science group plc

16 March 2022

SCIENCE GROUP PLC

AUDITED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') reports its audited results for the year ended 31 December 2021.

Summary

Science Group reports another record performance delivering substantial profit growth. The Group's strong balance sheet, significant cash resources and undrawn new debt facility provide both a solid foundation for the existing operations and the potential to pursue further corporate development opportunities. As a result, Science Group is well positioned for the year ahead.

- Financial Highlights
  - Record revenue and adjusted operating profit, ahead of upgraded expectations
  - Group revenue growth of 10% to £81.2 million (2020: £73.7 million)
  - Adjusted* operating profit increased by 49% to £16.3 million (2020: £10.9 million)
  - Adjusted* basic earnings per share increased by 47% to 28.5p (2020: 19.4p)
  - Recommended dividend increase of 25% to 5.0p per share (2020: 4.0p per share)
- Investments & Acquisitions
  - Strategic investment, including two director appointees, in TP Group plc, a supplier of products and services into the defence sector
  - Investment in Frontier comprising royalty buy-out and add-on acquisition
- Balance Sheet
  - Cash of £34.3 million and net funds of £19.0 million
  - Successful equity fund raising in September 2021 of £17.8 million net
  - New undrawn revolving credit facility of £25 million

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.

Statement of Executive Chair

Science Group is an international science, technology and consulting organisation. The Group comprises three divisions: R&D Consultancy; Regulatory & Compliance; and Frontier Smart Technologies ('Frontier'), together with significant freehold property assets and a strategic shareholding in TP Group plc.

Notwithstanding the global pandemic and supply chain constraints, Science Group has delivered another record performance with growth reported in all three divisions and a substantial increase in Group profitability. As a result, Science Group has continued its track record of delivering value to shareholders whilst investing in the long-term sustainability of the business and sharing the rewards of success with the Group's employees. This successful execution of both corporate and operating strategies provides an excellent platform for the future of Science Group.

Financial Summary

For the year ended 31 December 2021, Science Group reported revenue of £81.2 million (2020: £73.7 million). This growth, combined with benefits derived from the greater scale of the Group, converted into an adjusted operating profit increase of 49% to £16.3 million (2020: £10.9 million). Adjusted operating profit has more than doubled over the past 2 years. Adjusted basic earnings per share increased by 47% to 28.5 pence (2020: 19.4 pence), reflecting the Board's focus on translating its strategy into shareholder value.

Amortisation of acquisition related intangibles and the share based payment charge totalled £3.6 million (2020: £3.7 million) and the Group's share of the estimated loss in TP Group was £1.1 million (2020: not applicable). As a result, the Group reported an operating profit of £11.6 million for the year (2020: £7.1 million) and profit before tax of £10.9 million (2020: £6.4 million). Basic earnings per share was 22.4 pence (2020: 16.9 pence).

Science Group continues to benefit from good cash conversion and a strong balance sheet. At 31 December 2021, Group cash was £34.3 million (2020: £27.1 million) and net funds were £19.0 million (2020: £10.6 million). The Group's term loan, which expires in 2026, was £15.4 million (2020: £16.6 million). In addition to the term loan, in December 2021 the Group also agreed a new £25 million Revolving Credit Facility with its bank, which to date has not been drawn. As a result, the Group has significant existing cash resources and available facilities to continue its strategy.

R&D Consultancy

The R&D Consultancy division, operating under a unified brand, provides science-led advisory and product/technology development services. The division combines science and engineering capabilities with expertise in key vertical sectors, namely: Medical; Consumer; Food & Beverage; and Industrial, Chemicals & Energy.

For the year ended 31 December 2021, the R&D Consultancy division generated revenue of £34.3 million (2020: £32.2 million). The Medical sector continued to perform well in 2021, reporting organic growth against a strong prior year comparator. The other sectors had a slower start to the year but saw some recovery in the second half as the effects of the pandemic eased.

The unification of the division under the single brand Sagentia Innovation has enabled these businesses to offer an integrated set of services to clients. This has presented cross-selling opportunities to the division and also attracted clients who recognise the value of the extended service offering, combining strategic advisory services, leading edge scientific consulting and product/technology development for physical & digital solutions.

Regulatory & Compliance

The Regulatory & Compliance division provides scientific and regulatory advice together with registration and compliance services for the Chemicals and Food & Beverage sectors, both of which operate internationally in regulated markets. The division comprises the North American and European operations of TSG, acquired in 2017, together with Leatherhead Food Research, acquired in 2015. The scale of each of the three business areas is broadly similar.

For the year ended 31 December 2021, the Regulatory & Compliance division generated revenue of £21.4 million (2020: £20.1 million). Of this revenue around 25% is of a recurring nature, primarily within the Food & Beverage sector and the USA registration renewals activities.

The division made good progress in its strategic development during 2021 as the increased scale and reputation is now attracting larger opportunities. To support this growth, the division invested in a new finance system which is now live across all three business areas, replacing three different legacy systems with a common platform. The TSG America state regulatory business also successfully launched a new rules-based system to improve the efficiency of the registration renewals operations.

Frontier Smart Technologies

Frontier Smart Technologies ('Frontier') is the market leader in DAB/DAB+/SmartRadio technology chips and modules. Formerly an AIM-listed, Cayman-domiciled company, Frontier was acquired by Science Group in 2019.

Following the successful turnaround and integration during 2020, in January 2021 the Board initiated a review of the future strategy for Frontier. This wide-ranging review confirmed the strategic leadership position of Frontier and identified a number of opportunities to enhance and develop the business. Consequently, effective 1 July 2021, an agreement was reached to buy out future royalties associated with the use of licensed technology for the sum of $6.0 million (£4.3 million). (For the year ended 31 December 2020, Frontier paid royalties of $1.0 million in relation to licensing this technology.)

In progressing the post-review Frontier strategy, the Group also completed the acquisition of Magic Systech Inc ('Magic'), for $4.0 million (£3.0 million). Magic is a Taiwan-based company which specialises in internet radio technology and the acquisition enhances the Frontier proposition including a lower production cost architecture. Magic is now being integrated into Frontier.

The Frontier division had a strong year in 2021 reporting 21% growth in revenue to £24.9 million (2020: £20.5 million) and an adjusted operating profit margin of 21% (2020: 16%), producing a 59% increase in adjusted operating profit. This success was achieved despite the global semiconductor and other supply chain constraints.

Freehold Properties

Science Group owns two freehold properties, Harston Mill near Cambridge and Great Burgh in Epsom. The last independent valuation in March 2021 indicated an aggregate value of these properties in the range £21.0 million to £35.0 million. The properties are held on the balance sheet on a cost basis at £21.0 million (2020: £21.2 million).

Great Burgh is owned by a property subsidiary of Science Group plc and it has been the Board's declared intent to adopt the same approach for the Harston Mill property, which for historic reasons was held within the operating subsidiary. In 2021, this legacy was addressed resulting in a tax payment outflow of approximately £1.8 million.

For the year ended 31 December 2021, the rental and associated services income derived from the Group's freehold properties was £3.6 million (2020: £4.0 million), of which £0.6 million (2020: £0.8 million) was generated from third-party tenants. Intra-group charges are eliminated on Group consolidation but the reported segmental profit of the operating divisions includes property rental at market rates.

Corporate

The corporate function is responsible for the strategic development of Science Group. Corporate costs increased in the period to £4.4 million (2020: £2.5 million), reflecting the significant activity in the year and the Group's share in the estimated loss of TP Group ('TPG') which is reported as a corporate cost in segmental reporting.

In addition to the Frontier royalty buy-out and acquisition of Magic, in August the Group made a strategic investment in TPG through a stake-building exercise. TPG is a provider of consulting services and engineering products to the defence and aerospace sectors where Science Group has little presence. Science Group tried to engage with TPG but all approaches were rejected, including a possible offer for TPG which was withdrawn on 3 September 2021. At 31 December 2021, Science Group was the largest shareholder in TPG owning 28.0% at a total cost of £12.8 million.

The Group is actively managing the TPG investment and in October 2021 secured 2 seats on the TPG Board including, from 1 November 2021, the role of Executive Chair. The TPG strategy was redefined to focus on core UK-based operations and this strategy is now being executed by the TPG Board. To address cash flow volatility, and potential going concern risks (as reported by TPG in its 2020 Annual Report), in December 2021 Science Group extended a standby credit facility of up to £5.0 million to TPG. For accounting purposes, TPG was held as a financial investment until 13 October 2021 and was equity accounted thereafter.

For the first time since 2010, to continue its strategic development, Science Group undertook an equity fundraising. Net proceeds of £17.8 million were raised through the successful placing of new Ordinary Shares with existing and new institutional investors.

With the continued success and growth of the Group, the Board is recommending increasing the dividend by 25% to 5.0 pence per share (2020: 4.0 pence per share). Subject to shareholder approval at the Annual General Meeting ('AGM'), the dividend will be payable on 17 June 2022 to shareholders on the register at the close of business on 20 May 2022.

During the year, the Company repurchased 149,000 shares at a total cost of £0.6 million at an average price of £3.79 pence per share (2020: 715,000 shares at a cost of £1.7 million). At 31 December 2021, shares in issue (excluding treasury shares held of 0.5 million) were 45.7 million (2020: 41.2 million excluding treasury shares held of 0.8 million).

Environmental, Social & Governance

The Group takes its responsibilities to the environment and to the community seriously. In 2021 the Group commenced assessment of Greenhouse Gas ('GHG') emissions across its businesses with a view to planning for NetZero. Electricity in the Group's major sites is already derived from renewable sources, as far as practicable, and electric vehicle charging points have been installed at the Group's freehold properties. Waste management remains a major focus with policies to ensure reduction, reuse, and recycling as appropriate.

In parallel with its own actions, Science Group is actively engaged in working with clients on sustainability programmes. Furthermore, in 2021, the Group launched a CTO (Chief Technology Officer) Forum to bring together senior R&D executives from leading international corporates engaged on creating actionable strategies for NetZero. The initiative draws on the combination of science, advisory and regulatory expertise within Science Group to provide a differentiated insight into the environmental and sustainability challenges of global organisations.

Science Group has a diverse employee base, representing over 30 nationalities, and actively promotes the values of diversity and inclusion. Employee development and training, at all levels, is very important, and the Group is especially mindful of the development of more junior employees during enforced remote working as a result of the pandemic. The Group is also aware of its position in society particularly the impact of the pandemic upon local communities and has therefore increased its charitable donations in the last two years, supporting charities (primarily foodbanks) close to the Group's offices around the world.

The Board of Science Group is well balanced between executive and independent non-executive directors ('NED') ensuring objectivity in decision-making. The Group is led by the Executive Chair, who also remains the Group's largest shareholder, driving the corporate strategy, with a Group Managing Director who runs day to day operations. The Board believes in strong, independent NEDs and, as part of succession planning, takes into consideration Board diversity. Both the Remuneration and Audit committees are composed of 100% independent directors. The Group's formal and effective governance model is reinforced by an open, transparent culture with NEDs having unconstrained access to any and all employees throughout the Group.

Covid-19, Inflation and Geopolitical Factors

The Group has adapted to operating under the constraints resulting from the Covid-19 pandemic. The primary focus has been to protect employees and to promote their physical and mental wellbeing. Operationally, there has been a mix of home, office and lab-based working, adhering to Government policy in each country, whilst successfully delivering products and services for clients.

The Frontier division also suffered from supply-chain issues associated with the global semiconductor and other component shortages but managed the situation well, benefitting from good relations with suppliers and the Group's strong financial position. While the recent Covid restrictions in Shenzhen and Hong Kong may have a short-term impact on product shipments and 2022 is likely to continue to be constrained by component supply, the Board anticipates that the Frontier team will again be able to manage through the operational challenges and maintain its market leading position.

The Science Group Board monitors economic and other external factors. The potential inflationary pressures on employment costs were recognised early and where possible client contracts have been amended to facilitate fee rate increases within the Services divisions as appropriate. Similarly, the product supply-side inflation has been mitigated by passing cost increases onto the distribution channel. The recent geopolitical instability could further impact the global economic environment with the near-term effects anticipated to be:

- An increase in inflationary pressures, particularly energy costs which even prior to recent events were projected to more than double in 2022 compared with 2021.
- A slowing of European investment and economic growth, which at the present time the Board considers will have only a limited impact on the Group.
- Strengthening of the US Dollar, which has a net positive effect on Science Group due to the proportion of revenue generated in US Dollars with a primary cost base in Sterling.

At the present time, the Board considers that in aggregate the net effect of the above on Science Group operations is broadly neutral, with the benefits of the strong US Dollar offsetting the other external factors.

Summary and Outlook

In summary, Science Group has reported another year of excellent results with all three divisions performing well, leading to the Board upgrading Group profit forecasts several times. The outstanding performance over the past two years, during a global pandemic, is due to the commitment and dedication of the Group's operating managers and employees.

Recent years have also seen an acceleration in the corporate development of Science Group, most recently evidenced by the strategic investment in TP Group plc. Although there can be no certainty that any transactions will satisfy the Board's evaluation criteria and diligence process, the Group's significant cash resources further enhanced by the new credit facility, enable the Board to explore both add-on acquisitions and larger opportunities to increase the scale of Science Group.

While inflation, geopolitical instability and potential further disruption from the pandemic are being closely monitored, Science Group's strategy and operational execution have demonstrated resilience. The Group's strong balance sheet provides both a solid foundation for the existing operations and the potential to pursue growth opportunities should they arise. As a result, Science Group is well positioned for the year ahead.

Martyn Ratcliffe
Executive Chair

Finance Director's Report

Overview of Results

In the year ended 31 December 2021, the Group generated revenue of £81.2 million (2020: £73.7 million). Revenue from the services operating businesses, that is revenue derived from consultancy services and materials recharged on these projects, increased to £55.7 million (2020: £52.3 million) while product revenue generated by Frontier increased to £24.9 million (2020: £20.5 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 £0.6 million (2020: £0.8 million).

Adjusted operating profit for the Group increased to £16.3 million (2020: £10.9 million). The Group's statutory operating profit of £11.6 million (2020: £7.1 million) includes the amortisation of acquisition related intangible assets (£2.9 million), share based payment charges (£0.7 million) and a share of the estimated loss of associate investment, TP Group plc, of £1.1 million. The statutory profit before tax was £10.9 million (2020: £6.4 million) and statutory profit after tax was £9.6 million (2020: £7.0 million). Statutory basic earnings per share ('EPS') was 22.4 pence (2020: 16.9 pence per share).

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.

TP Group plc

The Group commenced on-market purchases of shares in TP Group plc ('TPG'), in August 2021, increasing its holding to 28.0% at 31 December 2021.

Prior to 13 October 2021, the Group accounted for the TPG shareholding as a financial investment, recognised at fair value on the balance sheet. On 13 October 2021, when two Science Group plc Directors were appointed to the Board of TPG, the Group started to account for its holding in TPG as an associate under the equity accounting method.

TPG has not released its results for the period ended 31 December 2021. A loss after tax of £1.1 million has been included within the Science Group Income Statement, which is an estimate based on TPG reported information and public statements, proportionate to the Group's 28% shareholding and the duration for which TPG was accounted as an associate.

In December 2021, the Group made available a standby revolving credit facility to TPG. The facility is for a maximum of £5.0 million for the period from the date of signing until 30 September 2023. The facility, which incurs an interest rate of 1% per month on sums drawn or 0.4% per month on undrawn amounts, remained undrawn at 31 December 2021.

Foreign Exchange

A considerable proportion of the Group's revenue is denominated in currencies other than Sterling. Changes in exchange rates can have a significant influence on the Group's financial performance. In 2021, £50.2 million of the Group's operating business revenue was denominated in US Dollars (2020: £41.8 million), including all of Frontier's revenue. In addition, £3.1 million of the Group operating business revenue was denominated in Euros (2020: £3.6 million). The average exchange rate during 2021 was 1.37 for US Dollars and 1.16 for Euros (2020: 1.29 and 1.13 respectively). To date, the Group has opted not to utilise foreign exchange hedging instruments but keeps this under review.

Taxation

The tax charge for the year was £1.4 million (2020: tax credit of £0.6 million). The underlying tax charge on the profits generated by the operating businesses has been partially offset through brought forward Frontier losses and a Research and Development tax credit of £0.3 million (2020: £0.2 million). Science Group recognises R&D tax credits within tax reporting, not as a credit against operating costs.

As planned, the Harston Mill property was transferred within the Group from trading company, Sagentia Limited, to Quadro Harston Limited. This resulted in a tax payment outflow in 2021 of £1.8 million. There was a matching deferred tax liability release, leaving the transaction tax neutral in the Income Statement.

At 31 December 2021, Science Group had £27.8 million (2020: £31.7 million) of tax losses of which £17.6 million (2020: £21.4 million) related to trading losses in Frontier. Of the Frontier losses, £10.0 million (2020: £5.3 million) is recognised as a deferred tax asset which is anticipated to be used to offset future taxable profits. The balance of £7.6 million (2020: £16.1 million) has not been recognised as a deferred tax asset due to the uncertainty in the timing or feasibility of utilisation of these losses. Aside from Frontier, the Group has other tax losses of £10.2 million (2020: £10.3 million) unrecognised 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) was £13.2 million (2020: £17.2 million). Reported cash from operating activities in accordance with IFRS was £14.0 million (2020: £17.7 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 measure, adjusting for Client Registration Funds, 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. Phased interest rate swaps hedge the loan resulting in a fixed effective interest rate of 3.5%, comprising a margin over 3 month London Interbank Offered Rate ('LIBOR'), the cost of the loan arrangement fee and the cost of the swap instruments. The Group has adopted hedge accounting for the interest rate swap related to the bank loan under IFRS 9, Financial Instruments, and the gain on change in fair value of the interest rate swaps was £763,000 (2020: loss of £519,000) which was recognised in Other Comprehensive Income.

With LIBOR ceasing to be used as an interest rate benchmark at the end of 2021, the Group transitioned the term loan and the respective swap instruments to use the Sterling Overnight Index Average ('SONIA') as an appropriate alternative. The transition was agreed during the year and will be effective from March 2022. The hedged position on the loan remains and there is no change to the effective fixed interest rate of 3.5%.

In December 2021, in addition to the term loan, the Group signed a new £25.0 million revolving credit facility ('RCF') with Lloyds Bank plc in order to provide additional capital resources to enable the execution of the Group's acquisition strategy. The RCF is for up to £25.0 million, with an additional £5.0 million accordion option, for a term of four years with a one year extension. The margin on drawn sums is 3.3% over SONIA and is 1.1% per annum on undrawn amounts. Drawn amounts are secured on the Group's assets by debentures. At 31 December 2021, the RCF remained undrawn.

The RCF has two financial covenants with which the Group needs to comply if the facility is drawn: (i) the Group's net leverage, as defined as the net debt divided by the rolling 12 month EBITDA, should not exceed 2.5; and (ii) the Group's interest cover, as defined as the rolling 12 month EBITDA divided by the rolling interest payments on all borrowings, should not be less than 4.0. Reporting is on a 6 monthly basis unless the net leverage exceeds 2, in which case reporting moves to quarterly until net leverage returns to below 2 again. For the term of the RCF, the previous covenants for the term loan are superseded by the covenants of the RCF and will not apply.

The Group cash balance (excluding Client Registration Funds) at 31 December 2021 was £34.3 million (2020: £27.1 million) and net funds were £19.0 million (2020: net funds of £10.6 million). Client Registration Funds of £2.9 million (2020: £2.0 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 2021 (2020: 31 days). A higher level of inventory was held at the year end to mitigate uncertainty in forward supply, resulting in inventory days increasing to 76 days at 31 December 2021 (2020: 43 days).

Share Capital

At 31 December 2021, the Company had 45,720,276 ordinary shares in issue (2020: 41,238,392) and the Company held an additional 465,598 shares in treasury (2020: 823,643). The increase in shares in issue is primarily related to a 10% share placement (4,123,839 shares) completed in September 2021. Of the ordinary shares in issue, 104,400 (2020: 104,400) shares are held by the Frontier Employee Benefit Trust. The voting rights in the Company at 31 December 2021 are 45,615,876 (2020: 41,133,992). 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.

Jon Brett
Finance Director

Consolidated Income Statement
For the year ended 31 December 2021

	Note	**2021 £000**	2020 £000
Revenue	2	**81,216**	73,663
Direct operating expenses		**(45,858)**	(43,861)
Sales and marketing expenses		**(8,824)**	(8,112)
Administrative expenses		**(13,892)**	(14,561)
Share of loss of equity accounted investment		**(1,061)**	-
Adjusted operating profit	2	**16,260**	10,885
Acquisition integration costs		**-**	(10)
Amortisation of acquisition related intangible assets	7	**(2,891)**	(2,507)
Share based payment charge		**(727)**	(1,239)
Share of loss of equity accounted investment		**(1,061)**	-
Operating profit		**11,581**	7,129
Finance income		**19**	9
Finance costs		**(673)**	(746)
Profit before tax		**10,927**	6,392
Tax (charge)/credit (including R&D tax credit of £324,000 (2020: £248,000))	3	**(1,366)**	647
Profit for the year		**9,561**	7,039
Earnings per share			
Earnings per share (basic)	5	**22.4p**	16.9p
Earnings per share (diluted)	5	**21.7p**	16.7p

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2021

	2021 £000	2020 £000
Profit for the year attributable to:		
Equity holders of the parent	**9,561**	7,039
Profit for the year	**9,561**	7,039
Other comprehensive income Items that will or may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**279**	(358)
Fair value gain/(loss) on interest rate swap	**763**	(519)
Deferred tax (charge)/credit on interest rate swap	**(151)**	96
Other comprehensive income Items that will not be reclassed to profit or loss		
Changes in the fair value of equity investments through other comprehensive income	**(2,470)**	-
Other comprehensive expense for the year	**(1,579)**	(781)
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**7,982**	6,258
Total comprehensive income for the year	**7,982**	6,258

Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2021

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

	Issued capital £000	Share premium £000	Treasury Stock £000	Merger reserve £000	Translation reserve £000	Cashflow hedge reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2021	**421**	**9,102**	**(1,896)**	**10,343**	**(1,037)**	**(538)**	**24,995**	**41,390**
Contributions and distributions:								
Purchase of own shares	-	-	(562)	-	-	-	-	**(562)**
Issue of shares out of treasury stock	-	-	1,216	-	-	-	(1,211)	**5**
Dividends paid	-	-	-	-	-	-	(1,642)	**(1,642)**
Share based payment charge	-	-	-	-	-	-	727	**727**
Deferred tax credit on share based payment transactions	-	-	-	-	-	-	619	**619**
Share placement	41	17,732	-	-	-	-	-	**17,773**
Transactions with owners	**41**	**17,732**	**654**	**-**	**-**	**-**	**(1,507)**	**16,920**
Profit for the year	-	-	-	-	-	-	**9,561**	**9,561**
Other comprehensive income:								
Fair value gain on interest rate swap	-	-	-	-	-	763	-	763
Exchange differences on translating foreign operations	-	-	-	-	279	-	-	279
Deferred tax charge on interest rate swap	-	-	-	-	-	(151)	-	(151)
Other comprehensive income items that will not be reclassed to profit or loss:								
Changes in the fair value of equity investments through other comprehensive income	-	-	-	-	-	-	(2,470)	**(2,470)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**279**	**612**	**7,091**	**7,982**
Balance at 31 December 2021	**462**	**26,834**	**(1,242)**	**10,343**	**(758)**	**74**	**30,579**	**66,292**

Consolidated Balance Sheet
At 31 December 2021

	Note	**2021 £000**	2020 £000
Assets			
Non-current assets			
Acquisition related intangible assets	7	**13,359**	10,514
Goodwill	7	**14,360**	13,657
Property, plant and equipment		**23,384**	23,809
Investments		**9,239**	-
Derivative financial instruments		**129**	-
Deferred tax assets	4	**2,120**	1,322
		62,591	49,302
Current assets			
Inventories	8	**2,454**	1,263
Trade and other receivables	9	**12,208**	10,784
Current tax assets		**1,493**	1,627
Cash and cash equivalents – Client registration funds	10	**2,874**	2,015
Cash and cash equivalents – Group cash	10	**34,315**	27,059
		53,344	42,748
Total assets		**115,935**	92,050
Liabilities			
Current liabilities			
Trade and other payables	11	**30,042**	26,365
Current tax liabilities		**776**	394
Provisions	12	**677**	678
Borrowings	14	**1,200**	1,200
Lease liabilities		**1,153**	1,247
		33,848	29,884
Non-current liabilities			
Provisions	12	**603**	659
Borrowings	14	**14,123**	15,307
Lease liabilities		**400**	1,038
Derivative financial instruments		**-**	634
Deferred tax liabilities	4	**669**	3,138
		15,795	20,776
Total liabilities		**49,643**	50,660
Net assets		**66,292**	41,390
Shareholders' equity			
Share capital	13	**462**	421
Share premium		**26,834**	9,102
Treasury shares		**(1,242)**	(1,896)
Merger reserve		**10,343**	10,343
Translation reserve		**(758)**	(1,037)
Cash flow hedge reserve		**74**	(538)
Retained earnings		**30,579**	24,995
Total equity		**66,292**	41,390

Consolidated Statement of Cash Flows
For the year ended 31 December 2021

	Note	**2021 £000**	2020 £000
Profit before income tax		**10,927**	6,392
Adjustments for:			
Share of loss of equity accounted investment		**1,061**	-
Amortisation of acquisition related intangible assets		**2,891**	2,507
Depreciation of property, plant and equipment		**719**	904
Impairment of right of use assets		**-**	513
Depreciation of right of use assets		**794**	1,067
Loss on disposal of property, plant and equipment		**-**	7
Net interest cost		**654**	737
Share based payment charge		**727**	1,239
(Increase)/decrease in inventories		**(1,047)**	394
Increase in receivables		**(1,385)**	(546)
Increase in payables representing client registration funds		**859**	498
Increase in payables excluding balances representing client registration funds		**2,494**	5,976
Changes in provisions		**(76)**	735
Cash generated from operations		**18,618**	20,423
Interest paid		**(646)**	(753)
UK corporation tax paid		**(3,018)**	(1,799)
Foreign corporation tax paid		**(940)**	(184)
Cash flows from operating activities		**14,014**	17,687
Interest received		**3**	9
Purchase of property, plant and equipment		**(544)**	(143)
Purchase of intellectual property		**(4,315)**	-
Purchase of interest in associated company		**(12,770)**	-
Purchase of subsidiary undertakings, net of cash acquired		**(1,455)**	-
Cash flows used in investing activities		**(19,081)**	(134)
Issue of shares out of treasury		**5**	7
Share placement		**17,773**	-
Repurchase of own shares		**(562)**	(1,672)
Dividends paid		**(1,642)**	(830)
Proceeds of bank loan received	14	**-**	1,500
Repayment of term loan	14	**(1,200)**	(1,200)
Payment of lease liabilities		**(1,296)**	(1,339)
Cash flows from financing activities		**13,078**	(3,534)
Increase in cash and cash equivalents in the year		**8,011**	14,019
Cash and cash equivalents at the beginning of the year		**29,074**	15,429
Exchange gain/(loss) on cash		**104**	(374)
Cash and cash equivalents at the end of the year	10	**37,189**	29,074

Cash and cash equivalents are analysed as follows:

	Note	**2021 £000**	2020 £000
Cash and cash equivalents – Client registration funds	10	**2,874**	2,015
Cash and cash equivalents – Group cash	10	**34,315**	27,059
		37,189	29,074

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 and consulting organisation, supported by a strong balance sheet.

The Group and Company Financial Statements of Science Group plc were prepared under IFRS as adopted by the UK 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 on 31 December 2021, was 455.0 pence per share (31 December 2020: 280.0 pence per share).

Alternative performance measures
The Group uses alternative non-Generally Accepted Accounting Practice 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 adjusting to exclude certain items from operating profit namely: 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 occur 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
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 22.0% (2020: 20.4%) 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:

	Note	**2021** **£000**	2020 £000
Cash and cash equivalents – Group cash	10	**34,315**	27,059
Borrowings	14	**(15,323)**	(16,507)
Net funds		**18,992**	10,552

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 represent the Group's cash available for day-to-day operations and investments. As such, the Board considers these measures to 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 £34.3 million (excluding client registration funds) and assessed forecast future cash flows for the next 12 months. 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 Statement of Executive Chair, the Group revenue and operating profit grew year on year and cash generated from operations was £18.6 million during the year ended 31 December 2021. The Group ended the year with net funds of £19.0 million and with the new and undrawn Revolving Credit Facility ('RCF') of £25.0 million. 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, (i) R&D Consultancy, and (ii) Regulatory & Compliance. Financial information is provided to the Chief Operating Decision Makers ('CODMs') in line with this structure: the divisions in the Services Operating Businesses; the Product Operating Business (Frontier); the Freehold Properties and Corporate costs.

The Services Operating divisions 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	**2021 Total £000**	2020 Total £000
Services revenue	**52,879**	48,198
Other	**2,840**	4,077
Revenue	**55,719**	52,275
Adjusted operating profit	**14,122**	9,068
Amortisation of acquisition related intangible assets	**(1,495)**	(1,513)
Share based payment charge	**(502)**	(946)
Operating profit	**12,125**	6,609

Product Operating Business	2021 £000	2020 £000
Product revenue	**24,936**	20,540
Revenue	**24,936**	20,540
Adjusted operating profit	**5,156**	3,245
Acquisition integration costs	**-**	(10)
Amortisation of acquisition related intangible assets	**(1,396)**	(994)
Share based payment charge	**(240)**	(185)
Operating profit	**3,520**	2,056

Freehold Properties	2021 £000	2020 £000
Inter-company property income	**3,046**	3,189
Third party property income	**561**	848
Revenue	**3,607**	4,037
Adjusted operating profit	**361**	954
Share based payment charge	**(27)**	(21)
Operating profit	**334**	933

Corporate	2021 £000	2020 £000
Adjusted operating loss	**(3,379)**	(2,382)
Share based payment credit/(charge)	**42**	(87)
Share of loss of equity accounted investment	**(1,061)**	-
Operating loss	**(4,398)**	(2,469)

Group	2021 Total £000	2020 Total £000
Services revenue	**52,879**	48,198
Product revenue	**24,936**	20,540
Third party property income	**561**	848
Other	**2,840**	4,077
Revenue	**81,216**	73,663
Adjusted operating profit	**16,260**	10,885
Acquisition integration costs	**-**	(10)
Amortisation of acquisition related intangible assets	**(2,891)**	(2,507)
Share based payment charge	**(727)**	(1,239)
Share of loss of equity accounted investment	**(1,061)**	-
Operating profit	**11,581**	7,129
Net finance costs	**(654)**	(737)
Profit before income tax	**10,927**	6,392
Income tax (charge)/credit	**(1,366)**	647
Profit for the period	**9,561**	7,039

Geographical and currency revenue analysis

Primary geographic markets	2021 £000	2020 £000
United Kingdom	**11,883**	14,843
Other European Countries	**12,228**	12,743
North America	**29,065**	24,003
Asia	**27,680**	21,553
Other	**360**	521
	81,216	73,663

Currency	2021 £000	2020 £000
US Dollar	**50,153**	41,787
Euro	**3,070**	3,569
Sterling	**27,985**	28,274
Other	**8**	33
	81,216	73,663

3. Income Tax

The tax (charge)/credit comprises:

Year ended 31 December	Note	2021 £000	2020 £000
Current taxation		**(4,269)**	(1,492)
Current taxation – adjustment in respect of prior years		**(481)**	240
Deferred taxation	4	**2,975**	1,806
Deferred taxation – adjustment in respect of prior years		**85**	(155)
R&D tax credit		**324**	248
		(1,366)	647

The adjustments in prior years are due to estimation differences related to the tax charge.

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 22.0% (2020: 20.4%) as follows:

	2021 £000	2020 £000
Profit before tax	**10,927**	6,392
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	**(2,401)**	(1,306)
Expenses not deductible for tax purposes	**(543)**	(193)
Adjustment in respect of prior years – current tax	**(481)**	240
Adjustment in respect of prior years – deferred tax	**85**	(155)
Movement in deferred tax due to change in tax rate	**(313)**	-
Share scheme movements	**44**	72
Losses used in year	**1,033**	740
Recognition of tax losses as deferred tax asset	**1,119**	1,001
Share of loss of equity accounted investment	**(233)**	-
R&D tax credit	**324**	248
Tax (charge)/credit	**(1,366)**	647

The Group claims Research and Development tax credits under both the R&D expenditure credit scheme and the Small or Medium-sized Scheme. In the current year, the Group recognised a tax credit of £0.3 million (2020: £0.2 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 2020	(1,893)	47	506	(2,453)	62	(3,731)
Charged to the income statement	125	954	184	442	101	1,806
Charged to the income statement (adjustment in respect of prior year)	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)
Charged to the income statement	1,721	1,119	(5)	174	(34)	2,975
Deferred tax relating to acquisitions	-	-	-	(246)	-	(246)
Charge to the income statement (adjustment in respect of prior year)	-	-	-	-	85	85
Charged to Equity	-	-	619	-	(151)	468
Effect of movements in exchange rates	-	-	-	(15)	-	(15)
At 31 December 2021	**(46)**	**2,120**	**1,389**	**(2,205)**	**193**	**1,451**

	2021 £000	2020 £000
Deferred tax assets	**2,120**	1,322
Deferred tax liabilities	**(669)**	(3,138)
Net deferred tax assets / (liabilities)	**1,451**	(1,816)

At 31 December 2021, Science Group had £27.8 million (2020: £31.7 million) of tax losses of which £17.6 million (2020: £21.4 million) related to trading losses in Frontier. Of the Frontier losses, £10.0 million (2020: £5.3 million) is recognised as a deferred tax asset which is anticipated to be used to offset future taxable profits. The balance of £7.6 million (2020: £16.1 million) has not been recognised as a deferred tax asset due to the uncertainty in the timing of utilisation of these losses. Aside from Frontier, the Group has other tax losses of £10.2 million (2020: £10.3 million) unrecognised as a deferred tax asset due to the low probability that these losses will be able to be utilised.

Factors affecting future tax charges

From 1 April 2023 the UK corporation tax will increase from 19% to 25%. Deferred tax assets/(liabilities) were calculated at the substantively enacted corporation tax rates in the respective jurisdictions, taking into account the impact of any known future changes.

5. Earnings Per Share

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

	2021			2020		
	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	**9,561**	**42,660,991**	**22.4**	7,039	41,631,118	16.9
Effect of dilutive potential ordinary shares: share options	**-**	**1,435,102**	**(0.7)**	-	598,648	(0.2)
Diluted earnings per ordinary share	**9,561**	**44,096,093**	**21.7**	7,039	42,229,766	16.7

Only the share options granted are dilutive.

The calculation of adjusted earnings per share is as follows:

	2021			2020		
	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	**12,173**	**42,660,991**	**28.5**	8,078	41,631,118	19.4
Effect of dilutive potential ordinary shares: share options	**-**	**1,435,102**	**(0.9)**	-	598,648	(0.3)
Adjusted diluted earnings per ordinary share	**12,173**	**44,096,093**	**27.6**	8,078	42,229,766	19.1

*Calculation of adjusted profit after tax:

	2021 £000	2020 £000
Adjusted operating profit	**16,260**	10,885
Finance income	**19**	9
Finance costs	**(673)**	(746)
Adjusted profit before tax	**15,606**	10,148
Tax charge at the blended corporation tax rate across the various jurisdictions 22.0% (2020: 20.4%)	**(3,433)**	(2,070)
Adjusted profit after tax	**12,173**	8,078

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 final dividend for 2020 of £1.6 million was paid in June 2021.

The Board has proposed a final dividend for 2021 of 5.0 pence per share (2020: 4.0 pence per share). The dividend is subject to approval by shareholders at the next Annual General Meeting and the expected cost of £2.3 million has not been included as a liability as at 31 December 2021.

7. Intangible Assets

	Technology £000	Customer relationships £000	Goodwill £000	Total £000
Cost				
At 1 January 2020	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
Acquisitions through business combination (Note 16)	1,031	238	664	1,933
Additions	4,315	-	-	4,315
Effect of movement in exchange rates	168	30	39	237
At 31 December 2021	**12,306**	**13,915**	**16,585**	**42,806**
Accumulated amortisation				
At 1 January 2020	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
Amortisation charged in year	1,305	1,586	-	2,891
Effect of movement in exchange rates	27	19	-	46
At 31 December 2021	**2,464**	**10,391**	**-**	**12,855**
Accumulated impairment				
At 1 January, 31 December 2020 and 31 December 2021	**-**	**7**	**2,225**	**2,232**
Carrying amount				
At 31 December 2020	5,660	4,854	13,657	24,171
At 31 December 2021	**9,842**	**3,517**	**14,360**	**27,719**

On 15 July 2021 the Group paid $6 million (£4.3 million) to acquire a licence to use technology developed by Imagination Technologies Limited.

On 24 November 2021 the Group acquired Magic Systech Inc (‘Magic’), a Taiwan-based company which specialises in Internet Radio technology (Note 16).

Goodwill and acquisition related intangible assets recognised arose from acquisitions during 2013, 2015, 2017, 2019 and 2021. The discount rates used for goodwill impairment reviews and the carrying amount of goodwill is allocated as follows:

	2021		2020	
	Pre-tax discount rate	**£000**	Pre-tax discount rate	£000
R&D Consultancy	**11.9%**	**3,383**	10.1%	3,383
Leatherhead Research	**11.9%**	**650**	10.1%	650
TSG – America	**11.9%**	**2,570**	10.1%	2,546
TSG – Europe	**11.9%**	**4,546**	10.1%	4,546
Frontier Smart Technologies Group	**14.1%**	**2,556**	12.2%	2,532
Magic Systech Inc	**14.1%**	**655**	-	-
		14,360		13,657

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 Cash Generating Units ('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

	2021 £000	2020 £000
Raw materials	**304**	397
Work in progress	**793**	380
Finished goods	**1,357**	486
	2,454	1,263

9. Trade and Other Receivables

	2021 **£000**	2020 £000
Current assets:		
Trade receivables	**9,406**	8,186
Provision for impairment	**(75)**	(102)
Trade receivables – net	**9,331**	8,084
Amounts recoverable on contracts	**1,202**	1,037
Other receivables	**103**	128
VAT	**96**	36
Prepayments	**1,476**	1,499
	12,208	10,784

All amounts disclosed above, except for prepayments, are receivable within 90 days.

10. Cash and Cash Equivalents

	2021 **£000**	2020 £000
Short term bank deposits – Group cash	**-**	37
Cash at bank and in hand – Group cash	**34,315**	27,022
Cash and cash equivalents – Group cash	**34,315**	27,059
Cash and cash equivalents – Client registration funds	**2,874**	2,015
	37,189	29,074

The Group receives cash from clients, primarily in North America, 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

	2021 **£000**	2020 £000
Current liabilities		
Contract liabilities	**17,061**	13,829
Trade payables	**2,591**	2,728
Other taxation and social security	**1,346**	1,210
VAT	**224**	151
Accruals	**8,820**	8,447
	30,042	26,365

12. Provisions

	Dilapidations £000	Restructuring £000	Legal £000	Other £000	Total £000
At 1 January 2020	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)	-	(44)
At 31 December 2020	764	80	479	14	1,337
Provisions made during the year	89	-	248	6	343
Provisions used during the year	(5)	(10)	(30)	-	(45)
Provisions reversed during the year	(84)	-	(265)	(20)	(369)
Gain on foreign exchange fluctuations	6	-	8	-	14
At 31 December 2021	**770**	**70**	**440**	**-**	**1,280**
Current liabilities	167	70	440	-	677
Non-current liabilities	603	-	-	-	603
At 31 December 2020	764	80	479	14	1,337
Current liabilities	119	80	479	-	678
Non-current liabilities	645	-	-	14	659

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 2021 is 2 years (2020: 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 related to warranty provisions made in respect of certain product sales.

13. Called-up Share Capital

	2021 **£000**	2020 £000
Allotted, called-up and fully paid		
Ordinary shares of £0.01 each	**462**	421
	Number	Number
Allotted, called-up and fully paid		
Ordinary shares of £0.01 each	**46,185,874**	42,062,035

The allotted, called-up and fully paid share capital of the Company as at 31 December 2021 was 46,185,874 shares (2020: 42,062,035) and the total number of ordinary shares in issue (excluding treasury shares) was 45,720,276 (2020: 41,238,392). The increase in shares in issue is primarily related to a 10% share placement completed in September 2021. Of the ordinary shares in issue, 104,400 (2020: 104,400) shares are held by the Frontier Smart Technologies Employee Benefit Trust ('EBT') and hence the voting rights in the Company are 45,615,876.

14. Borrowings

	2021 **£000**	2020 £000
Non-current bank borrowings	**14,123**	15,307
Current bank borrowings	**1,200**	1,200
	15,323	16,507

	2021 **£000**	2020 £000
Opening balance	**16,507**	16,213
Additional borrowings	**-**	1,500
Repayments in the year – term loan	**(1,200)**	(1,200)
Arrangement fee associated with new borrowing	**-**	(13)
Over accrual adjustment	**-**	(8)
Amortisation of loan arrangement fee	**16**	15
Total borrowings	**15,323**	16,507

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.

At 31 December 2021, the amount outstanding on the term loan was £15.4 million (2020: £16.6 million).

In December 2021 Science Group plc signed a Revolving Credit Facility (‘RCF’) with Lloyds Bank plc in order to provide additional capital resources to enable the execution of the Group’s acquisition strategy. The RCF is for up to £25.0 million, with an additional £5.0 million accordion option, for a term of four years with a one-year extension. The margin on drawn sums is 3.3% over the Sterling Overnight Index Average (‘SONIA’) and is 1.1% per annum on undrawn amounts. Drawn amounts are secured on the Group’s assets by debentures. The RCF is in addition to the Group’s existing term loan

The RCF has two financial covenants with which the Group needs to comply if the facility is drawn: (i) the Group’s net leverage, as defined as the net debt divided by the rolling 12 month EBITDA, should not exceed 2.5; and (ii) the Group’s interest cover, as defined as the rolling 12 month EBITDA divided by the rolling interest payments on all borrowings, should not be less than 4.0. Reporting is on a 6 monthly basis unless the net leverage exceeds 2, in which case reporting moves to quarterly until net leverage returns to below 2 again. For the term of the RCF, the previous covenants for the term loan are superseded by the covenants of the RCF and will not apply.

	2021 £000	2020 £000
Interest expense	**580**	601
Interest paid	**(564)**	(586)
Amortisation of loan arrangement fee	**(16)**	(15)
Accruals at the year end	**-**	-

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

	2021 £000	2020 £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	**9,400**	10,600
	15,400	16,600

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 gain on change in fair value of the interest rate swaps of £763,000 (2020: loss of £519,000) was recognised in Other Comprehensive Income.

The fair value of the swap at 31 December 2021 was an asset of £129,000 (2020: liability of £634,000).

15. Acquisition of a Subsidiary

In progressing the Frontier strategy, the Group completed the acquisition of Magic Systech Inc (‘Magic’), a Taiwan-based company which specialises in Internet Radio technology. For the year ended 31 December 2021, unaudited results for Magic reported revenue of £1.5 million and a profit before tax of £0.3 million. Magic will be integrated into Frontier. Consideration for the acquisition was £3.0 million, paid in cash, although at completion Magic held cash of £1.5 million, giving a net valuation of £1.5 million for the business. The acquisition of Magic completed on 24 November 2021.

The Income Statement of Magic that was consolidated into the Group is shown below:

Income statement for the period from 24 November 2021 to 31 December 2021	
	£000
Revenue	161
Operating expenses before adjusting items	(157)
Adjusted operating profit	4
Finance income	2
Profit before income tax	**6**

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition (24 November 2021):

	Fair Value
	£000
Acquisition related intangible assets	1,269
Inventories	144
Trade and other receivables	49
Cash and cash equivalents	1,546
Deferred tax liability	(249)
Trade and other payables	(422)
Net assets acquired	**2,337**
Goodwill	664
Total consideration in respect of acquisition	**3,001**
Cash acquired	(1,546)
Total consideration in respect of acquisition (net of cash acquired)	**1,455**

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.

The goodwill is attributable mainly to the skills and technical knowledge of Magic's workforce.

The consideration in respect of acquisition has been reported in the Consolidated Statement of Cash Flows under investing activities.

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 UK 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 2021.

The financial information set out above, which was approved by the Board on 15 March 2022, is derived from the full Group accounts for the year ended 31 December 2021 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 2021, will be delivered to the Registrar of Companies in due course.

The Board of Science Group approved the release of this preliminary announcement on 15 March 2022.

The Annual Report for the year ended 31 December 2021 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 -