science group plc

28 February 2018

SCIENCE GROUP PLC

AUDITED RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') reports its audited results for the year ended 31 December 2017.

Summary

	2017	2016
Group revenue	£40.8m	£36.9m
Adjusted operating profit *	£6.9m	£6.2m
Statutory profit before tax	£3.9m	£3.0m
Adjusted basic earnings per share *	12.8p	11.4p
Statutory basic earnings per share	7.7p	6.8p
Net funds *	£6.0m	£11.3m
Net-funds-plus-freehold-property-per-share at year end *	70.3p	84.5p
Proposed / actual dividend per share	4.4p	4.2p

Science Group plc

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* Alternative performance measures are provided in order to enhance the shareholders' ability to evaluate and analyse the underlying financial performance of the Group. Refer to Note 1 for detail and explanation of the measures used.

Note: This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulations.

Chairman's Statement

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') is an international consultancy providing applied science, product development, technology advisory and regulatory services to a client base in medical, food & beverage and commercial markets. Through organic investment and acquisitions, funded primarily from operating cash flow, the Group continues to develop an integrated offering of science-based services.

In 2017, Science Group again delivered strong operating margins, balancing the inherent volatility associated with a project-based consultancy through the broader service portfolio established via the acquisitions. In addition, the Group maintains a robust balance sheet with cash resources and long-term, low cost debt supported by significant freehold property assets, providing both resilience to economic volatility and opportunity for investment when appropriate.

Financial Summary

For the year ended 31 December 2017, Group revenue, including four months' contribution from the September acquisition, was £40.8 million (2016: £36.9 million) of which Core Business services revenue was £38.4 million (2016: £34.2 million). North America continues to be a major market for the Group accounting for 43% of Core Business revenue in 2017 (2016: 44%) and Europe (excluding the UK) accounted for 36% (2016: 27%). In 2017, the Group revenue benefitted by £0.7 million relative to foreign exchange rates during the prior year.

Adjusted operating profit for the year ended 31 December 2017 was £6.9 million (2016: £6.2 million). While the Group profit benefitted by approx. £0.6 million due to changes in foreign exchange rates relative to 2016, the Board took the opportunity to invest a proportion of this benefit in the organic development and infrastructure of the business. Statutory profit before tax was £3.9 million (2016: £3.0 million) resulting in basic earnings per share ('EPS') of 7.7 pence (2016: 6.8 pence). An alternative performance measure of adjusted basic EPS which applies consistent tax rates was 12.8 pence (2016: 11.4 pence). (Adjusted operating profit and other Alternative Performance Measures used in this report are defined in the Finance Director's Report and within the notes to the financial statements.)

Following the significant acquisition in September 2017 of Technology Sciences Group ('TSG'), with the cash consideration of £13.2 million (net cash outflow of £10.4 million) being funded from existing cash resources, the Group's cash balance at 31 December 2017 was £19.9 million (2016: £26.0 million) with net funds of £6.0 million (2016: £11.3 million) including bank debt of £13.9 million (2016: £14.7 million). (These figures exclude cash held separately on behalf of clients to pay regulatory registration fees.) The Group's bank debt is tied to interest rate swaps to produce a net fixed rate (effectively 3.5%) to 2026 and is secured on the Group's freehold property assets which have a combined balance sheet carrying value of £21.7 million (2016: £21.9 million).

The Board is proposing to increase the dividend by 5% to 4.4 pence per share (2016: 4.2 pence), at a total cost of £1.7 million (2016: £1.7 million). Subject to shareholder approval at the Annual General

Meeting ('AGM'), the dividend will be payable on 11 May 2018 to shareholders on the register at the close of business on 20 April 2018. The Board will also seek approval from shareholders at the AGM for authority to acquire up to 10% of the issued share capital of the Company so that, if deemed appropriate and in the best interests of shareholders, the Company may make share purchases in the coming year. Due to the shareholding of the Chairman (34.1% at 26 February 2018), this authority will, as in previous years, be conditional on Takeover Panel approval of a waiver of Rule 9 of the UK Code on Takeovers and Mergers and on the passing of a general authority Panel waiver by shareholders.

Business Overview

The strategy and structure of the Group is evolving around three main axes of Service Offering, Market Sector and Geography. Science Group has four primary Service Offerings: Applied Science; Product Development; Technology Advisory; and Regulatory Services. Organic growth opportunities arise from marketing these services into Vertical Market Sectors (Medical, Food & Beverage and Commercial) and Geographies (North America, Continental Europe, UK and Rest of World).

During the past year, the Board has been increasing the integration of the Group's service offerings to maximise the synergies and scale benefits from the acquisition strategy. The science teams in the Sagentia and Leatherhead businesses have now been integrated into a single Applied Science function and all the Group's Technology Advisory businesses, including OTM, have been merged into a single organisation structured into vertical market sectors which align with other parts of the Group. More recently, potential synergies between the European arm of TSG and the Leatherhead Regulatory team are being evaluated, in order to realise the benefits from the scale and international coverage of these resource teams.

In the year to 31 December 2017, the Product Development services, branded Sagentia, delivered a very strong performance in the Medical sector. This momentum has continued into the start of 2018 and reflects the success of the investments made over the past two years. However, the performance in the Commercial sector was disappointing, resulting in a review of this market strategy and the appointment through internal promotion of a new Managing Director to lead the business.

Leatherhead Food Research ('Leatherhead') has now become the Group's primary Food & Beverage market brand across all geographies. As reported at the Interim Results and as expected, revenue from the original Leatherhead activities declined relative to prior year due to the business transition. While this reduction has been slightly greater than originally anticipated in some areas, the market-leading Regulatory Services has performed well; the benefits of the integration and repositioning of the Group's Applied Science offering are starting to be realised; and the marketing of Advisory services through the Leatherhead channel is gaining momentum.

The integration of TSG, acquired in September, made good progress due to an intensive programme. In the North American operations, essential improvements in processes and operating/financial controls were implemented and the IT systems, along with employee payroll and benefits, were successfully separated from the vendor by year end in line with the integration plan. In Europe, the cost base has been realigned ahead of the REACH registration deadline in May 2018 and a restructuring of the organisation has been undertaken to establish a more integrated European operational model to realise the benefits from the Group's scale and international presence. While acquisition integration is inevitably disruptive in the short-term, the Board remains confident about the potential of TSG both in terms of the markets TSG serves and also the incremental added-value to the Group's wider client base. Revenue from TSG in the period from acquisition to 31 December was £4.9 million and acquisition integration costs were £0.8 million in line with the Board's expectations. As announced at the time of the acquisition, the consideration for TSG includes a contingent deferred component of £0.5 million payable in December 2019, explained further in the notes to the financial statements.

The TSG acquisition significantly expanded the Group's geographical footprint, particularly in the strategically important North American market which is now serviced by offices in 4 US states and around 50 employees. Most Science Group businesses have a high dependence on the USA and continue to invest in developing this market. As a result, the Board has now appointed a President of Science Group North America, to strengthen the leadership and coordination of the Group's businesses. The Group's footprint in Europe was also significantly expanded by TSG and the organisation is evolving to adopt a more integrated operating model. A new Managing Director is being appointed and a new senior role of European Regulatory Operations Director has been created and filled through internal promotion, in order to drive the European regulatory strategy.

As the Group enters 2018, the momentum from 2017 has continued and most business areas are actively recruiting. However there are two particular risk factors that the Board are monitoring. Firstly, the strengthening of Sterling, particularly against the US Dollar, means that if foreign exchange rates remain at the current levels, the Group would probably report a comparative negative effect on Group revenue and profit in the current year relative to 2017. The second factor is wage inflation which is noticeably increasing. This inflation is particularly, but not exclusively, apparent in scientific and technical areas. As a result, the Board is taking appropriate actions to mitigate this effect in terms of productivity, process efficiency, fee rates and margin leakage. In summary, having recognised the changes in these external factors during the latter part of 2017, the Board has been pro-active in addressing these risks and will continue to monitor.

Share Option Plan & Long Term Incentive Programme

Over the past eight years, Science Group plc has been transformed from a small, loss-making Cambridge consultancy into a very profitable international Group with approx. 400 employees and offices in the UK (4 locations), USA (4 States), Germany, Spain, Slovenia, Slovakia and Poland along with presence in Canada, France and Ireland. The Group's science-based services strategy targets vertical market sectors with a flexible structure and collaborative culture to maximise resource utilisation and operational efficiency.

As a result of the successful execution of the strategy, Science Group has

- Increased revenue (on a run rate basis) by approx. 150%;

- Turned a loss-making business into a profitable Group with adjusted operating margins in excess of 15%;
- Increased NAV per share by approx. 70%; and
- Increased the share price by over 700%.

With the exception of an equity fund-raising in 2010 to stabilise the original Sagentia business, and minor share issues related to the partial consideration/retention of founder managers of acquired companies, this success has been primarily funded from operating cash flow. Due to the share buy-back programmes, the number of shares in issue (excluding treasury shares) at 31 December 2017 is in fact approx. 5% less than that at the end of 2010.

The Group strategy requires the organisation to be stable, with key management and staff focused on the delivery of the strategy and associated operating plans. Development and retention of ambitious, intelligent, committed managers is essential and provides the primary source of talent to lead the Group's businesses and for succession planning. Similarly, as a consultancy, the employees of Science Group are the primary operational asset and comprise an outstanding team of international, highly qualified scientists, engineers, consultants and regulatory experts. These skills are in high demand. While remuneration structures currently include profit share, management bonus and share option schemes, the executive and senior business, technical and operational management are regularly targeted by other organisations.

The Board has therefore reflected on how to retain, incentivise and reward the long term contribution of senior management and key staff of the Group. Following a review of possible schemes, the Board has concluded that the simplest and most appropriate model can be derived from amendments to the existing Performance Share Plan ('PSP'). This process has also resulted in a review of some other aspects of the PSP and the following proposals regarding the PSP will therefore be recommended to shareholders at the Annual General Meeting. In summary:

1. As set out at the time of the acquisition of TSG, the Board will seek approval for the exceptional grant of up to 400,000 PSP options related to the acquisition to be incremental to the Plan Limit defined in the 2013 Performance Share Plan.

2. With the expansion of the Group, whilst actually decreasing the number of shares in issue, the current annual limit on grants under the PSP of 1% of issued share capital ('ISC') may not be sufficient to provide an adequate incentive/retention tool for the enlarged employee base. The Board will therefore propose to increase this limit to the lesser of 1.5% of ISC or 600,000 options.

3. At present, the PSP Scheme Rules provide for a 3 month exercise period after termination of employment. It is proposed that all future grants would expire at termination of employment, removing this grace period except in the exceptional circumstance when the employee has been unable to exercise the share options between resignation and termination due to the company being in a close period throughout that time. In such circumstances, the Remuneration Committee would have discretion but not

obligation to defer the lapse date of the options for up to 1 month following the end of the relevant close period but such extension not exceeding 3 months from the employee termination date.

4. An Addendum to the PSP is to be proposed to better align the PSP scheme for USA employees and avoid a potential unintended personal tax liability for the individual prior to exercise of the option. ('USA Addendum')

5. An Addendum to introduce a Long Term Enhanced Executive Incentive ('EEI Addendum') to enable the Remuneration Committee to grant more substantial share options, every 3 years, to a small number of key senior managers at Executive Team, Managing Director, or equivalent technical/operating level, but excluding any employee holding 1.5% or more of ISC in shares or share options. These individual awards of between 50,000 and 250,000 options would vest after 5 years with performance targets based on share price appreciation. For the proposed 2018 EEI grant, 50% or 100% of the award would vest based on achieving share price targets of £3.30 or £4.40 respectively, with pro-rata vesting between these two figures. The maximum aggregate award amount at a single grant issue under the EEI Addendum would be 1.2 million options. It is proposed that each future grant under the EEI Addendum will also require specific shareholder approval.

Employee Diversity

In 2017, the Science Group employee base continued to evolve and the majority of employees in the Group are now women, including around 40% of senior grades. In any organisation, this would be noteworthy, but in a science-based consultancy this is more significant, although there are differences in the gender profiles between business areas. For comparison, in 2010 it is estimated that women accounted for approx. 10% of the employee base and a lower proportion of senior managers. In addition, during the same period, the ethnic and cultural diversity of Science Group has been transformed into a multi-national organisation supporting our clients in over 30 languages.

There is no evidence to correlate this change in employee profile with the financial success of the Group during the period. But there has been a definite change in the culture of the Group through this transformation, as employee policies and practices have been progressively realigned to reflect the diversity of the organisation. Science Group is today a more dynamic and culturally rich environment where progress is based on merit, contribution and achievement, regardless of background, and that provides a foundation for the future benefit of all stakeholders in the Company.

Summary

In aggregate, the financial performance of the Group in 2017 was in line with the Board's expectations, balancing investment in the future with continued strong operating margins and cash flow. The Group's strategy of broadening the market and service offerings through acquisition has produced a differentiated, but increasingly integrated, science-based services offering with an enhanced resilience to individual market volatilities.

At the same time, the Board recognise a number of external factors which create a changing dynamic in the market environment. However, by recognising these effects early and taking appropriate action to mitigate the impact, the Board remains confident on the future prospects of the Group.

Finally, it should be noted that the acquisition of TSG, like prior acquisitions, was funded from the Group's existing cash resources. Even after this significant capital deployment, Science Group plc retains a strong capital structure along with a freehold property asset base which enables access to fixed rate, long term, low cost debt. This foundation enables the Group to continue to evaluate both organic and acquisitive investment opportunities.

Martyn Ratcliffe
Chairman

Finance Director's Report

In the year ended 31 December 2017, the Group generated revenue of £40.8 million (2016: £36.9 million). Revenue from Core Business activities, that is revenue derived from delivering projects and consultancy services and materials recharged on these projects, increased to £39.7 million (2016: £35.8 million). TSG contributed £4.9 million revenue for the 4 month period ended 31 December 2017. Non-Core revenue, comprising property and associated services income derived from space let in the Harston Mill facility, was £1.1 million (2016: £1.1 million).

Adjusted operating profit increased to £6.9 million (2016: £6.2 million), benefitting from a favourable foreign exchange environment and adjusted operating profit margin remained strong at 16.9% (2016: 16.8%). The Board are anticipating the foreign exchange environment to be less favourable in 2018 and, if the current (February 2018) exchange rates are sustained, the effect would most likely be an adverse variance relative to 2017. (Adjusted operating profit is an alternative profit measure that is calculated as operating profit excluding impairment of goodwill and investments, amortisation of acquisition related intangible assets, acquisition integration costs, share based payment charges and other specified items that meet the criteria to be adjusted. Refer to Note 1 for further information on this and other alternative performance measures).

Statutory operating profit of £4.4 million (2016: £3.4 million) included one-off costs related to the TSG acquisition of £0.8 million (2016: £0.3 million related to the 2015 acquisitions). Statutory profit before tax was £3.9 million (2016: £3.0 million) and statutory profit after tax was £3.0 million (2016: £2.7 million).

A significant proportion of the Group's revenue is denominated in US Dollars and Euros and changes in exchange rates can have a significant influence on the Group's financial performance. In 2017, £14.0 million of the Group Core Business revenue was denominated in US Dollars (2016: £12.4 million) and £4.1 million of the Group Core Business revenue was denominated in Euros (2016: £3.9 million). The exchange rates during the year resulted in a revenue and operating profit benefit, when compared to the rates in effect during 2016, of £0.7 million and £0.6 million respectively. The Board determined to use some of this benefit to accelerate some investment programmes. The Group continues to monitor the volatility of the exchange rate and to date has decided not to utilise foreign exchange hedging instruments.

The tax charge in the Consolidated Income Statement of £0.9 million (2016: £0.2 million) results in an effective tax rate of 22.2% (2016: 7.4%). The various significant adjustments affecting the prior years' tax charges have largely ceased with the historic tax losses being fully utilised where possible and the Research and Development tax claim in 2017 of £0.3 million being recognised in the year to which it relates (2016 included an R&D credit of £0.7 million relating to the 2015 and 2016 financial years). While the Group effective tax rate was anticipated to be below the UK nominal corporation tax rate due to the benefit of R&D tax credits, in 2017, a one-off tax cost of £120,000 has been recognised in relation to the Tax Cuts and Jobs Act in the US due to the European arm of TSG being partially owned by the TSG US company.

At 31 December 2017, Science Group had £11.4 million (2016: £11.8 million) of tax losses carried forward of which £0.6 million (2016: £1.4 million) relate to trading losses which are anticipated to be used to offset future trading profits. The remaining tax losses of £10.8 million (2016: £10.4 million) have not been recognised as a deferred tax asset due to the low probability that these losses will be able to be utilised.

Statutory basic earnings per share ('EPS') was 7.7 pence (2016: 6.8 pence). In order to provide a measure that demonstrates the underlying value generated by the Group at a per share level, an adjusted earnings per share measure has been presented. Adjusted basic earnings per share, which excludes adjusting items and includes a corporation tax charge on adjusted profit before tax at the Group's blended corporation tax rate, increased to 12.8 pence (2016: 11.4 pence).

Cash generated from operations excluding Client Registration Funds ('CRF') was £7.8 million (2016: £11.6 million). Reported cash generated from operations in accordance with IFRS was £8.6 million (2016: £11.6 million). The difference in these two metrics relates to the fact that TSG, particularly in the USA, processes regulatory registration payments on behalf of clients. These CRF monies are, as far as is practicable, now held separately from the Group cash balances. The alternative performance measures, adjusting for CRF, more accurately reflect the Group's cash position and cash flow.

The Group's term loan with Lloyds Bank plc ('Lloyds') was renewed in 2016 as a 10 year fixed term loan of £15 million, secured on the freehold properties at Harston and Epsom. Phased interest rate swaps hedge the loan resulting in a 10-year fixed effective interest rate of 3.5%, comprising a margin over 3 month LIBOR and the cost of the swap instruments. The repayment profile of the loan is £1 million per annum over the term with the remaining £5 million repayable on expiry of the loan in 2026. The term loan has no operating covenants as long as the Group net bank debt is less than £10 million. If this threshold is crossed, two conditions apply: a financial covenant, measured half-yearly on a 12 month rolling basis, such that annual EBITDA must exceed 1.25 times annual debt servicing (capital and interest); and a security covenant whereby the loan to value ('LTV') ratio of the securitised properties must remain below 75%. If either of these conditions are breached, a remedy period of 6 months is provided, during which time the EBITDA or LTV condition can be remedied or the net bank debt can be reduced to less than £10 million. The Group has adopted hedge accounting for the interest rate swap related to the bank loan under IAS 39, Financial Instruments, and the gain on change in fair value of the interest rate swaps was £30,000 (2016: £0.2 million) which was recognised directly within equity.

The Group has maintained its strong balance sheet with shareholders' funds at 31 December 2017 of £37.7 million equivalent to 95.9 pence per share in issue (2016: shareholders' funds of £36.0 million, equivalent to 91.5 pence per share in issue). This includes the Group's freehold properties in Harston, near Cambridge and in Epsom, Surrey, held on the balance sheet at an aggregate value of £21.7 million (2016: £21.9 million). The Board considers it appropriate to undertake formal property valuations at least every 5 years and will therefore be initiating this process in 2018 for both properties to align the valuation schedules.

The Group cash position (excluding CRF) at 31 December 2017 was £19.9 million (2016: £26.0 million) and net funds were £6.0 million (2016: £11.3 million). CRF of £0.9 million (2016: £nil) were held at the year end. Working capital management during the year continued to be a focus with debtor days of 45 days at 31 December 2017 (2016: 42 days) while combined debtor and WIP days reduced to negative 4 days (2016: negative 13 days) following the inclusion of TSG. (WIP is defined as the net of accrued income and payments received on account).

Net-funds-plus-freehold-property-per-share in issue, an alternative performance measure (refer to the notes to the financial statements for the calculation) was 70.3 pence per share (2016: 84.5 pence per share) reflecting the cash deployed in the acquisition of TSG in September 2017.

At 31 December 2017, the Company had 39,367,128 ordinary shares in issue (2016: 39,328,794) and held an additional 2,694,907 shares in treasury (2016: 2,733,241).

In summary, Science Group has again delivered a performance in line with the Board's expectations, with strong profitability and excellent cash flow. This value-enhancing model has enabled the Group to expand through acquisition without, to date, requiring equity capital fund raising, whilst establishing and maintaining a very robust balance sheet.

Rebecca Archer
Finance Director

Consolidated Income Statement
For the year ended 31 December 2017

	Note	2017 £000	2016 £000
Revenue	2	**40,823**	36,899
Operating expenses before adjusting items		**(33,917)**	(30,683)
Adjusted operating profit		**6,906**	6,216
Amortisation and impairment of intangible assets		**(1,410)**	(1,857)
Impairment of other investments		**-**	(50)
Acquisition integration costs		**(812)**	(317)
Share based payment charge		**(312)**	(597)
Operating profit	2	**4,372**	3,395
Finance income		**3**	2
Finance costs		**(496)**	(429)
Profit before income tax		**3,879**	2,968
Income tax charge	3	**(861)**	(219)
Profit for the year		**3,018**	2,749
Profit for the year attributable to equity holders of the parent		**3,018**	2,749
Earnings per share			
Earnings per share from continuing operations (basic)	5	**7.7p**	6.8p
Earnings per share from continuing operations (diluted)	5	**7.5p**	6.6p
Adjusted earnings per share from continuing operations (basic)	5	**12.8p**	11.4p
Adjusted earnings per share from continuing operations (diluted)	5	**12.5p**	11.1p

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

	2017 £000	2016 £000
Profit for the year	**3,018**	2,749
Other comprehensive income		
Items that will or may be reclassified to profit or loss:		
Fair value gain on interest rate swap, net of tax	**30**	197
Exchange differences on translating foreign operations	**(28)**	30
Deferred tax on interest rate swap	**(5)**	-
Deferred tax on interest rate swap - prior period adjustment	**(38)**	-
Other comprehensive (expense)/income for the year	**(41)**	227
Total comprehensive income for the year	**2,977**	2,976
Total comprehensive income for the year attributable to owners of the parent	**2,977**	2,976

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2017

	Issued capital £000	Share premium £000	Treasury stock £000	Merger reserve £000	Translation reserve £000	Share based payment reserve £000	Retained earnings £000	Total – Share-holders funds £000
Balance at 1 January 2016	**421**	**8,230**	**(1,215)**	**10,343**	**308**	**2,359**	**16,785**	**37,231**
Purchase of own shares	-	-	(2,757)	-	-	-	-	**(2,757)**
Issue of shares out of treasury stock	-	-	364	-	-	-	(83)	**281**
Equity interest of cancelled share options	-	-	-	-	-	(361)	-	**(361)**
Dividends paid	-	-	-	-	-	-	(1,646)	**(1,646)**
Share based payment charge	-	-	-	-	-	353	-	**353**
Deferred tax on share based payment transactions	-	-	-	-	-	-	(74)	**(74)**
Transactions with owners	**-**	**-**	**(2,393)**	**-**	**-**	**(8)**	**(1,803)**	**(4,204)**
Profit for the year	-	-	-	-	-	-	2,749	**2,749**
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	197	**197**
Exchange differences on translating foreign operations	-	-	-	-	30	-	-	**30**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**30**	**-**	**2,946**	**2,976**
Balance at 31 December 2016	**421**	**8,230**	**(3,608)**	**10,343**	**338**	**2,351**	**17,928**	**36,003**

	Issued capital £000	Share premium £000	Treasury stock £000	Merger reserve £000	Translation reserve £000	Share based payment reserve £000	Retained earnings £000	Total – Share-holders funds £000
Balance at 1 January 2017	**421**	**8,230**	**(3,608)**	**10,343**	**338**	**2,351**	**17,928**	**36,003**
Purchase of own shares								
Issue of shares out of treasury stock	-	-	39	-	-	-	(24)	**15**
Dividends paid	-	-	-	-	-	-	(1,653)	**(1,653)**
Share based payment charge	-	-	-	-	-	312	-	**312**
Deferred tax on share based payment transactions	-	-	-	-	-	-	85	**85**
Transactions with owners	**-**	**-**	**39**	**-**	**-**	**312**	**(1,592)**	**(1,241)**
Profit for the year	-	-	-	-	-	-	3,018	**3,018**
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	30	**30**
Exchange differences on translating foreign operations	-	-	-	-	(28)	-	-	**(28)**
Deferred tax on interest rate swap including prior period adjustment	-	-	-	-	-	-	(43)	**(43)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(28)**	**-**	**3,005**	**2,977**
Balance at 31 December 2017	**421**	**8,230**	**(3,569)**	**10,343**	**310**	**2,663**	**19,341**	**37,739**

Consolidated Balance Sheet
At 31 December 2017

	Note	2017 £000	2016 £000
Assets			
Non-current assets			
Acquisition related intangible assets	7	**9,499**	5,183
Goodwill	7	**11,535**	4,033
Property, plant and equipment		**23,787**	23,793
Investments		**50**	50
Derivative financial assets		**227**	197
Deferred tax assets	4	**104**	287
		45,202	33,543
Current assets			
Trade and other receivables	8	**10,627**	8,219
Current tax asset		**-**	537
Cash and cash equivalents – Client registration funds	9	**887**	-
Cash and cash equivalents – Group cash	9	**19,893**	25,996
		31,407	34,752
Total assets		**76,609**	68,295
Liabilities			
Current liabilities			
Trade and other payables	10	**19,454**	15,213
Current tax liabilities		**554**	-
Provisions	11	**825**	-
Borrowings	13	**1,250**	1,000
		22,083	16,213
Non-current liabilities			
Provisions	11	**466**	-
Borrowings	13	**12,676**	13,664
Contingent consideration	14	**519**	-
Deferred tax liabilities	4	**3,126**	2,415
		16,787	16,079
Total liabilities		**38,870**	32,292
Net assets		**37,739**	36,003
Shareholders' equity			
Share capital	12	**421**	421
Share premium		**8,230**	8,230
Treasury stock		**(3,569)**	(3,608)
Merger reserve		**10,343**	10,343
Translation reserve		**310**	338
Share based payment reserve		**2,663**	2,351
Retained earnings		**19,341**	17,928
Total equity		**37,739**	36,003

Consolidated Statement of Cash Flows
For the year ended 31 December 2017

	2017 £000	2016 £000
Operating profit	**4,372**	3,395
Adjustments for:		
Amortisation on acquisition related intangible assets	**1,410**	817
Depreciation on property, plant and equipment	**728**	745
Loss on disposal of property, plant and equipment	**-**	57
Share based payment charge	**312**	597
Impairment of goodwill	**-**	1,040
Impairment of cost of investment	**-**	50
Decrease in receivables	**1,406**	675
Increase in payables representing client registration funds	**887**	-
(Decrease)/increase in payables excluding balances representing client registration funds	**(469)**	4,211
Cash generated from operations	**8,646**	11,587
Finance costs	**(386)**	(354)
UK corporation tax (paid)/received	**(91)**	560
Foreign corporation tax received/(paid)	**19**	(123)
Cash flows from operating activities	**8,188**	11,670
Interest received	**3**	2
Purchase of property, plant and equipment	**(471)**	(2,432)
Purchase of subsidiary undertakings, net of cash received	**(10,435)**	-
Cash flows used in by investing activities	**(10,903)**	(2,430)
Issue of shares out of treasury	**15**	281
Payment in lieu of cancelled share options	**-**	(605)
Repurchase of own shares	**-**	(2,757)
Dividends paid	**(1,653)**	(1,646)
Proceeds from bank loans	**-**	15,000
Repayment of bank loans	**(750)**	(8,000)
Repayment of interest rate swap	**-**	(216)
Cash flows (used in)/generated by financing activities	**(2,388)**	2,057
(Decrease)/increase in cash and cash equivalents in the year	**(5,103)**	11,297
Cash and cash equivalents at the beginning of the year	**25,996**	14,516
Exchange (loss)/gain on cash	**(113)**	183
Cash and cash equivalents at the end of the year	**20,780**	25,996

Cash and cash equivalents is analysed as follows:

	2017 £000	2016 £000
Cash and cash equivalents – Client registration funds (note 9)	**887**	-
Cash and cash equivalents – Group cash	**19,893**	25,996
	20,780	25,996

Extracts from notes to the financial statements

1. General Information

Science Group plc (the 'Company') and its subsidiaries (together 'Science Group' or 'Group') is an international consultancy providing applied science, product development, technology advisory and regulatory services to a client base in medical, food & beverage and commercial markets. The Company is the ultimate parent company in which the results of all Science Group companies are consolidated.

The Group and Company accounts of Science Group plc were prepared under IFRS as adopted by the European Union, and have been audited by KPMG LLP. Accounts are available from the Company's registered office; Harston Mill, Harston, Cambridge, CB22 7GG.

The Company is incorporated and domiciled in England and Wales under the Companies Act 2006 and has its primary listing on the AIM Market of the London Stock Exchange (SAG.L). The value of Science Group plc shares, as quoted on the London Stock Exchange at 31 December 2017, was 205.5 pence per share (31 December 2016: 155.1 pence).

Alternative performance measures

The Group uses alternative (non-Generally Accepted Accounting Practice ('non-GAAP')) performance measures of 'adjusted operating profit', 'adjusted earnings per share', 'net funds' and 'net-funds-plus-freehold-property-per-share in issue' which are not defined within the International Financial Reporting Standards (IFRS). These are explained as follows:

(a) Adjusted operating profit
The Group calculates this measure by making adjustments to exclude certain items from operating profit namely: impairment of goodwill and investments, amortisation of acquisition related intangible assets, acquisition integration costs, share based payment charges and other specified items that meet the criteria to be adjusted.

The criteria for the adjusted items in the calculation of adjusted operating profit is operating income or expenses that are material and either arise from an irregular and significant event or the income/cost is recognised in a pattern that is unrelated to the resulting operational performance. Materiality is defined as an amount which, to a user, would influence the decision making and understandability of the annual report. Acquisition integration costs include all costs incurred directly related to the restructuring, relocation and integration of acquired businesses. Adjustments for share based payment charges occurs because: once the cost has been calculated, the Directors cannot influence the share based payment charge incurred in subsequent years; it is understood that many market analysts exclude the cost from their valuation analysis of the business; and the value of the share option to the employee differs considerably in value and timing from the actual cash cost to the Group.

The calculation of this measure is shown on the Consolidated Income Statement.

(b) Adjusted earnings per share ('EPS')
The Group calculates this measure by dividing adjusted profit after tax by the weighted average number of shares in issue and the calculation of this measure is disclosed in Note 5. The tax rate applied to calculate the tax charge in this measure is the tax at the blended corporation tax rate across the various jurisdictions rate for the year which is 21.5% (2016: 20.0%) which results in a comparable tax charge year on year.

(c) Net funds
The Group calculates this measure as the net of cash and cash equivalents – Group cash and borrowings. Client registration funds are excluded from this calculation because these monies are pass through funds held on behalf of the client solely for the purpose of payment of registration fees to regulatory bodies and for which no revenue is recognised. This cash is not available for use in day to day operations. This measure is calculated as follows:

	Note	**2017 £000**	2016 £000
Cash and cash equivalents – Group cash	9	**19,893**	25,996
Borrowings	13	**(13,926)**	(14,664)
Net funds		**5,967**	11,332

1. General Information (continued)
Alternative performance measures (continued)

(d) Net-funds-plus-freehold-property-per-share in issue
The Group calculates this measure by dividing the sum of: net funds plus freehold land and buildings by the number of shares in issue at the balance sheet date. This is calculated as follows:

In £000 unless otherwise stated	**2017**	2016
Net funds	**5,967**	11,332
Freehold land and buildings	**21,719**	21,882
Net funds plus freehold property	**27,686**	33,214
Number of shares in issue (excluding treasury shares) ('000 shares)	**39,367**	39,329
Net-funds-plus-freehold-property-per-share in issue (pence)	**70.3**	84.5

The Directors believe that disclosing these alternative performance measures enhances shareholders' ability to evaluate and analyse the underlying financial performance of the Group. Specifically, the adjusted operating profit measure is used internally in order to assess the underlying operational performance of the Group, aid financial, operational and commercial decisions and in determining employee compensation. The adjusted EPS measure allows the shareholder to understand the underlying value generated by the Group on a per share basis. Net funds represents the Group's cash available for day to day operations and investments. The measure of net-funds-plus-freehold-property-per-share in issue is intended to assist shareholders in understanding the component of the market value of the shares that is attributable to these assets held by the Group. As such, the Board considers these measures enhance shareholders' understanding of the Group results and should be considered alongside the IFRS measures.

2. Segment information
Science Group is organised on a worldwide basis into two segments, Core Business and Non-Core Business. 'Core Business' services revenue includes all consultancy fees for services operations. 'Core Business' other revenue includes recharged materials and expenses and product/licence revenue generated directly from all 'Core Business' activities. 'Non-Core Business' activities include rental income from Harston Mill and income from the provision of external IT services. The segmental analysis is reviewed to operating profit. Other resources are shared across the Group.

Year ended 31 December 2017	**Core Business £000**	**Non-Core Business £000**	**Total £000**
Services revenue	38,365	39	38,404
Third party property income	-	1,080	1,080
Other	1,339	-	1,339
Revenue	**39,704**	**1,119**	**40,823**
Adjusted operating profit	**6,709**	**197**	**6,906**
Amortisation and impairment of intangible assets	(1,410)	-	(1,410)
Acquisition integration costs	(812)	-	(812)
Share based payment charge	(312)	-	(312)
Operating profit	**4,175**	**197**	**4,372**
Finance charges (net)			(493)
Profit before income tax			**3,879**
Income tax charge			(861)
Profit for the year			**3,018**

2. Segment information (continued)

Year ended 31 December 2016	Core Business £000	Non-Core Business £000	Total £000
Services revenue	34,228	36	34,264
Third party property income	-	1,079	1,079
Other	1,556	-	1,556
Revenue	**35,784**	**1,115**	**36,899**
Adjusted operating profit	**6,121**	**95**	**6,216**
Amortisation and impairment of intangible assets	(1,857)	-	(1,857)
Impairment of other investments	(50)	-	(50)
Acquisition integration costs	(317)	-	(317)
Share based payment charge	(597)	-	(597)
Operating profit	**3,300**	**95**	**3,395**
Finance charges (net)			(427)
Profit before income tax			**2,968**
Income tax charge			(219)
Profit for the year			**2,749**

Geographical segments

Revenue and non-current assets (excluding deferred tax assets) by geographical area are as follows:

	2017		2016	
	Revenue £000	**Non-current assets £000**	Revenue £000	Non-current assets £000
United Kingdom	**7,673**	**45,048**	10,324	33,253
Other European countries	**14,382**	**21**	9,739	-
North America	**17,105**	**29**	15,710	3
Other	**1,663**	**-**	1,126	-
Total	**40,823**	**45,098**	36,899	33,256

For the purpose of the analysis of revenue, geographical markets are defined as the country or area in which the client is based. Non-current assets are allocated based on their physical location.

During the year ended 31 December 2017, the Group acquired Technology Sciences Group and its subsidiaries (note 14). Due to the nature of the business of TSG, being a science-based consultancy which is consistent in nature to the existing Core Business segment, the revenue was included within the core segment.

During 2017, £4.1 million or 10% of the Group’s revenue depended on a single customer in the Core Business Segment, based in Europe (excluding the UK) (2016: no single customer accounted for 10% or more of the Group’s revenue). Operating profit for the Core Business Segment included a depreciation charge of £0.7 million (2016: £0.8 million) and the Non-Core Business Segment included a depreciation charge of £32,000 (2016: £32,000). Capital expenditure attributable to the Core Business Segment is £0.6 million (2016: £2.6 million). Capital expenditure attributable to the Non-Core Business Segment is £nil (2016: £nil).

3. Income tax

The tax charge comprises:

Year ended 31 December	2017 £000	2016 £000
Current taxation	**(1,281)**	(131)
Current taxation – adjustment in respect of prior years	**(34)**	(42)
Deferred taxation (Note 4)	**196**	(657)
Deferred taxation – adjustment in respect of prior years	**(50)**	(64)
R&D tax credit	**308**	675
	(861)	(219)

The corporation tax on Science Group's profit before tax differs from the theoretical amount that would arise using the blended corporation tax rate across the various jurisdictions applicable to profits of the consolidated companies of 21.5% (2016: 20.0%) as follows:

	2017 £000	2016 £000
Profit before tax	**3,879**	2,968
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	**(836)**	(594)
Expenses not deductible for tax purposes	**(45)**	(455)
Adjustment in respect of prior years – current tax	**(34)**	(42)
Adjustment in respect of prior years – deferred tax	**(50)**	(64)
Movement in deferred tax due to change in tax rate	**-**	117
Share scheme movements	**8**	38
Current year losses for which no deferred tax asset was recognised	**(126)**	-
Mandatory earnings and profits one-time tax	**(120)**	-
Prior year losses used in the current year which were not previously recognised	**34**	106
R&D tax credit	**308**	675
Tax charge	**(861)**	(219)

During the financial year, the United States Federal Government released the Tax Cuts and Jobs Act. The impact of this bill has resulted in the recognition of a corporation tax liability based on the undistributed profits of all foreign subsidiaries of Technology Sciences Group Inc. This is a mandatory one-time tax for and hence is not anticipated to recur in a future period.

The Group claims Research and Development tax credits under both the R&D expenditure credit scheme and the Small or Medium-sized Scheme. In the current year, the Group recognised a tax credit of £0.3 million on an accrual basis (2016: the R&D tax credit of £0.7 million in 2016 relates to the claims for the 2015 and 2016 financial years recognised on an accruals basis). The Group performed a reasonable estimate of all amounts involved to determine the impact of the R&D tax credits in the current period.

4. Deferred tax

The movement in deferred tax assets and liabilities during the year by each type of temporary difference is as follows:

	Accelerated capital allowances £000	Tax losses £000	Share based payment £000	Acquisition related intangible assets £000	Other temporary differences £000	Total £000
At 1 January 2016	(1,972)	1,324	397	(1,125)	43	(1,333)
Charged to the income statement	188	(973)	(28)	189	(33)	(657)
Charged to the income statement (prior year adjustment)	-	(64)	-	-	-	(64)
Charged to equity	-	-	(74)	-	-	(74)
At 31 December 2016	**(1,784)**	**287**	**295**	**(936)**	**10**	**(2,128)**
Charged to the income statement	50	(183)	97	243	(11)	196
Deferred taxation relating to acquisitions	-	-	-	(1,308)	226	(1,082)
Charge to the income statement (prior year adjustment)	-	-	-	-	(50)	(50)
Charged to equity	-	-	85	-	(43)	42
At 31 December 2017	**(1,734)**	**104**	**477**	**(2,001)**	**132**	**(3,022)**

	2017 £000	**2016 £000**
Deferred tax assets	104	287
Deferred tax liabilities	(3,126)	(2,415)
Net deferred tax liability	(3,022)	(2,128)

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Deferred tax liabilities are recognised against accelerated capital allowances. The Group has available tax losses of approximately £11.4 million (2016: £11.8 million) and of these losses, £10.8 million are not recognised as a deferred tax asset and they do not expire.

5. Earnings per share

The calculation of earnings per share is based on the following result and weighted average number of shares:

	2017			2016		
	Profit after tax £000	**Weighted average number of shares**	**Pence per share**	Profit after tax £000	Weighted average number of shares	Pence per share
Basic earnings per ordinary share	**3,018**	**39,316,141**	**7.7**	2,749	40,542,379	6.8
Effect of dilutive potential ordinary shares: share options	**-**	**957,584**	**(0.2)**	-	1,094,273	(0.2)
Diluted earnings per ordinary share	**3,018**	**40,273,725**	**7.5**	2,749	41,636,652	6.6

Only the share options granted are dilutive.

5. Earnings per share (continued)

The calculation of adjusted earnings per share is as follows:

	2017			2016		
	Adjusted* profit after tax £000	**Weighted average number of shares**	**Pence per share**	Adjusted* profit after tax £000	Weighted average number of shares	Pence per share
Basic earnings per ordinary share	**5,032**	**39,316,141**	**12.8**	4,631	40,542,379	11.4
Effect of dilutive potential ordinary shares: share options	**-**	**957,584**	**(0.3)**	-	1,094,273	(0.3)
Diluted earnings per ordinary share	**5,032**	**40,273,725**	**12.5**	4,631	41,636,652	11.1

*Calculation of adjusted profit after tax:

	2017 £000	2016 £000
Adjusted operating profit	**6,906**	6,216
Finance income	**3**	2
Finance costs	**(496)**	(429)
Adjusted profit before tax	**6,413**	5,789
Tax charge at the blended corporation tax rate across the various jurisdictions 21.5% (2016: 20.0%)	**(1,381)**	(1,158)
Adjusted profit after tax	**5,032**	4,631

6. Dividends

The proposed final dividend for 2016 of 4.2 pence per share was approved by Shareholders and the Board on 18 May 2017. An amount of £1.65 million was recognised as a distribution to equity holders in the year ended 31 December 2017.

The Board has proposed a final dividend for 2017 of 4.4 pence per share. The dividend is subject to approval by shareholders at the Annual General Meeting and the expected cost of £1.73 million has not been included as a liability as at 31 December 2017.

7. Intangible Assets

	Customer contracts and relationships £000	Goodwill £000	Total £000
Cost			
At 1 January 2016	6,894	6,258	13,152
Acquisitions through business combinations	-	-	-
At 31 December 2016	6,894	6,258	13,152
Acquisitions through business combinations	5,726	7,502	13,228
At 31 December 2017	**12,620**	**13,760**	**26,380**
Accumulated amortisation			
At 1 January 2016	(887)	-	(887)
Amortisation charged in year	(817)	-	(817)
At 31 December 2016	(1,704)	-	(1,704)
Amortisation charged in year	(1,410)	-	(1,410)
At 31 December 2017	**(3,114)**	**-**	**(3,114)**
Accumulated impairment			
At 1 January 2016	(7)	(1,185)	(1,192)
Impairment losses for the year	-	(1,040)	(1,040)
At 31 December 2016 and 31 December 2017	**(7)**	**(2,225)**	**(2,232)**
Carrying amount			
At 31 December 2016	5,183	4,033	9,216
At 31 December 2017	**9,499**	**11,535**	**21,034**

Reconciliation of amortisation and impairment to the Consolidated Income Statement:

	2017 £000	2016 £000
Amortisation of intangible assets	**(1,410)**	(817)
Impairment of goodwill relating to OTM	**-**	(1,040)
Amortisation and impairment of intangible assets	**(1,410)**	(1,857)

Goodwill and acquisition related intangible assets recognised arose from acquisitions during 2013, 2015 and 2017. The discount rates used for goodwill impairment reviews and the carrying amount of goodwill is allocated as follows:

	2017 Pre tax discount rate	**£000**	2016 Pre tax discount rate	£000
OTM Consulting	**-**	**-**	11.2%	1,352
Oakland Innovation	**-**	**-**	11.0%	2,031
Advisory	**11.2%**	**3,383**	-	-
Leatherhead Research	**11.2%**	**650**	11.0%	650
TSG – Americas (note 14)	**11.0%**	**3,166**	-	-
TSG – Europe (note 14)	**11.0%**	**4,336**	-	-
		11,535		4,033

Cash Generating Units

During 2017, the OTM Consulting and Oakland Innovation CGUs were combined into an Advisory CGU following the merging of the Group's technology advisory businesses including OTM consulting. The goodwill has been aligned to reflect these changes.

7. Intangible Assets (continued)

Impairment review of goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and operating profit margins.

The Group prepares the cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates cash flows for the following three years based on forecast rates of growth or decline in revenue by the CGU. The operating profit margin for the CGU that is incorporated in the cash flow forecasts is derived from the most recent financial plan approved by the Board.

The Group monitors its post-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rates applying to CGUs, the Directors have considered the relative sizes, risks and the inter-dependencies of its CGUs. The impairment reviews use a discount rate adjusted for pre-tax cash flows and are included in the table above.

8. Trade and other receivables

	2017 **£000**	2016 £000
Current assets:		
Trade receivables	**7,953**	7,297
Provision for impairment	**(362)**	(97)
Trade receivables – net	**7,591**	7,200
Amounts recoverable on contracts	**2,107**	356
Other receivables	**7**	14
VAT	**33**	-
Prepayments	**889**	649
	10,627	8,219

9. Cash and cash equivalents

	2017 **£000**	2016 £000
Short term bank deposits – Group cash	**37**	37
Cash at bank and in hand – Group cash	**19,856**	25,959
Cash and cash equivalents – Group cash	**19,893**	25,996
Cash at bank and in hand – Client registration funds	**887**	-
	20,780	25,996

The Group receives cash from clients which are pass through funds solely for the purpose of payment of registration fees to regulatory bodies. This cash is separated in the day to day operations of the business, is separately identified for reporting purposes and is unrestricted.

10. Current liabilities

	2017 **£000**	2016 £000
Trade and other payables		
Payments received on account	**11,252**	8,584
Trade payables	**1,518**	765
Other taxation and social security	**825**	941
VAT	**-**	367
Deferred income	**-**	895
Accruals	**5,859**	3,661
	19,454	15,213

11. Provisions

	Onerous lease £000	Dilapidations £000	Other £000	Total £000
At 1 January 2016 and 1 January 2017	-	-	-	-
Provisions held by acquired companies at date of acquisition	495	183	615	1,293
Increase in provision	-	16	-	16
Gain on foreign exchange fluctuations	-	-	(18)	(18)
At 31 December 2017	**495**	**199**	**597**	**1,291**

	2017 £000	2016 £000
Current liabilities	**825**	-
Non-current liabilities	**466**	-
	1,291	-

Provisions for onerous leases and dilapidation provisions have been recognised at the present value of the expected obligation; the balances are undiscounted as discounting is considered to be immaterial.

The average remaining life of the leases at 31 December 2017 is 2.0 years.

Other provisions represents the best estimate of the future economic outflow of settling potential litigation claims and associated costs such as legal fees. In all cases, the claims are being investigated by our lawyers and are being robustly contested as to both liability and quantum. These claims are expected to be resolved within one year and are therefore shown within current liabilities however, it is possible that these claims may take longer to resolve. The claim may be settled at amounts higher or lower than that provided depending on the outcome of commercial or legal arguments. The provision made is management's best estimate of the Group's liability based on past experience, commercial judgement and legal advice.

12. Called-up share capital

	2017 £000	2016 £000
Allotted, called-up and fully paid		
Ordinary shares of £0.01 each	**421**	421
	Number	Number
Allotted, called-up and fully paid		
Ordinary shares of £0.01 each	42,062,035	42,062,035

The allotted, called-up and fully paid share capital of the Company as at 31 December 2017 was 42,062,035 shares (2016: 42,062,035) and the total number of ordinary shares in issue (excluding treasury shares) was 39,367,128 (2016: 39,328,794). A reconciliation of treasury shares held by the Company is as follows:

Reconciliation of treasury shares	**2017 Number**	2016 Number
At beginning of year	**2,733,241**	1,002,029
Purchase of own shares	**-**	2,115,000
Settlement of share options	**(38,334)**	(383,788)
At end of year	**2,694,907**	2,733,241

It is the intention of the Company to hold the treasury shares for the purpose of settling employee share schemes and for settling liquidated sums of cash consideration in any future business acquisitions, and in limited circumstances to satisfy shareholder demand which market liquidity is unable to meet. No dividend or other distribution may be made to the Company in respect of the treasury shares.

12. Called-up share capital (continued)

During 2016, the Remuneration Committee made an offer to eligible employees of outstanding vested (or to vest in 2016) grants under the Unapproved Scheme and Performance Share Plan (limited to awards of up to 15,000 options), to buy out the share option for approximately the net realisable value. In aggregate, acceptances of the offer accounted for 1.0 million share options at an aggregate cash cost of £0.6 million paid in August 2016, and a one-off charge of £0.2 million, included within share based payments in 2016. No Director had any share options that were eligible.

The total charge relating to employee share based payment plans, all of which related to equity-settled share based payment transactions, was as follows:

	2017 **£000**	2016 £000
Equity settled share based payment charge	**312**	353
Accelerated charge due to cancelation in year	**-**	244
	312	597

13. Borrowings

	2017 **£000**	2016 £000
Non-current		
Bank borrowings	**12,676**	13,664
	12,676	13,664
Current		
Bank borrowings	**1,250**	1,000
	1,250	1,000
Total borrowings	**13,926**	14,664

During the year ended 31 December 2016, the Group entered into a new 10 year fixed term loan of £15 million which is secured on the freehold properties of the Group and on which interest is payable based on LIBOR plus 2.6% margin. The repayment profile of the loan is £1 million per annum over the term with the remaining £5 million repaid on expiry of the loan in 2026. Costs directly associated with entering into the loan of £90,000 were incurred, have been offset against the balance outstanding and are being amortised over the period of the loan.

The new term loan has no operating covenants while the Group net bank debt is less than £10 million. If this threshold is crossed, two conditions apply: a financial covenant, measured half-yearly on a 12 month rolling basis, such that annual EBITDA must exceed 1.25 times annual debt servicing (capital and interest); and a security covenant whereby the loan to value ('LTV') ratio of the securitised properties must remain below 75%. If either of these conditions is breached, a remedy period of 6 months is provided, during which time the EBITDA or LTV condition can be remedied or the net bank debt can be reduced to less than £10 million.

In accordance with an agreed repayment schedule with the bank, bank borrowings are repayable to Lloyds as follows:

	2017 **£000**	2016 £000
Within one year	1,250	1,000
Between 1 and 2 years	1,000	1,000
Between 2 and 5 years	3,000	3,000
Over 5 years	8,750	9,750
	14,000	14,750

As a result of 31 December 2017 falling on a Sunday, the Quarter 4 loan repayment was paid on 2 January 2018.

13. Borrowings (continued)
In order to address interest rate risk, the Group entered into phased interest rate swaps in order to fully hedge the loan resulting in a 10-year fixed effective interest rate of 3.5%. The Group has adopted hedge accounting for the interest rate swap under IAS 39, Financial Instruments, and the gain on change in fair value of the interest rate swaps entered into in 2017 of £30,000 (2016: £197,000) was recognised directly within equity.

The fair value of the swap at 31 December 2017 was an asset of £227,000 (2016: £197,000).

14. Acquisition of Technology Sciences Group
On 06 September 2017, the Group acquired 100% of the equity of Technology Sciences Group Inc, Technology Sciences Group Limited and associated subsidiaries ('TSG') from Dentons Innovation Group US, LLC. TSG provides scientific advisory and regulatory services to a diverse client base in the Agricultural, Chemical, Consumer, Cosmetic, Medical Device and Food & Beverage industries. The acquisition is expected to enable the Group to accelerate its development in this identified growth and investment area.

The consideration of £13.7 million ($17.0 million) was satisfied by £13.2 million ($16.2 million) in cash on completion and £0.5 million ($0.8 million) as contingent consideration. As part of the acquisition, the Group incurred costs of £0.8 million which include stamp duty, legal fees associated with the acquisition and one off costs relating to the integration of the TSG companies.

Technology Sciences Group contributed £4.9 million revenue for the period between the date of acquisition and the balance sheet date and a loss of £0.2 million to the Group's profit before tax which includes an allocation of costs and management recharges of £0.1 million. If the acquisition of Technology Sciences Group had been completed on the first day of the financial year, Group revenue would have been £10.7 million higher and the Group Profit before tax would be reduced by a loss of £0.9 million.

Contingent consideration

	2017 **£000**
Contingent consideration at acquisition	**530**
Unwind of discount	**6**
Gain on foreign exchange fluctuations	**(17)**
Contingent consideration at 31 December 2017	**519**

Contingent consideration is linked to certain agreed conditions on the vendor of TSG. The certain conditions are in place from the date of acquisition until 31 December 2019 and if met, the contingent consideration falls due on 31 December 2019.

14. Acquisition of Technology Sciences Group (continued)

The acquisition is recognised as two distinctive cash generating units identified as TSG Americas and TSG Europe for the purpose of the recognition of the acquisition related intangible assets.

	Book value £000	Key judgements and estimates £000	Fair value adjustments £000	Fair value £000
Net assets acquired:				
Acquisition related intangible assets	-	-	5,726	5,726
Property, plant and equipment	129	-	-	129
Trade and other receivables	3,769	-	-	3,769
Cash and cash equivalents – Client registration funds	108	-	-	108
Cash and cash equivalents – Group cash	2,649	-	-	2,649
Trade and other payables	(3,630)	-	-	(3,630)
Provisions (note 11)	(678)	(615)	-	(1,293)
Current tax liability	(156)	-	-	(156)
Deferred tax asset/(liability)	226	-	(1,308)	(1,082)
	2,417	(615)	4,418	6,220
Goodwill				7,502
Total consideration				13,722
Satisfied by:				
Cash consideration				13,192
Contingent consideration				530
				13,722

Net cash outflow arising on acquisition:	
Total cash consideration	13,192
Cash and cash equivalents – Client registration funds	(108)
Cash and cash equivalents – Group cash	(2,649)
Net cash outflow on acquisition	**10,435**

Provisions of £0.6 million were recognised at the date of acquisition arising from key judgements and estimates. An explanation of the provisions is included in note 11. These provisions are based on management's best estimates using the facts and circumstances that are available. If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, the accounting for the acquisition will be revised.

Fair value adjustments have been recognised for acquisition related intangible assets and the related deferred tax.

The table below is a summary of the acquisition related intangible assets and goodwill arising from the acquisition of TSG (note 7):

	Customer Relationships and contracts £000	**Goodwill £000**
TSG Americas	2,609	3,166
TSG Europe	3,117	4,336
Total intangible assets on acquisition	**5,726**	**7,502**

The goodwill arising is attributable to the acquired workforce, anticipated future profit from expansion opportunities and synergies of the businesses.

Acquisition related intangible assets of £5.7 million relate solely to the valuation of customer relationships. Technology Sciences Group has worked with a number of blue-chip companies for a number of years. Given the long standing relationships and nature of the customer base, the intangible asset is being amortised over six years for TSG Europe cash generating unit and seven years for the TSG Americas cash generating unit.

A deferred tax liability of £1.3 million in respect of the acquisition related intangible assets was established on acquisition (note 4).

15. Post balance sheet events
There are no post balance sheet events to disclose.

16. Statement by the directors
Whilst the information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRSs') as adopted by the European Union and as issued by the International Accounting Standards Board, this announcement does not itself contain sufficient information to comply with IFRSs. The accounting policies adopted in this preliminary announcement are consistent with the Annual Report for the year ended 31 December 2017.

The financial information set out above, which was approved by the Board on 27 February 2018, is derived from the full Group accounts for the year ended 31 December 2017 and does not constitute the statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group accounts on which the auditors have given an unqualified report, which does not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the accounts for 2017, will be delivered to the Registrar of Companies in due course.

The Board of Science Group approved the release of this preliminary announcement on 27 February 2018.

The Annual Report for the year ended 31 December 2017 will be posted to shareholders in due course and will be delivered to the Registrar of Companies following the Annual General Meeting of the Company. The report will also be available on the investor relations page of the Group's website.

Further copies will be available on request and free of charge from the Company Secretary.

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