

science group

12 July 2016

SCIENCE GROUP PLC

("Science Group" or the "Group" or the "Company")

INTERIM RESULTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

Summary

- Performance in line with the Board's expectations
- Group revenue of £17.7 million (H1-15: £14.1 million)
- Adjusted* operating profit of £2.5 million (H1-15: £2.4 million)
- Statutory operating profit of £1.4 million (H1-15: £2.0 million), reflecting non-recurring adjustments
- Operating cash inflow of £5.3 million (H1-15: £3.3 million) including VAT rebate of £1.5 million relating to the property purchase in 2015
- Basic EPS of 2.4 pence (H1-15: 4.0 pence). Diluted EPS of 2.3 pence (H1-15: 3.6 pence)
- Net cash and freehold property assets of £31.3 million (30 June 2015 : £26.7 million) including cash balance of £17.2 million at 30 June 2016 (30 June 2015: £21.5 million)

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Interim Results 2016

Science Group is an international group of companies providing science and technology based consultancy, advisory and product development services to a range of industries and markets.

Group Financial Performance

The Board has accelerated its reporting timetable for the Group's interim results in light of recent market volatility following the UK EU Referendum.

For the six months ended 30 June 2016, the Group generated adjusted operating profit of £2.5 million (H1 2015: £2.4 million) in line with the Board's expectations, on revenue of £17.7 million (H1 2015: £14.1 million). (Throughout this report, adjusted operating profit excludes amortisation and impairment of intangible assets, share based payment charges and other exceptional costs). Approximately 70% (H1 2015: 80%) of the Group's Services revenue is derived from international markets, with approximately 35% denominated in US Dollars (H1 2015: 55%) and 11% in Euros (H1 2015: 7%), primarily reflecting the effect of the 2015 acquisitions.

The Group has seen the benefits from the increased diversification of client end-markets resulting from the acquisition programme. The Oil & Gas market continued to be challenging and the Medical business suffered in the first half of the year from the lack of new projects to replace those completed in 2015, although, as reported at the time of the Annual General Meeting, a number of significant new projects have been won in the Medical sector during the first half of 2016. The Group's other three business areas have performed satisfactorily, with Leatherhead (food & beverage) outperforming the Board's expectations in terms of profit contribution.

Profit before tax ('PBT') was £1.1 million (H1 2015: £1.9 million), reflecting the exceptional costs associated with the ongoing integration and relocation of the Leatherhead business; a one off cost of £0.2 million in settlement of vested unapproved share options (see below); and an increase in net interest costs due to a £0.1 million loss (H1 2015: £0.1 million gain) on revaluation of the interest rate swap. Basic earnings per share was 2.4 pence (H1 2015: 4.0 pence), and diluted earnings per share in H1 2016 was 2.3 pence (H1 2015: 3.6 pence).

The Group retains a very robust balance sheet with Shareholder Funds at 30 June 2016 of £36.4 million (30 June 2015: £34.6 million), including net cash and freehold property of £31.3 million (30 June 2015: £26.7 million). Net funds at 30 June 2016 were £9.9 million (30 June 2015: £13.2 million) after net cash outflows of £12.1 million related to the acquisition of Leatherhead and purchase of the freehold property in Epsom, and dividend of £1.6 million. The Board continues to review its banking arrangements and debt facilities.

Share Option Plans

Science Group plc has several share option plans: Approved Scheme (2008), Unapproved Scheme (2008) and Performance Share Plan (2013). At 31 December 2015, the Company had 3.0 million share options outstanding, of which 1.9 million had vested or are anticipated to vest in 2016. (The terms Approved and Unapproved refer to HMRC categorisation.)

Share trading volume in the Company's shares is limited. This means that share option holders cannot readily realise the benefits and that vested share options can potentially act as an overhang in the market. Recognising this situation the Board has undertaken a wide-ranging review of share option programmes and concluded that these plans are not well understood, particularly the issues arising from the lack of liquidity in a closely held small cap company.

The Remuneration Committee therefore determined that :

- The "Unapproved 2008" scheme should be terminated as soon as practicable;
- Under normal circumstances, future share option grants under all plans will not exceed 1% of Issued Share Capital in any year;
- Future share option eligibility will be limited to senior grades where equity-based variable remuneration is a key component of the total remuneration package and the implications of share illiquidity are better understood.

The Remuneration Committee subsequently 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 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, payable in August, and a one-off charge of £0.2 million. (No Director had any share options that were eligible.)

Following this action, the Company has outstanding share options of 1.8 million, of which 0.8 million have vested or will vest in 2016 and 0.2 million are anticipated to lapse.

Summary

The Group performance in the first half of 2016 has been in line with the Board's expectations, incorporating positive and negative external factors. It is beyond doubt that the months ahead will be unpredictable and potentially volatile. However, with a robust balance sheet, including significant cash resources, Science Group is well prepared for this period of uncertainty and the Board will adopt a pragmatic approach to such external influences, adapting the Group's business model accordingly. As always, the Board

remains committed to managing the business in a prudent manner for the long term benefit of shareholders, customers and employees.

The Board also recognises that this period of market and economic volatility may create new opportunities to develop the business. The financial strength of Science Group should enable strategic expansion to be considered if appropriate.

Consolidated Income Statement
For the period ended 30 June 2016

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)	Year ended 31 December 2015 (Audited)
Notes	£000	£000	£000
Revenue	17,693	14,096	31,220
Operating expenses	(15,182)	(11,667)	(25,896)
Adjusted operating profit	4 2,511	2,429	5,324
Amortisation and impairment of intangible assets	(409)	(236)	(1,660)
Share based payment charge	(183)	(203)	(452)
Other exceptional costs	(555)	-	(534)
Operating profit	4 1,364	1,990	2,678
Finance income	2	77	88
Finance costs	(233)	(166)	(326)
Profit before income tax	1,133	1,901	2,440
Income tax	(147)	(393)	368
Profit for the period	4 986	1,508	2,808
Profit for the period attributable to equity holders of the parent	986	1,508	2,808
Earnings per share			
Earnings per share from continuing operations (basic)	5 2.4p	4.0p	7.2p
Earnings per share from continuing operations (diluted)	5 2.3p	3.6p	6.8p

Consolidated Statement of Comprehensive Income

For the period ended 30 June 2016

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)	Year ended 31 December 2015 (Audited)
	£000	£000	£000
Profit for the period	986	1,508	2,808
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	-		
	50	41	70
Other comprehensive income for the period	50	41	70
Total comprehensive income for the period	1,036	1,549	2,878
Total comprehensive income for the period attributable to owners of the parent	1,036	1,549	2,878

Consolidated Statement of Changes in Shareholders' Equity

For the period ended 30 June 2016

Group	Issued capital	Share premium	Treasury Stock	Merger reserve	Translation reserve	Share based payment reserve	Retained earnings	Total – Shareholders funds
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2015	421	7,806	(4,438)	10,343	238	1,907	17,172	33,449
Purchase of own shares	-	-	(575)	-	-	-	-	(575)
Acquisition of Oakland Innovation Limited	-	424	940	-	-	-	-	1,364
Issue of shares out of treasury stock	-	-	214	-	-	-	(39)	175
Dividends paid	-	-	-	-	-	-	(1,527)	(1,527)
Share based payment charge	-	-	-	-	-	203	-	203
Transactions with owners	-	424	579	-	-	203	(1,566)	(360)
Profit for the period	-	-	-	-	-	-	1,508	1,508
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	-	41	-	-	41
Total comprehensive income for the period	-	-	-	-	41	-	1,508	1,549
Balance at 30 June 2015	421	8,230	(3,859)	10,343	279	2,110	17,114	34,638
Balance at 1 July 2015	421	8,230	(3,859)	10,343	279	2,110	17,114	34,638
Purchase of own shares	-	-	-	-	-	-	-	-
Issue of shares out of treasury stock	-	-	2,644	-	-	-	(1,361)	1,283
Share based payment charge	-	-	-	-	-	249	-	249
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(268)	(268)
Transactions with owners	-	-	2,644	-	-	249	(1,629)	1,264
Profit for the period	-	-	-	-	-	-	1,300	1,300
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	-	29	-	-	29
Total comprehensive income for the period	-	-	-	-	29	-	1,300	1,329
Balance at 31 December 2015	421	8,230	(1,215)	10,343	308	2,359	16,785	37,231
Balance at 1 January 2016	421	8,230	(1,215)	10,343	308	2,359	16,785	37,231
Purchase of own shares	-	-	-	-	-	-	-	-
Issue of shares out of treasury stock	-	-	109	-	-	-	(12)	97
Dividends paid	-	-	-	-	-	-	(1,646)	(1,646)
Equity interest of cancelled share options	-	-	-	-	-	(361)	-	(361)
Share based payment charge	-	-	-	-	-	183	-	183
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(97)	(97)
Transactions with owners	-	-	109	-	-	(178)	(1,755)	(1,824)
Profit for the period	-	-	-	-	-	-	986	986
Other comprehensive income:								
Exchange differences on translating foreign operations	-	-	-	-	50	-	-	50
Total comprehensive income for the period	-	-	-	-	50	-	986	1,036
Balance at 30 June 2016	421	8,230	(1,106)	10,343	358	2,181	16,016	36,443

Consolidated Balance Sheet

At 30 June 2016

	At 30 June 2016 (Unaudited) £000	At 30 June 2015 (Unaudited) £000	At 31 December 2015 (Audited) £000
Assets			
Non-current assets			
Acquisition related intangible assets	5,591	4,671	6,000
Goodwill	5,073	5,489	5,073
Property, plant and equipment	22,646	14,332	22,040
Investments	100	100	100
Deferred income tax assets	903	1,418	1,324
	34,313	26,010	34,537
Current assets			
Trade and other receivables	5,183	4,243	8,980
Current income tax asset	595	-	472
Cash and cash equivalents	17,199	21,474	14,516
	22,977	25,717	23,968
Total assets	57,290	51,727	58,505
Liabilities			
Current liabilities			
Trade and other payables	10,852	6,221	10,689
Current income tax liabilities	-	208	-
Borrowings	1,000	1,009	1,034
	11,852	7,438	11,723
Non-current liabilities			
Borrowings	6,250	7,278	6,753
Derivative financial liabilities	215	141	141
Deferred income tax liabilities	2,530	2,232	2,657
	8,995	9,651	9,551
Total liabilities	20,847	17,089	21,274
Net assets	36,443	34,638	37,231
Shareholders' equity			
Share capital	421	421	421
Share premium	8,230	8,230	8,230
Treasury stock	(1,106)	(3,859)	(1,215)
Merger reserve	10,343	10,343	10,343
Translation reserves	358	279	308
Share based payment reserve	2,181	2,110	2,359
Retained earnings	16,016	17,114	16,785
Total equity	36,443	34,638	37,231

Consolidated Statement of Cash Flows

For the period ended 30 June 2016

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)	Year ended 31 December 2015 (Audited)
	£000	£000	£000
Profit before income tax	1,133	1,901	2,440
Depreciation and amortisation charges	741	505	1,114
Loss on disposal of property, plant and equipment	-	-	7
Change in fair value on interest rate swap	74	(62)	(62)
Share based payment charge	183	203	452
Impairment of goodwill and intangible assets	-	-	1,066
Decrease / (Increase) in receivables	3,797	1,998	(1,412)
(Decrease) / Increase in payables	(596)	(1,207)	1,283
Cash generated from operations	5,332	3,338	4,888
UK corporation tax paid	(12)	-	(9)
Foreign corporation tax (paid) / received	(61)	(1)	2
Cash flows from operating activities	5,259	3,337	4,881
Purchase of property, plant and equipment	(634)	(111)	(7,857)
Purchase of subsidiary undertaking, net of cash received	-	(2,963)	(4,588)
Purchase of interest in associated companies	-	(100)	(100)
Cash flow used in investing activities	(634)	(3,174)	(12,545)
Issue of shares out of treasury	97	175	1,458
Repurchase of own shares	-	(575)	(575)
Dividends paid	(1,646)	(1,527)	(1,527)
Repayment of bank loans	(500)	(500)	(1,000)
Cash flows used in financing activities	(2,049)	(2,427)	(1,644)
Increase / (decrease) in cash and cash equivalents in the period	2,576	(2,264)	(9,308)
Cash and cash equivalents at the beginning of the period	14,516	23,802	23,802
Exchange gains / (losses) on cash	107	(64)	22
Cash and cash equivalents at the end of the period	17,199	21,474	14,516

Extracts from notes to the financial statements

1. General information

The financial information for the 6 months ended 30 June 2016 set out in this interim report is unaudited and does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information included has been extracted from the 2015 Financial Statements of Science Group plc. The Group's statutory financial statements for the year ended 31 December 2015 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

These un-audited interim results have been approved for issue by the Board of Directors on 11 July 2016.

The group and company financial statements of Science Group plc for the year ended 31 December 2015 were prepared under IFRS (as adopted by the EU) and have been audited by KPMG LLP. Copies of the Financial Statements are available from the company's registered office: Harston Mill, Harston, Cambridge, CB22 7GG and can be found on the company's website at www.sciencegroup.com.

Science Group provides independent advisory and advanced product development services focused on science and technology initiatives through subsidiary companies branded Sagentia, Oakland Innovation, OTM Consulting and Leatherhead Food Research, which collaborate closely with their clients in key vertical markets to deliver clear returns on technology and R&D investments. Science Group's facilities include offices and laboratories located in Harston near Cambridge, Epsom and London in the UK and in the US in Boston, Massachusetts and Houston, Texas.

The Company is the ultimate parent company in which results of all the Science Group companies are consolidated.

The Company is incorporated in England and Wales and has its primary listing on the AIM Market of the London Stock Exchange (SAG).

Income statement presentation

To provide a better guide to underlying business performance, adjusted operating profit excludes amortisation and impairment of intangible assets, share based payment charges and other exceptional costs.

2. Accounting policies

The principal accounting policies applied in the preparation of these interim financial statements are unchanged from those set out in the financial statements for the year ended 31 December 2015. These policies have been consistently applied to all the periods presented.

In the period ended 30 June 2016 there has been a change in accounting estimate for calculating depreciation. Following the purchase of Great Burgh, Epsom in 2015, the Group has reviewed the basis of depreciation for buildings and has concluded that a straight line depreciation method is the most appropriate method. As a result, for the period ended 30 June 2016 depreciation has been calculated using the straight line method. The residual values and economic life of 25 years remain unchanged.

2.1 Basis of preparation

These interim consolidated financial statements are for the six months ended 30 June 2016. They have been prepared based on the measurement and recognition principles of International Financial Reporting Standards (IFRS) as adopted by the EU and IFRC interpretations issued and effective at the time of preparing these statements.

The financial statements have been prepared on the historical cost basis except for certain financial instruments and share-based payments which are measured at fair value.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

4. Segmental information

The Group is organised on a worldwide basis into two segments, Core Business and Non-Core Business. 'Core Business' activities include all consultancy fees for services operations, including recharged expenses and product/licence revenue generated directly from these activities. 'Non-Core Business' activities primarily relate to rental income from Harston Mill. The segmental analysis is reviewed to adjusted operating profit. Other resources are shared across the Group. Other exceptional costs in the year include non-recurring charges related to the integration of the acquisition of Leatherhead in 2015 and

a one off cost of £0.2m in settlement of vested, unapproved share options, which are outside the Group's ordinary activities.

Period ended 30 June 2016 (Unaudited)	Core Business £000	Non-Core Business £000	Total £000
Services revenue	16,394	17	16,411
Third party property income	-	539	539
Other	743	-	743
Revenue	17,137	556	17,693
Adjusted operating profit	2,464	47	2,511
Amortisation and impairment of intangible assets			(409)
Share based payments			(183)
Other exceptional costs			(555)
Operating profit			1,364
Finance charges (net)			(231)
Profit before income tax			1,133
Income tax			(147)
Profit for the period			986
Period ended 30 June 2015 (Unaudited)	Core Business £000	Non-Core Business £000	Total £000
Services revenue	12,850	34	12,884
Third party property income	-	537	537
Other	675	-	675
Revenue	13,525	571	14,096
Adjusted operating profit	2,392	37	2,429
Amortisation and impairment of intangible assets			(236)
Share based payments			(203)
Operating profit			1,990
Finance charges (net)			(89)
Profit before income tax			1,901
Income tax			(393)
Profit for the period			1,508
Year ended 31 December 2015 (Audited)	Core Business £000	Non-Core Business £000	Total £000
Services revenue	28,691	55	28,746
Third party property income	-	1,073	1,073
Other	1,401	-	1,401
Revenue	30,092	1,128	31,220
Adjusted operating profit	5,286	38	5,324
Amortisation and impairment of intangible assets			(1,660)
Share based payments			(452)
Other exceptional costs			(534)
Operating profit			2,678
Finance charges (net)			(238)
Profit before income tax			2,440
Income tax			368
Profit for the period			2,808

5. Earnings per share

The calculations of earnings per share are based on the following profits and numbers of shares:

	Six months ended 30 June 2016 (Unaudited)	Six months ended 30 June 2015 (Unaudited)	Year ended 31 December 2015 (Audited)
	£000	£000	£000
Profit for the financial period	986	1,508	2,808
Weighted average number of shares:	Number	Number	Number
For basic earnings per share	41,128,774	38,000,823	39,228,135
For fully diluted earnings per share	42,043,546	41,908,015	41,139,562
Earnings per share:	Pence	Pence	Pence
Basic earnings per share	2.4	4.0	7.2
Fully diluted earnings per share	2.3	3.6	6.8

6. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. Because these are estimates the resulting accounting entries will not always reflect the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Project accounting

The Group undertakes a number of consultancy projects where the final price to complete the project may be uncertain. The state of completeness of each project, and hence, revenue recognised, requires the use of estimates. The value of work done is calculated based on the proportion of time spent on the project or value of stage gates achieved as set out in the project. Management apply their judgement in assessing time required to complete the projects and the ability to recover the full project costs. Where significant uncertainty exists, income is deferred until costs are recovered or the project is completed.

(b) Accounting for freehold property at Harston Mill

The Group owns and maintains the freehold property at Harston Mill for use in the supply of its Core consultancy services and for administrative purposes. Whilst there is remaining space on site not required to fulfil these activities, the Group lets out space to third party tenants. The revenues and costs attributable to this activity are disclosed as 'Other' activities within the business segment disclosures. Given the property does not form part

of the Group's core activities, it is not accounted for as an investment property, the reasons being:

(i) The third party leases include the use of common areas and because of this the areas that are leased to third parties could not be sold separately.

(ii) The leases normally have notice periods of no more than 6 months giving the Group the flexibility to start using the areas if required i.e. the leased areas are not held for capital appreciation or rental income.

- Ends -