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Murgitroyd Group PLC

Annual report and financial statements

murgitroydgroupplc.com

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Highlights

Revenue increased to £44.3m *(2016: £42.2m)*

Profit before income tax decreased to £3.80m *(2016: £4.29m)*

Basic earnings per share decreased to 28.3p *(2016: 35.4p)*

Proposed final dividend of 12p per share, giving a total dividend for the year of 17p *(2016: 16p)*, an increase of 6.3% year-on-year

Ian Murgitroyd, non-Executive Chairman of Murgitroyd Group PLC, said:

"I am pleased to be able to report the return to earnings growth in the second half of the financial year, after a first half that saw the Group absorb the one-off transaction and integration costs of its most recent acquisition. Generating a sustainable return on this investment remains a key goal for the Group, in conjunction with profitable growth through targeted business development, economies of scale and effective cost control, which remain central to the Group's strategy.

"We are operating in a robust market with good long-term prospects and the Board remains committed to the delivery of value to shareholders, reflected in the continuation of the progressive dividend policy."

Directors and advisers

Directors	Ian G Murgitroyd	Non-executive Chairman
	G Edward Murgitroyd	Deputy Chairman and Executive Director
	Graham J Murnane	Executive Director
	Gordon D Stark	Executive Director
	Keith G Young	Chief Executive and Finance Director
	Mark N Kemp-Gee	Non-executive Director
	Dr. Kenneth G Chrystie	Non-executive Director
	Dr. Christoper Masters	Non-executive Director (resigned 23 May 2017)
	John H Reid	Non-executive Director

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Chairman's statement

Financial review

In the full year to 31 May 2017, revenue increased by 4.8% to £44.25m (2016: £42.23m) as a result of a strong performance in the second half. Revenue in the second half of £22.8m was £1m higher than in the same period in the previous financial year and profit before tax for the second half stood at £2.33m (2016: £2.17m), an increase of over 7% compared to the equivalent period.

	Six months ended 31 May 2017	Six months ended 30 November 2016	Six months ended 31 May 2016	Six months ended 30 November 2015
Revenue	£22.80M	£21.45M	£21.80M	£20.40M
Profit before income tax	£2.33M	£1.48M	£2.17M	£2.11M

In line with the revised market expectations issued in January, profit before tax for the full year was £3.80m (2016: £4.29m) with basic earnings per share of 28.3p (2016: 35.4p). In line with its progressive dividend policy, the Board proposes a final dividend of 12p per share, an increase of 6.3%.

As reported in detail earlier this year, profit at the interim stage was negatively impacted by a combination of non-recurring costs associated with the Group's acquisition in Nicaragua and a significant increase in the level of investment in business development, sales and marketing, and lower than expected revenue growth. This investment also included capital expenditure on the Group's IT infrastructure, client interfaces and web presence. Reflecting this, capital expenditure on tangible fixed assets almost doubled year-on-year, to £318,000, and capitalised website and other online development costs increased by more than 60% to £95,000.

The increase in profit before tax in the second half of the financial year is a reflection of both the period's increase in revenue and a reduction in overhead costs. Following further cost control, the Group's spending on business development and marketing was lower in the second half, decreasing by 18%. Taking the year as a whole, total administrative expenses increased by more than 10%, due to the activities highlighted above.

The period under review includes the first contribution from MURGITROYD's new search and docketing group based in Managua, Nicaragua and the revenue generated amounted to £658,000, or just under a third of the reported year-on-year growth.

The Group's full year results also benefited from the continued weakness of Sterling following the result of the United Kingdom's ("UK") referendum on membership of the European Union ("EU"). The decrease in Sterling's value against both the US Dollar and the Euro resulted in significant gains for the Group given that more than 55% of revenue is denominated in those two currencies. The remaining 45% of revenue is generated directly in Sterling. A weakening in Sterling represents a net benefit to the Group, higher Sterling-equivalent revenue derived from foreign currency denominated fee income being partially offset by increases in MURGITROYD's non-Sterling costs that cannot readily be recovered from clients.

Chairman's statement *(continued)*

Financial review *(continued)*

As MURGITROYD has experienced over many years, the geographic spread of the Group's activities and customer base continues to put us in a strong position to balance out any weakness in individual markets and currencies.

Interest charges fell to £6,000 from £11,000 as the Group continued to pay down its debt. As at 31 May 2017, the remaining term loan debt owed by the Group amounted to just £351,000 (31 May 2016: £546,000).

The Group's overall effective corporate tax rate increased to 33.1% (2016: 26.1%), mainly due to continued growth in overseas taxable earnings. Notwithstanding, the Group continued to experience strong cash flow from operating activities during the year. This facilitated the completion of the Managua acquisition from internal cash reserves. Net funds at 31 May 2017 amounted to £2.19m (31 May 2016: £2.75m).

Acquisition

The Group completed the acquisition of certain trade and assets from MDB and Patentvest on 23 June 2016 for a total purchase price amounting to £1.82m including employee benefit liabilities. The consideration included £52,000 attributable to tangible fixed assets. The remainder of the consideration represented goodwill.

Since the opening of the Managua office its service offering has been extended to include technical illustration.

As reported, the Managua office operated in line with management expectations in the period 23 June, the date of acquisition, to 30 November 2016, generating revenue amounting to £261,000. Revenue in the second half of the financial year increased to £397,000, resulting in the Group making a further, albeit reduced, net investment in its Nicaraguan operations in this period. The Managua Office is now expected to make its first contribution to Group earnings in the new financial year and, I believe, represents a significant opportunity to grow and develop our Intellectual Property ("IP") support services offerings.

Operating review

The Group's operating businesses, trading as MURGITROYD, continued to service clients from its international network, now spanning nine countries, with the extension of IP support services to include search, technical illustration and third party docketing in Nicaragua. IP support services, predominantly provided by paralegals, specialist formalities, search and docketing staff, and Patent and Trade Mark Administrators, continues to generate a third of total revenue, the remainder, and larger part, the provision of filing, prosecution and other IP advisory services, being principally carried out by MURGITROYD's Attorney teams.

Analysis of revenue by geographical location of client also demonstrates that MURGITROYD continues to generate substantial revenue from North America, this geographical market contributing just under half of total revenue. The USA remains a key focus for investment.

Chairman's statement *(continued)*

Operating review *(continued)*

In addition, since the end of the financial year, the Group has appointed a new Head of UK Business Development reflecting both MURGITROYD's commitment to the UK market and its continuing importance, with UK clients still generating 34% of the total revenue.

A new online platform used in the provision of renewals services was introduced in November 2016 and is an example of the investment made in systems. Renewals revenue in the second half of the financial year amounted to £4.28m, a 9.7% increase on the comparative period last year.

MURGITROYD's central Scotland operations were consolidated in Glasgow during the year, following the successful bringing together of London operations in Croydon. These, combined with the relocation of MURGITROYD's York office during the year, will result in more than £140,000 in savings on annual office rental and associated costs.

The EU Intellectual Property Office ("EUIPO") statistics show that there was an increase in EU Trade Mark ("EUTM") applications filed in 2016, its official statistics reporting that more than 135,000 EUTM applications were filed (2015: 130,400). 2016 was the seventh consecutive year of growth, with the number of applications filed setting a new record.

The European Patent Office ("EPO") statistics showed a 6.2% year-on-year increase in Patent filings in 2016, with the number rising to more than 296,000, an all-time high. The composition of these filings shows those originating in North America represent 24% of the total.

The EUIPO's and the EPO's statistics continue to be considered good indicators of the current state of what remains the Group's principal market.

As I indicated in my two previous Chairman's Statements, it is too early to evaluate with certainty the longer term consequences of the EU referendum, both on the business and on the European IP market. However, management remains confident that the geographic spread of MURGITROYD's activities and customer base puts it in a strong comparative market position. After the UK's exit from the EU is completed the Group will continue to have operations and subsidiaries in the EU.

In our last full year results statement, I noted how preparations for the new Unitary Patent ("UP") were complete. The only remaining steps were the opening of the Unified Patent Court ("UPC") and the finalisation of the ratification process at national level. Earlier this year I reported that on 28 November 2016, eleven member states had ratified the UPC Agreement and the UK Government was proceeding with preparations for its ratification. It stated that, notwithstanding the outcome of the EU referendum vote, it would continue with preparations for ratification over the following months and would be working with the Preparatory Committee to bring the UPC into operation as soon as possible.

Employees

Our strong and growing emphasis on client service is a reflection of our international reach and the hard work and dedication of our workforce. On behalf of the Board I would like to thank them for their efforts during the past year.

Chairman's statement *(continued)*

Employees *(continued)*

As at 31 May 2017, the Group employed 255 staff (31 May 2016: 239), the net increase primarily reflecting the acquisition completed in June 2016.

Board

The Group announced in May 2017 that Non-executive Director Dr Christopher Masters had resigned from the Board. The Board wishes him well for the future. As announced earlier, I became Non-executive Chairman on 1 November 2016.

Dividend

The Board is proposing a final dividend of 12p per share, giving a total dividend for the year of 17p (2016: 16p), an increase of 6.3% year-on-year. This increase reflects the strength of the Group's cash flows and the Board's long-stated policy of maintaining a progressive dividend policy. Subject to approval at the Annual General Meeting, the final dividend will be paid on 3 November 2017 to shareholders on the register at 6 October 2017. The ex-dividend date is 5 October 2017.

Outlook

The financial year has seen the Group absorb one-off transaction and integration costs attaching to the acquisition that completed in late June 2016 and significant business development costs. Generating a sustainable return on this investment remains a key goal for the Group, in conjunction with generating both revenue and earnings growth through sustainable investment in future business development.

The Group continues to be committed to the delivery of sustainable higher earnings and a progressive dividend policy, as well as increased revenue over the longer term.

I am pleased to report higher revenue and the return to earnings growth in the second half of the financial year, and that the Board is proposing another increased final dividend at a time still characterised by uncertainty.

The Group's results in June and July 2016 benefited from the sharp and sustained decline in the value of Sterling following the result of the UK's referendum on membership of the EU and, with comparatively more stable currency markets in the early months of the new financial year, that tailwind has largely evaporated. As a result the Group's 2018 result will once again be strongly second-half weighted and the Board's earnings expectations for the year as a whole have been tempered accordingly. Notwithstanding this, and the uncertainty and broader challenging macro-economic backdrop that I have referred to in each of my previous two statements, I am confident of the Group's ability to deliver long-term growth and value to its shareholders.

Ian G Murgitroyd, *Chairman*
12 September 2017

Board of Directors

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

Ian G Murgitroyd, 72 – *Non-executive 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.

G Edward Murgitroyd, 42 - *Deputy Chairman, Executive Director (Chief Executive Officer, Murgitroyd & Company Limited)*
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 Attorney. Based in Durham, NC, in the United States, he is also a Director of Murgitroyd & Company Limited, which he joined from university in 1997.

Graham J Murnane, 58 - *Executive Director*
Graham is a Chartered Engineer, has an MA in Engineering from Cambridge University and is a UK and European Patent Attorney, and UK and Community Trade Mark Attorney. He is a Director of Murgitroyd & Company Limited, which he joined in 1996. 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.

Gordon D Stark, 40 - *Executive Director (Chief Operations Officer, Murgitroyd & Company Limited)*
Gordon has a First Class degree in Biological Sciences (Immunology) from the University of Edinburgh, and is a Director of Murgitroyd & Company Limited, which he joined in 1998. A qualified UK and European Patent Attorney, Irish Patent Agent and Community Trade Mark & Design Attorney, now based in Glasgow, Gordon previously managed Murgitroyd & Company Limited's Irish operations from its Dublin Office.

Mark N Kemp-Gee, 71 - *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 Kenneth G Chrystie, 70 - *Non-executive Director, 1, 2, 3*
Kenneth was formerly Senior Partner of corporate and commercial solicitors, McClure Naismith. He is a Non-executive Director of the Glasgow Science Centre and Nautricity Limited, is Chairman of the Hugh Fraser Foundation, and Depute Chair of The Glasgow School of Art Development Trust. Kenneth chairs the Audit Committee and the Risk Committee.

John H Reid, 65 - *Non-executive Director, 1, 3*
John is an engineering graduate and currently working on commercialisation of innovation from universities, along with being on the Board of the Dowds Group and working closely with the venture capital and investment community in the UK. Prior to that he worked in a number of roles at Managing Director level, including leading Bourns, Inc.'s European operation. John has served on the Council and IP Committee of the Law Society of Scotland since 2011. From 2008 to 2011 John led the commercialisation of new technology in the energy, life science/ pharmaceutical and enabling technology sectors at the Intermediate Technology Institutes, a Scottish Government-funded innovation and economic development programme. During his time as Chairman of the Association of Contract Electronic Manufacturers John served on a working party developing eastern European trade networks.

Keith G Young, 51 - *Chief Executive and Finance Director*
Keith gained a B. Admin. from Dundee University, is a Chartered Accountant and joined the business from KPMG in 1996. Keith is a Director of PAMIA Limited and is a Trustee, of The Cricket Development Trust (Scotland) Limited.

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

Strategic report

The Directors present their strategic report for the year ended 31 May 2017.

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 statement of comprehensive income 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, principally by aiming to keep assets and liabilities denominated in foreign currencies, including cash balances, aligned. The Group is also cognisant of, and seeks to mitigate against, material movements in foreign exchange rates when accounting for, and in particular, determining the rate used when recharging to its clients, disbursements denominated in foreign currencies.

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.

Credit risk: the nature of the Group's activities is such that its client base includes start-up businesses and businesses seeking funding to commercialise their Intellectual Property. For this reason, some debts can take an extended period to be recovered. New clients are, however, required to pay in advance for services provided. The Group's charge for bad debts (including provisions) is disclosed in this Strategic report, as a key performance indicator.

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 is in place and is reviewed regularly.

The effect of legislation or other regulatory activities: the Group, with the assistance of its professional advisers and in consultation with the various governing bodies of its professional staff, 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 its banking covenant.

The Intellectual Property market: it is possible that global macro-economic factors could decrease expenditure in areas such as research and development. This in turn may lead to a slowdown in expenditure on Intellectual Property services. Similarly the in-house Intellectual Property departments of multinational companies' strategies regarding the outsourcing of Intellectual Property advice can change and are bound up in those companies' wider business strategies. Such changes could impact the Group's business development efforts and the success thereof.

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

International operations: the Group's international operations and/or expansion plans – both in Europe and beyond – may be adversely affected by political, geo-political, macro-economic and/or other factors.

Political risk: the vote in June 2016 in favour of a UK exit from the European Union has resulted in greater economic uncertainty and foreign exchange rate volatility, and is anticipated to continue to affect the fiscal, monetary, legal and regulatory landscape to which the Group's European operations are subject.

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 business development initiatives; client relationships are monitored on a regular basis through client audits.

Services: new services are developed for both existing and potential clients; new initiatives for process and efficiency improvements are sought.

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 and support services, which places it well in terms of long-term revenue/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	**2017**	2016	Measure
Profitability ratios			
Gross Margin	**54.6%**	53.7%	Gross profit as a percentage of revenue
Net Margin	**8.6%**	10.1%	Profit before income tax as a percentage of revenue
EBITA margin	**8.7%**	10.2%	Profit before financial income and expense, income tax and amortisation of intangible assets as a percentage of revenue
Return on capital employed [ROCE]	**12.4%**	15.0%	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]	**8.4%**	11.1%	Profit after income tax divided by opening total equity
Return on investment [ROI]	**8.3%**	11.0%	Profit after income tax divided by "capital employed" [see definition above]
Liquidity ratios			
Current ratio	**314.6%**	333.0%	Current assets divided by current liabilities
Liquid ("quick" or "acid test") ratio	**302.4%**	315.8%	Current assets less prepayments and work in progress divided by current liabilities
Solvency ratios			
Gearing ratio	**0.7%**	1.3%	Borrowings due outwith one year divided by opening total equity plus borrowings due outwith one year
Interest cover	**634.2x**	390.4x	Profit before financial income and expense and income tax [EBIT] divided by financial expense
Other indicators			
Revenue days	**105**	106	Year end trade receivables expressed as the number of preceding days' gross revenue
Bad debt exposure	**0.67%**	0.75%	Bad debts written off or provided against as a percentage of revenue
Turnover per Pound of salary cost	**£2.98**	£3.09	Revenue divided by payroll costs

By order of the Board,

Ian G Murgitroyd, *Chairman*
12 September 2017

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2017.

Charitable and political donations

The Group made charitable donations during the year of £13,000 (2016: £8,000). There were no political donations (2016: £nil).

Dividends

The Directors recommend that a final dividend of £1,080,000, being 12p per share, (2016: £1,012,000, being 11.25p per share) be paid giving a total dividend for the year of 17p (2016: 16p). 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.

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"). Kenneth Chrystie, Gordon Stark and Keith Young, 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 11 September 2017, 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	2,406,750	26.8%
State Street Nominees	995,720	11.1%
Chase Nominees Limited	614,042	6.8%
The Bank of New York (Nominees)	450,473	5.0%
BNY Mellon Nominees Limited	396,069	4.4%
Elizabeth-Anne Thomson	387,526	4.3%
Edward Murgitroyd	387,526	4.3%
Luna Nominees Limited	339,416	3.8%
Lion Nominees Limited	324,503	3.6%
Rock (Nominees) Limited	312,339	3.5%
HSBC Global Custody Nominee (UK)	293,439	3.3%

Trade payables payment policy

It is the Group'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 2017 were equivalent to approximately 54 days' purchases (31 May 2016: 58 days'). In this regard, it is common practice in dealings between Patent and Trade Mark Attorneys around the world to offer each other significantly extended credit terms.

Environmental policy

The Group recognises the importance of environmental responsibility and takes a pro-active approach, wherever possible, to minimise its impact on the environment. The Group assesses all aspects of its environmental activities annually to ensure its environmental impact is kept to a minimum. The Group is part of the Legal Sector Alliance, a group of law firms and organisations committed to working collaboratively to reduce their carbon footprint and adopt environmentally sustainable practices.

Overseas branches

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

Financial instruments

It is the Group's policy not to enter into complex financial instruments. More detail on financial instruments is given in note 20 to the financial statements.

Directors' report *(continued)*

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

The Directors are responsible for preparing the Annual 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 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), including FRS 101 Reduced Disclosure Framework.

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 Auditor

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 Auditor is 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 Auditor is aware of that information.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board,

Ian G Murgitroyd, *Chairman*
12 September 2017

Remuneration report: voluntary disclosure

As an AIM listed company, Murgitroyd Group PLC is not required to comply with Schedule 7A of the Companies Act 1985, 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 Kenneth Chrystie. 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 remuneration
The Executive Directors, on an annual basis, can agree to waive parts of salary should the Group's earnings be less than budgeted. The company may also, again on an annual basis, but should not be bound to, pay such additional remuneration by way of bonus related to Group earnings as the Board or its Remuneration Committee may decide.

Executive share options and "shadow" 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. A management incentive plan, established at flotation, also exists and operates a "shadow" share scheme whereby awards are made to employees which are linked in value to, but not granted over, shares in the company. The award of such "shadow" options is in the control of the Remuneration Committee.

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

Remuneration report *(continued)*

Remuneration of Non-executive Directors

The Board sets the remuneration levels for Non-executive Directors. They do not 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

Keith Young has a service agreement with a one-year notice period. Graham Murnane, Edward Murgitroyd and Gordon Stark have service agreements with six-month notice periods. The Non-executive Directors are appointed under Letters of Appointment with notice periods of between three months and one year. The Letters of Appointment provide continuity and bind the Non-executive Directors 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 2017 and 31 May 2016:

	Salary and fees	**Bonus**	**Benefits**	**Money purchase pension contrib'ns**	**2017 Total**	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2016 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Executive										
IG Murgitroyd (1)	**-**	**-**	**-**	**-**	**-**	170	-	4	8	182
GE Murgitroyd * (2)	**327**	**-**	**29**	**10**	**366**	294	-	19	9	322
KG Young	**214**	**-**	**23**	**11**	**248**	214	-	21	11	246
GJ Murnane	**172**	**-**	**2**	**9**	**183**	150	-	2	7	159
GD Stark (3)	**208**	**-**	**1**	**10**	**219**	174	-	1	10	185
Non-executive										
IG Murgitroyd (1)	**143**		**4**	**4**	**151**	-	-	-	-	-
MN Kemp-Gee	**23**	**-**	**-**	**1**	**24**	23	-	-	1	24
KG Chrystie	**22**	**-**	**-**	**-**	**22**	24	-	-	-	24
C Masters (3) (4)	**23**	**-**	**-**	**-**	**23**	18	-	-	-	18
JH Reid (3)	**23**	**-**	**-**	**1**	**24**	18	-	-	1	19
	1,155	**-**	**59**	**46**	**1,260**	1,085	-	47	47	1,179

* Highest paid Director
(1) Pound Sterling equivalent of part US Dollar-denominated remuneration
(2) Pound Sterling equivalent of US Dollar-denominated remuneration
(3) Appointed 12 August 2015
(4) Resigned 23 May 2017

Bonuses are discretionary, and determined annually. Benefits represent private healthcare and death-in-service insurance premiums, and the provision of company cars. Under a contractual arrangement, Ian Murgitroyd did not receive profit-related salary of £nil (2016: £14,000) because Group earnings were less than budgeted. Under a contractual arrangement, Edward Murgitroyd did not receive profit-related salary of £30,000 (2016: £22,000) because Group earnings were less than budgeted. Edward Murgitroyd's total remuneration in US Dollars amounted to $468,000 (2016: $476,000). Under a contractual arrangement, Keith Young did not receive profit-related salary of £22,000 (2016: £18,000) because Group earnings were less than budgeted. Under a contractual arrangement Gordon Stark did not receive profit-related salary of £4,000 (2016: £nil) because Group earnings were less than budgeted. During the year retirement benefits accrued to seven Directors (2016: seven).

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 2017	At 31 May 2016
Ian Murgitroyd	**2,406,750**	2,406,750
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

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 2016	Options granted during the period	Options exercised/ lapsed during the period	**At 31 May 2017**	Exercisable price	Date from which exercisable	Expiry date
Keith Young	10,000	-	-	**10,000**	247.5p	25/2/2013	24/2/2028
Gordon Stark	50,000	-	-	**50,000**	530.0p	14/9/2018	13/9/2030
	-	50,000	-	**50,000**	402.5p	10/2/2020	9/2/2032

Gains made on the exercise of share options by the Directors amounted to £nil (2016: £69,000).

Share options granted between 2004 and 2015 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. Subsequent grant have, as a performance criteria, the necessity that in the opinion of the Board, between the end of the month prior to the date on which the Option was granted and the end of the month prior to the date on which the Option is proposed to be exercised (in whole or in part): the average annual dividend increase (excluding special or exceptional dividends) is 10% above the rate of UK CPI; dividend cover (excluding special or exceptional dividends) is no less than two times; and "Total Shareholder Return" is at least 10% above the average for the FTSE Small Cap. The share price at 31 May 2017 was 412.5p (31 May 2016: 545p). During the year the share price ranged from 370p to 538p (2016: 503p to 590p). 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*
12 September 2017

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, Chief Executive and Executive Directors, Board Committees, and the subsidiary companies' operations are discussed. A formal schedule of matters reserved for the Board includes overall Group strategy, acquisition policy and approval of major capital expenditure. The Board consists of the Chairman, Deputy Chairman, Chief Executive and Finance Director, two other Executive Directors and the three Non-executive Directors. Notwithstanding the fact that two of the Non-executive Directors have served on the board for more than ten 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 a Non-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 Kenneth Chrystie. 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 Kenneth Chrystie (Chairman), Mark Kemp-Gee and John Reid. The Auditor, KPMG LLP and Chief Executive normally attend meetings although the Committee meets with the Auditor 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 Auditor, monitor the adequacy and effectiveness of the systems of internal control, and review annually the effectiveness of the Auditor.

Nominations Committee
The Nominations Committee comprises Mark Kemp-Gee, Kenneth Chrystie, John Reid and the Chairman, and is chaired by Ian Murgitroyd. The Nominations Committee considers the appointment of Directors to the Board.

The Risk Committee
The Risk 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, the third member of which is Russell Thom, a Director in the Group's principal subsidiary, Murgitroyd & Company Limited.

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. The Chief Executive and Finance Director meets with institutional shareholders following the announcement of interim and final results and at other appropriate times. The Chief Executive and Finance Director is also in regular contact with 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 UK Corporate Governance Code (Revised 2012) 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 Auditor. 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 meets regularly. The principal subsidiary company has also delegated a number of operational responsibilities to its management and a number of professional practice responsibilities to a Practice Committee. This latter group meets regularly. Specific matters are reported on to the Risk Assessment Committee and/or Practice Committee, the principal subsidiary company's Board, the Board and, if necessary, to the Audit Committee and these provide the basis on which the committee reviews internal controls.

New processes to embed risk management throughout the Group will continue to be reviewed and implemented as appropriate, as will reviews of social, environmental and ethical matters to ensure that all significant risks to the business of the Group arising from these matters are adequately addressed. The Board has considered the need for an Internal Audit function but has decided the size and internal control structure 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 20 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. Its internal budgets, 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. The Group has met, and is anticipated to continue to meet, its banking covenants.

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,

12 September 2017

KPMG LLP
319 St Vincent Street
Glasgow
G2 5AS
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 2017 set out on pages 20 to 59. 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) including FRS 101 Reduced Disclosure Framework.

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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2017 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 matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's 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.

Hugh Harvie, *(Senior Statutory Auditor)*
for and on behalf of KPMG LLP, *Statutory Auditor*
Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS

12 September 2017

Consolidated statement of comprehensive income

for the year ended 31 May 2017

	Note	Year ended 31 May 2017 £'000	Year ended 31 May 2016 £'000
Revenue	**2**	**44,251**	42,231
Cost of sales		**(20,084)**	(19,565)
Gross profit		**24,167**	22,666
Administrative expenses		**(20,362)**	(18,372)
Operating profit		**3,805**	4,294
Financial income	**6**	**4**	3
Financial expense	**6**	**(6)**	(11)
Profit before income tax		**3,803**	4,286
Income tax	**7**	**(1,260)**	(1,120)
Profit for the year attributable to equity holders of the parent		**2,543**	3,166
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign exchange translation differences – overseas undertakings		**301**	103
Revaluation of property, plant and equipment		**33**	33
Profit for the financial year and total comprehensive income all attributable to equity holders of the parent		**2,877**	3,302
Earnings per share			
Basic	**9**	**28.27p**	35.35p
Diluted	**9**	**28.03p**	35.03p

Consolidated statement of changes in equity

for the year ended 31 May 2017

	Share capital	Share premium	Retained earnings £'000	Foreign currency translation reserve	Revaluation reserve	Merger reserve	Total
	£'000	£'000		£'000	£'000	£'000	£'000
At 1 June 2015	893	3,368	17,640	(43)	47	6,436	28,341
Total comprehensive income for the year:							
Profit for the year	-	-	3,166	-	-	-	3,166
Exchange rate differences	-	-	-	103	-	-	103
Revaluation in year	-	-	-	-	33	-	33
Transfer between reserves	-	-	33	-	(33)	-	-
Transactions with owners recorded directly in equity:							
Dividends	-	-	(1,365)	-	-	-	(1,365)
Share based payments	-	-	22	-	-	-	22
Deferred tax on share options	-	-	11	-	-	-	11
Share options exercised	6	120	-	-	-	-	126
Total equity at 31 May 2016	**899**	**3,488**	**19,507**	**60**	**47**	**6,436**	**30,437**
At 1 June 2016	899	3,488	19,507	60	47	6,436	30,437
Total comprehensive income for the year:							
Profit for the year	-	-	2,543	-	-	-	2,543
Exchange rate differences	-	-	-	301	-	-	301
Revaluation in year	-	-	-	-	33	-	33
Transfer between reserves	-	-	33	-	(33)	-	-
Transactions with owners recorded directly in equity:							
Dividends	-	-	(1,462)	-	-	-	(1,462)
Share based payments	-	-	34	-	-	-	34
Deferred tax on share options	-	-	(40)	-	-	-	(40)
Share options exercised	1	9	-	-	-	-	10
Total equity at 31 May 2017	**900**	**3,497**	**20,615**	**361**	**47**	**6,436**	**31,856**

Consolidated balance sheet

at 31 May 2017

	Note	31 May 2017 £'000	31 May 2016 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	2,371	2,292
Intangible assets and goodwill	11	16,846	14,953
Total non-current assets		19,217	17,245
Current assets			
Work in progress	13	301	596
Trade and other receivables	14	15,628	14,976
Taxation recoverable	19	506	548
Cash and cash equivalents	16	2,539	3,298
Total current assets		18,974	19,418
Total assets		38,191	36,663
Current liabilities			
Other interest-bearing loans and borrowings	17	(144)	(185)
Trade and other payables	18	(5,888)	(5,646)
Total current liabilities		(6,032)	(5,831)
Non-current liabilities			
Other interest-bearing loans and borrowings	17	(207)	(361)
Deferred tax liabilities	12	(79)	(34)
Provision for liabilities	28	(17)	-
Total non-current liabilities		(303)	(395)
Total liabilities		(6,335)	(6,226)
Net assets		31,856	30,437
Equity			
Share capital	21	900	899
Share premium		3,497	3,488
Merger reserve		6,436	6,436
Revaluation reserve		47	47
Foreign currency translation reserve		361	60
Retained earnings		20,615	19,507
Total equity attributable to equity holders of the parent		31,856	30,437

These financial statements were approved by the Board of Directors on 12 September 2017 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 2017

	Note	Year ended 31 May 2017 £'000	Year ended 31 May 2016 £'000
Cash flows from operating activities			
Profit for the year		**2,543**	3,166
Adjustments for:			
Depreciation	**10**	**271**	265
Amortisation	**11**	**64**	30
Gain on disposal of property, plant and equipment		**(1)**	(4)
Financing costs		**2**	8
Equity settled share-based payment expense	**5**	**34**	22
Income tax expense	**7**	**1,260**	1,120
		4,173	4,607
Other reserves movements		**301**	103
(Increase)/decrease in trade and other receivables		**(652)**	1,110
Decrease/(increase) in work in progress		**295**	(342)
Increase/(decrease) in trade and other payables		**242**	(334)
Increase in provision for liabilities		**17**	-
		4,376	5,144
Interest paid		**(6)**	(11)
Interest received		**4**	3
Income tax paid		**(1,213)**	(1,632)
Net cash from operating activities		**3,161**	3,504
Cash flows from investing activities			
Acquisition of property, plant and equipment	**10**	**(318)**	(165)
Acquisition of intangible fixed assets	**11**	**(95)**	(59)
Business combinations	**15**	**(1,862)**	-
Proceeds from disposal of property, plant and equipment		**2**	5
Net cash used in investing activities		**(2,273)**	(219)
Cash flows from financing activities			
Proceeds from exercise of share options		**10**	126
Repayment of borrowings		**(195)**	(365)
Dividends paid	**8**	**(1,462)**	(1,365)
Net cash used in financing activities		**(1,647)**	(1,604)
Net (decrease)/increase in cash and cash equivalents	**25**	**(759)**	1,681
Cash and cash equivalents at start of year		**3,298**	1,617
Cash and cash equivalents at year end	**16**	**2,539**	3,298

Notes *(forming part of the financial statements)*

1 Accounting policies

Murgitroyd Group PLC ("the company") is a public company domiciled and registered in Scotland in the United Kingdom. The registered number is SC221766 and the registered address is Scotland House, 165-169 Scotland Street, Glasgow, G5 8PL. The consolidated financial statements of the company for the year ended 31 May 2017 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 International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The company has elected to prepare its parent company financial statements in accordance with FRS 101. These are presented on pages 56 to 59.

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.

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 pages 3 to 6. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial statements. In addition, the notes to the financial statements include 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 has considerable financial resources together with contracts with a number of customers and suppliers across different geographical areas and industries. As a consequence, the Directors believe that the Group is well-placed to manage its business risks.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Notes *(continued)*

1 Accounting policies *(continued)*

Basis of consolidation

The consolidated income statement and the consolidated balance sheet include the financial statements of the parent company and its subsidiaries, all of which are wholly owned, to the end of the financial year. Transactions between group entities are eliminated on consolidation.

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.

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
Notes 10: Property arrangements
Note 24: Measurement of share-based payments
Note 15: Fair values on acquisition
Note 20: Valuation of financial instruments

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, and includes recharged disbursements incurred on behalf of 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.

Temporary differences relating to the initial recognition of goodwill and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are not provided for.

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 acquisition 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 Income statement to write off the cost less the estimated residual value of plant and equipment by equal annual instalments over the 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 the income statement. 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, and includes rechargeable disbursements incurred on behalf of customers. 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 less any appropriate provision for doubtful debts.

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 Group'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 Group operates a share option scheme that allows employees to acquire shares of the company. The scheme is equity-settled. 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 number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Financial income and expense

Financial income and expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases, and interest receivable on funds invested. 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.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 May 2017 and have not been applied in preparing these financial statements including:

IFRS 15 Revenue from contracts with customers

The standard specifies how and when revenue is recognised, using a principles based five-step model. The standard is effective for accounting periods beginning on or after 1 January 2018 and has been endorsed by the European Union.

IFRS 9 Financial instruments

The standard simplifies the classification, recognition and measurement requirements for financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard is effective for accounting periods beginning on or after 1 January 2018 and has been endorsed by the European Union.

IFRS 16 Leases

The standard will eliminate the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard is effective for accounting periods beginning on or after 1 January 2019 but has not yet been endorsed.

It is possible that FRS 9 may result in a higher bad debt provision, however in the context of the balance sheet the effect would not be material.

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 clients in the following geographical markets:

	Year ended 31 May 2017 £'000	Year ended 31 May 2016 £'000
Countries in which the Group has offices:		
United Kingdom	**14,973**	16,666
United States of America	**21,292**	18,803
France	**1,618**	1,504
Republic of Ireland	**377**	380
Italy	**1,590**	1,355
Germany	**222**	128
Nicaragua	**-**	-
Other geographical markets:		
Canada	**661**	720
Taiwan	**433**	354
China	**406**	446
Japan	**379**	390
The Netherlands	**337**	398
Switzerland	**146**	347
Other countries (each less than £250,000 in either year)	**1,817**	740
	44,251	42,231

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

	Year ended 31 May 2017 £'000	Year ended 31 May 2016 £'000
United Kingdom	**31,668**	33,315
Republic of Ireland	**2,489**	1,682
France	**1,764**	1,574
Germany	**1,976**	1,752
Italy	**3,232**	3,365
Finland	**691**	543
United States of America	**1,773**	-
Nicaragua	**658**	-
	44,251	42,231

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. No single customer accounts for 10% or more of the Group's revenue in either of the periods presented.

Notes *(continued)*

3 Expenses and Auditor's remuneration

	Year ended 31 May 2017 £'000	Year ended 31 May 2016 £'000
Included in profit are the following:		
Amounts receivable by the company's Auditor and their associates in respect of:		
Audit of these financial statements *	**5**	5
Group- audit of financial statements of the subsidiaries pursuant to legislation	**39**	37
- other services pursuant to such legislation	**5**	8
- other services relating to taxation	**234**	196
Depreciation and other amounts written off owned property, plant and equipment	**271**	265
Amortisation of intangible assets	**64**	30
Rental of land and buildings	**760**	658
Hire of office equipment - operating leases	**204**	217
Hire of other assets - operating leases	**51**	53
Foreign exchange gains	**(350)**	(149)
Gain on disposal of property, plant and equipment	**(1)**	(4)

* Amounts receivable by the company's Auditor and their associates 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 year ended 31 May 2017 and 31 May 2016:

	Salary and fees £'000	**Bonus £'000**	**Benefits £'000**	**Money purchase pension contrib'ns £'000**	**2017 Total £'000**	Salary and fees £'000	Bonus £'000	Benefits £'000	Money purchase pension contrib'ns £'000	2016 Total £'000
Executive										
IG Murgitroyd (1)	**-**	**-**	**-**	**-**	**-**	170	-	4	8	182
GE Murgitroyd * (2)	**327**	**-**	**29**	**10**	**366**	294	-	19	9	322
KG Young	**214**	**-**	**23**	**11**	**248**	214	-	21	11	246
GJ Murnane	**172**	**-**	**2**	**9**	**183**	150	-	2	7	159
GD Stark (3)	**208**	**-**	**1**	**10**	**219**	174	-	1	10	185
Non-executive										
IG Murgitroyd (1)	**143**		**4**	**4**	**151**	-	-	-	-	-
MN Kemp-Gee	**23**	**-**	**-**	**1**	**24**	23	-	-	1	24
KG Chrystie	**22**	**-**	**-**	**-**	**22**	24	-	-	-	24
C Masters (3) (4)	**23**	**-**	**-**	**-**	**23**	18	-	-	-	18
JH Reid (3)	**23**	**-**	**-**	**1**	**24**	18	-	-	1	19
	1,155	**-**	**59**	**46**	**1,260**	1,085	-	47	47	1,179

* Highest paid Director
(1) Pound Sterling equivalent of part US Dollar-denominated remuneration
(2) Pound Sterling equivalent of US Dollar-denominated remuneration
(3) Appointed 12 August 2015
(4) Resigned 23 May 2017

Notes *(continued)*

4 Remuneration of Directors *(continued)*

Bonuses are discretionary, and determined annually. Benefits represent private healthcare and death-in-service insurance premiums, and the provision of company cars. Under a contractual arrangement, Ian Murgitroyd did not receive profit-related salary of £nil (2016: £14,000) because Group earnings were less than budgeted. Under a contractual arrangement, Edward Murgitroyd did not receive profit-related salary of £30,000 (2016: £22,000) because Group earnings were less than budgeted. Edward Murgitroyd's total remuneration in US Dollars amounted to $468,000 (2016: $476,000). Under a contractual arrangement, Keith Young did not receive profit-related salary of £22,000 (2016: £18,000) because Group earnings were less than budgeted. Under a contractual arrangement Gordon Stark did not receive profit-related salary of £4,000 (2016: £nil) because Group earnings were less than budgeted. During the year retirement benefits accrued to seven Directors (2016: seven).

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

	At 31 May 2016	Options granted during the period	Options exercised/ lapsed during the period	**At 31 May 2017**	Exercisable price	Date from which exercisable	Expiry date
Keith Young	10,000	-	-	**10,000**	247.5p	25/2/2013	24/2/2028
Gordon Stark	50,000	-	-	**50,000**	530.0p	14/9/2018	13/9/2030
	-	50,000	-	**50,000**	402.5p	10/2/2020	9/2/2032

Gains made on the exercise of share options by the Directors amounted to £nil (2016: £69,000). Share options granted between 2004 and 2015 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. Subsequent grants have, as a performance criteria, the necessity that in the opinion of the Board, between the end of the month prior to the date on which the Option was granted and the end of the month prior to the date on which the Option is proposed to be exercised (in whole or in part): the average annual dividend increase (excluding special or exceptional dividends) is 10% above the rate of UK CPI; dividend cover (excluding special or exceptional dividends) is no less than two times; and "Total Shareholder Return" is at least 10% above the average for the FTSE Small Cap. The share price at 31 May 2017 was 412.5p (31 May 2016: 545p). During the year the share price ranged from 370p to 538p (2016: 503p to 590p). 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 2017 Number	Year ended 31 May 2016 Number
Professional staff	**65**	66
Office, management and support staff	**192**	168
	257	234

Notes *(continued)*

5 Employees *(continued)*

The aggregate payroll cost was as follows:

	Year ended 31 May 2017 £'000	Year ended 31 May 2016 £'000
Wages and salaries	**12,676**	11,606
Social security costs	**1,551**	1,468
Pension costs	**602**	564
Equity settled share based payments	**34**	22
	14,863	13,660

Further information on pension arrangements is set out in note 22.

6 Financial income and expense

Financial income	**Year ended 31 May 2017 £'000**	Year ended 31 May 2016 £'000
Recognised in the income statement		
Bank interest receivable	**1**	1
Other interest receivable	**3**	2
	4	3

Financial expense	**Year ended 31 May 2017 £'000**	Year ended 31 May 2016 £'000
Recognised in the income statement		
Interest on bank loans and overdrafts	**6**	11

Notes *(continued)*

7 Income tax

	Year ended 31 May 2017 £'000	Year ended 31 May 2016 £'000
Recognised in the income statement		
UK Corporation Tax		
Current taxation on profit for the year at 19.83% (2016: 20%)	**885**	782
Under provision of taxation on profit for previous periods	**280**	117
Foreign tax		
Current taxation on income for the year	**90**	204
Over provision of taxation on income for previous periods	**-**	(7)
Total current tax	**1,255**	1,096
Deferred tax (see note 12)		
Creation and reversal of temporary differences	**5**	41
Over provision of deferred taxation for previous periods	**-**	(17)
Total tax in income statement	**1,260**	1,120

The tax charges for the current and prior years are higher than the standard rate of UK Corporation Tax of 19.83% (2016: 20%). The differences are explained below:

		Year ended 31 May 2017 £'000		Year ended 31 May 2016 £'000
Current tax reconciliation				
Profit excluding taxation		**3,803**		4,286
Profit excluding taxation multiplied by standard rate of UK Corporation Tax of 19.83% (2016: 20%)	**19.83%**	**754**	20.0%	857
Effects of:				
Expenses not deductible for tax purposes	**1.79%**	**68**	1.1%	47
Under provision of taxation for previous periods	**7.36%**	**280**	2.1%	93
Overseas tax impact	**4.15%**	**158**	2.9%	123
Total tax expense (see above)	**33.13%**	**1,260**	26.1%	1,120

Notes *(continued)*

7 Income tax *(continued)*

	Year ended 31 May 2017 £'000	Year ended 31 May 2016 £'000
Income tax recognised directly in equity		
Taxation on share based payments	**(40)**	11

Reductions in the UK Corporation Tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly and reduce the deferred tax liability at 31 May 2017 which has been calculated at 17%.

8 Dividends

	Year ended 31 May 2017 £'000	Year ended 31 May 2016 £'000
Equity shares:		
Final dividend in respect of 2015 (10.5p per share)	**-**	938
Interim dividend in respect of 2016 (4.75p per share)	**-**	427
Final dividend in respect of 2016 (11.25p per share)	**1,012**	-
Interim dividend in respect of 2017 (5p per share)	**450**	-
	1,462	1,365

The Directors recommend that a final dividend of £1,080,000, being 12p per share, (2016: £1,012,000, being 11.25p per share) be paid. Subject to approval at the Annual General Meeting, the final dividend will be paid on 3 November 2017 to shareholders on the register on 6 October 2017. The ex-dividend date is 5 October 2017.

Notes *(continued)*

9 Earnings per share

	Profit for the year £'000	**Weighted average number of shares Number**	**2017 Earnings per share p**	Profit for the year £'000	Weighted average number of shares Number	2016 Earnings per share p
Basic earnings per share	**2,543**	**8,994,849**	**28.27p**	3,166	8,955,757	35.35p
Dilutive share options	**-**	**76,640**	**(0.24p)**	-	82,629	(0.32p)
Diluted earnings per share	**2,543**	**9,071,489**	**28.03p**	3,166	9,038,386	35.03p

10 Property, plant and equipment

	Property £'000	Short leasehold improvements £'000	Office equipment £'000	Motor vehicles £'000	Fixtures and fittings £'000	**Total £'000**
Cost/valuation						
At 1 June 2015	1,800	274	1,727	109	560	4,470
Additions	-	4	154	-	7	**165**
Disposals	-	-	(586)	(42)	(9)	**(637)**
At 31 May 2016	**1,800**	**278**	**1,295**	**67**	**558**	**3,998**
At 1 June 2016	1,800	278	1,295	67	558	3,998
Additions	-	28	282	-	8	**318**
Disposals	-	(45)	(70)	(20)	(1)	**(136)**
At 31 May 2017	**1,800**	**261**	**1,507**	**47**	**565**	**4,180**
Depreciation						
At 1 June 2015	-	225	1,271	108	506	2,110
Charge for the year	33	20	191	1	20	**265**
Revaluations	(33)	-	-	-	-	**(33)**
On disposals	-	-	(585)	(42)	(9)	**(636)**
At 31 May 2016	**-**	**245**	**877**	**67**	**517**	**1,706**
At 1 June 2016	-	245	877	67	517	1,706
Charge for the year	33	16	204	-	18	**271**
Revaluations	(33)	-	-	-	-	**(33)**
On disposals	-	(44)	(70)	(20)	(1)	**(135)**
At 31 May 2017	**-**	**217**	**1,011**	**47**	**534**	**1,809**
Carrying amounts						
At 31 May 2017	**1,800**	**44**	**496**	**-**	**31**	**2,371**
At 31 May 2016	**1,800**	**33**	**418**	**-**	**41**	**2,292**

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 2017 at £1,800,000 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*	**2017**	2016
	£'000	£'000
Valuation – 2017/2016	**1,800**	1,800
Carrying value	**1,800**	1,800
Historical cost	**1,903**	1,903
Aggregate depreciation based on historical cost	**(294)**	(261)
Historical cost carrying value	**1,609**	1,642

* the valuation attaching to land at 31 May 2017 was £270,000 (31 May 2016: £270,000).

11 Intangible assets and goodwill

	Goodwill	Website development	Customer database	
	£'000	£'000	£'000	**£'000**
Deemed cost				
At 1 June 2015	14,825	191	68	**15,084**
Additions	-	59	-	**59**
At 31 May 2016	**14,825**	**250**	**68**	**15,143**
Additions	1,862	95	-	**1,957**
At 31 May 2017	**16,687**	**345**	**68**	**17,100**
Amortisation				
At 1 June 2015	-	160	-	**160**
Charge for the year	-	30	-	**30**
At 31 May 2016	**-**	**190**	**-**	**190**
Charge for the year	-	64	-	**64**
At 31 May 2017	**-**	**254**	**-**	**254**
Carrying amounts				
At 31 May 2017	**16,687**	**91**	**68**	**16,846**
At 31 May 2016	**14,825**	**60**	**68**	**14,953**

Notes *(continued)*

11 Intangible assets and goodwill *(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. The Directors believe that there is one operating segment and cash generating unit ("CGU") as the business is managed to provide Intellectual Property advisory and support services and that acquisitions are integrated into that segment. As a result, 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 budgets based upon past experience and future expectations. The key assumptions underlying these budgets include organic sales growth, a continuing lower gross profit percentage, administrative expenses declining marginally relative to sales and stable interest rates. For the purposes of testing of goodwill for impairment no growth is forecast (2016: 0%).
- A pre tax discount rate of 15% (2016: 15%) was applied in determining the recoverable amount. The discount rate was based on an industry average weighted average cost of capital and an assessment of risks specific to the CGU.
- 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 headroom such that the estimated carrying value is not sensitive to other than material 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.

The carrying value of the goodwill arising on the acquisition in the year (note 15) has also been separately assessed for impairment. Assuming modest growth (3%) and a discount rate which reflects the recurring nature of the income (10%) there is headroom to this carrying value. The directors will continue to monitor this, taking in to account the additional resources acquired that are being utilised elsewhere in the CGU.

12 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2017	2016	**2017**	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Share based payments	**45**	81	**-**	-	**45**	81
Property, plant and equipment	**-**	-	**(137)**	(128)	**(137)**	(128)
Other temporary differences	**13**	13	**-**	-	**13**	13
	58	94	**(137)**	(128)	**(79)**	(34)

Notes *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Movements in deferred tax during the year:

	At 1 June 2016 £'000	Recognised in income £'000	Recognised in equity £'000	**At 31 May 2017 £'000**
Share based payments	81	4	(40)	**45**
Property, plant and equipment	(128)	(9)	-	**(137)**
Other temporary differences	13	-	-	**13**
	(34)	(5)	(40)	**(79)**

Movements in deferred tax during the prior year:

	At 1 June 2015 £'000	Recognised in income £'000	Recognised in equity £'000	**At 31 May 2016 £'000**
Share based payments	114	(44)	11	**81**
Property, plant and equipment	(153)	25	-	**(128)**
Other temporary differences	18	(5)	-	**13**
	(21)	(24)	11	**(34)**

13 Work in progress

	2017 £'000	2016 £'000
Work in progress	**301**	596

Work in progress to the value of £254,000 (2016: £671,000) was recognised in the income statement in the year.

14 Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	**13,440**	12,776
Other receivables	**1,758**	1,795
Prepayments and accrued income	**430**	405
	15,628	14,976

Notes *(continued)*

14 Trade and other receivables *(continued)*

At 31 May 2017, trade receivables are shown net of allowance for doubtful debts of £996,000 (2016: £939,000) arising from a review of the expected recoverability of the receivables. The charge in the year was £296,000 (2016: £315,000).

The Group's exposure to credit risks and impairment losses on receivables is given in note 20.

15 Acquisition of subsidiaries

On 23 June 2016, the Group acquired certain trade, assets and liabilities from Dallas-based MDB Capital Group, LLC ("MDB") and Managua-registered Patentvest S.A. ("Patentvest"), including employee contracts of MDB's IP Software & Services Group. The following table sets out the final agreed book values of the net assets acquired, and their fair values to the Group.

	Book value £'000	**Fair value adjustments £'000**	**2017 Fair value to Group £'000**
Property, plant and equipment	52	-	**52**
Trade and other payables	(93)	-	**(93)**
Net liabilities	(41)	-	**(41)**
Consideration:			
Cash			**1,821**
Goodwill			**1,862**

Cash outflow in relation to business combinations amounted to £1,862,000 (above). Certain trade, assets and liabilities were transferred to Murgitroyd & Company Limited on 23 June 2016 and, as the Group is managed on an office and functional basis, the post-acquisition results of the previous Patentvest business are not separately identifiable and therefore the attributable turnover, operating profit and impact on group revenue and net profit had the acquisition occurred on 1 June 2016 cannot be disclosed. Goodwill has been recognised relating to the skills and technical expertise of the acquired workforce and the customer database of the acquired business.

16 Cash and cash equivalents

	2017 £'000	2016 £'000
Cash	**2,539**	3,298
Cash and cash equivalents in statement of cash flows	**2,539**	3,298

Notes *(continued)*

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 20.

	2017 £'000	2016 £'000
Current liabilities		
Secured bank loans	**144**	185
Non current liabilities		
Secured bank loans	**207**	361

Terms and debt repayment schedule

	Interest rate	**Year of maturity**	**Face value 2017 £'000**	**Carrying amount 2017 £'000**	Face value 2016 £'000	Carrying amount 2016 £'000
Secured bank loans						
Term loan	**LIBOR + 1%**	**2017**	**-**	**-**	45	45
Term loan	**LIBOR + 1%**	**2018**	**49**	**49**	97	97
Term loan	**LIBOR + 1%**	**2020**	**302**	**302**	404	404
			351	**351**	546	546

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

	2017	2016
	£'000	£'000
Current liabilities		
Trade payables	**4,026**	3,944
Taxation and social security	**786**	794
Accruals	**649**	624
Other payables	**427**	284
	5,888	5,646

19 Taxation

	2017	2016
	£'000	£'000
Current assets		
Corporation tax recoverable	**506**	548

Notes *(continued)*

20 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 its receivables from customers.

Trade receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The nature of its activities is such that clients include start-up businesses and businesses seeking funding to commercialise their Intellectual Property. For this reason, some debts can take extended periods to collect. New clients are, however, required to pay in advance for services provided. 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. Its 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 its 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 it 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 2017	Pound £'000	Euro £'000	US Dollar £'000	Other £'000	**Total £'000**
Cash and cash equivalents	1,765	417	304	53	**2,539**
Trade receivables	6,787	2,073	4,580	-	**13,440**
Trade payables	(351)	(957)	(1,939)	(779)	**(4,026)**
Balance sheet exposure	8,201	1,533	2,945	(726)	**11,953**

Notes *(continued)*

20 Financial instruments *(continued)*

Currency risk *(continued)*

31 May 2016	Pound £'000	Euro £'000	US Dollar £'000	Other £'000	**Total £'000**
Cash and cash equivalents	1,567	475	1,206	50	**3,298**
Trade receivables	6,807	1,510	4,459	-	**12,776**
Trade payables	(310)	(803)	(2,073)	(758)	**(3,944)**
Balance sheet exposure	8,064	1,182	3,592	(708)	**12,130**

The following significant exchange rates applied during the year:

	Average rate		**Reporting date Spot rate**	
	2017	2016	**2017**	2016
Euro	**1.17**	1.35	**1.15**	1.31
US Dollar	**1.28**	1.50	**1.29**	1.46

Sensitivity analysis
A ten percent weakening of the following currencies against the Pound at 31 May 2017 would have 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.

	Equity		**Profit or loss**	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000
Euro	**(113)**	(92)	**(74)**	(57)
US Dollar	**(501)**	(407)	**(295)**	(217)

A ten percent strengthening of the above currencies against the Pound at 31 May 2017 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)*

20 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	**2017**	2016
	£'000	£'000
Trade receivables (note 14)	**13,440**	12,776
Other receivables (note 14)	**1,758**	1,795
Cash and cash equivalents (note 16)	**2,539**	3,298
	17,737	17,869

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

Carrying amount	**2017**	2016
	£'000	£'000
United Kingdom	**5,590**	5,610
United States of America	**4,812**	4,576
France	**427**	441
Ireland	**168**	143
Italy	**646**	387
Germany	**39**	23
Japan	**209**	281
China	**235**	172
Canada	**88**	128
Australia	**118**	97
Other countries (each less than £100,000)	**1,108**	918
	13,440	12,776

Notes *(continued)*

20 Financial instruments *(continued)*

Credit risk *(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, based on original invoice date, at the reporting date was:

	2017		2016	
	Gross £'000	**Impairment £'000**	Gross £'000	Impairment £'000
One month (not past due)	**6,077**	**(10)**	5,805	-
Two to three months	**5,106**	**(18)**	4,349	-
Four to six months	**1,467**	**(14)**	1,249	(1)
Over six months	**3,544**	**(954)**	4,107	(938)
	16,194	**(996)**	15,510	(939)

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

	2017 £'000	2016 £'000
Balance at 1 June	**939**	800
Impairment loss recognised	**57**	139
Balance at 31 May	**996**	939

The impairment loss at 31 May 2017 of £996,000 (31 May 2016: £939,000) 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)*

20 Financial instruments *(continued)*

Liquidity risk *(continued)*

31 May 2017

	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	351	369	83	83	116	87	-
Trade and other payables	5,888	5,888	5,888	-	-	-	-
	6,239	6,257	5,971	83	116	87	-

31 May 2016

	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	546	579	105	105	166	203	-
Trade and other payables	5,646	5,646	5,646	-	-	-	-
	6,192	6,225	5,751	105	166	203	-

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)*

20 Financial instruments *(continued)*

Liquidity risk *(continued)*

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

	2017			2016		
	Balance outstanding £'000	**Facility £'000**	**Undrawn amounts £'000**	Balance outstanding £'000	Facility £'000	Undrawn amounts £'000
Bank loans and overdrafts	**351**	**3,229**	**2,878**	546	4,129	3,583

The bank loan facilities have unexpired terms of between one and five 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	**2017 £'000**	2016 £'000
Variable rate instruments		
Financial liabilities	**351**	546

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 (decreased)/increased 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 2016.

Notes *(continued)*

20 Financial instruments *(continued)*

Interest rate risk *(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 2017				
Variable rate instruments	(5)	5	(5)	5
31 May 2016				
Variable rate instruments	(7)	7	(7)	7

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 2017		31 May 2016	
	Carrying amount £'000	**Fair value £'000**	Carrying amount £'000	Fair value £'000
Receivables	**15,628**	**15,628**	14,976	14,976
Cash and cash equivalents	**2,539**	**2,539**	3,298	3,298
Secured bank loans	**(351)**	**(351)**	(546)	(546)
Trade and other payables	**(5,888)**	**(5,888)**	(5,646)	(5,646)
	11,928	**11,928**	12,082	12,082

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)*

20 Financial instruments *(continued)*

Estimation of fair values *(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.

21 Share capital and reserves

	2017 **£'000**	2016 £'000
Allotted, called up and fully paid		
8,996,131 (31 May 2016: 8,992,131) ordinary shares of 10 pence each	**900**	899

During the year the Group issued 4,000 10p ordinary shares for a consideration of £10,000, settled in cash to satisfy share options exercised (2016: 66,000 10p ordinary shares for a consideration of £126,000).

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.

Share premium

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

Revaluation reserve

The revaluation reserve relates to the revaluation of freehold property.

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.

Notes *(continued)*

22 Pension arrangements

The Group operates defined contribution, group money purchase pension schemes. Contributions are charged to the income statement 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 £602,000 (2016: £564,000).

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

23 Commitments

The future minimum non-cancellable operating lease rentals are payable as follows:

	2017			2016		
	Land and buildings	**Other**	**Total**	Land and buildings	Other	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Less than one year	**544**	**253**	**797**	601	220	821
Between two and five years	**780**	**506**	**1,286**	881	109	990
Five years or more	**212**	**-**	**212**	287	-	287
Total	**1,536**	**759**	**2,295**	1,769	329	2,098

During the year £nil (2016: £nil) was recognised in the income statement in respect of sub-leases. Details of amounts recognised in the income statement in respect of lease payments are disclosed in note 3.

At 31 May 2017 there was no capital expenditure authorised by the Board but not provided in the financial statements (2016: £nil). Similarly, there were no contracts placed for future capital expenditure, not provided in the financial statements (2016: £nil). In addition to the above, at the end of the financial year the Group had entered into commitments amounting to £nil (2016: £nil) in respect of non-cancellable operating leases, the inception of which occurred after the year end.

Notes *(continued)*

24 Share based payments

The Group operates an unapproved share option scheme under which options have been granted to employees and Directors. The recognition and measurement principles in IFRS 2 have not been applied to these grants. 90,000 new options were granted during the financial year (2016: 90,000). The options exercised and either forfeited or lapsed during the year, and those outstanding at 31 May 2017, were as follows:

Exercise price	Date of grant	Date from which exercisable	Expiry date	2016	**Granted during the year**	**Exercised during the year**	**Forfeited/ lapsed during the year**	**2017**
				'000	**'000**	**'000**	**'000**	**'000**
169.0p	2/2/2004	2/2/2007*	1/2/2022	8*	**-**	**-**	**-**	**8***
181.0p	31/5/2005	31/5/2008*	30/5/2023	50*	**-**	**-**	**-**	**50***
225.0p	19/12/2008	19/12/2011*	18/12/2026	39*	**-**	**(4)**	**-**	**35***
247.5p	25/2/2010	25/2/2013*	24/2/2028	39*	**-**	**-**	**-**	**39***
530.0p	14/9/2015	14/9/2018	13/9/2030	90	**-**	**-**	**-**	**90**
530.0p	9/2/2017	9/9/2020	8/2/2032	-	**90**	**-**	**-**	**90**
				226	**90**	**(4)**	**-**	**312**

* Exercisable as at 31 May 2017. Details of the performance criteria of the share options are included in the Remuneration Report.

	Weighted averaged exercise price p	**2017 Number of options '000**	Weighted averaged exercise price p	2016 Number of options '000
Outstanding at start of year	**338.5**	**226**	197.7	204
Granted during the year	**402.5**	**90**	530.0	90
Exercised during the year	**225.0**	**(4)**	193.7	(66)
Forfeited during the year	**-**	**-**	225.0	(2)
Outstanding at end of year	**358.4**	**312**	338.5	226

The weighted average share price at the date of exercise of share options during the year was 542.5p (2016: 537p). The options outstanding at the year end have an exercise price in the range of 169p to 530p and a weighted average contractual life of 10.3 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 2017 are expected volatility (21.68%), expected option life (3 to 15 years), expected dividend yield (4.01%) and risk-free rate (0.27%). The main assumptions used in connection with share options issued in 2015 are expected volatility (24.52%), expected option life (7.4 years), expected dividend yield (2.78%) and risk-free rate (1.61%). 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 2008 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 any amounts recognised in the income statement in respect of share based payments are disclosed in note 5.

Notes *(continued)*

25 (a) Net funds

	At beginning of year £'000	Trading cashflow £'000	Non cash Movement £'000	**At end of year £'000**
Cash at bank and in hand	**3,298**	(759)	-	**2,539**
Secured bank loans	**(546)**	195	-	**(351)**
	2,752	**(564)**	**-**	**2,188**

25 (b) Net funds reconciliation of net cash flow to movement in net funds

	2017 £'000	2016 £'000
(Decrease)/increase in cash in the year	**(759)**	1,681
Cash outflow from decrease in debt	**195**	365
(Decrease)/increase in net funds in the year	**(564)**	2,046
Net funds at start of year	**2,752**	706
Net funds at end of year	**2,188**	2,752

Notes *(continued)*

26 Investments and subsidiary undertakings

The Group has the following subsidiary undertakings:

Subsidiary undertaking	Principal activity	Country of registration	Registered address	Percentage ownership	Year end accounting date
Murgitroyd & Company Limited	Patent and Trade Mark Attorney and technical support services	Scotland	Scotland House 165-169 Scotland Street Glasgow G5 8PL	100%	31 May
Murgitroyd SARL*	French Patent and Trade Mark Attorney services	France	55, All Pierre Ziller Immeuble Atlantis 06560 Valbonne	49%	31 May
Murgitroyd (London) Limited *	Patent and Trade Mark Attorney services	England	17 Lansdowne Road Croydon Surrey CR0 2BX	100%	31 May
Murgitroyd (Fitzpatricks Group) Limited *	Intermediate holding company	Scotland	Scotland House 165-169 Scotland Street Glasgow G5 8PL	100%	31 May
Murgitroyd (Fitzpatricks) Limited **	Patent and Trade Mark Attorney services	Scotland	Scotland House 165-169 Scotland Street Glasgow G5 8PL	100%	31 May
Murgitroyd (Kennedys) Limited *	Patent and Trade Mark Attorney services	Scotland	Scotland House 165-169 Scotland Street Glasgow G5 8PL	100%	31 May
Murgitroyd LLC *	US business development and sales	USA	Suite 100 1450 Raleigh Road Chapel Hill North Carolina NC 27517	100%	31 May
Murgitroyd Europe *	Dormant	Ireland	Unit 1, Block 8 Blanchardstown Corporate Park Cruiserath Road Blanchardstown Dublin 15	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.

Notes *(continued)*

27 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 2017 the Group made sales of £97,000 to Gizmo Packaging Limited ("Gizmo"), a company in which the Chairman, Ian Murgitroyd, is a Director (2016: £54,000). As at 31 May 2017, the outstanding amount owed by Gizmo amounted to £13,000 (31 May 2016: £44,000).

Transactions with key management personnel are disclosed in the Remuneration Report and note 4.

28 Provision for liabilities

	Leasehold property dilapidations £'000
Balance at 1 June 2016	**-**
Provisions made in the year	**17**
Balance at 31 May 2017	**17**

The leasehold property dilapidation provision made in 2017 relates to the termination of the Group's lease on its former Edinburgh office.

29 Subsequent events

There are no subsequent events to report.

UK GAAP parent company balance sheet

at 31 May 2017

	Note	**31 May 2017 £'000**	31 May 2016 £'000
Fixed assets			
Investments	**2**	**8,488**	8,454
Current assets			
Debtors	**3**	**2,817**	2,807
Net current assets		**2,817**	2,807
Total assets less current liabilities		**11,305**	11,261
Net assets		**11,305**	11,261
Capital and reserves			
Share capital	**4**	**900**	899
Share premium		**3,497**	3,488
Merger reserve		**6,436**	6,436
Profit and loss account		**472**	438
Shareholders' funds		**11,305**	11,261

These financial statements were approved by the Board of Directors on 12 September 2017 and were signed on its behalf by:

Ian G Murgitroyd, *Chairman*

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

Company statement of changes in equity

for the year ended 31 May 2017

	Share capital	Share premium	Profit and loss account	Merger reserve	Total
	£'000	£'000	£'000	£'000	£'000
At 1 June 2015	893	3,368	416	6,436	11,113
Total comprehensive income for the year:					
Profit for the year	-	-	1,365	-	1,365
Transactions with owners recorded directly in equity:					
Dividends	-	-	(1,365)	-	(1,365)
Share based payments	-	-	22	-	22
Share options exercised	6	120	-	-	126
Total equity at 31 May 2016	**899**	**3,488**	**438**	**6,436**	**11,261**
At 1 June 2016	899	3,488	438	6,436	11,261
Total comprehensive income for the year:					
Profit for the year	-	-	1,462	-	1,462
Transactions with owners recorded directly in equity:					
Dividends	-	-	(1,462)	-	(1,462)
Share based payments	-	-	34	-	34
Share options exercised	1	9	-	-	10
Total equity at 31 May 2017	**900**	**3,497**	**472**	**6,436**	**11,305**

Notes to the UK GAAP parent company financial statements

for the year ended 31 May 2017
(forming part of the financial statements)

1 Significant accounting policies

Basis of preparation

Murgitroyd Group PLC is a company incorporated and domiciled in the UK. The registered number is SC221766 and the registered address is Scotland House, 165-169 Scotland Street, Glasgow, G5 8PL. These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 have been applied.

In the 2016, and these, financial statements, the company have applied the exemptions available under FRS 101 in respect of the following disclosures: (i) cash flow statement and related notes; (ii) comparative period reconciliations for share capital and investments; (iii) disclosures in respect of transactions with wholly owned subsidiaries; (iv) the effects of new but not yet effective IFRSs; and, (v) disclosures in respect of the compensation of Key Management Personnel.

The accounting policies set out here have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Directors, in their consideration of going concern, have reviewed the company and Group's future cash flow forecasts and revenue projections, which they believe are based on a prudent assessment of the market and past experience. Additional details are set out on page 17. After making enquiries, the Directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least the next twelve months. For this reason they continue to adopt the going concern basis in preparing the 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.

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 IFRS 2. On grant this is treated as an increase in the investment in the subsidiary company. In accordance with the standard, "Group and Treasury Share Transactions", there is a corresponding increase in equity. All disclosures are in note 24 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.

Notes to the UK GAAP parent company financial statements

(forming part of the financial statements) (continued)

1 Significant accounting policies *(continued)*

Audit fees

Audit fee disclosures are included on page 31 of the Group's financial statements.

Employees

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

2 Fixed asset investments

	2017	2016
	£'000	£'000
Shares in subsidiary undertakings		
Cost at start of year	**8,454**	8,432
Equity settled share based payments	**34**	22
Cost at end of year	**8,488**	8,454

See note 26 of the Group's financial statements for details of subsidiary undertakings.

3 Debtors

	2017	2016
	£'000	£'000
Amount owed by subsidiary undertaking	**2,817**	2,807

4 Share capital

	2017	2016
	£'000	£'000
Allotted, called up and fully paid		
8,996,131 (31 May 2016: 8,992,131) ordinary shares of 10 pence each	**900**	899

During the year the company issued 4,000 10p ordinary shares for a consideration of £10,000, settled in cash to satisfy share options exercised (2016: 66,000 10p ordinary shares for a consideration of £126,000).

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the company will be held at Scotland House, 165-169 Scotland Street, Glasgow G5 8PL at 11am on 26 October 2017 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 2017.
2. To approve the proposed dividend.
3. To receive and adopt the report of the Remuneration Committee of the company.
4. To re-elect Kenneth Chrystie who retires from the Board in accordance with Article 77, as a Director of the company.
5. To re-elect Gordon Stark who retires from the Board in accordance with Article 77, as a Director of the company.
6. To re-elect Keith Young who retires from the Board in accordance with Article 77, as a Director of the company
7. To re-appoint KPMG LLP as Auditors and to authorise the Directors to agree their remuneration.
8. To ratify and confirm that the payment of 11.25p per share by way of an final dividend on 11 November 2016 and 5p per share by way of an interim dividend on 23 March 2017 (together the "dividends") and the entry in the audited accounts of the company for the year ended 31 May 2017 whereby distributable profits of the company were appropriated to the payment of the dividends.
9. To ratify and confirm that any and all claims which the company has or may have in respect of the payment of the dividends against its shareholders who appeared on the register of members on the respective dates from 7 October 2016 to 10 February 2017 (being the record dates for the dividends, the "record dates") be released, and that a deed of release in favour of such shareholders be entered into by the company in the form of the deed produced to the meeting and signed by the Chairman of the meeting for the purposes of identification.
10. To ratify and confirm that any distribution involved in the giving of any such release in relation to the dividends be made out of the profits appropriated to the dividends as aforesaid by reference to a record date identical to the record date for the dividends.
11. To ratify and confirm that any and all claims which the company has or may have against its Directors (whether past, present or future) arising in connection with the payment of the dividends be released and that a deed of release in favour of such Directors of the company be entered into by the company in the form of the deed produced to the meeting and signed by the Chairman of the meeting for the purposes of identification.
12. To ratify and confirm that any prohibition under the Articles of Association of the company or elsewhere on interested Directors voting in respect of any contract, transaction, arrangement or proposal, or proposed contract, transaction, arrangement or proposal, in which they may be interested shall be suspended to the extent necessary to enable the execution and delivery of such deeds of release on behalf of the company.

By order of the Board

Maclay Murray and Spens LLP, *Company Secretary*
12 September 2017

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 26 October 2017.

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 26 October 2017 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 2017.		
To approve the proposed dividend.		
To receive and adopt the report of the Remuneration Committee of the company.		
To re-elect Kenneth Chrystie who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-elect Gordon Stark who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-elect Keith Young who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-appoint KPMG LLP as Auditors and to authorise the Directors to agree their remuneration.		
To ratify and confirm that the payment of 11.25p per share by way of an final dividend on 11 November 2016 and 5p per share by way of an interim dividend on 23 March 2017 (together the "dividends") and the entry in the audited accounts of the company for the year ended 31 May 2017 whereby distributable profits of the company were appropriated to the payment of the dividends.		
To ratify and confirm that any and all claims which the company has or may have in respect of the payment of the dividends against its shareholders who appeared on the register of members on the respective dates from 7 October 2016 to 10 February 2017 (being the record dates for the dividends, the "record dates") be released, and that a deed of release in favour of such shareholders be entered into by the company in the form of the deed produced to the meeting and signed by the Chairman of the meeting for the purposes of identification.		
To ratify and confirm that any distribution involved in the giving of any such release in relation to the dividends be made out of the profits appropriated to the dividends as aforesaid by reference to a record date identical to the record date for the dividends.		
To ratify and confirm that any and all claims which the company has or may have against its Directors (whether past, present or future) arising in connection with the payment of the dividends be released and that a deed of release in favour of such Directors of the company be entered into by the company in the form of the deed produced to the meeting and signed by the Chairman of the meeting for the purposes of identification.		
To ratify and confirm that any prohibition under the Articles of Association of the company or elsewhere on interested Directors voting in respect of any contract, transaction, arrangement or proposal, or proposed contract, transaction, arrangement or proposal, in which they may be interested shall be suspended to the extent necessary to enable the execution and delivery of such deeds of release on behalf of the company.		

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, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time fixed for the meeting or adjourned meeting together with the authority (or a notarially certified copy of such authority) under which it is signed.
4. If you wish to appoint a proxy other than the Chairman of the meeting, delete the words "the Chairman of the meeting" and insert the name and address of your proxy in the space provided. Please initial the amendment. A proxy, who need not be a member of the company, must attend the meeting in person to represent you.
5. In the case of joint holders the signature of only one of the joint holders is required but, if more than one vote, the vote of the first named on the register of members will be accepted to the exclusion of other joint holders.
6. The register of Directors' interests required to be kept in accordance with the Companies Act 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.

Murgitroyd Group PLC

Registered in Scotland
No. SC221766

murgitroydgroupplc.com