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Murgitroyd Group PLC

Annual report and financial statements

murgitroydgroupplc.com

Contents

Highlights

Underlying profit before income tax increased by 7% to £4.1m *(2017: £3.8m)*

Proposed final dividend of 14.5p per share, giving a total dividend for the year of 21p *(2017: 17p)***, an increase of 24% year-on-year**

Revenue of £43.9m *(2017: £44.3m)*

Reported profit before income tax after exceptional item* decreased by 6% to £3.6m *(2017: £3.8m)*

Underlying basic earnings per share increased by 21% to 34.2p *(2017: 28.3p)*

Reported basic earnings per share increased to 29.7p *(2017: 28.3p)*

Increased cash position at period end of £3.03m *(31 May 2017: £2.54m)*

* one-off, non-cash, provision against single trade receivable balance of £0.5m

Ian Murgitroyd, Non-executive Chairman of Murgitroyd Group PLC, said:

"I am pleased to report an increase in underlying pre-tax profit and record year-end cash balances for the period under review. Four years of significant investment in our pan-European footprint, software and business development, as well as back office efficiencies has put us in a strong competitive position to help offset any weakness in individual markets and to remain at the cutting edge of client-service and productivity.

“The Board remains confident that it can continue to deliver sustainable long-term growth and value to shareholders, which together with an increasingly strong balance sheet, has allowed us to again propose an increased final dividend, consistent with the Board's 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
	John H Reid	Non-executive Director

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Chairman's statement

Financial review

In the full year to 31 May 2018, the Group reported revenues of £43.9m (2017: £44.3m) and underlying profit before income tax of £4.08m (2017: £3.80m), an increase of 7%, in line with market expectations.

As announced in the most recent trading statement, the results for the period include an exceptional provision of £408,000, net of tax relief, in relation to a single aged debtor balance. The client in question is a longstanding client who has traded with the Group for 21 years, remitting more than £1.1m in cash over this period. The client continues to pay, does not dispute the debt, and has formally confirmed its intention to settle the balance in full. However, in view of the quantum of current payments, and the age of the current balance, 80% of which relates to financial years 2016 and earlier, the Board considered that it was prudent and appropriate to make a full provision.

Notwithstanding the provision, reported basic earnings per share for the year ended 31 May 2018 are 5% higher year-on-year at 29.7p and underlying earnings per share are 21% higher at 34.2p (2017: 28.3p). As indicated at the time of the interim results, earnings were strongly weighted towards the second half, consistent with previous years. The overall improvement in gross margin percentage reflects the net effect of changes in revenue composition, price pressures on new work and the absence of material foreign exchange rate benefits.

The underlying Group operating cash flow remained strong with record year-end cash balances of £3.03m (31 May 2017: £2.54m) and current cash balances of more than £3.3m. Net cash flow after financing was positive at £0.49m, compared to an outflow of £0.76m in the prior year. The principal reason for this positive swing was the cash outlay on the Managua acquisition in June 2016 of £1.86m, funded from internal reserves.

On this basis and in line with the Group's commitment to a progressive dividend policy, the Board recommends a final dividend of 14.5p per share, which results in a total dividend payment for the year of 21p per share, an increase of 24%.

The Group was able to improve the depth and breadth of services for larger clients, seeing support services revenue increase as a result, both in value (up 4%) and as a proportion of total revenue, increasing from 34.5% to 36.1%. The market place for these services, that includes search, illustration and docketing, continues to see the effects of commoditisation and the Group's investment in its technology platform and IT systems is necessary for the Group to compete in this fast-changing environment.

63.9% of total revenue was generated by Attorney groups and 36.1% by support service groups. The latter includes the first full year of contribution from MURGITROYD's search and docketing group in Managua, the £0.62m revenue generated by the operation in the second half of the year representing a 27% increase on the immediately preceding six-month period, and a 57% increase on the comparative period in the previous year. The office operated in line with management expectations and, in addition to fee earning activities, a number of administrative support tasks have been transferred to Managua.

Chairman's statement *(continued)*

Financial review *(continued)*

With more than half of the Group's revenue being generated in either US Dollars or Euros, and a substantial part of its costs being non-Sterling, the Group retains an exposure to foreign exchange rate volatility, and, in general terms, is a net beneficiary of Sterling weakness. In this regard, the recent strength of the US Dollar has been helpful overall.

Operating review

The Group is trading well in challenging conditions, particularly in the UK where the uncertainty around the UK leaving the European Union ("EU") and how it might affect the European marketplace and IP systems remains. The Group has continued to off-set possible related risks by strengthening its pan-European footprint and remains extremely well-placed to continue to act for its worldwide clients at both European and international level, having an unparalleled network of offices and qualified Attorneys in fourteen offices in ten countries. This geographic spread of activities and client base puts the Group in a strong position to balance out any weakness in individual markets and provides us with a large degree of insulation irrespective of the arrangements negotiated as the UK leaves the EU.

MURGITROYD has made further good progress in the USA where the strength of the economy has been beneficial. The Group has added to its business development teams in the USA with additional hires and has seen continued blue-chip client wins. More than half of the Group's revenue is now generated in the USA. The Group has experienced increased demand for providers that can deliver commoditised elements of the IP lifecycle such as renewals, PCT and other Patent filings, and European Patent validations, underpinned by excellent client service. Investment in our office operation in Nicaragua allows us the option to provide back office services such as searching and docketing at substantially reduced cost.

The UK remains an important market for MURGITROYD, with UK clients still generating 30% of Group revenue. Business development in the UK is progressing well following the appointment of a new Head of UK Business Development at the beginning of the financial year under review, which has seen a new client profiling and segmentation strategy being introduced. This has increased new enquiry conversions considerably throughout the year. Success in major tenders include Scottish Enterprise's new recommended IP consultants roster and the North Eastern Universities Purchasing Consortium, covering 23 universities in the North of England.

In the financial year MURGITROYD commenced a major investment in its technology platform and IT systems, the largest part of the £0.75m total investment in the period relating to projects designed to improve communication with clients, internal processes and productivity, in particular its Client Portal. This investment in our Client Portal software is now beginning to bear fruit, transforming interactions with our clients.

This is necessary to provide MURGITROYD with a competitive edge when it comes to winning and retaining clients in the long term and is made possible by the Group's strong cash flow.

Chairman's statement *(continued)*

Operating review *(continued)*

The EU Intellectual Property Office ("EUIPO") and the European Patent Office ("EPO") statistics are considered good indicators of the current state of the Group's principal markets. They both suggest that the numbers of Trade Mark and Patent applications filed continue to increase, which is a long-term trend. The EPO's annual statistics for 2017 indicate that European Patent filings increased by 4.4%, with 33% and 22% of filings being made by European and US applicants respectively. MURGITROYD also continues to see a growing involvement in representing clients in hearings before the EPO.

The new Unitary Patent ("UP") and Unified Patent Court ("UPC") continue their steady progress. The UK ratified the UPC Agreement in April 2018, but the Agreement still awaits ratification by Germany, where a constitutional legal challenge has delayed the process, before the UPC can start business. The UK Government confirmed in its White Paper in July 2018 that it would seek to remain within the Unitary Patent and UPC regime after the UK's departure from the EU.

Employees

As at 31 May 2018, the Group employed 273 staff (31 May 2017: 255). MURGITROYD's commitment to long-term growth is reflected by its continuing investment in its people. Two new qualified Patent Attorneys and two new trainee Attorneys started with MURGITROYD in the second half of the financial year. Additional resources were added to the business development teams and in Managua.

MURGITROYD's standing in the industry and high level of client service is a reflection of the hard work and dedication of its staff. On behalf of the Board I would like to thank them for their efforts during the year.

Dividend

The Board is proposing a final dividend of 14.5p per share, giving a total dividend for the year of 21p (2017: 17p), an increase of 24% year-on-year. This increase reflects the strength of the Group's cash flows and the Board's long-stated position of maintaining a progressive dividend policy. Subject to approval at the Annual General Meeting, the final dividend will be paid on 9 November 2018 to shareholders on the register at 12 October 2018. The ex-dividend date is 11 October 2018.

Board

Graham Murnane will not be standing for re-election to the Board at the AGM, although he will remain as one of our most experienced Senior Attorneys. The Board would like to thank Graham for his service and contributions during his time on the Board.

Chairman's statement *(continued)*

Outlook

While macro-economic and political uncertainties persist, MURGITROYD operates in a market with good long-term prospects. The Board is satisfied with the performance of the Group for the full year and believes it can continue to deliver sustainable long-term growth and value to its shareholders.

MURGITROYD remains committed to delivering the highest quality client service at competitive prices. The level of capital investment seen in 2018 will be sustained through the current financial year, continuing the medium-term programme of investment that has reshaped the Group's processes and systems and, I believe, put us in a good position for future growth. Notwithstanding this, the Board will continue to critically assess all aspects of the Group, its activities, operations and structures, reflecting the commitment to ongoing improvement in a fast-changing marketplace.

Notwithstanding macro-economic and political uncertainties, and in particular the possible impact of these on both the value and volatility of Sterling, I remain confident that the Group can achieve its aims. This confidence is reflected in the increase in our assessment of the sustainable level of dividends, consistent with our progressive dividend policy.

Ian G Murgitroyd, *Chairman*
11 September 2018

Board of Directors

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

Ian G Murgitroyd, 73 – *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, 43 - *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, 59 - *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, 41 - *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, 72 - *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, 71 - *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, 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, 66 - *Non-executive Director, 1, 3*
John is an engineering graduate, past Chairman of the LiFi Research & Development Centre at Edinburgh University where he is also a Non-executive Director of Edinburgh Innovation Limited, the university's commercialisation company. John has been on the Board of the Dowds Group since 2015 and works 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. During this period he was a member of the Prime Minister's initiative in eastern Europe while chairman of a UK Trade Association in the electronics sector. John joined the board of Peacock Salt Ltd. in 2018.

Keith G Young, 52 - *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 2018.

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 21. 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, in balance. 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 seeks to continually develop and introduce 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	**2018**	2017	Measure
Profitability ratios			
Gross Margin	**55.2%**	54.6%	Gross profit as a percentage of revenue
Net Margin	**8.1%**	8.6%	Profit before income tax as a percentage of revenue
EBITA margin	**8.1%**	8.7%	Profit before financial income and expense, income tax and amortisation of intangible assets as a percentage of revenue
Return on capital employed [ROCE]	**11.2%**	12.4%	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%**	8.4%	Profit after income tax divided by opening total equity
Return on investment [ROI]	**8.4%**	8.3%	Profit after income tax divided by "capital employed" [see definition above]
Liquidity ratios			
Current ratio	**312.9%**	314.6%	Current assets divided by current liabilities
Liquid ("quick" or "acid test") ratio	**295.0%**	302.4%	Current assets less prepayments and work in progress divided by current liabilities
Solvency ratios			
Gearing ratio	**0.3%**	0.7%	Borrowings due outwith one year divided by opening total equity plus borrowings due outwith one year
Interest cover	**891.8x**	634.2x	Profit before financial income and expense and income tax [EBIT] divided by financial expense
Other indicators			
Revenue days	**103**	105	Year end trade receivables expressed as the number of preceding days' gross revenue
Credit risk	**1.18%**	0.67%	Bad debts written off or provided against as a percentage of revenue
Turnover per Pound of salary cost	**£2.96**	£2.98	Revenue divided by payroll costs

By order of the Board,

Ian G Murgitroyd, *Chairman*
11 September 2018

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2018.

Charitable and political donations

The Group made charitable donations during the year of £23,000 (2017: £13,000). There were no political donations (2017: £nil).

Dividends

The Directors recommend that a final dividend of £1,305,000, being 14.5p per share, (2017: £1,080,000, being 12p per share) be paid giving a total dividend for the year of 21p (2017: 17p). 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"). Mark Kemp-Gee and John Reid 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 2018, 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	26.7%
State Street Nominees	945,582	10.5%
Chase Nominees Limited	614,042	6.8%
The Bank of New York (Nominees)	449,273	5.0%
Elizabeth-Anne Thomson	387,526	4.3%
Edward Murgitroyd	387,526	4.3%
BNY Mellon Nominees Limited	381,069	4.2%
Luna Nominees Limited	370,087	4.1%
HSBC Global Custody Nominee (UK)	344,062	3.8%
Lion Nominees Limited	303,112	3.4%
Rock (Nominees) Limited	295,360	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 2018 were equivalent to approximately 60 days' purchases (31 May 2017: 54 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. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and they 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 judgements and estimates that are reasonable, relevant, reliable and prudent;
- 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;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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. Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations. 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. We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

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 they ought to have taken as a Director to make themself 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*
11 September 2018

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 2018 and 31 May 2017:

	Salary and fees	**Bonus**	**Benefits**	**Money purchase pension contrib'ns**	**2018 Total**	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2017 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Executive										
GE Murgitroyd * (1)	**345**	**-**	**53**	**10**	**408**	327	-	29	10	366
KG Young	**214**	**-**	**23**	**14**	**251**	214	-	23	11	248
GJ Murnane	**177**	**-**	**3**	**11**	**191**	172	-	2	9	183
GD Stark	**218**	**-**	**2**	**13**	**233**	208	-	1	10	219
Non-executive										
IG Murgitroyd (2)	**90**	**-**	**4**	**-**	**94**	143		4	4	151
MN Kemp-Gee	**23**	**-**	**-**	**1**	**24**	23	-	-	1	24
KG Chrystie (3)	**52**	**-**	**-**	**-**	**52**	22	-	-	-	22
C Masters (4)	**-**	**-**	**-**	**-**	**-**	23	-	-	-	23
JH Reid	**26**	**-**	**-**	**1**	**27**	23	-	-	1	24
	1,145	**-**	**85**	**50**	**1,280**	1,155	-	59	46	1,260

* Highest paid Director
(1) Pound Sterling equivalent of US Dollar-denominated remuneration
(2) Pound Sterling equivalent of part US Dollar-denominated remuneration
(3) Includes non-recurring consultancy fee of £30,000
(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 in 2017, because Group earnings were less than budgeted, Edward Murgitroyd did not receive profit-related salary of £30,000, Keith Young did not receive profit-related salary of £22,000 and Gordon Stark did not receive profit-related salary of £4,000. Edward Murgitroyd's total remuneration in US Dollars amounted to $552,000 (2017: $468,000). Keith Young has a salary entitlement of £230,000 and during the year waived salary amounting to £28,000. During the year retirement benefits accrued to six Directors (2017: 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 2018	At 31 May 2017
Ian Murgitroyd	**2,406,750**	2,406,750
Graham Murnane	**19,784**	19,784
Edward Murgitroyd	**387,526**	387,526
Gordon Stark	**25**	25
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 2017	Options granted during the period	Options exercised/ lapsed during the period	**At 31 May 2018**	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 (2017: £nil).

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 2018 was 620p (31 May 2017: 412.5p). During the year the share price ranged from 390p to 638p (2017: 370p to 538p). 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*
11 September 2018

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 2018) 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,

Ian G Murgitroyd, *Chairman*
11 September 2018

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

1. Our opinion is unmodified

We have audited the financial statements of Murgitroyd Group PLC ("the Company") for the year ended 31 May 2018 which comprise the consolidated statement of comprehensive income, consolidated and parent company balance sheets, consolidated statement of cash flows, consolidated and parent company statement of changes in equity and the related notes, including the accounting policies in note 1.

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 2018 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Overview		
Materiality: group financial statements as a whole	£190k (2017:£190k) 4.7% (2017: 5%) of group profit before tax	
Coverage	100% (2017:100%) of group profit before tax	
Risks of material misstatement		**2018 vs 2017**
Recurring risks	Recoverability of trade receivables	◄►
	Recoverability of parent company's investment in subsidiaries	◄►

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Recoverability of trade debtors (including provisioning) £12.5 million; (2017: £13.4 million) after impairment provision of £1.3 million (2017: £1.0 million) Refer to page 28, Accounting policies, and page 40, note 14.	**Subjective estimate** There are significant trade receivables with clients comprised of a high volume of individual balances of which a number are aged and individually material. All significant receivables are monitored and considered for provisioning on an individual basis. Judgement is applied in considering whether provision against debtor balances is required and for individual customers there is a consideration of any material changes in payment patterns, as well as known changes in clients' businesses, from the date credit was initially granted up to the reporting date. Following these considerations specific provision is made for those debts where it is considered likely that a default will occur.	Our procedures included: - **Our sector experience**: We assessed the methodology used to calculate the provision recognised, and challenged the appropriateness of these provisions, based on our historical experience of the recovery of receivables in this market. - **Tests of detail**: Our audit testing concentrated on those receivables identified as being at a higher risk of non-recoverability based on the value and age of the receivable, or other highlighted factors such as the financial position of the customers. For all items greater than £20,000 and over 120 days overdue a detailed understanding of the payment status of the receivable balance was obtained through discussion with management.

Independent Auditor's report to the members of Murgitroyd Group PLC *(continued)*

	The risk *(continued)*	Our response *(continued)*
	Subjective estimate *(continued)* These factors result in a risk over the measurement of the specific bad debt provision.	Our procedures included *(continued)*: The customer's likelihood of payment was assessed through review of correspondence with the company, recent payment history and consideration of cash received since the yearend. This understanding was compared that to the judgement taken regarding the level of provision in respect of those receivables. - **Assessing transparency**: We assessed the adequacy of the Group's disclosures about the nature of the estimation involved in arriving at the provision.
Recoverability of parent company's investment in subsidiaries (£8.5 million; 2017: £8.5 million) Refer to page 59, Accounting policies, and page 60, note 2.	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 75% (2017: 75%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: - **Tests of detail**: Comparing the carrying amount of the investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit- making. .

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £190,000 (2017: £190,000), determined with reference to a benchmark of group profit before tax (before exceptional item), of which it represents 4.7% (2017: 5.0%).

Materiality for the parent company financial statements as a whole was set at £115,000 (2017: £185,000), determined with reference to a benchmark of company total assets, of which it represents 0.8% (2016: 1.6%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £10,000 (2017: £10,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 7 (2017: 7) reporting components, we subjected 2 (2017: 2) to full scope audits for group purposes.

For the residual components, we performed analysis at an aggregated group level to re- examine our assessment that there were no significant risks of material misstatement within these.

The group team performed all of the audit work in support of our opinion, including the audit of the parent company.

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Independent Auditor's report to the members of Murgitroyd Group PLC *(continued)*

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 12, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Hugh Harvie, (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St. Vincent Street, Glasgow, G2 5AS
11 September 2018

Consolidated statement of comprehensive income

for the year ended 31 May 2018

	Note	Year ended 31 May 2018 Underlying £'000	Exceptional item (note 3) £'000	**Year ended 31 May 2018 £'000**	Year ended 31 May 2017 £'000
Revenue	**2**	43,896	-	**43,896**	44,251
Cost of sales		(19,683)	-	**(19,683)**	(20,084)
Gross profit		24,213	-	**24,213**	24,167
Administrative expenses		(20,142)	(504)	**(20,646)**	(20,362)
Operating profit		4,071	(504)	**3,567**	3,805
Financial income	**6**	11	-	**11**	4
Financial expense	**6**	(4)	-	**(4)**	(6)
Profit before income tax		4,078	(504)	**3,574**	3,803
Income tax	**7**	(1,002)	96	**(906)**	(1,260)
Profit for the year attributable to equity holders of the parent		3,076	(408)	**2,668**	2,543
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Foreign exchange translation differences – overseas undertakings		(65)	-	**(65)**	301
Items that will not be reclassified to profit or loss:					
Revaluation of property, plant and equipment		27	-	**27**	33
Profit for the financial year and total comprehensive income all attributable to equity holders of the parent		3,038	(408)	**2,630**	2,877
Earnings per share					
Basic	**9**	34.19p	(4.53p)	**29.66p**	28.27p
Diluted	**9**	33.88p	(4.49p)	**29.39p**	28.03p

Consolidated statement of changes in equity

for the year ended 31 May 2018

	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 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
Deferred tax on revaluation	-	-	-	-	-	-	-
Total equity at 31 May 2017	**900**	**3,497**	**20,615**	**361**	**47**	**6,436**	**31,856**
At 1 June 2017	900	3,497	20,615	361	47	6,436	31,856
Total comprehensive income for the year:							
Profit for the year	-	-	2,668	-	-	-	2,668
Exchange rate differences	-	-	-	(65)	-	-	(65)
Revaluation in year	-	-	-	-	27	-	27
Transfer between reserves	-	-	27	-	(27)	-	-
Transactions with owners recorded directly in equity:							
Dividends	-	-	(1,665)	-	-	-	(1,665)
Share based payments	-	-	44	-	-	-	44
Deferred tax on share options	-	-	66	-	-	-	66
Share options exercised	1	12	-	-	-	-	13
Deferred tax on revaluation	-	-	-	-	2	-	2
Total equity at 31 May 2018	**901**	**3,509**	**21,755**	**296**	**49**	**6,436**	**32,946**

Consolidated balance sheet

at 31 May 2018

	Note	31 May 2018 £'000	31 May 2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	2,688	2,371
Intangible assets and goodwill	11	17,456	16,846
Total non-current assets		20,144	19,217
Current assets			
Work in progress	13	438	301
Trade and other receivables	14	15,341	15,628
Taxation recoverable	19	174	506
Cash and cash equivalents	16	3,026	2,539
Total current assets		18,979	18,974
Total assets		39,123	38,191
Current liabilities			
Other interest-bearing loans and borrowings	17	(111)	(144)
Trade and other payables	18	(5,954)	(5,888)
Total current liabilities		(6,065)	(6,032)
Non-current liabilities			
Other interest-bearing loans and borrowings	17	(84)	(207)
Deferred tax liabilities	12	(28)	(79)
Provision for liabilities	28	-	(17)
Total non-current liabilities		(112)	(303)
Total liabilities		(6,177)	(6,335)
Net assets		32,946	31,856
Equity			
Share capital	21	901	900
Share premium		3,509	3,497
Merger reserve		6,436	6,436
Revaluation reserve		49	47
Foreign currency translation reserve		296	361
Retained earnings		21,755	20,615
Total equity attributable to equity holders of the parent		32,946	31,856

These financial statements were approved by the Board of Directors on 11 September 2018 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 2018

	Note	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Cash flows from operating activities			
Profit for the year		**2,668**	2,543
Adjustments for:			
Depreciation	**10**	**299**	271
Amortisation	**11**	**138**	64
Loss/(gain) on disposal of property, plant and equipment		**4**	(1)
Net financing (income)/costs		**(7)**	2
Equity settled share-based payment expense	**5**	**44**	34
Income tax expense	**7**	**906**	1,260
		4,052	4,173
Other reserves movements		**(65)**	301
Decrease/(increase) in trade and other receivables		**287**	(652)
(Increase)/decrease in work in progress		**(137)**	295
Increase in trade and other payables		**66**	242
(Decrease)/increase in provision for liabilities		**(17)**	17
		4,186	4,376
Interest paid		**(4)**	(6)
Interest received		**11**	4
Income tax paid		**(558)**	(1,213)
Net cash from operating activities		**3,635**	3,161
Cash flows from investing activities			
Acquisition of property, plant and equipment	**10**	**(592)**	(318)
Acquisition of intangible fixed assets	**11**	**(748)**	(95)
Business combinations	**15**	**-**	(1,862)
Proceeds from disposal of property, plant and equipment		**-**	2
Net cash used in investing activities		**(1,340)**	(2,273)
Cash flows from financing activities			
Proceeds from exercise of share options		**13**	10
Repayment of borrowings		**(156)**	(195)
Dividends paid	**8**	**(1,665)**	(1,462)
Net cash used in financing activities		**(1,808)**	(1,647)
Net increase/(decrease) in cash and cash equivalents	**25**	**487**	(759)
Cash and cash equivalents at start of year		**2,539**	3,298
Cash and cash equivalents at year end	**16**	**3,026**	2,539

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 2018 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 57 to 60.

Basis of preparation

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

The accounting policies set out below have been applied consistently to all periods presented.

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 clients 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

The key area of estimation uncertainty is in relation to debtor provisioning as set out in note 20. The Directors consider there to be no critical accounting judgements.

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 clients, and includes recharged disbursements incurred on behalf of clients. Revenue is recognised in the period that 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 intangible assets is between two and five 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 clients. 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)*

Exceptional items

The Group discloses additional information in respect of exceptional items on the face of the consolidated income statement in order to aid understanding of the Group's financial performance. An item is treated as exceptional if it is considered that by virtue of its nature, scale or incidence it is of such significance that separate disclosure is required for the financial statements to be properly understood. The Board considers it appropriate to provide information on the underlying results which exclude the effect of any exceptional items.

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 2018 and have not been applied in preparing these financial statements including:

IFRS 15 Revenue from contracts with customers

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard is effective for annual periods beginning on or after 1 January 2018. The Group has still to complete an exercise to assess its revenue recognition policies, in particular those where revenue is based upon milestone payments to fully understand the impact of FIRS 15.

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. It is possible that the change in the impairment approach to the expected credit loss model required by IFRS 9 may result in a higher bad debt provision, however in the context of the balance sheet the effect is not expected to be material.

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.

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 2018 £'000	Year ended 31 May 2017 £'000
Countries in which the Group has offices:		
United Kingdom	**13,042**	14,973
United States of America	**22,309**	21,292
France	**1,213**	1,618
Republic of Ireland	**345**	377
Italy	**1,738**	1,590
Germany	**272**	222
Nicaragua	**-**	-
Other geographical markets:		
Canada	**690**	661
Taiwan	**496**	433
China	**526**	406
Japan	**397**	379
India	**379**	179
The Netherlands	**344**	337
Other countries (each less than £250,000 in either year)	**2,145**	1,784
	43,896	44,251

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

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
United Kingdom	**31,615**	31,668
Republic of Ireland	**1,758**	2,489
France	**1,987**	1,764
Germany	**2,046**	1,976
Italy	**3,156**	3,232
Finland	**648**	691
United States of America	**1,574**	1,773
Nicaragua	**1,112**	658
	43,896	44,251

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 client 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 2018 £'000	Year ended 31 May 2017 £'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	**36**	39
- other services pursuant to such legislation	**2**	5
- other services relating to taxation	**241**	234
Depreciation and other amounts written off owned property, plant and equipment	**299**	271
Amortisation of intangible assets	**138**	64
Rental of land and buildings	**745**	760
Hire of office equipment - operating leases	**190**	204
Hire of other assets - operating leases	**65**	54
Foreign exchange gains	**(221)**	(350)
Loss/(gain) on disposal of property, plant and equipment	**4**	(1)
Exceptional item – provision against doubtful debt (see below)	**504**	-

The exceptional item relates to provision against a single debtor balance. Given the quantum of payments made by the client over the last two years, and the age of the balance, 80% of which relates to financial years 2016 and earlier, full provision was made. The Board considers the amount exceptional given its size and that the majority of the trading underlying the balance took place prior to 31 May 2015. As such disclosure as exceptional is made so that the result for the current year to be clearly presented and properly understood.

* 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 2018 and 31 May 2017:

	Salary and fees £'000	**Bonus £'000**	**Benefits £'000**	**Money purchase pension contrib'ns £'000**	**2018 Total £'000**	Salary and fees £'000	Bonus £'000	Benefits £'000	Money purchase pension contrib'ns £'000	2017 Total £'000
Executive										
GE Murgitroyd * (1)	**345**	**-**	**53**	**10**	**408**	327	-	29	10	366
KG Young	**214**	**-**	**23**	**14**	**251**	214	-	23	11	248
GJ Murnane	**177**	**-**	**3**	**11**	**191**	172	-	2	9	183
GD Stark	**218**	**-**	**2**	**13**	**233**	208	-	1	10	219
Non-executive										
IG Murgitroyd (2)	**90**	**-**	**4**	**-**	**94**	143		4	4	151
MN Kemp-Gee	**23**	**-**	**-**	**1**	**24**	23	-	-	1	24
KG Chrystie (3)	**52**	**-**	**-**	**-**	**52**	22	-	-	-	22
C Masters (4)	**-**	**-**	**-**	**-**	**-**	23	-	-	-	23
JH Reid	**26**	**-**	**-**	**1**	**27**	23	-	-	1	24
	1,145	**-**	**85**	**50**	**1,280**	1,155	-	59	46	1,260

* Highest paid Director
(1) Pound Sterling equivalent of US Dollar-denominated remuneration
(2) Pound Sterling equivalent of part US Dollar-denominated remuneration
(3) Includes non-recurring consultancy fee of £30,000
(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 in 2017, because group earnings were less than budgeted, Edward Murgitroyd did not receive profit-related salary of £30,000, Keith Young did not receive profit-related salary of £22,000 and Gordon Stark did not receive profit-related salary of £4,000. Edward Murgitroyd's total remuneration in US Dollars amounted to $552,000 (2017: $468,000). Keith Young has a salary entitlement of £230,000 and during the year waived salary amounting to £28,000. During the year retirement benefits accrued to six Directors (2017: seven).

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

	At 31 May 2017	Options granted during the period	Options exercised/ lapsed during the period	**At 31 May 2018**	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 (2017: £nil). 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 2018 was 620p (31 May 2017: 412.5p). During the year the share price ranged from 390p to 638p (2017: 370p to 538p). 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 2018 Number	Year ended 31 May 2017 Number
Professional staff	**65**	65
Office, management and support staff	**196**	192
	261	257

Notes *(continued)*

5 Employees *(continued)*

The aggregate payroll cost was as follows:

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Wages and salaries	**12,486**	12,676
Social security costs	**1,573**	1,551
Pension costs	**712**	602
Equity settled share based payments	**44**	34
	14,815	14,863

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

6 Financial income and expense

Financial income	**Year ended 31 May 2018 £'000**	Year ended 31 May 2017 £'000
Recognised in the income statement		
Bank interest receivable	**3**	1
Other interest receivable	**8**	3
	11	4

Financial expense	**Year ended 31 May 2018 £'000**	Year ended 31 May 2017 £'000
Recognised in the income statement		
Interest on bank loans and overdrafts	**4**	6

Notes *(continued)*

7 Income tax

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Recognised in the income statement		
UK Corporation Tax		
Current taxation on profit for the year at 19% (2017: 19.83%)	**716**	885
Under provision of taxation on profit for previous periods	**100**	280
Foreign tax		
Current taxation on income for the year	**74**	90
Over provision of taxation on income for previous periods	**-**	-
Total current tax	**890**	1,255
Deferred tax (note 12)		
Creation and reversal of temporary differences	**17**	5
Under provision of deferred taxation for previous periods	**(1)**	-
Total tax in income statement	**906**	1,260

The tax charges for the current and prior years are higher than the standard rate of UK Corporation Tax of 19% (2017: 19.83%). The differences are explained below:

		Year ended 31 May 2018 £'000		Year ended 31 May 2017 £'000
Current tax reconciliation				
Profit excluding taxation		**3,574**		3,803
Profit excluding taxation multiplied by standard rate of UK Corporation Tax of 19% (2017: 19.83%)	**19.00%**	**679**	19.83%	754
Effects of:				
Expenses not deductible for tax purposes	**2.21%**	**79**	1.79%	68
Under provision of taxation for previous periods	**2.74%**	**98**	7.36%	280
Overseas tax impact	**1.39%**	**50**	4.15%	158
Total tax expense (see above)	**25.34%**	**906**	33.13%	1,260

Notes *(continued)*

7 Income tax *(continued)*

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Income tax recognised directly in equity		
Taxation on share based payments	**66**	(40)
Taxation on revaluation of property	**2**	-
	68	(40)

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 reduced the deferred tax liability at 31 May 2017 which was calculated at 17%.

8 Dividends

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Equity shares:		
Final dividend in respect of 2016 (11.25p per share)	**-**	1,012
Interim dividend in respect of 2017 (5p per share)	**-**	450
Final dividend in respect of 2017 (12p per share)	**1,080**	-
Interim dividend in respect of 2018 (6.5p per share)	**585**	-
	1,665	1,462

The Directors recommend that a final dividend of £1,305,000, being 14.5p per share, (2017: £1,008,000, being 12p per share) be paid. Subject to approval at the Annual General Meeting, the final dividend will be paid on 9 November 2018 to shareholders on the register at 12 October 2018. The ex-dividend date is 11 October 2018.

Notes *(continued)*

9 Earnings per share

	Profit for the year £'000	Weighted average number of shares Number	2018 Underlying Earnings per share p	**Profit for the year £'000**	**Weighted average number of shares Number**	**2018 Earnings per share p**	Profit for the year £'000	Weighted average number of shares Number	2017 Earnings per share p
Basic earnings per share	3,076	8,997,693	34.19p	**2,668**	**8,997,693**	**29.55p**	2,543	8,994,849	28.27p
Dilutive share options	-	82,772	(0.31p)	**-**	**82,772**	**(0.16p)**	-	76,640	(0.24p)
Diluted earnings per share	3,076	9,080,465	33.88p	**2,668**	**9,080,465**	**29.39p**	2,543	9,071,489	28.03p

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 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**
At 1 June 2017	1,800	261	1,507	47	565	**4,180**
Additions	6	138	348	68	32	**592**
Disposals	-	(26)	(107)	(21)	(54)	**(208)**
At 31 May 2018	**1,806**	**373**	**1,748**	**94**	**543**	**4,564**
Depreciation						
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**
At 1 June 2017	-	217	1,011	47	534	**1,809**
Charge for the year	33	28	217	4	17	**299**
Revaluations	(27)	-	-	-	-	**(27)**
On disposals	-	(24)	(107)	(21)	(53)	**(205)**
At 31 May 2018	**6**	**221**	**1,121**	**30**	**498**	**1,876**
Carrying amounts						
At 31 May 2018	**1,800**	**152**	**627**	**64**	**45**	**2,688**
At 31 May 2017	**1,800**	**44**	**496**	**-**	**31**	**2,371**

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 2018 at £1,800,000 on the basis of open market value for existing use by McCaffery & Co, commercial property consultants, in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors. This measure of fair value is considered to be Level 3 in the fair value hierarchy (Inputs for the asset or liability that are not based on observable market data (unobservable inputs)). Particulars relating to revalued assets are given below.

Freehold property*	**2018 £'000**	2017 £'000
Valuation – 2018/2017	**1,800**	1,800
Carrying value	**1,800**	1,800
Historical cost	**1,909**	1,903
Aggregate depreciation based on historical cost	**(327)**	(294)
Historical cost carrying value	**1,582**	1,609

* the valuation attaching to land at 31 May 2018 was £270,000 (31 May 2017: £270,000).

11 Intangible assets and goodwill

	Goodwill £'000	Website development £'000	Customer database £'000	**£'000**
Deemed cost				
At 1 June 2016	14,825	250	68	**15,143**
Additions	1,862	95	-	**1,957**
At 31 May 2017	**16,687**	**345**	**68**	**17,100**
Additions	-	748	-	**748**
At 31 May 2018	**16,687**	**1,093**	**68**	**17,848**
Amortisation				
At 1 June 2016	-	190	-	**190**
Charge for the year	-	64	-	**64**
At 31 May 2017	**-**	**254**	**-**	**254**
Charge for the year	-	138	-	**138**
At 31 May 2018	**-**	**392**	**-**	**392**
Carrying amounts				
At 31 May 2018	**16,687**	**701**	**68**	**17,456**
At 31 May 2017	**16,687**	**91**	**68**	**16,846**

Notes *(continued)*

11 Intangible assets and goodwill *(continued)*

Website development additions include internally-generated and capitalised costs of £333,000 (2017: £95,000).

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 beyond the period to 31 May 2020 (2017: 0%).
- A pre tax discount rate of 15% (2017: 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.

12 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2018	2017	**2018**	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Share based payments	**115**	45	**-**	-	**115**	45
Property, plant and equipment	**-**	-	**(157)**	(137)	**(157)**	(137)
Other temporary differences	**14**	13	**-**	-	**14**	13
	129	58	**(157)**	(137)	**(28)**	(79)

Notes *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Movements in deferred tax during the year:

	At 1 June 2017 £'000	Recognised in income £'000	Recognised in equity £'000	**At 31 May 2018 £'000**
Share based payments	45	4	66	**115**
Property, plant and equipment	(137)	(22)	2	**(157)**
Other temporary differences	13	1	-	**14**
	(79)	(17)	68	**(28)**

Movements in deferred tax during the prior 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)**

13 Work in progress

	2018 £'000	2017 £'000
Work in progress	**438**	301

Work in progress to the value of £301,000 (2017: £596,000) was recognised in the income statement in the year.

14 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	**12,508**	13,440
Other receivables	**2,182**	1,758
Prepayments and accrued income	**651**	430
	15,341	15,628

Notes *(continued)*

14 Trade and other receivables *(continued)*

At 31 May 2018, trade receivables are shown net of allowance for doubtful debts of £1,287,000 (2017: £996,000) arising from a review of the expected recoverability of the receivables. The charge in the year was £519,000 (2017: £296,000).

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.

	2017 Fair value to the Group £'000
Property, plant and equipment	**52**
Trade and other payables	**(93)**
Net liabilities	**(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 client database of the acquired business.

16 Cash and cash equivalents

	2018 £'000	2017 £'000
Cash	**3,026**	2,539
Cash and cash equivalents in statement of cash flows	**3,026**	2,539

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.

	2018 £'000	2017 £'000
Current liabilities		
Secured bank loans	**111**	144
Non current liabilities		
Secured bank loans	**84**	207

Terms and debt repayment schedule

	Interest rate	**Year of maturity**	**Face value 2018 £'000**	**Carrying amount 2018 £'000**	Face value 2017 £'000	Carrying amount 2017 £'000
Secured bank loans						
Term loan	**LIBOR + 1%**	**2018**	**-**	**-**	49	49
Term loan	**LIBOR + 1%**	**2020**	**195**	**195**	302	302
			195	**195**	351	351

All debt is denominated in Pounds. 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)*

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

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Loans and other borrowings (current) £'000	Loans and other borrowings (non-current) £'000	Interest payable (current) £'000	**Total £'000**
Balance as at 1 June 2017	144	207	1	**352**
Net cash repayment of borrowings (note 25 (a))	(33)	(123)	-	**(156)**
Interest paid	-	-	(4)	**(4)**
Total movements from financing cash flows	111	84	(3)	**192**
Other movements	-	-	4	**4**
Total liability – related other movements	-	-	4	**4**
Balance as at 31 May 2018	111	84	1	**196**

Accrued interest payable of £1,000 is included within trade and other payables (note 18).

18 Trade and other payables

	2018 £'000	2017 £'000
Current liabilities		
Trade payables	**4,164**	4,026
Taxation and social security	**701**	786
Accruals	**705**	649
Other payables	**384**	427
	5,954	5,888

19 Taxation

	2018 £'000	2017 £'000
Current assets		
Corporation tax recoverable	**174**	506

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 client fails to meet its contractual obligations and arises principally from its receivables from clients.

Trade receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each client. 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:

31 May 2018	Pound £'000	Euro £'000	US Dollar £'000	Other £'000	**Total £'000**
Cash and cash equivalents	1,991	384	606	45	**3,026**
Trade receivables	6,125	1,795	4,588	-	**12,508**
Trade payables	(556)	(857)	(1,969)	(782)	**(4,164)**
Balance sheet exposure	7,560	1,322	3,225	(737)	**11,370**

Notes *(continued)*

20 Financial instruments *(continued)*

Currency risk *(continued)*

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**

The following significant exchange rates applied during the year:

	Average rate		**Reporting date Spot rate**	
	2018	2017	**2018**	2017
Euro	**1.13**	1.17	**1.14**	1.15
US Dollar	**1.34**	1.28	**1.33**	1.29

Sensitivity analysis
A ten percent weakening of the following currencies against the Pound at 31 May 2018 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**	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000
Euro	**(95)**	(113)	**(56)**	(74)
US Dollar	**(444)**	(501)	**(238)**	(295)

A ten percent strengthening of the above currencies against the Pound at 31 May 2018 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	**2018**	2017
	£'000	£'000
Trade receivables (note 14)	**12,508**	13,440
Other receivables (note 14)	**2,182**	1,758
Cash and cash equivalents (note 16)	**3,026**	2,539
	17,716	17,737

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

Carrying amount	**2018**	2017
	£'000	£'000
United Kingdom	**4,822**	5,590
United States of America	**4,708**	4,812
France	**317**	427
Ireland	**175**	168
Italy	**460**	646
Germany	**16**	39
Finland	**30**	30
Nicaragua	**-**	-
China	**273**	235
Japan	**261**	209
The Netherlands	**91**	102
Australia	**75**	118
Other countries (each less than £100,000)	**1,280**	1,064
	12,508	13,440

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 client 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. Judgement is required in determining the recoverability of a trade receivable and hence any provision held. In applying this judgement the Group considers any material changes in payment patterns, as well as known changes in clients' businesses, from the date credit was initially granted up to the reporting date. Following these considerations specific provision is made for those debts where it is considered likely that a default will occur. A further provision is made based upon historical experience of bad debts over the previous ten years, as a percentage of revenue. A change of up to 10% in the level of this provision would not have a material impact on the reported results. The Group's exposure to credit risk is likely to increase in the current economic climate but management does 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 overdue trade and other receivables, based on original invoice date, at the reporting date was:

	2018		2017	
	Gross £'000	**Impairment £'000**	Gross £'000	Impairment £'000
One month (not past due)	**6,269**	**(1)**	6,077	(10)
Two to three months	**4,451**	**-**	5,106	(18)
Four to six months	**1,744**	**(2)**	1,467	(14)
Six months to one year	**1,653**	**(57)**	1,451	(29)
One to two years	**224**	**(122)**	508	(39)
Two to three years	**409**	**(89)**	341	(37)
Over three years	**1,227**	**(1,016)**	1,244	(849)
	15,977	**(1,287)**	16,194	(996)

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

	2018 £'000	2017 £'000
Balance at 1 June	**996**	939
Net impairment loss recognised	**291**	57
Balance at 31 May	**1,287**	996

The impairment loss at 31 May 2018 of £1,287,000 (31 May 2017: £996,000) is a provision for receivables due from clients. 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.

Notes *(continued)*

20 Financial instruments *(continued)*

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.

31 May 2018

	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	195	203	58	58	87	-	-
Trade and other payables	5,954	5,954	5,954	-	-	-	-
	6,149	6,157	6,012	58	87	-	-

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	-

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.

	2018			2017		
	Balance outstanding £'000	**Facility £'000**	**Undrawn amounts £'000**	Balance outstanding £'000	Facility £'000	Undrawn amounts £'000
Bank loans and overdrafts	**195**	**4,202**	**4,007**	351	3,229	2,878

The bank loan facility has an unexpired term of two years (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	**2018 £'000**	2017 £'000
Variable rate instruments		
Financial liabilities	**195**	351

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 2017.

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 2018				
Variable rate instruments	(3)	3	(3)	3
31 May 2017				
Variable rate instruments	(5)	5	(5)	5

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 2018		31 May 2017	
	Carrying amount £'000	**Fair value £'000**	Carrying amount £'000	Fair value £'000
Receivables	**15,341**	**15,341**	15,628	15,628
Cash and cash equivalents	**3,026**	**3,026**	2,539	2,539
Secured bank loans	**(195)**	**(195)**	(351)	(351)
Trade and other payables	**(5,954)**	**(5,954)**	(5,888)	(5,888)
	12,218	**12,218**	11,928	11,928

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

	2018	2017
	£'000	£'000
Allotted, called up and fully paid		
9,001,131 (31 May 2017: 8,996,131) ordinary shares of 10 pence each	**901**	900

During the year the Group issued 5,000 10p ordinary shares for a consideration of £13,000, settled in cash to satisfy share options exercised (2017: 4,000 10p ordinary shares for a consideration of £10,000).

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 transaction whereby shares were issued in exchange for shares in Murgitroyd & Company Limited. This transaction qualified for merger relief under section 131 of the Companies Act 1985.

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 £712,000 (2017: £602,000).

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:

	2018			2017		
	Land and buildings	**Other**	**Total**	Land and buildings	Other	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Less than one year	**631**	**254**	**885**	544	253	797
Between two and five years	**1,861**	**407**	**2,268**	780	506	1,286
Five years or more	**577**	**-**	**577**	212	-	212
Total	**3,069**	**661**	**3,730**	1,536	759	2,295

During the year £nil (2017: £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 2018 capital expenditure authorised by the Board but not provided in the financial statements amounted to £70,000 (2017: £nil). Similarly, there were no contracts placed for future capital expenditure, not provided in the financial statements (2017: £nil). In addition to the above, at the end of the financial year the Group had entered into commitments amounting to £nil (2017: £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 been applied to these grants. No new options were granted during the financial year (2017: 90,000). The options exercised and either forfeited or lapsed during the year, and those outstanding at 31 May 2018, were as follows:

Exercise price	Date of grant	Date from which exercisable	Expiry date	2017 '000	**Granted during the year '000**	**Exercised during the year '000**	**Forfeited/ lapsed during the year '000**	**2018 '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	35*	**-**	**-**	**-**	**35***
247.5p	25/2/2010	25/2/2013*	24/2/2028	39*	**-**	**(5)**	**-**	**34***
530.0p	14/9/2015	14/9/2018	13/9/2030	90	**-**	**-**	**-**	**90**
402.5p	9/2/2017	9/9/2020	8/2/2032	90	**-**	**-**	**-**	**90**
				312	**-**	**(5)**	**-**	**307**

* Exercisable as at 31 May 2018. Details of the performance criteria of the share options are included in the Remuneration Report.

	Weighted averaged exercise price p	**2018 Number of options '000**	Weighted averaged exercise price p	2017 Number of options '000
Outstanding at start of year	**358.4**	**312**	338.5	226
Granted during the year	**-**	**-**	402.5	90
Exercised during the year	**247.5**	**(5)**	225.0	(4)
Forfeited during the year	**-**	**-**	-	-
Outstanding at end of year	**360.2**	**307**	358.4	312

The weighted average share price at the date of exercise of share options during the year was 547.5p (2017: 542.5p). 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 9.4 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	**2,539**	487	-	**3,026**
Secured bank loans	**(351)**	156	-	**(195)**
	2,188	**643**	**-**	**2,831**

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

	2018 £'000	2017 £'000
Increase/(decrease) in cash in the year	**487**	(759)
Cash outflow from decrease in debt	**156**	195
Increase/(decrease) in net funds in the year	**643**	(564)
Net funds at start of year	**2,188**	2,752
Net funds at end of year	**2,831**	2,188

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 2018 the Group made sales of £74,000 to Gizmo Packaging Limited ("Gizmo"), a company in which the Chairman, Ian Murgitroyd, is a Director (2017: £97,000). As at 31 May 2018, the outstanding amount owed by Gizmo amounted to £8,000 (31 May 2017: £13,000).

During the year ended 31 May 2018 the Group made purchases of £1,000 from Artroyd Securities Limited ("Artroyd"), a company in which the Chairman, Ian Murgitroyd, and Executive Director Edward Murgitroyd are Directors (2017: £nil). As at 31 May 2018, the outstanding amount owed to Artroyd amounted to £1,000 (31 May 2017: £nil).

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 2017	**17**
Provisions released in the year	**(17)**
Balance at 31 May 2018	**-**

The leasehold property dilapidation provision released in 2018 related 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 2018

	Note	31 May 2018 £'000	31 May 2017 £'000
Fixed assets			
Investments	2	**8,532**	8,488
Current assets			
Debtors	3	**5,830**	2,817
Net current assets		**5,830**	2,817
Total assets less current liabilities		**14,362**	11,305
Net assets		**14,362**	11,305
Capital and reserves			
Share capital	4	**901**	900
Share premium		**3,509**	3,497
Merger reserve		**6,436**	6,436
Profit and loss account		**3,516**	472
Shareholders' funds		**14,362**	11,305

These financial statements were approved by the Board of Directors on 11 September 2018 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 2018

	Share capital	Share premium	Profit and loss account	Merger reserve	Total
	£'000	£'000	£'000	£'000	£'000
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**
At 1 June 2017	900	3,497	472	6,436	11,305
Total comprehensive income for the year:					
Profit for the year	-	-	4,665	-	4,665
Transactions with owners recorded directly in equity:					
Dividends	-	-	(1,665)	-	(1,665)
Share based payments	-	-	44	-	44
Share options exercised	1	12	-	-	13
Total equity at 31 May 2018	**901**	**3,509**	**3,516**	**6,436**	**14,362**

Notes to the UK GAAP parent company financial statements

for the year ended 31 May 2018
(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 2017, 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 the 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 32 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

	2018	2017
	£'000	£'000
Shares in subsidiary undertakings		
Cost at start of year	**8,488**	8,454
Equity settled share based payments	**44**	34
Cost at end of year	**8,532**	8,488

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

3 Debtors

	2018	2017
	£'000	£'000
Amount owed by subsidiary undertaking	**5,830**	2,817

4 Share capital

	2018	2017
	£'000	£'000
Allotted, called up and fully paid		
9,001,131 (31 May 2017: 8,996,131) ordinary shares of 10 pence each	**901**	900

During the year the company issued 5,000 10p ordinary shares for a consideration of £13,000, settled in cash to satisfy share options exercised (2017: 4,000 10p ordinary shares for a consideration of £10,000).

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 2 November 2018 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 2018.
2. To approve the proposed dividend.
3. To receive and adopt the report of the Remuneration Committee of the company.
4. To re-elect Mark Kemp-Gee who retires from the Board in accordance with Article 77, as a Director of the company.
5. To re-elect John Reid who retires from the Board in accordance with Article 77, as a Director of the company
6. To re-appoint KPMG LLP as Auditors and to authorise the Directors to agree their remuneration.
7. To ratify and confirm that the payment of 12p per share by way of an final dividend on 3 November 2017 and 6.5p per share by way of an interim dividend on 23 March 2018 (together the "dividends") and the entry in the audited accounts of the company for the year ended 31 May 2018 whereby distributable profits of the company were appropriated to the payment of the dividends.
8. 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 6 October 2017 to 16 February 2018 (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.
9. 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.
10. 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.
11. 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

Burness Paull LLP, *Company Secretary*
11 September 2018

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 2 November 2018.

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 (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 2 November 2018 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 2018.		
To approve the proposed dividend.		
To receive and adopt the report of the Remuneration Committee of the company.		
To re-elect Mark Kemp-Gee who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-elect John Reid 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 12p per share by way of an final dividend on 3 November 2017 and 6.5p per share by way of an interim dividend on 23 March 2018 (together the "dividends") and the entry in the audited accounts of the company for the year ended 31 May 2018 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 6 October 2017 to 16 February 2018 (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