	735	46	16	35	832

* 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 £14,000 (2007: £14,000). During the year retirement benefits accrued to five Directors (2007: six)

Remuneration report *(continued)*

Directors' interests in shares

The Directors who held office at the end of the financial year had the following interests in the issued share capital of the company.

	At 31 May 2008	At 31 May 2007
Ian Murgitroyd	**2,461,750**	2,878,750
David Castle	**-**	15,000
Keith Young	**-**	-
Graham Murnane	**19,784**	19,784
Edward Murgitroyd	**387,526**	387,526
Mark Kemp-Gee	**2,000**	2,000
Kenneth Chrystie	**1,000**	1,000
Christopher Greig	**5,000**	5,000

Directors' interests are beneficially held. In addition, the shares held by Ian Murgitroyd, Edward Murgitroyd, Mark Kemp-Gee and Kenneth 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 2007	Options granted during the period	Options exercised/ lapsed during the period	**At 31 May 2008**	Exercisable price	Date from which exercisable	Expiry date
Ian Murgitroyd	-	-	-	**-**	-	-	-
David Castle	40,000	-	-	**40,000**	181p	31/5/2008	30/5/2015
Keith 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
Graham Murnane	8,216	-	-	**8,216**	169p	2/2/2007	1/2/2014
	20,000	-	-	**20,000**	181p	31/5/2008	30/5/2015
Edward Murgitroyd	-	-	-	**-**	-	-	-
Mark Kemp-Gee	-	-	-	**-**	-	-	-
Kenneth Chrystie	-	-	-	**-**	-	-	-
Christopher Greig	-	-	-	**-**	-	-	-

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.

The share price at 31 May 2008 was 352.5p (31 May 2007: 385p). During the year the share price ranged from 320p to 498p (2007: 257.5p to 529p). The interests of the Directors to subscribe for or acquire ordinary shares have not changed since the year end.

Mark N Kemp-Gee, *Chairman of the Remuneration Committee*
29 August 2008

Corporate governance: voluntary disclosure

The Combined Code

Murgitroyd Group PLC is listed on AIM and is not subject to the requirements of the Combined Code on corporate governance, nor is it required to disclose its specific policies in relation to corporate governance. However, the Directors are committed to delivering high standards of corporate governance to the company's shareholders and other stakeholders including employees and suppliers. The Board of Directors operates within the framework delivered below.

The workings of the Board and its committees

The Board of Directors
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, Deputy Chairman, Chief Executive and Finance Director, two other Executive Directors and the three non-executive Directors. One of the non-executive Directors, 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, and the Deputy Chairman, David Castle, are Executive Directors. 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.

Remuneration Committee
The Remuneration Committee comprises Mark Kemp-Gee (Chairman) and 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.

Audit Committee
The Audit Committee comprises the three Non-executive Directors and is chaired by 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.

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 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
Communications with shareholders are given a high priority by the Directors who take responsibility for ensuring that a satisfactory dialogue takes place. Executive Directors meet with institutional shareholders following the announcement of interim and final results and at other appropriate times. The Directors are also in regular contact with stockbrokers' analysts. The company's website contains investor information to improve communications with individual investors and other interested parties.

Internal control

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*
29 August 2008

KPMG Audit Plc
191 West George Street
Glasgow
G2 2LJ
United Kingdom

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 2008 which comprise the Consolidated Income Statement, the Consolidated and parent company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense 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 Directors' report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company 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 12.

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 whether the financial statements have been 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. The information given in the Directors' report includes that information presented in the Chairman's statement that is cross-referenced from the review of business section of the Directors' report. 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 Directors' report and financial statements 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.

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 May 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 May 2008;
- 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*

29 August 2008

Consolidated income statement
for the year ended 31 May 2008

	Note	**Year ended 31 May 2008 £'000**	Year ended 31 May 2007 £'000
Revenue	**2**	**25,693**	22,843
Cost of sales		**(8,540)**	(7,814)
Gross profit		**17,153**	15,029
Administrative expenses (including Onerous Lease provision of £200,000)		**(13,919)**	(11,815)
Operating profit before Onerous Lease provision		**3,434**	3,214
Onerous Lease provision		**(200)**	-
Operating profit	**3**	**3,234**	3,214
Financial income	**6**	**15**	11
Financial expense	**6**	**(373)**	(284)
Profit before income tax		**2,876**	2,941
Income tax	**7**	**(876)**	(934)
Profit for the year attributable to equity holders of the parent	**23**	**2,000**	2,007
Earnings per share			
Basic	**9**	**23.96p**	24.15p
Diluted	**9**	**23.34p**	23.40p

Consolidated statement of recognised income and expense
for the year ended 31 May 2008

	Note	**Year ended 31 May 2008 £'000**	Year ended 31 May 2007 £'000
Revaluation of property	**10**	**(177)**	56
Income tax on income and expense recognised directly in equity	**23**	**56**	(17)
Income and expense recognised directly in equity		**(121)**	39
Profit for the year		**2,000**	2,007
Total recognised income and expense for the year attributable to the equity holders of the parent		**1,879**	2,046

Consolidated balance sheet
at 31 May 2008

	Note	**31 May 2008 £'000**	31 May 2007 £'000
Assets			
Non-current assets			
Property, plant and equipment	**10**	**2,500**	2,570
Intangible assets	**11**	**14,156**	10,409
Deferred tax asset	**12**	**30**	-
Total non current assets		**16,686**	12,979
Current assets			
Work in progress	**13**	**600**	481
Trade and other receivables	**14**	**9,407**	7,334
Cash and cash equivalents	**16**	**467**	453
Total current assets		**10,474**	8,268
Total assets		**27,160**	21,247
Current liabilities			
Bank overdraft	**16**	**(891)**	(209)
Other interest-bearing loans and borrowings	**17**	**(2,022)**	(1,172)
Trade and other payables	**18**	**(4,493)**	(3,201)
Taxation payable	**19**	**(207)**	(452)
Total current liabilities		**(7,613)**	(5,034)
Non-current liabilities			
Other interest-bearing loans and borrowings	**17**	**(5,750)**	(3,336)
Other payables	**18**	**-**	(195)
Provisions for liabilities	**20**	**(84)**	-
Deferred tax liabilities	**12**	**-**	(34)
Total non-current liabilities		**(5,834)**	(3,565)
Total liabilities		**(13,447)**	(8,599)
Net assets		**13,713**	12,648
Equity			
Share capital	**22**	**843**	834
Share premium	**23**	**2,471**	2,337
Merger reserve	**23**	**6,436**	6,436
Revaluation reserve	**23**	**34**	155
Retained earnings	**23**	**3,929**	2,886
Total equity attributable to equity holders of the parent		**13,713**	12,648

These financial statements were approved by the Board of Directors on 29 August 2008 and were signed on its behalf by:

Ian G Murgitroyd, *Chairman*

Consolidated cash flow statement
for the year ended 31 May 2008

	Note	**Year ended 31 May 2008 £'000**	Year ended 31 May 2007 £'000
Cash flows from operating activities			
Profit for the year		**2,000**	2,007
Adjustments for:			
Depreciation		**236**	232
Amortisation		**7**	-
Gain on disposal of property, plant and equipment		**1**	-
Provision for "Onerous Lease"		**159**	-
Financing costs		**358**	273
Equity settled share-based payment expense		**31**	38
Income tax expense		**876**	934
		3,668	3,484
Increase in trade and other receivables		**(980)**	(595)
(Increase)/decrease in work in progress		**(119)**	4
Increase/(decrease) in trade and other payables		**564**	(334)
		3,133	2,559
Interest paid		**(298)**	(198)
Interest received		**15**	11
Income tax paid		**(1,180)**	(822)
Net cash from operating activities		**1,670**	1,550
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(389)**	(356)
Proceeds from disposal of property, plant and equipment		**2**	-
Acquisition of subsidiary, net of cash acquired		**(3,006)**	(809)
Net cash used in investing activities		**(3,393)**	(1,165)
Cash flows from financing activities			
Proceeds from exercise of share options		**143**	85
Loans received		**3,519**	1,500
Repayment of borrowings		**(1,598)**	(1,103)
Payment of finance lease liabilities		**(8)**	(46)
Dividends paid		**(1,001)**	(386)
Net cash from financing activities		**1,055**	50
Net (decrease)/increase in cash and cash equivalents	**27**	**(668)**	435
Cash and cash equivalents at start of year		**244**	(191)
Cash and cash equivalents at year end	**16**	**(424)**	244

Notes *(forming part of the financial statements)*

1 Accounting policies

Murgitroyd Group PLC ("the company") is a company domiciled in the United Kingdom. The consolidated financial statements of the company for the year ended 31 May 2008 comprise the company and its subsidiaries (together referred to as "the Group").

Statement of compliance

The Group financial statements have been prepared and approved by the Directors in accordance with IFRSs as adopted by the EU.

The company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practices ("UK GAAP"). These are presented on pages 62 to 65.

Basis of preparation

The financial statements are prepared on the historical cost basis except that freehold property is stated at fair value. The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These consolidated financial statements are presented in Pounds which is the parent company's functional currency. All financial information presented in Pounds has been rounded to the nearest thousand.

Impact of IFRS

As required by IFRS 1, an explanation of how the transition to IFRSs as adopted by the EU has affected the reported financial position, financial performance and cash flows of the Group is provided in note 31. This note includes reconciliations of equity and profit or loss for comparative periods reported under UK GAAP to those reported for those periods under IFRSs as adopted by the EU.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes *(continued)*

1 Accounting policies *(continued)*

Areas of estimation uncertainty and critical judgements

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is contained in the following notes:

Note 11: Measurement of recoverable amounts of cash generating units
Note 15: Fair values on acquisition
Notes 10 and 20: Property arrangements
Note 21: Valuation of financial instruments
Note 26: Measurement of share-based payments

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Revenue

Revenue represents the amounts (excluding valued added tax) derived from the provision of Intellectual Property services, including filing, prosecuting, litigating, licensing, assigning and renewing Patents, Trade Marks and Designs to third party customers. Revenue is recognised in the period as client instructions are completed on each assignment.

Taxation

The tax expense represents the sum of the current taxes payable and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

The current tax payable is based on taxable income for the year using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Notes *(continued)*

1 Accounting policies *(continued)*

Intangible assets - goodwill

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of acquisitions that have occurred since 1 June 2006, goodwill represents the difference between the cost of acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to that date goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 June 2006 by merger accounting has not been reconsidered.

Goodwill is stated at cost less any accumulated impairment losses. The value of goodwill is tested for impairment on an annual basis. An impairment is recognised whenever the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the greater of the value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time, value of money and risks specific to the cash-generating unit. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Intangible assets acquired as part of a business combination 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.

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses. Impairment testing is performed where an indication of impairment arises.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful life of the assets is two years.

Property, plant and equipment

Items of plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is recognised in the profit and loss account to write off the cost less the estimated residual value of plant and equipment by equal annual instalments over their estimated useful economic lives of each part of an item of plant and equipment. The estimated useful economic lives over which assets are depreciated are as follows:

Leasehold improvements	Over the shorter of the term of the lease or the economic useful life
Motor vehicles	25%
Furniture and fixtures	20%
Office equipment	20%

Freehold property is stated at fair value. Freehold property is not depreciated as the Directors believe any annual or accumulated depreciation would be immaterial. Any impairment will be charged to profit. Any upward revaluation on property is recognised in equity unless this reverses a previous revaluation recognised in the income statement. Downward revaluations are recognised in the income statement unless they reverse upward revaluations previously recognised in equity.

Notes *(continued)*

1 Accounting policies *(continued)*

Work in progress

Work in progress represents costs incurred on specific client assignments prior to reaching a specific act which results in revenue being recognised. 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. Net realisable value represents estimated selling price less all estimated costs to complete.

Net debt

Net debt includes cash and cash equivalents and bank borrowings.

Trade and other receivables

Trade and other receivables are initially recognised at their fair value and then stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

Trade and other payables

Trade and other payables are initially recognised at fair value and then stated at amortised cost.

Employee benefits

Defined contribution pension plans
The amounts charged to the income statement represent the contributions payable to the schemes in respect of the accounting period.

Share based payment transactions
The share option scheme allows employees to acquire shares of the company. The fair value of options granted 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. The Group's schemes are equity-settled.

Lease expenses

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

Notes *(continued)*

1 Accounting policies *(continued)*

Lease expenses *(continued)*

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financial income and expense

Financial income and expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases, interest receivable on funds invested, dividend income, foreign exchange gains and losses that are recognised in the income statement. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Dividends on shares presented within equity attributable to equity holders

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.

Earnings per share

The company presents basic and diluted earnings per share ("EPS") data for ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares which comprise share options granted to employees.

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 income statement. The assets and liabilities of overseas operations are translated at the rate of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period. Exchange differences arising from this translation of foreign operations are taken directly to reserves.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Notes *(continued)*

1 Accounting policies *(continued)*

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provision is made for future net lease obligations in respect of onerous leases of vacant, partially vacant or sublet properties.

IFRSs not yet applied

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 May 2008 and have not been applied in preparing these financial statements. The following standard has been endorsed by the EU and will require to be applied in subsequent periods:

IFRS 8 "Operating Segments" (mandatory for the year commencing on or after 1 January 2009)
This standard introduces the management approach to segmental reporting and it is not expected to have a significant impact on the financial statements as the Group has one reporting segment.

The following standards and interpretations have not yet been endorsed by the EU but may apply in subsequent periods if endorsed:

Revised IAS 1 "Presentation of Financial Statements" (mandatory for the year commencing on or after 1 January 2009)
This standard will require the Group to present a statement of comprehensive income and may require additional disclosures around changes in equity.

Revised IFRS 3 "Business Combinations" and Revised IAS 27 "Consolidated and Separate Financial Statements" (mandatory for the year commencing on or after 1 July 2009)
These amendments will make some changes to accounting for business combinations and will only affect the company if it is involved in business combinations in future periods.

Amendments to IFRS 2 "Share based payment – Vesting Conditions and Cancellations" (mandatory for the year commencing on or after 1 January 2009)
This standard will make some changes to the accounting for share based payments. The standard will affect the company if share options are issued in future financial periods.

Amendments to IFRS 1 and IAS 27 "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" (mandatory for the year commencing on or after 1 January 2009)
These amendments will require dividends received to be recognised as income and the testing of investments for impairment when dividends exceed total comprehensive income or the net assets of the investments exceeds the carrying amount in the consolidated financial statements. This is unlikely to have a significant impact on the Group.

No significant impact is expected from any other standards that have been issued by the International Accounting Standards Board at the date of this report but which have not yet been endorsed for use in the EU.

Notes *(continued)*

2 Segmental reporting

All revenue is attributable to the principal activity of the Group and relates to the rendering of services. The Group therefore considers that it only has one primary segment. During the years, the following revenue was attributable to different geographical markets:

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
United Kingdom	**16,222**	13,958
United States of America	**3,055**	3,101
France	**1,721**	1,890
Republic of Ireland	**847**	467
Germany	**361**	347
Italy	**130**	39
Japan	**1,106**	1,105
The Netherlands	**341**	294
Canada	**253**	249
Australia	**225**	179
Switzerland	**169**	116
South Africa	**109**	104
Other countries (each less than £100,000)	**1,154**	994
	25,693	22,843

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

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
United Kingdom	**23,478**	20,741
Republic of Ireland	**722**	865
France	**1,024**	972
Germany	**242**	241
Italy	**227**	24
	25,693	22,843

The Group does not manage its business by reference to separate geographical locations. Consequently, an analysis of net assets and operating profit by location is not monitored by management and is therefore not provided.

Notes *(continued)*

3 Operating profit

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Operating profit is stated after charging:		
Amounts receivable by Auditors and their associates in respect of:		
Audit of these financial statements	**5**	5
Group - audit of financial statements of the Group pursuant to legislation	**30**	36
- other services pursuant to such legislation	**6**	5
- other services relating to taxation	**72**	71
Depreciation and other amounts written off tangible fixed assets:		
Owned	**209**	195
Held under hire purchase contracts	**27**	37
Amortisation of intangible assets	**7**	-
Rental of land and buildings	**474**	420
Hire of office equipment – operating leases	**319**	215
Hire of other assets – operating leases	**18**	19
Loss on disposal of property, plant and equipment	**-**	-
after crediting:		
Foreign exchange gains	**417**	237

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 Kennedys Patent Agency Limited (note 15) totalled £41,000 (2007: the acquisition of Fitzpatricks, £59,000).

Fees charged by McClure Naismith (the corporate and commercial solicitors in which Non-executive Director Kenneth Chrystie is a Consultant) totalled £79,000 in the year to 31 May 2008 (2007: £63,000). As at 31 May 2008, the outstanding amount owed to McClure Naismith amounted to £26,000 (31 May 2007: £8,000).

Notes *(continued)*

4 Remuneration of Directors

The following emoluments were paid to Directors during the years ended 31 May 2008 and 31 May 2007:

	Salary and fees	**Bonus**	**Benefits**	**Money purchase pension contrib'ns**	**2008 Total**	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2007 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Executive										
Ian Murgitroyd*	**198**	**14**	**33**	**10**	**255**	200	14	6	10	230
David Castle	**175**	**14**	**5**	**8**	**202**	145	14	4	9	172
Keith Young	**170**	**-**	**1**	**8**	**179**	150	-	1	7	158
Roisin McNally**	**-**	**-**	**-**	**-**	**-**	42	-	1	2	45
Graham Murnane***	**140**	**14**	**2**	**7**	**163**	73	13	1	4	91
Edward Murgitroyd	**104**	**9**	**4**	**5**	**122**	80	5	1	3	89
Non-executive										
Mark Kemp-Gee	**20**	**-**	**2**	**-**	**22**	15	-	2	-	17
Kenneth Chrystie	**18**	**-**	**-**	**-**	**18**	15	-	-	-	15
Christopher Greig	**18**	**-**	**-**	**-**	**18**	15	-	-	-	15
	843	**51**	**47**	**38**	**979**	735	46	16	35	832

* 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 £14,000 (2007: £13,000). During the year retirement benefits accrued to five Directors (2007: six).

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 2008 Number	Year ended 31 May 2007 Number
Professional staff	**77**	68
Office, management and support staff	**139**	123
	216	191

Notes *(continued)*

5 Employees *(continued)*

The aggregate payroll cost was as follows:

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Wages and salaries	**8,665**	7,364
Social security costs	**1,068**	837
Pension costs	**435**	319
Equity settled share based payments	**31**	38
	10,199	8,558

Further information on pension arrangements is set out in note 24.

6 Financial income and expense

Financial income	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Recognised in the income statement		
Bank interest receivable	**14**	10
Other interest receivable	**1**	1
	15	11

Financial expense	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Recognised in the income statement		
Interest on bank loans and overdrafts	**303**	193
Interest on loan notes	**53**	87
Interest on deferred payments	**16**	-
Finance charges payable in respect of hire purchase contracts	**1**	4
	373	284

Notes *(continued)*

7 Income tax

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Recognised in the income statement		
UK Corporation Tax		
Current taxation on profit for the year at 30%	**882**	861
Over provision of taxation on profit for previous periods	**(72)**	(25)
Foreign tax		
Current taxation on income for the year	**21**	47
Under provision of taxation on income for previous periods	**40**	32
Total current tax	**871**	915
Deferred tax (see note 12)		
Creation and reversal of temporary differences	**5**	19
Total tax in income statement	**876**	934

The current tax charges for the periods are higher than the standard rate of UK Corporation Tax of 30% (2007: 30%). The differences are explained below:

		Year ended 31 May 2008 £'000		Year ended 31 May 2007 £'000
Current tax reconciliation				
Profit excluding taxation		**2,876**		2,941
Profit excluding taxation multiplied by standard rate of UK Corporation Tax of 30%	**30.0%**	**863**	30.0%	882
Effects of:				
Expenses not deductible for tax purposes	**1.6%**	**46**	1.5%	43
Over provision of taxation for previous periods	**(1.1%)**	**(32)**	(0.1%)	(4)
Overseas tax impact	**(0.0%)**	**(1)**	0.4%	13
Total tax expense (see above)	**30.5%**	**876**	31.8%	934

Notes *(continued)*

7 Income tax *(continued)*

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Income tax recognised directly in equity		
Taxation on share based payments	**13**	106
Taxation on revaluation of property	**56**	(17)
	69	89

8 Dividends

	Year ended 31 May 2008 £'000	Year ended 31 May 2007 £'000
Equity shares:		
Final dividend in respect of 2006 (4.651p per share)	**-**	386
Final dividend in respect of 2007 (9p per share)	**751**	-
Interim dividend in respect of 2008 (3p per share)	**250**	-
	1,001	386

The Directors recommend that a final dividend of £548,000, being 6.5p per share, (2007: £751,000, being 9p per share) be paid. Subject to approval at the Annual General Meeting, the final dividend will be paid on 17 November 2008 to shareholders on the register on 31 October 2008. This has not been included as a liability.

9 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.

Notes *(continued)*

9 Earnings per share *(continued)*

	2008 Profit for the year £'000	**2008** Weighted average number of shares Number	**2008** Earnings per share p	2007 Profit for the year £'000	2007 Weighted average number of shares Number	2007 Earnings per share p
Basic earnings per share	**2,000**	**8,353,102**	**23.96p**	2,007	8,307,012	24.15p
Dilutive share options	**-**	**223,374**	**0.62p**	-	266,787	0.75p
Diluted earnings per share	**2,000**	**8,576,476**	**23.34p**	2,007	8,573,799	23.40p

10 Property, plant and equipment

	Property £'000	Short leasehold improvements £'000	Office equipment £'000	Motor vehicles £'000	Fixtures and fittings £'000	**Total £'000**
Cost/valuation						
At 1 June 2006	1,775	-	989	53	408	**3,225**
Acquired on acquisitions	-	114	25	-	-	**139**
Additions	19	138	121	65	13	**356**
Revaluations	56	-	-	-	-	**56**
Disposals	-	-	(76)	(2)	(30)	**(108)**
At 31 May 2007	**1,850**	**252**	**1,059**	**116**	**391**	**3,668**
At 1 June 2007	1,850	252	1,059	116	391	**3,668**
Acquired on acquisitions	-	-	14	-	17	**31**
Additions	252	8	96	-	33	**389**
Revaluations	(177)	-	-	-	-	**(177)**
Disposals	-	(152)	-	-	(3)	**(155)**
At 31 May 2008	**1,925**	**108**	**1,169**	**116**	**438**	**3,756**
Depreciation						
At 1 June 2006	-	-	638	47	288	**973**
Charge for the year	-	38	143	8	43	**232**
On disposals	-	-	(76)	(1)	(30)	**(107)**
At 31 May 2007	**-**	**38**	**705**	**54**	**301**	**1,098**
At 1 June 2007	-	38	705	54	301	**1,098**
Charge for the year	-	43	142	16	35	**236**
On disposals	-	(77)	-	-	(1)	**(78)**
At 31 May 2008	**-**	**4**	**847**	**70**	**335**	**1,256**
Carrying amounts						
At 31 May 2008	**1,925**	**104**	**322**	**46**	**103**	**2,500**
At 31 May 2007	**1,850**	**214**	**354**	**62**	**90**	**2,570**
At 1 June 2006	1,775	-	351	6	120	2,252

Notes *(continued)*

10 Property, plant and equipment *(continued)*

The Group has granted a standard security to Clydesdale Bank PLC over its freehold property in respect of outstanding bank borrowings. The carrying value of property, plant and equipment at 31 May 2008 includes an amount of £34,000 (31 May 2007: £61,000) in respect of assets purchased under hire purchase contracts and a related depreciation charge of £27,000 (2007: £37,000). The carrying 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 2008 at £1,925,000 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.

Freehold property*	**2008** **£'000**	2007 £'000
Valuation – 2008/2007	**1,925**	1,850
Additions between valuation and balance sheet date	**-**	-
Aggregate depreciation thereon	**-**	-
Carrying value	**1,925**	1,850
Historical cost	**1,879**	1,628
Aggregate depreciation based on historical cost	**-**	-
Historical cost carrying value	**1,879**	1,628

* the valuation attaching to land at 31 May 2008 was £300,000.

11 Intangible fixed assets

	Goodwill £'000	Website development £'000	**£'000**
Deemed cost			
At 1 June 2006	8,695	-	**8,695**
Acquisitions through business combinations	1,714	-	**1,714**
At 31 May 2007	**10,409**	**-**	**10,409**
Acquisitions through business combinations	3,740	14	**3,754**
At 31 May 2008	**14,149**	**14**	**14,163**
Amortisation			
At 1 June 2006 and 31 May 2007	-	-	**-**
Charge for the year	-	7	**7**
At 31 May 2008	**-**	**7**	**7**
Carrying amounts			
At 31 May 2008	**14,149**	**7**	**14,156**
At 31 May 2007	**10,409**	**-**	**10,409**
At 1 June 2006	8,695	-	8,695

Notes *(continued)*

11 Intangible fixed assets *(continued)*

Impairment testing

The Group tests goodwill annually for impairment. The impairment test involves determining the recoverable amount of the cash generating unit to which the goodwill has been allocated to. As goodwill is monitored at segment level, and as there is only one operating segment, impairment is tested on an overall business level and all assets considered. The recoverable amount is based on the present value of expected future cash flows (value in use) which was determined to be higher than the carrying amount of goodwill so no impairment loss was recognised. Value in use was determined by discounting the future cash flows generated from the continuing operation of the Group and was based on the following key assumptions:

- The cash flow projections are based on formally approved management cash flow projections for a three-year period which is based upon past experience and future expectations and for the next three years is based upon growth rated consistent with 2.5% growth rate forecasts.
- A pre tax discount rate of 11% was applied in determining the recoverable amount. The discount rate was based on an industry average weighted average cost of capital.
- The values assigned to the key assumptions represent management's estimate of future trends and are based on both external and internal sources.
- The review demonstrated significant headroom such that the estimated carrying value is not sensitive to changes in assumptions. Having reviewed the key assumptions used, the Directors do not believe that there is a reasonably possible change in any of the key assumptions that require further disclosure.

12 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2008	2007	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Share based payments	**132**	162	**-**	-	**132**	162
Property, plant and equipment	**-**	-	**(116)**	(210)	**(116)**	(210)
Other timing differences	**14**	14	**-**	-	**14**	14
	146	176	**(116)**	(210)	**30**	(34)

Movements in deferred tax during the year:

	At 1 June 2007	Recognised in income	Recognised in equity	Acquired in business combinations	**At 31 May 2008**
	£'000	£'000	£'000	£'000	**£'000**
Share based payments	162	(43)	13	-	**132**
Property, plant and equipment	(210)	38	56	-	**(116)**
Other timing differences	14	-	-	-	**14**
	(34)	(5)	69	-	**30**

Notes *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Movements in deferred tax during the prior year:

	At 1 June 2006 £'000	Recognised in income £'000	Recognised in equity £'000	Acquired in business combinations £'000	**At 31 May 2007 £'000**
Share based payments	28	28	106	-	**162**
Property, plant and equipment	(168)	(16)	(17)	(9)	**(210)**
Other timing differences	45	(31)	-	-	**14**
	(95)	(19)	89	(9)	**(34)**

13 Work in progress

	2008 £'000	2007 £'000
Work in progress	**600**	481

Work in progress to the value of £481,000 (2007: £317,000) was recognised in the income statement in the year.

14 Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	**8,473**	6,837
Other receivables	**329**	110
Prepayments and accrued income	**605**	387
	9,407	7,334

At 31 May 2008, trade receivables are shown net of allowance for doubtful debts of £374,000 (2007: £211,000) arising from a review of the expected recoverability of the receivables. The charge in the year was £187,000 (2007: £125,000).

The Group's exposure to credit risks and impairment losses on receivables is given in note 21.

Notes *(continued)*

15 Acquisition of subsidiaries

On 22 February 2008, the Group acquired all of the ordinary shares in Kennedys Patent Agency Limited ("Kennedys"), a company providing Intellectual Property advisory services. On 30 June 2006, in the prior year, the Group acquired all of the ordinary shares in Fitzpatricks Group Limited ("Fitzpatricks"), a company providing Intellectual Property advisory services. The following table sets out the final agreed book values of the net assets acquired, and their fair values to the Group, of both acquisitions.

	Book value £'000	**Fair value adjustments £'000**	**2008 Kennedys Fair value to Group* £'000**	Book value £'000	Fair value adjustments £'000	2007 Fitzpatricks Fair value to Group £'000
Intangible assets	**33**	**(19)**	**14**	183	(183)	-
Property, plant and equipment	**31**	**-**	**31**	139	-	139
Work in progress	**-**	**-**	**-**	168	-	168
Trade and other receivables	**1,094**	**-**	**1,094**	757	-	757
Cash and cash equivalents	**25**	**-**	**25**	130	-	130
Bank overdraft	**(420)**	**-**	**(420)**	(83)	-	(83)
Trade and other payables	**(724)**	**-**	**(724)**	(701)	-	(701)
Other interest-bearing loans and borrowings	**(309)**	**-**	**(309)**	(281)	-	(281)
Tax payable	**(63)**	**-**	**(63)**	(32)	-	(32)
Non-current liabilities	**-**	**-**	**-**	(9)	-	(9)
Net (liabilities)/assets	**(333)**	**(19)**	**(352)**	271	(183)	88
Consideration:						
Cash		**2,452**			700	
Loan Notes issued		**-**			557	
Deferred cash payment		**777**			389	
		3,229			1,646	
Costs of acquisition		**155**			156	
			3,384			1,802
Goodwill			**3,736**			1,714

* the fair values presented above are provisional pending finalisation of the review of the fair values of intangible assets

Total cash outflow in relation to business combinations was £3,407,000 comprising £2,452,000 and £155,000 (above) and £800,000 in connection with the repayment of Loan Notes issued in previous business combinations (2007: £1,356,000). The loss after taxation of Kennedys for the period 1 September 2007 to 22 February 2008 was £375,000 (year ended 31 August 2007, profit: £125,000). Kennedys trade, assets and liabilities were transferred to Murgitroyd & Company Limited on 22 February 2008 and as the Group is managed on an office and functional basis the post acquisition results of the previous Kennedys business are not separately identifiable and therefore the attributable turnover, operating profit and impact on group revenue and net profit had the acquisition occurred on 1 June 2007 cannot be disclosed. Goodwill has been recognised relating to the skills and technical expertise of the acquired workforce and the synergies expected to be achieved from integrating the acquired business into the Group. The value of other intangible assets, including customer relationships, is being considered as part of the finalisation of the fair value exercise.

Notes *(continued)*

16 Cash and cash equivalents

	2008 £'000	2007 £'000
Cash	**467**	453
Bank overdrafts	**(891)**	(209)
Cash and cash equivalents in statement of cash flows	**(424)**	244

17 Other interest bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured initially at fair value and subsequently at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 21.

	2008 £'000	2007 £'000
Current liabilities		
Vendor loan notes	**785**	800
Deferred vendor payments	**482**	-
Secured bank loans	**755**	364
Obligations under hire purchase contracts	**-**	8
	2,022	1,172
Non current liabilities		
Vendor loan notes	**-**	731
Deferred vendor payments	**506**	-
Secured bank loans	**5,244**	2,605
	5,750	3,336

Notes *(continued)*

17 Other interest bearing loans and borrowings *(continued)*

Terms and debt repayment schedule

	Nominal interest rate	**Year of maturity**	**Face value 2008 £'000**	**Carrying amount 2008 £'000**	Face value 2007 £'000	Carrying amount 2007 £'000
Secured bank loans						
Term loan	**LIBOR + 1%**	**2008**	**-**	**-**	45	45
Term loan	**LIBOR + 1%**	**2012**	**129**	**129**	160	160
Term loan	**LIBOR + 1%**	**2013**	**216**	**216**	255	255
Term loan	**LIBOR + 1%**	**2013**	**765**	**765**	891	891
Term loan	**LIBOR + 1%**	**2013**	**416**	**416**	-	-
Term loan	**LIBOR + 1%**	**2014**	**271**	**271**	-	-
Term loan	**LIBOR + 1%**	**2015**	**481**	**481**	476	476
Term loan	**LIBOR + 1%**	**2015**	**2,642**	**2,642**	-	-
Term loan	**LIBOR + 1%**	**2020**	**1,079**	**1,079**	1,142	1,142
Loan notes						
Vendor Loan Note	**4.75%**	**2007**	**-**	**-**	500	500
Vendor Loan Note	**4.75%**	**2007**	**-**	**-**	300	300
Vendor Loan Note	**4.75%**	**2008**	**500**	**486**	500	448
Vendor Loan Note	**4.75%**	**2008**	**300**	**299**	300	283
Deferred payments						
Deferred vendor payment	**nil%**	**2008**	**195**	**195**	-	-
Deferred vendor payment (net)	**5.25%**	**2009**	**287**	**287**	-	-
Deferred vendor payment	**5.25%**	**2010**	**300**	**300**	-	-
Deferred vendor payment	**5.25%**	**2011**	**300**	**206**	-	-
Obligations under hire purchase contracts	**2.8% - 3.2%**	**2008**	**-**	**-**	8	8
			7,881	**7,772**	4,577	4,508

All debt is denominated in Pounds. The vendor loan notes and deferred vendor payments are guaranteed by Clydesdale Bank PLC. Since the year end, loan notes totalling £300,000 have been repaid. The bank overdraft and loans are secured by a standard security to Clydesdale Bank PLC over freehold property. Clydesdale Bank PLC also has a bond and floating charge over the Group's assets and cross guarantees are in place between Group companies.

Notes *(continued)*

18 Trade and other payables

	2008	2007
	£'000	£'000
Current liabilities		
Trade payables	**3,003**	1,868
Taxation and social security	**840**	701
Accruals and deferred income	**617**	433
Other payables	**33**	199
	4,493	3,201
Non-current liabilities		
Other payables	**-**	195

19 Taxation payable

	2008	2007
	£'000	£'000
Current liabilities		
Corporation tax payable	**207**	452

20 Provision for liabilities

	£'000
Onerous contracts	
Balance at 1 June 2007	**-**
Provision made during the year	**200**
Utilised in the year	**(116)**
Balance at 31 May 2008	**84**

As a result of the acquisition of Murgitroyd (Fitzpatricks) Limited (see note 15) the Group assumed a non-cancellable lease for office space which was surplus to requirements. The lease expires in 2010. The facilities have been sub-let for the remaining lease term but changes in market conditions have meant the rental income is lower than the rental expense. The obligation for the future payments net of expected rental income has been provided for. Discounting has not been performed as it is not material.

Notes *(continued)*

21 Financial instruments

Overview

The Group has exposure to the following risks from its use of financial instruments: credit risk; liquidity risk; currency risk; and market risk. This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

Trade receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The general allowance is determined based on historical data. The Group maintains strong relationships with clients and has established credit control parameters. Specific credit terms are agreed with clients where appropriate and are closely managed.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Throughout the year, the Group maintained the following lines of credit:

£1.5M overdraft facility with Clydesdale Bank PLC
€20,000 overdraft facility with Ulster Bank PLC

Currency risk

The Group's exposure to foreign currency risk is as follows based on notional amounts.

31 May 2008	Pound £'000	Euro £'000	US Dollar £'000	Other £'000	**Total £'000**
Cash and cash equivalents	118	195	148	6	**467**
Trade receivables	7,501	972	-	-	**8,473**
Bank overdraft	(235)	(650)	-	(6)	**(891)**
Trade payables	(706)	(552)	(1,193)	(552)	**(3,003)**
Balance sheet exposure	6,678	(35)	(1,045)	(552)	**5,046**

Notes *(continued)*

21 Financial instruments *(continued)*

31 May 2007	Pound £'000	Euro £'000	US Dollar £'000	Other £'000	**Total £'000**
Cash and cash equivalents	123	170	149	11	**453**
Trade receivables	6,126	711	-	-	**6,837**
Bank overdraft	(26)	(183)	-	-	**(209)**
Trade payables	(254)	(425)	(770)	(419)	**(1,868)**
Balance sheet exposure	5,969	273	(621)	(408)	**5,213**

The following significant exchange rates applied during the year:

	Average rate		**Reporting date Spot rate**	
	2008	2007	**2008**	2007
Euro	**1.38**	1.48	**1.27**	1.47
US Dollar	**1.84**	1.94	**1.98**	1.98

Sensitivity analysis
A ten percent weakening of the following currencies against the Pound at 31 May 2008 would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Equity		**Profit or loss**	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Euro	**(7)**	(6)	**(30)**	(5)
US Dollar	**-**	-	**109**	70

A ten percent strengthening of the above currencies against the Pound at 31 May 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes *(continued)*

21 Financial instruments *(continued)*

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Generally the Group seeks to minimise this risk through banking arrangements designed to manage a proportion of the Group's overall exposure.

Credit risk

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount	**2008**	2007
	£'000	£'000
Trade receivables (note 14)	**8,473**	6,837
Other receivables (note 14)	**329**	110
Cash and cash equivalents (note 16)	**467**	453
	9,269	7,400

Credit risk for trade receivables at the reporting date was in relation to the following geographical areas:

Carrying amount	**2008**	2007
	£'000	£'000
United Kingdom	**5,527**	4,256
United States of America	**949**	785
France	**416**	571
Ireland	**369**	270
Japan	**385**	431
Other countries (each less than £100,000)	**827**	524
	8,473	6,837

The Group's exposure is spread across a large number of customers.

Notes *(continued)*

21 Financial instruments *(continued)*

Impairment losses
The ageing of trade and other receivables at the reporting date was:

	Gross 2008 £'000	**Impairment 2008 £'000**	Gross 2007 £'000	Impairment 2007 £'000
One month (not past due)	**3,026**	**-**	2,269	-
Two to three months	**3,192**	**(6)**	2,668	-
Four to six months	**1,235**	**(16)**	980	-
Over six months	**1,723**	**(352)**	1,241	(211)
	9,176	**(374)**	7,158	(211)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2008 £'000	2007 £'000
Balance at 1 June	**211**	150
Impairment loss recognised	**163**	61
Balance at 31 May	**374**	211

The impairment loss at 31 May 2008 of £374,000 is a provision for receivables due from customers. The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

Liquidity risk

The following are the contractual maturities of financial liabilities at the balance sheet date, including estimated interest payments based on the position at the balance sheet date and excluding the impact of netting agreements.

Notes *(continued)*

21 Financial instruments *(continued)*

31 May 2008

	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	One to two years	Two to five years	Over five years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non derivative financial liabilities							
Secured bank loans	5,999	7,471	557	555	1,110	3,268	1,981
Loan notes	785	800	300	500	-	-	-
Deferred vendor payments	988	1,082	195	287	600	-	-
Trade and other payables	4,493	4,493	4,493	-	-	-	-
Bank overdraft	891	891	891	-	-	-	-
	13,156	14,737	6,436	1,342	1,710	3,268	1,981

31 May 2007

	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	One to two years	Two to five years	Over five years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Non derivative financial liabilities							
Secured bank loans	2,969	3,820	292	265	484	1,431	1,348
Loan notes	1,531	1,600	300	500	800	-	-
Deferred vendor payments	-	-	-	-	-	-	-
Trade and other payables	3,396	3,396	3,201	-	195	-	-
Bank overdraft	209	209	209	-	-	-	-
Obligations under hire purchase contracts	8	9	9	-	-	-	-
	8,113	9,034	4,011	765	1,479	1,431	1,348

Notes *(continued)*

21 Financial instruments *(continued)*

The following table shows outstanding borrowings, the facilities available to the Group and the undrawn amounts at the year end.

	Balance outstanding £'000	**Facility £'000**	**2008 Undrawn amounts £'000**	Balance outstanding £'000	Facility £'000	2007 Undrawn amounts £'000
Bank loans and overdrafts	**6,890**	**7,727**	**837**	3,178	4,790	1,612
Vendor loan notes	**785**	**785**	**-**	1,531	1,531	-
Deferred vendor payments	**988**	**988**	**-**	-	-	-
	8,663	**9,500**	**837**	4,709	6,321	1,612

The bank loan facilities have unexpired terms of between three and twelve years.

Interest rate risk

Profile
At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

Carrying amount	**2008 £'000**	2007 £'000
Fixed rate instruments		
Financial liabilities	**-**	8
Variable rate instruments		
Financial liabilities	**7,772**	4,500

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore any change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments
A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

Notes *(continued)*

21 Financial instruments *(continued)*

	Profit or loss		Equity	
	100 basis points increase £'000	100 basis points decrease £'000	100 basis points increase £'000	100 basis points decrease £'000
31 May 2008				
Variable rate instruments	(46)	46	-	-
31 May 2007				
Variable rate instruments	(32)	32	-	-

For the revolving credit facility LIBOR is increased by the Clydesdale Bank PLC in line with its reserve requirements.

Fair values

Fair values versus carrying amounts
The fair values of the Group's financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

		31 May 2008		31 May 2007
	Carrying amount £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Receivables	**9,407**	**9,407**	7,334	7,334
Cash and cash equivalents	**467**	**467**	453	453
Secured bank loans	**(5,999)**	**(5,999)**	(2,969)	(2,969)
Loan notes	**(785)**	**(800)**	(1,531)	(1,600)
Deferred vendor payments	**(988)**	**(1,082)**	-	-
Trade and other payables	**(4,493)**	**(4,493)**	(3,396)	(3,396)
Bank overdraft	**(891)**	**(891)**	(209)	(209)
Obligations under hire purchase contracts	**-**	**-**	(8)	(8)
	(3,282)	**(3,391)**	(326)	(395)

Estimation of fair values

The following methods and assumptions were used to estimate the fair values shown above:

Trade and other receivables/payables
The fair value of receivables and payable is deemed to be the same as the book value.

Notes *(continued)*

21 Financial instruments *(continued)*

Cash and cash equivalents
The fair value is deemed to be the same as the carrying amount due to the short maturity of these instruments.

Secured bank loans and other loans
The fair value is based on the book value as the interest rate charged reflects the fair value of the borrowings.

Loan notes and deferred vendor payments
The interest rates used to discount estimated cash flows in connection with loan notes (4.75%) and deferred vendor payments (5.25%) are based on prevailing Base Rates at the time of completion of the related business combination.

22 Share capital

	2008	2007
	£'000	£'000
Authorised		
18,713,570 ordinary shares of 10 pence each	**1,871**	1,871
Allotted, called up and fully paid		
8,433,239 (31 May 2007: 8,343,239) ordinary shares of 10 pence each	**843**	834

During the year the Group issued 90,000 10p ordinary shares for a consideration of £143,000, settled in cash to satisfy share options exercised.

The holders of the ordinary shares are entitled to dividends from time to time and entitled to one vote per share at meetings of the company. The Group has also issued share options.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

Notes *(continued)*

23 Reconciliation of movement in capital and reserves

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Revaluation reserve £'000	Merger reserve £'000	Total £'000
Reconciliation of movement in capital and reserves						
At 1 June 2006	828	2,258	1,121	116	6,436	10,759
Profit for the year	-	-	2,007	-	-	2,007
Dividends	-	-	(386)	-	-	(386)
Share based payments	-	-	38	-	-	38
Deferred tax on share options	-	-	106	-	-	106
Share options exercised	6	79	-	-	-	85
Revaluation in year	-	-	-	56	-	56
Deferred tax on revaluation in year	-	-	-	(17)	-	(17)
At 31 May 2007	**834**	**2,337**	**2,886**	**155**	**6,436**	**12,648**

	Share capital £'000	Share premium £'000	Profit and loss account £'000	Revaluation reserve £'000	Merger reserve £'000	Total £'000
Reconciliation of movement in capital and reserves						
At 1 June 2007	834	2,337	2,886	155	6,436	12,648
Profit for the year	-	-	2,000	-	-	2,000
Dividends	-	-	(1,001)	-	-	(1,001)
Share based payments	-	-	31	-	-	31
Deferred tax on share options	-	-	13	-	-	13
Share options exercised	9	134	-	-	-	143
Revaluation in year	-	-	-	(177)	-	(177)
Deferred tax on revaluation in year	-	-	-	56	-	56
At 31 May 2008	**843**	**2,471**	**3,929**	**34**	**6,436**	**13,713**

Share premium

The share premium arose primarily on 22 November 2001 when the company was floated on AIM.

Revaluation reserve

The revaluation reserve relates to the revaluation of freehold property.

Notes *(continued)*

23 Reconciliation of movement in capital and reserves *(continued)*

Merger reserve

The merger reserve relates to the premium on shares issued in exchange for shares in Murgitroyd & Company Limited that qualified for merger relief under section 131 of the Companies Act 1985 and was transferred from the share premium account to the merger reserve.

24 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 £435,000 (2007: £319,000).

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

25 Commitments

Commitments under non-cancellable operating leases are as follows:

	Land and buildings £'000	**Other £'000**	**2008 Total £'000**	Land and buildings £'000	Other £'000	2007 Total £'000
Expiring within one year	**57**	**123**	**180**	56	3	59
Expiring between two and five years	**937**	**493**	**1,430**	524	647	1,171
Expiring in five or more years	**211**	**-**	**211**	355	26	381
Total	**1,205**	**616**	**1,821**	935	676	1,611

During the year £11,000 (2007: £nil) was recognised in the income statement in respect of sub-leases. Details of amounts recognised in the income statement in respect of lease payments are disclosed in note 3.

At 31 May 2008 there was no capital expenditure authorised by the Board but not provided in the financial statements (2007: £nil). Similarly, there were no contracts placed for future capital expenditure, not provided in the financial statements (2007: £nil). In addition to the above, at the end of the financial year the Group had entered into commitments amounting to £nil (2007: £nil) in respect of non-cancellable operating leases, the inception of which occurred after the year end.

Notes *(continued)*

26 Share based payments

The Group operates an unapproved share option scheme under which options have been granted to employees and Directors. Additionally, one share option arrangement granted before 7 November 2002 exists. The recognition and measurement principles in IFRS 2 have not been applied to these grants. 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 2008, were as follows:

Exercise price	Date of grant	Date from which exercisable	Expiry date	2007 '000	**Exercised during the year '000**	**Forfeited/ lapsed during the year '000**	**2008 '000**
121p	20/11/2001	20/11/2004*	19/11/2011	119*	**(22)**	**-**	**97***
169p	2/2/2004	2/2/2007*	1/2/2014	80*	**(8)**	**-**	**72***
163p	11/1/2005	11/1/2008	10/1/2015	30	**(30)**	**-**	**-**
181p	31/5/2005	31/5/2008	30/5/2015	230	**(30)**	**-**	**200***
				459	**(90)**	**-**	**369**

* Exercisable as at 31 May 2008. Details of the performance criteria of the share options are included in the Remuneration Report.

	2008 Weighted averaged exercise price p	**2008 Number of options '000**	2007 Weighted averaged exercise price p	2007 Number of options '000
Outstanding at start of year	**162**	**459**	159	543
Granted during the year	**-**	**-**	-	-
Exercised during the year	**159**	**(90)**	130	(66)
Forfeited during the year	**-**	**-**	176	(18)
Outstanding at end of year	**163**	**369**	162	459

The weighted average share price at the date of exercise of share options exercised during the year was 355p (2007: 432p). 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 5.8 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%). Volatility was determined by reference to daily share prices from 30 November 2001, the risk-free rate approximated to the yield on government gilt-edged stock in the month options were granted. Details of amounts recognised in the income statement in respect of share based payments are disclosed in note 5.

Notes *(continued)*

27 (a) Net debt

	At beginning of year £'000	Trading cashflow £'000	Business combinations £'000	Non cash Movement £'000	At end of year £'000
Cash at bank and in hand	**453**	14	-	-	**467**
Overdraft	**(209)**	(682)	-	-	**(891)**
	244	(668)	-	-	**(424)**
Vendor loan notes	**(1,531)**	800	-	(54)	**(785)**
Deferred vendor payments	**-**	-	(777)	(211)	**(988)**
Secured bank loans	**(2,969)**	(2,721)	(309)	-	**(5,999)**
Obligations under hire purchase contracts	**(8)**	8	-	-	**-**
	(4,508)	(1,913)	(1,086)	(265)	**(7,772)**
	(4,264)	(2,581)	(1,086)	(265)	**(8,196)**

27 (b) Net debt reconciliation of net cash flow to movement in net debt

	2008 £'000	2007 £'000
(Decrease)/increase in cash in the year	**(668)**	435
Cash inflow from increase in debt and hire purchase financing	**(1,913)**	(351)
(Increase)/decrease in net debt resulting from cash flows	**(2,581)**	84
Bank loans acquired with subsidiary undertaking	**(309)**	(281)
Increase in Loan Notes	**(54)**	(644)
Increase in deferred vendor payments	**(988)**	-
New hire purchase contracts	**-**	-
Hire purchase contracts acquired with subsidiary undertaking	**-**	(6)
Increase in net debt in the year	**(3,932)**	(847)
Net debt at start of year	**(4,264)**	(3,417)
Net debt at end of year	**(8,196)**	(4,264)

Notes *(continued)*

28 Investments and subsidiary undertakings

The Group has the following subsidiary undertakings:

Subsidiary undertaking	Principal activity	Country of registration	Percentage ownership	Year end accounting date
Murgitroyd & Company Limited	Patent and Trade Mark Attorney and technical support services	Scotland	100%	31 May
Murgitroyd SARL* (formerly Bonneau Murgitroyd SARL)	French Patent and Trade Mark Attorney services	France	49%	31 May
Murgitroyd (London) Limited * (formerly David WJ Castle & Co. Limited)	Patent and Trade Mark Attorney services	England	100%	31 May
Murgitroyd (Fitzpatricks Group) Limited * (formerly Fitzpatricks (Group) Limited)	Intermediate holding company	Scotland	100%	31 May
Murgitroyd (Fitzpatricks) Limited ** (formerly Fitzpatricks Limited)	Patent and Trade Mark Attorney services	Scotland	100%	31 May
Murgitroyd (Kennedys) Limited * (formerly Kennedys Patent Agency Limited)	Patent and Trade Mark Attorney services	Scotland	100%	31 May

*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.

29 Related parties

All transactions with subsidiaries are eliminated on consolidation in these financial statements therefore no disclosure is made concerning these items.

During the year ended 31 May 2008 the Group made sales of £74,000 to Gizmo Packaging Limited, a company in which the Chairman, Ian Murgitroyd, is a Director (2007: £77,000). As at 31 May 2008, the outstanding amount owed by Gizmo Packaging Limited amounted to £25,000 (31 May 2007: £29,000).

Note 3 discloses fees charged by McClure Naismith (the corporate and commercial solicitors in which non-executive Director Kenneth Chrystie is a Consultant).

Transactions with key management personnel are disclosed in the Remuneration Report.

Notes *(continued)*

30 Subsequent events

There are no subsequent events to report.

31 Explanation of transition to IFRS

The rules for first time adoption of IFRSs as adopted by the EU are set out in IFRS 1 "First-time adoption of International Financial Reporting Standards". In general a company is required to determine its IFRS accounting policies and apply these retrospectively to determine its balance sheet, at the date of transition, under IFRS. The standard allows a number of exceptions to this general principle to assist companies in the transition period. The 2007 comparative information has, as permitted by IFRS 1, been prepared taking advantage of the exemption not to restate business combinations prior to 1 June 2006. The accounting policies set out in note 1 have been applied consistently in the transition to IFRSs as adopted by the EU including the opening IFRS balance sheet and comparative information.

The reconciliations of equity at 1 June 2006 (date of transition to IFRS) and at 31 May 2007 (date of last UK GAAP financial statements) and the reconciliation of profit for the year ended 31 May 2007 are required under IFRSs as adopted by the EU in the year of transition.

No adjustments have been made for changes in estimates made at the time of approval of the last UK GAAP financial statements on which the IFRS comparative information is based.

Notes *(continued)*

31 Explanation of transition to IFRS *(continued)*

Reconciliation of equity at 1 June 2006 (date of transition to IFRS)

	Previously reported under UK GAAP*	IFRS 3 Business Combinations	IAS 19 Employee Benefits	IAS 12 Income Taxes	Effect of transition to IFRS	**Restated under IFRS**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Non-current assets						
Property, plant and equipment	2,252	-	-	-	-	**2,252**
Intangible assets	8,695	-	-	-	-	**8,695**
	10,947	-	-	-	-	**10,947**
Current assets						
Work in progress	317	-	-	-	-	**317**
Trade and other receivables	5,981	-	-	-	-	**5,981**
Cash and cash equivalents	298	-	-	-	-	**298**
	6,596	-	-	-	-	**6,596**
Total assets	17,543	-	-	-	-	**17,543**
Current liabilities						
Bank overdraft	(489)	-	-	-	-	**(489)**
Other interest bearing loans and borrowings	(727)	-	-	-	-	**(727)**
Trade and other payables	(2,592)	-	(54)	-	(54)	**(2,646)**
Tax payable	(328)	-	-	-	-	**(328)**
	(4,136)	-	(54)	-	(54)	**(4,190)**
Non-current liabilities						
Other interest-bearing loans and borrowings	(2,499)	-	-	-	-	**(2,499)**
Other payables	-	-	-	-	-	**-**
Deferred tax liabilities	(73)	-	-	(22)	(22)	**(95)**
	(2,572)	-	-	(22)	(22)	**(2,594)**
Total liabilities	(6,708)	-	(54)	(22)	(76)	**(6,784)**
Net assets	10,835	-	(54)	(22)	(76)	**10,759**
Equity						
Share capital	828	-	-	-	-	**828**
Share premium	2,258	-	-	-	-	**2,258**
Merger reserve	6,436	-	-	-	-	**6,436**
Revaluation reserve	166	-	-	(50)	(50)	**116**
Retained earnings	1,147	-	(54)	28	(26)	**1,121**
Total equity attributable to equity holders of the parent	10,835	-	(54)	(22)	(76)	**10,759**

* In IFRS format

Notes *(continued)*

31 Explanation of transition to IFRS *(continued)*

Reconciliation of equity at 31 May 2007 (date of last UK GAAP financial statements)

	Previously reported under UK GAAP* £'000	IFRS 3 Business Combinations £'000	IAS 19 Employee Benefits £'000	IAS 12 Income Taxes £'000	Effect of transition to IFRS £'000	**Restated under IFRS £'000**
Non-current assets						
Property, plant and equipment	2,570	-	-	-	-	**2,570**
Intangible assets	9,757	652	-	-	652	**10,409**
	12,327	652	-	-	652	**12,979**
Current assets						
Work in progress	481	-	-	-	-	**481**
Trade and other receivables	7,334	-	-	-	-	**7,334**
Cash and cash equivalents	453	-	-	-	-	**453**
	8,268	-	-	-	-	**8,268**
Total assets	20,595	652	-	-	652	**21,247**
Current liabilities						
Bank overdraft	(209)	-	-	-	-	**(209)**
Other interest bearing loans and borrowings	(1,172)	-	-	-	-	**(1,172)**
Trade and other payables	(3,138)	-	(63)	-	(63)	**(3,201)**
Tax payable	(452)	-	-	-	-	**(452)**
	(4,971)	-	(63)	-	(63)	**(5,034)**
Non-current liabilities						
Other interest-bearing loans and borrowings	(3,336)	-	-	-	-	**(3,336)**
Other payables	(195)	-	-	-	-	**(195)**
Deferred tax liabilities	(101)	-	-	67	67	**(34)**
	(3,632)	-	-	67	67	**(3,565)**
Total liabilities	(8,603)	-	(63)	67	4	**(8,599)**
Net assets	11,992	652	(63)	67	656	**12,648**
Equity						
Share capital	834	-	-	-	-	**834**
Share premium	2,337	-	-	-	-	**2,337**
Merger reserve	6,436	-	-	-	-	**6,436**
Revaluation reserve	222	-	-	(67)	(67)	**155**
Retained earnings	2,163	652	(63)	134	723	**2,886**
Total equity attributable to equity holders of the parent	11,992	652	(63)	67	656	**12,648**

* In IFRS format

Notes *(continued)*

31 Explanation of transition to IFRS *(continued)*

Reconciliation of profit for the year ended 31 May 2007

	Previously reported under UK GAAP*	IFRS 3 Business Combinations	IAS 19 Employee Benefits	Effect of transition to IFRS	**Restated under IFRS**
	£'000	£'000	£'000	£'000	**£'000**
Revenue	22,843	-	-	-	**22,843**
Cost of sales	(7,814)	-	-	-	**(7,814)**
Gross profit	15,029	-	-	-	**15,029**
Administrative expenses (including goodwill amortisation)	(12,458)	652	(9)	643	**(11,815)**
Operating profit	2,571	652	(9)	643	**3,214**
Financial income	11	-	-	-	**11**
Financial expense	(284)	-	-	-	**(284)**
Profit before income tax	2,298	652	(9)	643	**2,941**
Income tax	(934)	-	-	-	**(934)**
Profit for the year attributable to equity holders of the parent	1,364	652	(9)	643	**2,007**
Earnings Per Share					
Basic	16.41p				**24.15p**
Diluted	15.90p				**23.40p**

* In IFRS format

Intangible assets

Under UK GAAP, goodwill was amortised over its useful economic life, not exceeding 20 years. As of 1 June 2006, under IFRS 3 "Business Combinations" goodwill is not amortised but tested annually for impairment. Accordingly, the goodwill amortisation charge for the year ended 31 May 2007 of £652,000 has been reversed. All goodwill has been tested for impairment at 1 June 2006 and at 31 May 2007 and no impairments have been identified.

Notes *(continued)*

31 Explanation of transition to IFRS *(continued)*

Deferred Tax

The scope of IAS 12, "Income Taxes" is wider than the corresponding UK GAAP standards, and requires deferred tax to be provided on all temporary differences rather than just timing differences (under UK GAAP). A deferred tax liability has therefore been recognised in respect of the uplift on the revaluation of the Group's property. The impact on the IFRS opening balance sheet at 1 June 2006 is to increase the deferred tax liability by £50,000, (31 May 2007 by £67,000) and decrease equity by a corresponding amount. A deferred tax asset has been recognised on the allowable tax deduction that the Group would receive if the share options within the various schemes operated by the company were exercised. The impact on the IFRS opening Balance Sheet at 1 June 2006 is to decrease the deferred tax liability by £28,000 (31 May 2007 by £134,000) and to increase equity by a corresponding amount.

Employee benefits

A liability has been reflected in respect of compensated absences in accordance with the requirements of IAS 19, "Employee Benefits". The impact on the IFRS opening Balance Sheet at 1 June 2006 was to increase trade and other liabilities by £54,000 (31 May 2007 by £63,000) with a corresponding decrease in equity.

Explanation of material adjustments to the cash flow statement for 2007

There are no material differences between the cash flow statements presented under IFRSs as adopted by the EU and the cash flow statements presented under UK GAAP other than reclassification between cash flow statement categories.

UK GAAP parent company balance sheet
at 31 May 2008

	Note	**31 May 2008 £'000**	31 May 2007 £'000 (restated*)
Fixed assets			
Investments	**2**	**8,179**	8,148
Current assets			
Debtors	**3**	**1,734**	1,591
Creditors: amounts falling due within one year		**-**	-
Net current assets		**1,734**	1,591
Total assets less current liabilities		**1,734**	1,591
Creditors: amounts falling due outwith one year		**-**	-
Net assets		**9,913**	9,739
Capital and reserves			
Share capital	**4**	**843**	834
Share premium	**5**	**2,471**	2,337
Merger reserve	**5**	**6,436**	6,436
Profit and loss account	**5**	**163**	132
Shareholders' funds		**9,913**	9,739

* See note 1

These financial statements were approved by the Board of Directors on 29 August 2008 and were signed on its behalf by:

Ian G Murgitroyd, *Chairman*

Notes to the UK GAAP parent company financial statements

for the year ended 31 May 2008

(forming part of the financial statements)

1 Significant accounting policies

Basis of preparation

The company's financial statements are prepared on the historical cost basis and in accordance with applicable UK accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below.

Profit and loss account

Under Section 230(4) of the Companies Act 1985, the company is exempt from the requirement to present its own profit and loss account.

Related party transactions

As the parent company of the Murgitroyd Group PLC group (the financial statements for which can be found on pages 1 to 61), the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group.

Investments

Investments are stated at cost less provisions for any impairment.

Share based payments

Share-based payment awards are granted by the company to the employees of the company's wholly-owned subsidiary, Murgitroyd & Company Limited. The fair value of these awards is calculated in accordance with the requirements of FRS 20. On grant this is treated as an increase in the investment in the subsidiary company. In accordance with UITF 44 – "Group and Treasury Share Transactions" there is a corresponding increase in equity. All disclosures are in note 26.

The impact of introducing UITF 44 on the company's financial position in 2008 has been to increase the cost of investment in subsidiary undertakings by £122,000 (2007: £91,000). The profit and loss account has been increased by the same amount. The comparative figures for the year ended 31 May 2007 have therefore been restated on adoption of UITF 44.

Dividends on shares presented within equity attributable to equity holders

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.

Audit fees

Audit fee disclosures are included on page 31.

Notes to the UK GAAP parent company financial statements
(forming part of the financial statements) (continued)

1 Significant accounting policies *(continued)*

Employees

Excluding the three non-Executive Directors, the company has no employees. The remuneration of the non-Executive Directors is disclosed in the Remuneration Report and is borne by Murgitroyd & Company Limited, the Group's principal operating subsidiary.

2 Fixed asset investments

	2008 £'000	2007 £'000
Shares in subsidiary undertakings (see note 28)		
Cost at start of year (2007 as originally stated)	**8,148**	8,056
Prior year restatement (note 1)	**-**	54
Cost at start of year (2007 restated)	**8,148**	8,110
Equity settled share based payments	**31**	38
Cost at end of year (2007 restated)	**8,179**	8,148

3 Debtors

	2008 £'000	2007 £'000
Amount owed by subsidiary undertaking	**1,734**	1,591

4 Share capital

	2008 £'000	2007 £'000
Authorised		
18,713,570 ordinary shares of 10 pence each	**1,871**	1,871
Allotted, called up and fully paid		
8,433,239 (31 May 2007: 8,343,239) ordinary shares of 10 pence each	**843**	834

During the year the company issued 90,000 10p ordinary shares for a consideration of £143,000, settled in cash to satisfy share options exercised.

Notes to the UK GAAP parent company financial statements
(forming part of the financial statements) (continued)

5 Reserves

	Share premium account £'000	Merger reserve £'000	2008 Profit and loss account £'000
At start of year as originally stated	**2,337**	**6,436**	**40**
Prior year restatement (note 1)	**-**	**-**	**92**
At start of year, restated	**2,337**	**6,436**	**132**
Profit for the financial year	**-**	**-**	**1,001**
Dividends	**-**	**-**	**(1,001)**
New shares issued (note 4)	**134**	**-**	**-**
Equity settled share based payment expense	**-**	**-**	**31**
At end of year	**2,471**	**6,436**	**163**

6 Reconciliation of movements in equity shareholders' funds

	2008 £'000	2007 £'000
Profit for the financial year	**1,001**	387
Dividends	**(1,001)**	(386)
Retained profit for the financial year	**-**	1
New shares issued (note 4)	**143**	85
Equity settled share based payment expense (2007 restated)	**31**	38
Net addition to equity shareholders' funds (2007 restated)	**174**	124
Opening equity shareholders' funds (2007 as originally stated)	**9,739**	9,561
Prior year restatement (note 1)	**-**	54
Closing equity shareholders' funds (2007 restated)	**9,913**	9,739

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the company will be held at 12 Suffolk Street, London SW1Y 4HG at 11am on 30 October 2008 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 2008.
2. To approve the proposed dividend.
3. To receive and adopt the report of the Remuneration Committee of the company.
4. To re-elect Graham Murnane who retires from the Board in accordance with Article 77, as a Director of the company.
5. To re-elect Kenneth Chrystie 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 LLP
Company Secretary

29 August 2008

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 12 Suffolk Street, London SW1Y 4HG at 11am on 30 October 2008.

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 30 October 2008 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 2008.		
To approve the proposed dividend.		
To receive and adopt the report of the Remuneration Committee of the company.		
To re-elect Graham Murnane who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-elect Kenneth Chrystie 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.

08

MURGITROYD
GROUP PLC

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