Murgitroyd Group PLC

Annual report and financial statements
2019

Contents

Highlights

Revenue increased 7.5% to £48.0m *(2018: £44.6m)*

Profit before tax up 16.4% to £4.16m *(2018: £3.57m)*

Basic EPS rose 11.9% to 33.2p *(2018: 29.7p)*

Proposed final dividend of 15p per share *(2018: 14.5p)***, resulting in a total dividend for the year of 22p, an increase of 4.8% year-on-year**

Net debt at period end of £3.71m *(31 May 2018: net funds of £2.83m)***, reflecting initial £5.0m consideration paid for the acquisition of Chapman IP in February 2019**

Earnings-enhancing acquisition of the entire issued share capital of Chapman IP, a European Patent and Trade Mark Attorney practice based in Southampton, for an aggregate consideration of £6.6m.

Chief Executive and Finance Director roles split with Edward Murgitroyd, after four years as CEO of the operating business, becoming CEO of Murgitroyd Group PLC and Keith Young continuing as Finance Director.

Non-executive Board refreshed with Dr. Kenneth Chrystie retiring from the Board and Mark Kemp-Gee announcing his intention to retire at this year's AGM. Helga Chapman and Willie MacDiarmid joined the Board as Non-executive Directors, the latter also taking on the role of Deputy Chairman.

Development since the year-end

Named the leading Patent law firm in Europe by the Financial Times and Statista Survey

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

"*The year under review has been one of change and developments for the Group including the restructuring of the Board and the acquisition of Chapman IP which I am pleased to report has been integrated successfully. Both revenue and profit before tax have increased, which has allowed us again to propose an increased final dividend. Despite continuing macro-economic and political uncertainties, the Group's European and international presence, with eighteen offices in ten countries, puts us in a strong position to balance out any weaknesses in individual markets and to support our clients worldwide.*

"We were particularly pleased to be named the leading Patent law firm in Europe by the Financial Times and Statista Survey which ranks the firms rated most highly by their clients and peers. MURGITROYD was the only firm to have been awarded Gold in all six industry sectors. This is testament to our firm's commitment to service and innovation and we are honoured to have been recognised in such a resounding way by our clients.

"The Group's trading performance in the early part of the new financial year has been strong, partly as a result of a growing case-load from major US-based corporates, including a new retained advisory relationship.

"While MURGITROYD operates in a market with good long-term prospects, we are not complacent and the Board remains committed to the reinvestment of a proportion of incremental profits in systems, customer service and business development, which underpin our future growth plans. Nonetheless, the Group is currently well placed to deliver on its expectations for the financial year as a whole and I remain confident that we can achieve both our financial and operating objectives and maintain our progressive dividend policy."

Directors and advisers

Directors	Ian G Murgitroyd	Non-executive Chairman
	D William MacDiarmid	Non-executive Deputy Chairman (appointed 1 April 2019)
	Mark N Kemp-Gee	Non-executive Director
	Dr. Kenneth G Chrystie	Non-executive Director (resigned 21 February 2019)
	John H Reid	Non-executive Director
	Helga C Chapman	Non-executive Director (appointed 21 February 2019)
	G Edward Murgitroyd	Chief Executive
	Graham J Murnane	Executive Director (resigned 2 November 2018)
	Gordon D Stark	Executive Director
	Keith G Young	Finance Director

Company Secretary	Burness Paull LLP 50 Lothian Road Festival Square Edinburgh, EH3 9WJ
Registered office	Scotland House 165-169 Scotland Street Glasgow, G5 8PL
Nominated adviser	Nplus1 Singer Advisory LLP 1 Bartholomew Lane London, EC2N 2AX
Nominated broker	Nplus1 Singer Capital Markets Limited 1 Bartholomew Lane London, EC2N 2AX
Principal bankers	Clydesdale Bank PLC Head Office 30 St. Vincent Place Glasgow, G1 2HL
Independent Auditors	Grant Thornton UK LLP 110 Queen Street Glasgow, G1 3BX
Registrars and receiving agents	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent, BR3 4TU
Financial PR adviser	TB Cardew 5 Chancery Lane London, EC4A 1BL

Chairman's statement

Financial review

In the full year to 31 May 2019, the Group reported revenues of £48.0m (2018: £44.6m) and profit before tax of £4.16m (2018: underlying profit before tax of £4.08m), an increase of 2%, in line with market expectations.

Reported basic earnings per share for the year ended 31 May 2019 are 11.9% higher year-on-year at 33.2p (2018, after exceptional item: 29.7p). Earnings were again strongly weighted towards the second half, consistent with recent years.

The acquisition of Chapman IP has resulted in revenue from UK-based clients increasing given the composition of Chapman IP's historic client base. Total revenue from USA-based clients rose by just under 8.4%, to £24.18m. Pleasingly, and reflecting the mix of revenue generated in the period, the gross margin percentage increased to 56.4% (2018: 54.3%). The split of revenue in the period between Attorney Practice Groups (APG) and the Global Support Services (GSS) group was 60:40.

The trends seen in recent years of strong growth in support services revenue continued in the period. Global support services revenue increased by more than 18%, to represent 40% of total revenue. The market place for these services, which include search, illustration, docketing and renewals 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.

More than half of the Group's revenue is being generated in either US Dollars or Euros, and a substantial part of its costs are incurred in currencies other than Sterling. The Group retains therefore an exposure to foreign exchange rate volatility and, in general terms, is a net beneficiary of Sterling weakness. The value of Sterling has been materially impacted by developments in, and sentiments about, the United Kingdom's exit from the European Union. In this regard, the comparative strength of the US Dollar in the period has made a positive contribution to Group performance overall.

Cash flow

Net cash flow after financing in the year under review was negative at -£1.22m (2018: +£0.48m). The single biggest factor in the net outflow was the use of internal funds in connection with the acquisition of Chapman IP. Of the cash payment made at completion, £1m was settled from internal funds, and £148,000 of transaction-related expenses were also cash-settled. The continued investment in MURGITROYD's technology platform continued throughout the year, £1.1m being further invested in it during the year (2018: £748,000).

Net cash on hand/at bank as at 31 May 2019 amounted to £1.81m (2018: £3.03m).

The other direct consequence of the acquisition was the reversal of the previous net funds position to a net debt position, the £4m term loan debt and £1m vendor loan notes, taken on/issued in connection with the acquisition of Chapman IP resulting in a group net debt position at 31 May 2019 of £3.71m (2018: net funds of £2.83m).

In line with the Group's commitment to a progressive dividend policy, the Board proposes a final dividend of 15p per share, resulting in a total dividend for the year of 22p (2018: 21p), an increase of 4.8% year-on-year.

The Group's investment in growth is also reflected in the number of people employed and the costs attaching thereto, headcount increasing to 294 as at 31 May 2019 (31 May 2018: 273). This increase is largely due to the acquisition of Chapman IP.

Chairman's statement *(continued)*

Financial review *(continued)*

The Group's 2019 results reflect the implementation of two new International Accounting Standards, IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) becoming mandatory in the financial year ended 31 May 2019. The application of IFRS 15 has not had a material impact on the results or comparative values due to the nature of the Group's existing billing and income recognition practices. Compliant with the standard, recoverable costs recognised as contract assets amounting to £1.12m have been included in revenue in 2019. In previous years these recoverable costs were included in cost of sales (2018: £0.71m). Revenue and cost of sales for 2018 have been restated to reflect the impact that adoption of IFRS 15 in that year would have had, gross profit remaining unchanged. The initial application of IFRS 9 has no impact on the Group's financial assets as regards their classification and measurement.

Operating review

The Group is trading most satisfactorily notwithstanding the continuing uncertainty around the UK leaving the EU and how it might affect the European marketplace and IP systems. MURGITROYD has an office network now comprising eighteen offices in ten countries and the Board continues to review the potential to expand beyond its current core office network in Europe and the US. The current geographic spread ensures that MURGITROYD is well placed to support clients to manage Brexit-induced change and to continue to represent our clients in Europe in respect of their IP rights, as we have been doing since the referendum on the UK's membership of the EU. Over the past two years, MURGITROYD has already seen some upside in revenues attributed to clients taking a safety-first approach and filing a Trade Mark both in the UK and in Europe, whereas previously they would have filed only in the EU and relied upon that pan-European right.

The EU and UK Government have set out guidance and intentions around how European Trade Mark and Registered Design rights will be treated following Brexit, however these proposals are not enshrined in law and hence subject to change based on the Brexit outcome. A further potential upside to activity levels and revenues could be expected when Brexit occurs resulting from opportunities to take on professional representation of Trade Mark and Registered Design Right portfolios for clients, where owners' existing EU-based advisors can no longer act for clients in the UK.

The EU Intellectual Property Office ("EUIPO") and the European Patent Office ("EPO") statistics are 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 2018 indicate that European Patent applications were at a new record high, increasing by 4.6%, with 47% and 25% 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 slow progress. The UK ratified the UPC Agreement in April 2018, The UK Government confirmed in its White Paper in July 2018 that it would seek to remain within the UP and UPC regime after the UK's departure from the EU.

More than half of the Group's revenue is now generated in the USA, as the strength of that economy and MURGITROYD's growing presence there has seen continued blue-chip client wins. The Group has benefited from increasing demand for service 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 Managua, Nicaragua allows MURGITROYD the option to provide back-office services such as searching and docketing at substantially reduced cost. The Managua office has delivered its five highest revenue-generating months in the second half of the financial year under review.

Chairman's statement *(continued)*

Operating review *(continued)*

While MURGITROYD operates in a market with good long-term prospects, we are not complacent. The capital investment in our technology platform and the development of our support services offerings, initiated in 2018, has begun to bear fruit by transforming the Group's processes, systems and interactions with our clients. I believe this puts us in a good position for continuing growth and is necessary to provide MURGITROYD with a competitive edge when it comes to winning and retaining clients in the long term and is, as already noted, made possible by the Group's strong cash flow. The Board continues critically to assess all aspects of the Group, its activities, operations and structures, reflecting the commitment to ongoing improvement in a fast-changing marketplace.

Acquisition

The UK remains an important market for MURGITROYD, with UK clients generating more than a quarter of Group revenue. Business development in the UK market continues and on 20 February 2019, MURGITROYD completed the acquisition of the entire issued share capital of Chapman IP Limited ("Chapman IP") for a total consideration of £6.64m, including net assets of £0.62m.

Under the terms of the agreement, £5m was paid in cash upon completion, the net asset payment followed immediately upon agreement of completion accounts and the balance of £1m is payable twelve months after completion. The transaction has been funded through a combination of existing cash resources, a vendor loan note and new term debt facilities amounting to £5m arranged with Clydesdale Bank PLC.

Chapman IP, a European Patent and Trade Mark Attorney practice, is based in Southampton and has a particular focus on providing IP services to the engineering, electronics, materials science, chemistry, software and IT, technology and creative services sectors. The practice, founded in 2002, was previously owned and managed by Helga Chapman.

Award

Since the year end, the Group was particularly pleased to be named the leading Patent law firm in Europe by the Financial Times and Statista Survey which ranks the firms rated most highly by their clients and peers. MURGITROYD was the only firm to have been awarded Gold in all six industry sectors: biotechnology and food, chemistry and pharmaceuticals, electrical engineering, IT and software, materials and nanotechnology and mechanical engineering. This is testament to our firm’s commitment to service and innovation and we are honoured to have been recognised in such a resounding way by our clients

The Financial Times survey was conducted between February and April 2019 with 2727 participants responding to the survey. MURGITROYD was selected from a list of 142 firms that offer Patent Attorney services such as drafting, filing prosecution and strategic counselling in Europe.

Employees

Our commitment to long-term growth, across the Group's office network, continues to be reflected in our investment in people. As at 31 May 2019, the Group employed 294 staff (31 May 2018: 273) with the increase mainly due to the Chapman IP acquisition. MURGITROYD's reputation and high level of client service is a credit to the hard work and dedication of all our staff. On behalf of the Board I would like to thank them for their continuing efforts.

Chairman's statement *(continued)*

Board changes

During the year under review, the Group announced a number of important Board changes, signalling our intention to refresh the Non-executive Board, and adopting a conventional Executive Board structure in anticipation of the next phase of our growth and our increasing activity in the USA.

Reflecting the continuing growth and development of the Group, the Board decided that it was appropriate to adopt a conventional Executive Board structure by splitting the roles of Chief Executive and Finance Director. After four years as CEO of the operating business, Edward Murgitroyd became CEO of Murgitroyd Group PLC in February, with Keith Young continuing as Finance Director.

Helga Chapman, founder and former Managing Director of Chapman IP joined the Board as a Non-executive Director following the completion of the acquisition of Chapman IP. Ms. Chapman graduated from Leeds University with a Mechanical Engineering degree and entered the IP profession in 1991. She is a Chartered UK Patent Attorney, European Patent Attorney, Patent Attorney Litigator, Trade Mark Attorney, European Trade Mark Attorney and European Design Attorney. Following experience in private practice and as IP Counsel at Rolls-Royce Aerospace, she founded Chapman IP in 2002.

In April, the Group announced that Mr. Willie MacDiarmid had been appointed to the Board of the Company as a Non-executive Director and Deputy Chairman. He took over the latter role from Edward Murgitroyd. Willie MacDiarmid occupied executive and non-executive roles with a range of public companies, most notably in the utilities and business services sectors. He held senior positions with Scottish Power, EAGA PLC, May Gurney PLC and Barchester Healthcare Limited. Mr. MacDiarmid is currently Chairman of Smart Metering Systems plc, Fallago Rigg and Ogilvie Group.

Dr. Kenneth Chrystie retired from the Board at the time of the interim results, having served as a Non-executive Director and Board Committee member since flotation in 2001. Mark Kemp-Gee indicated earlier this year that he will step down from the Board at this year’s AGM after seventeen years' service as Senior Non-Executive Director and Remuneration Committee Chairman. I would like to thank both Kenneth and Mark for their valuable contribution to the business over many years, and the Board wishes them every success in the future. John Reid has succeeded Dr. Chrystie as Chairman of the Audit Committee.

Dividend

The Board is proposing a final dividend of 15p per share (2018: 14.5p), giving a total dividend for the year of 22p (2018: 21p), an increase of 4.8% 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 8 November 2019 to shareholders on the register at 11 October 2019. The ex-dividend date is 10 October 2019.

Chairman's statement *(continued)*

Outlook

The Board is pleased with the performance of the Group for the year under review and remains committed to delivering the highest quality client service at competitive prices. Our continued investment puts us in a good position for future growth. While macro-economic and political uncertainties persist, MURGITROYD operates in a global market which has experienced steady underlying growth over the long-term.

We are also pleased with the smooth integration of the Chapman acquisition completed in February. Whilst the focus remains on organic growth, the acquisition of Chapman IP illustrates the Board‘s continuing belief in making appropriate acquisitions complementary to the Group's long-term objective where these are expected to be earnings-enhancing in the near term.

The Group's trading performance in the early part of the new financial year has been strong, comfortably ahead of both budget and the equivalent period last year, partly as a result of a growing case-load from major US-based corporates, including a new retained advisory relationship. With approximately half of Group revenues generated in US Dollars and the majority of overheads incurred in Sterling, recent Sterling weakness is also a net positive, although one which we recognise could quickly reverse in current volatile markets.

The Board remains committed to the reinvestment of a proportion of incremental profits in systems, business development and core professional resource to drive future growth. Nonetheless, the Group is currently well placed to deliver on its expectations for the financial year as a whole.

Ian G Murgitroyd, *Chairman*
16 September 2019

Board of Directors

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

Ian G Murgitroyd, 74 – *Non-executive Chairman, 3, 4*
Ian is also 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 in 1975. Ian is Non-executive Chairman of Gizmo Packaging Limited. Ian chairs the Risk Committee.

D William MacDiarmid, 58 - *Non-executive Deputy Chairman, 1, 2, 3*
Willie held senior positions, including Energy Retail Director, with Scottish Power from 1989 until 2006. During the period 2009 to 2012 he was Chief Operating Officer of EAGA PLC; in 2012 a Non-executive Director and then Chief Executive of May Gurney PLC; and in 2014 interim CEO of Barchester Healthcare Limited. He was appointed a Non-executive Director of Smart Metering Systems plc in 2014 and became Chairman in 2016. Willie is also currently Chairman of Fallago Rigg and Chairman of Ogilvie Group.

Mark N Kemp-Gee, 73 - *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.

John H Reid, 67 - *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 United Kingdom. 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. John chairs the Audit Committee.

Helga C Chapman, 49 - *Non-executive Director, 3, 4*
Helga was formerly the owner and Managing Director of Chapman IP, a Patent and Trade Mark Attorney practice, based in Southampton, acquired by Murgitroyd & Company Limited in February 2019. A Mechanical Engineering graduate of Leeds University, Helga entered the Patent and Trade Mark profession in 1991. She is a Chartered UK Patent Attorney, European Patent Attorney, Patent Attorney Litigator, Trade Mark Attorney, European Trade Mark Attorney and European Design Attorney. Following experience in private practice and as IP Counsel at Rolls-Royce Aerospace, she founded Chapman IP in 2002.

G Edward Murgitroyd, 44 - *Chief Executive*
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 of America, he is also Chief Executive of Murgitroyd & Company Limited, which he joined from university in 1997.

Gordon D Stark, 42 - *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. He is a UK and European Patent Attorney, Irish Patent Agent and Community Trade Mark & Design Attorney.

Keith G Young, 53 - *Finance Director, 4 (Chief Financial Officer and Company Secretary, Murgitroyd & Company Limited)*
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
4. Member of Risk Committee

Strategic report

The Directors present their strategic report for the year ended 31 May 2019.

Principal activities

The Group provides a wide range of Intellectual Property advisory and support 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 25. 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 7.

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 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 United Kingdom 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 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 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	**2019**	2018 (Restated)	Measure
Profitability ratios			
Gross Margin	**56.4%**	54.3%	Gross profit as a percentage of revenue
Net Margin	**8.7%**	8.0%	Profit before income tax as a percentage of revenue
EBITA margin	**9.3%**	8.3%	Profit before financial income and expense, income tax and amortisation of intangible assets as a percentage of revenue
Return on capital employed [ROCE]	**11.6%**	11.2%	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]	**9.1%**	8.4%	Profit after income tax divided by opening total equity
Return on investment [ROI]	**8.3%**	8.4%	Profit after income tax divided by "capital employed" [see definition above]
Liquidity ratios			
Current ratio	**193.3%**	312.9%	Current assets divided by current liabilities
Liquid ("quick" or "acid test") ratio	**177.2%**	295.0%	Current assets less prepayments and work in progress divided by current liabilities
Solvency ratios			
Gearing ratio	**8.4%**	0.3%	Borrowings due outwith one year divided by opening total equity plus borrowings due outwith one year
Interest cover	**135.1x**	891.8x	Profit before financial income and expense and income tax [EBIT] divided by financial expense
Other indicators			
Revenue days	**99**	103	Year end trade receivables expressed as the number of preceding days' gross revenue
Credit risk	**0.26%**	1.16%	Bad debts written off or provided against as a percentage of revenue
Turnover per Pound of salary cost	**£2.91**	£3.01	Revenue divided by payroll costs

By order of the Board,

Ian G Murgitroyd, *Chairman*
16 September 2019

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 May 2019.

Charitable and political donations

The Group made charitable donations during the year of £14,000 (2018: £23,000). There were no political donations (2018: £nil).

Dividends

The Directors recommend that a final dividend of £1,351,000, being 15p per share, (2018: £1,305,000, being 14.5p per share) be paid giving a total dividend for the year of 22p (2018: 21p). 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 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, team collaboration applications 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.

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"). Ian Murgitroyd and Edward Murgitroyd 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 14 to 16.

Directors' report *(continued)*

Substantial shareholdings

At 16 September 2019, 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%
The Bank of New York (Nominees)	1,023,419	11.4%
Chase Nominees	614,042	6.8%
HSBC Global Custody Nominee (UK)	496,494	5.5%
Lion Nominees Limited	436,307	4.8%
BNY Mellon Nominees Limited	431,069	4.8%
Elizabeth-Anne Thomson	387,526	4.3%
Edward Murgitroyd	387,526	4.3%
Luna Nominees Limited	383,664	4.3%

Trade payables payment policy

It is the Group's policy that payments to suppliers are made in accordance with the terms and conditions agreed with 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 2019 were equivalent to approximately 79 days' purchases (31 May 2018: 60 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 its activities 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 United Kingdom-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 19 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 United Kingdom 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 United Kingdom 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 United Kingdom 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 Grant Thornton UK 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*
16 September 2019

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 Willie MacDiarmid. 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 company may, 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 bonus 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. Full provision for the related liability is made by the company.

Pension contributions
The company makes contributions of either 4% 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

Edward Murgitroyd and Gordon Stark have service agreements with six-month notice periods. Keith Young has a service agreement with a one-year notice period. 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 2019 and 31 May 2018:

	Salary and fees	**Bonus**	**Benefits**	**Money purchase pension contrib'ns**	**2019 Total**	Salary and fees	Bonus	Benefits	Money purchase pension contrib'ns	2018 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000	£'000
Executive										
GE Murgitroyd * (1)	**366**	**75**	**35**	**11**	**487**	345	-	53	10	408
GD Stark	**218**	**-**	**9**	**11**	**238**	218	-	2	13	233
KG Young	**243**	**-**	**23**	**12**	**278**	214	-	23	14	251
GJ Murnane (2)	**70**	**-**	**2**	**3**	**75**	177	-	3	11	191
Non-executive										
IG Murgitroyd	**105**	**-**	**49**	**-**	**154**	90	-	4	-	94
DW MacDiarmid (3)	**8**	**-**	**-**	**-**	**8**	-	-	-	-	-
MN Kemp-Gee	**28**	**-**	**-**	**1**	**29**	23	-	-	1	24
JH Reid (4)	**37**	**-**	**-**	**1**	**38**	26	-	-	1	27
HC Chapman (5)	**8**	**-**	**-**	**-**	**8**	-	-	-	-	-
KG Chrystie (6, 7)	**49**	**-**	**-**	**-**	**49**	52	-	-	-	52
	1,132	**75**	**118**	**39**	**1,364**	1,145	-	85	50	1,280

* Highest paid Director
(1) Sterling equivalent of US Dollar-denominated remuneration
(2) Resigned 2 November 2018
(3) Appointed 1 April 2019
(4) Includes non-recurring fee of £11,000
(5) Appointed 21 February 2019
(6) Resigned 21 February 2019
(7) Includes non-recurring fee of £33,000 (2018: £30,000)

Bonuses are discretionary, and determined annually. Benefits represent private healthcare and death-in-service insurance premiums, and the provision of company cars. Edward Murgitroyd's total remuneration in US Dollars amounted to $633,000 (2018: $552,000). The bonus paid to Edward Murgitroyd accrued from the exercise of a "shadow" share scheme award granted to him in February 2010. Keith Young waived salary amounting to £28,000 in 2018. During the year retirement benefits accrued to four Directors (2018: six).

Remuneration report *(continued)*

Directors' interests in shares

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

	At 31 May 2019	At 31 May 2018
Ian Murgitroyd	**2,406,750**	2,406,750
Mark Kemp-Gee	**5,000**	5,000
Edward Murgitroyd	**387,526**	387,526
Gordon Stark	**25**	25

Directors' interests are beneficially held. In addition, shares held by Ian Murgitroyd, Edward Murgitroyd and Mark Kemp-Gee 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 2018	Options granted during the period	Options exercised/ lapsed during the period	**At 31 May 2019**	Exercisable price	Date from which exercisable	Expiry date
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
	-	50,000	-	**50,000**	685.0p	25/9/2021	24/9/2033
Keith Young	10,000	-	-	**10,000**	247.5p	25/2/2013	24/2/2028

Gains made on the exercise of share options by the Directors amounted to £nil (2018: £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 United Kingdom 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 2019 was 575p (31 May 2018: 620p). During the year the share price ranged from 445p to 699p (2018: 390p to 638p). 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*
16 September 2019

Corporate governance: voluntary disclosure

The Combined Code

Murgitroyd Group PLC is listed on AIM and, though not subject to the requirements of the Combined Code on corporate governance, has adopted a corporate governance framework. The Board is committed to delivering high standards of corporate governance to the company's stakeholders and other stakeholders including employees and suppliers and has adopted the principles of the 2018 Quoted Companies Alliance Corporate Governance Code ("the QCA Code") to support the Company's governance framework. The Directors acknowledge the importance of the ten principles set out in the QCA Code and a statement briefly setting out how the group currently complies with the provisions of the QCA Code and the reasons for any departures from it is available on the company's website (www.murgitroyd.com). 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 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 Non-executive Chairman, Non-executive Deputy Chairman, three other Non-executive Directors, Chief Executive, Finance Director and one other Executive Director. Notwithstanding that one of the Non-executive Directors has served on the board for more than ten years the Board believes he continues to be independent in character and judgement and accordingly is considered to be independent. 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), Willie MacDiarmid and Helga Chapman. The committee is responsible for all elements of Executive Directors remuneration. 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 John Reid (Chairman), Mark Kemp-Gee and Willie MacDiarmid. The Auditor, Grant Thornton UK LLP and Finance Director 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 Ian Murgitroyd (Chairman), Mark Kemp-Gee, John Reid, Helga Chapman and Willie MacDiarmid. The Nominations Committee considers the appointment of Directors.

The Risk Committee
The Risk Committee comprises Ian Murgitroyd (Chairman), Helga Chapman, Keith Young and Russell Thom, a Director in the Group's principal subsidiary, Murgitroyd & Company Limited. It is responsible for all elements of corporate risk. The committee reports to the Directors at every meeting of the Board.

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 Executive Directors meet with institutional shareholders following the announcement of interim and final results and at other appropriate times. The 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 United Kingdom 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 newly opened offices are the same as those in existing offices; systems are therefore harmonised.

In addition to the work of the Risk Committee, the subsidiary companies' management have specific responsibilities and authority to manage risk effectively. They report to both the Risk 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. 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 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 7. 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 19 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 covenant.

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*
16 September 2019

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

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Murgitroyd Group PLC (the "parent company") and its subsidiaries (the "Group") for the year ended 31 May 2019, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and parent company statements of changes in equity, the Consolidated and parent company Balance Sheets, the Consolidated Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).
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 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Grant Thornton

Overview of our audit approach

- Overall materiality: £214,000, which represents 5% of the Group's profit before taxation excluding acquisition costs;
- Key audit matters were identified as revenue recognition, recoverability of trade debtors, and acquisition of Advantip Limited and Chapman IP Limited; and
- We performed a full scope audit of the financial statements of Murgitroyd Group PLC and of the financial information of Murgitroyd & Company Limited, and specified and analytical procedures on the other components.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that 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.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Revenue recognition The Group has recognised revenue of £47,967k (31 May 2018: £44,603k) in the year. Given the nature of the business, we have a specific higher level of risk in relation to revenue recognition in the last billing period of the financial year, due to focus by the business to bill at the year end. As IFRS 15 "Revenue from Contracts with Customers" took effect this financial year, this presented a possible change in revenue recognition criteria which resulted in revenue recognition being a significant risk area. We therefore identified revenue recognition as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Assessing whether the Group's accounting policy on revenue recognition was in accordance with the financial reporting framework, including IFRS 15, and testing whether the Group had accounted for revenue items recognised in the year in accordance with that accounting policy; • Evaluating management's assessment of the impact that IFRS 15 had on revenue recognition; • Identifying that the key control was the review of the monthly sales reconciliation between the sales and finance systems and testing the operating effectiveness of this control through inspection of evidence of the review; and • Performing detailed testing on a sample of revenue items, focused on the final billing period, with an additional sample of transactions during the year and agreeing to evidence to corroborate whether revenue occurred in the period it was booked. The Group's accounting policy on revenue is shown in note 1 to the financial statements and related disclosures are included in note 2. **Key observations** Our audit testing did not identify any material misstatements in the occurrence of revenue or in revenue recognised during the year, in accordance with the requirements of the financial reporting framework, including IFRS 15.
Recoverability of trade debtors Trade debtors balance at the year end was £14,452k (31 May 2018: £13,795k) before an impairment provision of £1,185k (31 May 2018: £1,287k). The trade debtors balance consisted of a high volume of balance which were significantly aged, heightening the risk of recoverability. Management make a judgement of the level of the impairment which is allocated against specific accounts and an overall provision which is based on experience in their business. Given the judgement in the provisioning and the implementation of IFRS 9 "Financial Instruments", significant risk or material misstatement was identified. We therefore identified the recoverability of trade debtors as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Carrying out tests of detail on a sample of year end debtor balance to assess the proportion of these balances that had subsequently been recovered post year end; • Challenging management on their calculation and assumptions made in relation to the impairment provision, including the recoverability of balances over 120 days old, which have not been specifically provided for; • Evaluating management's impairment provision calculation for compliance with IFRS 9; • Checking the analysis of debtor balances over 120 days old and identifying which balances had not moved in over a year; and • Assessing whether the Group's accounting policy was in accordance with the requirements of the financial reporting framework, including IFRS 9, including substantive testing to check that balances are being accounted for in accordance with the Group accounting policy. The Group's accounting policy on trade debtors is shown in note 1 to the financial statements and related disclosures are included in note 13 and 19. **Key observations** Our audit testing did not identify any material misstatements in relation to the recoverability of trade debtors.

Acquisition of Advantip Limited and Chapman IP Limited

100% of the share capital of Advantip Limited, and its subsidiary Chapman IP Limited, was purchased in February 2019 for consideration of £6,639k.

Given the subjectivity around the assumptions used as part of determining of the fair value of the assets and liabilities acquired, including the valuation of any intangible assets, there is a risk that such assets are not correctly valued in accordance with the requirements of IFRS 3 "Business Combinations". We therefore identified acquisition accounting as presenting a significant risk of material misstatement.

We therefore identified the acquisition of Advantip Limited and Chapman IP Limited as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Consideration of the terms of the sale and purchase agreement and related documentation to check that the terms of the acquisition have been appropriately accounted for;
- Testing the disclosures included in the financial statements in relation to the acquisitions to check whether they are in accordance with the requirements of the financial reporting framework, including IFRS 3;
- Critical assessment and challenge of management's assumptions and calculation of goodwill and other intangible assets, to check compliance with IFRS 3; and
- Testing the validity of management's calculation of the deferred consideration and the rationale for any fair value adjustments which have been agreed at the balance sheet date.

The Group's accounting policy on business combinations is shown in note 1 to the financial statements and related disclosures are included in note 14.

Key observations

We did not identify any material misstatements in the Group's accounting for the acquisition of Advantip Limited and Chapman IP Limited, the recognition of related intangible assets or the value in respect of the deferred consideration, in accordance with the financial reporting framework, including IFRS 3.

Our application of materiality

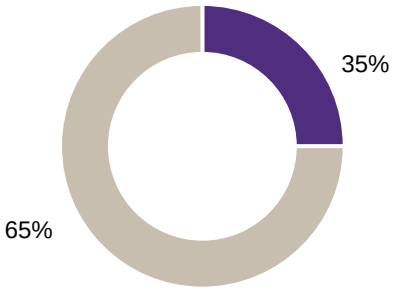
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

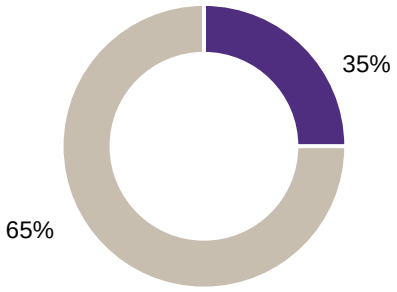
Materiality measure	Group	Parent company
Financial statements as a whole	£214,000, which is 5% of the Group's profit before tax excluding acquisition costs. This benchmark is considered the most appropriate because this is considered a key performance indicator by the directors and users of the financial statements.	£203,000, which is approximately 1.4% of the company’s total assets. This benchmark is considered the most appropriate because the company is a holding company and only holds the investment in the company’s subsidiaries.
Performance materiality used to drive the extent of our testing	65% of financial statement materiality.	65% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.
Communication of misstatements to the audit committee	£10,700 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£10,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Parent company



▪ Tolerance for potential uncorrected mis-statements ▪ Performance materiality

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business, its environment and risk profile and in particular included:

- The identified components of the Group were evaluated by the group audit team based on a measure of materiality considered as a percentage of total group assets and earnings before income taxes to assess the significance of the component and to determine the planned audit response. For those components that we determined to be significant, either a full scope approach or specific procedures in relation to specific balances and transactions were carried out. This approach was determined based on their relative materiality to the Group and our assessment of audit risk.
- Evaluation of the Group's internal control environment including its IT systems and controls, and performing walkthroughs on significant business processes;
- The Group's components range in size and activity. We performed full scope audits on two components, specified audit procedures on two components and analytical procedures on the two components that were acquired in the year, to give appropriate coverage of all material balances at parent company and Group levels; and
- All procedures were carried out by the group engagement team.

Audit of financial information	Specified audit procedures	Analytical procedures
•Murgitroyd Group PLC •Murgitroyd & Company Limited	•Murgitroyd Cabinet SARL •Murgitroyd LLC	•Murgitroyd (Chapman) Limited (formerly Chapman IP Limited) •Murgitroyd (Chapman) Holdings Limited (formerly Advantip Limited)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 the Directors 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 for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

James Chadwick

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Glasgow

16 September 2019

Consolidated statement of comprehensive income

for the year ended 31 May 2019

	Note	**Year ended 31 May 2019 £'000**	Year ended 31 May 2018 Underlying (Restated) £'000	Exceptional item (note 3) £'000	Year ended 31 May 2018 (Restated) £'000
Revenue	**2**	**47,967**	44,603	-	44,603
Cost of sales		**(20,926)**	(20,390)	-	(20,390)
Gross profit		**27,041**	24,213	-	24,213
Administrative expenses		**(22,853)**	(20,142)	(504)	(20,646)
Operating profit		**4,188**	4,071	(504)	3,567
Financial income	**6**	**3**	11	-	11
Financial expense	**6**	**(31)**	(4)	-	(4)
Profit before income tax		**4,160**	4,078	(504)	3,574
Income tax	**7**	**(1,171)**	(1,002)	96	(906)
Profit for the year attributable to equity holders of the parent		**2,989**	3,076	(408)	2,668
Other comprehensive income					
Items that are or may be reclassified subsequently to profit or loss:					
Foreign exchange translation differences – overseas undertakings		**130**	(65)	-	(65)
Items that will not be reclassified to profit or loss:					
Revaluation of property, plant and equipment		**78**	27	-	27
Deferred tax on revaluation		**(9)**	2	-	2
Profit for the financial year and total comprehensive income all attributable to equity holders of the parent		**3,188**	3,040	(408)	2,632
Earnings per share					
Basic	**9**	**33.20p**	34.19p	(4.53p)	29.66p
Diluted	**9**	**32.97p**	33.88p	(4.49p)	29.39p

The notes and accounting policies on pages 29 to 63 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 May 2019

	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 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)	-	-
Deferred tax on revaluation	-	-	-	-	2	-	2
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
Total equity at 31 May 2018	**901**	**3,509**	**21,755**	**296**	**49**	**6,436**	**32,946**
At 1 June 2018	901	3,509	21,755	296	49	6,436	32,946
Total comprehensive income for the year:							
Profit for the year	-	-	2,989	-	-	-	2,989
Exchange rate differences	-	-	-	130	-	-	130
Revaluation in year	-	-	-	-	78	-	78
Transfer between reserves	-	-	28	-	(28)	-	-
Deferred tax on revaluation	-	-	-	-	(9)	-	(9)
Transactions with owners recorded directly in equity:							
Dividends	-	-	(1,937)	-	-	-	(1,937)
Share based payments	-	-	59	-	-	-	59
Deferred tax on share options	-	-	(17)	-	-	-	(17)
Share options exercised	1	13	-	-	-	-	14
Total equity at 31 May 2019	**902**	**3,522**	**22,877**	**426**	**90**	**6,436**	**34,253**

Consolidated balance sheet

at 31 May 2019

	Note	31 May 2019 £'000	31 May 2018 (Restated) £'000	31 May 2017 (Restated) £'000
Assets				
Non-current assets				
Property, plant and equipment	**10**	**3,077**	2,688	2,371
Intangible assets and goodwill	**11**	**24,300**	17,456	16,846
Total non-current assets		**27,377**	20,144	19,217
Current assets				
Trade and other receivables	**13**	**18,801**	15,779	15,929
Taxation recoverable	**18**	**138**	174	506
Cash and cash equivalents	**15**	**1,809**	3,026	2,539
Total current assets		**20,748**	18,979	18,974
Total assets		**48,125**	39,123	38,191
Current liabilities				
Other interest-bearing loans and borrowings	**16**	**(908)**	(111)	(144)
Trade and other payables	**17**	**(9,828)**	(5,954)	(5,888)
Total current liabilities		**(10,736)**	(6,065)	(6,032)
Non-current liabilities				
Other interest-bearing loans and borrowings	**16**	**(3,024)**	(84)	(207)
Deferred tax liabilities	**12**	**(112)**	(28)	(79)
Provision for liabilities		**-**	-	(17)
Total non-current liabilities		**(3,136)**	(112)	(303)
Total liabilities		**(13,872)**	(6,177)	(6,335)
Net assets		**34,253**	32,946	31,856
Equity				
Share capital	**20**	**902**	901	900
Share premium		**3,522**	3,509	3,497
Merger reserve		**6,436**	6,436	6,436
Revaluation reserve		**90**	49	47
Foreign currency translation reserve		**426**	296	361
Retained earnings		**22,877**	21,755	20,615
Total equity attributable to equity holders of the parent		**34,253**	32,946	31,856

These financial statements were approved by the Board of Directors on 16 September 2019 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 2019

	Note	Year ended 31 May 2019 £'000	Year ended 31 May 2018 £'000
Cash flows from operating activities			
Profit for the year		**2,989**	2,668
Adjustments for:			
Depreciation	**10**	**362**	299
Amortisation	**11**	**286**	138
(Gain)/loss on disposal of property, plant and equipment		**-**	4
Net financing costs/(income)		**28**	(7)
Equity settled share-based payment expense	**5**	**59**	44
Income tax expense	**7**	**1,171**	906
		4,895	4,052
Other reserves movements		**130**	(65)
(Increase)/decrease in trade and other receivables		**(2,067)**	150
Increase in trade and other payables		**1,521**	66
Increase/(decrease) in provision for liabilities		**-**	(17)
		4,479	4,186
Interest paid		**(29)**	(4)
Interest received		**3**	11
Income tax paid		**(1,155)**	(558)
Net cash from operating activities		**3,298**	3,635
Cash flows from investing activities			
Acquisition of property, plant and equipment	**10**	**(582)**	(592)
Acquisition of intangible fixed assets	**11**	**(1,107)**	(748)
Business combinations, net of cash acquired	**14**	**(4,572)**	-
Proceeds from disposal of property, plant and equipment		**-**	-
Net cash used in investing activities		**(6,261)**	(1,340)
Cash flows from financing activities			
Proceeds from exercise of share options		**14**	13
Loans received		**4,000**	-
Repayment of borrowings		**(311)**	(156)
Repayment of hire purchase obligations		**(20)**	-
Dividends paid	**8**	**(1,937)**	(1,665)
Net cash from/(used in) financing activities		**1,746**	(1,808)
Net (decrease)/increase in cash and cash equivalents	**24**	**(1,217)**	487
Cash and cash equivalents at start of year		**3,026**	2,539
Cash and cash equivalents at year end	**15**	**1,809**	3,026

The notes and accounting policies on pages 29 to 63 form part of these financial statements.

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 2019 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"), including IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments which became mandatorily effective in the financial year ended 31 May 2019. The company has elected to prepare its parent company financial statements in accordance with FRS 101. These are presented on pages 64 to 67.

Adoption of new and revised IFRSs – amendments to IFRSs that are mandatorily effective

IFRS 9 Financial instruments

IFRS 9 introduced the new expected credit loss ("ECL") that is to be recognised for each applicable financial asset. These losses (see note 19), applied to trade receivables and work in progress balances, have been modelled based on historically observed loss rates across the Group which is considered to be a single operating segment, adjusted for any relevant forward-looking information available. The Group has rebutted the presumption that debts being more than 30 days past due are an indicator of a significant increase in credit risk. This is on the basis that historical observations support that the losses on debts 30 days or more past due are not significantly greater than those less than 30 days past due. As a result of the historical model in determining it being consistent with the requirements of IFRS 9, the doubtful debt balance recognised is not materially different than in comparative periods.

The Group reviewed and assessed the Group's existing financial assets as at 1 June 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has no impact on the Group's financial assets as regards their classification and measurement.

IFRS 15 Revenue from Contracts with Customers

The Group carried out an impact assessment that considered the nature of transactions with clients and the performance obligations these entail, how transaction prices are determined and allocated, and, consequently, how revenue is recognised. The conclusion of the impact assessment is that the Group does not enter in to contingent contracts. On non-contingent contracts work is billed over time in line with the provision of services to the client, and where a performance obligation is ongoing recoverable amounts are recognised as contract assets in the balance sheet. The Group have applied the full retrospective method of application, this has resulted in trade and other receivables increasing by £1,146,000 in 2019 (2018: £438,000 and 2017: £301,000) as a result of reclassifying balances previously disclosed as work in progress, as contract assets. In addition, following the application of IFRS 15, the Group's revenue recognition policy recognises £1,118,000 of contract assets as revenue in the consolidated statement of comprehensive income (2018: £707,000). These amounts were previously included within cost of sales reflecting the Group's prior revenue recognition policy whereby revenue was recognised at the point of completion of final performance obligations. The adjustments made as a consequence of implementing IFRS 15 have had no impact on the profit of the group, are purely presentational changes.

Notes *(continued)*

1 Accounting policies *(continued)*

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 7. 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.

Basis of consolidation

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

Areas of estimation uncertainty and critical judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Notes *(continued)*

1 Accounting policies *(continued)*

Areas of estimation uncertainty and critical judgements *(continued)*

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Sensitivity analysis is also performed to reduce growth assumptions and increase discount rates and there is still sufficient headroom in the asset, see note 11.

Valuation of intangible assets and fair value adjustments on acquisition

The Group is required to make an assessment as to what intangible assets exist within the acquired business at the time of the acquisition and what fair value adjustments are required. When reviewing the existence of intangible assets, consideration has been given to potential intangible assets such as customer relationships. The estimation of the valuation of customer relationships is based on the value in use calculation which requires estimates of the future cash flows expected to arise from the existing customer relationships over their useful life and to select a suitable discount rate in order to calculate the present value. Full details of the assumptions used in the calculation of intangible assets and fair value adjustments on the acquisitions that have occurred during the current year are disclosed in note 14.

Allowance for doubtful debts

A key area of critical accounting judgement is management's determination of the allowance for doubtful debts (see notes 13 and 19).

Revenue

Revenue arises mainly 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. All services noted follow the same characteristics for revenue recognition; they are recognised over the period of time which the service is provided, as such revenue has not been disaggregated.

To determine whether to recognise revenue, the Group follows a five-step process: 1. identifying the contract with a customer; 2. identifying the performance obligations; 3. determining the transaction price; 4. allocating the transaction price to the performance obligations; and 5. recognising revenue when/as performance obligation(s) are satisfied. The Group does not customarily enter into engagement letters for work carried out reflecting the fact that most assignments instructed comprise distinct and individually immaterial assignments carried out in a short period of time which is between a day and twelve months depending on client instructions. Each assignment is distinct and represents a separate billable event. No pro-bono assignments are carried out, nor are contingent fee arrangements entered in to. Each assignment is distinct and is invoiced for when the related service/performance obligation has been fully delivered. The separability of each assignment reflects the accepted steps in the identification, application, prosecution, granting, maintenance and/or enforcement of Intellectual Property Rights. Revenue is recognised over time, as the Group satisfies performance obligations by fulfilling the obligations in respect of client instructions.

Notes *(continued)*

1 Accounting policies *(continued)*

Revenue *(continued)*

Where the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due. Revenue can comprise different components including a fixed fee, a professional time charge and the recharging to clients of disbursements incurred by the Group in meeting the performance obligation related to an assignment. The revenue attaching to each assignment is recognised on the input basis where each element of costs is separately recorded in an internal billing system thereby ensuring that the transaction price of each assignment is accurately allocated, revenue being recognised only on the costs that related to meeting the performance obligation and will be recovered. The Group enters into no contingent consideration agreements and rights of return are not applicable given the Group's professional services provider status. Any agreed client discounts are reflected on the invoice raised in connection with the assignment to which the discount applied, ensuring revenue recognised is complete and accurate.

Taxation

The tax expense represents the sum of the current taxes payable and deferred tax. Tax is recognised in the consolidated statement of comprehensive income 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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Intangible assets - goodwill *(continued)*

Any impairment is recognised immediately in the consolidated statement of comprehensive income 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, including technology platform intangible assets, that are acquired and/or internally generated 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 consolidated statement of comprehensive income 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

Plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset. Depreciation is recognised in the consolidated statement of comprehensive income to write off the cost less estimated residual value by equal annual instalments over estimated useful economic lives. The estimated useful economic lives over which assets are depreciated are as follows:

Freehold property	2%
Short leasehold improvements	Over the shorter of the term of the lease or the economic useful life
Motor vehicles	25%
Fixtures and fittings	20%
Office equipment	20%

Freehold property is stated at fair value. Any impairment in the valuation of freehold property is charged to the consolidated statement of comprehensive income. Any upward revaluation on property is recognised in equity unless this reverses a previous revaluation recognised in the consolidated statement of comprehensive income. Downward revaluations are recognised in the consolidated statement of comprehensive income unless they reverse upward revaluations previously recognised in equity.

Net debt

Net debt includes cash and cash equivalents and bank borrowings.

Notes *(continued)*

1 Accounting policies *(continued)*

Trade and other receivables

Trade and other receivables, including contract assets, are initially recognised at their fair value and then stated at amortised cost less any expected credit loss ("ECL").

Contract assets represents recoverable amounts on non-contingent contracts where a performance obligation is ongoing.

Impairment of financial assets

IFRS 9 requires an ECL model as opposed to an incurred credit loss model under IAS 39. The ECL model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The Group recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss ("FVTPL"). The main financial asset that is subject to the expected credit loss model is trade receivables, which consist of billed receivables arising from contracts. While cash and cash equivalents, accrued income and lease deposits held at amortised cost are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial. The Group has applied the IFRS 9 simplified approach to measuring forward-looking ECL which uses a lifetime expected loss allowance for all trade receivables. The ECL model reflects a probability weighted amount derived from actual historical credit losses. To measure the ECL the Group utilises a model that looks at historical loss rates on rolling five-year and ten-year trading bases. Provision against trade and other receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows. An assessment for impairment is undertaken at least at each reporting date. For more details see note 19.

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 repayable on demand and forming 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 consolidated statement of comprehensive income 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Employee benefits *(continued)*

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.

Lease expenses

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

Hire purchase contracts and leases

Assets acquired under hire purchase contracts are capitalised and the capital element of outstanding future hire purchase obligations are shown in trade and other payables.

Financial income and expense

Financial income and expenses comprise interest payable, finance charges on shares classified as liabilities, hire purchase agreements 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 consolidated statement of comprehensive income 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 consolidated statement of comprehensive income.

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies *(continued)*

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 consolidated statement of comprehensive income over the period of the borrowings on an effective interest basis.

Exceptional items

The Group discloses additional information in respect of exceptional items on the face of the consolidated statement of comprehensive income 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 2019 and have not been applied in preparing these financial statements including:

IFRS 10 and IAS 28 (amendments) – Sale or Contribution of Assets between an Investor and its Associate of Joint Venture

IFRS 12 – Amendments relating to Acquisitions of Interests in Joint Operations

IFRS 2 (amendments) – Classification and Measurement of Share-based Payment Transactions

Annual Improvements to IFRSs 2012 - 2014 cycle – Amendments to IFRS 1 first-time adoption of International Financial Reporting Standards.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and applies to reporting periods beginning on or after 1 January 2019. As a result, the standard is applicable to the Group for the year ending 31 May 2020. The adoption of IFRS 16 will result in the Group recognising a right-of-use asset and lease liability for all contracts that are, or contain, a lease.

Notes *(continued)*

1 Accounting policies *(continued)*

New standards and interpretations not yet adopted *(continued)*

For leases currently classified as operating leases, the Group currently accounts for these under IAS 17 and does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing the total future commitment. As at 31 May 2019 (see note 22), the Group has non-cancellable operating lease commitments of £4,082,000 (2018: £3,730,000).

The Group is currently completing its assessment of IFRS 16, however, at this time the Group intends to transition to IFRS 16 applying the modified retrospective adoption method, with no restatement of prior year comparatives, and will therefore recognise leases on balance sheet as at 1 June 2019. Adopting IFRS 16 will result in the recognition of a right-of-use asset and corresponding liability on the balance sheet for each lease, with the associated depreciation and interest expense being recognised in the consolidated statement of comprehensive income over the period of the lease. The right-of-use asset will be assessed for impairment under IAS 36 at the date of initial application.
The current initial impact assessment of IFRS 16 has provisionally concluded that our intention is to make the following policy choices on transition to IFRS 16 on 1 June 2019:

- The Group plans to apply IFRS 16 initially on 1 June 2019 using the modified retrospective approach with the cumulative effect of adopting IFRS 16 recognised through opening retained earnings with no restatement of comparatives.
- The value of the right-of-use asset recognised on the initial application of IFRS 16 will be equal to the lease liability. The Group intends to apply the practical expedient that permits the exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group intends to use the practical expedient not to recognise short-term leases (with a term of less than twelve months) and low-value leases (where the value of lease on inception is less than £6,000). These leases will continue to be classed as operating leases under IAS 17.
- The lease liability at 1 June 2019 will be measured at the present value of unpaid lease payments applying an appropriate incremental borrowing rate based on the rate of interest on the Group's external borrowings, adjusted for the term of the lease.

Based on our preliminary assessment the impact on earnings before income tax, depreciation and amortisation will be:

- There will be recognition of a right-of-use asset and lease liability of an estimated £3,800,000 to £4,100,000 at 1 June 2019 based on the values disclosed in the operating lease commitment note adjusted to present value and for our provisional view of the definition of a lease under IFRS 16.
- Our preliminary assessment will be further advanced over the coming months ahead of the November 2019 interim statement announcement.

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 2019 £'000	Year ended 31 May 2018 £'000
Countries in which the Group has offices:		
United Kingdom	**13,432**	13,406
United States of America	**24,184**	22,515
France	**1,527**	1,263
Republic of Ireland	**343**	364
Italy	**1,305**	1,779
Germany	**202**	299
Nicaragua	**-**	-
Other geographical markets:		
Canada	**821**	690
China	**507**	526
India	**460**	379
Taiwan	**451**	496
Japan	**451**	397
The Netherlands	**405**	344
Other countries (each less than £250,000 in either year)	**3,879**	2,145
	47,967	44,603

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

	Year ended 31 May 2019 £'000	Year ended 31 May 2018 £'000
United Kingdom	**35,284**	31,979
Republic of Ireland	**1,772**	1,777
France	**1,989**	2,037
Germany	**2,326**	2,073
Italy	**2,879**	3,196
Finland	**533**	650
United States of America	**2,161**	1,779
Nicaragua	**1,023**	1,112
	47,967	44,603

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 accounted 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 2019 £'000	Year ended 31 May 2018 £'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 subsidiaries' financial statements pursuant to legislation	**52**	29
- audit related services	**6**	7
Group - other services pursuant to such legislation	**-**	2
- other services relating to taxation	**-**	241
Depreciation and other amounts written off owned property, plant and equipment	**362**	299
Amortisation of intangible assets	**286**	138
Rental of land and buildings	**823**	745
Hire of office equipment - operating leases	**177**	190
Hire of other assets - operating leases	**75**	65
Foreign exchange gains	**(138)**	(221)
Loss/(gain) on disposal of property, plant and equipment	**-**	4
Exceptional item – provision against doubtful debt (see below)	-	504

The exceptional item related to provision against a single debtor balance. Given the quantum of payments made by the client, and the age of the balance, 80% of which related to 2016 and earlier, full provision was made. The Board considered 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 was made so that the result for 2018 was clearly presented and properly understood.

* Amounts receivable by the company's Auditor and associates in respect of services to the company, other than audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis. The 2018 audit fees were paid to KPMG LLP.

4 Remuneration of Directors

The following emoluments were paid to Directors during the year ended 31 May 2019 and 31 May 2018:

	Salary and fees £'000	**Bonus £'000**	**Benefits £'000**	**Money purchase pension contrib'ns £'000**	**2019 Total £'000**	Salary and fees £'000	Bonus £'000	Benefits £'000	Money purchase pension contrib'ns £'000	2018 Total £'000
Executive										
GE Murgitroyd * (1)	**366**	**75**	**35**	**11**	**487**	345	-	53	10	408
GD Stark	**218**	**-**	**9**	**11**	**238**	218	-	2	13	233
KG Young	**243**	**-**	**23**	**12**	**278**	214	-	23	14	251
GJ Murnane (2)	**70**	**-**	**2**	**3**	**75**	177	-	3	11	191
Non-executive										
IG Murgitroyd	**105**	**-**	**49**	**-**	**154**	90	-	4	-	94
DW MacDiarmid (3)	**8**	**-**	**-**	**-**	**8**	-	-	-	-	-
MN Kemp-Gee	**28**	**-**	**-**	**1**	**29**	23	-	-	1	24
JH Reid (4)	**37**	**-**	**-**	**1**	**38**	26	-	-	1	27
HC Chapman (5)	**8**	**-**	**-**	**-**	**8**	-	-	-	-	-
KG Chrystie (6, 7)	**49**	**-**	**-**	**-**	**49**	52	-	-	-	52
	1,132	**75**	**118**	**39**	**1,364**	1,145	-	85	50	1,280

* Highest paid Director
(1) Sterling equivalent of US Dollar-denominated remuneration
(2) Resigned 2 November 2018
(3) Appointed 1 April 2019
(4) Includes non-recurring fee of £11,000
(5) Appointed 21 February 2019
(6) Resigned 21 February 2019
(7) Includes non-recurring fee of £33,000 (2018: £30,000)

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. Edward Murgitroyd's total remuneration in US Dollars amounted to $633,000 (2018: $552,000). The bonus paid to Edward Murgitroyd accrued from the exercise of a "shadow" share scheme award granted to him in February 2010. Keith Young waived salary amounting to £28,000 in 2018. During the year retirement benefits accrued to four Directors (2018: six).

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

	At 31 May 2018	Options granted during the period	Options exercised/ lapsed during the period	**At 31 May 2019**	Exercisable price	Date from which exercisable	Expiry date
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
	-	50,000	-	**50,000**	685.0p	25/9/2021	24/9/2033
Keith Young	10,000	-	-	**10,000**	247.5p	25/2/2013	24/2/2028

Gains made on the exercise of share options by the Directors amounted to £nil (2018: £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 United Kingdom 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 2019 was 575p (31 May 2018: 620p). During the year the share price ranged from 445p to 699p (2018: 390p to 638p). 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 2019 Number	Year ended 31 May 2018 Number
Professional staff	**73**	65
Office, management and support staff	**206**	196
	279	261

Notes *(continued)*

5 Employees *(continued)*

The aggregate payroll cost was as follows:

	Year ended 31 May 2019 £'000	Year ended 31 May 2018 £'000
Wages and salaries	**13,641**	12,486
Social security costs	**1,699**	1,573
Pension costs	**1,093**	712
Equity settled share based payments	**59**	44
	16,492	14,815

Further information on pension arrangements is set out in note 21.

6 Financial income and expense

Financial income	**Year ended 31 May 2019 £'000**	Year ended 31 May 2018 £'000
Recognised in the consolidated statement of comprehensive income		
Bank interest receivable	**2**	3
Other interest receivable	**1**	8
	3	11

Financial expense	**Year ended 31 May 2019 £'000**	Year ended 31 May 2018 £'000
Recognised in the consolidated statement of comprehensive income		
Interest on bank loans and overdrafts	**28**	4
Interest on Loan Note	**2**	-
Finance charges payable in respect of hire purchase contracts	**1**	-
	31	4

Notes *(continued)*

7 Income tax

	Year ended 31 May 2019 £'000	Year ended 31 May 2018 £'000
Recognised in the consolidated statement of comprehensive income		
United Kingdom Corporation Tax		
Current taxation on profit for the year at 19% (2018: 19%)	**821**	716
Under provision of taxation on profit for previous periods	**207**	100
Foreign tax		
Current taxation on income for the year	**85**	74
Total current tax	**1,113**	890
Deferred tax (note 12)		
Creation and reversal of temporary differences	**58**	17
Under provision of deferred taxation for previous periods	**-**	(1)
Total tax in consolidated statement of comprehensive income	**1,171**	906

The tax charges for the current and prior years are higher than the standard rate of United Kingdom Corporation Tax of 19% (2018: 19%). The differences are explained below:

		Year ended 31 May 2019 £'000		Year ended 31 May 2018 £'000
Current tax reconciliation				
Profit before income tax		**4,160**		3,574
Profit excluding taxation multiplied by standard rate of United Kingdom Corporation Tax of 19% (2018: 19%)	**19.00%**	**790**	19.00%	679
Effects of:				
Expenses not deductible for tax purposes	**2.88%**	**120**	2.21%	79
Under provision of taxation for previous periods	**4.98%**	**207**	2.74%	98
Overseas tax impact	**1.30%**	**54**	1.39%	50
Total tax expense (see above)	**28.16%**	**1,171**	25.34%	906

Notes *(continued)*

7 Income tax *(continued)*

	Year ended 31 May 2019 £'000	Year ended 31 May 2018 £'000
Income tax recognised directly in equity		
Taxation on share based payments	**(17)**	66
Taxation on revaluation of property	**(9)**	2
	(26)	68

Reductions in the United Kingdom 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 2018 and 31 May 2019 which was calculated at 17%.

8 Dividends

	Year ended 31 May 2019 £'000	Year ended 31 May 2018 £'000
Equity shares:		
Final dividend in respect of 2017 (12p per share)	**-**	1,080
Interim dividend in respect of 2018 (6.5p per share)	**-**	585
Final dividend in respect of 2018 (14.5p per share)	**1,306**	-
Interim dividend in respect of 2019 (7p per share)	**631**	-
	1,937	1,665

The Directors recommend that a final dividend of £1,351,000, being 15p per share, (2018: £1,305,000, being 14.5p per share) be paid. Subject to approval at the Annual General Meeting, the final dividend will be paid on 8 November 2019 to shareholders on the register at 11 October 2019. The ex-dividend date is 10 October 2019.

Notes *(continued)*

9 Earnings per share

	2019			2018		
	Profit for the year £'000	**Weighted average number of shares Number**	**Earnings per share p**	Profit for the year £'000	Weighted average number of shares Number	Earnings per share p
Basic earnings per share	**2,989**	**9,006,849**	**33.20p**	2,668	8,997,693	29.66p
Dilutive share options	**-**	**63,258**	**(0.23p)**	-	82,772	(0.27p)
Diluted earnings per share	**2,989**	**9,070,107**	**32.97p**	2,668	9,080,465	29.39p

10 Property, plant and equipment

	Freehold property £'000	Short leasehold improvements £'000	Office equipment £'000	Motor vehicles £'000	Fixtures and fittings £'000	**Total £'000**
Cost/valuation						
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**
At 1 June 2018	**1,806**	**373**	**1,748**	**94**	**543**	**4,564**
Acquired on acquisition	-	-	21	-	3	**24**
Additions	4	180	363	75	26	**648**
Revaluations	50	-	-	-	-	**50**
Disposals	-	-	(46)	-	-	**(46)**
At 31 May 2019	**1,860**	**553**	**2,086**	**169**	**572**	**5,240**
Depreciation						
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**
At 1 June 2018	**6**	**221**	**1,121**	**30**	**498**	**1,876**
Charge for the year	33	42	235	34	18	**362**
Revaluations	(29)	-	-	-	-	**(29)**
On disposals	-	-	(46)	-	-	**(46)**
At 31 May 2019	**10**	**263**	**1,310**	**64**	**516**	**2,163**
Carrying amounts						
At 31 May 2019	**1,850**	**290**	**776**	**105**	**56**	**3,077**
At 31 May 2018	**1,800**	**152**	**627**	**64**	**45**	**2,688**

The carrying value of motor vehicles at 31 May 2019 includes an amount of £75,000 (31 May 2018: £nil) in respect of an asset purchased under hire purchase contract and a related depreciation charge of £17,000 (2018: £nil). The carrying values of other asset categories do not include any amounts in respect of assets purchased under hire purchase contracts nor any related depreciation charges. The Group's interest in its freehold property at Scotland House, 165-169 Scotland Street, Glasgow was valued as at 31 May 2019 at £1,850,000 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.

Notes *(continued)*

10 Property, plant and equipment *(continued)*

Freehold property*	**2019 £'000**	2018 £'000
Valuation – 2019/2018	**1,850**	1,800
Carrying value	**1,850**	1,800
Historical cost	**1,913**	1,909
Aggregate depreciation based on historical cost	**(360)**	(327)
Historical cost carrying value	**1,553**	1,582

* the valuation attaching to land at 31 May 2019 was £270,000 (31 May 2018: £270,000).

11 Intangible assets and goodwill

	Goodwill £'000	Technology platform £'000	Customer database £'000	**£'000**
Deemed cost				
At 1 June 2017	16,687	345	68	**17,100**
Additions	-	748	-	**748**
At 31 May 2018	**16,687**	**1,093**	**68**	**17,848**
Acquisitions through business combinations (see note 14)	6,023	-	-	**6,023**
Additions	-	1,107	-	**1,107**
At 31 May 2019	**22,710**	**2,200**	**68**	**24,978**
Amortisation				
At 1 June 2017	-	254	-	**254**
Charge for the year	-	138	-	**138**
At 31 May 2018	-	392	-	**392**
Charge for the year	-	286	-	**286**
At 31 May 2019	**-**	**678**	**-**	**678**
Carrying amounts				
At 31 May 2019	**22,710**	**1,522**	**68**	**24,300**
At 31 May 2018	**16,687**	**701**	**68**	**17,456**

Notes *(continued)*

11 Intangible assets and goodwill *(continued)*

Technology platform additions include internally-generated and capitalised costs of £235,000 (2018: £333,000).

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 2021 (2018: 0%).
- A post-tax discount rate of 8.2% (2018: 15%) was applied in determining the recoverable amount. The discount rate in the prior period was based on an weighted average cost of capital ("WACC") and an assessment of risks specific to the CGU. In the current year the Group has used the WACC rate specific to the Group as they determined this to be a more appropriate measure.
- 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**	
	2019	2018	**2019**	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Share based payments	**100**	115	**-**	-	**100**	115
Property, plant and equipment	**-**	-	**(227)**	(157)	**(227)**	(157)
Other temporary differences	**15**	14	**-**	-	**15**	14
	115	129	**(227)**	(157)	**(112)**	(28)

Notes *(continued)*

12 Deferred tax assets and liabilities *(continued)*

Movements in deferred tax during the year:

	At 1 June 2018 £'000	Recognised in income £'000	Recognised in equity £'000	**At 31 May 2019 £'000**
Share based payments	115	2	(17)	**100**
Property, plant and equipment	(157)	(61)	(9)	**(227)**
Other temporary differences	14	1	-	**15**
	(28)	(58)	(26)	**(112)**

Movements in deferred tax during the prior 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)**

13 Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**13,267**	12,508
Other receivables	**137**	169
Prepayments	**579**	651
Contract assets and accrued income	**4,818**	2,451
	18,801	15,779

Notes *(continued)*

13 Trade and other receivables *(continued)*

At 31 May 2018, trade receivables are shown net of allowance for doubtful debts of £1,185,000 (2018: £1,287,000) arising from a review of expected recoverability. The charge in the year was £126,000 (2018: £519,000). The Group's exposure to credit risks and impairment losses on receivables is given in note 19.

Contract assets to the value of £2,451,000 (2018: £1,953,000) were recognised in the consolidated statement of comprehensive income in the year.

14 Acquisition of subsidiaries

On 21 February 2019, the Group acquired the entire share capital of Advantip Limited and its subsidiary undertaking Chapman IP Limited, a European Patent and Trade Mark Attorney practice. The following table sets out the provisional fair values, equal to the book values of the net assets acquired by the Group.

	£'000	2019 Fair value to the Group £'000
Property, plant and equipment		**24**
Work in progress		**11**
Trade and other receivables		**944**
Cash and cash equivalents		**458**
Trade and other payables		**(742)**
Tax payable		**(79)**
Net assets		**616**
Consideration:		
Cash	**5,030**	
Loan Note issued	**993**	
Deferred consideration	**616**	**6,639**
Goodwill		**6,023**

Cash outflow in relation to business combinations, excluding acquisition costs of £118,000, amounted to £5,030,000 (above). The deferred consideration is in respect of the trade, assets and liabilities of Chapman IP Limited that were transferred to Murgitroyd & Company Limited on 21 February 2019 and, given the immediate integration of the acquired business and as the Group is managed on an office and functional basis, the post-acquisition results of the previous Chapman IP business are not separately identifiable and therefore the attributable revenue, operating profit and impact on group revenue and net profit had the acquisition occurred on 1 June 2018 cannot be disclosed. The deferred consideration comprises the settlement of the £1,000,000 bank-guaranteed Loan Note and payment for the net assets acquired, provisionally estimated as £616,000 at the date of acquisition, on or before 20 February 2020. The provisional fair value exercise has recognised adjustments to be made to the acquired net assets amounting to £22,000 (see note 16), goodwill in respect of the skills and technical expertise of the acquired assembled workforce, and the synergies expected to be achieved from integrating the acquired business into the Group. The value of other intangible assets, including customer relationships, and the final determination of the consideration in respect of the net assets acquired, are being considered, consistent with IFRS 3, as part of the finalisation of the fair value exercise that will be completed in advance of the payment of the deferred consideration and settlement of the Loan Note on or before 20 February 2020.

Notes *(continued)*

15 Cash and cash equivalents

	2019 £'000	2018 £'000
Cash	**1,809**	3,026
Cash and cash equivalents in statement of cash flows	**1,809**	3,026

16 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 19.

	2019 £'000	2018 £'000
Current liabilities		
Secured bank loans	**908**	111
Non current liabilities		
Secured bank loans	**3,024**	84

Terms and debt repayment schedule

	Interest rate	**Year of maturity**	**Face value 2019 £'000**	**Carrying amount 2019 £'000**	Face value 2018 £'000	Carrying amount 2018 £'000
Secured bank loans						
Term loan	**LIBOR + 1%**	**2020**	**86**	**86**	195	195
Term loan	**LIBOR + 1.4%**	**2024**	**3,800**	**3,800**	-	-
Loan Note						
Vendor loan Note	**0.75%**	**2020**	**1,000**	**995**	-	-
Deferred payment						
Deferred vendor payment	**nil%**	**2020**	**594**	**594**	-	-
			5,480	**5,475**	195	195

All debt is denominated in Pounds. Clydesdale Bank PLC has a bond and floating charge over the Group's assets and cross guarantees are in place between group companies.

Notes *(continued)*

16 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 2018	111	84	1	**196**
Net new borrowings (note 24 (a))	797	2,940	-	**3,737**
Interest paid	-	-	(29)	**(29)**
Total movements from financing cash flows	908	3,024	(28)	**3,904**
Other movements	-	-	29	**29**
Total liability – related other movements	-	-	29	**29**
Balance as at 31 May 2019	908	3,024	1	**3,933**

Accrued interest payable of £1,000 is included within trade and other payables (note 17).

17 Trade and other payables

	2019 £'000	2018 £'000
Current liabilities		
Trade payables	**6,146**	4,164
Taxation and social security	**775**	701
Accruals	**842**	705
Other payables	**2,065**	384
	9,828	5,954

18 Taxation

	2019 £'000	2018 £'000
Current assets		
Corporation tax recoverable	**138**	174

Notes *(continued)*

19 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.

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 17 and 18 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 2019	Pound £'000	Euro £'000	US Dollar £'000	Other £'000	**Total £'000**
Cash and cash equivalents	1,047	472	239	51	**1,809**
Trade receivables	6,425	1,723	5,119	-	**13,267**
Trade payables	(465)	(1,279)	(3,385)	(1,017)	**(6,146)**
Balance sheet exposure	7,007	916	1,973	(966)	**8,930**

Notes *(continued)*

19 Financial instruments *(continued)*

Currency risk *(continued)*

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**

The following significant exchange rates applied during the year:

	Average rate		**Reporting date Spot rate**	
	2019	2018	**2019**	2018
Euro	**1.14**	1.13	**1.13**	1.14
US Dollar	**1.30**	1.34	**1.26**	1.33

Sensitivity analysis
A ten percent weakening of the following currencies against the Pound at 31 May 2019 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**	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Euro	**(54)**	(95)	**(15)**	(56)
US Dollar	**(393)**	(444)	**(167)**	(238)

A ten percent strengthening of the above currencies against the Pound at 31 May 2019 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)*

19 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	**2019**	2018
	£'000	£'000
Trade receivables (note 13)	**13,267**	12,508
Other receivables (note 13)	**137**	169
Contract assets (note 13)	**1,146**	438
Cash and cash equivalents (note 15)	**1,809**	3,026
	16,359	16,141

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

Carrying amount	**2019**	2018
	£'000	£'000
United Kingdom	**4,869**	4,822
United States of America	**4,661**	4,708
France	**537**	317
Ireland	**184**	175
Italy	**175**	460
Germany	**34**	16
Finland	**38**	30
Nicaragua	**-**	-
China	**343**	273
Canada	**274**	54
Japan	**265**	261
Thailand	**229**	207
The Netherlands	**114**	91
India	**104**	228
Other countries (each less than £100,000)	**1,440**	866
	13,267	12,508

Notes *(continued)*

19 Financial instruments *(continued)*

Credit risk *(continued)*

The Directors consider that the carrying amount of trade, other receivables and contract assets is approximately equal to their fair value. The Group has adopted IFRS 9 during the current year and applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The total expected credit loss provision under IFRS 9 as at 31 May 2019 is £1,185,000, including provision for specific credit losses amounting to £1,117,000. In the prior year, the impairment of trade receivables was assessed based on the incurred loss model under IAS 39. The allowance provision for impairment calculated under IAS 39 "Financial instruments: recognition and measurement" and IFRS 9 "Financial Instruments" at 1 June 2018 are not materially different, accordingly, there are no adjustments on transition.

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, applying the IFRS 9 simplified approach to measuring forward-looking ECL which uses a lifetime expected loss allowance for all trade receivables. The ECL model reflects a probability weighted amount derived from actual historical credit losses. To measure the ECL the Group utilises a model that looks at historical loss rates on rolling five-year and ten-year trading bases.

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 no further provision is 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:

	2019		2018	
	Gross £'000	**Impairment £'000**	Gross £'000	Impairment £'000
One month (not past due)	**4,791**	**(1)**	4,256	(1)
Two to three months	**4,758**	**(15)**	4,451	-
Four to six months	**1,809**	**(6)**	1,744	(2)
Six months to one year	**969**	**(25)**	1,653	(57)
One to two years	**503**	**(68)**	224	(122)
Two to three years	**364**	**(132)**	409	(89)
Over three years	**1,395**	**(938)**	1,227	(1,016)
	14,589	**(1,185)**	13,964	(1,287)

Notes *(continued)*

19 Financial instruments *(continued)*

Credit risk *(continued)*

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

	2019	2018
	£'000	£'000
Balance at 1 June	**1,287**	996
Net impairment loss (utilised)/recognised	**(102)**	291
Balance at 31 May	**1,185**	1,287

The impairment loss at 31 May 2019 of £1,185,000 (31 May 2018: £1,287,000) 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.

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 2019

	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	3,886	4,104	500	467	861	2,276	-
Loan Note	995	1,000	-	1,000	-	-	-
Deferred vendor payment	594	594	-	594	-	-	-
Trade and other payables	8,217	8,217	8,217	-	-	-	-
Obligations under hire purchase contracts	46	46	11	11	22	2	-
	13,738	13,961	8,728	2,072	883	2,278	-

Notes *(continued)*

19 Financial instruments *(continued)*

Liquidity risk *(continued)*

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	-	-

The carrying amount of financial instruments are all equal to their fair value aside from the Loan Note. 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).

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

	2019			2018		
	Balance outstanding	**Facility**	**Undrawn amounts**	Balance outstanding	Facility	Undrawn amounts
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Bank loans and overdrafts	**3,886**	**6,416**	**2,530**	195	4,202	4,007

The bank loan facilities have unexpired terms of between one and five years (note 16).

Notes *(continued)*

19 Financial instruments *(continued)*

Interest rate risk

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

Carrying amount	**2019**	2018
	£'000	£'000
Variable rate instruments		
Financial liabilities	**3,886**	195

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 2018.

	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 2019				
Variable rate instruments	(13)	13	(13)	13
31 May 2018				
Variable rate instruments	(3)	3	(3)	3

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

Notes *(continued)*

19 Financial instruments *(continued)*

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 2019		31 May 2018	
	Carrying amount £'000	**Fair value £'000**	Carrying amount £'000	Fair value £'000
Receivables	**18,801**	**18,801**	15,779	15,779
Cash and cash equivalents	**1,809**	**1,809**	3,026	3,026
Secured bank loans	**(3,886)**	**(3,886)**	(195)	(195)
Loan Note	**(995)**	**(1,000)**	-	-
Deferred vendor payment	**(594)**	**(594)**	-	-
Trade and other payables	**(8,217)**	**(8,217)**	(5,954)	(5,954)
Obligations under hire purchase contracts	**(46)**	**(46)**	-	-
	6,872	**6,867**	12,656	12,656

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.

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

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

Loan note and deferred vendor payment
The interest rates used to discount estimated cash flows in connection with loan notes (0.75%) is based on the prevailing Base Rate at the time of completion of the business combination. The fair value of the deferred vendor payment is deemed to be the same as the book value.

Notes *(continued)*

20 Share capital and reserves

	2019	2018
	£'000	£'000
Allotted, called up and fully paid		
9,009,347 (31 May 2018: 9,001,131) ordinary shares of 10 pence each	**902**	901

During the year the Group issued 8,216 10p ordinary shares for a consideration of £14,000, settled in cash to satisfy share options exercised (2018: 5,000 10p ordinary shares for a consideration of £13,000). 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.

21 Pension arrangements

The Group operates defined contribution, group money purchase pension schemes. Contributions are charged to the consolidated statement of comprehensive income as they become payable. The Group's contributions are equal to contributions of employees that are 4% 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 £1,093,000 (2018: £712,000).

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

Notes *(continued)*

22 Commitments

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

	Land and buildings £'000	**Other £'000**	**2019 Total £'000**	Land and buildings £'000	Other £'000	2018 Total £'000
Less than one year	**804**	**198**	**1,002**	631	254	885
Between two and five years	**2,152**	**298**	**2,450**	1,861	407	2,268
Five years or more	**630**	**-**	**630**	577	-	577
Total	**3,586**	**496**	**4,082**	3,069	661	3,730

During the year £nil (2018: £nil) was recognised in the consolidated statement of comprehensive income in respect of sub-leases. Details of amounts recognised in the consolidated statement of comprehensive income in respect of lease payments are disclosed in note 3.

At 31 May 2019 capital expenditure authorised by the Board but not provided in the financial statements amounted to £nil (2018: £70,000). Similarly, there were no contracts placed for future capital expenditure, not provided in the financial statements (2018: £nil). In addition to the above, at the end of the financial year the Group had entered into commitments amounting to £nil (2018: £nil) in respect of non-cancellable operating leases, the inception of which occurred after the year end.

23 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. 170,000 new options were granted during the financial year (2018: nil).

Notes *(continued)*

23 Share based payments *(continued)*

The options exercised and either forfeited or lapsed during the year, and those outstanding at 31 May 2019, were as follows:

Exercise price	Date of grant	Date from which exercisable	Expiry date	2018 '000	**Granted during the year '000**	**Exercised during the year '000**	**Forfeited/ lapsed during the year '000**	**2019 '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	34*	**-**	**-**	**-**	**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**
685.0p	25/9/2018	25/9/2021	24/9/2033	-	**170**	**-**	**-**	**170**
				307	**170**	**(8)**	**-**	**469**

* Exercisable as at 31 May 2019. Details of the performance criteria of the share options are included in the Remuneration Report.

	Weighted average exercise price p	**2019 Number of options '000**	Weighted average exercise price p	2018 Number of options '000
Outstanding at start of year	**351.6**	**307**	350.0	312
Granted during the year	**685.0**	**170**	-	-
Exercised during the year	**169.0**	**(8)**	247.5	(5)
Forfeited during the year	**-**	**-**	-	-
Outstanding at end of year	**475.7**	**469**	351.6	307

The weighted average share price at the date of exercise of share options during the year was 685p (2018: 547.5p). The options outstanding at the year end have an exercise price in the range of 181p to 685p and a weighted average contractual life of 10.7 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 estimates of fair values have been measured using Monte Carlo (2017 and 2018 awards) and Black Scholes models (earlier year awards). The main assumptions used in connection with share options issued in 2018 are expected volatility (24.0%), expected option life (3 to 15 years), expected dividend yield (3.1%) and risk-free rate (0.67%). 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 consolidated statement of comprehensive income in respect of share based payments are disclosed in note 5.

Notes *(continued)*

24 (a) Net (debt)/funds

	At beginning of year £'000	Trading cashflow £'000	Business combinations £'000	Non cash Movement £'000	**At end of year £'000**
Cash at bank and in hand	**3,026**	(1,217)	-	-	**1,809**
Secured bank loans	**(195)**	(3,691)	-	-	**(3,886)**
Vendor Loan Note	**-**	-	(993)	(2)	**(995)**
Deferred vendor payment	**-**	-	(594)	-	**(594)**
Obligations under hire purchase contracts	**-**	20	-	(66)	**(46)**
	(195)	(3,671)	(1,587)	(68)	**(5,521)**
	2,831	**(4,888)**	**(1,587)**	**(68)**	**(3,712)**

24 (b) Net (debt)/funds reconciliation of net cash flow to movement in net (debt)/funds

	2019 £'000	2018 £'000
(Decrease)/increase in cash in the year	**(1,217)**	487
Cash (inflow from increase)/outflow from decrease in debt and hire purchase financing	**(3,671)**	156
(Increase)/decrease in net debt resulting from cash flows	(4,888)	643
New Loan Note	(995)	-
New Deferred vendor payment	(594)	-
New hire purchase contracts	(66)	-
(Increase)/decrease in net debt in the year	**(6,543)**	643
Net funds at start of year	**2,831**	2,188
Net (debt)/funds at end of year	**(3,712)**	2,831

Notes *(continued)*

25 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	United States of America	Suite 100 1450 Raleigh Road Chapel Hill North Carolina NC 27517	100%	31 May
Murgitroyd (Europe) Limited *	Dormant	Ireland	Unit 1, Block 8 Blanchardstown Corporate Park Cruiserath Road Blanchardstown Dublin 15	100%	31 May
Murgitroyd (Chapman) Holdings Limited *	Intermediate holding company	England	17 Lansdowne Road Croydon Surrey CR0 2BX	100%	31 May
Murgitroyd (Chapman) Limited ***	Patent and Trade Mark Attorney services	England	17 Lansdowne Road Croydon Surrey CR0 2BX	100%	31 May

* Held by Murgitroyd & Company Limited.
** Held by Murgitroyd (Fitzpatricks Group) Limited
*** Held by Murgitroyd (Chapman) Holdings 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)*

26 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 2019 the Group made sales of £110,000 to Gizmo Packaging Limited ("Gizmo"), a company of which the Chairman, Ian Murgitroyd, is a Director (2018: £74,000). As at 31 May 2019, the outstanding amount owed by Gizmo amounted to £47,000 (31 May 2018: £8,000).

During the year ended 31 May 2019 the Group made purchases of £2,000 from Artroyd Securities Limited ("Artroyd"), a company of which the Chairman, Ian Murgitroyd, and an Executive Director, Edward Murgitroyd, are Directors (2018: £1,000). As at 31 May 2019, the outstanding amount owed to Artroyd amounted to £nil (31 May 2018: £1,000).

During the year ended 31 May 2019 the Group made purchases of £3,000 from Net Defence Limited ("Net-Defence"), a company that is a subsidiary undertaking of Ogilvie Group Limited and of which the Deputy Chairman, Willie MacDiarmid, is a Director (2018: £nil). As at 31 May 2019, the outstanding amount owed to Net-Defence amounted to £nil (31 May 2018: £nil).

During the year ended 31 May 2019 the Group made sales of £10,000 to Ogilvie Group Limited ("Ogilvie"), a company of which the Deputy Chairman, Willie MacDiarmid, is a Director (2018: £nil). As at 31 May 2019, the outstanding amount owed by Ogilvie amounted to £1,000 (31 May 2018: £nil).

During the year ended 31 May 2019 the Group made sales of £99,000 to Edinburgh Innovations Limited ("Edinburgh"), a company of which a Non-executive Director, John Reid, is a Director (2018: £69,000). As at 31 May 2019, the outstanding amount owed by Edinburgh amounted to £26,000 (31 May 2018: £7,000).

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

27 Subsequent events

There are no subsequent events to report.

UK GAAP parent company balance sheet

at 31 May 2019

	Note	**31 May 2019 £'000**	31 May 2018 £'000
Fixed assets			
Investments	**2**	**8,591**	8,532
Current assets			
Debtors	**3**	**5,844**	5,830
Net current assets		**5,844**	5,830
Total assets less current liabilities		**14,435**	14,362
Net assets		**14,435**	14,362
Capital and reserves			
Share capital	**4**	**902**	901
Share premium		**3,522**	3,509
Merger reserve		**6,436**	6,436
Profit and loss account		**3,575**	3,516
Shareholders' funds		**14,435**	14,362

The notes and accounting policies on pages 67 to 68 form part of these financial statements.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The company's profit for the year is £1,937,000 (2018: £4,665,000).

These financial statements were approved by the Board of Directors on 16 September 2019 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 2019

	Share capital	Share premium	Profit and loss account	Merger reserve	Total
	£'000	£'000	£'000	£'000	£'000
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**
At 1 June 2018	901	3,509	3,516	6,436	14,362
Total comprehensive income for the year:					
Profit for the year	-	-	1,937	-	1,937
Transactions with owners recorded directly in equity:					
Dividends	-	-	(1,937)	-	(1,937)
Share based payments	-	-	59	-	59
Share options exercised	1	13	-	-	14
Total equity at 31 May 2019	**902**	**3,522**	**3,575**	**6,436**	**14,435**

Notes to the UK GAAP parent company financial statements

for the year ended 31 May 2019
(forming part of the financial statements)

1 Significant accounting policies

Basis of preparation

Murgitroyd Group PLC is a company incorporated and domiciled in the United Kingdom. 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 2018, 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 18. 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 23 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 39 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

	2019	2018
	£'000	£'000
Shares in subsidiary undertakings		
Cost at start of year	**8,532**	8,488
Equity settled share based payments	**59**	44
Cost at end of year	**8,591**	8,532

See note 25 of the Group's financial statements for details of subsidiary undertakings.

3 Debtors

	2019	2018
	£'000	£'000
Amount owed by subsidiary undertaking	**5,844**	5,830

4 Share capital

	2019	2018
	£'000	£'000
Allotted, called up and fully paid		
9,009,347 (31 May 2018: 9,001,131) ordinary shares of 10 pence each	**902**	901

During the year the company issued 8,216 10p ordinary shares for a consideration of £14,000, settled in cash to satisfy share options exercised (2018: 5,000 10p ordinary shares for a consideration of £13,000).

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 31 October 2019 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 2019.
2. To approve the proposed dividend.
3. To receive and adopt the report of the Remuneration Committee of the company.
4. To approve the appointment of Helga Chapman as a Director of the company.
5. To approve the appointment of D William MacDiarmid as a Director of the company.
6. To re-elect Ian Murgitroyd who retires from the Board in accordance with Article 77, as a Director of the company.
7. To re-elect Edward Murgitroyd who retires from the Board in accordance with Article 77, as a Director of the company
8. To re-appoint Grant Thornton UK LLP as Auditors and to authorise the Directors to agree their remuneration.

By order of the Board

Burness Paull LLP, *Company Secretary*
16 September 2019

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 31 October 2019.

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 31 October 2019 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 2019.		
To approve the proposed dividend.		
To receive and adopt the report of the Remuneration Committee of the company.		
To approve the appointment of Helga Chapman as a Director of the company.		
To approve the appointment of D William MacDiarmid as a Director of the company.		
To re-elect Ian Murgitroyd who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-elect Edward Murgitroyd who retires from the Board in accordance with Article 77, as a Director of the company.		
To re-appoint Grant Thornton UK LLP as Auditors and to authorise the Directors to agree their remuneration.		

In the absence of instructions, the proxy is authorised to vote (or abstain from voting) at his or her discretion on the specified resolutions. The proxy is also authorised to vote (or abstain from voting) on any business which may properly come before the meeting.

Signature(s) _____ Date _____

NOTES:

1. Please indicate how you wish your proxy to vote on the resolutions by inserting "X" in the appropriate space.
2. In the case of a corporation the proxy must be under its common seal (if any) or the hand of its duly authorised agent or officer. In the case of an individual, the proxy must be signed by the appointer or his agent, duly authorised in writing.
3. This proxy should reach the company's registrars, 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.