MURGITROYD GROUP PLC

Directors' report and financial statements 2011

Murgitroyd Group PLC

Directors' report and financial statements
Registered number SC221766
31 May 2011

Contents

Highlights

Tenth consecutive year of sales and earnings growth

Turnover increased by 13% to £33.2m *(2010: £29.4m)*

Operating profit increased (before impact of property revaluations) by 7.2% to £4.13m *(2010: £3.85m)*

Profit before income tax (before impact of property revaluations) increased by 8.7% to £4.0m *(2010: £3.7m)*

Basic earnings per share (before impact of property revaluations) of 30.5p *(2010: 30.0p)*

Basic earnings per share of 31.1p *(2010: 31.8p)*

Proposed final dividend of 7.25p per share, giving a total dividend for the year of 10.75p *(2010: 10p)*, **an increase of 7.5% year on year**

New offices opened in Tokyo and San Francisco, German operations consolidated and expanded in Munich

Ian Murgitroyd, Chairman of Murgitroyd Group PLC said:

"I am pleased to report that Murgitroyd has performed ahead of expectations in an ever challenging economic climate. We have delivered on our objectives of generating significant increases in turnover and profitability whilst continuing to invest in the business. During the period, we opened two new business development offices in Tokyo and San Francisco and expanded our Munich office. Although the market environment remains volatile we are confident we can continue to generate value for shareholders both organically and, if we can identify suitable opportunities, by acquisition. We believe that Murgitroyd remains well positioned to take advantage of current and future opportunities in the market."

Directors and advisers

Directors	Ian G Murgitroyd	Executive 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
Brewin Dolphin Limited
7 Drumsheugh Gardens
Edinburgh EH3 7QH

Nominated broker
Brewin Dolphin Limited
Time Central
Gallowgate
Newcastle NE1 4SR

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

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

Financial PR adviser
Cardew Group
12 Suffolk Street
London SW1Y 4HG

Chairman's statement

Financial review

The Group has continued to show strong organic growth, with performance ahead of expectations in spite of the continued challenging economic environment. For the year ended 31 May 2011, Group turnover increased by 13% to £33.2m (2010: £29.4m) reflecting increased business development activity and improved service offerings including, but not limited to, IP Portal.

Operating profit rose by 5% to £4.2m (2010: £4.0m). Gross profit increased by 9% to £19.9m (2010: £18.3m). The margin percentage decreased as anticipated year-on-year, from 62.3% in 2010 to 59.9% in 2011 reflecting the change in the market for the purchase of Patent and Trade Mark Attorney services, as well as the Group's changed sales mix.

Earnings per share of 31.1p (2010: 31.8p) were affected by differential corporate tax rates between the UK and overseas territories, as well as property valuation surpluses in the last two years. Stripping out the effect of the revaluations, earnings per share increased to 30.5p (2010: 30.0p) despite the higher tax charges. The majority of the additional tax charge arises in the US where the Group now generates a meaningful part of its sales and where corporate tax is 6% higher than in the UK. The differential will increase further over the next few years as UK rates fall towards 24%.

Murgitroyd's head office, Scotland House, is owned by the Group and is revalued annually as at the financial year end date. The annual revaluation of the head office building resulted in a property revaluation credit of £55,000 as compared to a credit of £156,000 in the previous year. Excluding the impact of property revaluations (both years), profit before income tax increased by 8.7% to £4.0 million (2010: £3.7 million).

The Group successfully renewed its facilities with Clydesdale Bank during the year and net debt as at 31 May 2011 had reduced to £4.6m (31 May 2010: £5.8m). We continue to trade comfortably within our trading and cash flow banking covenants, and the Board believes the Group's banking facilities are competitively priced and are sufficient for our current purposes.

The Group continued to benefit from low interest rates during the financial year, financial expense falling to £145,000 (2010: £187,000).

Capital expenditure was higher year-on-year (£375,000 compared to £86,000) reflecting the previously announced investment in the Group's IT infrastructure. This investment is important to ensure the Group operates with the kind of scalable IT infrastructure that underpins much of its service delivery to clients.

Chairman's statement *(continued)*

Operating review

The Group operated from sixteen offices in nine countries during the year, and the growth and development of Murgitroyd's offices and network continues.

The Group's third new business development office, on the West Coast of the United States, opened in May 2011 in San Francisco. This follows the opening of the Japanese business development office in Tokyo in June 2010, which has been operational for most of the financial year. Its operations will continue to be reviewed on an ongoing basis to assess the return on the Group's investment in the Japanese market.

We also consolidated and expanded our German operations in Munich. As previously reported, Murgitroyd & Company's "Director, Professional Practice", an experienced opposition practitioner at the European Patent Office ("EPO"), will relocate to Munich in October 2011 to develop an EPO opposition and appeal hub. The team in the Munich office was also strengthened with the recruitment of an additional German Patent and Trade Mark Attorney since the year end.

Our Newcastle office in the North-East of England also recruited a new Attorney and operations relocated to new, larger, premises.

People

The total number of employees as at 31 May 2011 had increased to 230. In addition to the recruitment of two new Attorneys to the Munich and Newcastle offices, the Group successfully recruited one trainee to its London office and one Attorney to the York office since the year end.

Murgitroyd has purposely recruited a larger number of specialist formalities and business development staff in order to, respectively, reduce the overhead cost base attached to work being carried out and continue its successful sales growth. The cost base of specialist formalities and paralegal staff enables the reduction of headline pricing (reflected in reduced margin percentage), reduced margin percentage being recovered at operating profit level.

I would like to take this opportunity to thank all our staff for their continued hard work. I would like to thank in particular Deputy Chairman David Castle, who retired at the AGM in October 2010, for his considerable efforts and commitment since he joined us in 2005 and wish him well for the future.

Chairman's statement *(continued)*

The market

There have been no new markets statistics since the EPO released its 2010 numbers which reported that, pleasingly, there had been a 10% increase in European Patent filings in 2010, with 26% and 18% of filings coming from the US and Japan respectively.

Statistics from the European Community Trade Mark Office, based in Alicante, also demonstrate good growth, both year-on-year, and since the beginning of the 2011 calendar year.

The Group has been actively involved in developing the UK IP profession's response to the Legal Services Act – in particular recognition and regulation of practices considered Alternative Business Structures – one of its Attorneys sitting on the UK Chartered Institute of Patent Attorneys' ("CIPA") "Working Party on ABS" and another being elected to CIPA's Council.

Murgitroyd is also watching developments with the UK Government's "Patent Box" initiative closely, considering how best it can capitalise on this.

Share price

During the period, the middle market price of the Company's shares fluctuated between 230p and 355.5p. The current middle market price is 317.5p.

Dividend

An interim dividend, of 3.5p per share, was paid during the year, reflecting the Board's confidence in the continued performance of the Group. A final dividend of 7.25p per share is being proposed, giving a total dividend for the year of 10.75p (2010: 10p), an increase of 7.5% year on year.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 3 November 2011 to shareholders on the register on 14 October 2011. The ex-dividend date is 12 October 2011.

Chairman's statement *(continued)*

Outlook

Against a volatile and uncertain economic climate Murgitroyd continues to maintain a solid performance as sales and profits continue to rise. While we continue to pursue organic growth – investing in people, new offices, IT infrastructure and systems, and business development and marketing – we also remain committed to identifying suitable acquisition opportunities. In line with the careful cost controls implemented across the Group any acquisition opportunity must fit our strict criteria. As we have stated previously, we will only acquire assets that are complementary to our existing offering and only where deal terms are value accretive.

Given the Group's prudent management and robust performance in difficult markets, the Board believes that Murgitroyd is well positioned to take advantage of current and future opportunities within the market. We remain confident of our ability to generate long-term growth and value for shareholders, as we continue to invest in business development activities, such as the recent opening of our San Francisco office, and expand internationally.

Ian G Murgitroyd, *Chairman*
9 September 2011

Board of Directors

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

Ian G Murgitroyd, 66 - *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, and UK and Community Trade Mark Attorney. He founded the business that is now Murgitroyd & Company in 1975. Ian is Non-executive Chairman of Gizmo Packaging Limited. Now based in Durham, NC, in the United States, Ian heads up the Group's global business development activities, and Chairs the Business Development Group.

Keith G Young, 45 - *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, 52 - *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 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 currently serves on the Business Practice Committee of the Chartered Institute of Patent Attorneys.

G Edward Murgitroyd, 36 - *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. Based in Durham, NC, in the United States, he is "Chief Operations Officer" with Murgitroyd & Company Limited, which he joined from university in 1997. He is a member of Murgitroyd & Company Limited's Business Development Group.

Mark N Kemp-Gee, 65 - *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 currently Chairman of the Hampshire County Council Pension Fund. Mark chairs the Remuneration Committee.

Dr Christopher G Greig, 76 - *Non-executive Director, 1, 2, 3*
Chris 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. Chris chairs the Audit Committee.

Dr Kenneth G Chrystie, 64 - *Non-executive Director, 1, 3*
Kenneth was formerly Senior Partner of corporate and commercial solicitors, McClure Naismith. He is a founder member of The Intellectual Property Lawyers' Organisation and the Chairman of Glasgow Culture & Sport. Kenneth is an accredited specialist in Intellectual Property Law, and a Non-executive Director of Inspiring Scotland and 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 2011.

Principal activities

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

Availability of funding: funding requirements are reviewed on an ongoing basis and bank facilities put in place to enable the Group to meet its ongoing commitments. In the current economic climate the Directors are particularly aware of the need to monitor and manage the Group's cash flow position and in particular ongoing compliance with banking covenants.

Directors' report *(continued)*

Principal risks and uncertainties *(continued)*

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

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

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

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

Competitive advantage: the Group focuses on areas where it has a competitive advantage, 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	**2011**	2010	Measure
Profitability ratios			
Gross Margin	**59.9%**	62.3%	Gross profit as a percentage of revenue
Net Margin	**12.2%**	13.0%	Profit before income tax as a percentage of revenue
EBITA margin	**12.6%**	13.6%	Profit before financial income and expense, income tax and amortisation as a percentage of revenue
Return on capital employed [ROCE]	**20.3%**	20.1%	Profit before financial income and expense and income tax [EBIT] divided by opening total equity plus borrowings due outwith one year
Return on owners' equity [ROOE]	**16.0%**	18.0%	Profit after income tax divided by opening total equity
Return on investment [ROI]	**12.9%**	13.5%	Profit after income tax divided by "capital employed" [see definition above]
Liquidity ratios			
Current ratio	**171.4%**	156.1%	Current assets divided by current liabilities
Liquid ("quick" or "acid test") ratio	**156.4%**	142.8%	Current assets less prepayments and work in progress divided by current liabilities
Solvency ratios			
Gearing ratio	**19.9%**	24.9%	Borrowings due outwith one year divided by opening total equity plus borrowings due outwith one year
Interest cover	**28.9x**	21.4x	Profit before financial income and expense and income tax [EBIT] divided by financial expense
Other indicators			
Revenue days	**108**	109	Year end trade receivables expressed as the number of preceding days' gross revenue
Bad debt exposure	**0.9%**	0.8%	Bad debts written off or provided against as a percentage of net revenue
Turnover per Pound of salary cost	**£2.78**	£2.66	Net revenue divided by payroll costs

Directors' report *(continued)*

Charitable and political donations

The Group made charitable donations during the year of £8,000 (2010: £23,000). There were no political donations (2010: £nil).

Dividends

The Directors recommend that a final dividend of £619,000, being 7.25p per share, (2010: £170,000, being 2p per share) be paid giving a total dividend for the year of 10.75p (2010: 10p). The final dividend 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. In addition, David Castle served as a Director until 31 October 2010.

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"). Mark Kemp-Gee 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 9 September 2011, 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	28.8%
Chase Nominees Limited	1,250,923	14.7%
State Street Nominees	717,005	8.4%
Elizabeth-Anne Thomson	387,526	4.5%
Edward Murgitroyd	387,526	4.5%
Lion Nominees Limited	325,445	3.8%
Pershing Nominees Limited	287,378	3.4%

Trade payables 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 payables for the Group at 31 May 2011 were equivalent to approximately 105 days' purchases (31 May 2010: 112 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 payables for the Group at 31 May 2011 were equivalent to approximately 25 days' purchases (31 May 2010: 35 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 five registered overseas branches in the Republic of Ireland, France, Germany, Italy and Finland. The Group also has sales offices in the United States of America and Japan.

Financial instruments

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

Directors' report *(continued)*

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

The Directors are responsible for preparing the Directors' Report 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 International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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*
9 September 2011

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, death in service life insurance and company cars.

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. Factors taken into account from time to time in setting Non-executive Directors' remuneration include outside advice and a review of current practices in other companies.

Directors' service agreements

Ian Murgitroyd 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 2011 and 31 May 2010:

	Salary and fees	**Bonus**	**Benefits**	**Money purchase pension contrib'ns**	**2011 Total**	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2010 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Executive										
Ian Murgitroyd * ‡	**211**	**4**	**35**	**11**	**261**	206	1	32	10	249
David Castle †	**79**	**-**	**6**	**5**	**90**	180	1	8	9	198
Keith Young	**179**	**-**	**16**	**9**	**204**	170	-	15	8	193
Graham Murnane	**152**	**4**	**2**	**7**	**165**	144	1	2	7	154
Edward Murgitroyd ‡	**148**	**7**	**5**	**6**	**166**	147	1	20	4	172
Non-executive										
Mark Kemp-Gee	**20**	**1**	**3**	**-**	**24**	20	1	2	-	23
Kenneth Chrystie	**17**	**1**	**-**	**-**	**18**	17	1	-	-	18
Christopher Greig	**18**	**1**	**-**	**-**	**19**	18	1	-	-	19
	824	**18**	**67**	**38**	**947**	902	7	79	38	1,026

* Highest paid Director
† Resigned 31 October 2010
‡ Pound Sterling equivalent of part US Dollar-denominated remuneration

Bonuses are discretionary. Benefits represent private healthcare and death-in-service insurance premiums, and the provision of company cars. During the year one of the Executive Directors waived a bonus amounting to £4,000 (2010: £1,000). During the year retirement benefits accrued to five Directors (2010: five).

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 2011	At 31 May 2010
Ian Murgitroyd	**2,461,750**	2,461,750
Keith Young	**-**	-
Graham Murnane	**19,784**	19,784
Edward Murgitroyd	**387,526**	387,526
Mark Kemp-Gee	**5,000**	5,000
Kenneth Chrystie	**8,500**	8,500
Christopher Greig	**10,000**	10,000

Directors' interests are beneficially held. In addition, 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 2010	Options granted during the period	Options exercised/ lapsed during the period	**At 31 May 2011**	Exercisable price	Date from which exercisable	Expiry date
Ian Murgitroyd	-	-	-	**-**	-	-	-
David Castle	15,000	-	(15,000)	**-**	265p	27/10/2011	26/10/2026
(resigned 31 October 2010)	10,000	-	(10,000)	**-**	248p	25/02/2013	24/02/2028
Keith Young	43,568	-	-	**43,568**	121p	20/11/2004	19/11/2019
	8,216	-	-	**8,216**	169p	2/2/2007	1/2/2022
	20,000	-	-	**20,000**	181p	31/5/2008	30/5/2023
	15,000	-	-	**15,000**	265p	27/10/2011	26/10/2026
	10,000	-	-	**10,000**	248p	25/02/2013	24/02/2028
Graham Murnane	8,216	-	(8,216)	**-**	169p	2/2/2007	1/2/2022
	20,000	-	(20,000)	**-**	181p	31/5/2008	30/5/2023
	15,000	-	-	**15,000**	265p	27/10/2011	26/10/2026
	10,000	-	-	**10,000**	248p	25/02/2013	24/02/2028
Edward Murgitroyd	-	-	-	**-**	-	-	-
Mark Kemp-Gee	-	-	-	**-**	-	-	-
Kenneth Chrystie	-	-	-	**-**	-	-	-
Christopher Greig	-	-	-	**-**	-	-	-

Share options granted on 20 November 2001 have no performance criteria attaching as they were granted as part of the flotation arrangements. Subsequent grants 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 2011 was 327.5p (31 May 2010: 250p). During the year the share price ranged from 230p to 355.5p (2010: 225p to 302.5p). 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*
9 September 2011

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, Chief Executive and Finance Director, two other Executive Directors and the three non-executive Directors. Notwithstanding the fact that the non-executive Directors have served on the board for more than nine years the Board believes that they continue to be independent in character and judgement and accordingly are considered to be independent non-executive Directors. The Chairman, Ian Murgitroyd is an Executive Director. All Directors have access to the advice and services of the Company Secretary. A third of the Directors will submit themselves for re-election every year.

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 Chief Executive normally attend meetings although the Committee meets with the Auditors without 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. Keith Young is a member of this committee.

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.

Corporate governance *(continued)*

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, 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 that company's management and a number of professional practice responsibilities to a Practice Board. This latter group meets 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 Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on page 3 to 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also referred to in the Chairman's Statement. In addition note 21 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Group meets its overall funding requirements through its bank arrangements. The Group's internal budgets and forecasts, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities for the foreseeable future.

After making enquiries, the Directors have a reasonable expectation the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing these financial statements.

On behalf of the Board,

Ian G Murgitroyd, *Chairman*
9 September 2011

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

Independent Auditor's report to the members of Murgitroyd Group PLC

We have audited the financial statements of Murgitroyd Group PLC for the year ended 31 May 2011 set out on pages 20 to 60. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at: www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 May 2011 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

P Galloway, *(Senior Statutory Auditor)*
for and on behalf of
KPMG Audit Plc, *Statutory Auditor*
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

9 September 2011

Consolidated income statement
for the year ended 31 May 2011

	Note	**Year ended 31 May 2011 £'000**	Year ended 31 May 2010 £'000
Revenue	**2**	**33,218**	29,429
Cost of sales		**(13,307)**	(11,095)
Gross profit		**19,911**	18,334
Administrative expenses (including property revaluation uplift of £55,000; 2010: £156,000)		**(15,727)**	(14,326)
Operating profit before property revaluation uplift		**4,129**	3,852
Property revaluation uplift		**55**	156
Operating profit	**3**	**4,184**	4,008
Financial income	**6**	**3**	4
Financial expense	**6**	**(145)**	(187)
Profit before income tax		**4,042**	3,825
Income tax	**7**	**(1,389)**	(1,123)
Profit for the year attributable to equity holders of the parent	**23**	**2,653**	2,702
Earnings per share			
Basic	**9**	**31.12p**	31.83p
Diluted	**9**	**30.41p**	31.23p

Consolidated statement of changes in equity
for the year ended 31 May 2011

	Share capital	Share premium	Profit and loss account	Revaluation reserve	Merger reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Total equity at 1 June 2009	848	2,557	5,145	-	6,436	14,986
Profit for the year ended 31 May 2010	-	-	2,702	-	-	2,702
Dividends	-	-	(1,232)	-	-	(1,232)
Share based payments	-	-	63	-	-	63
Deferred tax on share options	-	-	(3)	-	-	(3)
Share options exercised	2	25	-	-	-	27
Revaluation in year	-	-	-	-	-	-
Deferred tax on revaluation in year	-	-	-	-	-	-
Total equity at 31 May 2010	**850**	**2,582**	**6,675**	**-**	**6,436**	**16,543**
Total equity at 1 June 2010	850	2,582	6,675	-	6,436	16,543
Profit for the year ended 31 May 2011	-	-	2,653	-	-	2,653
Dividends	-	-	(469)	-	-	(469)
Share based payments	-	-	81	-	-	81
Deferred tax on share options	-	-	80	-	-	80
Share options exercised	4	64	-	-	-	68
Revaluation in year	-	-	-	-	-	-
Deferred tax on revaluation in year	-	-	-	-	-	-
Total equity at 31 May 2011	**854**	**2,646**	**9,020**	**-**	**6,436**	**18,956**

Consolidated balance sheet
at 31 May 2011

	Note	**31 May 2011 £'000**	31 May 2010 £'000
Assets			
Non-current assets			
Property, plant and equipment	**10**	**2,155**	1,941
Intangible assets	**11**	**14,829**	14,820
Deferred tax asset	**12**	**67**	-
Total non-current assets		**17,051**	16,761
Current assets			
Work in progress	**13**	**745**	618
Trade and other receivables	**14**	**12,572**	10,780
Cash and cash equivalents	**16**	**1,252**	2,012
Total current assets		**14,569**	13,410
Total assets		**31,620**	30,171
Current liabilities			
Bank overdraft	**16**	**(521)**	(1,096)
Other interest-bearing loans and borrowings	**17**	**(1,190)**	(1,768)
Trade and other payables	**18**	**(6,420)**	(5,585)
Taxation payable	**19**	**(370)**	(141)
Total current liabilities		**(8,501)**	(8,590)
Non-current liabilities			
Other interest-bearing loans and borrowings	**17**	**(4,098)**	(4,977)
Other payables	**18**	**-**	-
Provisions for liabilities	**20**	**(65)**	(52)
Deferred tax liabilities	**12**	**-**	(9)
Total non-current liabilities		**(4,163)**	(5,038)
Total liabilities		**(12,664)**	(13,628)
Net assets		**18,956**	16,543
Equity			
Share capital	**22**	**854**	850
Share premium	**23**	**2,646**	2,582
Merger reserve	**23**	**6,436**	6,436
Revaluation reserve	**23**	**-**	-
Retained earnings	**23**	**9,020**	6,675
Total equity attributable to equity holders of the parent		**18,956**	16,543

These financial statements were approved by the Board of Directors on 9 September 2011 and were signed on its behalf by:

Ian G Murgitroyd, *Chairman*

Murgitroyd Group PLC, *Registered in Scotland, No. SC221766*

Consolidated statement of cash flows
for the year ended 31 May 2011

	Note	**Year ended 31 May 2011 £'000**	Year ended 31 May 2010 £'000
Cash flows from operating activities			
Profit for the year		**2,653**	2,702
Adjustments for:			
Depreciation		**216**	222
Amortisation		**-**	-
Gain on disposal of property, plant and equipment		**-**	-
Provision for "Onerous Lease"		**(7)**	(38)
Provision for leasehold property dilapidations		**20**	45
Property revaluation surplus		**(55)**	(156)
Financing costs		**142**	183
Equity settled share-based payment expense		**81**	63
Income tax expense		**1,389**	1,123
		4,439	4,144
Increase in trade and other receivables		**(1,792)**	(624)
Increase in work in progress		**(127)**	(139)
Increase in trade and other payables		**840**	411
		3,360	3,792
Interest paid		**(138)**	(164)
Interest received		**3**	4
Income tax paid		**(1,156)**	(1,130)
Net cash from operating activities		**2,069**	2,502
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(379)**	(86)
Proceeds from disposal of property, plant and equipment		**-**	-
Acquisition of subsidiaries, net of cash acquired		**(656)**	(314)
Net cash used in investing activities		**(1,035)**	(400)
Cash flows from financing activities			
Proceeds from exercise of share options		**68**	27
Loans received		**300**	300
Repayment of borrowings		**(1,118)**	(1,038)
Payment of finance lease liabilities		**-**	-
Dividends paid		**(469)**	(1,232)
Net cash used in financing activities		**(1,219)**	(1,943)
Net (decrease)/increase in cash and cash equivalents	**27**	**(185)**	159
Cash and cash equivalents at start of year		**916**	757
Cash and cash equivalents at year end	**16**	**731**	916

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 2011 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 57 to 60.

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.

The accounting policies set out below have been applied consistently to all periods presented, except for the impact of the adoption of the standards described below.

IAS 27 (Revised) Consolidated and separate financial statements makes a number of amendments to the standard, dealing primarily with the accounting for changes in ownership interest in subsidiaries after control is obtained, the accounting for the loss of control of subsidiaries and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary.

IFRS 3 (Revised) Business combinations requires acquisition costs incurred in a business combination to be expensed as incurred rather than included in the cost of acquisition and determination of goodwill. It also brings about changes to the current accounting in relation to contingent consideration and various other aspects of accounting for business combinations. This will affect any future acquisitions by the Group.

Amendment to IAS 39 Financial instruments: recognition and measurement: eligible hedged items clarifies two hedge accounting issues: inflation in a financial hedged item and a one sided risk in a hedged item.

IFRIC 17 Distribution of non-cash assets to owners requires distributions within the scope of IFRIC 17 to be measured at the fair value of the assets to be distributed. Any gain or loss on settlement of the liability for the dividend payable is to be recognised in profit or loss.

Improvements to IFRSs 2008 and 2009 incorporates a number of amendments to IFRSs. The Group has reviewed the impact of these amendments and concluded that there is no impact in the current period.

Amendment to IAS 32 Financial instruments: presentation – classification of rights issues deals with the classification of rights, options and warrants.

These financial statements are prepared on a going concern basis. The reasons for this are outlined in the Chairman's Statement on pages 3 to 6.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised in the income statement. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

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

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:

Freehold property	2%
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. Any impairment in the valuation of freehold property is 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

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material affect on the financial statements unless otherwise indicated:

IAS 24 Related Party Disclosures (revised 2009) (effective year ended 31 May 2010)
The revised IAS 24 amends the definition of a related party and modifies certain related party disclosure requirements for government related bodies.

Improvements to IFRSs 2010 (effective year ended 31 May 2012)
This incorporates a number of non urgent amendments to IFRSs. The Group does not expect the impact of the amendments to be significant.

The above standards and interpretations have been endorsed by the EU.

Notes *(continued)*

2 Segmental reporting

The Group has adopted IFRS 8 "Operating Segments" with effect from 1 June 2009. This standard requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes to the "Chief Operating Decision Maker", which is the Board. 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 year, the following revenue was attributable to different geographical markets:

	Year ended 31 May 2011 £'000	Year ended 31 May 2010 £'000
United Kingdom	**19,531**	17,120
United States of America	**7,139**	5,812
France	**1,321**	1,357
Republic of Ireland	**544**	832
Germany	**241**	337
Italy	**336**	365
Japan	**1,061**	1,080
Canada	**557**	483
The Netherlands	**301**	331
Switzerland	**338**	231
Australia	**234**	189
China	**148**	164
Other countries (each less than £100,000 in either year)	**1,467**	1,128
	33,218	29,429

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

	Year ended 31 May 2011 £'000	Year ended 31 May 2010 £'000
United Kingdom	**29,639**	26,314
Republic of Ireland	**672**	598
France	**1,837**	1,693
Germany	**328**	376
Italy	**493**	426
Finland	**249**	22
	33,218	29,429

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 and is therefore not provided.

Notes *(continued)*

3 Operating profit

	Year ended 31 May 2011 £'000	Year ended 31 May 2010 £'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 subsidiaries pursuant to legislation	**32**	34
- other services pursuant to such legislation	**7**	10
- other services relating to taxation	**175**	101
Depreciation and other amounts written off property, plant and equipment:		
Owned	**216**	222
Amortisation of intangible assets	**-**	-
Rental of land and buildings	**619**	640
Hire of office equipment – operating leases	**284**	275
Hire of other assets – operating leases	**35**	27
Gain on disposal of property, plant and equipment	**-**	-
after crediting:		
Foreign exchange gains	**555**	418

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.

4 Remuneration of Directors

The following emoluments were paid to Directors during the years ended 31 May 2011 and 31 May 2010:

	Salary and fees £'000	**Bonus £'000**	**Benefits £'000**	**Money purchase pension contrib'ns £'000**	**2011 Total £'000**	Salary and fees £'000	Bonus £'000	Benefits £'000	Money purchase pension contrib'ns £'000	2010 Total £'000
Executive										
Ian Murgitroyd * ‡	**211**	**4**	**35**	**11**	**261**	206	1	32	10	249
David Castle †	**79**	**-**	**6**	**5**	**90**	180	1	8	9	198
Keith Young	**179**	**-**	**16**	**9**	**204**	170	-	15	8	193
Graham Murnane	**152**	**4**	**2**	**7**	**165**	144	1	2	7	154
Edward Murgitroyd ‡	**148**	**7**	**5**	**6**	**166**	147	1	20	4	172
Non-executive										
Mark Kemp-Gee	**20**	**1**	**3**	**-**	**24**	20	1	2	-	23
Kenneth Chrystie	**17**	**1**	**-**	**-**	**18**	17	1	-	-	18
Christopher Greig	**18**	**1**	**-**	**-**	**19**	18	1	-	-	19
	824	**18**	**67**	**38**	**947**	902	7	79	38	1,026

* Highest paid Director, † Resigned 31 October 2010, ‡ Pound Sterling equivalent of part US Dollar-denominated remuneration

Notes *(continued)*

4 Remuneration of Directors *(continued)*

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 £4,000 (2010: £1,000). During the year retirement benefits accrued to five Directors (2010: five).

The Directors who held office during the financial year had the following interests in share options:

	At 31 May 2010	Options granted during the period	Options exercised/ lapsed during the period	**At 31 May 2011**	Exercisable price	Date from which exercisable	Expiry date
Ian Murgitroyd	-	-	-	**-**	-	-	-
David Castle	15,000	-	(15,000)	**-**	265p	27/10/2011	26/10/2026
(resigned 31 October 2010)	10,000	-	(10,000)	**-**	248p	25/02/2013	24/02/2028
Keith Young	43,568	-	-	**43,568**	121p	20/11/2004	19/11/2019
	8,216	-	-	**8,216**	169p	2/2/2007	1/2/2022
	20,000	-	-	**20,000**	181p	31/5/2008	30/5/2023
	15,000	-	-	**15,000**	265p	27/10/2011	26/10/2026
	10,000	-	-	**10,000**	248p	25/02/2013	24/02/2028
Graham Murnane	8,216	-	(8,216)	**-**	169p	2/2/2007	1/2/2022
	20,000	-	(20,000)	**-**	181p	31/5/2008	30/5/2023
	15,000	-	-	**15,000**	265p	27/10/2011	26/10/2026
	10,000	-	-	**10,000**	248p	25/02/2013	24/02/2028
Edward Murgitroyd	-	-	-	**-**	-	-	-
Mark Kemp-Gee	-	-	-	**-**	-	-	-
Kenneth Chrystie	-	-	-	**-**	-	-	-
Christopher Greig	-	-	-	**-**	-	-	-

Share options granted on 20 November 2001 have no performance criteria attaching as they were granted as part of the flotation arrangements. Subsequent grants 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 2011 was 327.5p (31 May 2010: 250p). During the year the share price ranged from 230p to 355.5p (2010: 225p to 302.5p). The interests of the Directors to subscribe for or acquire ordinary shares have not changed since the year end.

5 Employees

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

	Year ended 31 May 2011 Number	Year ended 31 May 2010 Number
Professional staff	**81**	81
Office, management and support staff	**148**	143
	229	224

Notes *(continued)*

5 Employees *(continued)*

The aggregate payroll cost was as follows:

	Year ended 31 May 2011 £'000	Year ended 31 May 2010 £'000
Wages and salaries	**10,186**	9,381
Social security costs	**1,238**	1,170
Pension costs	**464**	441
Equity settled share based payments	**81**	63
	11,969	11,055

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

6 Financial income and expense

Financial income	**Year ended 31 May 2011 £'000**	Year ended 31 May 2010 £'000
Recognised in the income statement		
Bank interest receivable	**1**	2
Other interest receivable	**2**	2
	3	4

Financial expense	**Year ended 31 May 2011 £'000**	Year ended 31 May 2010 £'000
Recognised in the income statement		
Interest on bank loans and overdrafts	**133**	160
Interest on deferred payments	**12**	27
	145	187

Notes *(continued)*

7 Income tax

	Year ended 31 May 2011 £'000	Year ended 31 May 2010 £'000
Recognised in the income statement		
UK Corporation Tax		
Current taxation on profit for the year at 27.67% (2010: 28%)	**978**	1,071
Under provision of taxation on profit for previous periods	**-**	8
Foreign tax		
Current taxation on income for the year	**255**	10
Under provision of taxation on income for previous periods	**152**	47
Total current tax	**1,385**	1,136
Deferred tax (see note 12)		
Creation and reversal of temporary differences	**4**	(13)
Total tax in income statement	**1,389**	1,123

The tax charges for the current and prior years are higher than the standard rate of UK Corporation Tax of 27.67% (2010: 28%). The differences are explained below:

		Year ended 31 May 2011 £'000		Year ended 31 May 2010 £'000
Current tax reconciliation				
Profit excluding taxation		**4,042**		3,825
Profit excluding taxation multiplied by standard rate of UK Corporation Tax of 27.67% (2010: 28%)	**27.67%**	**1,119**	28.0%	1,071
Effects of:				
Expenses not deductible for tax purposes	**0.7%**	**27**	0.2%	6
Under provision of taxation for previous periods	**3.8%**	**152**	1.4%	55
Overseas tax impact	**2.3%**	**93**	(0.2%)	(9)
Rate difference for deferred tax purposes	**(0.1%)**	**(2)**	-	-
Total tax expense (see above)	**34.4%**	**1,389**	29.4%	1,123

Notes *(continued)*

7 Income tax *(continued)*

	Year ended 31 May 2011 £'000	Year ended 31 May 2010 £'000
Income tax recognised directly in equity		
Taxation on share based payments	**80**	(3)
Taxation on revaluation of property	**-**	-
	80	(3)

The Emergency Budget on 22 June 2010 announced that the UK Corporation Tax rate will reduce from 28% to 24% over a period of four years from 2011. The first reduction from 28% to 27% is effective from 1 April 2011 and the second reduction to 26% was substantively enacted on 29 March 2011. This will reduce the Group's future current tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax asset accordingly.

8 Dividends

	Year ended 31 May 2011 £'000	Year ended 31 May 2010 £'000
Equity shares:		
Final dividend in respect of 2009 (6.5p per share)	**-**	552
First interim dividend in respect of 2010 (3p per share)	**-**	255
Second interim dividend in respect of 2010 (5p per share)	**-**	425
Final dividend in respect of 2010 (2p per share)	**170**	-
Interim dividend in respect of 2011 (3.5p per share)	**299**	-
	469	1,232

The Directors recommend that a final dividend of £619,000, being 7.25p per share, (2010: £170,000, being 2p per share) be paid. Subject to approval at the Annual General Meeting, the final dividend will be paid on 3 November 2011 to shareholders on the register on 14 October 2011. 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)*

	2011 Profit for the year	**2011** Weighted average number of shares	**2011** Earnings per share	2010 Profit for the year	2010 Weighted average number of shares	2010 Earnings per share
	£'000	**Number**	**p**	£'000	Number	p
Basic earnings per share	**2,653**	**8,524,337**	**31.12p**	2,702	8,489,485	31.83p
Dilutive share options	**-**	**199,794**	**(0.71p)**	-	163,916	(0.60p)
Diluted earnings per share	**2,653**	**8,724,131**	**30.41p**	2,702	8,653,401	31.23p
Property revaluation uplift	**(55)**	**-**	**(0.63p)**	(156)	-	(1.80p)
Adjusted, diluted earnings per share	**2,598**	**8,724,131**	**29.78p**	2,546	8,653,401	29.43p
Adjusted, basic earnings per share	**2,598**	**8,524,337**	**30.48p**	2,546	8,489,485	29.99p

10 Property, plant and equipment

	Property	Short leasehold improvements	Office equipment	Motor vehicles	Fixtures and fittings	**Total**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Cost/valuation						
At 1 June 2009	1,500	146	1,136	116	463	3,361
Additions	2	-	75	-	9	**86**
Revaluations	123	-	-	-	-	**123**
Disposals	-	-	(107)	-	(5)	**(112)**
At 31 May 2010	**1,625**	**146**	**1,104**	**116**	**467**	**3,458**
At 1 June 2010	1,625	146	1,104	116	467	3,458
Additions	3	57	254	42	19	**375**
Revaluations	22	-	-	-	-	**22**
Disposals	-	-	(25)	-	(7)	**(32)**
At 31 May 2011	**1,650**	**203**	**1,333**	**158**	**479**	**3,823**
Depreciation						
At 1 June 2009	-	71	905	87	377	1,440
Charge for the year	33	29	106	16	38	**222**
Revaluations	(33)	-	-	-	-	**(33)**
On disposals	-	-	(107)	-	(5)	**(112)**
At 31 May 2010	**-**	**100**	**904**	**103**	**410**	**1,517**
At 1 June 2010	-	100	904	103	410	1,517
Charge for the year	33	36	105	15	27	**216**
Revaluations	(33)	-	-	-	-	**(33)**
On disposals	-	-	(25)	-	(7)	**(32)**
At 31 May 2011	**-**	**136**	**984**	**118**	**430**	**1,668**
Carrying amounts						
At 31 May 2011	**1,650**	**67**	**349**	**40**	**49**	**2,155**
At 31 May 2010	**1,625**	**46**	**200**	**13**	**57**	**1,941**

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 Group's interest in its freehold property at Scotland House, 165-169 Scotland Street, Glasgow was valued as at 31 May 2011 at £1,650,000 on the basis of open market value for existing use by McCaffrey & Co, commercial property consultants, 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*	**2011 £'000**	**2010 £'000**
Valuation – 2011/2010	**1,650**	**1,625**
Carrying value	**1,650**	**1,625**
Historical cost	**1,891**	**1,889**
Aggregate depreciation based on historical cost	**(98)**	**(65)**
Historical cost carrying value	**1,793**	**1,824**

* the valuation attaching to land at 31 May 2011 was £300,000 (31 May 2010 was £300,000).

11 Intangible assets

	Goodwill £'000	Website development £'000	**£'000**
Deemed cost			
At 1 June 2009	14,806	14	**14,820**
Acquisitions through business combinations	14	-	**14**
At 31 May 2010	**14,820**	**14**	**14,834**
Additions	-	4	**4**
Acquisitions through business combinations	5	-	**5**
At 31 May 2011	**14,825**	**18**	**14,843**
Amortisation			
At 1 June 2009	-	14	**14**
Charge for the year	-	-	**-**
At 31 May 2010	**-**	**14**	**14**
Charge for the year	-	-	**-**
At 31 May 2011	**-**	**14**	**14**
Carrying amounts			
At 31 May 2011	**14,825**	**4**	**14,829**
At 31 May 2010	**14,820**	**-**	**14,820**

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:

- Management prepare and maintain cash flow projections for a minimum three-year period based upon past experience and future expectations. The key assumptions underlying these projections include minimal organic sales growth, a continuing lower gross profit percentage, administrative expenses remaining at the current levels relative to sales and stable interest rates. For the purposes of testing of goodwill for impairment no growth is forecast (2010: 0%).
- A pre tax discount rate of 15% (2010: 15%) 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**	
	2011	2010	**2011**	2010	**2011**	2010
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Share based payments	**131**	52	**-**	-	**131**	52
Property, plant and equipment	**-**	-	**(105)**	(97)	**(105)**	(97)
Other timing differences	**41**	36	**-**	-	**41**	36
	172	88	**(105)**	(97)	**67**	(9)

Movements in deferred tax during the year:

	At 1 June 2010	Recognised in income	Recognised in equity	**At 31 May 2011**
	£'000	£'000	£'000	**£'000**
Share based payments	52	(1)	80	**131**
Property, plant and equipment	(97)	(8)	-	**(105)**
Other timing differences	36	5	-	**41**
	(9)	(4)	80	**67**

Notes *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Movements in deferred tax during the prior year:

	At 1 June 2009 £'000	Recognised in income £'000	Recognised in equity £'000	**At 31 May 2010 £'000**
Share based payments	50	5	(3)	**52**
Property, plant and equipment	(95)	(2)	-	**(97)**
Other timing differences	26	10	-	**36**
	(19)	13	(3)	**(9)**

13 Work in progress

	2011 £'000	2010 £'000
Work in progress	**745**	618

Work in progress to the value of £618,000 (2010: £479,000) was recognised in the income statement in the year.

14 Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	**11,539**	9,868
Other receivables	**507**	383
Prepayments and accrued income	**526**	529
	12,572	10,780

At 31 May 2011, trade receivables are shown net of allowance for doubtful debts of £522,000 (2010: £487,000) arising from a review of the expected recoverability of the receivables. The charge in the year was £294,000 (2010: £233,000).

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

Notes *(continued)*

15 Acquisition of subsidiaries

The Group made no acquisitions in the year.

16 Cash and cash equivalents

	2011 £'000	2010 £'000
Cash	**1,252**	2,012
Bank overdrafts	**(521)**	(1,096)
Cash and cash equivalents in statement of cash flows	**731**	916

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.

	2011 £'000	2010 £'000
Current liabilities		
Deferred vendor payments	**-**	639
Secured bank loans	**1,190**	1,129
	1,190	1,768
Non current liabilities		
Secured bank loans	**4,098**	4,977

Notes *(continued)*

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

Terms and debt repayment schedule

	Nominal interest rate	Year of maturity	Face value 2011 £'000	Carrying amount 2011 £'000	Face value 2010 £'000	Carrying amount 2010 £'000
Secured bank loans						
Term loan	**LIBOR + 1%**	**2012**	**28**	**28**	64	64
Term loan	**LIBOR + 1%**	**2013**	**92**	**92**	136	136
Term loan	**LIBOR + 1%**	**2013**	**359**	**359**	509	509
Term loan	**LIBOR + 1%**	**2013**	**218**	**218**	291	291
Term loan	**LIBOR + 1%**	**2014**	**153**	**153**	196	196
Term loan	**LIBOR + 1%**	**2015**	**288**	**288**	358	358
Term loan	**LIBOR + 1%**	**2015**	**1,622**	**1,622**	1,990	1,990
Term loan	**LIBOR + 1%**	**2015**	**191**	**191**	231	231
Term loan	**LIBOR + 2%**	**2016**	**327**	**327**	387	387
Term loan	**LIBOR + 1%**	**2016**	**351**	**351**	419	419
Term loan	**LIBOR + 1%**	**2016**	**242**	**242**	286	286
Term loan	**LIBOR + 1%**	**2017**	**259**	**259**	300	300
Term loan	**LIBOR + 1%**	**2018**	**300**	**300**	-	-
Term loan	**LIBOR + 1%**	**2020**	**858**	**858**	939	939
Deferred payments						
Deferred vendor payment	**nil%**	**2010**	**-**	**-**	351	351
Deferred vendor payment	**5.25%**	**2011**	**-**	**-**	300	288
			5,288	**5,288**	6,757	6,745

All debt is denominated in Pounds. The deferred vendor payments were guaranteed by Clydesdale Bank PLC. Since the year end, no deferred vendor payments have been, nor remain to be, made. 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

	2011	2010
	£'000	£'000
Current liabilities		
Trade payables	**4,988**	4,408
Taxation and social security	**657**	526
Accruals and deferred income	**642**	610
Other payables	**133**	41
	6,420	5,585

19 Taxation payable

	2011	2010
	£'000	£'000
Current liabilities		
Corporation tax payable	**370**	141

20 Provision for liabilities

	Onerous contracts	Leasehold property dilapidations	**Total**
	£'000	£'000	**£'000**
Balance at 1 June 2010	7	45	**52**
Provision made during the year	-	20	**20**
Utilised in the year	(7)	-	**(7)**
Balance at 31 May 2011	-	65	**65**

As a result of the acquisition of Murgitroyd (Fitzpatricks) Limited the Group assumed a non-cancellable lease for office space which was surplus to requirements. The lease expired in July 2010. The facilities were sub-let for the remaining lease term but the rental income was lower than the rental expense. The obligation for the future payments net of expected rental income was provided for in 2008. Discounting was not performed as it was not material. The provision for leasehold properties dilapidations in connection with the same office space amounts to £55,000.

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, and €20,000 overdraft facility with Ulster Bank PLC. As explained in the Corporate Governance statement on pages 16 and 17 the Directors have reviewed the Group's forecasts and projections which show that the Group should be able to operate within its current facilities for the foreseeable future.

Currency risk

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

31 May 2011	Pound £'000	Euro £'000	US Dollar £'000	Other £'000	**Total £'000**
Cash and cash equivalents	810	206	218	18	**1,252**
Trade receivables	9,021	1,489	1,029	-	**11,539**
Bank overdraft	(49)	(472)	-	-	**(521)**
Trade payables	(717)	(1,199)	(1,827)	(1,245)	**(4,988)**
Balance sheet exposure	9,065	24	(580)	(1,227)	**7,282**

Notes *(continued)*

21 Financial instruments *(continued)*

31 May 2010	Pound £'000	Euro £'000	US Dollar £'000	Other £'000	**Total £'000**
Cash and cash equivalents	1,393	223	391	5	**2,012**
Trade receivables	8,209	1,181	478	-	**9,868**
Bank overdraft	(44)	(1,047)	-	(5)	**(1,096)**
Trade payables	(783)	(910)	(1,842)	(873)	**(4,408)**
Balance sheet exposure	8,775	(553)	(973)	(873)	**6,376**

The following significant exchange rates applied during the year:

	Average rate		Reporting date Spot rate	
	2011	2010	**2011**	2010
Euro	**1.17**	1.13	**1.15**	1.18
US Dollar	**1.58**	1.60	**1.65**	1.45

Sensitivity analysis
A ten percent weakening of the following currencies against the Pound at 31 May 2011 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 2010.

	Equity		Profit or loss	
	2011 £'000	2010 £'000	**2011 £'000**	2010 £'000
Euro	**(18)**	(17)	**(20)**	(19)
US Dollar	**(48)**	-	**73**	124

A ten percent strengthening of the above currencies against the Pound at 31 May 2011 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	**2011**	2010
	£'000	£'000
Trade receivables (note 14)	**11,539**	9,868
Other receivables (note 14)	**507**	383
Cash and cash equivalents (note 16)	**1,252**	2,012
	13,298	12,263

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

Carrying amount	**2011**	2010
	£'000	£'000
United Kingdom	**6,394**	5,966
United States of America	**2,317**	1,592
Japan	**612**	383
Ireland	**384**	476
France	**330**	276
Italy	**151**	120
Switzerland	**190**	83
Australia	**137**	63
Canada	**112**	94
Other countries (each less than £100,000)	**912**	815
	11,539	9,868

Notes *(continued)*

21 Financial instruments *(continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristic of each customer and, when accepting any new client, the Group's standard practice is to seek partial payment at the point of instruction. Outstanding trade receivable balances and payment patterns are reviewed on an ongoing basis by the Group's credit controllers, and at least monthly by senior accounts staff. In determining the recoverability of a trade receivable the Group considers any material changes in payment patterns, as well as known changes in customers' businesses, from the date credit was initially granted up to the reporting date. The Group's exposure to credit risk is likely to increase in the current economic climate but management do not consider this to have a significant impact as the risk is spread across a large number of customers. Accordingly the Directors believe that there is no further provision required in excess of the allowance for doubtful debts.

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

		2011		2010
	Gross £'000	**Impairment £'000**	Gross £'000	Impairment £'000
One month (not past due)	**4,153**	**-**	3,278	-
Two to three months	**3,985**	**-**	3,474	-
Four to six months	**1,322**	**(22)**	1,334	-
Over six months	**3,108**	**(500)**	2,652	(487)
	12,568	**(522)**	10,738	(487)

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

	2011 £'000	2010 £'000
Balance at 1 June	**487**	465
Impairment loss recognised	**35**	22
Balance at 31 May	**522**	487

The impairment loss at 31 May 2011 of £522,000 (31 May 2010: £487,000) 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 2011

	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	5,288	5,785	685	676	1,334	2,510	580
Deferred vendor payments	-	-	-	-	-	-	-
Trade and other payables	6,420	6,420	6,420	-	-	-	-
Bank overdraft	521	521	521	-	-	-	-
	12,229	12,726	7,626	676	1,334	2,510	580

31 May 2010

	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	6,106	6,789	659	665	1,319	3,321	825
Deferred vendor payments	639	651	351	300	-	-	-
Trade and other payables	5,585	5,585	5,585	-	-	-	-
Bank overdraft	1,096	1,096	1,096	-	-	-	-
	13,426	14,121	7,691	965	1,319	3,321	825

The carrying amount of financial instruments are all equal to their fair value aside from deferred vendor payments. These have been defined as Level 2 instruments in line with the following definitions:

Level 1
Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3
Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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.

	2011 Balance outstanding £'000	**2011 Facility £'000**	**2011 Undrawn amounts £'000**	2010 Balance outstanding £'000	2010 Facility £'000	2010 Undrawn amounts £'000
Bank loans and overdrafts	**5,809**	**7,760**	**1,951**	7,202	9,057	1,855
Deferred vendor payments	**-**	**-**	**-**	639	639	-
	5,809	**7,760**	**1,951**	7,841	9,696	1,855

The bank loan facilities have unexpired terms of between two and ten years (see note 17).

Interest rate risk

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

Carrying amount	**2011 £'000**	2010 £'000
Fixed rate instruments		
Financial liabilities	**-**	639
Variable rate instruments		
Financial liabilities	**5,288**	6,106

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 2010.

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 2011				
Variable rate instruments	(70)	70	-	-
31 May 2010				
Variable rate instruments	(86)	86	-	-

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 2011		31 May 2010
	Carrying amount £'000	**Fair value £'000**	Carrying amount £'000	Fair value £'000
Receivables	**12,572**	**12,572**	10,780	10,780
Cash and cash equivalents	**1,252**	**1,252**	2,012	2,012
Secured bank loans	**(5,288)**	**(5,288)**	(6,106)	(6,106)
Deferred vendor payments	**-**	**-**	(639)	(651)
Trade and other payables	**(6,420)**	**(6,420)**	(5,585)	(5,585)
Bank overdraft	**(521)**	**(521)**	(1,096)	(1,096)
	1,595	**1,595**	(634)	(646)

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 rate used to discount estimated cash flows in connection with deferred vendor payments (5.25%) is based on prevailing Base Rates at the time of completion of the related business combination.

Option
In 2008, the Group entered into a six-year option agreement to buy MTBW Nominees Limited's ("MTBW") 40% shareholding in Envoy International Limited ("EIL") for 25% of valuation subject to a minimum of £400,000. MTBW is nominee for Artroyd Securities Limited, of which Ian and Edward Murgitroyd are shareholders and Directors. In the first four years the Group can only exercise the option if EIL is sold or listed, thereafter it can be exercised at any time. No premium was paid on execution of the agreement, the fair value of which is considered by the Directors based on a valuation model. At both 31 May 2011 and 2010 this was considered immaterial. In 2011 the Group made net sales of £123,000 to EIL (2010: net purchases of £344,000 from EIL) and was owed £238,000 at 31 May 2011 (31 May 2010: owed £135,000 to EIL).

22 Share capital

	2011 **£'000**	2010 £'000
Authorised		
18,713,570 ordinary shares of 10 pence each	**1,871**	1,871
Allotted, called up and fully paid		
8,540,563 (31 May 2010: 8,502,347) ordinary shares of 10 pence each	**854**	850

During the year the Group issued 38,217 10p ordinary shares for a consideration of £68,000, 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	Share premium	Profit and loss account	Revaluation reserve	Merger reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reconciliation of movement in capital and reserves						
At 1 June 2009	848	2,557	5,145	-	6,436	14,986
Profit for the year	-	-	2,702	-	-	2,702
Dividends	-	-	(1,232)	-	-	(1,232)
Share based payments	-	-	63	-	-	63
Deferred tax on share options	-	-	(3)	-	-	(3)
Share options exercised	2	25	-	-	-	27
Revaluation in year	-	-	-	-	-	-
Deferred tax on revaluation in year	-	-	-	-	-	-
At 31 May 2010	**850**	**2,582**	**6,675**	**-**	**6,436**	**16,543**

	Share capital	Share premium	Profit and loss account	Revaluation reserve	Merger reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reconciliation of movement in capital and reserves						
At 1 June 2010	850	2,582	6,675	-	6,436	16,543
Profit for the year	-	-	2,653	-	-	2,653
Dividends	-	-	(469)	-	-	(469)
Share based payments	-	-	81	-	-	81
Deferred tax on share options	-	-	80	-	-	80
Share options exercised	4	64	-	-	-	68
Revaluation in year	-	-	-	-	-	-
Deferred tax on revaluation in year	-	-	-	-	-	-
At 31 May 2011	**854**	**2,646**	**9,020**	**-**	**6,436**	**18,956**

Share premium

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

Revaluation reserve

A revaluation reserve existed historically, and related 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 £464,000 (2010: £441,000).

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	**Other**	**2011 Total**	Land and buildings	Other	2010 Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Expiring within one year	**136**	**121**	**257**	92	26	118
Expiring between two and five years	**379**	**562**	**941**	731	804	1,535
Expiring in five or more years	**2,165**	**-**	**2,165**	1,398	-	1,398
Total	**2,680**	**683**	**3,363**	2,221	830	3,051

During the year £11,000 (2010: £64,000) 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 2010 there was no capital expenditure authorised by the Board but not provided in the financial statements (2010: £nil). Similarly, there were no contracts placed for future capital expenditure, not provided in the financial statements (2010: £nil). In addition to the above, at the end of the financial year the Group had entered into commitments amounting to £nil (2010: £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 (2010: 166,000). The options exercised and either forfeited or lapsed during the year, and those outstanding at 31 May 2011, were as follows:

Exercise price	Date of grant	Date from which exercisable	Expiry date	2010 '000	**Granted during the year '000**	**Exercised during the year '000**	**Forfeited/ lapsed during the year '000**	**2011 '000**
121p	20/11/2001	20/11/2004*	19/11/2019	87*	**-**	**-**	**-**	**87***
169p	2/2/2004	2/2/2007*	1/2/2022	63*	**-**	**(8)**	**-**	**55***
181p	31/5/2005	31/5/2008*	30/5/2023	150*	**-**	**(30)**	**-**	**120***
225p	19/12/2008	19/12/2011	18/12/2026	254	**-**	**-**	**(27)**	**227**
248p	25/02/2010	25/02/2013	24/02/2028	166	**-**	**-**	**(16)**	**150**
				720	**-**	**(38)**	**(43)**	**639**

* Exercisable as at 31 May 2011. Details of the performance criteria of the share options are included in the Remuneration Report.

	2011 Weighted averaged exercise price p	**2011 Number of options '000**	2010 Weighted averaged exercise price p	2010 Number of options '000
Outstanding at start of year	**204**	**720**	190	600
Granted during the year	**-**	**-**	248	166
Exercised during the year	**178**	**(38)**	142	(19)
Forfeited during the year	**234**	**(43)**	225	(27)
Outstanding at end of year	**203**	**639**	204	720

The weighted average share price at the date of exercise of share options exercised during the year was 295p (2010: 266p). The options outstanding at the year end have an exercise price in the range of 121p to 248p and a weighted average contractual life of 13.8 years. Details of the performance criteria of all 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 connection with share options issued in 2010 are expected volatility (25.9%), expected option life (7.9 years), expected dividend yield (2.2%) and risk-free rate (2.9%). The main assumptions used in connection with share options issued in 2009 are expected volatility (27.1%), expected option life (5 years), expected dividend yield (1.8%) and risk-free rate (2.8%). The main assumptions used in the model in connection with earlier share options issued are 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	Non cash Movement £'000	At end of year £'000
Cash at bank and in hand	**2,012**	(760)	-	**1,252**
Overdraft	**(1,096)**	575	-	**(521)**
	916	(185)	-	**731**
Deferred vendor payments	**(639)**	651	(12)	**-**
Secured bank loans	**(6,106)**	818	-	**(5,288)**
Obligations under hire purchase contracts	**-**	-	-	**-**
	(6,745)	1,469*	(12)	**(5,288)**
	(5,829)	1,284	(12)	**(4,557)**

* Reflected as acquisition of subsidiaries £651,000 and net decrease in borrowings of £818,000 in the consolidated statement of cash flows.

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

	2011 £'000	2010 £'000
(Decrease)/increase in cash in the year	**(185)**	159
Cash outflow from decrease in debt and hire purchase financing	**1,469**	1,038
Decrease in net debt resulting from cash flows	**1,284**	1,197
Increase in deferred vendor payments	**(12)**	(27)
Decrease in net debt in the year	**1,272**	1,170
Net debt at start of year	**(5,829)**	(6,999)
Net debt at end of year	**(4,557)**	(5,829)

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
Murgitroyd LLC *	US business development and sales	USA	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 Other related parties information

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 2011 the Group made sales of £94,000 to Gizmo Packaging Limited ("Gizmo"), a company in which the Chairman, Ian Murgitroyd, is a Director (2010: £31,000). As at 31 May 2011, the outstanding amount owed by Gizmo amounted to £105,000 (31 May 2010: £18,000).

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

Notes *(continued)*

30 Subsequent events

There are no subsequent events to report.

UK GAAP parent company balance sheet
at 31 May 2011

	Note	31 May 2011 £'000	31 May 2010 £'000
Fixed assets			
Investments	2	**8,350**	8,269
Current assets			
Debtors	3	**1,920**	1,852
Creditors: amounts falling due within one year		**-**	-
Net current assets		**1,920**	1,852
Total assets less current liabilities		**10,270**	10,121
Creditors: amounts falling due outwith one year		**-**	-
Net assets		**10,270**	10,121
Capital and reserves			
Share capital	4	**854**	850
Share premium	5	**2,646**	2,582
Merger reserve	5	**6,436**	6,436
Profit and loss account	5	**334**	253
Shareholders' funds		**10,270**	10,121

These financial statements were approved by the Board of Directors on 9 September 2011 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 2011
(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.

Profit and loss account

Under Section 408 of the Companies Act 2006, 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 57 of the Group's financial statements), 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 of the Group's financial statements.

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 of the Group's financial statements.

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

	2011	2010
	£'000	£'000
Shares in subsidiary undertakings		
Cost at start of year	**8,269**	8,206
Equity settled share based payments	**81**	63
Cost at end of year	**8,350**	8,269

See note 28 of the Group's financial statements for details of subsidiary undertakings.

3 Debtors

	2011	2010
	£'000	£'000
Amount owed by subsidiary undertaking	**1,920**	1,852

4 Share capital

	2011	2010
	£'000	£'000
Authorised		
18,713,570 ordinary shares of 10 pence each	**1,871**	1,871
Allotted, called up and fully paid		
8,540,563 (31 May 2010: 8,502,347) ordinary shares of 10 pence each	**854**	850

During the year the company issued 38,217 10p ordinary shares for a consideration of £68,000, 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	Profit and loss account £'000
At start of year	**2,582**	**6,436**	**253**
Profit for the financial year	**-**	**-**	**469**
Dividends	**-**	**-**	**(469)**
New shares issued (note 4)	**64**	**-**	**-**
Equity settled share based payment settlement	**-**	**-**	**81**
At end of year	**2,646**	**6,436**	**334**

6 Reconciliation of movements in equity shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	**469**	1,232
Dividends	**(469)**	(1,232)
Retained profit for the financial year	**-**	-
New shares issued (note 4)	**68**	27
Equity settled share based payment settlement	**81**	63
Net addition to equity shareholders' funds	**149**	90
Opening equity shareholders' funds	**10,121**	10,031
Closing equity shareholders' funds	**10,270**	10,121

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the company will be held at Scotland House, 165-169 Scotland Street, Glasgow G5 8PL at 11am on 27 October 2011 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 2011.
2. To approve the proposed dividend.
3. To receive and adopt the report of the Remuneration Committee of the company.
4. To re-elect Mark Kemp-Gee who retires from the Board in accordance with Article 77, as a Director of the company.
5. To re-elect Dr. Kenneth G 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*
9 September 2011

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

MURGITROYD GROUP PLC

Form of proxy

FOR USE BY ORDINARY SHAREHOLDERS

Relating to the Annual General Meeting to be held at Scotland House, 165-169 Scotland Street, Glasgow G5 8PL at 11am on 27 October 2011.

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 27 October 2011 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 2011.		
To approve the proposed dividend.		
To receive and adopt the report of the Remuneration Committee of the company.		
To re-elect Mark-Kemp Gee who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-elect Dr. Kenneth G Chrystie who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-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, PXS, 34 Beckenham Road, Beckenham, BR3 WTU, 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 2006 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.

Office Locations

United Kingdom

Aberdeen
The Enterprise Centre
Exploration Drive
Bridge of Don
Aberdeen, AB23 8GX
Tel: +44 (0) 122 470 6616

Belfast
The Potthouse
5th Floor
1 Hill Street
Belfast, BT1 2LB
Tel: +44 (0) 289 032 0441

Edinburgh
West Point House
69 North Gyle Terrace
Glasgow Road
Edinburgh, EH12 8JY
Tel: +44 (0) 131 339 9910

Glasgow
Corporate Head Office
Scotland House
165-169 Scotland Street
Glasgow, G5 8PL
Tel: +44 (0) 141 307 8400

London
Corinthian House
7th Floor,
17 Lansdowne Road
Croydon
London, CR0 2BX
Tel: +44 (0) 208 688 3490

Newcastle
Collingwood House
3 Collingwood Street
Newcastle, NE1 1JW
Tel: +44 (0) 191 211 3550

York
Enterprise House
Innovation Way
Heslington
York, YO10 5NQ
Tel: +44 (0) 1904 898 881

Germany

Munich
Maximilianstrasse 35a
D-80539 Munich,
Germany
Tel: +49 892 421 8436

France

Nice
Immeuble Atlantis
55 Allée Pierre Ziller
06560 Valbonne
Sophia Antipolis, France
Tel: +33 (0) 4 9721 5200

Italy

Milan
Piazza Borromeo 12
Milan 20123
Italy
Tel: +39 (0) 2 8739 8550

Finland

Helsinki
Mannerheimintie
12 B 5th floor
00100 Helsinki
Finland
Tel: + 358 (0) 9 2516 6388

Republic of Ireland

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

USA

Raleigh
Client Liaison Office
4721 Emperor Blvd.
Suite 430
Durham, NC 27703
Tel: +1 919 474 8300

San Francisco
Client Liaison Office
71 Stevenson Street
Suite 400
San Francisco, CA 94105
Tel: +1 415 655 6711

Japan

Tokyo
Client Liaison Office
14th Floor Kamiyacho MT Bldg
4-3-20 Toranomon
Minato-ku
Tokyo 105-0001
Tel: +81 3 5404 3466

General Fax
+44 (0) 141 307 8401

MURGITROYD
GROUP PLC

murgitroyd.com

Registered in Scotland. No.SC221766 © Murgitroyd Group PLC 2011