science group plc

3 March 2020

SCIENCE GROUP PLC

AUDITED RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') reports its audited results for the year ended 31 December 2019.

Summary

- Organic business performance in line with upgraded expectations.
- Acquisition of Frontier Smart Technologies completed, funded primarily from existing cash resources.
- Frontier restructuring and integration programme effectively completed. Costs recognised in 2019.
- Group retains a strong balance sheet with significant freehold property assets.

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 Regulation (No 596/2014).

Chairman's Statement

Science Group plc together with its subsidiaries is an international, science & technology services and product development organisation, supported by a strong balance sheet including significant freehold property assets. In 2019, the Group delivered a consistent operating performance from its organic business activities and completed a major acquisition followed by an accelerated restructuring and integration programme. As a result, the progress of Science Group has continued despite the background of macroeconomic and political uncertainty during 2019.

The strategy of enhancing the organic development of the Group through acquisitions has created a financially and operationally resilient organisation. The acquisition of Frontier Smart Technologies Group Limited ('Frontier') was again funded primarily from the Group's existing cash resources, minimising shareholder dilution. This strategy has delivered a substantial increase in scale, profit and the asset base of the Group, with offices in UK, Europe, North America and Asia, serving a range of vertical markets including medical, consumer, food & beverage and industrial sectors.

Financial Summary

Organic business performance in 2019 was positive. The Group's statutory results for the year are significantly influenced by the Frontier acquisition and the associated intensive restructuring undertaken to position the Group to realise the benefit in 2020 and beyond. As explained within this report, the accounting treatment associated with the acquisition is complex and, in order to provide transparency to shareholders, the Group results are summarised in the table below.

	Revenue 2019 £000	Adjusted Operating Profit 2019 £000	Revenue 2018 £000	Adjusted Operating Profit 2018 £000
Services Operating Business (excluding Frontier and exited operations)	48,710	8,221	47,195	7,564
Freehold properties	3,871	1,503	3,920	1,573
Corporate costs	-	(1,737)	-	(1,574)
Intra-Group elimination	(2,874)	-	(2,858)	-
Group excluding Frontier and exited operations	**49,707**	**7,987**	**48,257**	**7,563**
Exited operations	-	-	413	168
Frontier	7,540	(1,283)	-	-
Group	**57,247**	**6,704**	**48,670**	**7,731**

For the year ended 31 December 2019, Group revenue was £57.2 million (2018: £48.7 million) of which organic revenue was £49.7 million (2018: £48.3 million excluding exited operations). Adjusted operating profit ('AOP') for the organic business for the year ended 31 December 2019 was in line with the Board's expectations at the time of the October trading update, despite the negative impact of foreign currency movements during the last few months of the year, a period of considerable volatility for Sterling. The Group result comprised a profit contribution of £8.0 million (2018: £7.6 million excluding exited operations) from organic business activities and a loss of £1.3 million from the Frontier operations, as anticipated. (Adjusted operating profit and other Alternative Performance Measures used in this report are defined in the Finance

Director's Report. The Group exited operations in Central Europe in H1 2018 and the continuing measure provides comparability.)

In line with the Group's established model, acquisition restructuring and integration have been expedited and associated costs recognised at the earliest opportunity. Costs related to the Frontier acquisition including professional fees; share revaluation; property lease provisions; and the integration/restructuring process totalled £4.1 million. Amortisation of acquisition related intangibles and share based payment charge totalled £3.5 million (2018: £2.8 million) and as a result, in line with the Board's expectations, the Group reported an operating loss of £0.2 million for the year (2018: profit of £5.3 million).

Balance Sheet

The Group maintains a strong balance sheet, even after the Frontier acquisition, with significant cash resources, low debt and two substantial freehold properties hosting the Group's main UK laboratories and offices (see below).

Reflecting the deployment of cash to acquire Frontier, at 31 December 2019, gross cash was £13.9 million (2018: £21.5 million) and net debt was £2.3 million (2018: net funds of £8.8 million). The Group's bank debt at 31 December 2019 was £16.2 million (2018: £12.7 million). The Group's bank debt is tied to interest rate swaps to produce a net fixed rate (effectively 3.6%) to 2026 and is secured on the Group's freehold property assets. Subject to net debt not exceeding £10 million, the bank debt is not subject to operating covenants.

During the year, the Company sold some treasury shares in association with the Frontier acquisition. As a result, at 31 December 2019, shares in issue (excluding treasury shares held of 0.4m) were 41.7 million (2018: 40.0 million). Apart from the treasury shares, the acquisition of Frontier was undertaken using the Group's existing resources. This is consistent with the Board's prior practice, which has delivered substantial growth in revenue and profit over the past 9 years without shareholder dilution. (Issued share capital, excluding treasury shares, at 31 December 2010 was 41.7 million, the same as at 31 December 2019.)

Dividend

In recent years, the Group has progressively increased the dividend paid to shareholders ahead of the rate of inflation. Following the cash deployed in the Frontier acquisition, the Board has decided to recommend that this year the dividend is held at 4.6 pence per share. Subject to shareholder approval at the Annual General Meeting ('AGM'), the dividend will be payable on 12 June 2020 to shareholders on the register at the close of business on 22 May 2020.

Services Operating Business Overview

For the year ended 31 December 2019, revenue from the Group's services operating business (which excludes Frontier and property income) increased to £48.7 million (2018: £47.2 million, excluding exited operations). Adjusted operating profit generated from the services operating business was £8.2 million (2018: £7.6 million), in line with the trading update in October, despite the foreign exchange impact within the fourth quarter related to Brexit uncertainty. This profitability measure includes property rental costs charged to the services operating business at market rates on an arms-length basis. As a result, while there are operational and liability mitigation benefits from the Group's freehold property, the financial performance of the services operating business is not enhanced by these assets.

Product Development

The Group provides product development consulting services to the medical, consumer, food & beverage and industrial markets helping clients develop innovative products and technologies. Science Group services are differentiated by their combination of deep scientific understanding, engineering excellence and sector domain knowledge.

Revenues for the Product Development business increased to £23.2 million (2018: £22.0 million). The Commercial (consumer, food & beverage and industrial sectors) business delivered very strong results compared to the prior year. The Medical business, characterised by large projects with a greater customer concentration, was impacted in H1 2019 as a result of some large projects completing at the end of 2018, but recovered well in the second half of the year. The largest Product Development client accounted for £3.1 million of revenue in 2019.

The acquisition of Frontier enhances the Product Development business' Internet of Things ('IoT') proposition, particularly in the Commercial sectors. Prior to the Frontier acquisition, IoT has been a growth area as companies seek to evolve their business models in line with this digital market trend. However, one of the less understood but critical aspects of deploying IoT strategies is the requirement for ongoing support infrastructure to enable, for example, the updating of firmware; system control; data analysis; and maintenance monitoring. The Nuvola infrastructure, originally established to support Frontier's smart radio ('SmartRadio') and smart audio models which now has an installed base of several million field-deployed units, brings a new capability to the Group's strategy.

Advisory

The Group's Advisory business provides clients a combination of sector understanding and science/technology expertise. These consulting services help clients innovate, typically looking at market developments and opportunities in the 3-10 year horizon. The client base is mainly large, blue-chip organisations, but project-size is typically smaller than product development projects. The largest Advisory client accounted for £1.2 million of revenue in 2019.

The Advisory business had a good performance in 2019 with revenue increasing to £8.2 million (2018: £7.6 million). The Consumer and Food & Beverage sectors performed strongly, benefitting from the Group's wider capabilities in Product Development and Regulatory services. The Industrial (including Energy) sector performed satisfactorily.

Regulatory

The Regulatory businesses provide science-based regulatory consulting services to clients in the food & beverage, agritech, consumer and chemicals market sectors. The Group delivers services to clients predominantly in Europe and North America, but provides international coverage across wider geographical territories, particularly in food & beverage where services cover over 100 countries, a key differentiating factor in this global market.

The revenues from the Group's Regulatory businesses slightly declined to £16.8 million (2018: £17.3 million from continuing operations). Performance was strong in food & beverage, reflecting the Group's market leadership position and scalable services model. In the US regulatory business, the market was impacted significantly in the first part of the year by the federal government shutdown, recovering in the second half with growth in the federal and state renewals business which provides repeat revenue from the established client base. In Europe, the prior year benefited from a regulatory deadline relating to the REACH programme and the revenue in 2019 therefore declined slightly. The largest Regulatory client accounted for £0.5m of revenue in the year.

Frontier Acquisition

Science Group completed the acquisition of Frontier in October. Due to the progressive increase of the Science Group shareholding between May and October, the accounting treatment of the 2019 results is complex. In brief, prior to 11 July 2019, the shareholding was deemed to be an investment. Thereafter, Frontier was treated as an associate until 23 August 2019, at which point Science Group obtained control and the results were consolidated (with the proportion relating to the other Frontier shareholders being separately attributed). On 11 October 2019, completion of the statutory merger resulted in Science Group obtaining 100% ownership of Frontier.

The accounting treatment is further complicated by the variation in price paid per share during the course of the acquisition. On 23 August, the Group's weighted average cost per Frontier share for shares acquired prior to that date, through on-market purchases and the formal offer ('Offer'), was 30.6 pence, at which time Science Group owned 19.4 million shares in Frontier. The price per share for the subsequent statutory merger was 25 pence and as a result a paper accounting loss of 5.6 pence per share was incurred on the Group's holding, equivalent to £1.1 million, although the Board's action produced a cash saving to Science Group of approximately £2.7 million compared to the original Offer price of 35 pence per Frontier share. This unusual circumstance, which was significantly beneficial to Science Group, was only possible due to Frontier not being subject to the UK Code on Takeovers and Mergers and the Frontier Board rejecting the original Science Group Offer.

At an adjusted operating level, the underlying loss reported by Frontier was £0.8 million. In addition, acquisition accounting treatment of work-in-progress and finished goods in accordance with IFRS 3, Business Combinations, results in an adjustment of £0.5 million reported as an operating loss. Professional fees; share revaluation; property lease provisions; and the costs arising from integration/restructuring activities totalled £4.1 million.

In terms of the balance sheet on 23 August, when consolidation commenced, goodwill of £2.8 million ($3.5 million) and acquisition related intangible assets of £8.8 million ($10.7 million) were recognised. Subsequently, due to the fluctuation in exchange rates and amortisation of acquisition related intangible assets, at 31 December 2019 these balances were £2.6 million and £7.6 million respectively. Frontier also has significant unrecognised tax losses, in the order of £24 million.

<u>Frontier Integration and Strategy</u>

Since completion in October, a very intensive restructuring and integration programme has been executed by the new Frontier management team. Excellent progress has been made including:

- The Romanian operations have been closed and the legal entity is anticipated to be terminated in 2020;
- The Frontier London office has been closed and staff relocated to the Science Group London office;
- The Cambridge (Sawston) office has been closed and staff relocated to Science Group's freehold facility in Harston, Cambridge, with onerous lease costs being recognised in 2019;
- In Hong Kong the office space has been reduced by approximately half with the associated onerous costs being recognised in 2019;
- A substantial reduction in the cost base has resulted in headcount reducing from 110 in October 2019 to 67 in February 2020; and
- A reduction in the number of module variants, including end-of-life programmes for unprofitable product lines.

The market for Frontier products is relatively stable with upticks in demand associated with country transitions to digital broadcasting. Frontier holds a majority share in its core digital radio (DAB/DAB+) market and demand for Frontier products is therefore fundamentally linked to the scale and dynamics of the market. Frontier has historically been over-optimistic in its forecasting and failed to manage distribution/retail channel inventory, a particular issue in late 2018 which resulted in incentives to customers towards the end of the year having a material impact on demand in 2019. This not only resulted in forecast downgrades in Frontier but such short-term incentives to customers exacerbate price/margin pressure and revenue volatility. The Frontier strategy in future will be to allow revenue to move in line with market developments to produce a more sustainable, and profitable, operating model.

The substantial reduction in the cost base resulting from the accelerated integration/restructuring programme, should enable Frontier performance to recover in 2020. However, the impact of the coronavirus (COVID-19) outbreak is uncertain, a global challenge particularly affecting production facilities in China where Frontier and Frontier customers manufacture their products. The Frontier manufacturing facility was temporarily closed but has now been partially reopened following approval from the local authority. The situation remains under close review.

Frontier revenue and material costs are transacted in US dollars, as is common practice in consumer electronics manufactured in China since most materials are priced in that currency. As a consequence, the Frontier business is exposed to exchange rate fluctuations between Sterling and US dollars.

Frontier Product Strategy

The Frontier business comprises:

DAB Radio: Frontier is the market leader in design and manufacture of chips and modules which are used in DAB radios. The skills involved in designing, developing and manufacturing these products include embedded software engineering, RF and digital hardware development and high-volume/low cost manufacturing. This product category contributes the majority of Frontier revenue.

The market of approximately 5 million chips/modules is concentrated in geographies such as Germany and the UK which have been major adopters of the DAB digital broadcast technology. The underlying, broadly flat market volume is enhanced when major geographies accelerate their national digital strategies or implement digital switchover.

SmartRadio: Frontier also designs and manufactures modules which contain internet radio technology in addition to DAB chips. The resulting products feature in an emerging category increasingly referred to as 'SmartRadio'. These products enable consumers to listen to broadcast radio through DAB and/or a wide range of global internet radio stations in addition to music streaming services such as Spotify. The category aims to combine the simplicity of radio together with the scope of the internet, without the privacy concerns sometimes associated with the smart speaker category.

In terms of market volume, SmartRadio currently accounts for around 15% of Frontier shipments. Frontier SmartRadios are connected to the Group's cloud platform ('Nuvola') which enables certain internet functionality and delivers firmware updates when required.

Smart Audio: In recent years, Frontier invested heavily in developing modules that enable voice-activated smart speakers and other audio devices. This product-line absorbed very substantial funds resulting in the lack of profitability of Frontier. While the product category contributes some valuable technology and capability in voice activation of the major ecosystems and remains part of the product portfolio, as a stand-alone product category the importance has now been de-emphasised. A provision against excess inventory was taken in 2019.

IoT: As part of Frontier's smart radio and smart audio strategy, Frontier developed the cloud architecture, Nuvola, which enables certain functionality and firmware updates of internet-connected products in the field. This architecture has been technically well-conceived and currently supports an installed base of several million devices, of which around 1.5 million were actively connecting to Nuvola in January 2020. This architecture will continue to support Frontier products and, as explained above, will potentially provide an enabler for the Group's wider Product Development and IoT strategies.

Freehold Properties

The last formal valuation of the Group's freehold properties, Harston Mill, near Cambridge, and Great Burgh, near Epsom, was undertaken in March 2018. This report indicated that the aggregate 'vacant possession' valuation was estimated at £22.6 million and, based on market rents and property yields at that time, the aggregate sale & leaseback valuation was estimated at £33.9 million. The properties are held on the balance sheet at an aggregate value of £21.4 million (2018: £21.6 million) on the historical cost-based valuation model.

Following the 2018 strategic review, the freehold properties are managed outside of the operating business activities and the operations are charged rent and service charges on an arms-length basis. For the year ended 31 December 2019, the property business generated a total revenue of £3.9 million. This comprised £1.0 million (2018: £1.1 million) from third party tenants and £2.9 million (2018: £2.9 million) from intra-Group rental charges. On a stand-alone basis, the Group's freehold property delivered a £1.5 million (2018:

£1.6 million) adjusted operating profit, although at Group level, the intra-Group trading is eliminated on consolidation.

The vacant space in the Mill building on the Harston Mill site has been used to accommodate Frontier. During the year, one larger tenant went into insolvency and currently there is 6,000 square feet of lettable space at Harston Mill. Additional tenant turnover is anticipated in the year ahead and marketing of potential free space has been initiated.

The Board previously concluded that the Harston Mill property should be moved out of Sagentia into a separate company and this was due to be actioned early in 2020, with a corresponding tax cash outflow of approximately £2 million. The preparatory work has been completed. However, following the Frontier acquisition and the deployment of cash resources into expanding the Group's business operations, the Board has decided to defer the Harston Mill transfer and to review later in the year. There are no material operating consequences of this deferral.

External Factors

There are several external factors which may influence the Group in the year ahead.

Brexit is the highest profile political change but it remains unclear what the net effect on the Group's services operations will be, since some capabilities may be in greater demand while R&D tax credit arrangements in EU countries may in some cases make UK consultancy services less attractive. With regard to the Frontier product business, supply is provided directly from China/Hong Kong and it is not anticipated that Brexit will have any material effect on this division. In addition to Brexit, the US Presidential election could influence Science Group's services operations later in the year since a high proportion of this revenue is derived from North America. The Board monitors developments and awaits greater certainty before reviewing the Group's strategy, if appropriate.

The Covid-19 virus has to date only had a minor effect and this has been in relation to the Frontier manufacturing in China. However, while the timing of the outbreak around the Lunar New Year was unfortunate, this time of year was planned to be a quieter business period due to the holiday. As a result, to date there has been only limited financial impact and the Frontier manufacturing operations have now partially reopened in accordance with local procedures. In summary, at present it is considered that any material effect on Science Group is likely to derive from the indirect consequences on the global economy (R&D investment, business travel, etc). The Board are closely monitoring the situation.

However, in regard to factors beyond the Board's control, the greatest financial impact is likely to derive from movements in currency exchange rates with the Group benefitting from a strong US dollar and weaker Sterling. Currency rates may be directly or indirectly related to the above and/or other external factors.

Corporate

The major corporate activity during 2019 was the Frontier acquisition. Not only was this the largest acquisition in the Group's history, but it was also a complex bid for an AIM-listed, Cayman-domiciled entity, which was actively resisted by the Frontier Board. The transaction included market purchases; a formal offer; an equity investment; and finally a cross-border statutory merger, subject to English and Cayman law. The UK Code on Takeovers and Mergers did not apply.

With Frontier having operations in Cambridge, London, Romania, Hong Kong and China, the integration has been intense particularly since the operational restructuring has been effectively completed in just a few months. Finalising the corporate administrative procedures and implementing the new strategy is ongoing.

Corporate costs for the Group for the year increased to £1.7 million (2018: £1.6 million).

Summary

The financial performance of the Group's organic operations in 2019 was in line with expectations. The Board anticipate continued progress in the year ahead and the new year has started satisfactorily.

Despite only completing the acquisition in October, the restructuring and integration of Frontier, has made very good progress, resulting in a substantial reduction in the cost base and a clear future strategy for this business. While the impact of Covid-19 cannot be fully evaluated, the Board is confident that the operational, financial and commercial transformation that has been undertaken in the last few months will render the business more resilient to external factors.

The Group retains a strong balance sheet with significant cash resources; low net debt (without any operating covenants at the current level); and substantial freehold property assets. This foundation, together with the Group's portfolio of complementary business operations, diversified across geography and industry sectors, provides stability and opportunity in an unpredictable world.

Martyn Ratcliffe
Chairman

Finance Director's Report

Overview of results

In the year ended 31 December 2019, the Group generated revenue of £57.2 million (2018: £48.7 million) benefitting from the inclusion of 4 months trading of Frontier following the acquisition during 2019. Revenue from the services and product operating businesses, that is revenue derived from consultancy services, materials recharged on these projects and product revenue, increased to £56.2 million (2018: £47.6 million). Revenue generated by freehold properties, comprising property and associated services income derived from space let to third parties in the Harston Mill facility, was £1.0 million (2018: £1.1 million).

Adjusted operating profit for the Group of £6.7 million (2018: £7.7 million) includes an adjusted operating loss of £1.3 million for Frontier within which an acquisition accounting loss of £0.5 million arose due to the revaluation of acquired inventory. The Group statutory operating loss of £0.2 million (2018: profit of £5.3 million) includes the costs resulting from the restructuring of Frontier and the one-off costs and accounting adjustments arising from the acquisition as set out in the Chairman's Statement. The statutory loss before tax was £1.6 million (2018: profit before tax of £4.9 million) and statutory loss after tax was £1.8 million (2018: profit after tax of £4.3 million).

(Adjusted operating profit is an alternative profit measure that is calculated as operating profit excluding amortisation of acquisition related intangible assets, impairment of investments, acquisition integration costs, share based payment charges and other specified items that meet the criteria to be adjusted. Refer to the notes to the financial statements for further information on this and other alternative performance measures).

Frontier

The Frontier transaction started in early May 2019 when the initial on-market purchases of shares were made. On 11 July 2019, the Group ownership reached 35.6% and the Group commenced equity accounting for the investment. The Group continued to acquire shares on the market and made an offer for Frontier at 35 pence per share resulting in ownership of 47.5% on 19 July 2019. On 23 August 2019, through an issue of 4 million shares by Frontier, Science Group increased its ownership to 52.2% gaining control of Frontier and the consolidation of results commenced. Additional shares were acquired on the market taking the ownership to 72.3% on 6 September 2019 with the remaining Frontier shares being acquired on 11 October 2019 by way of a statutory merger. The statutory merger was effected by SG Bidco Limited (a 100% owned subsidiary of Science Group plc) merging with Frontier Smart Technologies Group Limited, the parent company of the Frontier Group, through which Science Group obtained full ownership of the Frontier business. Refer to Note 16 for further information on the acquisition process and accounting of Frontier.

Included within the Frontier adjusted operating loss for the post acquisition period is a fair value adjustment related to the acquisition accounting of inventory that increased the Frontier loss by £0.5 million. All assets and liabilities are recorded at fair value at the date of acquisition and the valuation of inventory is adjusted to take into account the work done up until this date. Therefore, work in progress and manufactured finished goods held are not valued at cost and instead the fair value is measured by taking into account the stage of development in the production cycle of the item, with the fair value being the estimated selling price less certain costs and a margin thereon. This methodology, as required under IFRS 3, Business Combinations, has resulted in an accounting adjustment to the value of acquired inventory of £0.7 million and has reduced the adjusted operating profit in 2019 by £0.5 million with the balance reducing adjusted operating profit in 2020.

Adjusting items

The acquisition and restructuring activities have resulted in significant one-off costs including: professional fees and integration costs of £2.5 million; a provision for onerous costs relating to property leases (including an impairment of the leased right of use asset) of £1.1 million; and a loss on remeasurement of the equity investment in Frontier of £0.5 million. The capitalised acquisition related intangible assets in respect of Frontier has resulted in the associated amortisation increasing to £2.3 million (2018: £2.0 million) and the share based payment charge has increased to £1.2 million (2018: £0.8 million) due to the full year effect of the share options granted under the Enhanced Executive Incentive scheme and the increase in PSP share options granted resulting from the growth of the Group.

Foreign exchange

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 2019, £28.7 million of the Group operating business revenue was denominated in US Dollars (2018: £16.6 million), including all of Frontier revenue, and £3.6 million of the Group operating business revenue was denominated in Euros (2018: £5.7 million). The Group continues to monitor the volatility of exchange rates and to date has decided not to utilise foreign exchange hedging instruments.

IFRS 16 Leases

The Group adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. This applies to property leases held by the Group companies. The effect was to recognise a Right of Use asset and a Lease liability of £2.8 million at 1 January 2019. As a result, in the Consolidated Income Statement for the year ended 31 December 2019, adjusted operating profit increased by a net of £12,000 and interest cost increased by £95,000.

Taxation

The tax charge for the year was £0.2 million (2018: £0.6 million). The underlying tax charge on the profits generated by the organic operating business has been partially offset against the tax income arising on losses generated by Frontier from when it was 100% owned in the Group and a Research and Development tax credit of £0.4 million (2018: £0.4 million). A significant proportion of the one-off costs resulting from the acquisition and restructuring activities are not anticipated to be tax deductible.

At 31 December 2019, Science Group had £34.7 million (2018: £10.8 million) of tax losses of which £0.2 million (2018: £0.4 million) relate to trading losses which have been recognised as a deferred tax asset and are anticipated to be used to offset future trading profits. Tax losses of £24.0 million (2018: £nil) relate to the acquired Frontier companies of which £22.4 million (2018: £nil) are held by the trading company of Frontier (Frontier Smart Technologies Limited) and would be able to be offset against future profits generated by this company but due to the uncertainty in the timing of utilisation of these losses, they have not been recognised as a deferred tax asset. The remaining tax losses of £10.5 million (2018: £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 in operating activities.

Statutory basic earnings per share ('EPS') was a loss of 4.5 pence (2018: profit of 10.7 pence) due to the Frontier one-off costs relating to the acquisition and integration.

Cash flow

Cash flow from operating activities excluding Client Registration Funds ('CRF') was £5.4 million (2018: £5.0 million). Reported cash from operating activities in accordance with IFRS was £5.4 million (2018: £5.6 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. The alternative performance measures, adjusting for CRF, more accurately reflect the Group's cash position and cash flow.

The cash outflow in acquiring the shares of Frontier was £12.8 million which represented an average price per share of 27.3 pence. Frontier held cash at the end of August 2019 of £2.8 million and had a revolving credit facility with Clydesdale of £5.0 million which was repaid by Science Group following the statutory merger. During the post-acquisition period, the working capital of Frontier was normalised by paying overdue balances owed to suppliers to address the extended payment terms necessitated by Frontier's financial position. Partially offsetting this was the reduction in trade receivables and inventory arising from Frontier's seasonality which experiences peak shipments in the summer months.

Financing and cash

The Group's term loan with Lloyds Bank plc ('Lloyds'), secured on the Group's freehold properties, is a 10 year fixed term loan expiring in 2026. It was increased during the year to £17.5 million on similar terms to those previously in place. Phased interest rate swaps hedge the loan resulting in a 10 year fixed effective interest rate of 3.6%, comprising a margin over 3 month LIBOR, the cost of the loan arrangement fee and the cost of the swap instruments. 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: (i) 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 (ii) 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 IFRS 9, Financial Instruments, and the loss on change in fair value of the interest rate swaps was £408,000 (2018: gain of £66,000) which was recognised directly within equity.

The Group cash position (excluding CRF) at 31 December 2019 was £13.9 million (2018: £21.5 million) and net debt was £2.3 million (2018: net funds of £8.8 million) following the cash outflows for the consideration of Frontier, restructuring costs and the realignment of the Frontier working capital position. CRF of £1.5 million (2018: £1.5 million) were held at the year end. Working capital management during the year continued to be a focus with debtor days of 32 days at 31 December 2019 (2018: 37 days) while combined debtor and WIP days was similar to prior year at negative 7 days (2018: negative 9 days). (WIP is defined as the net of accrued income and payments received on account). Following the acquisition of Frontier, the Group holds inventory which, at 31 December 2019, was £2.1 million (2018: £nil).

Share capital

At 31 December 2019, the Company had 41,700,440 ordinary shares in issue (2018: 40,040,227) excluding 361,595 shares in treasury (2018: 2,021,808). Of the ordinary shares in issue, 104,400 (2018: nil) shares are held by the EBT and hence the voting rights in the Company are 41,596,040. In this report, all references to measures relative to the number of shares in issue exclude shares held in treasury unless explicitly stated to the contrary.

Employee Benefit Trust

Prior to acquisition, Frontier Smart Technologies Employee Benefit Trust ('EBT') held 2.0 million Frontier shares. On completion of the statutory merger, the EBT received £0.5 million in settlement of the shares of which £0.3 million was paid to SG Bidco Limited to settle an outstanding loan. 104,400 shares in Science Group plc were acquired by the EBT (by issuing shares held in treasury) which will be used to satisfy employee share options issued to the Joint Managing Directors of the Frontier business. The voting rights and right to dividends in respect of the ordinary shares held by the EBT are waived.

Rebecca Archer
Finance Director

Consolidated Income Statement

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Revenue	2	**57,247**	48,670
Operating expenses before adjusting items		**(50,543)**	(40,939)
Adjusted operating profit	2	**6,704**	7,731
Acquisition and integration costs	16	**(3,571)**	(76)
Loss on remeasurement of equity-accounted investee		**(491)**	-
Amortisation of acquisition related intangible assets		**(2,345)**	(2,004)
Share based payment charge		**(1,167)**	(812)
Release of provision on settlement of legal claim	12	**687**	-
Release of contingent consideration	13	**-**	519
Impairment of other investments		**-**	(50)
Operating (loss)/profit		**(183)**	5,308
Finance income		**22**	10
Finance costs		**(852)**	(451)
Share of loss of equity-accounted investee, net of tax		**(592)**	-
(Loss)/profit before income tax		**(1,605)**	4,867
Income tax charge (including R&D tax credit of £406,000) (2018: £432,000))	3	**(226)**	(580)
(Loss)/profit for the year		**(1,831)**	4,287
Earnings per share			
Earnings per share from continuing operations (basic)	5	**(4.5)p**	10.7p
Earnings per share from continuing operations (diluted)	5	**(4.4)p**	10.5p
Adjusted earnings per share from continuing operations (basic)	5	**11.6p**	14.7p
Adjusted earnings per share from continuing operations (diluted)	5	**11.3p**	14.4p

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2019

	2019 £000	2018 £000
(Loss)/profit for the year attributable to:		
Equity holders of the parent	**(1,669)**	4,287
Non-controlling interests	**(162)**	-
(Loss)/profit for the year	**(1,831)**	4,287
Other comprehensive income **Items that will or may be reclassified to profit or loss:**		
Exchange differences on translating foreign operations	**(939)**	(50)
Fair value (loss)/gain on interest rate swap	**(408)**	66
Deferred tax on interest rate swap	**77**	(13)
Other comprehensive (expense)/income for the year	**(1,270)**	3
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**(2,939)**	4,290
Non-controlling interests	**(162)**	-
Total comprehensive (expense)/income for the year	**(3,101)**	4,290

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2019

	Attributable to owners of the Company									
	Issued capital	**Share premium**	**Treasury stock**	**Merger reserve**	**Translation reserve**	**Share based payment reserve**	**Retained earnings**	**Total – Share-holders funds**	**Non-controlling interests**	**Total equity**
	£000	**£000**	**£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**	**-**	**37,739**
Contributions and distributions										
Purchase of own shares	-	-	(190)	-	-	-	-	**(190)**	-	**(190)**
Issue of shares out of treasury stock	-	-	995	-	-	-	(880)	**115**	-	**115**
Dividends paid	-	-	-	-	-	-	(1,760)	**(1,760)**	-	**(1,760)**
Share based payment charge (Note 23)	-	-	-	-	-	812	-	**812**	-	**812**
Deferred tax on share based payment transactions	-	-	-	-	-	–	(48)	**(48)**	-	**(48)**
Transactions with owners	**-**	**-**	**805**	**–**	**–**	**812**	**(2,688)**	**(1,071)**	**-**	**(1,071)**
Profit for the year	-	-	-	-	-	-	4,287	**4,287**	-	**4,287**
Other comprehensive income:										
Fair value gain on interest rate swap	-	-	-	-	-	-	66	**66**	-	**66**
Exchange differences on translating foreign operations	-	-	-	-	(50)	-	-	**(50)**	-	**(50)**
Deferred tax on interest rate swap	-	-	-	-	-	-	(13)	**(13)**	-	**(13)**
Total comprehensive income for the year	-	-	-	-	(50)	-	4,340	**4,290**	-	**4,290**
Balance at 31 December 2018	**421**	**8,230**	**(2,764)**	**10,343**	**260**	**3,475**	**20,993**	**40,958**	**-**	**40,958**

	Attributable to owners of the Company									
	Issued capital	**Share premium**	**Treasury stock**	**Merger reserve**	**Translation reserve**	**Share based payment reserve**	**Retained earnings**	**Total – Share-holders funds**	**Non-controlling interests**	**Total equity**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 January 2019	**421**	**8,230**	**(2,764)**	**10,343**	**260**	**3,475**	**20,993**	**40,958**	**-**	**40,958**
Contributions and distributions										
Purchase of own shares	-	-	(203)	-	-	-	-	**(203)**	-	**(203)**
Issue of shares out of treasury stock	-	-	2,307	-	-	-	109	**2,416**	-	**2,416**
Dividends paid	-	-	-	-	-	-	(1,840)	**(1,840)**	-	**(1,840)**
Share based payment charge	-	-	-	-	-	1,167	-	**1,167**	-	**1,167**
Deferred tax on share based payment transactions	-	-	-	-	-		(25)	**(25)**	-	**(25)**
Total contributions and distributions	**-**	**-**	**2,104**	**-**	**-**	**1,167**	**(1,756)**	**1,515**	**-**	**1,515**
Changes in ownership interests										
Acquisition of subsidiary with NCI	-	-	-	-	-	-	-	**-**	2,763	**2,763**
Acquisition of NCI without change in control	-	-	-	-	-	-	(3,265)	**(3,265)**	(2,601)	**(5,866)**

Total changes in ownership interests	**-**	**-**	**-**	**-**	**-**	**-**	**(3,265)**	**(3,265)**	**162**	**(3,103)**
Total transactions with owners	**-**	**-**	**2,104**	**-**	**-**	**1,167**	**(5,021)**	**(1,750)**	**162**	**(1,588)**
Loss for the year							(1,669)	**(1,669)**	**(162)**	**(1,831)**
Other comprehensive income:										
Fair value loss on interest rate swap	-	-	-	-	-	-	(408)	**(408)**	-	**(408)**
Exchange differences on translating foreign operations	-	-	-	-	(939)	-	-	**(939)**	-	**(939)**
Deferred tax on interest rate swap	-	-	-	-	-	-	77	**77**	-	**77**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(939)**	**-**	**(2,000)**	**(2,939)**	**(162)**	**(3,101)**
Balance at 31 December 2019	**421**	**8,230**	**(660)**	**10,343**	**(679)**	**4,642**	**13,972**	**36,269**	**-**	**36,269**

Consolidated Balance Sheet
At 31 December 2019

		Group	
	Notes	**2019 £000**	2018 £000
Assets			
Non-current assets			
Acquisition related intangible assets	7	**13,222**	7,495
Goodwill	7	**13,808**	11,239
Property, plant and equipment		**25,870**	23,353
Derivative financial assets		**-**	293
Deferred tax assets	4	**47**	16
		52,947	42,396
Current assets			
Inventories	8	**2,060**	-
Trade and other receivables	9	**10,239**	9,717
Current tax asset		**482**	245
Cash and cash equivalents – Client registration funds	10	**1,517**	1,487
Cash and cash equivalents – Group cash	10	**13,912**	21,520
		28,210	32,969
Total assets		**81,157**	75,365
Liabilities			
Current liabilities			
Trade and other payables	11	**20,581**	17,376
Current tax liabilities		**226**	374
Provisions	12	**172**	1,038
Borrowings	15	**1,200**	1,000
Lease Liabilities		**1,212**	-
		23,391	19,788
Non-current liabilities			
Provisions	12	**480**	296
Borrowings	15	**15,013**	11,689
Lease Liabilities		**2,111**	-
Financial Instruments		**115**	-
Deferred tax liabilities	4	**3,778**	2,634
		21,497	14,619
Total liabilities		**44,888**	34,407
Net assets		**36,269**	40,958
Shareholders' equity			
Share capital	14	**421**	421
Share premium		**8,230**	8,230
Treasury stock	14	**(660)**	(2,764)
Merger reserve		**10,343**	10,343
Translation reserve		**(679)**	260
Share based payment reserve		**4,642**	3,475
Retained earnings		**13,972**	20,993
Total equity		**36,269**	40,958

Consolidated Statement of Cash Flows
For the year ended 31 December 2019

		Group	
	Notes	**2019 £000**	2018 £000
(Loss)/profit before income tax		**(1,605)**	4,867
Adjustments for:			
Share of loss of equity-accounted investee, net of tax		**592**	-
Loss on remeasurement of equity-accounted investee		**491**	-
Amortisation on acquisition related intangible assets		**2,345**	2,004
Depreciation on property, plant and equipment		**776**	760
Impairment of right of use asset		**796**	-
Depreciation of right of use asset		**1,033**	-
Net interest cost		**830**	441
Release of contingent consideration	13	**-**	(519)
Share based payment charge		**1,167**	812
Impairment of cost of investment		**-**	50
Decrease in inventories		**1,863**	-
Decrease/(increase) in receivables		**3,432**	(354)
(Decrease)/increase in payables representing client registration funds		**(30)**	600
Decrease in payables excluding balances representing client registration funds		**(3,846)**	(1,535)
Changes in provisions		**(933)**	257
Cash generated from operations		**6,911**	7,383
Interest paid		**(781)**	(555)
UK corporation tax paid		**(554)**	(1,025)
Foreign corporation tax paid		**(196)**	(159)
Cash flows from operating activities		**5,380**	5,644
Interest received		**22**	10
Purchase of property, plant and equipment		**(555)**	(444)
Purchase of subsidiary undertakings, net of cash received	16(c)	**(4,118)**	-
Cash flows used in investing activities		**(4,651)**	(434)
Issue of shares out of treasury		**2,416**	115
Repurchase of own shares		**(203)**	(190)
Dividends paid		**(1,840)**	(1,760)
Acquisition of NCI	16(c)	**(5,869)**	-
Proceeds of bank loan received	15	**4,750**	-
Repayment of term loan	15	**(1,200)**	(1,250)
Repayment of revolving credit facility	15	**(5,000)**	-
Payment of lease liabilities		**(998)**	-
Cash flows used in financing activities		**(7,944)**	(3,085)
(Decrease)/increase in cash and cash equivalents in the year		**(7,215)**	2,125
Cash and cash equivalents at the beginning of the year		**23,007**	20,780
Exchange (loss)/gains on cash		**(363)**	102
Cash and cash equivalents at the end of the year		**15,429**	23,007

Cash and cash equivalents is analysed as follows:

	2019 £000	2018 £000
Cash and cash equivalents – Client registration funds	**1,517**	1,487
Cash and cash equivalents – Group cash	**13,912**	21,520
	15,429	23,007

Extracts from notes to the financial statements

1. General information

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or 'Group') is an international, science & technology services and product development organisation. 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 2019, was 249.0 pence per share (31 December 2018: 210.0 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' and 'net funds' 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. 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 investors/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 19.4% (2018: 19.4%) 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:

	2019 **£000**	2018 £000
Cash and cash equivalents – Group cash	**13,912**	21,520
Borrowings	**(16,213)**	(12,689)
Net (debt)/funds	**(2,301)**	8,831

Alternative performance measures

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. 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

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. The Operating Business (excluding Frontier) is managed via the service lines of Applied Science and Product Development, Technology advisory and Regulatory. Financial information is provided to the chief operating decision makers ('CODMs') in line with this structure: the service lines in Operating Businesses; the Product Operating Business (Frontier); the Freehold Properties and Corporate costs.

The service lines of Applied Science and Product Development, Technology advisory and Regulatory have been aggregated resulting in one Services Operating Business segment because the service lines have similar economic characteristics such as similar long-term average gross margins, trends in sales growth and operating cash flows and are also similar in respect of their nature, delivery and types of customers that the services are provided to. This aggregation does not the impact the user's ability to understand the entity's performance, its prospects for future cash flows or the user's decisions about the entity as a whole as it is a fair representation of the performance of each service line.

As a result, the Group results are presented across 4 reporting segments: Services Operating Business, Product 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.

Services Operating Business revenue includes all consultancy fees and other revenue includes recharged materials, expenses and licence revenue generated directly from the Services Operating Business activities. Product Operating Business revenue includes sales of chips and modules which are incorporated into digital radios. 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 Services and Product Operating Businesses which have 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.

Services Operating Business	**2019 Total £000**	2018 Continuing £000	2018 Exited £000	2018 Total £000
Services revenue	**46,885**	46,085	413	46,498
Other	**1,825**	1,110	-	1,110
Revenue	**48,710**	47,195	413	47,608
Adjusted operating profit	**8,221**	7,564	168	7,732
Gain on settlement of legal claim	**687**	-	-	--
Amortisation of acquisition related intangible assets	**(2,006)**	(2,004)	-	(2,004)
Acquisition integration costs	**-**	(76)	-	(76)
Release of contingent consideration	**-**	519	-	519
Impairment of other investments	**-**	(50)	-	(50)
Share based payment charge	**(1,008)**	(695)	-	(695)
Operating profit	**5,894**	5,258	168	5,426

Product Operating Business	**2019 £000**	2018 £000
Product revenue	**7,540**	-
Revenue	**7,540**	-
Adjusted operating loss	**(1,283)**	-
Amortisation of acquisition related intangible assets	**(339)**	-
Professional fees and charges in relation to the acquisition	**(1,672)**	-
Acquisition integration costs	**(794)**	-
Provisions relating to onerous leases and impairment of right of use assets	**(1,105)**	-
Loss on revaluation of investment	**(491)**	-
Share based payment charge	**(12)**	-
Operating loss	**(5,696)**	-

Freehold Properties	**2019 £000**	2018 £000
Inter-company property income	**2,874**	2,858
Third party property income	**997**	1,062
Revenue	**3,871**	3,920

Adjusted operating profit	**1,503**	1,573
Share based payment charge	**(14)**	(12)
Operating profit	**1,489**	1,561

Corporate	**2019 £000**	2018 £000
Adjusted operating loss	**(1,737)**	(1,574)
Share based payment charge	**(133)**	(105)
Operating loss	**(1,870)**	(1,679)

Group	**2019 Organic £000**	**2019 Acquired £000**	**2019 Total £000**	2018 Continuing £000	2018 Exited £000	2018 Total £000
Services revenue	46,885	-	46,885	46,085	413	46,498
Products revenue	-	7,540	7,540	-	-	-
Third party property income	997	-	997	1,062	-	1,062
Other	1,825	-	1,825	1,110	-	1,110
Revenue	**49,707**	**7,540**	**57,247**	48,257	413	48,670
Adjusted operating profit/(loss)	**7,987**	**(1,283)**	**6,704**	7,563	168	7,731
Gain on settlement of legal claim	687	-	687	-	-	-
Amortisation of acquisition related intangible assets	(2,006)	(339)	(2,345)	(2,004)	-	(2,004)
Professional fees and charges in relation to the acquisition	-	(1,672)	(1,672)	-	-	-
Acquisition integration costs	-	(794)	(794)	(76)	-	(76)
Provisions relating to onerous leases and impairment of right of use assets	-	(1,105)	(1,105)	-	-	-
Release of contingent consideration	-	-	-	519	-	519
Impairment of other investments	-	-	-	(50)	-	(50)
Loss on remeasurement of equity-accounted investment	-	(491)	(491)	-	-	-
Share based payment charge	(1,155)	(12)	(1,167)	(812)	-	(812)
Operating profit/(loss)	**5,513**	**(5,696)**	**(183)**	5,140	168	5,308
Finance charges (net)	(665)	(165)	(830)	(441)	-	(441)
Share of loss of equity-accounted investment, net of tax	-	(592)	(592)	-	-	-

Profit/(loss) before income tax	**4,848**	**(6,453)**	**(1,605)**	4,699	168	4,867
Income tax (charge)/credit	(505)	279	(226)	(580)	-	(580)
Profit/(loss) for the period	**4,343**	**(6,174)**	**(1,831)**	4,119	168	4,287

Geographical segments

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

	2019		2018	
	Revenue £000	**Non-current assets £000**	Revenue £000	Non-current assets £000
United Kingdom	**12,263**	**52,459**	8,948	42,262
Other European countries	**12,345**	**54**	18,197	33
North America	**23,642**	**56**	19,080	85
Other	**8,997**	**331**	2,445	-
Total	**57,247**	**52,900**	48,670	42,380

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 2019, no single customer accounted for more than 10% of the Group's revenue (2018: £nil). Operating profit for the Services Operating Business included a depreciation charge of £1.1 million (2018: £0.3 million), the Product Operating Business included a depreciation charge of £0.2 million (2018: £nil) and the Freehold Properties included a depreciation charge of £0.5m (2018: £0.5 million).

3. Income tax

The tax charge comprises:

Year ended 31 December	**2019 £000**	2018 £000
Current taxation	**(1,280)**	(1,377)
Current taxation – adjustment in respect of prior years	**311**	196
Deferred taxation	**579**	218
Deferred taxation – adjustment in respect of prior years	**(242)**	(49)
R&D tax credit	**406**	432
	(226)	(580)

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 19.4% (2018: 19.4%) as follows:

	2019 £000	2018 £000
(Loss)/profit before tax	**(1,605)**	4,867
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	**311**	(946)
Expenses not deductible for tax purposes	**(1,022)**	(179)
Adjustment in respect of prior years – current tax	**311**	196
Adjustment in respect of prior years – deferred tax	**(242)**	(49)
Movement in deferred tax due to change in tax rate	**27**	(239)
Share scheme movements	**100**	293
Current year losses for which no deferred tax asset was recognised	**(180)**	(73)
Mandatory earnings and profits one-time tax	**-**	(78)

Prior year losses used in the current year which were not previously recognised	**63**	63
R&D tax credit	**406**	432
Tax (charge)	**(226)**	(580)

In 2017, the United States Federal Government released the Tax Cuts and Jobs Act. The impact of this bill resulted in the recognition of a corporation tax liability of £120,000 as at 31 December 2017 based on the estimated undistributed profits of all foreign subsidiaries of Technology Sciences Group Inc. During the prior year, the final liability in respect of these earnings and profits one-time tax was calculated and an additional charge of £78,000 was recognised in the year ended 31 December 2018.

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 £0.4 million (2018: £0.4 million). The Group performed a reasonable estimate of all amounts involved to determine the R&D tax credits to be recognised in the period to which it relates.

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 2018	(1,734)	104	477	(2,001)	428	(2,726)
Charged to the income statement	(138)	(39)	(28)	456	(33)	218
Charge to the income statement (prior year adjustment)	–	(49)	–	–	–	(49)
Charged to equity	–	–	(48)	–	(13)	(61)
At 31 December 2018	(1,872)	16	401	(1,545)	382	(2,618)
Charged to the income statement	33	47	130	469	(100)	579
Deferred taxation relating to acquisitions	-	-	-	(1,498)	(130)	(1,628)
Charge to the income statement (prior year adjustment)	(54)	(16)	-	-	(172)	(242)
Charged to Equity	-	-	(25)	-	77	52
Effect of movements in exchange rates				121	5	126
At 31 December 2019	**(1,893)**	**47**	**506**	**(2,453)**	**62**	**(3,731)**

	2019 £000	2018 £000
Deferred tax assets	**47**	16
Deferred tax liabilities	**(3,778)**	(2,634)
Net deferred tax liability	**(3,731)**	(2,618)

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 £34.7 million (2018: £10.8 million) and of these losses, £34.5 million are not recognised as a deferred tax asset and they do not expire. The available tax losses at 31 December 2019 include estimated tax losses of £24.0 million relating to Frontier. These tax losses are subject to approval by the UK tax authorities and none have been recognised as a deferred tax asset.

Factors affecting future tax charges

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The US federal rate had a reduction from 35% to 21%, effective from 1 January 2018. Deferred tax assets/(liabilities) were calculated at the substantively enacted corporation tax rates in the respective jurisdictions.

5. Earnings per share

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

	2019			2018		
	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	**(1,831)**	**40,767,070**	**(4.5)**	4,287	39,889,693	10.7
Effect of dilutive potential ordinary shares: share options	**–**	**1,257,907**	**0.1**	–	1,021,609	(0.2)
Diluted earnings per ordinary share	**(1,831)**	**42,024,977**	**(4.4)**	4,287	40,911,302	10.5

Only the share options granted are dilutive.

The calculation of adjusted earnings per share is as follows:

	2019			2018		
	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
Adjusted basic earnings per ordinary share	**4,735**	**40,767,070**	**11.6**	5,876	39,889,693	14.7
Effect of dilutive potential ordinary shares: share options	**–**	**1,257,907**	**(0.3)**	–	1,021,609	(0.3)
Adjusted diluted earnings per ordinary share	**4,735**	**42,024,977**	**11.3**	5,876	40,911,302	14.4

*Calculation of adjusted profit after tax:

	2019 £000	2018 £000
Adjusted operating profit	**6,704**	7,731

Finance income	**22**	10
Finance costs	**(852)**	(451)
Adjusted profit before tax	**5,874**	7,290
Tax charge at the blended corporation tax rate across the various jurisdictions 19.4% (2018: 19.4%)	**(1,139)**	(1,414)
Adjusted profit after tax	**4,735**	5,876

The tax charge is calculated using the blended corporation tax rate across the various jurisdictions in which the Group companies are incorporated.

6. Dividends

The proposed final dividend for 2018 of 4.6 pence per share was approved by Shareholders and the Board on 24 April 2019. An amount of £1.8 million was recognised as a distribution to equity holders in the year ended 31 December 2019.

The Board has proposed a final dividend for 2019 of 4.6 pence per share. The dividend is subject to approval by shareholders at the next Annual General Meeting and the expected cost of £1.9 million has not been included as a liability as at 31 December 2019.

7. Intangible Assets

	Technology £000	**Customer relationships £000**	**Goodwill £000**	**Total £000**
Cost				
At 1 January 2018 and 31 December 2018	-	12,620	13,464	26,084
Acquisitions through business combination (note 16)	7,630	1,184	2,845	11,659
Effect of movement in exchange rates	(635)	(137)	(276)	(1,048)
At 31 December 2019	**6,995**	**13,667**	**16,033**	**36,695**
Accumulated amortisation				
At 1 January 2018	-	(3,114)	-	(3,114)
Amortisation charged in year	-	(2,004)	-	(2,004)
At 31 December 2018	-	(5,118)	-	(5,118)
Amortisation charged in year	(307)	(2,038)	-	(2,345)
Effect of movement in exchange rates	15	15	-	30
At 31 December 2019	**(292)**	**(7,141)**	-	**(7,433)**
Accumulated impairment				
At 1 January 2018, 31 December 2018 and 31 December 2019	**-**	**(7)**	**(2,225)**	**(2,232)**

Carrying amount

At 31 December 2018	-	7,495	11,239	18,734
At 31 December 2019	**6,703**	**6,519**	**13,808**	**27,030**

Goodwill and acquisition related intangible assets recognised arose from acquisitions during 2013, 2015, 2017 and 2019. The discount rates used for goodwill impairment reviews and the carrying amount of goodwill is allocated as follows:

	2019		2018	
	Pre-tax discount rate	**£000**	Pre-tax discount rate	£000
Advisory	11.2%	**3,383**	11.2%	3,383
Leatherhead Research	11.2%	**650**	11.2%	650
TSG – Americas	11.0%	**2,621**	11.0%	2,660
TSG – Europe	11.0%	**4,546**	11.0%	4,546
Frontier Smart Technologies Group	13.6%	**2,608**	-	-
		13,808		11,239

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. Inventories

	2019 £000	2018 £000
Raw materials	**340**	-
Work in progress	**490**	-
Finished goods	**1,230**	-
	2,060	-

9. Trade and other receivables

	2019 £000	2018 £000
Current assets:		
Trade receivables	**7,365**	7,980
Provision for impairment	**(100)**	(144)

Trade receivables – net	**7,265**	7,836
Amounts recoverable on contracts	**1,541**	1,017
Other receivables	**144**	11
VAT	**51**	6
Prepayments	**1,238**	847
	10,239	9,717

10. Cash and cash equivalents

	2019 £000	2018 £000
Short term bank deposits – Group cash	**39**	37
Cash at bank and in hand – Group cash	**13,873**	21,483
Cash and cash equivalents – Group cash	**13,912**	21,520
Cash at bank and in hand – Client registration funds	**1,517**	1,487
	15,429	23,007

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.

11. Trade and other payables

	2019 £000	2018 £000
Current liabilities		
Payments received on account	**10,341**	10,752
Trade payables	**2,548**	1,110
Other taxation and social security	**884**	786
VAT	**120**	392
Accruals	**6,688**	4,336
	20,581	17,376

12. Provisions

	Onerous lease £000	**Dilapidations £000**	**Restructuring £000**	**Legal £000**	**Total £000**
At 1 January 2018	495	199	-	597	1,291
Provisions made during the year	-	170	199	391	760
Provisions used during the year	(190)	-	(57)	-	(247)
Provisions reversed during the year	(95)	(108)	-	(300)	(503)
Loss/(gain) on foreign exchange fluctuations	15	1	-	17	33
At 31 December 2018	**225**	**262**	**142**	**705**	**1,334**

Assumed in business combination	-	300	-	-	300
Provisions made during the year	-	31	-	-	31
Provisions used during the year	(126)	-	(52)	(5)	(183)
Provisions reversed during the year	(94)	-	-	(687)	(781)
Loss/(gain) on foreign exchange fluctuations	(5)	(31)	-	(13)	(49)
At 31 December 2019	**-**	**562**	**90**	**-**	**652**

	2019 **£000**	2018 £000
Current liabilities	**172**	1,038
Non-current liabilities	**480**	296
	652	1,334

Provisions for onerous leases and dilapidation provisions have been recognised at the present value of the expected obligation. These discounts will unwind to their undiscounted value over the remaining lives of the leases via a finance charge within the income statement.

The average remaining life of the leases at 31 December 2019 is 2 years (2018: 1 year).

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 next 18 months.

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 31 December 2019, a claim was settled by insurers with a cash outflow of £5,000 being required hence the remaining unutilised provision of £687,000 was released to the Consolidated Income Statement and is separately disclosed as an adjusting item.

13. Contingent consideration

During the prior year, contingent consideration of £0.5 million was released to the Consolidated Income Statement. This related to the consideration for the acquisition of TSG in 2017. Certain agreed conditions on the vendor ceased to be met in the year ended 31 December 2018 hence the contingent consideration was no longer payable and was released accordingly.

14. Called-up share capital

	2019 **£000**	2018 £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 2019 was 42,062,035 shares (2018: 42,062,035) and the total number of ordinary shares in issue (excluding treasury shares) was 41,700,440 (2018: 40,040,227). Of the ordinary shares in issue, 104,400 (2018: nil) shares are held by the Frontier Smart Technologies Employee Benefit Trust (‘EBT’) and hence the voting rights in the Company are 41,596,040.

Prior to acquisition of Frontier, the EBT held 2.0 million Frontier shares. On completion of the statutory merger (Note 16), the EBT received £0.5 million in settlement of the shares of which £0.3 million was paid to SG Bidco Limited to settle an outstanding loan. 104,400 shares in Science Group plc were acquired by the EBT (by issuing shares held in treasury) which will be used to satisfy employee share options issued to the Joint Managing Directors of the Frontier business.

A reconciliation of treasury shares held by the Company is as follows:

Reconciliation of treasury shares	**2019 Number**	2018 Number
At beginning of year	**2,021,808**	2,694,907
Purchase of own shares	**97,913**	89,800
Sale of own shares	**(1,187,401)**	-
Settlement of share options	**(570,725)**	(762,899)
At end of year	**361,595**	2,021,808

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.

15. Borrowings

	2019 £000	2018 £000
Non-current bank borrowings	**15,013**	11,689
Current bank borrowings	**1,200**	1,000
	16,213	12,689

	2019 £000	2018 £000
Opening balance	**12,689**	13,926
Increase in bank borrowing – term loan	**4,750**	-
Revolving credit facility assumed in business combination (note 16)	**4,969**	-
Repayments in the year – term loan	**(1,200)**	(1,250)
Repayments in year – revolving credit facility	**(5,000)**	-
Arrangement fee associated with new borrowing	**(39)**	-
Impairment of loan arrangement fee	**31**	-
Amortisation of loan arrangement fee	**13**	13
Total borrowings	**16,213**	12,689

During the year ended 31 December 2016, the Group entered into a 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 reconciliation of bank loans interest expense is shown below.

	2019 £000	2018 £000
Interest expense	**717**	451
Interest paid	**(646)**	(555)
Impairment of loan arrangement fee	**(31)**	-
Amortisation of loan arrangement fee	**(13)**	(13)
Increase/(decrease) in accruals	**27**	(117)

During the year ended 31 December 2019, the Group increased the 10-year fixed-term loan by £4.8 million to £17.5 million on otherwise similar terms. The repayment profile of the additional loan is £50,000 per quarter up to 30 June 2026 with the remaining £3.2m repayable on 30 September 2026. Costs directly associated with entering into the additional loan of £39,000 were incurred, have been offset against the balance outstanding and are being amortised over the period of the loan.

The 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.

The Group assumed a revolving credit facility of £5.0 million with the acquisition of Frontier Smart Technologies Group Limited (note 16) less unamortised arrangement fees of £31,000. The revolving credit facility was repaid in October 2019 and the unamortised arrangement fees were expensed to finance costs.

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

	2019 £000	2018 £000
Within one year	**1,200**	1,000
Between 1 and 2 years	**1,200**	1,000
Between 2 and 5 years	**3,600**	3,000
Over 5 years	**10,300**	7,750
	16,300	12,750

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 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%. The combined effective interest rate is 3.6%.

The Group has adopted hedge accounting for the interest rate swaps under IFRS 9, Financial Instruments, and the loss on change in fair value of the interest rate swaps of £408,000 (2018: gain of £66,000) was recognised directly within equity.

The fair value of the swap at 31 December 2019 was a liability of £115,000 (2018: asset of £293,000).

16. Acquisition of subsidiary

The Group completed the acquisition of Frontier Smart Technologies Group Limited ('Frontier') in October 2019. The acquisition is expected to increase the scale and profitability of the Group in line with the strategic review undertaken in 2018.

The acquisition of Frontier started in May 2019 when the initial on-market purchases of shares were made. On 11 July 2019, the Group ownership reached 35.6% and the Group commenced equity accounting for the investment. The Group continued to acquire shares on the market and made an offer for Frontier at 35 pence per share resulting in ownership of 47.5% on 19 July 2019. On 23 August 2019, through an issue of 4 million shares by Frontier, Science Group increased its ownership to 52.2% obtaining control of Frontier and the consolidation of results commenced. Additional shares were acquired on the market taking the ownership to 72.3% on 6 September 2019 with the remaining shares being acquired on 11 October 2019 by way of a statutory merger. The statutory merger was effected by SG Bidco Limited (a 100% owned subsidiary of Science Group plc) merging with Frontier Smart Technologies Group Limited, the parent company of the Frontier Group, through which Science Group obtained full ownership of the Frontier business. The consideration for all the shares were paid in cash.

The Group incurred acquisition and integration costs of £3.6 million in relation to Frontier, which have been reported in the Consolidated Income Statement and further details are shown below.

Acquisition and integration costs	**2019 £000**
Professional fees and charges relating to the acquisition	1,672
Provisions relating to onerous leases and impairment of right of us assets.	1,105
Acquisition integration costs	794
Total	3,571

The Income Statement of Frontier for the period from 23 August 2019 to 31 December 2019 that was consolidated into the Group is shown below:

	£000
Revenue	7,540
Operating expenses before adjusting items	(8,823)
Adjusted operating loss	(1,283)
Acquisition integration costs	(794)
Provisions relating to onerous leases and impairment of right-of-use assets	(1,105)
Share based payment charge	(12)
Operating loss	(3,194)
Finance costs	(165)
Loss before income tax	(3,359)

If the acquisition of Frontier had been completed on the first day of the financial year, Group revenue would have been £14.4 million higher and Group profit attributable to equity holders of the parent would have been £3.6 million lower.

(a) Accounting treatment

Details of the acquisition and the accounting treatment of the investment in Frontier over the period 9 May 2019 to 11 October 2019 are summarised below:

Period	**Ownership**	**Accounting Treatment**	**Consideration Paid £000**
On 9 May 2019	Acquired 3.1% of voting shares	Fair value through profit or loss	144
10 May 2019 to 10 July 2019	Holding of voting shares increased to 29.7%	Fair value through profit or loss	3,229

11 July 2019	Acquired 5.9% of voting shares Holding increased to 35.6%	Equity accounted from 11 July 2019 (Note 1)	858
12 July 2019 to 22 August 2019	Holding of voting shares increased to 47.5%	Equity accounted	1,711
23 August 2019	Frontier issued 4 million shares which were acquired by Science Group Holding increased to 52.2%	Control obtained, consolidation commenced (Note 2) Remeasure pre-existing equity interest at acquisition date fair value Goodwill calculated based on consideration, net assets and non controlling interest ('NCI') at 23 August 2019	1,000
24 August 2019 to 10 October 2019	Holding of voting shares increased to 72.3%	Consolidated subsidiary with non-controlling interest Change in Group's interest in Frontier accounted for as an equity transaction	2,277
11 October 2019	Completion of Statutory Merger resulting in remaining shares being acquired and holding increased to 100%	Remaining shares acquired accounted for as an equity transaction	3,592
		Total consideration	**12,811**

Note 1
The Group commenced equity accounting for the investment as an associate on 11 July 2019 when the shareholding of voting shares increased to 35.6%. Prior to this date, Science Group had no representation on the Board of Directors of Frontier. Further, the Group was unable participate in policy-making decisions due to 4 other significant shareholders whose combined holding totalled more than the voting shares held by Science Group. As a result, the Group was not able to exercise significant influence over Frontier.

On 11 July 2019, the Group increased its ownership of voting shares to 35.6% at which point the Group's shareholding exceeded that of the other significant shareholders and hence was able to participate in the policy-making processes. As a result, the Group was able to exercise significant influence and equity accounting commenced on this date.

Note 2
On 23 August 2019, the Group increased its holding of voting shares to 52.2%, obtained control of Frontier and commenced consolidation of the results.

On 23 August 2019, the equity accounted interest in Frontier was remeasured to fair value based on the market price per share of 25p. The Group had acquired 19.4 million shares up until this date and paid an average price of 30.6 pence per share hence the loss on remeasurement was £1.1 million.

In the period from 11 July 2019 to 22 August 2019, Frontier was equity accounted as an associate and the Group recorded its share of loss of the equity accounted investment of £0.6 million. The loss on remeasurement of £1.1 million has therefore been recorded in the Consolidated Income Statement as follows:

	2019 £000
Share of loss of equity accounted investment (from 11 July 2019 to 22 August 2019)	592
Loss on remeasurement of equity-accounted investment (at 23 August 2019)	488
Transaction costs associated with acquisition	3
	1,083

Frontier was accounted for as a subsidiary with a non-controlling interest from 23 August 2019. During the period from 23 August 2019 to 11 October 2019, the remaining NCI was acquired by the Group and Frontier became a 100% owned subsidiary on 11 October 2019. The change in the Group's interest in Frontier has not resulted in loss of control and has been accounted for as an equity transaction

(b) Identifiable assets acquired and liabilities assumed
The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition (23 August 2019):

	Fair value £000
Net assets acquired:	
Acquisition related intangible assets	8,814
Property, plant and equipment (Note 15)	259
Right-of-use asset (Note 25)	1,337
Inventories	3,947
Trade and other receivables	3,992
Current tax asset	211
Cash and cash equivalents	2,824
Trade and other payables	(7,350)
Lease Liabilities (Note 25)	(1,357)
Provisions (Note 21)	(300)
Bank loan (Note 24)	(4,969)
Deferred tax asset/(liability) (Note 11)	(1,628)
Total identifiable net assets acquired	5,780

i. Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Intangible Assets	Technology-based and customer-related intangible assets have been valued using the replacement cost method and excess earnings method respectively.
Inventories	The fair value has been determined based on estimated selling prices in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(c) Consideration paid

The consideration of £12.8 million was paid in cash and the net cash outflow on acquisition is summarised in the table below.

Net cash outflow arising on acquisition	£000
Total cash consideration	12,811
Cash and cash equivalents	(2,824)
Net cash outflow on acquisition	**9,987**

The consideration has been reported in the Consolidated and Company Statement of Cash Flows under investing activities and financing activities as shown below.

	£000
Investing activities - purchase of subsidiary undertakings, net of cash received	4,118
Financing activities - acquisition of NCI	5,869
Net cash outflow on acquisition	**9,987**

(d) Goodwill

Goodwill arising from the acquisition has been calculated as follows:

	£000
Consideration from 9 May 2019 to 22 August 2019	5,942
Share of loss of equity-accounted investment (between 11 July 2019 and 22 August 2019)	(592)
Consideration for shares on 23 August 2019	1,000
Carrying amount of equity-accounted investment in Frontier at 23 August 2019	6,350

Fair value adjustment at 23 August 2019 (Note 26 (e))	(488)
Fair value of investment in Frontier at 23 August 2019 based on 25p per share	5,862
NCI, based on their proportionate interest in the recognised amounts of assets and liabilities of Frontier at 23 August 2019	2,763
Fair value of identifiable net assets at 23 August 2019	(5,780)
Goodwill	2,845

The goodwill is attributable mainly to the skills and technical knowledge of Frontier's work force and the synergies expected to be achieved from the restructuring and integration programme.

(e) Acquisition of NCI

The Group increased its ownership in Frontier from 52.5% to 100% over the period from 24 August 2019 to 11 October 2019. The carrying amount of Frontier's net assets at 23 August 2019 was £5.8 million. Retained losses in the period from 23 August 2019 to 11 October 2019 were £1.1 million.

	£000
Carrying amount of NCI at 23 August 2019 (£5,780,000 x 47.8%)	2,763
NCI share of losses in between 23 August 2019 and 11 October 2019, based on average NCI ownership	(162)
Carrying amount of NCI at 11 October 2019	2,601
Consideration paid (including transaction costs)	5,869
Transaction costs	(3)
Consideration paid to NCI	5,866
A decrease in equity attributable to owners of the Company	3,265

(f) Loss on remeasurement of equity-accounted investment

The loss on revaluation of investment in Frontier has been determined by the remeasurement of the equity investment in Frontier to fair value at 23 August 2019, when Frontier became a 52.2% owned subsidiary.

	£000
Remeasurement of equity accounted investment in Frontier to fair value on 23 August 2019 (Note 26.d)	(488)
Transactions costs associated with acquisition	(3)
Total loss on revaluation of investment per consolidated income statement	(491)

17. 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 2019.

The financial information set out above, which was approved by the Board on 2 March 2020, is derived from the full Group accounts for the year ended 31 December 2019 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 2019, will be delivered to the Registrar of Companies in due course.

The Board of Science Group approved the release of this preliminary announcement on 2 March 2020.

The Annual Report for the year ended 31 December 2019 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.

- Ends -