



9 March 2021

SCIENCE GROUP PLC

**AUDITED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') reports its audited results for the year ended 31 December 2020.

Summary

- Record revenue and adjusted operating profit, ahead of upgraded expectations
- Group revenue increased 29% to £73.7 million (2019: £57.2 million)
- Adjusted* operating profit increased by 62% to £10.9 million (2019: £6.7 million)
- Adjusted* basic earnings per share increased by 67% to 19.4 pence (2019: 11.6 pence)
- Successful integration and turnaround of Frontier Smart Technologies with strong profit contribution
- Group retains a strong balance sheet with significant cash resources and freehold property assets.
- Recommended dividend of 4.0 pence

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.

Chairman's Statement

Science Group is an international, science-led services and product development organisation with a significant freehold property asset base. Following the Frontier acquisition in 2019 and the natural evolution of the services operations, the Group now comprises three divisions: R&D Consultancy; Regulatory & Compliance; and Frontier Smart Technologies ('Frontier').

Notwithstanding a global pandemic, the Group achieved record results in 2020 benefitting from both its acquisition strategy and organic development which have combined to create a financially and operationally resilient organisation. Over the past decade, these acquisitions have been funded primarily from the Group's existing cash resources without shareholder dilution. As a result, the issued share capital (excluding treasury shares) at 31 December 2020 is in line with December 2010 while revenue over the past decade has increased more than 3-fold and adjusted operating profit more than 4-fold, delivering significant value to shareholders.

Financial Summary

For the year ended 31 December 2020, Group revenue was £73.7 million (2019: £57.2 million), reflecting the full year contribution from Frontier. Group adjusted operating profit increased by 62% to £10.9 million (2019: £6.7 million) benefitting from the successful turnaround of the 2019 acquisition of Frontier Smart Technologies. Adjusted basic earnings per share increased by 67% to 19.4 pence (2019: 11.6 pence).

Amortisation of acquisition related intangibles and share based payment charge totalled £3.7 million (2019: £3.5 million) and as a result, the Group reported an operating profit of £7.1 million for the year (2019: operating loss of £0.2 million which included one-off costs and accounting adjustments arising from the acquisition of Frontier totalling £4.1 million). The Group reported profit before tax of £6.4 million (2019: loss of £1.6 million) and basic earnings per share of 16.9 pence (2019: loss of 4.5 pence).

Science Group continues to benefit from excellent cash conversion and a very strong balance sheet. At 31 December 2020, gross cash was £27.1 million (2019: £13.9 million) and net funds were £10.6 million (2019: net debt of £2.3 million). The Group's bank debt at 31 December 2020 was £16.5 million (2019: £16.2 million) having been increased by an additional £1.5 million in May 2020. The Group's bank debt is tied to interest rate swaps to produce a net fixed rate (effectively 3.5%) to 2026 and is secured on the Group's freehold property assets. Subject to net debt not exceeding £10 million, the bank debt is not subject to operating covenants.

Alternative performance measures are provided in order to enhance shareholders' ability to evaluate and analyse the underlying financial performance of the Group. Adjusted operating profit and other Alternative Performance Measures used in this report are defined in the Finance Director's Report. In the reporting and commentary below, following the division reconfiguration, the 2019 comparators have, where appropriate, been restated to align to the new structure.

R&D Consultancy

The R&D Consultancy division provides science-led advisory and product/technology development services. The division incorporates leading science and engineering capabilities combined with expertise

in key vertical sectors, namely: Medical; Consumer; Food & Beverage; and Industrial. The division will now operate under a unified brand of Sagentia Innovation and reports through a single Managing Director.

In 2020, the medical sector performed well benefitting from participation in the UK Government's urgent ventilator initiative early in the year. Other sectors and advisory services were more affected by the pandemic due to their shorter project durations and the discretionary nature of such activities.

For the year ended 31 December 2020, the R&D Consultancy division generated revenue of £32.2 million (2019: £30.6 million) including a significant increase of non-services (materials) pass-through revenue in H1 2020. During the second half of 2020, investment was increased in a number of areas, including senior sales & business managers, on the basis that the pandemic may have a prolonged effect, particularly on international travel. This investment has contributed to the division having a good start to the current year, particularly in the medical sector, and there is increasing optimism as clients reinvest in their businesses.

Regulatory & Compliance

The Regulatory & Compliance division provides scientific advice, registration and compliance of regulated products internationally and comprises the North American and European operations of TSG, acquired in 2017, together with Leatherhead Food Research, acquired in 2015. The European regulatory and compliance activities were further integrated in the second half of the year and now report to a single Managing Director.

The North American operations performed particularly well in 2020 due to increasing demand for regulatory services to approve pandemic-related products. In addition, the TSG America regulatory renewals activity continued to make good progress, building its recurring revenue base.

For the year ended 31 December 2020, with all business areas reporting organic growth, the Regulatory & Compliance division generated revenue of £20.1 million (2019: £18.1 million). Of this revenue around 26% is of a recurring nature, primarily within the Food & Beverage sector and the USA Renewals activities. Profit contribution from the division significantly improved in the year and the outlook for the Regulatory & Compliance division in 2021 remains positive.

Frontier Smart Technologies

Frontier Smart Technologies is the market leader in DAB/DAB+/SmartRadio technology chips and modules. Following the completion of the acquisition of Frontier in 2019, an accelerated restructuring/integration programme was successfully executed, including the closure of the Romanian operations, a streamlining of product lines and the relocation of the Cambridge and London operations, producing a substantial reduction in the operating cost base. This intense programme was completed just before the pandemic outbreak and positioned Frontier to weather the challenges in the first half and deliver an excellent second half performance.

For the year ended 31 December 2020, Frontier reported revenue of £20.5 million (2019: £7.5 million, in the post-acquisition period) and an adjusted operating profit margin in line with the services businesses.

Demand for digital consumer radio products in 2020 increased with initial indications suggesting a DAB market growth in the order of 10%. Demand also increased in SmartRadio (DAB + FM + Internet) with this higher end range accounting for a greater proportion of Frontier product shipments. The Frontier outlook for the current year is positive, subject to semiconductor component availability, and foreign exchange movements since Frontier sales are denominated in US Dollars.

Following the successful turnaround and integration, in January 2021 the Board announced that the future strategy for Frontier was to be reviewed, with three potential outcomes: (i) to retain the business within the Group; (ii) to increase operating scale through the merger or acquisition of a similar business or businesses; or (iii) to sell all or part of the business. The Board and the Frontier management team continue to consider all these alternatives with external advisers. The Board remains open minded as to the outcome and this process may take some time.

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 £21.2 million (2019: £21.4 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 it is the declared intention to address this anomaly. However, this action if/when effected will result in a tax payment outflow of approximately £2 million and was prudently deferred following the Covid-19 outbreak.

For the year ended 31 December 2020, the rental and associated services income derived from the Group's freehold properties was £4.0 million (2019: £3.9 million), of which income of £0.8 million (2019: £1.0 million) was generated from third-party tenants and £3.2 million (2019: £2.9 million) from the Group's operating businesses. Adjusted operating profit of £1.0 million (2019: £1.5 million) included an increased investment in refurbishing and upgrading the properties. Intra-group charges are eliminated on Group consolidation but the reported segmental profit of the operating divisions includes property rental at market rates.

The Group's debt of £16.5 million at 31 December 2020 (2019: £16.2 million) is secured against the freehold property assets and the associated interest charge for the year was £0.6 million (2019: £0.6 million). Interest on the debt is reported below operating profit in the consolidated results.

Corporate

The corporate function is responsible for Group and PLC matters, together with the strategic development of Science Group. Corporate costs increased in the period to £2.4 million due to a number of one-off items (2019: £1.7 million).

As an acquisitive Group, the Board actively addresses corporate structures to ensure that (i) unnecessary administration is minimised (ii) tax losses can be utilised; and (iii) subsidiary dividend traps are avoided. In 2020, the Group closed 4 subsidiaries both in the UK and internationally and the legacy ownership structure of TSG Europe was also addressed to remove an anomalous minority equity shareholding via the USA

business. In addition, capital restructurings of Frontier and another subsidiary (Sagentia Technology Advisory Limited) have been completed.

In the first half of 2020, the Group received £0.1 million under the UK Government furlough scheme. While very modest, this was an appropriately prudent action taken as part of a wider programme at a time of considerable uncertainty. In the light of the Group's full year performance, the Board repaid the monies received under the furlough scheme in the second half.

Due to the Covid-19 pandemic, the Board withdrew the dividend for the year ended 31 December 2019 but paid an interim dividend of 2.0 pence per share in October 2020 when the performance of the Group was more apparent. However, while the dividend payment was reduced in 2020, in aggregate, including share buy-backs, £2.5 million (2019: £2.0 million) was returned to shareholders. The Board is recommending a dividend of 4.0 pence per share which, subject to shareholder approval at the Annual General Meeting ('AGM'), will be payable on 18 June 2021 to shareholders on the register at the close of business on 21 May 2021.

During the year, the Company has repurchased 715,000 shares at a total cost of £1.7 million (2019: 98,000 shares at a cost of £0.2 million). As a result, after share option exercises, at 31 December 2020, shares in issue (excluding treasury shares held of 0.8 million) were 41.2 million (2019: 41.7 million excluding treasury shares held of 0.4 million).

Geopolitical Considerations, including Brexit

Brexit has not to date and is not envisaged to have a material effect on Science Group. The most significant impact is anticipated to be in the Regulatory and Compliance division in Europe and on balance, the net effect is anticipated to be positive as additional regulatory regimes create further opportunities. Within the R&D Consulting business there is expected to be some impact in countries which financially incentivise research and development work through EU-based entities, but this effect is not expected to be material to the Group.

By contrast, 33% of the Group's business is derived from clients based in North America compared with 17% directly from Europe, and 57% of Group revenue is denominated in US dollars compared with 5% in Euros. As such, business/trading relations and the corresponding currency relationships with the USA are a far greater consideration for Science Group. For example, the average Sterling-US dollar exchange rate in 2019 was 1.28; in 2020 it was 1.29; and in February 2021 the average exchange rate was 1.39. Therefore, while monitoring the effect of Brexit is important, the new administration in the USA has potentially far greater impact on the Group's business and operations.

Environmental, Social & Governance

The Group takes its responsibilities within the community and to the environment seriously. During the Covid pandemic, the Group has been particularly mindful of its social responsibilities and the impact on local communities. The Group made donations in the first UK lock-down to local foodbanks. In the second phase, the Group increased charitable donations and engaged employees across the world in recipient selection and donations were made to twelve charities, mainly foodbanks, across seven different countries.

Whilst the Group's services in the main are based on intellectual capital and therefore do not directly impact the environment, within the Group's offices and laboratory facilities the usage of energy, water and other resources is proactively managed. For example, the Group undertakes energy audits for major sites and implements suggestions as practicable; has adopted increased use of LED and motion-controlled lighting; and increasingly sources electricity in the UK (both Epsom and Harston) from renewable sources. Furthermore, in the latter half of 2020, the Group has also invested in electrical vehicle charging points at its major UK sites.

Summary

In summary, despite the challenges resulting from the Covid-19 pandemic, the performance of Science Group in 2020 has been very satisfactory, reflecting the portfolio nature of the Group balancing exposure to sectors, service/product lines and geographies. The resilient performance, achieved in an unprecedented environment, is a credit to the commitment and dedication of Science Group employees. The unusual circumstances, with minimal international travel and refocused marketing activities, also enabled the Board to invest in evolving the business operations to position for the inevitable longer-term change resulting from such a global event. As a result, the Board is optimistic for the continued progress of the Group in 2021, and has experienced a good start to the current year whilst remaining mindful of the ongoing economic uncertainty.

With a strong balance sheet including significant cash resources, the Board continues to cautiously explore both add-on acquisitions and larger opportunities to increase the scale of the Group. However, there can be no certainty that any transactions will satisfy the Board's evaluation criteria and diligence process.

Martyn Ratcliffe
Chairman

Finance Director's Report

Overview of results

In the year ended 31 December 2020, the Group generated revenue of £73.7 million (2019: £57.2 million) benefitting from the full year inclusion of Frontier following the acquisition during 2019 (in which 4 months' trading was consolidated). Revenue from the services operating businesses, that is revenue derived from consultancy services and materials recharged on these projects, increased to £52.3 million (2019: £48.7 million) while product revenue generated by Frontier increased to £20.5 million (2019: £7.5 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 £0.8 million (2019: £1.0 million).

Adjusted operating profit for the Group increased to £10.9 million (2019: £6.7 million, including the Frontier contributed loss of £1.3 million in the post-acquisition period). The Group's statutory operating profit of £7.1 million (2019: loss of £0.2 million) includes the amortisation of acquisition related intangible assets and the share based payment charge totalling £3.7 million (2019: £3.5 million, in addition to one-off costs and accounting adjustments arising from the acquisition of Frontier totalling £4.1 million). The statutory profit before tax was £6.4 million (2019: loss before tax of £1.6 million) and statutory profit after tax was £7.0 million (2019: loss after tax of £1.8 million) which included a tax credit of £0.6 million (tax charge of £0.2 million). Statutory basic earnings per share ('EPS') was 16.9 pence (2019: loss per share of 4.5 pence, due to the Frontier one-off costs relating to the acquisition and integration).

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

Foreign exchange

A significant proportion of the Group's revenue is denominated in US Dollars and Euros. Changes in exchange rates can have a significant influence on the Group's financial performance. In 2020, £41.8 million of the Group operating business revenue was denominated in US Dollars (2019: £28.7 million), with all of Frontier revenue denominated in USD, and £3.6 million of the Group operating business revenue was denominated in Euros (2019: £3.6 million). The average exchange rate during 2020 was 1.29 for US dollars and 1.13 for Euros (2019: 1.28 and 1.14 respectively). To date, the Group has opted not to utilise foreign exchange hedging instruments but keeps this under review.

Taxation

The tax credit for the year was £0.6 million (2019: tax charge of £0.2 million) due to the recognition of brought forward tax losses in Frontier of £1.6 million of which £0.6 million was utilised in 2020 and the remainder will be utilised in future periods. Following the successful turnaround and Frontier's profitability in 2020, there is greater certainty of the utilisation of these losses in the future and hence a proportion of the Frontier tax losses were recognised.

At 31 December 2020, Science Group had £31.7 million (2019: £34.7 million) of tax losses of which £21.4 million (2019: £24.0 million) relate to trading losses in Frontier. Of these Frontier losses, £3.2 million (2019: £nil) were utilised in 2020 and a further £5.3 million (2019: £nil) of losses were recognised as a deferred tax asset which are anticipated to be used to offset future trading profits. The carried forward Frontier losses of £16.1 million (2019: £24.0 million) have not been recognised as a deferred tax asset due to the uncertainty in the timing of utilisation of these losses. The other tax losses of £10.3 million (2019: £10.5 million) have not been recognised as a deferred tax asset due to the low probability that these losses will be able to be utilised.

Financing and cash

Cash flow from operating activities excluding Client Registration Funds ('CRF') was £17.2 million (2019: £5.4 million). Reported cash from operating activities in accordance with IFRS was £17.7 million (2019: £5.4 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 Group's term loan with Lloyds Bank plc, secured on the Group's freehold properties, is a 10 year fixed term loan expiring in 2026. As a prudent measure, the loan was increased by £1.5 million (2019: £1.2 million) to the maximum level of £17.5 million on similar terms to those previously in place. Phased interest rate swaps hedge the loan resulting in a fixed effective interest rate of 3.5%, 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 £519,000 (2019: loss of £408,000) which was recognised in Other Comprehensive Income.

The Group cash balance (excluding CRF) at 31 December 2020 was £27.1 million (2019: £13.9 million) and net funds were £10.6 million (2019: net debt of £2.3 million). CRF of £2.0 million (2019: £1.5 million) were held at the year end. Working capital management during the year continued to be a focus with debtor days of 31 days at 31 December 2020 (2019: 32 days). Inventory days reduced to 43 days at 31 December 2020 (2019: 79 days), an exceptionally low level due to constraints in Frontier materials supply.

Share capital

At 31 December 2020, the Company had 41,238,392 ordinary shares in issue (2019: 41,700,440) and the Company held an additional 823,643 shares in treasury (2019: 361,595). Of the ordinary shares in issue, 104,400 (2019: 104,400) shares are held by the Employee Benefit Trust associated with the Frontier acquisition and hence the voting rights in the Company at 31 December 2020 are 41,133,992 (2019:

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.

Rebecca Archer
Finance Director

Consolidated Income Statement
For the year ended 31 December 2020

	Note	2020 £000	2019 £000
Revenue	2	73,663	57,247
Direct operating expenses		(43,861)	(33,893)
Sales and marketing expenditure		(8,112)	(8,693)
Administrative expenses		(14,561)	(14,844)
Adjusted operating profit	2	10,885	6,704
Acquisition integration costs		(10)	(3,571)
Loss on remeasurement of equity-accounted investee		-	(491)
Amortisation of acquisition related intangible assets	7	(2,507)	(2,345)
Share based payment charge		(1,239)	(1,167)
Release of provision on settlement of legal claim		-	687
Operating profit/(loss)		7,129	(183)
Finance income		9	22
Finance costs		(746)	(852)
Share of loss of equity-accounted investee, net of tax		-	(592)
Profit/(loss) before tax		6,392	(1,605)
Tax credit/(charge) (including R&D tax credit of £306,000) (2019: £406,000))	3	647	(226)
Profit/(loss) for the year		7,039	(1,831)
Earnings per share			
Earnings per share (basic)	5	16.9p	(4.5)p
Earnings per share (diluted)	5	16.7p	(4.4)p
Adjusted earnings per share (basic)	5	19.4p	11.6p
Adjusted earnings per share (diluted)	5	19.1p	11.3p

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2020

	2020	2019
	£000	£000
Profit/(loss) for the year attributable to:		
Equity holders of the parent	7,039	(1,669)
Non-controlling interests	-	(162)
Profit/(loss) for the year	7,039	(1,831)
Other comprehensive income		
Items that will or may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	(358)	(939)
Fair value loss on interest rate swap	(519)	(408)
Deferred tax on interest rate swap	96	77
Other comprehensive expense for the year	(781)	(1,270)
Total comprehensive income for the period attributable to:		
Equity holders of the parent	6,258	(2,939)
Non-controlling interests	-	(162)
Total comprehensive income/(expense) for the year	6,258	(3,101)

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2020

Group	Attributable to owners of the Company							Non-controlling interests	Total equity
	Issued capital	Share premium	Treasury shares	Merger reserve	Translation reserve	Retained earnings	Total – Shareholders' funds		
	£000	£000 Restated	£000	£000	£000	£000 Restated	£000	£000	£000
Balance at 1 January 2019	421	8,230	(2,764)	10,343	260	24,468	40,958	-	40,958
Contributions and distributions									
Purchase of own shares	-	-	(203)	-	-	-	(203)	-	(203)
Issue of shares out of treasury	-	872	2,307	-	-	(763)	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	-	872	2,104	-	-	(1,461)	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	-	872	2,104	-	-	(4,726)	(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	9,102	(660)	10,343	(679)	17,742	36,269	-	36,269

Group	Attributable to owners of the Company								Non-controlling interests	Total equity
	Issued capital	Share premium	Treasury shares	Merger reserve	Translation reserve	Cash flow hedge reserve	Retained earnings	Total – Shareholders' funds		
	£000	£000 Restated	£000	£000	£000	£000	£000 Restated	£000	£000	£000
Balance at 1 January 2020	421	9,102	(660)	10,343	(679)	-	17,742	36,269	-	36,269
Contributions and distributions										
Purchase of own shares	-	-	(1,672)	-	-	-	-	(1,672)	-	(1,672)
Issue of shares out of treasury	-	-	436	-	-	-	(429)	7	-	7
Dividends paid	-	-	-	-	-	-	(830)	(830)	-	(830)
Share based payment charge	-	-	-	-	-	-	1,239	1,239	-	1,239
Deferred tax on share based payment transactions	-	-	-	-	-	-	119	119	-	119
Total contributions and distributions	-	-	(1,236)	-	-	-	99	(1,137)	-	(1,137)
Profit for the year	-	-	-	-	-	-	7,039	7,039	-	7,039
Other comprehensive income:										
Transfer of cash flow hedger reserve from retained earnings	-	-	-	-	-	(115)	115	-	-	-
Fair value loss on interest rate swap	-	-	-	-	-	(519)	-	(519)	-	(519)
Exchange differences on translating foreign operations	-	-	-	-	(358)	-	-	(358)	-	(358)
Deferred tax on interest rate swap	-	-	-	-	-	96	-	96	-	96
Total comprehensive income for the year	-	-	-	-	(358)	(538)	7,154	6,258	-	6,108
Balance at 31 December 2020	421	9,102	(1,896)	10,343	(1,037)	(538)	24,995	41,390	-	41,390

Consolidated Balance Sheet
At 31 December 2020

		Group	
		2020	2019
		£000	£000
	Notes		Restated
Assets			
Non-current assets			
Acquisition related intangible assets	7	10,514	13,222
Goodwill	7	13,657	13,808
Property, plant and equipment		23,809	25,870
Deferred tax assets	4	1,322	47
		49,302	52,947
Current assets			
Inventories	8	1,263	2,060
Trade and other receivables	9	10,784	10,239
Current tax asset		1,627	482
Cash and cash equivalents – Client registration funds	10	2,015	1,517
Cash and cash equivalents – Group cash	10	27,059	13,912
		42,748	28,210
Total assets		92,050	81,157
Liabilities			
Current liabilities			
Trade and other payables	11	26,365	20,581
Current tax liabilities		394	226
Provisions	12	678	172
Borrowings	15	1,200	1,200
Lease Liabilities		1,247	1,212
		29,884	23,391
Non-current liabilities			
Provisions	12	659	480
Borrowings	14	15,307	15,013
Lease Liabilities		1,038	2,111
Financial Instruments		634	115
Deferred tax liabilities	4	3,138	3,778
		20,776	21,497
Total liabilities		50,660	44,888
Net assets		41,390	36,269
Shareholders' equity			
Share capital	13	421	421
Share premium		9,102	9,102
Treasury stock	13	(1,896)	(660)
Merger reserve		10,343	10,343
Translation reserve		(1,037)	(679)
Cash flow hedge reserve		(538)	-
Retained earnings		24,995	17,742
Total equity		41,390	36,269

Consolidated Statement of Cash Flows
For the year ended 31 December 2020

		Group	
		2020	2019
	Notes	£000	£000
Profit/(loss) before income tax		6,392	(1,605)
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		2,507	2,345
Depreciation on property, plant and equipment		904	776
Impairment of right of use asset		513	796
Depreciation of right of use asset		1,067	1,033
Loss on disposal of property, plant and equipment		7	-
Net interest cost		737	830
Share based payment charge		1,239	1,167
Decrease in inventories		394	1,863
(Increase)/decrease in receivables		(546)	3,432
Increase/(decrease) in payables representing client registration funds		498	(30)
Increase/(decrease) in payables excluding balances representing client registration funds		5,976	(3,846)
Changes in provisions		735	(933)
Cash generated from operations		20,423	6,911
Interest paid		(753)	(781)
UK corporation tax paid		(1,799)	(554)
Foreign corporation tax paid		(184)	(196)
Cash flows from operating activities		17,687	5,380
Interest received		9	22
Purchase of property, plant and equipment		(143)	(555)
Purchase of subsidiary undertakings, net of cash received		-	(4,118)
Cash flows used in investing activities		(134)	(4,651)
Issue of shares out of treasury		7	2,416
Repurchase of own shares		(1,672)	(203)
Dividends paid		(830)	(1,840)
Acquisition of NCI		-	(5,869)
Proceeds of bank loan received	14	1,500	4,750
Repayment of term loan	14	(1,200)	(1,200)
Repayment of revolving credit facility		-	(5,000)
Payment of lease liabilities		(1,339)	(998)
Cash flows used in financing activities		(3,534)	(7,944)
Increase/(decrease) in cash and cash equivalents in the year		14,019	(7,215)
Cash and cash equivalents at the beginning of the year		15,429	23,007
Exchange loss on cash		(374)	(363)
Cash and cash equivalents at the end of the year		29,074	15,429

Cash and cash equivalents is analysed as follows:

	2020	2019
	£000	£000
Cash and cash equivalents – Client registration funds	2,015	1,517
Cash and cash equivalents – Group cash	27,059	13,912
	29,074	15,429

Extracts from notes to the financial statements

1. General information

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') is an international, science & technology-led services and product development organisation, supported by a strong balance sheet including significant freehold property assets.

The Group and Company financial statements of Science Group plc were prepared under IFRS as adopted by the European Union in conformity with the requirements of the Companies Act 2006 and have been audited by Grant Thornton UK 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 2020, was 280.0 pence per share (31 December 2019: 249.0 pence per share).

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 20.4% (2019: 19.4%) which results in a comparable tax charge year on year.

(c) Net funds/(debt)

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:

	2020 £000	2019 £000
Cash and cash equivalents – Group cash	27,059	13,912
Borrowings	(16,507)	(16,213)
Net funds/(debt)	10,552	(2,301)

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.

Going concern

The Directors have considered the current cash balance of £27.1 million (excluding client registration funds) and assessed forecast future cash flows for the next 12 months. Despite the Covid-19 pandemic and a corresponding increase in uncertainty in the economic environment, there are no events or conditions which cast significant doubt on the ability of the Group to continue as a going concern. In support, as explained in the Chairman's Statement, the revenue and operating profit grew year on year and cash generated from operations was £17.8 million during the year ended 31 December 2020. The term loan has no operating covenants while the Group net debt is less than £10 million. On the basis of the forecast future cash flows, the Directors do not expect the Group net debt to exceed £10 million at any time during the forecast period. The Directors are satisfied that the Group has adequate cash and financing resources to continue in operational existence for the foreseeable future, being a period of at least a year following the approval of the accounts and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2. Segment information

The Group's segmental reporting shows the performance of the operating businesses separately from the value generated by the Group's significant freehold property assets and the Corporate costs. The Services Operating Business consists of two divisions: firstly, R&D Consultancy which is managed via the service lines of Product Development and Technology Advisory and secondly, Regulatory & Compliance. Financial information is provided to the chief operating decision makers ('CODMs') in line with this structure: the divisions and service lines in the Services Operating Businesses; the Product Operating Business (Frontier); the Freehold Properties and Corporate costs.

The Services Operating divisions (including the service lines) have been aggregated resulting in one Services Operating Business segment because the divisions and the services they provide 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 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.

Services Operating Business revenue includes all consultancy fees and other revenue includes recharged materials and expenses relating directly to 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.

Services Operating Business	2020 Total £000	2019 Total £000
Services revenue	48,198	46,885
Other	4,077	1,825
Revenue	52,275	48,710
Adjusted operating profit	9,068	8,221
Amortisation of acquisition related intangible assets	(1,513)	(2,006)
Share based payment charge	(946)	(1,008)
Gain on settlement of legal claim	-	687
Operating profit	6,609	5,894
Product Operating Business	2020 £000	2019 £000
Product revenue	20,540	7,540
Revenue	20,540	7,540
Adjusted operating profit/(loss)	3,245	(1,283)
Acquisition integration costs	(10)	(3,571)
Loss on remeasurement of equity-accounted investee	-	(491)
Amortisation of acquisition related intangible assets	(994)	(339)
Share based payment charge	(185)	(12)
Operating profit/(loss)	2,056	(5,696)
Freehold Properties	2020 £000	2019 £000
Inter-company property income	3,189	2,874
Third party property income	848	997
Revenue	4,037	3,871
Adjusted operating profit	954	1,503
Share based payment charge	(21)	(14)
Operating profit	933	1,489

Corporate	2020 £000	2019 £000
Adjusted operating loss	(2,382)	(1,737)
Share based payment charge	(87)	(133)
Operating loss	(2,469)	(1,870)

Group	2020 Total £000	2019 Organic £000	2019 Acquired £000	2019 Total £000
Services revenue	48,198	46,885	-	46,885
Products revenue	20,540	-	7,540	7,540
Third party property income	848	997	-	997
Other	4,077	1,825	-	1,825
Revenue	73,663	49,707	7,540	57,247
Adjusted operating profit/(loss)	10,885	7,987	(1,283)	6,704
Acquisition integration costs	(10)	-	(3,571)	(3,571)
Loss on remeasurement of equity-accounted investee	-	-	(491)	(491)
Amortisation of acquisition related intangible assets	(2,507)	(2,006)	(339)	(2,345)
Share based payment charge	(1,239)	(1,155)	(12)	(1,167)
Gain on settlement of legal claim	-	687	-	687
Operating profit/(loss)	7,129	5,513	(5,696)	(183)
Finance charges (net)	(737)	(665)	(165)	(830)
Share of loss of equity-accounted investment, net of tax	-	-	(592)	(592)
Profit/(loss) before income tax	6,392	4,848	(6,453)	(1,605)
Income tax credit/(charge)	647	(505)	279	(226)
Profit/(loss) for the period	7,039	4,343	(6,174)	(1,831)

Geographical and currency revenue analysis

	2020 £000	2019 £000
United Kingdom	14,843	12,263
Other European Countries	12,743	12,345
North America	24,003	23,642
Asia	21,553	8,322
Other	521	675
	73,663	57,247

Currency	2020 £000	2019 £000
US Dollar	41,787	28,684
Euro	3,569	3,578
Sterling	28,274	24,822
Other	33	163
	73,663	57,247

3. Income tax

The tax charge comprises:

Year ended 31 December	2020 £000	2019 £000
Current taxation	(1,492)	(1,280)
Current taxation – adjustment in respect of prior years	240	311
Deferred taxation	1,806	579
Deferred taxation – adjustment in respect of prior years	(155)	(242)
R&D tax credit	248	406
	647	(226)

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 20.4% (2019: 19.4%) as follows:

	2020 £000	2019 £000
Profit/(loss) before tax	6,392	(1,605)
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	(1,306)	311
Expenses not deductible for tax purposes	(193)	(1,022)
Adjustment in respect of prior years – current tax	240	311
Adjustment in respect of prior years – deferred tax	(155)	(242)
Movement in deferred tax due to change in tax rate	-	27
Share scheme movements	72	100
Current year losses for which no deferred tax asset was recognised	73	(180)
Recognition of tax losses as deferred tax asset	1,001	-
Prior year losses used in the current year which were not previously recognised	667	63
R&D tax credit	248	406
Tax credit/(charge)	647	(226)

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 £0.2 million (2019: £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	Tax losses	Share based payment	Acquisition related intangible assets	Other temporary differences	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2019	(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)
Charged to the income statement	125	954	184	442	101	1,806
Charge to the income statement (prior year adjustment)	1	-	(34)	(155)	33	(155)
Charged to Equity	-	-	119	-	96	215
Effect of movements in exchange rates	-	-	-	48	1	49
At 31 December 2020	(1,767)	1,001	775	(2,118)	293	(1,816)

	2020 £000	2019 £000
Deferred tax assets	1,322	47
Deferred tax liabilities	(3,138)	(3,778)
Net deferred tax liability	(1,816)	(3,731)

At 31 December 2020, Science Group had £31.7 million (2019: £34.7 million) of tax losses of which £21.4 million (2019: £24.0 million) relate to trading losses in Frontier. Of these Frontier losses, £3.2 million (2019: £nil) were utilised in 2020 and a further £5.3 million (2019: £nil) of losses were recognised as a deferred tax asset which are anticipated to be used to offset future trading profits. The carried forward Frontier losses of £16.1 million (2019: £24.0 million) have not been recognised as a deferred tax asset due to the uncertainty in the timing of utilisation of these losses. The other tax losses of £10.3 million (2019: £10.5 million) have not been recognised as a deferred tax asset due to the low probability that these losses will be able to be utilised.

Factors affecting future tax charges

The UK corporate tax rate of 19% was expected to reduce to 17% (effective 1 April 2020) which was substantively enacted on 6 September 2016. However, on 17 March 2020 the UK rate of 19% was substantively enacted and the 17% previously enacted reduction did not come into force. The UK corporation tax rate remains at 19%. 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:

	2020			2019		
	Profit after tax £000	Weighted average number of shares	Pence per share	Loss after tax £000	Weighted average number of shares	Pence per share
Basic earnings per ordinary share	7,039	41,631,118	16.9	(1,831)	40,767,070	(4.5)
Effect of dilutive potential ordinary shares: share options	-	598,648	(0.2)	-	1,257,907	0.1
Diluted earnings per ordinary share	7,039	42,229,766	16.7	(1,831)	42,024,977	(4.4)

Only the share options granted are dilutive.

The calculation of adjusted earnings per share is as follows:

	2020			2019		
	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	8,078	41,631,118	19.4	4,735	40,767,070	11.6
Effect of dilutive potential ordinary shares: share options	-	598,648	(0.3)	-	1,257,907	(0.3)
Adjusted diluted earnings per ordinary share	8,078	42,229,766	19.1	4,735	42,024,977	11.3

*Calculation of adjusted profit after tax:

Group	2020 £000	2019 £000
Adjusted operating profit	10,885	6,704
Finance income	9	22
Finance costs	(746)	(852)
Adjusted profit before tax	10,148	5,874
Tax charge at the blended corporation tax rate across the various jurisdictions 20.4% (2019: 19.4%)	(2,070)	(1,139)
Adjusted profit after tax	8,078	4,735

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 Board announced in May 2020 that the final dividend in respect of 2019 would be withdrawn due to the Covid-19 pandemic. In October 2020, an interim dividend of 2.0 pence per share was paid at a cost of £0.8 million.

The Board has proposed a final dividend for 2020 of 4.0 pence per share. The dividend is subject to approval by shareholders at the next Annual General Meeting and the expected cost of £1.6 million has not been included as a liability as at 31 December 2020.

7. Intangible Assets

Group	Technology £000	Customer relationships £000	Goodwill £000	Total £000
Cost				
At 1 January 2019	-	12,620	13,464	26,084
Acquisitions through business combination	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
Effect of movement in exchange rates	(203)	(20)	(151)	(374)
At 31 December 2020	6,792	13,647	15,882	36,321
Accumulated amortisation				
At 1 January 2019	-	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
Amortisation charged in year	901	1,606	-	2,507
Effect of movement in exchange rates	(61)	39	-	(22)
At 31 December 2020	1,132	8,786	-	9,918
Accumulated impairment				
At 1 January, 31 December 2019 and 31 December 2020	-	7	2,225	2,232
Carrying amount				
At 31 December 2019	6,703	6,519	13,808	27,030
At 31 December 2020	5,660	4,854	13,657	24,171

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:

	2020		2019	
	Pre-tax discount rate	£000	Pre-tax discount rate	£000
R&D Consultancy	10.1%	3,383	-	-
Advisory	-	-	11.2%	3,383
Leatherhead Research	10.1%	650	11.2%	650
TSG – Americas	10.1%	2,546	11.0%	2,621
TSG – Europe	10.1%	4,546	11.0%	4,546
Frontier Smart Technologies Group	12.2%	2,532	13.6%	2,608
		13,657		13,808

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 and growth rates of revenue and costs.

The Group prepares the cash flow forecasts derived from the most recent annual 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 revenue and costs 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

	2020	2019
	£000	£000
Raw materials	397	340
Work in progress	380	490
Finished goods	486	1,230
	1,263	2,060

9. Trade and other receivables

	2020 £000	2019 £000
Current assets:		
Trade receivables	8,186	7,365
Provision for impairment	(102)	(100)
Trade receivables – net	8,084	7,265
Amounts recoverable on contracts	1,037	1,541
Other receivables	128	144
VAT	36	51
Prepayments	1,499	1,238
	10,784	10,239

10. Cash and cash equivalents

	2020 £000	2019 £000
Short term bank deposits – Group cash	37	39
Cash at bank and in hand – Group cash	27,022	13,873
Cash and cash equivalents – Group cash	27,059	13,912
Cash at bank and in hand – Client registration funds	2,015	1,517
	29,074	15,429

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

	2020 £000	2019 £000
Current liabilities		
Payments received on account	13,829	10,341
Trade payables	2,728	2,548
Other taxation and social security	1,210	884
VAT	151	120
Accruals	8,447	6,688
	26,365	20,581

12. Provisions

Group	Onerous lease £000	Dilapidations £000	Restructuring £000	Legal £000	Other £000	Total £000
At 1 January 2019	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)
Gain on foreign exchange fluctuations	(5)	(31)	-	(13)	-	(49)
At 31 December 2019	-	562	90	-	-	652
Provisions made during the year	-	277	-	659	14	950
Provisions used during the year	-	(26)	(10)	(149)	-	(185)
Provisions reversed during the year	-	(36)	-	-	-	(36)
Gain on foreign exchange fluctuations	-	(13)	-	(31)	-	(50)
At 31 December 2020	-	764	80	479	14	1,337
Current liabilities	-	119	80	479	-	678
Non-current liabilities	-	645	-	-	14	659
At 31 December 2019	-	562	90	-	-	652
Current liabilities	-	82	90	-	-	172
Non-current liabilities	-	480	-	-	-	480

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 2020 is 2 years (2019: 2 years).

The restructuring provision relates to the costs associated with the closure of some non-trading Group entities and is anticipated to be utilised during the next 18 months.

Legal provisions represent the best estimate of the future cost of responding to US subpoenas relating to litigation and investigations directed at third parties.

The other provision relates to warranty provisions made in respect of certain product sales.

13. Called-up share capital

	2020	2019
	£000	£000
<i>Allotted, called-up and fully paid</i>		
Ordinary shares of £0.01 each	421	421
	Number	Number
<i>Allotted, called-up and fully paid</i>		
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 2020 was 42,062,035 shares (2019: 42,062,035) and the total number of ordinary shares in issue (excluding treasury shares) was 41,238,392 (2019: 41,700,440). Of the ordinary shares in issue, 104,400 (2019: 104,400) shares are held by the Frontier Smart Technologies Employee Benefit Trust ('EBT') and hence the voting rights in the Company are 41,133,992.

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

Reconciliation of treasury shares	2020	2019
	Number	Number
At beginning of year	361,595	2,021,808
Purchase of own shares	715,323	97,913
Sale of own shares	-	(1,187,401)
Settlement of share options	(253,275)	(570,725)
At end of year	823,643	361,595

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.

14. Borrowings

	2020	2019
	£000	£000
Non-current bank borrowings	15,307	15,013
Current bank borrowings	1,200	1,200
	16,507	16,213

	2020 £000	2019 £000
Opening balance	16,213	12,689
Increase in bank borrowing – term loan	1,500	4,750
Revolving credit facility assumed in business combination	-	4,969
Repayments in the year – term loan	(1,200)	(1,200)
Repayments in year – revolving credit facility	-	(5,000)
Arrangement fee associated with new borrowing	(13)	(39)
Impairment of loan arrangement fee	-	31
(Over)/under accrual adjustment	(8)	-
Amortisation of loan arrangement fee	15	13
Total borrowings	16,507	16,213

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. During the year ended 31 December 2019, the Group increased this existing loan by £4.8 million to £17.5 million on similar terms. The repayment profile of the loan is £1.2 million per annum over the term with the remaining balance repaid on expiry of the loan in 2026. Costs directly associated with entering into the loan (including the loan increase), have been offset against the balance outstanding and are being amortised over the period of the loan.

During the year ended 31 December 2020, the Group drew a further £1.5 million of loan funds from the £17.5 million existing loan agreement. This was on similar terms and with no change to the loan repayment profile (i.e. the quarterly repayments remained the same and the loan balance remains payable on 30 September 2026). Costs directly associated with entering into the additional loan of £13,000 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 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 debt can be reduced to less than £10 million.

The reconciliation of bank loans interest expense is shown below.

	2020 £000	2019 £000
Interest expense	601	717
Interest paid	(586)	(646)
Impairment of loan arrangement fee	-	(31)
Amortisation of loan arrangement fee	(15)	(13)
Accruals at the year end	-	27

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

	2020	2019
	£000	£000
Within one year	1,200	1,200
Between 1 and 2 years	1,200	1,200
Between 2 and 5 years	3,600	3,600
Over 5 years	10,600	10,300
	16,600	16,300

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 and the additional £1.5 million were fixed by entering into interest rate swaps at effective interest rates of 4.0% and 3.0% respectively. The combined effective interest rate on the loan is 3.5%.

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 £519,000 (2019: £408,000) was recognised directly within equity.

The fair value of the swap at 31 December 2020 was a liability of £634,000 (2019: £115,000).

15. Prior period restatement

In accordance with the Companies Act Section 731, in the event that the proceeds on sale of treasury shares exceed the purchase price originally paid by the company, the gain on sale of the shares shall be recognised within share premium. In the year ended 31 December 2019, a certain number of shares were issued out of treasury and proceeds were higher than the purchase price and the difference was incorrectly recognised within retained earnings. A restatement has been recognised that transfers this gain of £872,000 from retained earnings to share premium. This adjustment has not affected Group net assets or Profit after tax in the Consolidated Income Statement.

16. Statement by the directors

Whilst the information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRSs') as adopted by the European Union in conformity with the requirements of the Companies Act, 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 2020.

The financial information set out above, which was approved by the Board on 8 March 2021, is derived from the full Group accounts for the year ended 31 December 2020 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 2020, will be delivered to the Registrar of Companies in due course.

The Board of Science Group approved the release of this preliminary announcement on 8 March 2021.

The Annual Report for the year ended 31 December 2020 will be posted to shareholders in due course and will be delivered to the Registrar of Companies following the Annual General Meeting of the Company. The report will also be available on the investor relations page of the Group's website.

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

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