

science group

24 July 2019

SCIENCE GROUP PLC

(‘Science Group’ or the ‘Group’ or the ‘Company’)

INTERIM RESULTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019

Summary

- Investment in Frontier Smart Technologies Group. Substantial interest of approx 47.6% acquired for £5.9 million
- Operating business performance broadly in line with expectations benefiting from the Group’s range of science and technology service offerings across multiple industry sectors
- Balance sheet and cash position remain strong
- As set out in the Corporate Review undertaken in H2-2018, increased segmental reporting of operations, freehold property and corporate costs to provide greater transparency and facilitate analysis of the component parts of the Group

Enquiries:

Science Group plc

Martyn Ratcliffe, Chairman

Rebecca Archer, Finance Director

Tel: +44 (0) 1223 875 200

www.sciencegroup.com

Panmure Gordon (UK) Limited

Dominic Morley / Alina Vaskina (Corporate Finance)

Erik Anderson (Corporate Broking)

Tel: +44 (0) 20 7886 2500

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

Interim Results 2019

Science Group is an international, science-led services and product development organisation with a freehold property asset base.

At a corporate level, the first half of 2019 has seen significant developments, with the conclusion of the Corporate Strategic Review ('Corporate Review') and the investment in Frontier Smart Technologies Group Limited ('Frontier'). At 30 June 2019, Frontier is treated as an investment for accounting purposes and the Group reported a profit on this investment based on market valuation. Further shares were subsequently acquired with the Group holding an interest of 47.6% at the date of this report. The Group's strong cash position enabled this investment in accordance with the Corporate Review.

Operationally, the first half of 2019 benefited from the diversification achieved through the Group's operating model. The Group delivered a consistent financial performance despite some negative external factors and the successful completion of some large projects in 2018. The Group also realised a net benefit from non-recurring items resulting in a strong reported operating profit.

In summary, for the six months ended 30 June 2019, the Group generated an operating profit of £3.1 million (H1 2018: £2.5 million from continuing operations; £2.7 million total) and an adjusted operating profit of £3.3 million (H1 2018: £3.5 million from continuing operations) on revenue of £23.6 million (H1 2018: £24.7 million from continuing operations; £25.1 million total). The slight year on year revenue decline, compared to the record prior year period, was anticipated. However, revenue was in line with H2 2018 revenue, traditionally the stronger half year. Profit before tax was £2.8 million (H1 2018: £2.3 million from continuing operations; £2.5 million total) benefiting from the net gain on the Frontier investment. (Continuing operations measures exclude the Central Europe operations which the Group exited in H1 2018.) Earnings per share were 6.1 pence (H1 2018: 6.0 pence).

The Group retains a robust balance sheet with gross cash (excluding client registration funds) at 30 June 2019 of £24.0 million (30 June 2018: £18.5 million) and net funds of £7.2 million (30 June 2018: £5.1 million). The long term debt is secured on the freehold properties and was increased in the period by an additional £4.8 million at an effective fixed rate of 4%. The Frontier investment to 30 June 2019 resulted in a cash outflow of £2.8 million offset by £2.2 million arising from the associated issuance of shares out of treasury. Excluding treasury shares, at 30 June 2019, the Company had 41.1 million shares in issue (30 June 2018: 40.0 million) and held 0.9 million (30 June 2018: 2.0 million) of shares in treasury. (Alternative performance measures are provided in order to enhance 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.)

As set out in the Corporate Review, in future, Group reporting will separate (i) the operating business, (ii) the Group's freehold property and (iii) the corporate activities and costs. This will provide greater transparency and facilitate shareholder analysis of the component parts of the Group. This is particularly relevant for Science Group due to the significant freehold property asset base. Good progress has been made in this new reporting structure and pro forma information is included in this report.

Operating Business

For the six months ended 30 June 2019, revenue derived from the Group's operating business was £23.1 million (H1 2018: £24.2 million from continuing operations). The slight decline compared to the strong comparator in the prior year period was anticipated and revenue was in line with the second half of 2018 (H2 2018: £23.0 million) which is traditionally the stronger half year.

The Applied Science and Product Development activities, accounting for 46% of operating business revenue, saw a strong recovery in the Commercial sector compared to both the prior year period and the sequential period, reflecting the management and strategic changes made during 2018. The Medical sector, typically characterised by significant client revenue concentration due to the scale of projects, declined against a very strong comparator in the prior year period, as some larger projects successfully completed in 2018. The revenue profile in the Medical sector is characterised by large projects which inherently create a discontinuity during project transition periods. The Group's strategic diversification into multiple vertical markets and a range of service offerings mitigates this effect.

Regulatory services account for 36% of operating business revenues. The TSG Europe business is benefiting from the post-acquisition integration programme and reported a good revenue performance in the first half of the year against a tough comparator in H1 2018 and revenue growth relative to the second half of 2018. The decision to cease operations in Central Europe in H1 2018 has enabled the business to focus resources on the larger European markets with partners established in smaller territories. The TSG Americas business had a more challenging period in the first half of 2019 due to the US Federal Government shut-down at the start of the year which significantly impacted the business both during the shut-down itself and in subsequent months. However, this was partially offset by growth in the TSG Americas State-focused renewals operations which benefited from the greater management focus in 2018 and is building a more recurring revenue model. The Leatherhead Food & Beverage regulatory services, which also has a stable recurring revenue profile, delivered a consistent performance in the period and maintains its international market leadership position.

The Science & Technology Consulting, providing advisory services, accounted for 18% of operating business revenue in the period and grew significantly relative to the prior year. The growth was particularly strong in the Food & Beverage sector reflecting the increasing

collaboration between the Group's business activities, a key strategic objective, where the combination of skills is a significant differentiator for the Group.

Overall, the continuing business operations reported an adjusted operating profit of £3.7 million (H1 2018: £3.8 million from continuing operations; £3.9 million total).

Operating profit was £2.9 million (H1 2018: £2.8 million from continuing operations) which benefited from settlement of a claim inherited as part of the TSG Americas acquisition of £0.7 million. (In comparing to prior year, note that H1 2018 included a £0.5 million one-off benefit as reported previously). Following the Corporate Review the operating business is now being charged costs equivalent to market-based rents and ancillary charges for their utilised property space, providing a clear separation of the operating business from the Group's freehold property assets. (The operating business continues to benefit from the operational flexibility provided by the Group's ownership of the main properties.)

Freehold Properties

Science Group owns two freehold properties, Harston Mill near Cambridge and Great Burgh in Epsom. The last independent valuation in March 2018 indicated aggregate values of these properties in the range £22.6 million to £33.9 million. The properties are held on the balance sheet on a cost basis at £21.5 million (30 June 2018: £21.6 million).

Great Burgh is owned by a property subsidiary of Science Group plc, which is the preferred structure. For legacy reasons, Harston Mill is currently owned by the trading company, Sagentia Limited, and the Corporate Review concluded that despite the tax payment outflow resulting from moving this asset into a separate subsidiary, the long-term benefits of separation of this property from the operating business justified the transfer. While it was anticipated that this intra-Group transaction would be completed in the current financial year, it has become apparent that due to changes in the UK corporate tax rate, deferring this action until 2020 will save approximately £0.2 million.

For the six months ended 30 June 2019, the rental and associated services income derived from the Group's freehold properties was £1.7 million (H1 2018: £1.7 million). Income of £0.5 million (H1 2018: £0.5 million) was generated from third-party tenants and £1.2 million (H1 2018: £1.2 million) from the Group's operating businesses. Intra-group charges are eliminated on consolidation. Property operating profit was £0.5 million (H1 2018: £0.5 million).

The Group's debt of £16.8 million at 30 June 2019 (£13.4 million at 30 June 2018) is secured against the freehold property assets. The associated interest charge for the 6 month period was £0.3 million (H1 2018: £0.2 million) and for reporting purposes is recognised at Group level within profit before tax.

Corporate

The Corporate Review concluded that corporate overhead costs should be separated from the operating business costs. The corporate function is responsible for Group and PLC matters, together with the strategic development of Science Group. In the period, Corporate costs were £0.9 million (H1 2018: £0.8 million).

The shareholding in Frontier is deemed to be an investment since Science Group had neither significant influence nor control of Frontier at 30 June 2019 and therefore results are not consolidated. At that date, the value of the investment was £3.7 million, having been acquired at a cost of £2.8 million. The profit generated on an accounting basis in the period to 30 June 2019 was therefore £0.9 million, although additional payments of £0.4 million have subsequently become payable to third parties related to the investment. Costs related to the transaction in the period to 30 June 2019 of £0.3 million have been expensed, hence the Board has recognised a net gain of £0.6 million. As part of this activity, Science Group issued 1.1 million shares from Treasury. Net of the gain on the Frontier investment, Corporate costs were £0.3 million (H1 2018: £0.8 million).

Other accounting matters

The share based payment charge in the period increased to £0.5 million (H1 2018: £0.2 million) reflecting the full period cost of the Enhanced Executive Incentive scheme grants in May 2018 and the increase in the number of PSP shares granted to employees in 2018.

The Group has adopted IFRS 16 *Leases* from 1 January 2019. The effect of IFRS 16 has been to recognise a right of use asset on the Consolidated Balance Sheet with a corresponding lease liability. An additional depreciation charge of £0.4 million has been recognised in the period with a £0.4 million reduction in operating lease costs and an incremental interest charge of £51,000.

Investment in Frontier

Frontier is a pioneer in technologies for Digital Radio and Smart IoT Devices, located in Cambridge, London, Hong Kong, Shenzhen and Timisoara (Romania). The AIM-listed Group company is incorporated in the Cayman Islands and therefore is not within the jurisdiction of the UK City Code on Takeovers and Mergers.

Frontier issued a trading update on 9 May 2019, which forecast revenue for the year to 31 December 2019 of \$36.6 million and a Trading EBITDA loss of no worse than \$1.5 million.

During May and June, Science Group acquired a shareholding in Frontier of 11,510,521 ordinary shares representing approximately 28.3% of the voting share capital of Frontier. The average price of the shares acquired was 24 pence per share and the aggregate cost was £2.8 million. Subsequent to the period end, on 1 July 2019, the Group declared its intention to make a formal offer for Frontier at 35 pence per share and duly made the offer to Frontier shareholders on 2

July. In parallel to the offer, the Board pursued an active share buying programme in the market. At the offer closing date of 16 July 2019, Science Group had an interest in 40.8% of Frontier and extended the offer until 19 July 2019, at which time Science Group's aggregate interest of share purchases and offer acceptances had increased to 19,447,431 shares, equivalent to 47.6% of the voting share capital of Frontier. A total cost of £5.9 million has been incurred to date in acquiring the shares.

The future strategy is anticipated to continue to reflect the underlying model of Frontier to maintain its market leadership position in Digital Radio, whilst exploring opportunities for the Smart Audio/IoT (Internet of Things) business as this global technological transformation evolves.

Following the investment, Science Group is considering the most appropriate model for enabling this strategy. There are a number of potential alternatives which are being considered. A statutory merger is one mechanism, which if executed would convert the investment into an acquisition and Science Group is exploring this approach, although at this stage it is not anticipated that such an action will be undertaken in the near-term. The Board remains excited by the Frontier business, its employees and the potential opportunities which may or may not include collaboration with existing parts of Science Group.

Summary

In summary, the performance of the Group's operating business in the first half of 2019 has been broadly in line with the Board's expectations. The results reflect the strong recovery in product development in the Commercial sector and continued progress in the Group's Consulting services offset by the characteristics of the Medical sector, with its concentrated revenue profile, and the external factors impacting the TSG Americas activities. The Group's breadth of market sectors and service offerings again provides resilience and stability in the face of market and macroeconomic uncertainty. The Board retains its focus on financial and commercial discipline.

The investment in Frontier is consistent with the conclusions of the Corporate Review undertaken in the second half of last year. The strong balance sheet gives flexibility to invest in opportunities as they arise and supports the Board's continued shareholder alignment and value-creating priority.

Consolidated Income Statement
For the period ended 30 June 2019

	Note	Six months ended 30 June 2019 (Unaudited) £000	Six months ended 30 June 2018 (Unaudited) £000	Year ended 31 December 2018 (Audited) £000
Revenue	4	23,593	25,135	48,670
Operating expenses before adjusting items		(20,303)	(21,427)	(40,939)
Adjusted operating profit	4	3,290	3,708	7,731
Gain on revaluation of investment net of professional fees	8	648	-	0
Gain on settlement of legal claim	9	687	-	-
Acquisition integration costs		-	(282)	(76)
Release of contingent consideration		-	519	519
Amortisation and impairment of intangible assets		(1,003)	(1,003)	(2,004)
Impairment of other investments		-	-	(50)
Share based payment charge		(506)	(232)	(812)
Operating profit	4	3,116	2,710	5,308
Finance income		-	1	10
Finance costs		(358)	(221)	(451)
Profit before income tax		2,758	2,490	4,867
Income tax charge (including R&D tax credit of £216,000 (H1-18 £154,000))	6	(325)	(116)	(580)
Profit for the period	4	2,433	2,374	4,287
Profit for the period attributable to equity holders of the parent		2,433	2,374	4,287
Earnings per share				
Earnings per share from continuing operations (basic)	7	6.1p	6.0p	10.7p
Earnings per share from continuing operations (diluted)	7	6.0p	5.8p	10.5p
Adjusted earnings per share from continuing operations (basic)	7	5.9p	7.0p	14.7p
Adjusted earnings per share from continuing operations (diluted)	7	5.8p	6.8p	14.4p

Consolidated Statement of Comprehensive Income
For the period ended 30 June 2019

	Six months ended 30 June 2019 (Unaudited) £000	Six months ended 30 June 2018 (Unaudited) £000	Year ended 31 December 2018 (Audited) £000
Profit for the period	2,433	2,374	4,287
Other comprehensive income Items that will or may be reclassified to profit or loss:			
Fair value (loss)/gain on interest rate swap	(375)	132	66
Exchange differences on translating foreign operations	13	(30)	(50)
Deferred tax on interest rate swap	71	(25)	(13)
Other comprehensive (expense)/ income for the period	(291)	77	3
Total comprehensive income for the period	2,142	2,451	4,290
Total comprehensive income for the period attributable to owners of the parent	2,142	2,451	4,290

Consolidated Statement of Changes in Shareholders' Equity

For the period ended 30 June 2019

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 2018	421	8,230	(3,569)	10,343	310	2,663	19,341	37,739
Purchase of own shares	-	-	(180)	-	-	-	-	(180)
Issue of shares out of treasury stock	-	-	954	-	-	-	(840)	114
Dividends paid	-	-	-	-	-	-	(1,760)	(1,760)
Share based payment charge	-	-	-	-	-	232	-	232
Deferred tax on share based payment transactions	-	-	-	-	-	-	(112)	(112)
Transactions with owners	-	-	774	-	-	232	(2,712)	(1,706)
Profit for the period	-	-	-	-	-	-	2,374	2,374
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	132	132
Exchange differences on translating foreign operations	-	-	-	-	(30)	-	-	(30)
Deferred tax on interest rate swap	-	-	-	-	-	-	(25)	(25)
Total comprehensive income for the period	-	-	-	-	(30)	-	2,481	2,451
Balance at 30 June 2018	421	8,230	(2,795)	10,343	280	2,895	19,110	38,484
Balance at 1 July 2018	421	8,230	(2,795)	10,343	280	2,895	19,110	38,484
Purchase of own shares	-	-	(10)	-	-	-	-	(10)
Issue of shares out of treasury stock	-	-	41	-	-	-	(40)	1
Dividends paid	-	-	-	-	-	-	-	-
Share based payment charge	-	-	-	-	-	580	-	580
Deferred tax on share based payment transactions	-	-	-	-	-	-	64	64
Transactions with owners	-	-	31	-	-	580	24	635
Profit for the period	-	-	-	-	-	-	1,913	1,913
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	-	(66)	(66)
Exchange differences on translating foreign operations	-	-	-	-	(20)	-	-	(20)
Deferred tax on interest rate swap	-	-	-	-	-	-	12	12
Total comprehensive income for the period	-	-	-	-	(20)	-	1,859	1,839
Balance at 31 December 2018	421	8,230	(2,764)	10,343	260	3,475	20,993	40,958

Balance at 1 January 2019	421	8,230	(2,764)	10,343	260	3,475	20,993	40,958
Purchase of own shares	-	-	(94)	-	-	-	-	(94)
Issue of shares out of treasury stock	-	-	1,423	-	-	-	733	2,156
Dividends paid	-	-	-	-	-	-	(1,840)	(1,840)
Share based payment charge	-	-	-	-	-	506	-	506
Deferred tax on share based payment transactions	-	-	-	-	-	-	-	-
Transactions with owners	-	-	1,329	-	-	506	(1,107)	728
Profit for the period	-	-	-	-	-	-	2,433	2,433
Other comprehensive income:								
Fair value (loss) on interest rate swap	-	-	-	-	-	-	(375)	(375)
Exchange differences on translating foreign operations	-	-	-	-	13	-	-	13
Deferred tax on interest rate swap	-	-	-	-	-	-	71	71
Total comprehensive income for the period	-	-	-	-	13	-	2,129	2,142
Balance at 30 June 2019	421	8,230	(1,435)	10,343	273	3,981	22,015	43,828

Consolidated Balance Sheet

At 30 June 2019

	At 30 June 2019 (Unaudited) £000	At 30 June 2018 (Unaudited) £000	At 31 December 2018 (Audited) £000
Assets			
Non-current assets			
Acquisition related intangible assets	6,492	8,496	7,495
Goodwill	11,239	11,535	11,239
Property, plant and equipment	25,955	23,438	23,353
Investment	3,741	50	-
Derivative financial assets	-	359	293
Deferred tax assets	168	160	16
	47,595	44,038	42,396
Current assets			
Trade and other receivables	8,527	8,912	9,717
Current tax asset	20	20	245
Cash and cash equivalents - Client registration funds	1,430	1,241	1,487
Cash and cash equivalents – Group Cash	23,979	18,522	21,520
	33,956	28,695	32,969
Total assets	81,551	72,733	75,365
Liabilities			
Current liabilities			
Trade and other payables	14,601	15,798	17,376
Current tax liabilities	460	521	374
Provisions	201	1,136	1,038
Borrowings	1,200	1,250	1,000
Lease liabilities	807	-	-
	17,269	18,705	19,788
Non-current liabilities			
Provisions	196	339	296
Borrowings	15,604	12,182	11,689
Lease Liabilities	1,998	-	-
Derivative financial liabilities	82	-	-
Deferred tax liabilities	2,574	3,023	2,634
	20,454	15,544	14,619
Total liabilities	37,723	34,249	34,407
Net assets	43,828	38,484	40,958
Shareholders' equity			
Share capital	421	421	421
Share premium	8,230	8,230	8,230
Treasury stock	(1,435)	(2,795)	(2,764)
Merger reserve	10,343	10,343	10,343
Translation reserves	273	280	260
Share based payment reserve	3,981	2,895	3,475
Retained earnings	22,015	19,110	20,993
Total equity	43,828	38,484	40,958

Consolidated Statement of Cash Flows

For the period ended 30 June 2019

	Six months ended 30 June 2019 (Unaudited) £000	Six months ended 30 June 2018 (Unaudited) £000	Year ended 31 December 2018 (Audited) £000
Profit before income tax	2,758	2,490	4,867
Adjustments for:			
Amortisation on acquisition related intangible assets	1,003	1,003	2,004
Depreciation on property, plant and equipment (Note 2.2)	745	396	760
Net interest cost	358	220	441
Release of contingent consideration	-	(519)	(519)
Gain on revaluation of investment	(954)	-	-
Share based payment charge	506	232	812
Impairment of cost of investment	-	-	50
Release of legal provision	(687)	-	-
Release of other provisions	(94)	(409)	(503)
Increase in provision	13	734	760
Decrease/(increase) in receivables	1,198	225	(354)
(Decrease)/increase in payables representing client registration funds	(57)	354	600
Decrease in payables excluding balances representing client registration funds	(2,887)	(2,667)	(1,535)
Cash generated from operations	1,902	2,059	7,383
Loan interest paid	(303)	(221)	(555)
Lease payments (Note 2.2)	(390)	-	-
UK corporation tax paid	(64)	(466)	(1,025)
Foreign corporation tax paid	(92)	-	(159)
Cash flows from operating activities	1,053	1,372	5,644
Interest received	-	1	10
Purchase of property, plant and equipment	(208)	(43)	(444)
Purchase of investments	(2,787)	-	-
Cash flow used in investing activities	(2,995)	(42)	(434)
Issue of shares out of treasury	2,156	114	115
Proceeds from bank loans	4,750	-	-
Repurchase of own shares	(95)	(180)	(190)
Dividends paid	(1,840)	(1,760)	(1,760)
Repayment of bank loans	(600)	(500)	(1,250)
Cash flows used in financing activities	4,371	(2,326)	(3,085)
Increase/(decrease) in cash and cash equivalents in the period	2,429	(996)	2,125
Cash and cash equivalents at the beginning of the period	23,007	20,780	20,780
Exchange (losses) / gains on cash	(27)	(21)	102
Cash and cash equivalents at the end of the period	25,409	19,763	23,007

Cash and cash equivalents is analysed as follows:

	Six months ended 30 June 2019 (Unaudited) £000	Six months ended 30 June 2018 (Unaudited) £000	Year ended 31 December 2018 (Audited) £000
Cash and cash equivalents – Client registration funds	1,430	1,241	1,487
Cash and cash equivalents – Group cash	23,979	18,522	21,520
	25,409	19,763	23,007

Extracts from notes to the financial statements

1. General information

The financial information for the 6 months ended 30 June 2019 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 for the year ended 31 December 2018 has been extracted from the 2018 Financial Statements of Science Group plc. The Group's statutory financial statements for the year ended 31 December 2018 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 unaudited interim results have been approved for issue by the Board of Directors on 23 July 2019.

The group and company financial statements of Science Group plc for the year ended 31 December 2018 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 plc (the 'Company') and its subsidiaries (together 'Science Group' or 'Group') is an international, science-led services and product development organisation with a freehold property asset base.

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).

Alternative performance measures

The Group uses alternative (non-Generally Accepted Accounting Practice ('non-GAAP')) performance measures of 'adjusted operating profit', 'adjusted earnings per share' and 'net funds' which are not defined within the International Financial Reporting Standards ('IFRS'). These are explained in the 2018 Financial Statements and the calculations are as follows:

(a) Adjusted operating profit

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

(b) Adjusted earnings per share

The calculation of this measure is disclosed in Note 7.

(c) Net funds

This measure is calculated as follows:

In £000 unless otherwise stated	At 30 June 2019	At 30 June 2018	At 31 December 2018
Cash and cash equivalents – Group cash	23,979	18,522	21,520
Borrowings	(16,804)	(13,432)	(12,689)
Net funds	7,175	5,090	8,831

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 2018 except as described below in Note 2.2. These policies have been consistently applied to all the periods presented except where detailed below.

2.1 Basis of preparation

These interim consolidated financial statements are for the six months ended 30 June 2019. They have been prepared based on the measurement and recognition principles of International Financial Reporting Standards 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.

2.2 Changes in accounting policies

The Group has initially adopted IFRS 16 *Leases* from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they are not considered to have a material effect on the Group's financial statements.

IFRS 16 introduced a single on-balance sheet accounting model for lessees. As a result, the Group as a lessee has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate lease components and non-lease components and will instead account for the lease and non-lease components as a single lease component.

B. As a lessee

The Group leases properties, office equipment and IT equipment.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases - i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property plant and equipment', the same line item as it presents underlying assets of the same nature that it owns.

The Group presents lease liabilities in 'lease liabilities' in the Consolidated Balance Sheet.

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Transition

Previously, the Group classified property leases as operating leases under IAS 17. The leases run for periods between 3 and 10 years, based on the non-cancellable period.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

-Applied the exemption not to recognise right-of-use assets and liabilities for leases with than 12 months of lease term.

-Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

C. As a lessor

The Group lets out space to third party tenants on property leases, of which, the majority are subject to mutual notice periods of up to 6 months. These leases are classified as operating leases.

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17. The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

D. Impact on financial statements

i. Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities. The impact on transition is shown below.

	1 January 2019
	£000
Right-of-use asset presented in property, plant and equipment	2,771
Lease liabilities	2,771

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019 of 4.0%.

ii. Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £2,746,000 of right-of-use assets and £2,805,000 of lease liabilities in the Consolidated Balance Sheet as at 30 June 2019. In the Consolidated Income Statement, the Group has recognised depreciation and interest costs instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised £396,000 of depreciation charges, £51,000 of finance costs and cash payments of £390,000 in respect of the Group's leases.

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

Following the Corporate Review in 2018, from 1 January 2019 the Group financial reporting was changed to show the performance of the operating business separately from the value generated by the Group's significant freehold property assets and the Corporate costs. As a result, the Group results are presented across 3 reporting segments: Operating Business, Freehold Properties and

Corporate. This provides greater transparency and facilitates shareholder analysis of the component parts of the Group and the prior period financial information has been restated to be in line with this new basis.

Operating Business services revenue includes all consultancy fees and other revenue includes recharged materials and expenses and product/licence revenue generated directly from the Operating Business activities. The Freehold Properties segment includes the results for the two freehold properties owned by the group. Income is derived from third party tenants from the Harston Mill site and from the Operating Business which has been charged fees equivalent to market-based rents for their utilised property space and associated costs. Corporate costs include PLC/Group costs.

The segmental analysis is reviewed to operating profit. Other resources are shared across the Group. The Group closed the Central/Eastern Europe offices during 2018 and the results generated by these offices are separately reported under exited operations in 2018 on a pro forma basis.

Operations	Six months ended 30 June 2019 Total (Unaudited) £000	Six months ended 30 June 2018 Continuing (Unaudited) £000	Six months ended 30 June 2018 Exited (Unaudited) £000	Six months ended 30 June 2018 Total (Unaudited) £000	Year ended 31 December 2018 Total (Unaudited) £000
Services revenue	22,302	23,507	413	23,920	46,519
Other	785	700	-	700	1,105
Revenue	23,087	24,207	413	24,620	47,624
Adjusted operating profit	3,673	3,770	168	3,938	8,110
Gain on settlement of legal claim	687	-	-	-	-
Amortisation and impairment of intangible assets	(1,003)	(1,003)	-	(1,003)	(2,004)
Acquisition and integration costs	-	(282)	-	(282)	(76)
Release of contingent consideration	-	519	-	519	519
Impairment of other investments	-	-	-	-	(50)
Share based payment charge	(453)	(179)	-	(179)	(692)
Operating profit	2,904	2,825	168	2,993	5,807

Freehold Properties	Six months ended 30 June 2019 Total (Unaudited) £000	Six months ended 30 June 2018 Total (Unaudited) £000	Year ended 31 December 2018 Total (Unaudited) £000
Inter-company property income	1,196	1,190	2,391
Third party property income	506	515	1,046
Revenue	1,702	1,705	3,437
Adjusted operating profit	551	530	1,203
Share based payment charge	(8)	(8)	(14)
Operating profit	543	522	1,189

Corporate	Six months ended 30 June 2019 Total (Unaudited) £000	Six months ended 30 June 2018 Total (Unaudited) £000	Year ended 31 December 2018 Total (Unaudited) £000
Adjusted operating loss	(934)	(760)	(1,582)
Gain on revaluation of investment net of professional fees	648	-	-
Share based payment charge	(45)	(45)	(106)
Operating profit	(331)	(805)	(1,688)

Group	Six months ended 30 June 2019 Total (Unaudited) £000	Six months ended 30 June 2018 Continuing (Unaudited) £000	Six months ended 30 June 2018 Exited (Unaudited) £000	Six months ended 30 June 2018 Total (Unaudited) £000	Year ended 31 December 2018 Total (Unaudited) £000
Services revenue	22,302	23,507	413	23,920	46,519
Inter-company property income	-	-	-	-	-
Third party property income	506	515	-	515	1,046
Other	785	700	-	700	1,105
Revenue	23,593	24,722	413	25,135	48,670
Adjusted operating profit	3,290	3,540	168	3,708	7,731
Gain on revaluation of investment net of professional fees	648	-	-	-	-
Gain on settlement of legal claim	687	-	-	-	-
Amortisation and impairment of intangible assets	(1,003)	(1,003)	-	(1,003)	(2,004)
Acquisition and integration costs	-	(282)	-	(282)	(76)
Release of contingent consideration	-	519	-	519	519
Impairment of other investments	-	-	-	-	(50)
Share based payment charge	(506)	(232)	-	(232)	(812)
Operating profit	3,116	2,542	168	2,710	5,308
Finance charges (net)	(358)	(220)	-	(220)	(441)
Profit before income tax	2,758	2,322	168	2,490	4,867
Income tax charge	(325)	(116)	-	(116)	(580)
Profit for the period	2,433	2,206	168	2,374	4,287

In the Freehold Properties segment, income includes £1.2 million generated from inter-segment recharges. The corresponding cost is included within the Operating Business segment and is eliminated on consolidation.

5. Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements and Note 4. The Group's revenue is derived from contracts with customers.

Disaggregation of revenue

In the following table, revenue is disaggregated by geographical market and by the currency in which the contract is denominated for the Operating Business. Property revenue is generated in the UK and denominated in GBP.

For the 6 months ended 30 June

(Unaudited)

Currency	USD £000	EUR £000	GBP £000	Other £000	Total £000
2019	8,677	1,821	12,510	79	23,087
2018 (Restated)	7,888	3,564	13,138	30	24,620

Geographical market	North America £000	Europe (excl UK) £000	UK £000	Other £000	Total £000
2019	9,943	6,473	5,718	953	23,087
2018	8,989	10,462	3,673	1,496	24,620

For the period ended 30 June 2018, revenue by currency has been restated with £2.8 million being reclassified from EUR to GBP. The adjustment has not changed total revenue.

6. Income tax

The income tax charge for the period ended 30 June 2019 is charged at the effective tax rate calculated for the period using reasonable estimates and incorporating both current and deferred taxation:

	Six months ended 30 June 2019 (Unaudited) £000	Six months ended 30 June 2018 (Unaudited) £000	Year ended 31 December 2018 (Audited) £000
Profit before tax	2,758	2,490	4,867
Current taxation	(596)	(590)	(1,377)
Current taxation – adjustment in respect of prior years	(84)	24	196
Deferred taxation	139	296	218
Deferred taxation – adjustment in respect of prior years	-	-	(49)
R&D tax credit	216	154	432
Tax charge	(325)	(116)	(580)
Effective tax rate	11.8%	4.7%	11.9%

The Group claims Research and Development tax credits under both the R&D Expenditure Credit scheme and the Small or Medium-sized scheme.

7. Earnings per share

The calculation of earnings per share is based on the following results and number of shares:

	Six months ended 30 June 2019 (Unaudited) £000	Six months ended 30 June 2018 (Unaudited) £000	Year ended 31 December 2018 (Audited) £000
Profit for the financial period	2,433	2,374	4,287
Weighted average number of shares:	Number		
For basic earnings per share	40,206,807	39,750,141	39,889,693
For fully diluted earnings per share	40,835,968	40,793,940	40,911,302
Earnings per share:	Pence	Pence	Pence
Basic earnings per share	6.1	6.0	10.7
Fully diluted earnings per share	6.0	5.8	10.5

The calculation of adjusted earnings per share is as follows:

	Six months ended 30 June 2019 (Unaudited) £000	Six months ended 30 June 2018 (Unaudited) £000	Year ended 31 December 2018 (Audited) £000
Adjusted* profit after tax for the period	2,363	2,790	5,876
Weighted average number of shares:	Number		
For basic earnings per share	40,206,807	39,750,141	39,889,693
For fully diluted earnings per share	40,835,968	40,793,940	40,911,302
Adjusted earnings per share:	Pence	Pence	Pence
Basic earnings per share	5.9	7.0	14.7
Fully diluted earnings per share	5.8	6.8	14.4

*Calculation of adjusted profit after tax:

	Six months ended 30 June 2019 (Unaudited) £000	Six months ended 30 June 2018 (Unaudited) £000	Year ended 31 December 2018 (Audited) £000
Adjusted operating profit	3,290	3,708	7,731
Finance income	-	1	10
Finance costs	(358)	(221)	(451)
Adjusted profit before tax	2,932	3,488	7,290
Tax charge at approx blended average tax rate of 19.4% (H1-18: 20.0%)	(569)	(698)	(1,414)
Adjusted profit after tax	2,363	2,790	5,876

8. Investment

The Group acquired 11,510,521 shares in Frontier Smart Technologies Group Limited during the period at a weighted average price of 24.1 pence with a total cost of £2.8 million. As at 30 June 2019, the investment has been revalued to the market value of 32.5 pence per share resulting in an investment at the balance sheet date of £3.7 million. Costs directly attributable to the activity relating to the Frontier investment of £306,000 were incurred in the period hence a net gain of £648,000 has been included in the Consolidated Income Statement.

9. Provisions

	Onerous lease £000	Dilapid- ations £000	Restruct- -uring £000	Legal £000	Total £000
At 1 January 2018	495	199	-	597	1,291
Increase in provision	-	157	199	378	734
Utilisation of provision	(150)	-	-	-	(150)
Release of provision	(95)	(33)	-	(281)	(409)
Loss/(Gain) on foreign currency fluctuations	6	(4)	-	7	9
At 30 June 2018	256	319	199	701	1,475
Increase in provision	-	13	-	13	26
Utilisation of provision	(40)	-	(57)	-	(97)
Release of provision	-	(75)	-	(19)	(94)
Loss/(Gain) on foreign currency fluctuations	9	5	-	10	24
At 31 December 2018	225	262	142	705	1,334
Increase in provision	-	13	-	-	13
Utilisation of provision	(126)	-	(20)	(5)	(151)
Release of provision	(94)	-	-	(687)	(781)
Loss/(Gain) on foreign currency fluctuations	(5)	1	(1)	(13)	(18)
At 30 June 2019	-	276	121	-	397

	At 30 June 2019 (Unaudited) £000	At 30 June 2018 (Unaudited) £000	At 31 December 2018 (Audited) £000
Current liabilities	201	1,136	1,038
Non-current liabilities	196	339	296
	397	1,475	1,334

The restructuring provision relates to the costs associated with the closure of the Central/Eastern Europe offices and is anticipated to be utilised during the period of 18 months following the balance sheet date.

Legal provisions represent the best estimate of the future economic outflow of settling potential litigation claims and associated costs such as legal fees. During the period ended 30 June 2019, the claim was settled with a cash outflow of £5,000 being required hence the remaining unutilised provision was released to the Consolidated Income Statement and is separately disclosed as an adjusting item.

10. Borrowings

	At 30 June 2019 (Unaudited) £000	At 30 June 2018 (Unaudited) £000	At 31 December 2018 (Audited) £000
Non-Current			
Bank borrowings	15,604	12,182	11,689
	15,604	12,182	11,689
Current			
Bank borrowings	1,200	1,250	1,000

	1,200	1,250	1,000
Total borrowings	16,804	13,432	12,689

The Group has increased the 10-year fixed term loan by £4.8 million on otherwise similar terms. The interest cost on the additional £4.8 million has been fixed by entering into an interest rate swap at an effective interest rate of 4.0% comprising a margin over 3 month LIBOR, the cost of the additional loan arrangement fee and the cost of the swap instrument.

11. Lease liabilities

	At 30 June 2019 (Unaudited) £000	At 30 June 2018 (Unaudited) £000	At 31 December 2018 (Audited) £000
Non-current	1,998	-	-
Current	807	-	-
Total lease liabilities	2,805	-	-

Lease liabilities arise on leased properties held by the Group. The leases have remaining periods of between 1 and 4 years from the balance sheet date. An associated right of use asset has been capitalised relating to the leases with a balance of £2,746,000 at 30 June 2019 and is disclosed within Property, plant and equipment.

12. Contingent liabilities

Science Group acquired shares in Frontier during the reporting period. For a proportion of these shares, contractual obligations exist such that under certain circumstances, a further payment in consideration of these shares would be required to be made to third parties. Subsequent to the balance sheet date, the criteria was met for an additional payment of £0.4 million to become payable. Further, related to the Frontier activity, there is a contingent liability for professional fees whereby under certain criteria, a cost in the range of up to £0.5 million would become payable.

13. Subsequent events

Subsequent to the period end, further activity has occurred with regards to the investment in Frontier. Refer to the first section of this report for further information.

14. Critical accounting estimates and judgements

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual

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financial statements. No new significant judgements and key sources of estimation uncertainty were required in the application of IFRS 16.

- Ends -