ANNUAL REPORT AND FINANCIAL STATEMENTS

2022

science group plc

OVERVIEW

STRATEGIC REPORT

REPORT OF THE DIRECTORS

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

Solid performance providing foundation for further value creation

Science Group is an international science, engineering and technology ('SET') business. Following its investment in and subsequent acquisition of TP Group, completed in January 2023, the Group now comprises five operating divisions. With a consistent track record and strong balance sheet, the Group has delivered growth and attractive returns to shareholders for over a decade.

Science Group plc (AIM:SAG): an international science, engineering and technology ('SET') business

Services Businesses

- R&D Consultancy
- Regulatory & Compliance
- Defence & Aerospace Consultancy

Products Businesses

- Audio Chips & Modules
- Submarine Atmosphere Management Systems

1986
Formation of Scientific Generics Limited

2001
IPO and listing on the London Stock Exchange

2006
Name change to Sagentia Limited

2010
New Chairman invests and joins the board

2013
Acquisition of OTM Consulting

FINANCIAL HIGHLIGHTS

Revenue

£86.3m

Adjusted Operating Profit

£17.6m

Adjusted EPS

29.4p

Proposed Dividend

5.0p

science group

sagentia innovation

leatherhead food research

tsg

FRONTIER SMART TECHNOLOGIES

tpgroup

2015 — Acquisition of Oakland Innovation and Leatherhead Food Research. Name change to Science Group plc

2017 — Acquisition of TSG Consulting in Europe and USA

2019 — Acquisition of Frontier Smart Technologies

2021 — Investment in TP Group ('TPG')

2022 — Management of investment and offer made for TPG. Acquisition completed in early 2023

Statement of Executive Chair

Science Group is an international science, engineering and technology ('SET') business. The Group provides SET services to the medical, defence, industrial, and consumer sectors, supplemented by a products division where the Group holds leading market positions in related technology sectors. The Group also has significant freehold property assets which host the business operations.

In 2022, Science Group again demonstrated its resilience and delivered another solid performance, despite the deterioration in the global economy. While all businesses performed creditably, those servicing the consumer sector were most impacted by the economic slowdown. The acquisition of TP Group plc ('TPG'), completed in January 2023 and funded through Science Group's organic operating cash flow, significantly increases the scale of the Group and provides a strategic entry into the defence sector.

Statement of Executive Chair (continued)

Financial Summary
For the year ended 31 December 2022, Science Group reported revenue of £86.3 million (2021: £81.2 million). Group adjusted operating profit was £17.6 million (2021: £16.3 million). Adjusted basic earnings per share was 29.4 pence (2021: 28.5 pence).

Amortisation of acquisition related intangibles, acquisition advisor fees and integration costs, together with the share-based payment charge totalled £6.5 million (2021: £3.6 million) and the Group's share of the estimated profit in TPG was £0.6 million (2021: £1.1 million loss). As a result, the Group reported operating profit of £11.7 million for the year (2021: £11.6 million) and, after net finance costs of £0.6 million (2021: £0.7 million), profit before tax of £11.1 million (2021: £10.9 million), with basic earnings per share of 23.2 pence (2021: 22.4 pence).

The past year saw substantial volatility in Sterling exchange rates, particularly during the period of UK political instability in the late summer. With a significant proportion of income generated in US Dollars, the Group benefitted from such dynamics offsetting the significant increase in energy prices and other cost inflation.

Science Group continues to deliver strong cash conversion and retains a robust balance sheet. At 31 December 2022, Group cash was £43.6 million (2021: £34.3 million) and net funds were £29.5 million (2021: £19.0 million). The Group's term loan, which expires in 2026, was £14.2 million (2021: £15.4 million). In addition to the term loan, in December 2021, a £25 million Revolving Credit Facility ('RCF') was arranged. As a result, the Group has significant existing cash resources and available facilities to continue its strategy, such that at 28 February 2023, following the completion of the TPG acquisition, Group cash was £33.4 million and net funds were £19.3 million and the RCF remained undrawn.

R&D Consultancy
The R&D Consultancy business 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 ('ICE').

For the year ended 31 December 2022, the R&D Consultancy division generated revenue of £38.7 million (2021: £34.3 million). A significant proportion of revenue in the R&D Consultancy business is invoiced in US dollars but the cost base is predominantly in Sterling. As a result, the business benefitted from the favourable US Dollar:Sterling rate during 2022. In view of the currency volatility, a hedging instrument to cap the rate at US$1.20:£1 for $1.25 million per month was taken out to the end of 2023. There is no obligation to sell at this rate and the instrument is designed to protect against the strengthening of Sterling or weakening of the US Dollar.

Regulatory & Compliance
The Regulatory & Compliance business provides scientific and regulatory advice together with registration and compliance services for the Chemicals, Consumer, Food & Beverage and Medical sectors. The division comprises the European and North American operations of TSG Consulting, together with Leatherhead Food Research.

For the year ended 31 December 2022, the Regulatory & Compliance division generated revenue of £22.0 million (2021: £21.4 million). Of this revenue, around 27% is of a recurring nature, primarily within the Food & Beverage sector and the North American registration renewals activities. While the North American business had a tough comparator, having benefitted from increased regulatory applications being sought during the pandemic, the European business made progress, signing strategic contracts with global agri-chemicals businesses, providing an improved platform for the year ahead.

Frontier Smart Technologies
Frontier Smart Technologies ('Frontier') is the market leader in DAB/DAB+/SmartRadio and connected audio technology chips and modules.

The Frontier business reported revenue of £25.0 million (2021: £24.9 million) and an adjusted operating profit margin of 15% (2021: 21%). The business started the year supply-constrained, however, as the global economic environment deteriorated, demand for consumer electronics reduced significantly in the second half of the year. Independent market data showed a decline of 16% in Q3 2022, directly impacting the Frontier business. In view of the current economic environment, it is not anticipated that demand for consumer electronics will recover until H2 2023.

Freehold Properties
Science Group owns two freehold properties, Harston Mill near Cambridge and Great Burgh in Epsom, which host the Group's operations. The last independent valuation in March 2021 indicated an aggregate value of these properties in the range of £21.0 million to £35.0 million. The properties are held on the balance sheet on a cost basis at £20.8 million (2021: £21.0 million).

The Group charges market rents to the operating businesses and lets out part of the Harston site to third parties. For the year ended 31 December 2022, the rental and associated services income derived from this activity was £4.1 million (2021: £3.6 million), of which £0.7 million (2021: £0.6 million) was generated from third party tenants. Intra-group rental charges are eliminated on Group consolidation.

Statement of Executive Chair (continued)

Acquisition of TP Group plc
Science Group acquired a strategic shareholding in TPG in 2021, resulting in the appointment of two directors onto the TPG Board, as Executive Chairman and Chair of Audit Committee. Following the renegotiation of onerous contracts (which came to light after the strategic investment was made) and the disposal of non-core operations, Science Group completed the acquisition of TPG on 26 January 2023. The acquisition was effected by a court-approved Scheme of Arrangement. Including the share purchases in 2021, the professional fees incurred and restructuring costs, the aggregate investment in TPG is approximately £30 million. In 2022, TPG was accounted for as an associate and the Group results include £0.6 million being the estimated share of TPG profit related to the Science Group shareholding during the year.

TPG is a UK-based Defence and Aerospace business comprising TPG Services (including Osprey), which is a specialist consultancy providing technical expertise, and TPG Maritime, which is in the process of being rebranded, and is a leading provider of atmosphere-management systems for submarines. The non-core businesses of Sapienza and Northstar were disposed of in the course of 2022 and the disposal of Westek was completed in February 2023. As a result of the TPG acquisition, approximately 290 employees joined Science Group.

Corporate
The corporate function is responsible for the strategic development of Science Group. Corporate costs were £3.2 million (2021: £4.4 million). This includes the TPG acquisition-related costs (legal and advisory) but is offset by the share of the TPG profit resulting from its being accounted for as an associate, which is reported as corporate in segmental reporting.

During the year, the Company repurchased 323,453 shares at a total cost of £1.3 million, equivalent to an average price of 408 pence per share (2021: £0.6 million). At 31 December 2022, shares in issue (excluding treasury shares held of 0.7 million) were 45.4 million (2021: 45.7 million excluding treasury shares held of 0.5 million). The Board is recommending maintaining the dividend at 5.0 pence per share (2021: 5.0 pence per share). Subject to shareholder approval at the Annual General Meeting ('AGM'), the dividend will be payable on 16 June 2023 to shareholders on the register at the close of business on 19 May 2023.

Summary and Outlook
In summary, Science Group has reported another solid performance in 2022. This resilience has been achieved against the backdrop of geopolitical instability, substantial energy (and other) cost increases and an economic downturn. Whilst inflationary pressures appear to be easing, the economic environment remains unpredictable, compounded by the recent instability in the banking sector undermining market confidence in a near-term recovery. Such a climate inevitably produces uncertainty. The Board anticipates this fragile environment to continue through the first half of 2023 and is therefore cautious in its outlook and prudent in its decision-making.

The acquisition of TPG, funded through Science Group's organic operating cash flow, adds significant scale to the Group and provides a strategic entry into the defence sector, a market anticipated to be less affected by short-term economic volatility. The integration of TPG is proceeding rapidly, benefitting from the period of active management of the strategic investment prior to the acquisition.

The Group's strong balance sheet, with significant cash resources, unused debt facilities and freehold property assets, provides a robust foundation for the enlarged Group while also enabling the Board to pursue further corporate opportunities should they arise.

Martyn Ratcliffe
Executive Chair

Finance Director's Report

Overview of Results
In the year ended 31 December 2022, the Group generated revenue of £86.3 million (2021: £81.2 million). Revenue from the services operating businesses, that is revenue derived from consultancy services and materials recharged on these projects, increased to £60.7 million (2021: £55.7 million) while product revenue generated by Frontier was £25.0 million (2021: £24.9 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 £0.7 million (2021: £0.6 million).

Adjusted operating profit for the Group increased to £17.6 million (2021: £16.3 million). The Group's statutory operating profit of £11.7 million (2021: £11.6 million) includes the amortisation of acquisition related intangible assets (£3.8 million), share-based payment charges (£1.6 million), a share of the estimated profit of associate investment, TP Group plc, of £0.6 million, and associated acquisition costs of TP Group plc of £1.1 million. The statutory profit before tax was £11.1 million (2021: £10.9 million). After net finance costs of £0.6 million (2021: £0.7 million) and a tax charge of £0.5 million (2021: £1.4 million), statutory profit after tax was £10.6 million (2021: £9.6 million). Statutory basic earnings per share ('EPS') was 23.2 pence (2021: 22.4 pence).

Adjusted operating profit is an alternative profit measure that is calculated as operating profit excluding acquisition integration costs, amortisation of acquisition related intangible assets, 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 made further on-market purchases of shares in TP Group plc ('TPG') during 2022, increasing its holding from 28.0% to 29.2% at 31 December 2022. Throughout 2022, the Group accounted for its shareholding in TPG as an associate under the equity accounting method. On 31 October 2022, the Group made an offer to acquire the remainder of TPG shares at a price of 2.25 pence per share, to be effected through a court-approved Scheme of Arrangement. This acquisition completed subsequent to the year end, on 26 January 2023, at which point TPG became a wholly owned subsidiary of the Group.

TPG has not released its results for the period ended 31 December 2022. A share of associate profit after tax of £0.6 million has been included within the Science Group Income Statement, which is an estimate based on expected final TPG financial statements for the year ended 31 December 2022, proportionate to the Group's associate shareholding.

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, was used for short periods in 2022 to provide liquidity to TPG however was undrawn at 31 December 2022.

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 2022, £54.7 million of the Group's operating business revenue was denominated in US Dollars (2021: £50.2 million), including all of Frontier's revenue. In addition, £2.7 million of the Group operating business revenue was denominated in Euros (2021: £3.1 million). The average exchange rates during 2022 were US$1.24/£1 and €1.18/£1 (2021: US$1.37/£1 and €1.16/£1).

During 2022, in order to provide greater forward visibility around foreign exchange, the Group acquired a currency exchange instrument to cap the US Dollar:Sterling rate in relation to the R&D Consultancy division through to the end of 2023. Initially the US Dollar:Sterling cap was set at $1.30/£1, but in October 2023 the Group took advantage of the low exchange rates to improve the cap to $1.20/£1. The instrument, which applies to US$1.25 million per month, still enables the business to benefit from lower exchange rates, should such rates apply.

Taxation
The tax charge for the year was £0.5 million (2021: £1.4 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 £0.5 million (2021: £0.3 million). Science Group recognises R&D tax credits within tax reporting, not as a credit against operating costs.

At 31 December 2022, Science Group had £26.7 million (2021: £27.8 million) of tax losses of which £17.1 million (2021: £17.6 million) related to trading losses in Frontier. Of the Frontier losses, £8.7 million (2021: £10.0 million) is recognised as a deferred tax asset which is anticipated to be used to offset future taxable profits. The balance of £8.4 million (2021: £7.6 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 £9.6 million (2021: £10.2 million) unrecognised as a deferred tax asset due to the low probability that these losses will be utilised.

Financing and Cash
Cash flow from operating activities (excluding Client Registration Funds) was £15.3 million (2021: £13.2 million). As there was minimal movement on the Client Registration Funds in the year, reported cash from operating activities in accordance with IFRS was also £15.3 million (2021: £14.0 million). The alternative performance measure, by excluding Client Registration Funds, reflects the Group's available cash position and cash flow.

Finance Director's Report (continued)

Financing and Cash (continued)
The Group repatriates cash from overseas accounts on at least a weekly basis and policy is to spread Group cash held across UK Tier 1 banks.

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 the Sterling Overnight Index Average ('SONIA'), the cost of the loan arrangement fee and the cost of the swap instruments. The Group has adopted hedge accounting for the interest rate swaps related to the bank loan under IFRS 9 Financial Instruments, and the gain on change in fair value of the interest rate swaps was £1,287,000 (2021: gain of £763,000) which was recognised in Other Comprehensive Income.

In December 2021, in addition to the term loan, the Group 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 possible one year extension. The margin on drawn sums is 3.3% per annum 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 2022, 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 2022 was £43.6 million (2021: £34.3 million) and net funds were £29.5 million (2021: £19.0 million). Client Registration Funds of £2.9 million (2021: £2.9 million) were held at the year end. Working capital management during the year continued to be a focus with debtor days of 43 days at 31 December 2022 (2021: 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 197 days at 31 December 2022 (2021: 76 days).

Share Capital
At 31 December 2022, the Company had 45,436,823 ordinary shares in issue (2021: 45,720,276) and the Company held an additional 749,051 shares in treasury (2021: 465,598). Of the ordinary shares in issue, 34,800 shares (2021: 104,400) are held by the Frontier Employee Benefit Trust. The total number of voting rights in the Company at 31 December 2022 was 45,402,023 (2021: 45,615,876). 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

Key Performance Indicators

The key performance indicators ('KPIs') are revenue, operating profit, cash flow and the alternative performance measures as disclosed in Note 1 in the Notes to the Financial Statements. Profitability of the business is managed primarily via the review of revenue and adjusted operating profit. (Secondary measures of revenue per head, billed hours, daily fee rates, average selling and cost prices, and units sold are used internally but are not disclosed due to commercial implications.) Working capital is reviewed via measures of trade receivables and inventory. Performance against KPIs is reported in the Finance Director's Report.

Principal Opportunities and Risks

The Directors consider that the principal opportunities and risks facing the Group are as set out below. The Board has carried out a robust assessment of the emerging and principal risks, including those that would threaten the sustainability of its business model, its future performance, solvency or liquidity.

In addition, the Board regularly reviews existing and emerging risks across the Group on a monthly basis. The Board considers this monthly period to be appropriate for the business as it allows the Board to remain informed of developments that may affect the delivery of its strategy and to identify and implement any mitigating actions. It also supports the Board's review and revision of forecasting, undertaken on at least a quarterly basis, to minimise the impact of any emerging risks on the Group. The Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a monthly period. A summary of the key measures taken to mitigate the principal risks facing the Company are set out below.

The Group uses internal and external methods to help identify emerging business risks. Internally the Divisional Managing Directors of the operating divisions report weekly to the Executive Board on business performance and issues, and provide formal reports to the full Board on a monthly basis. This ensures that potential emerging risks identified on-the-ground are escalated to the Board in a timely manner. Externally, the Group's professional advisors raise relevant potential issues from time to time. Identified potential risks are discussed by the Board and, if necessary, risk mitigation strategies are considered. It is also common for identified risks to be assigned to a working party to keep a watching brief and update the Board as appropriate.

Economic conditions impacting demand for outsourced services

The R&D Consultancy division of Science Group is dependent on the global market for outsourced science, technology and engineering based services. This provides both opportunities and risks, depending on the performance of and confidence in the Group's target geographies and markets. In general, an economic downturn or instability may cause clients to delay or cancel projects and/or related services, or to use internal resources to achieve their business goals. Conversely, a reduction in internal resources by clients may result in greater levels of outsourcing for business critical projects.

The current economic uncertainty and potential for recession in the Western economies may impact both the total investment and the investment priorities of the Group's clients. In particular R&D investment, especially that which is allocated to long-term initiatives, may be negatively impacted.

The Group seeks to mitigate these risks and capitalise on these opportunities by diversifying exposure across geographical markets; increasing the number of market sectors in which the Group operates; diversifying the type of customers with whom the Group operates (ranging from well-funded start-up companies to large multi-national corporates); increasing the range of service offerings that the Group provides; and undertaking marketing activities to inform current and prospective clients regarding the benefits of outsourced research and development services and Science Group's proven ability to fulfil those objectives. The acquisition of TP Group expands this diversity and introduces another sector to the Group's portfolio, Defence & Aerospace.

Inflationary pressures

Increasing inflation in the global economy is a risk across the Group. Increasing costs from suppliers may impact all divisions and the Group may or may not be able to pass on supply chain price increases to its customers.

Higher inflation affects the Group's employees who are impacted by increases in living costs including fuel, energy and food costs. Associated wage inflation is also a risk within the Group with pressure on salaries and remuneration packages for both specialist skills in technology and science as well as more generalist skills such as HR, marketing and finance. Higher employee costs may or may not be able to be passed onto customers.

Currency exchange rates

A significant proportion of the Group's revenues are invoiced in currencies other than Pounds Sterling, including but not limited to the US Dollar and Euro, whilst the majority of the Group's employee-based costs are incurred in Pounds Sterling. Materials related to Frontier products are typically priced in US Dollars and end products are generally sold priced on US Dollars. As a result, variations in currency exchange rates may have a material impact, either positive and negative, on Group revenue and profit performance.

To mitigate this risk, in 2022 the Group procured a currency exchange instrument to cap the Sterling:US Dollar rate for the R&D Consultancy division until the end of 2023. This instrument provides the business with improved visibility and reduced volatility. In addition the Group seeks to mitigate foreign currency exposure and volatility by transferring excess foreign currency holdings into Pounds Sterling on a regular basis.

Principal Opportunities and Risks (continued)

Financial circumstances of customers
The profitability of the Group could be adversely affected by the general economic conditions in the United Kingdom, Continental Europe, United States, Asia and/or other key markets by virtue of the impact of a deterioration in the economic climate and/or financial failure of customers or potential customers of the Group. It may also involve customers defaulting on the payment of invoices issued by the Group or delaying payment of invoices which may have a significant impact on the income and the business of the Group.

The Group seeks to mitigate this risk by actively managing customer relationships including credit limits which, if appropriate, may require payment in advance; regular reviews of debtors and overdue payments; and proactive credit control procedures.

Geopolitical considerations
As the Group is an international business, global political events have the potential to impact normal business operations.

The conflict in Ukraine and its impact on energy prices has resulted in significant operational cost increases for the Group's freehold properties and this may continue throughout 2023. The Group seeks to mitigate this by monitoring energy prices, fixing prices where appropriate and seeking to reduce energy usage.

The consequence of increased global energy and fuel prices has been a rapid increase in inflation. This impacts materials costs, employee remuneration and other costs, which may not be able to be passed onto customers.

In addition to its engineering base in Harston, UK, the Frontier division of Science Group is located in Shenzhen (China), Hong Kong and Taiwan. The Asian offices fulfil sales, product development and manufacturing of Frontier products. Political instability in this region may impact the normal business operations of Frontier.

The Group seeks to mitigate the risk of interruption to usual business activity by ensuring that product knowledge, documentation, systems and data are backed up and replicated in the UK offices on a daily basis. Manufacturing of Frontier products is outsourced in Shenzhen and could be replicated in other locations.

Climate related risks and opportunities
Extreme weather events could disrupt global supply chains which may impact upon the Frontier division which is dependent upon global shipping for sourcing and distribution. The Group seeks to mitigate this risk by managing inventory levels and identifying alternative sources of supply.

The need to address climate-change related challenges and increase sustainability may provide opportunities for the R&D Consultancy division as clients explore possible scientific and technological solutions. In addition, the increased focus on sustainability in the chemical and other industries may provide opportunities for the Regulatory & Compliance division. The Group seeks to capitalise on these opportunities through its sustainability services practice which spans both the R&D Consultancy and Regulatory & Compliance divisions, recognising that sustainability challenges may include both innovation and regulation considerations.

Reputational risk
Failure to deliver service or product deliverables to agreed budgets, timetables and/or quality may result in reputational damage to Science Group that may adversely affect future sales.

In the Group's services businesses, this risk is mitigated by having in place effective Quality Assurance procedures; review meetings with clients; formal customer feedback procedures; and various accreditations held by certain parts of the Group including ISO 9001, ISO 13485 and ISO 27001.

In the Group's product businesses, this risk is mitigated by extensive testing prior to release of new products and remedial action being taken in a timely manner when faults are reported.

The Frontier division relies upon third-party factories to manufacture its product modules, and upon its customers to manufacture complete radio receivers on behalf of client consumer brands. Any deterioration in quality in these manufacturing facilities might impact the Frontier brand and its ability to sell product and/or maintain margin. Frontier seeks to mitigate this risk by maintaining long term relationships with trusted partner factories; seconding staff to customer factories to monitor product quality in certain circumstances; and maintaining relationships with client consumer brands to obtain product quality feedback.

Dependence on key personnel
Science Group's business relies on recruiting and retaining highly qualified technical experts on whom the business depends to deliver its services and products. Failure to recruit and retain key staff could threaten the business' ability to deliver projects to its clients or to win new work or to maintain market competitiveness.

The Group's growth also places greater demands on the Group's management and infrastructure, across a wider range of geographical locations and markets. Failure to recruit and retain key management and functional staff could increase the risks associated with operational and financial controls; sales and marketing; information technology and other functional support areas.

The Group seeks to mitigate this risk by encouraging staff retention through both competitive remuneration packages and a stimulating work environment. The Group's growth also provides career opportunities across the Group. In addition to base salary, remuneration can include profit share/annual bonus, pension, health benefits, life assurance and share option schemes. The remuneration components are reviewed regularly.

Principal Opportunities and Risks (continued)

Dependence on key personnel (continued)
Efforts are made to foster a vibrant, dynamic and supportive environment for employees, which offers a diversity of technically challenging work for large and small customers across a range of industries and specialist market, science & technology areas. The Group also provides career development paths and training support.

Technology advances
The on-going development of new and existing technologies provides opportunities for Science Group to provide market-leading products and services to its clients. The Group's personnel must stay at the forefront of technical advances and understanding of technical specialisms in order to exploit these opportunities and sustain the Group's growth.

The Group seeks to do this by the regular identification and review by management of new technical areas for investment; providing a budget for investment by managers in new ideas; encouraging employees to keep up to date on technological developments by both formal and informal training and self-learning in relevant areas of technical expertise; and recruiting employees with new technical skills where gaps in expertise are identified. The Group notes the rise of artificial intelligence (AI) technology which may provide both risks and opportunities for the Group. AI technologies may have the potential to negatively impact the provision of the lower-value consultancy services by delivering such services with a higher degree of automation. Conversely, there may be opportunities to exploit AI in the provision of high-value services to clients, in particular through the R&D Consultancy division's data science skill group.

Services projects over-run or fail to meet technical milestones
Projects may over-run and/or may fail to meet technical milestones because the nature of the work which the Group's services divisions undertake is technically challenging. Project over-runs can lead to loss of margin on projects and overall profitability for the consultancy business. Poor performance may also result in damage to Science Group's reputation.

The Group seeks to mitigate this risk by contracting the majority of projects on a time and materials basis; operating a formal bid review process; incorporating risk premiums into agreements if appropriate; conducting regular project reviews to assess whether the revenue recognised on work in progress is a fair representation of actual costs incurred and estimated costs to completion; conducting regular, formal project board review meetings for large projects; and meetings with clients to review progress on projects.

Market for radio products
The Frontier division of Science Group has a high market share of the DAB radio market and is therefore subject to market demand and the competitive environment. These factors are correspondingly affected by the economic climate, a reduction in consumer spending and alternative methods of receiving radio/audio programmes.

Conversely, the switch off of FM services in certain geographies provides opportunities for increasing DAB sales.

The market for consumer electronics goods is price sensitive. Frontier's products are manufactured in China and local conditions such as import tariff changes may also impact the cost of radio production and thereby the selling price to the end consumer, which may affect demand and/or the margins of the business. The Group seeks to mitigate these risks by actively monitoring market developments and adjusting material purchases accordingly. The Group also has employees based in Shenzhen, Hong Kong and Taiwan to manage relationships with customers and manufacturing locations.

Supply chain risks
The Frontier division relies on the supply of components for the manufacture of its products. Macro-economic conditions in global economies led to a fall in demand in the latter part of 2022 for certain components and semiconductor materials with consequent price reductions in some areas. Consequently, there may be an easing of the manufacturing capacity issues that occurred during the 2020-2022 period of high demand in the electronics market. However, high energy costs impacted the supply chain in 2022 and any easing of these costs during 2023 may not be significantly reflected in component and materials pricing in 2023. The Group seeks to mitigate this risk by reducing inventory levels and identifying alternative, cheaper suppliers of certain key components.

Investment in acquisitions
The Group has grown through the acquisition of companies with compatible service and technology offerings. The Board considers further acquisitions to be a core part of the Group's strategy and the Group is continually monitoring opportunities for strategic acquisition opportunities. Acquisitions provide potential for growth and diversification, whilst increased scale provides efficiencies of back office and central services across the Group. Acquisitions can increase the risk profile of the Group; unknown liabilities may be identified post-acquisition; the revenue of the acquired business may decline; key staff may leave; and other unforeseeable problems may arise. The Group seeks to mitigate such risks by establishing an integration team at the time of the acquisition who are rapidly deployed to instil the Group's financial and operational controls into the acquired company as fast as practicable. While this team comprises experienced managers from within the Group, in every acquisition, unforeseen challenges arise and an evolving iterative integration process is required.

Furthermore, acquisition diligence and integration deploy resources that would otherwise be utilised within the existing Group operations. The Board seeks to mitigate such impacts by selective deployment of resources and the continued development of capable managers.

Principal Opportunities and Risks (continued)

Additional considerations
In addition to the principal risks and uncertainties above, the Group faces other risks that include but are not limited to:

- increased competition
- failure to retain, or loss of, customer contracts
- customer concentration
- technology leadership
- product or other professional liability claims or other warranty and indemnity claims in respect of contractual obligations
- infringement of third party intellectual property rights
- failure of licensees to successfully exploit licensed technology
- counterparty risk
- risk of adverse valuation of freehold properties
- changes in legislation or regulations relating to trading, taxation or accounting practice
- increasing propensity to litigation, particularly in the USA

Viability statement

In accordance with the UK Corporate Governance Code July 2018, the Board has determined that a three-year period to December 2025 constitutes an appropriate period over which to provide its viability statement. The viability assessment considers solvency and liquidity over a longer period than the going concern assessment. Inevitably, the degree of certainty reduces over this longer period.

The Board prepares annually a detailed financial plan, forecasting sales and costs at a departmental level and a Group cash flow covering this period. The plan provides a prudent basis of assessment whilst enabling the Group to remain agile in implementing significant opportunities for further growth when they arise. Performance against the plan is reviewed on a monthly basis by the Board and forecasts are updated at least quarterly. The Board has considered sensitivity analyses reflecting downside scenarios of principal risks (for example, a downturn in market demand) applied to the Group's financial plan and cash flows (extended to 18 months from year end). The scenarios assume an appropriate management response to the specific event, but not broader mitigating actions which could be undertaken, which have been considered separately. Reverse stress testing has also been performed to assess the severity of scenario that would have to occur to exceed headroom. The assessment took account of the Group's current funding, forecast requirements and existing committed borrowing facilities. In conclusion, the financial plan withstood the stress testing and application of downside scenarios. In each scenario or combination of sensitivity scenarios applied to the financial plan, the Group is able to rely on its cash reserves, reduce capital expenditure and take other cost and/or cash management measures to mitigate the impacts and still have residual capacity to absorb further unanticipated events.

The financial plan and going concern review formed the basis of the extended viability assessment. Following this extended review the Board confirms it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next three years.

The Board has also considered the effect of the banking covenants for this assessment period and noted that there is no expectation of covenant breach, particularly as the Group ends the year with net funds of £29.5 million (2021: £19.0 million). Based on the results of these analyses, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Corporate Responsibility

Science Group takes its responsibilities as a corporate citizen seriously in the territories in which the Group operates. The Board's primary goal is to create shareholder value but in a responsible way which serves all stakeholders including the communities within which the Group operates. Furthermore, Science Group seeks to continually enhance and extend its science and technology contribution to society through the work the Group undertakes with its clients and in areas where the Group decides to invest and explore directly.

The Board considers sound governance as a critical component of Science Group's success and the delivery of its strategy. Science Group has an effective and engaged Board, with a strong non-executive presence from diverse backgrounds, and well-functioning governance committees. Through the Group's compensation policies and variable components of employee remuneration, the Remuneration Committee of the Board seeks to ensure that Science Group's values are reinforced in employee behaviour and that effective risk management is promoted.

More information on Science Group's corporate governance can be found in the Corporate Governance Report.

Section 172 statement
The Companies (Miscellaneous Reporting) Regulations 2018 require qualifying companies to publish a statement explaining how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in performing their duties under section 172.

In accordance with section 172, the Directors confirm that they have acted in the way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole. The paragraphs below identify key stakeholders and provide examples of how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Act.

Corporate Responsibility (continued)

S172(1)(a) - The likely long term consequences of decisions
The Directors regularly consider the long term consequences of the Board's decisions and actions. In 2022, examples of this included:

- the proposed cash acquisition of TP Group plc ('TPG') to be effected by a scheme of arrangement under Part 26 of the Companies Act 2006. This acquisition completed in January 2023. The Independent Directors considered there would be significant potential synergies with TPG and that a combination would be attractive to the employees and customers of both organisations. TPG operates primarily in the Defence and Aerospace sectors which are complementary to Science Group's other activities, with minimal overlap.
- the procurement of a currency exchange instrument to cap the US Dollar:Sterling rate in relation to the R&D Consultancy division through to the end of 2023. While historically the Directors have not considered currency hedging necessary, in view of the currency volatility during 2022, the Directors considered it appropriate to do so to provide the business with improved visibility and reduced volatility.

S172(1)(b) - The interests of the Company's employees
The interests of the Group's employees in light, in particular, of increasing economic uncertainty, have been key to decisions made by the Directors in relation to certain additional payments made to staff during 2022. These included:

- a one-off bonus of £500 in January (pro-rated for part time staff and localised for employees outside of the UK) in recognition of the challenges that faced employees during the Covid-19 pandemic.
- monthly fuel and energy contribution of £100 for UK employees (pro-rated for part time staff) from July to December as a result of rising fuel and energy costs in the UK. This was increased to £150 per month (pro-rated for part time staff) from October to December following further review.
- a one-off payment of £250 (pro-rated for part time staff) in November as an enhanced winter bonus in light of increased living costs and economic uncertainty.

The Directors also have regard to the interests of employees through the Group's remuneration strategy; review of employee performance and associated training and development needs; provision of private healthcare and access to other wellbeing platforms; and promotion of an inclusive and diverse culture within the Group. More information can be found in Report of the Remuneration Committee, the sections below entitled Employee training and development and Diversity, equity and inclusion, and the Statement on engagement with employees.

S172(1)(c) – The need to foster business relationships with suppliers, customers and others
The Directors have had regard to the need to foster good relationships with customers through, for example, the implementation of key account management, the development and improvement of service offerings, and the on-going review and strengthening of the Group's Quality Assurance procedures.

The Directors take into account the need for good business relationships with suppliers when reviewing key and critical supplier lists, inventory purchasing and supplier payment terms.

S172(1)(d) - The impact of the Company's operations on the community and the environment
The Directors are conscious of the importance of investing in and caring for the physical environments in which the Group operates and contributing to its local communities. These factors are key to the Group's ongoing work to reduce and manage its use of energy, water and other resources; and, in line with previous years, to make charitable donations to health related charities and to food banks local to the Group's sites to support local communities facing hardship. For more information see the section entitled Environmental, Social and Governance.

S172(1)(e) - The desirability of maintaining a reputation for high standards of business conduct
The Directors are committed to high standards of business conduct throughout the Group and take into account the desirability of maintaining its reputation for the same in their decision making. To support this aim, in 2022 the Group reviewed and updated its IT security systems and practices and introduced a revised Information Security Policy.

S172(1)(f) - The need to act fairly as between shareholders
The Directors are committed to treating all shareholders equally and, as part of its decision making process, the Board considers the interests of shareholders as a whole. All shareholders are provided with equivalent information through RNS announcements, circulars and the Science Group website. In particular, the Company issued several trading and business updates during the year in order to keep shareholders informed. Shareholders were able to attend the Annual General Meeting in 2022 and had the opportunity to ask questions of the Directors.

Employee training and development
Science Group's employees are the business' primary asset and the Board is committed to investing in their career development and rewarding exceptional performance. The Group makes a focused effort to offer training and mentorship to allow ambitious individuals to thrive within their environment and realise their personal potential. Formal training and career development is offered to staff of all levels through internal and external programmes that cover technical, business and managerial advancement opportunity. Beyond formal training,

Corporate Responsibility (continued)

Employee training and development (continued)
employees also hold informal lunchtime sessions on a regular basis to enable knowledge and skills transfer amongst teams.

Employee performance is aligned to the Group's objectives through an annual performance review process and ongoing project management, line management and mentorship feedback. Employees are kept up to date with information about the Group's activities through regular briefings and other media.

The Group also invests in and rewards its workforce through the operation of its bonus and profit share schemes for qualifying employees; and its share option scheme which is at the discretion of the Remuneration Committee and other discretionary incentives.

The Board regularly monitors the Group's culture and practices, including the review of recruitment, retention and turnover data, health & safety reports, and reports from senior managers within the Group.

Diversity, equity and inclusion
Science Group is committed to encouraging diversity, equity and inclusion among its employees. The Group's employment policies are non-discriminatory on the grounds of age, gender, nationality, ethnic or racial origin, disability, religion or belief, pregnancy and maternity, sexual orientation or marital or civil partnership status. Science Group gives due consideration to all applications and provides training and the opportunity for career development wherever possible. The Board does not support discrimination of any form, positive or negative, and all appointments are based on merit.

The Group's Diversity, Equity & Inclusion committee meets on a regular basis to implement current diversity initiatives. During 2022 these included: continued monitoring of interview panels to ensure they include diverse representation; automated review of job adverts for unconscious gender bias; engagement with an updated selection of universities to seek broader demographics for graduate recruitment; and implementation of a 'Menopause at work' initiative, including awareness training for all line managers and additional support for those impacted.

The Group currently has native speakers of around 25 languages. The gender ratio for the number of persons employed by the Group at the end of the year are set out in the table below.

	31 December 2022				31 December 2021			
	Male		**Female**		Male		Female	
	No	**%**	**No**	**%**	No	%	No	%
Plc Board of Directors & Company Secretary	**5**	**71%**	**2**	**29%**	5	83%	1	17%
Senior management & staff (>£75,000 per annum salary)	**82**	**69%**	**37**	**31%**	64	67%	32	33%
Other employees	**163**	**51%**	**154**	**49%**	158	49%	162	51%
Total employees	**250**	**56%**	**193**	**44%**	227	54%	195	46%

Notes:

- Employees are only allocated to one category. For example, where an individual is a member of the plc Board, that person is not then included within the other classifications;
- Subsidiary Directors have not been separately identified in the above table.

Health and safety
Science Group is committed to the health and safety of its employees, clients, sub-contractors and others who may be affected by the Group's work activities. The Group evaluates the risks to health and safety in the business and manages this through a Health and Safety Management System. The Group has a Health and Safety at Work policy which is reviewed and updated regularly. The Board Executive Director, responsible for health and safety, is the Finance Director with day-to-day responsibility being undertaken by the Company Secretary.

The Group provides necessary information, instruction, training and supervision to ensure that employees are able to discharge their duties effectively. The Health and Safety Management System used by the Group ensures compliance with applicable legal and regulatory requirements and internal standards and seeks, by continuous improvement, to develop health and safety performance.

Corporate Responsibility (continued)

Environmental, social and governance
A review of the Group's approach to sustainability and societal impact during the year is set out below.

Environmental – the Group's operations are conducted in such a manner that compliance is maintained with legal requirements relating to the environment in areas where the Group conducts its business. During the period covered by this report Science Group has not incurred any fines or penalties or been investigated for any breach of environmental regulations.

The Directors consider that, due to the nature of the Group's operations, it does not have a significant impact on the environment. However, the Group seeks to minimise its carbon impact and recognises that its activities should be carried out in an environmentally friendly manner where practicable. Within the Group's offices and facilities, it proactively manages the use of energy and water and collates its Scope 1 and Scope 2 emissions in the UK. Electric vehicle charging points are installed at both the Epsom and Harston sites for employees' usage. The Group undertakes energy audits periodically (the most recent in 2019) and implements practicable recommendations. The Group buys energy from renewable sources as far as is practically and commercially reasonable.

The Group's environmental impact is under continual review and the Group considers related initiatives on an ongoing basis. In 2022 these included: continued reduction of waste and, where practicable, re-use and recycling of consumables; continued reduction of usage of energy, water and other resources; on-going upgrades to LED lighting; introduction of lighting automation in less used areas such as corridors and toilets; and reprogramming of certain air conditioning and air handling systems to increase efficiency and implement timed shut downs when not required.

The Group's Services businesses deliver consultancy-based projects performed by staff in office and laboratory facilities, and do not use large quantities of raw materials or processes that impact the environment. A growing number of the consultancy projects undertaken relate to sustainability strategies. Across the R&D Consultancy and Regulatory & Compliance divisions, in 2022 the Group undertook around 80 projects which either wholly related to sustainability or for which this was a major consideration, and over 200 projects for which sustainability was one of a number of important factors.

In the Regulatory & Compliance division, it is notable that a significant driver of regulatory change is to reduce the use of chemicals (industrial, agricultural and domestic) and to move to less harmful (to the environment and human health) alternatives and a large proportion of projects are related to this evolving demand.

The Group also chairs a high level discussion forum with Chief Technology Officers from major US and European blue chip companies. This forum focussed on net zero strategy and practice in 2021 and on sustainability in 2022.

As was the case in 2021, neither the Group nor the Company met the criteria for additional Streamlined Energy and Carbon Reporting (SECR) disclosure requirements in 2022.

Social - The Group made donations to foodbanks and health-related charities local to its sites to support communities facing hardship. Where possible these donations were delivered by employees in each office, fostering local community links.

The Board has been cognisant of the financial challenges facing employees as a result of rising fuel and energy prices and increased economic uncertainty. As a result the Directors implemented a number of measures to assist employees including payment of a monthly fuel and energy contribution from July 2022 to December 2022. For more information see the Section 172 statement.

Governance - The Board takes issues of governance seriously and seeks to ensure transparency and streamlined administration. The Directors bring a broad range of technical, commercial, business, accounting, audit and corporate finance expertise. Culturally, the Board demonstrates a high degree of integrity, fairness and non-discrimination and promotes these values through the organisation. The appointment of a new Non-Executive Director during 2022 has brought fresh input to the Board. For more information see the Corporate Governance Report.

Approved by the Board of Directors on 20 March 2023 and signed on its behalf by:

Martyn Ratcliffe
Executive Chair

Report of the Directors

The Directors present their annual report on the business of Science Group plc together with Consolidated Financial Statements and Independent Auditor's Report for the year ended 31 December 2022.

Accompanying the Report of the Directors is the Strategic Report.

Review of the business and its future development
A review of the business and its future development is set out in the Strategic Report, incorporating the Statement of Executive Chair and Financial Report.

Cautionary statement
The review of the business and its future development in the Strategic Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed. It should not be relied on by any other party for any other purpose. The review contains forward looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of these reports and should be treated with caution due to inherent uncertainties associated with such statements.

Results and dividends
The results of the Group are set out in detail on page 38.

Subject to shareholder approval at the next Annual General Meeting, the Directors propose to pay a final dividend of 5.0 pence per share for the year ended 31 December 2022 (2021: 5.0 pence per share).

Capital structure
Details of the Company's issued share capital, together with details of the movements therein are set out in Note 22 to the Financial Statements. The Company has one class of ordinary shares which carry no right to fixed income.

Financial instruments and risk management
Disclosures regarding financial instruments are provided within the Strategic Report and Note 3 to the Financial Statements.

Directors
The Directors and associated biographies are listed on page 18.

Michael Lacey-Solymar was re-appointed as a Director at the 2022 Annual General Meeting for a tenth year to provide continuity and stability to the Board. Mr Lacey-Solymar will retire prior to the next Annual General Meeting.

Susan Clement Davies was appointed to the Board on 18 May 2022, and as such she will offer herself for re-election at the next Annual General Meeting. Martyn Ratcliffe will retire by rotation and offer himself for re-election at the next Annual General Meeting.

Directors' interests in shares and contracts
Directors' interests in the shares of Science Group plc at 31 December 2022 and 31 December 2021, and any changes subsequent to 31 December 2022, are disclosed in Note 9. None of the Directors had an interest in any contract of significance to which Science Group was a party during the financial year.

During 2022, Martyn Ratcliffe and Peter Bertram were directors of TP Group plc, nominated by Science Group. As at 31 December 2022, the Company owned 29% of TP Group plc and Science Group plc was a related party of TP Group plc. TP Group plc became a wholly owned subsidiary of Science Group plc in January 2023.

Directors' Indemnities
The Directors have the benefit of an indemnity provision contained in the Articles. The Directors have also been granted a qualifying third party indemnity provision which was in force throughout the financial year and remains in force. In addition, throughout the year the Company purchased and maintained Directors' and Officers' liability insurance in respect of itself and for its Directors and Officers.

Annual General Meeting
The next Annual General Meeting ('AGM') will be held on 18 May 2023 at 17 Waterloo Place, London, SW1Y 4AR. The AGM notice contains the full text of resolutions to be proposed.

Purchase of own shares
At the AGM on 18 May 2022 shareholders approved a resolution for the Company to buy back up to 10% of its own shares. This resolution remains valid until the conclusion of the next Annual General Meeting in 2023 or 30 June 2023 if earlier. As at the date of this report, the Company has bought back 113,640 shares pursuant to this authority. Throughout 2022, the Company bought back a total of 323,453 shares pursuant to both the 2022 AGM authority and the equivalent authority approved at the 2021 AGM. For further information refer to Note 22.

Report of the Directors (continued)

Substantial shareholdings
As at 20 March 2023, Science Group had been notified of the following significant interests (greater than 3%) in its ordinary share capital:

Shareholder	Ordinary shares held	% of voting rights
Martyn Ratcliffe	9,412,080	20.73%
Ruffer LLP	8,275,599	18.23%
Canaccord Genuity Group Inc	5,404,530	11.90%
BGF Investment Management Ltd	3,694,197	8.14%
Otus Capital Management	2,318,530	5.11%
Herald Investment Management Ltd	1,833,674	4.04%

Employees
The average number of persons, including Directors, employed by the Group and their remuneration is set out in Note 8 to the Financial Statements.

Statement on engagement with employees
Employees have been provided with information on matters of concern to them through the Group's intranet; revised policies and updates from the human resources team; and formal and informal meetings and other communications with line managers and senior managers. Employees have been consulted on specific issues likely to affect their interests through individual meetings with the human resources team and discussion with line managers and senior managers.

The Board recognises the importance of engagement with employees and considers the current balance of engagement to be appropriate and reasonable given the size of the Group, and that suitable practices, policies and procedures (e.g., mentoring programmes, training and development, whistleblowing policies, appraisal systems) are in place to enable effective engagement with employees.

Other examples of employee engagement during 2022 include:

- consultation regarding suggestions for recipient organisations of the Group's local charitable donations during 2022.
- continued encouragement of employees' involvement in the Group's performance through reward payments made under the Group's bonus and profit share schemes and other discretionary incentives and, for more senior grades, the award of share option grants under the Group's share option scheme.

For information on how the Directors have had regard to employees' interests, see the Section 172 statement.

Statement on engagement with customers, suppliers and others
Engagement with customers, suppliers and other stakeholders in the business is an important factor in ensuring the successful implementation of the Group's strategy. For information on how the Directors have had regard to the need to foster these business relationships, see the Section 172 statement.

Disabled persons
The Company gives full and fair consideration to suitable applications for employment from disabled persons where a disabled person can adequately fulfil the requirements of the role. Where an employee of the Company becomes disabled during the course of their employment the Company would seek to arrange appropriate further training for the employee, and make reasonable adjustments to the employee's working environment, where it is possible for the employee to continue fulfilling the requirements of their role. Employees with a disability are eligible to participate in career development opportunities across the Company including training and promotion opportunities.

Donations
On a discretionary basis, the Company operates a scheme to match charitable donations raised by employees up to a specified limit. Charitable donations related to this programme were similar to the prior year. In addition, the Group made donations to local foodbanks and health-related charities local to its sites specifically to support local communities facing hardship.

As a result, total charitable contributions made in 2022 were approximately £25,000 (2021: £24,000). No political donations were made during the period (2021: £nil).

Research and development
Science Group provides outsourced science based services and therefore has an inherent and continuing commitment to high levels of research and development, primarily on behalf of its clients but also, when appropriate, on its own behalf.

Post balance sheet events
Post balance sheet events are disclosed in Note 29 to the Financial Statements.

Auditor
Grant Thornton UK LLP were re-appointed as auditor at the AGM on 18 May 2022. Grant Thornton UK LLP are willing to continue in office and a resolution to reappoint them will be proposed at the forthcoming AGM.

Report of the Directors (continued)

Disclosure of information to auditors
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors
The Directors of the Company who served during the year were:

Director	Role at 31 December 2022	Date of (re-) appointment	Date of retirement	Board Committee		
Martyn Ratcliffe	Executive Chair	19/05/2021			N	
Jon Brett	Finance Director	18/05/2022				
Daniel Edwards	Group Managing Director	18/05/2022				
Michael Lacey-Solymar+	Non-Executive	18/05/2022		A	N	R
Peter Bertram+	Non-Executive	19/05/2021		A	N	R
Susan Clement Davies+	Non-Executive	18/05/2022		A	N	R

Board Committee abbreviations are as follows:

A = Audit Committee; R = Remuneration Committee; N = Nomination Committee

+ Independent Director

Directors' Biographies
Below are the biographies of the current Directors:

Martyn Ratcliffe – Executive Chair*
Martyn Ratcliffe was appointed Chairman on 15 April 2010 following his investment in Sagentia Group, now Science Group. He was Chairman of Microgen plc from 1998 to 2016 and Chairman of RM plc from 2011 to 2013. He was previously Senior Vice President of Dell Computer Corporation, responsible for EMEA. He has a degree in Physics from the University of Bath and an MBA from City University, London.

Jon Brett - Finance Director
Jon Brett was appointed to the Board as Acting Finance Director on 10 August 2021 and confirmed as Finance Director on 1 March 2022. Mr Brett joined Science Group as Financial Controller in March 2020 and was previously Group Financial Controller for Study Group Limited. He trained with Deloitte LLP and qualified as a Certified Accountant in 2004.

Daniel Edwards – Group Managing Director
Dan Edwards was appointed to the Board on 24 April 2019. Mr Edwards joined the Company in 2004 and has held a number of roles within the Group including four years in the USA before being appointed Managing Director in 2012. He has an Engineering degree from the University of Cambridge and an MBA from Harvard Business School. He started his career at Rolls-Royce plc.

Michael Lacey-Solymar – Senior Independent Director
Michael Lacey-Solymar was appointed as a Non-Executive Director on 11 October 2012. Mr Lacey-Solymar has over 25 years corporate finance experience at UBS and Investec. He is currently Chairman of Cambridge Medical Technologies Limited. He has a degree in Modern Languages from the University of Oxford. After 10 years as a Non-Executive Director, Mr Lacey-Solymar will be retiring from the Board in April 2023. The Board express their gratitude and appreciation for the significant contribution he has made.

Peter Bertram - Independent Director
Peter Bertram was appointed as a Non-executive Director on 17 June 2020. He was Chairman of Manolete Partners plc from 2018 until 2021 and he has previously held a variety of Non-Executive board positions including Low & Bonar plc, Alphameric plc, Anite plc, Microgen plc, Phoenix IT group plc and Psion plc, and was CEO of Azlan Group plc. Mr Bertram is a Chartered Accountant and has a degree in Accounting from the University of Kent.

Susan Clement Davies – Independent Director*
Susan Clement Davies was appointed a Non-executive Director on 18 May 2022. Ms Clement Davies has over 25 years capital markets and investment banking experience, including 10 years at Citigroup/Salomon Smith Barney. She is currently Non-executive director of Evgen Pharma plc, Exploristics, MiNA Therapeutics and Scancell Holdings plc. She has an Economics degree from the University College London and an MSc in Economics from London School of Economics.

Sarah Cole – Company Secretary
Sarah Cole joined the Company on 10 January 2011 and was appointed Company Secretary on 22 March 2013. Ms Cole has a degree in Jurisprudence from the University of Oxford and qualified as a Solicitor in 2003.

* To stand for re-election at the next AGM

Corporate Governance Report

The Company is registered in England and Wales and listed on the Alternative Investment Market of the London Stock Exchange ('AIM').

Adoption of recognised corporate governance code
The Board has adopted the Financial Reporting Council's UK Corporate Governance Code July 2018. The Company's statement of compliance and associated disclosures are available on the investor pages of the Company's website.

Board of Directors
At 31 December 2022, the Board comprised an Executive Chair (part-time), Group Managing Director, Finance Director, and three independent Non-Executive Directors. All Directors bring a wide range of skills and international experience to the Board. The Non-Executive Directors hold meetings without the Executive Chair, Group Managing Director and Finance Director present if appropriate.

The Executive Chair is primarily responsible for the working of the Board of Science Group plc and the Group corporate strategy.

High-level strategic decisions are discussed and taken by the full Board. Investment decisions (above a de minimis level) are taken by the full Board. Operational decisions are taken by the Executive Board members, Divisional Managing Directors and other Senior Managers within the framework approved in the annual financial plan and within a framework of Board-approved authorisation levels.

The Board met 22 times during 2022 (2021: 35). The Board regulations define a framework of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve.

The Board typically holds ten regular meetings a year to consider a formal schedule of matters including the operating performance of the business and to review Science Group's financial plan and business model. Other meetings are held on an ad hoc basis as the need arises with the corporate activities undertaken in 2022 being the primary reason for the additional meetings during the year.

Non-Executive Directors are appointed for a three year term after which their appointment may be extended by mutual agreement after due consideration by the Nomination Committee of the Board. In accordance with the Company's Articles of Association, the longest serving Director (from their last appointment) must retire at each Annual General Meeting and each Director must retire in any three year period, so that over a three year period all Directors will have retired from the Board and been subject to shareholder re-election.

While Mr Lacey-Solymar has been a Non-Executive Director of the Company for more than 9 years throughout 2022, the Board considers him to remain independent in character and judgment and that there are no relationships or circumstances which could, or could be seen to, materially affect or interfere with the exercise of his independent judgement, knowledge and experience. Mr Lacey-Solymar receives no remuneration from the Company other than his director's fee and has no material links to the Company other than his position as a Non-Executive Director. All Directors have access to the advice and services of the Company Secretary and other independent professional advisers as required. Non-Executive Directors have access to key members of staff and are entitled to attend management meetings in order to familiarise themselves with all aspects of Science Group.

It is the responsibility of the Executive Chair and the Company Secretary to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties.

Relations with shareholders
The Directors seek to establish and maintain a mutual understanding of objectives between Science Group and its major shareholders by meeting to discuss long-term issues and receive feedback, communicating regularly throughout the year and issuing trading or business updates as appropriate. The Board also seeks to use the Annual General Meeting to communicate with its shareholders.

Remuneration strategy
Science Group operates in a competitive market. If Science Group is to compete successfully, it is essential that it attracts, develops and retains high quality staff. Remuneration policy has an important part to play in achieving this objective. Science Group aims to offer its staff a remuneration package which is both competitive in the relevant employment market and which reflects individual performance and contribution. For 2022, in addition to base salary, benefits included pension contributions, healthcare and life assurance benefits, a Group bonus/profit share scheme, additional bonus schemes based on achievement of billed hours targets for certain businesses within the Group, a commission scheme for sales people and, where appropriate, share options.

Board Committees

The Board maintains three standing committees, being the Audit, Remuneration and Nomination Committees. The minutes of all sub-committees are circulated for review and consideration by all relevant Directors, supplemented when appropriate by oral reports from the Committee Chairmen at Board meetings.

The Board does not conduct a formal performance evaluation of the Directors nor do the independent Non-Executive Directors formally appraise the Executive Chair. The Board conducts an annual internal evaluation of the Board and its committees, the results of which are reviewed and discussed by the Board. Due to the small size of the Board this annual evaluation, together with regular informal performance evaluations of directors and the Executive Chair by the Board, is considered sufficient.

Audit Committee
The Audit Committee is chaired by Peter Bertram and currently comprises Peter Bertram, Michael Lacey-Solymar and Susan Clement Davies. The Audit Committee met 6 times during 2022 (2021: 4). It takes advice from the Company's auditors and tax advisors. Further details on the Audit Committee are provided in the Report of the Audit Committee.

Remuneration Committee
The Remuneration Committee is chaired by Michael Lacey-Solymar and currently comprises Michael Lacey-Solymar, Peter Bertram and Susan Clement Davies. Ms Clement-Davies will become the chair of the Committee in 2023. The Remuneration Committee met 8 times during 2022 (2021: 8). It may take advice from time to time from external advisers, but did not do so in 2022. Further details on the Remuneration Committee are provided in the Report of the Remuneration Committee.

Nomination Committee
The Nomination Committee is chaired by Martyn Ratcliffe and currently comprises Martyn Ratcliffe, Peter Bertram, Michael Lacey-Solymar and Susan Clement Davies. The Nomination Committee met once during 2022 (2021: 2). It may take advice from time to time from external advisers and during 2022 the Committee appointed an external search firm to seek candidates for a new Non-Executive Director. The Committee meets when necessary. Further details on the Nomination Committee are provided in the Report of the Nomination Committee.

Meetings of the Board and sub-committees during 2022 were as follows:

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings held in 2022	22**	6	8	1
Martyn Ratcliffe	22**	6*	8*	1
Jon Brett	22**	6*	8*	1*
Daniel Edwards	21**	5*	7*	1*
Michael Lacey-Solymar	18	5	8	1
Peter Bertram	19**	6	8	1
Susan Clement Davies+	16**[1]	4	5[2]	-

* Attendance by invitation
** 1 Meeting of a sub-committee
[1] Attended 1 by invitation prior to appointment
[2] Attended 1 by invitation prior to appointment
+ Susan Clement Davies was appointed on 18 May 2022

Report of the Remuneration Committee

Remuneration Committee
The Remuneration Committee is chaired by Michael Lacey-Solymar and currently comprises Michael Lacey-Solymar, Peter Bertram and Susan Clement Davies. Ms Clement-Davies will succeed Mr Lacey-Solymar as chair in 2023.

The Remuneration Committee monitors the remuneration policies of Science Group to ensure that they are consistent with Science Group's business objectives. Its terms of reference include the recommendation and execution of policy on Director and executive management remuneration and for reporting decisions made to the Board. The Committee determines the individual remuneration package of the Executive Chair and Executive Directors, and also reviews remuneration packages for all senior employees of Science Group. This responsibility includes pension rights and any other compensation payments including bonus/profit share payments and share option awards. The Committee's remuneration practices do not include engagement with employees regarding executive remuneration.

The Remuneration Committee recognises that incentivisation of staff is a key issue for Science Group, which depends on the skill of its people for its success. The Remuneration Committee seeks to incentivise employees by linking individual remuneration to individual performance and contribution, and to Science Group results. During the year, the Remuneration Committee approved grants of share options and confirmed Group profit related bonus and profit share schemes for the Company for 2022. The Remuneration Committee also approved a number of individual discretionary bonuses; a one-off bonus of £500 in January in recognition of the challenges that faced employees during the Covid-19 pandemic; a £100 per month fuel and energy contribution for UK employees from July to September, rising to £150 per month from October to December as a result of rising fuel and energy costs; and a one-off payment of £250 in November as an enhanced winter bonus in light of increased living costs. All such payments are pro-rated for part time staff and, where appropriate, localised for employees outside of the UK.

The aim of the Board and the Remuneration Committee is to maintain a policy that:

- establishes a remuneration structure that will attract, retain and motivate executives, senior managers and other staff of appropriate calibre.
- rewards executives and senior managers according to both individual and Group performance.
- establishes an appropriate balance between fixed and variable elements of total remuneration, with the performance-related element forming a potentially significant proportion of the total remuneration package.
- aligns the interests of executives and senior managers with those of shareholders through the use of performance-related rewards and share options in Science Group.

From time to time the Committee may obtain market data and information as appropriate when making its comparisons and decisions and is sensitive to the wider perspective, including pay and employment conditions elsewhere in Science Group, especially when undertaking salary/remuneration reviews. The Company is not required to, and does not, engage with shareholders regarding its remuneration policy.

The remuneration policies operated as intended during the year.

Employee remuneration can include the following elements:

- basic salary – normally reviewed annually and set to reflect market conditions, personal performance and benchmarks in comparable companies. A limited interim review is normally undertaken each year reflecting the accelerated progress that more junior grades may require as they rapidly gain experience.
- annual Group performance-related bonus/profit share – executives, managers and eligible employees receive annual bonuses/profit shares related to company performance. The bonus scheme includes a claw back mechanism in certain circumstances. The Executive Chair does not participate in the Group annual performance-related bonus scheme but the Remuneration Committee may at its sole discretion award a bonus if appropriate.
- billed hours bonus – employees in certain businesses within the Group participate in additional bonus schemes based on achievement of billed hours targets.
- commission – some employees in sales roles participate in commission schemes based on revenue received from relevant sales. These employees are not eligible for the Group bonus/profit share schemes.
- benefits – benefits include medical insurance, life assurance and pension contributions. The Executive Chair does not receive these benefits.
- share options – share option grants are reviewed regularly and granted on a discretionary basis by the Remuneration Committee. The Executive Chair has excluded himself from all such awards since 2010.

Full details of each Director's remuneration package and their interests in shares and share options can be found in Note 9 to the Financial Statements. There are no elements of remuneration, other than basic earnings, which are treated as being pensionable.

Share option plans
Historic approved and unapproved Share Option Schemes were adopted by the Company in 2008, the terms of which were reviewed and amended in 2010 and 2013 and approved by shareholders. No options have been granted under these legacy schemes since 2012. In 2013 the Company adopted its first unapproved Performance Share Plan ('PSP'), the terms of which were amended and approved by shareholders in 2014, 2018 and 2020. Due to the pending expiry of the original PSP,

Report of the Rumuneration Committee (continued)

Share option plans (continued)
in 2022, a new PSP was adopted by the Company on broadly equivalent terms and approved by shareholders. Options granted under the legacy schemes were issued at market price whilst options granted under the PSP schemes are issued at the nominal share price. The Remuneration Committee approves any options granted.

Directors are entitled to participate in Science Group's share option schemes. Independent Non-Executive Directors do not participate in Science Group's share option schemes. It is the policy of Science Group to grant share options to Executive Directors and key employees as a means of encouraging ownership and providing incentives for performance. The only share options granted to the Executive Chair, which occurred in 2010, were specifically approved by shareholders and he excludes himself from annual awards.

The Frontier Smart Technologies Employee Benefit Trust ('EBT') holds 34,800 shares in the Company which are intended to be used to satisfy employee share options issued to employees of the Frontier business. 69,600 shares were issued from the EBT during 2022 to satisfy share options exercised by Frontier employees.

Director contracts and remuneration
The Executive Directors have employment contracts that contain notice periods of six months. Non-Executive Directors' service contracts may be terminated on three months' notice. There are no additional financial provisions for termination.

The Executive Chair and Non-Executive Directors receive a fixed salary. The Executive Chair does not participate in the Group bonus scheme but, if appropriate, the Remuneration Committee may award a discretionary bonus. Remuneration of the Executive Directors (excluding the Executive Chair) follows a simple structure of base salary, bonus and long term incentives using share options, including under the Enhanced Executive Incentive ('EEI') addendum to the PSP plan that was approved by shareholders at the 2022 AGM. The Executive Chair is not excluded from the share option plan but has declined awards of share options since 2010.

The market price of the shares at 31 December 2022 was 395.0 pence (2021: 445.0 pence). The highest and lowest price during the year was 450.0 pence and 350.0 pence respectively.

Report of the Audit Committee

Audit Committee
The Audit Committee is chaired by Peter Bertram and currently comprises Peter Bertram, Michael Lacey-Solymar and Susan Clement Davies. Other Directors and relevant senior managers attend by invitation.

The Audit Committee has written terms of reference and provides a mechanism through which the Board can: maintain the integrity of the financial statements of Science Group (including financial reporting policies) and any formal announcements relating to Science Group's financial performance; review Science Group's internal financial controls and Science Group's internal control and risk management systems; and make recommendations to the Board in relation to the appointment of the external auditor, their remuneration both for audit and non-audit work, the nature, scope and results of the audit and the cost effectiveness and the independence and objectivity of the auditors. A recommendation regarding the auditors is put to shareholders for their approval in general meetings.

Provision is made by the Audit Committee to meet the auditors at least twice a year, including at least one meeting without any Executive Directors present.

Financial reporting and significant financial matters
In carrying out its duties, the Audit Committee is required to assess whether suitable accounting policies have been adopted and to challenge the robustness of significant management judgements reflected in the financial results. This is performed through discussions at Audit Committee meetings where the Finance Director explains any changes to accounting policies and describes any significant management judgements made. In addition, the Audit Committee reviews the year end report to the Audit Committee from the external auditors which details its work performed and findings from the annual audit.

During the year, the Audit Committee considered the following key financial matters in relation to the Group's financial statements and disclosures, with input from the external auditor:

Going concern - the going concern assertion has a significant impact on the basis of preparation of the financial statements. The Committee reviewed the business plan presented by management for the financial year ending 31 December 2023 and considered the key assumptions made by management. The Committee challenged management on the assumptions in the plan and consequently considered them appropriate. The Committee received the business plan cash flow which covered the period to the end of June 2024 and considered the associated assumptions, which were concluded to be appropriate.

The Finance Director performed a sensitivity analysis to assess the amount of headroom available in the event of a downside event occurring. The analysis considered the likelihood of a scenario where covenants would be breached. The conclusion was that the Group would continue to have sufficient cash resources in order to meet its liabilities as they fall due.

Acquisition accounting – all acquisitions are approved by the Board to ensure the acquisition is in line with the Group strategy and the potential risks are explained, quantified where possible and understood.

Carrying value of goodwill and acquisition related intangible assets – the value of the goodwill and acquisition related intangible assets is supported by a value in use model prepared by management. This is based on cash flows extracted from the Group's financial plan which has been approved by the Board. The Finance Director communicated the key assumptions within the value in use model and the Audit Committee concurred with management's conclusion that the carrying value of these assets was fully supported.

Risk of fraud within revenue recognition - Revenue is the most material balance in the Consolidated Income Statement and accordingly, there is a rebuttable presumption that there is a fraud risk surrounding revenue. There is presumed to be an incentive to manipulate revenue in a manner that inflates the group profit, particularly around the year-end period.

Project managers carefully monitor the revenue recognised against projects and are accountable for the progress of projects. The Finance Director reviews the revenue recognised and accrued income balances on a monthly basis and investigates any unusual amounts recognised against projects. Collectively these processes would identify any unwarranted revenue recognised. No instances of fraudulent revenue recognition have been noted from these monitoring procedures in the current year. The Audit Committee is satisfied with management's response to the risk this incentive represents.

Recoverability of investments in subsidiaries of Science Group plc – the value of investments in subsidiaries is supported by a value in use model prepared by management. This was based on cash flows extracted from the Group's financial plan which has been approved by the Board. The Finance Director communicated the key assumptions within the value in use model and the Audit Committee concurred with management's conclusion that the carrying value of these assets was fully supported.

Internal controls
In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investments and Science Group's assets, the Directors recognise that they have overall responsibility for ensuring that Science Group maintains systems to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations and for reviewing the effectiveness of that system. However, there are inherent limitations in any system of control and accordingly even the most effective system can provide only reasonable and not absolute assurance against material misstatement or loss. The system is designed to manage

Report of the Audit Committee (continued)

Internal controls (continued)
rather than eliminate the risk of failure to achieve the business objectives.

Science Group has established procedures necessary to implement the guidance on internal control issued by the FRC Guidance on Audit Committees 2014. This includes identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its executives and senior managers.

The key features of the internal control system are described below:

Control environment – Science Group is committed to high standards of business conduct and seeks to maintain these standards across all of its operations. There is a whistleblowing policy in place for the reporting and resolution of suspected fraudulent activities. There is a continual review of payment processes, authorisation levels for expenditure, and awareness raising of the risks of fraudulent activities. Science Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives.

Risk identification – Corporate and operational managers are responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal and external sources, including infringement of IP, sales channels, investment risk, staff retention, disruption in information systems, natural catastrophe and regulatory requirements.

Information systems – Group businesses participate in operational/strategy reviews and annual plans. The Board actively monitors performance against plan. Forecasts and operational results are consolidated and presented to the Board on a regular basis. Through these mechanisms, performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

Main control procedures – Science Group has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties, as far as reasonably practicable.

Monitoring and corrective action – There are procedures in place for monitoring the system of internal financial controls.

This process, which operates in accordance with the FRC Guidance, was maintained throughout the financial year, and has remained in place up to the date of the approval of these financial statements. The Board, via the Audit Committee, has reviewed the systems and processes in place in meetings with the Finance Director and Science Group's auditors during 2022. No internal audit function is operated outside of the systems and processes in place, as the Board considers that Science Group is currently too small for a separate function, although this remains under regular review. The Board considers the internal control system to be appropriate for the Group.

Auditors
Grant Thornton UK LLP were re-appointed at the AGM on 18 May 2022.

The Audit Committee considers the independence of the auditors as part of considering their annual re-appointment. During the year Grant Thornton has provided services in relation to the annual audit of the Group and also provided tax compliance services for certain of the UK subsidiaries. Audit Committee approval was provided for the provision of non-audit services by Grant Thornton in order to safeguard auditor independence.

Report of the Nomination Committee

The Nomination Committee is chaired by Martyn Ratcliffe and currently comprises Martyn Ratcliffe, Michael Lacey-Solymar, Peter Bertram and Susan Clement Davies.

The Nomination Committee's primary function is to make recommendations to the Board on all new appointments and re-appointments and also to advise generally on issues relating to Board composition and balance. The Committee seeks input from all Directors regarding nominations for Board positions. All Board appointments have to be ratified at a General Meeting of the Company.

The Nomination Committee does not believe that it is appropriate to set any specific targets with regards to diversity, including gender. The Committee believes that the search for Board candidates should be conducted, and appointments made, on merit, against objective criteria but with due regard for the benefits of diversity on the Board.

As a result of the annual internal evaluation of the Board and committees undertaken in 2022 (see the section entitled Board Committees on page 20, the Committee noted that Michael Lacey-Solymar will be retiring after ten years' service to the Company and a new Non-Executive Director would be required. In light of the current composition of the Board, the Committee considered that a female Non-Executive Director would be preferable to broaden the diversity of the Board, and appointed an external search firm to seek candidates. As a result, the Committee recommended the appointment of Susan Clement Davies as a Non-Executive Director.

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations. The Directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the UK and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the UK;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so. The directors confirm that they consider it appropriate to adopt the going concern basis of accounting in preparing the Annual Report and financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approval

The Report of the Directors was approved by the Board on 20 March 2023 and signed on its behalf:

By order of the Board

Sarah Cole
Company Secretary

Harston Mill
Harston
Cambridge
CB22 7GG

Independent auditor's report to the members of Science Group plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Science Group plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2022, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Shareholders' Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and parent company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the parent company financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group or the parent company to cease to continue as a going concern.

Our evaluation of the directors' assessment of the Group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- assessing the accuracy of forecasting by comparing management's forecast for the current period to current year performance;
- verifying the inputs into management's forecasts and projections and related sensitivity analysis for the period until 30 June 2024;
- challenging the reasonableness of key assumptions used in preparing the cashflow forecasts and projections;
- completing audit procedures over the balance of cash as at 31 December 2022 and assessing the cash position subsequent to the year-end; and
- identifying the post balance sheet events in relation to the Group and the parent company and determining if any of these events have an impact on cashflow forecasts and projections.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Group's and the parent company's business model including effects arising from macro-economic factors such as inflation and energy and fuel costs, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Group's and the parent company's financial resources or ability to continue operations over the going concern period.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Conclusions relating to going concern (continued)

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Group's and the parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

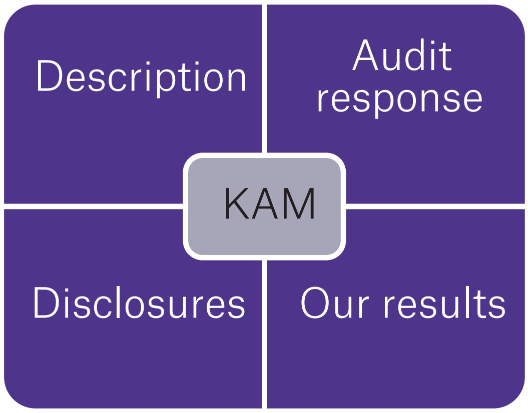
Our approach to the audit

Grant Thornton

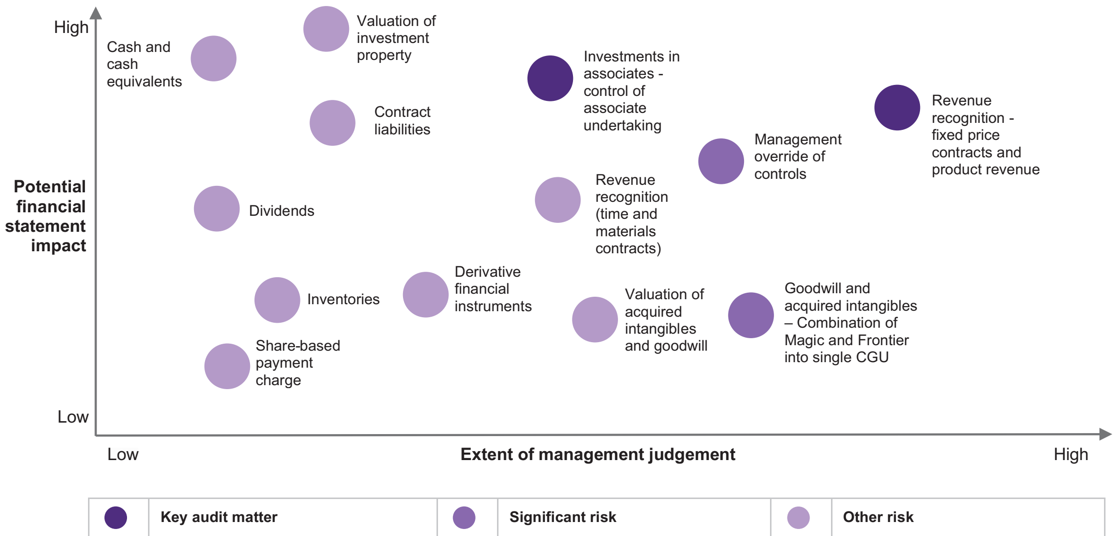
Overview of our audit approach
Overall materiality: Group: £551,000, which represents 5% of the Group's profit before tax at the fieldwork stage of the audit. Parent company: £220,000, which represents 2% of the parent company's net assets, restricted to 40% of Group materiality for Group audit purposes.
Key audit matters were identified as: • Revenue recognition - fixed price contracts and product revenue (new); and • Investments in associate - control of associate undertaking (new). Our auditor's report for the year ended 31 December 2021 included two key audit matters that have not been reported as key audit matters in our current year's report. These were revenue recognition of service revenue and the valuation of newly acquired goodwill. These have not been included as current year key audit matters as, in respect of revenue recognition of service revenue, we targeted our audit effort in the current year towards the risk of fraud arising from fixed price contracts and product revenue, and, in respect of the valuation of newly acquired goodwill, this has been incorporated within the product cash generating unit in the current year.
We performed full-scope audits of the financial statements of the parent company Science Group plc and of the financial information of 5 components using component materiality, and specified audit procedures on the financial information of 3 components, to gain sufficient appropriate audit evidence at Group level. This gives a coverage of 79% of the Group's total revenue, and 88% of the Group's profit before tax. We performed analytical procedures at Group level or review procedures for all other 13 components of the Group. The type of work performed on components changed from the prior year. Due to changes in the Group, we have decreased our scope on 3 components from full scope audit procedures to analytical procedures. In addition to this, we have reduced our audit procedures from full scope audit procedures to specified audit procedures on 2 components.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key audit matters (continued)

Key Audit Matter	How our scope addressed the matter - Group
Revenue recognition - fixed price contracts and product revenue We identified revenue recognition as one of the most significant assessed risks of material misstatement due to fraud. Under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumption that there are risks of fraud in revenue recognition. We have not rebutted this presumed risk. The Group's revenue is material to the financial statements, we have targeted our significant risk to be specific to the occurrence and accuracy within two revenue streams. These are set out below.	In responding to the key audit matter, we performed the following audit procedures: • Updated our understanding and evaluation of the systems and controls around revenue for each material revenue stream from inception to completion of selected projects by performing a walkthrough. In order to specifically assess each significant risk identified within this Key Audit Matter we have performed the following procedures:
Fixed price contract revenue For fixed price contract revenue, the significant risk is considered to be specific to the accuracy of consultancy contracts that are of a fixed price due to the management judgement that is required to assess the stage or percentage of completion. This judgement creates the opportunity to misstate revenue through either fraud, or error.	**Fixed price contract revenue** • Performed an analytical review of revenue recorded during the period to identify any large or exceptional contracts, which were then corroborated to source documentation to ensure they were recorded correctly; • Reviewed and compared revenue recognition policies including considering whether revenue recognised is in accordance with International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers'; • For a sample of contracts, recalculated the revenue using the contract agreement, opening contract asset or contract liability, and stage of completion based on deliverables sent to the client. Compared this to the revenue recognised, investigating any significant variances; • Corroborated the stage of completion across a sample of contracts by sending a questionnaire to the project managers, and adjusting if appropriate; and • Evaluated the IFRS 15 assessment prepared by management, in order to determine that the output method of stage of completion is the most appropriate measure, and how management weight the stage of completion for each deliverable.

Key audit matters (continued)

Key Audit Matter	How our scope addressed the matter - Group
Product revenue For product revenue, the significant risk is considered to be specific to the occurrence of 'out of cycle' revenue transactions as assessed by data analytics. 'Out of cycle', or unusual, transactions are those which do not follow the usual transaction flow between revenue, receivables and remittance, for example manual postings which could be used to fraudulently inflate revenue within the financial year.	**Product revenue** • Assessed IFRS 15 assessments prepared by management and ensure that the recognition of a sale made is at the appropriate point in time, where risk and reward transfer to the customer. In addition, we reviewed the performance obligations for SmartRadio chips which include a Cloud service element to ensure the cost-plus method remained appropriate. • Employed data analytics to identify any unusual (or 'out of cycle') entries within revenue. All these entries were traced to sufficient, appropriate audit evidence, in order to check that they are valid, not indicative of fraud or error, and in line with our understanding of the business; • Traced a sample of revenue transactions from the general ledger and their invoices, to supporting documentation such as despatch notes, remittance, or the year end receivables balance; and • Selected a sample of sales made within the last and first week around year end, tracing the sample to their despatch note and invoice to ensure revenue is captured appropriately.
Relevant disclosures in the Annual Report and Financial Statements 2022 • Financial statements: Note 2.18, Accounting policy – revenue recognition; and Note 5, Revenue.	**Our results** Based on our audit work, we did not identify any material misstatements of revenue or any instance where revenue was not recognised in accordance with the stated accounting policies.
Investments in associates – control of associate undertaking We identified control of the associate undertaking as one of the most significant assessed risk of misstatement due to fraud. This was due to the level of management judgement as to when control over TP Group was obtained, following a formal offer to acquire 100% of the share capital of the shareholding of TP Group plc on 31 October 2022. The acquisition of TP Group plc was completed on 26 January 2023. We have targeted our significant risk to whether level of involvement in the investee moved from significant influence to control within the year ended 31 December 2022 or in the post balance sheet period.	In responding to the key audit matter, we performed the following audit procedures: • Obtained and assessed management's paper on the identification of significant influence and control at year end, analysed the aspect of significant influence versus control under IFRS 10 'Consolidated Financial Statements'; • Critically assessed the position where Science Group plc's holding in TP Group plc changes from significant influence to control, based on Company law and IFRS 10; and • Inspected management's proposed disclosures required under IFRS 3 'Business Combinations' and assessed whether these are in line with IFRS 3 'Business Combinations'.
Relevant disclosures in the Annual Report and Financial Statements 2022 • Financial statements: Note 2.5, Accounting policy – Investments; and Note 16(c), Investment in associate.	**Our results** Based on our audit work, we are satisfied that control, as defined by IFRS 10 'Consolidated Financial statements', was fulfilled after 31 December 2022, and therefore the investment in TP Group plc should be recorded as an associate undertaking for the year ended 31 December 2022.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

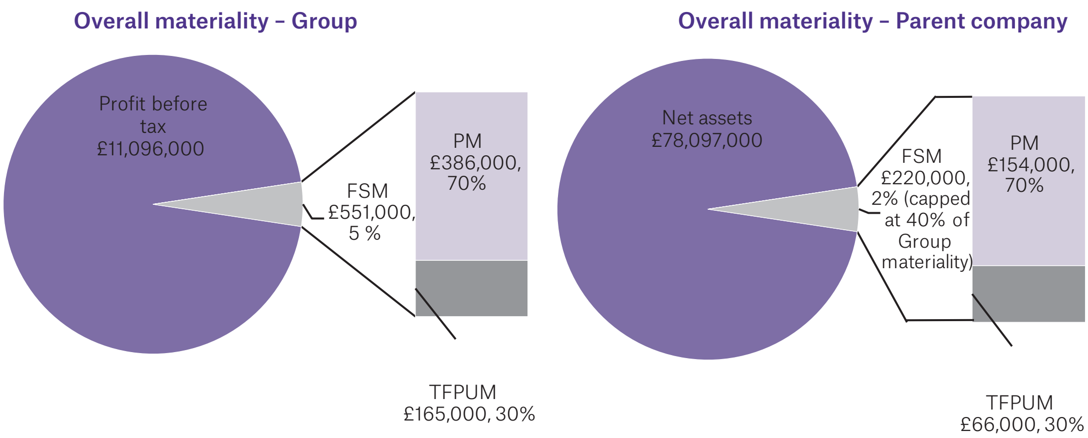
Materiality measure	Group	Parent company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	£551,000, which is 5% of the Group's profit before tax at the fieldwork stage of the audit.	£220,000, which is 2% of the parent company's net assets, restricted to 40% of Group materiality for Group audit purposes.
Significant judgements made by auditor in determining materiality	In determining materiality, we made the following significant judgement: • We selected profit before tax as the most appropriate benchmark because the Group is a commercially focused organisation and profit before tax is a key financial measure for the shareholders, and is a generally accepted audit benchmark. • A market-based measurement percentage of 5% was chosen, which reflected our knowledge of the business from prior year audits, and aligns with our firm's methodology. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2021 to reflect the lower profit before tax during the year.	In determining materiality, we made the following significant judgement: • We selected net assets as the most appropriate benchmark as the parent company is a non-trading entity, and holds investments in other Group trading entities. • We calculated materiality using 2% of the company's net assets at the planning stage of the audit but capped materiality at 40% of Group materiality, as the materiality based on net assets was higher than Group performance materiality. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2021 to reflect a reduction in Group materiality and in the measurement percentage applied to Group materiality in making the restriction referred to above.
Significant revisions to the materiality threshold that were made as the audit progressed.	We calculated materiality as £605,000 at the planning stage of the audit based on pro-rated profit before tax. As the profit before tax was significantly lower at the fieldwork stage than the pro-rated figures, we chose to re-assess materiality and adjusted our audit procedures accordingly. We chose not to revise our materiality once the final profit before tax was known.	We calculated materiality at the planning stage of the audit, capping it for Group audit purposes at £393,250. This was re-assessed at the fieldwork stage based on the revision to Group profit before tax, and we adjusted our audit procedures accordingly. We chose not to revise our materiality once the final profit before tax was known.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£386,000, which is 70% of financial statement materiality.	£154,000, which is 70% of financial statement materiality.

Our application of materiality (continued)

Materiality measure	Group	Parent company
Significant judgements made by auditor in determining performance materiality	In determining performance materiality we made the following significant judgements: • Whether there were any significant adjustments made to the Group financial statements in prior years; and • Whether there were any significant control deficiencies identified in prior years. After considering the above factors we have used auditor judgement to set performance materiality at 70% of materiality, which is the same as in the prior year.	In determining performance materiality we made the following significant judgements: • Whether there were any significant adjustments made to the parent company financial statements in prior years; and • Whether there were any significant control deficiencies identified in prior years. After considering the above factors we have used auditor judgement to set performance materiality at 70% of materiality, which is the same as in the prior year.
Significant revision(s) of performance materiality threshold that were made as the audit progressed	We calculated performance materiality at the planning stage of the audit to be £424,000. Performance materiality was re-assessed at the fieldwork stage, based on the revision to financial statement materiality, and we adjusted our audit procedures accordingly. No changes were made to the measurement percentage used as a result of revised figures.	We calculated performance materiality at the planning stage of the audit to be £275,000. Performance materiality was re-assessed at the fieldwork stage based on the revision to financial statement materiality, and we adjusted our audit procedures accordingly. No changes were made to the measurement percentage used as a result of revised figures.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality	We determined a lower level of specific materiality for the following areas: • Related party transactions; and • Directors' remuneration.	We determined a lower level of specific materiality for the following areas: • Related party transactions; and • Directors' remuneration.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	£28,000, and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£12,000, and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Our application of materiality (continued)

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Group's and parent company's business and in particular matters related to:

Understanding the Group, its components, and their environments, including Group-wide controls

- We obtained an understanding of the Group and its environment, including Group-wide controls and IT general controls; and assessed the risks of material misstatement at a Group level;
- All financial reporting is based in the UK. Each division has an accounting function which reports to the divisional management in addition to the Group finance team; and
- In assessing the risk of material misstatement of the Group financial statements, we considered the transactions undertaken by each entity and therefore where the focus of our work was required;

Identifying significant components

- Significant components were identified through assessing their relative share of key financial metrics including revenue and profit before tax. These metrics were used to identify component classified as 'individually financially significant to the Group' and an audit of financial information of the component using component materiality (full-scope audit) was performed.
- Other components were selected where we determined there to be a specific risk profile within those components, and were included in the scope of our Group audit to provide sufficient coverage over the Group's results. For these components, an audit of one or more account balances or class of transactions (specific scope procedures) was performed.
- All other components of the Group were selected as 'neither significant nor material', and analytical procedures or a review of financial information performed.

Type of work to be performed on financial information of parent company and other components (including how it addressed the key audit matters)

- Performance of full scope audits of the financial information on Science Group plc, Sagentia Limited, Leatherhead Research Limited, Oakland Innovation Limited, Technology Sciences Group Consulting Limited, and Frontier Smart Technologies Limited. These full scope audits included all of our audit work on the identified key audit matters as described above.
- Specified audit procedures were performed on the financial information of the following components: Quadro Epsom Limited, Quadro Harston Limited and Technology Sciences Group Inc.;
- Review procedures were performed on TP Group plc using Group materiality;
- Analytical procedures were performed on the financial information of all other components using Group materiality; and
- Testing performed covered 79% of total Group revenue, either through full-scope or specified audit procedures, and 88% of profit before tax.

Performance of our audit

During our audit, all audit procedures over full-scope audits, specified procedures and analytical review, were performed by the Group engagement team, with the review of financial information being performed by a separate engagement team, and the use of staff from Grant Thornton International Limited member firms to observe physical stock counts at overseas locations.

Audit approach	No. of components	% coverage revenue	% coverage profit before tax
Full-scope audit	6	72	82
Specified audit procedures	3	7	6
Review procedures	1	13	1
Analytical procedures	12	7	11

Communication with component auditors

The Group engagement team communicated with all component auditors performing review of financial information throughout the stages of their work, from planning through fieldwork, and as part of the concluding procedures. The Group engagement team performed reviews remotely.

Changes in approach from previous period

Due to changes in the Group, we have decreased our audit procedures on OTM Consulting Limited, Technology Sciences Group Limited and SG Bidco Limited from full scope audit procedures to analytical procedures. In addition to this, we have reduced our audit procedures from full scope audit procedures to specified audit procedures on both Quadro Harston Limited and Quadro Epsom Limited.

Other information

The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report and Financial Statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

ISAs (UK) require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's and the parent company's voluntary compliance with the provisions of the UK Corporate Governance Code.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;
- the Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate;
- the Directors' statement on whether they have a reasonable expectation that the Group will be able to continue in operation and meets its liabilities;
- the Directors' statement on fair, balanced and understandable;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems; and
- the section describing the work of the audit committee.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks applicable to the parent company and the Group and industry in which they operate. We determined that the following laws and regulations were most significant: UK-adopted international accounting standards, the Companies Act 2006, the UK Corporate Governance Code 2018 and the relevant

Auditor's responsibilities for the audit of the financial statements (continued)

tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements, including those laws and regulations relating to employee matters;

- We inquired of management, the finance team, legal counsel and the board of directors about the Group's and parent company's policies and procedures relating to:
  - The identification, evaluation and compliance with laws and regulations;
  - The detection and response to risks of fraud; and
  - The establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We obtained an understanding of the Group's policies and procedures implemented to prevent and detect non-compliance with laws and regulations by inquiry of management, those responsible for legal and compliance procedures including the company secretary. We corroborated our inquiries through our reading of board meeting minutes;
- We assessed the susceptibility of the parent company's and Group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the Group engagement team and component auditors included:
  - identifying and assessing the design and implementation of controls management has in place to prevent and detect fraud and the adequacy of procedures for authorisation of transactions and internal review procedures;
  - challenging assumptions and judgements made by management in its significant accounting estimates, including utilisation of valuation specialists to review management's impairment calculation; and
  - identifying and testing journal entries, in particular large or unusual journals.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- It is the engagement partner's assessment that the audit team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations based on understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- We communicated to component auditors around the need to identify of any instances of non-compliance, with laws and regulations that could give rise to a material misstatement of the Group financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Nicholas Page
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

20 March 2023

Financial Statements

and Notes to the Financial Statements

For the year ended 31 December 2022

	Note	Group 2022 £000	Group 2021 £000
Revenue	5	**86,301**	81,216
Direct operating expenses	6	**(47,947)**	(45,858)
Sales and marketing expenses		**(9,754)**	(8,824)
Administrative expenses		**(17,504)**	(13,892)
Share of profit/(loss) of equity accounted investment	16	**602**	(1,061)
Adjusted operating profit	4	**17,602**	16,260
Acquisition integration costs		**(1,128)**	–
Amortisation of acquisition related intangible assets	14	**(3,766)**	(2,891)
Share-based payment charge	8, 22	**(1,612)**	(727)
Share of profit/(loss) of equity accounted investment	16	**602**	(1,061)
Operating profit		**11,698**	11,581
Finance income	7	**375**	19
Finance costs	7	**(977)**	(673)
Profit before tax		**11,096**	10,927
Tax charge (net of R&D tax credit of £530,000 (2021: £324,000))	10	**(541)**	(1,366)
Profit for the year		**10,555**	9,561
Earnings per share			
Earnings per share (basic)	12	**23.2p**	22.4p
Earnings per share (diluted)	12	**22.6p**	21.7p

The accompanying Notes on pages 47 to 92 form an integral part of this Consolidated Income Statement.

For the year ended 31 December 2022

		Group	
	Note	**2022 £000**	2021 £000
Profit for the year attributable to:			
Equity holders of the parent		**10,555**	9,561
Profit for the year		**10,555**	9,561
Other comprehensive income items that will or may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**2,372**	279
Fair value gain on financial instruments	24	**1,499**	763
Deferred tax charge on financial instruments	11,24	**(414)**	(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	16	–	(2,470)
Other comprehensive income/(expense) for the year		**3,457**	(1,579)
Total comprehensive income for the period attributable to:			
Equity holders of the parent		**14,012**	7,982
Total comprehensive income for the year		**14,012**	7,982

The accompanying Notes on pages 47 to 92 form an integral part of this Consolidated Statement of Comprehensive Income.

For the year ended 31 December 2022

Group	Share 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 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	–	–	1,216	–	–	–	(1,211)	**5**
Dividends paid (Note 13)	–	–	–	–	–	–	(1,642)	**(1,642)**
Share-based payment charge (Note 22)	–	–	–	–	–	–	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 items that will or maybe reclassed to profit or loss:								
Fair value gain on financial instruments (Note 24)	–	–	–	–	–	763	–	**763**
Exchange differences on translating foreign operations	–	–	–	–	279	–	–	**279**
Deferred tax charge on financial instruments	–	–	–	–	–	(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 year	**–**	**–**	**–**	**–**	**279**	**612**	**7,091**	**7,982**
Balance at 31 December 2021	**462**	**26,834**	**(1,242)**	**10,343**	**(758)**	**74**	**30,579**	**66,292**

For the year ended 31 December 2022

Group	Share 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 2022	**462**	**26,834**	**(1,242)**	**10,343**	**(758)**	**74**	**30,579**	**66,292**
Contributions and distributions:								
Purchase of own shares	–	–	(1,321)	–	–	–	–	**(1,321)**
Issue of shares out of treasury	–	–	370	–	–	–	(369)	**1**
Dividends paid (Note 13)	–	–	–	–	–	–	(2,270)	**(2,270)**
Share-based payment charge (Note 22)	–	–	–	–	–	–	1,612	**1,612**
Deferred tax charge on share-based payment transactions	–	–	–	–	–	–	(127)	**(127)**
Transactions with owners	**–**	**–**	**(951)**	**–**	**–**	**–**	**(1,154)**	**(2,105)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**10,555**	**10,555**
Other comprehensive income items that will or maybe reclassed to profit or loss:								
Fair value gain on financial instruments (Note 24)	–	–	–	–	–	1,499	–	**1,499**
Exchange differences on translating foreign operations	–	–	–	–	2,372	–	–	**2,372**
Deferred tax charge on financial instruments	–	–	–	–	–	(414)	–	**(414)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**2,372**	**1,085**	**10,555**	**14,012**
Balance at 31 December 2022	**462**	**26,834**	**(2,193)**	**10,343**	**1,614**	**1,159**	**39,980**	**78,199**

The accompanying Notes on pages 47 to 92 form an integral part of this Consolidated Statement of Changes in Shareholders' Equity.

For the year ended 31 December 2022

Company	Share capital £000	Share premium £000	Treasury shares £000	Merger reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2021	**421**	**9,102**	**(1,896)**	**10,343**	**40,514**	**58,484**
Contributions and distributions:						
Purchase of own shares	–	–	(562)	–	–	**(562)**
Issue of shares out of treasury	–	–	1,216	–	(1,211)	**5**
Dividends paid (Note 13)	–	–	–	–	(1,642)	**(1,642)**
Share-based payment charge (Note 22)	–	–	–	–	727	**727**
Deferred tax charge on share-based payment transactions	–	–	–	–	(18)	**(18)**
Share placement	41	17,732	–	–	–	**17,773**
Transactions with owners	**41**	**17,732**	**654**	**–**	**(2,144)**	**16,283**
Profit for the year	**–**	**–**	**–**	**–**	**219**	**219**
Other comprehensive income items that will not be reclassed to profit or loss:						
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	–	–	(2,470)	(2,470)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(2,251)**	**(2,251)**
Balance at 31 December 2021	**462**	**26,834**	**(1,242)**	**10,343**	**36,119**	**72,516**
Balance at 1 January 2022	**462**	**26,834**	**(1,242)**	**10,343**	**36,119**	**72,516**
Contributions and distributions:						
Purchase of own shares	–	–	(1,321)	–	–	**(1,321)**
Issue of shares out of treasury	–	–	370	–	(369)	**1**
Dividends paid (Note 13)	–	–	–	–	(2,270)	**(2,270)**
Share-based payment charge (Note 22)	–	–	–	–	1,612	**1,612**
Transactions with owners	**–**	**–**	**(951)**	**–**	**(1,027)**	**(1,978)**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**7,559**	**7,559**
Balance at 31 December 2022	**462**	**26,834**	**(2,193)**	**10,343**	**42,651**	**78,097**

The accompanying Notes on pages 47 to 92 form an integral part of this Company Statement of Changes in Shareholders' Equity.

As at 31 December 2022

		Group		Company	
	Note	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Assets					
Non-current assets					
Acquisition related intangible assets	14	**10,815**	13,359	**–**	–
Goodwill	14	**14,975**	14,360	**–**	–
Property, plant and equipment	15	**23,867**	23,384	**143**	33
Investments	16	**10,054**	9,239	**66,354**	60,224
Derivative financial instruments	24	**1,417**	129	**–**	–
Deferred tax assets	11	**2,176**	2,120	**23**	–
		63,304	62,591	**66,520**	60,257
Current assets					
Inventories	17	**2,477**	2,454	**–**	–
Trade and other receivables	18	**12,992**	12,208	**2,854**	12,452
Current tax assets		**1,607**	1,493	**–**	–
Derivative financial instruments	24	**384**	–	**–**	–
Cash and cash equivalents – Client registration funds	19	**2,867**	2,874	**–**	–
Cash and cash equivalents – Group cash	19	**43,645**	34,315	**35,202**	20,091
		63,972	53,344	**38,056**	32,543
Total assets		**127,276**	115,935	**104,576**	92,800
Liabilities					
Current liabilities					
Trade and other payables	20	**31,546**	30,042	**26,332**	20,284
Current tax liabilities		**331**	776	**–**	–
Provisions	21	**849**	677	**–**	–
Borrowings	23	**1,200**	1,200	**–**	–
Lease liabilities	25	**720**	1,153	**111**	–
		34,646	33,848	**26,443**	20,284

As at 31 December 2022

		Group		Company	
	Note	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Non-current liabilities					
Provisions	21	**248**	603	**–**	–
Borrowings	23	**12,939**	14,123	**–**	–
Lease liabilities	25	**1,162**	400	**36**	–
Deferred tax liabilities	11	**82**	669	**–**	–
		14,431	15,795	**36**	–
Total liabilities		**49,077**	49,643	**26,479**	20,284
Net assets		**78,199**	66,292	**78,097**	72,516
Shareholders' equity					
Share capital	22	**462**	462	**462**	462
Share premium		**26,834**	26,834	**26,834**	26,834
Treasury shares		**(2,193)**	(1,242)	**(2,193)**	(1,242)
Merger reserve		**10,343**	10,343	**10,343**	10,343
Translation reserve		**1,614**	(758)	**–**	–
Cash flow hedge reserve	24	**1,159**	74	**–**	–
Retained earnings		**39,980**	30,579	**42,651**	36,119
Total equity		**78,199**	66,292	**78,097**	72,516

The Company's profit for the year was £7,559,000 (2021: £219,000).

The Financial Statements were approved by the Board of Directors and signed on its behalf by:

Martyn Ratcliffe Executive Chair

Jon Brett Finance Director

On 20 March 2023

The accompanying Notes on pages 47 to 92 form an integral part of this Consolidated and Company Balance Sheet.
The Company's registered number is 06536543.

For the year ended 31 December 2022

		Group		Company	
	Note	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Profit before income tax		**11,096**	10,927	**7,542**	219
Adjustments for:					
Share of (profit)/loss of equity accounted investment	16	**(602)**	1,061	**(602)**	1,061
Amortisation of acquisition related intangible assets	14	**3,766**	2,891	**–**	–
Depreciation of property, plant and equipment	15	**655**	719	**33**	65
Reversal of impairment of right-of-use assets	15	**(215)**	–	**–**	–
Depreciation of right-of-use assets	15	**827**	794	**114**	–
Bank charges on derivative financial instruments		**359**	–	**–**	–
Net interest cost	7	**602**	654	**596**	294
Share-based payment charge/(credit)	8	**1,612**	727	**–**	(61)
Increase in inventories		**(23)**	(1,047)	**–**	–
(Increase)/decrease in receivables		**(680)**	(1,385)	**6,150**	(1,773)
(Decrease)/increase in payables representing client registration funds		**(7)**	859	**–**	–
Increase in payables excluding balances representing client registration funds		**1,235**	2,494	**5,147**	6,060
Decrease in provisions		**(263)**	(76)	**–**	–
Cash generated from operations		**18,362**	18,618	**18,980**	5,865
Interest paid		**(808)**	(646)	**(210)**	–
UK corporation tax paid		**(1,017)**	(3,018)	**–**	–
Foreign corporation tax paid		**(1,266)**	(940)	**–**	–
Cash flows from operating activities		**15,271**	14,014	**18,770**	5,865
Interest received/(paid)		**271**	3	**260**	(1)
Purchase of property, plant and equipment	15	**(92)**	(544)	**–**	–
Purchase of intellectual property	14	**–**	(4,315)	**–**	–
Purchase of interest in associated company	16	**(213)**	(12,770)	**(213)**	(12,770)
Purchase of subsidiary undertakings, net of cash acquired		**–**	(1,455)	**–**	–
Cash flows used in investing activities		**(34)**	(19,081)	**47**	(12,771)

		Group		Company	
	Note	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Issue of shares out of treasury		**1**	5	**1**	5
Share placement		**–**	17,773	**–**	17,773
Repurchase of own shares		**(1,321)**	(562)	**(1,321)**	(562)
Dividends paid	13	**(2,270)**	(1,642)	**(2,270)**	(1,642)
Purchase of derivative financial instruments		**(531)**	–	**–**	–
Repayment of term loan	23	**(1,200)**	(1,200)	**–**	–
Payment of lease liabilities	25	**(1,135)**	(1,297)	**(120)**	–
Cash flows from financing activities		**(6,456)**	13,077	**(3,710)**	15,574
Increase in cash and cash equivalents in the year		**8,781**	8,010	**15,107**	8,668
Cash and cash equivalents at the beginning of the year		**37,189**	29,074	**20,091**	11,423
Exchange gain on cash		**542**	105	**4**	–
Cash and cash equivalents at the end of the year	19	**46,512**	37,189	**35,202**	20,091

Cash and cash equivalents are analysed as follows:

		Group		Company	
	Note	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Cash and cash equivalents – Client registration funds	19	**2,867**	2,874	**–**	–
Cash and cash equivalents – Group cash	19	**43,645**	34,315	**35,202**	20,091
		46,512	37,189	**35,202**	20,091

The accompanying Notes on pages 47 to 92 form an integral part of this Consolidated and Company Statement of Cash Flows.

1. General information

Science Group plc (the 'Company') together with its subsidiaries ('Science Group' or the 'Group') is an international science, engineering and technology ('SET') business, supported by a strong balance sheet.

The Group and Company Financial Statements of Science Group plc were prepared under the International Financial Reporting Standards ('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). The value of Science Group plc shares, as quoted on the London Stock Exchange on 31 December 2022, was 395.0 pence per share (31 December 2021: 455.0 pence per share).

These Consolidated Financial Statements have been approved for issue by the Board of Directors on 20 March 2023.

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 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 12. 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 for the year which is 21.4% (2021: 22.0%) 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 for the purpose of payment of registration fees to regulatory bodies. This cash is separately identified for reporting purposes and is unrestricted. This measure is calculated as follows:

		Group	
	Note	**2022 £000**	2021 £000
Cash and cash equivalents – Group cash	19	**43,645**	34,315
Borrowings	23	**(14,139)**	(15,323)
Net funds		**29,506**	18,992

1. General information (continued)

Alternative performance measures (continued)
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.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

2.1 Basis of preparation
The consolidated and Company financial statements of Science Group have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments at fair value. The financial statements are prepared under IFRS as adopted by the UK in conformity with the requirements of the Companies Act 2006.

Of the new standards and interpretations effective for the year ended 31 December 2022, there was no impact on the presentation of the financial statements of Science Group.

No income statement is presented for the Company as provided by Section 408 of the Companies Act 2006. The Company's profit for the financial period after tax, determined in accordance with the Act, was £7,559,000 (2021: £219,000).

Going concern
The Directors have considered the current cash balance of £43.6 million (excluding client registration funds) and assessed forecast future cash flows for the next 18 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 £18.4 million during the year ended 31 December 2022. The Group ended the year with net funds of £29.5 million, and with the 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.

2.2 Changes in accounting policies
The accounting pronouncements which have become effective from 1 January 2022 and have therefore been adopted do not have a significant impact on the Group's financial results or position.

2.3 Standards, IFRICs and other guidance applicable
Standards and IFRICs newly applicable for companies with 31 December 2022 year ends are set out below, together with any noted impact on the Group.

Number	Title	Impact in year
IAS 16 (amendments)	Proceeds before Intended Use	No material impact
IAS 37 (amendments)	Onerous contracts – Cost of fulfilling a contract	No material impact
IFRS 1, IFRS 9, IFRS 16, IAS 41 (amendments)	Annual Improvements to IFRS Standards 2018-2020 Cycle	No material impact
IFRS3 (amendments)	Reference to the Conceptual Framework – business combinations	No material impact

2. Summary of significant accounting policies (continued)

2.4 Standards issued but not yet effective

At the date of authorisation of these Consolidated Financial Statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards nor amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's Financial Statements.

Number	Title	Effective
IAS 12 (amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1-Jan-23
IAS 1 (amendments)	Non-current Liabilities with covenants	1-Jan-24
IFRS 16 (amendments)	Leases on sale and leaseback	1-Jan-24

2.5 Basis of consolidation

The basis of consolidation is set out below:

Subsidiaries – subsidiaries are entities controlled by Science Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Investment in subsidiaries – in the Company accounts, investments in subsidiaries are stated at cost less any provision for impairment where appropriate.

Business combinations – the acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given and liabilities incurred or assumed in exchange for control. The acquired Company's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *IFRS 3 Business Combinations* are recognised at their fair value at the acquisition date. Acquisition expenses are expensed as incurred.

Interests in equity-accounted investees – Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence ceases. The carrying value of the associate investment would not be impaired to the extent it is exceeded by the share of accumulated losses in associate.

2.6 Segment reporting

Under IFRS 8, the accounting policy for identifying segments is based on the internal management reporting information that is regularly reviewed by the Chief Operating Decision Makers ('CODMs'), being the Executive Board. The CODMs monitor the performance of these operating segments as well as deciding on the allocation of resources to them.

The Group results are presented across 3 reporting segments: Services Operating Business, Product Operating Business, Freehold Properties. Corporate costs, including the PLC costs and one-off costs relating to M&A activity, are not allocated to the segments and are reported separately. This provides transparency and facilitates shareholder analysis of the component parts of the Group.

2.7 Intangible assets

All intangible assets, except goodwill, are stated at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill – goodwill represents the amount by which the fair value of the cost of a business combination exceeds the fair value of net assets acquired. Goodwill is not amortised and is stated at cost less any accumulated impairment losses.

The recoverable amount of goodwill is tested for impairment annually or when events or changes in circumstance indicate that it might be impaired. Impairment charges are deducted from the carrying value and recognised immediately in profit or loss. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2. Summary of significant accounting policies (continued)

2.7 Intangible assets (continued)
Acquisition related intangible assets – net assets acquired as part of a business combination includes an assessment of the fair value of separately identifiable acquisition related intangible assets, in addition to other assets, liabilities and contingent liabilities purchased. These are amortised over their useful lives which are individually assessed. The estimated useful economic life for acquired intangible assets, customer contracts and relationships are between 5 and 12 years. The assets are assessed on an annual basis for impairment and amortised over its remaining economic useful life.

2.8 Research and development expenditure
Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Any tax credit receivable under the either the R&D Expenditure Credit scheme or the Small or Medium-sized scheme is recognised within income tax.

2.9 Property, plant and equipment
Land and buildings as shown in the Notes to the Financial Statements comprise offices and laboratories at Harston Mill, Harston, Cambridge, UK and at Great Burgh, Epsom, UK. Land and buildings are shown at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefit associated with the item will flow to Science Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on all other property, plant and equipment is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings	25 years
Furniture and fittings	3-5 years
Equipment	3 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount, when an indicator of impairment is identified. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.10 Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and on demand deposits, together with short term, liquid investments that are readily convertible to a known amount of cash and that are subject to a minimal risk of changes in value. Cash that is held on behalf of the client that is solely for the purpose of payment of product registration fees to regulatory bodies is separately identified.

2.11 Inventories
Inventories are stated at the lower of cost and net realisable value. Costs includes all cost incurred in bringing each product to its present location and condition, which comprises the cost of direct materials and third-party charges. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

2.12 Trade and other receivables
Trade and other receivables are carried at original invoice amount and are subsequently held at amortised cost less provision for impairment. The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. The movement in the provision is recognised in the Consolidated Income Statement.

2.13 Trade and other payables
Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Dilapidation provisions are recognised when the Group has an obligation to rectify, repair or reinstate a leased premises to a certain condition in accordance with the lease agreement. The provision is measured at the present value of the estimated cost of rectifying, repairing, or reinstating the leased premises at a specified future date.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

2. Summary of significant accounting policies (continued)

2.15 Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Financial instruments
(a) Classification
The Group classifies its financial assets in the following measurement categories:

(i) those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

(ii) those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) Measurement
At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired.

(ii) Fair value through other comprehensive income ('FVOCI'): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method.

(iii) Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of profit or loss within other gains/(losses) in the period in which it arises.

Equity instruments
The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other gain/(losses) in the Consolidated Income Statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(c) Impairment
The Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group recognises loss allowances for expected credit losses ('ECLs') on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

2. Summary of significant accounting policies (continued)

2.16 Financial instruments (continued)
(c) Impairment (continued)
When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

(d) Derivative financial instruments and hedge accounting
Derivative financial instruments are accounted for at fair value through profit or loss except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship, and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

The Group has entered into currency exchange instruments which have been designated as hedging instruments in cash flow hedge relationships. These arrangements have been entered into to mitigate foreign currency exchange risk arising from certain highly probable sales transactions denominated in foreign currency.

In order to address interest rate risk, the Group has entered into phased interest rate swaps in order to fully hedge the loan borrowings. The interest rate swaps have been designated as hedging instruments in cash flow hedge relationships because the critical terms of the interest rate swaps entered exactly match the terms of the hedged item.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the Consolidated Balance Sheet.

To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

2.17 Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases the Company's equity share capital into treasury (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued, or disposed of. Where such shares are subsequently sold or reissued, including settlement of employee share incentive obligations, any consideration received, net of any directly attributable incremental transaction costs, and the related income tax effects are included in equity attributable to the Company's equity holders. The credit for proceeds received is restricted to the purchase price of the treasury shares with the difference between prices paid for treasury shares and proceeds received taken to share premium. Where such shares are subsequently cancelled, the movement is recognised directly in equity with no gain or loss recognised in profit or loss.

2. Summary of significant accounting policies (continued)

2.18 Revenue recognition
The Services Operating Business segment provides consultancy services to clients across the medical, food & beverage and industrial markets. The Product Operating Business segment sells chips and modules used in digital and Smart Radios to factory suppliers of the consumer electronics market.

To determine whether to recognise revenue, the Group follows a 5-step process:

1 Identifying the contract with a customer

2 Identifying the performance obligations

3 Determining the transaction price

4 Allocating the transaction price to the performance obligations

5 Recognising revenue when/as performance obligation(s) are satisfied.

(a) Services revenue
Revenue from providing services is recognised in the accounting period in which the services are rendered. The majority of projects are priced on a time and materials basis and the revenue for these projects is recognised based on the actual labour hours spent at the contractual fee rates. If the customer terminates the contract before completion for reasons other than the Group's ability to perform as promised, the customer is liable to compensate the Group for performance completed to date.

Performance obligations are linked to the reports supplied to the client, where work is billed in an agreed fee rate context, so that clients are able to specifically review work performed.

For the few fixed-price project contracts, revenue is recognised based on the proportion of deliverables provided to the client with an adjustment if the project is forecast to overrun.

Revenue is measured and recognised using the contractual fee rates associated with respective deliverables of the project. Estimates of revenues or extent of progress toward completion are reviewed regularly and, where necessary, revised. Any resulting increases or decreases in estimated revenues are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In the case of both time and materials and fixed-price contracts, the customer pays for the value of services provided based on an invoicing and payment schedule. If the services rendered by the Group at the reporting date exceed the payments received to date, a contract asset is recognised (within trade receivables if the sales invoice has been raised or amounts recoverable on contracts if the services rendered have not been invoiced). If the payments exceed the services rendered, a contract liability is recognised. In the majority of cases, customers are invoiced on a monthly basis however this varies when appropriate to take into account credit limits, payment terms and operational efficiencies. Consideration is payable when invoiced based on contractual payment terms.

The Group earns revenue from design services on either a fixed cost or time and materials basis. These projects tend to be short term in nature and the revenue is recognised over time, as the Group delivers services to its customers and at a point of time when the performance obligation is satisfied by transferring promised goods to its customers.

The Group receives cash from clients which are pass through funds solely for the purpose of payment of registration fees to regulatory bodies and for which no revenue is recognised.

(b) Subscription income
Subscription income for membership services provided over an annual contractual period is recognised in the income statement on a straight-line basis over the period of the contract.

(c) Product and associated revenue
Revenue is recognised upon the transfer of control of promised products or services and for the majority of revenue, transfer of control occurs once the product has been despatched, as the terms are ex-works. For a few of the products, ongoing IT infrastructure services are provided over a period of time in order for the consumer to use the full functionality of the end product. When such services have been identified as both capable of being distinct and separately identifiable from the related tangible product, the associated revenue allocated to such services is recognized over time.

Where there are separate performance obligations in a contract (being the product and the ongoing IT infrastructure services), it has been determined that directly observable prices do not exist for these performance obligations, therefore the transaction price is calculated as the expected cost plus a margin.

Revenue is recorded net of sales tax and relevant sales incentives when the performance conditions are met. Sales incentives are rebates offered to customers and paid based on total sales made to respective customers each year. The rebates are estimated on a regular basis by using the most likely amount method. The rebates will be accrued only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. To the extent unpaid, the rebate liability is presented under accruals.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as trade and other payables in the Consolidated Balance Sheet. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises as trade and other receivables in its Consolidated Balance Sheet.

2. Summary of significant accounting policies (continued)

2.19 Foreign currency
(a) Functional and presentation currency – items included in the financial statements of each of Science Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Consolidated Financial Statements are presented in Sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances – foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

In respect of translation differences on non-monetary items, items held at cost are translated at the exchange rate at the date of transaction.

(c) Group companies – the results and financial position of all Science Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) all resulting exchange differences are recognised as a separate component of equity; and

(iv) on disposal of a foreign subsidiary the accumulated translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

2.20 Employee benefits
(a) Post employment benefit plans
The Group provides post-employment benefits through various defined contribution plans.

Defined contribution plans
The Group pays fixed contributions into independent entities in relation to several retirement plans and insurances for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that related employee services are received.

(b) Share-based compensation
Science Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, as calculated by using an appropriate valuation method. The Black-Scholes model excludes the impact of any non-market vesting conditions (for example profitability and sales growth targets). The Monte Carlo and Binomial Option Pricing models build in any market performance conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The share-based compensation charge in the Company accounts is based only on those option holders employed directly by the Company.

(c) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Science Group recognises termination benefits at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs.

(d) Profit-sharing and bonus plans
Science Group recognises a liability and an expense for bonuses and/or profit-sharing, based on the incentive plans approved by the Remuneration Committee. Science Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Sales commission
Science Group operates a sales commission scheme for relevant sales staff. A liability and expense is recognised based on sales made by employees who are eligible for the scheme, and is calculated using the commission scheme rules. Sales commission is typically paid quarterly. As the amortisation period of such costs, if capitalised, would be less than one year, the Group makes use of the practical expedient in IFRS 15 and expenses them as incurred.

2. Summary of significant accounting policies (continued)

2.21 Taxation
The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income, or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Income tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws of the relevant countries that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from goodwill, the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by Science Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.22 Leases
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(a) As a lessee
At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

2. Summary of significant accounting policies (continued)

2.22 Leases (continued)

(a) As a lessee (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and associated lease obligations in 'lease liabilities' in the Consolidated Balance Sheet.

Short-term leases and leases of low-value assets

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

(b) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term.

2.23 Dividends paid

Dividends are recognised as a liability in the period in which the shareholders' right to receive payment has been established.

2.24 Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

3. Financial risk management

3.1 Financial risk factors

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

(a) Foreign currency sensitivity

Science Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Euro. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities.

To manage the Group's foreign exchange risk arising from commercial transactions, recognised assets and liabilities, entities in Science Group may use forward contracts and other instruments. The Group acquired a currency exchange instrument to cap the US Dollar/GBP rate in relation to the R&D Consultancy division through to the end of 2023. The instrument is a US Dollar/GBP cap set at \$1.20/£1 which applies to \$1.25 million per month (see Note 24). Foreign exchange risk arises when commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group finance function is responsible for managing the net position in each foreign currency primarily by selling monies held in currency into GBP on a regular basis.

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Foreign currency sensitivity (continued)

Science Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Foreign currency denominated financial assets and liabilities, translated into GBP at the closing rate, are as follows:

2022	**US Dollar £000**	**Euro £000**	**Other £000**	**Total £000**
Financial assets	**11,039**	**889**	**264**	**12,192**
Financial liabilities	**(1,985)**	**(131)**	**(525)**	**(2,641)**
Exposure	**9,054**	**758**	**(261)**	**9,551**

2021	US Dollar £000	Euro £000	Other £000	Total £000
Financial assets	11,886	984	342	13,212
Financial liabilities	(3,775)	(227)	(258)	(4,260)
Exposure	8,111	757	84	8,952

All foreign currency denominated financial assets and liabilities are classified as current.

The following table illustrates the sensitivity of the net movement on Consolidated Income Statement and equity in regard to Science Group's financial assets and financial liabilities and the US Dollar/GBP exchange rate and Euro/GBP exchange rate. It assumes a 10.0% change of the US Dollar/GBP exchange rate as at 31 December 2022 (2021: +/-10.0%). A 10.0% change is considered for the Euro/GBP exchange rate (2021: +/-10.0%). If the GBP had strengthened against the US Dollar and Euro by 10.0% (2021: 10.0%) respectively then this would have had the following impact:

2022	**US Dollar £000**	**Euro £000**	**Other £000**	**Total £000**
Income statement	**(323)**	**(46)**	**–**	**(369)**
Equity	**(1,739)**	**(26)**	**47**	**(1,718)**

2021	US Dollar £000	Euro £000	Other £000	Total £000
Income statement	(254)	(74)	–	(328)
Equity	(1,302)	(57)	(56)	(1,415)

For a 10.0% weakening of GBP against the relevant currency, there would be a comparable but opposite impact on the Consolidated Income Statement and equity.

The Company did not hold any material financial assets or liabilities in foreign currencies at the start nor end of the year.

The currency rate movements against the US Dollar and Euro at year end compared to the previous year end were -10.6% (2021: -0.9%) and -5.2% (2021: 6.5%) respectively. Exposures to foreign exchange rates vary during the year depending on the volume and value of transactions.

(b) Interest rate risk

Science Group manages its longer-term cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, Science Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if Science Group borrowed at fixed rates directly. Under the interest rate swaps, Science Group agrees with other parties to exchange, at specified intervals (typically quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

3. Financial risk management (continued)

3.1 Financial risk factors (continued)
(b) Interest rate risk (continued)
Science Group's bank borrowings and its interest rate profile are as follows:

Group	2022 £000	2021 £000
Pound Sterling – bank loan	**14,200**	15,400
Weighted average interest rate		
Pound Sterling – fixed rate bank loan	**3.5%**	3.5%
Pound Sterling – floating rate bank loan	**SONIA+2.6%**	LIBOR+2.6%

For benchmark rates of interest, Science Group refers to SONIA. The bank loan is secured via a fixed charge over certain assets of Science Group and is repayable as disclosed in Note 23. Terms and conditions of the interest rate swaps are as disclosed in Note 23. The interest rate swaps mature in accordance with the repayment profile of the loan: £2.8 million in September 2025 and the balance of £11.4 million in September 2026.

(c) Credit risk analysis
Science Group has policies in place to ensure that sales are made to clients with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions although counterparty risk is not negligible. Science Group has policies that limit the amount of credit exposure to any financial institution.

Science Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

		Group		Company	
	Note	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Cash and cash equivalents – Group cash	19	**43,645**	34,315	**35,202**	20,091
Cash and cash equivalents – Client registration funds	19	**2,867**	2,874	**–**	–
Trade and other receivables *(excluding VAT and prepayments)*	18	**11,018**	10,636	**2,055**	11,999
		57,530	47,825	**37,257**	32,090

Science Group monitors defaults of customers and other counterparties identified either individually or by group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. Science Group's policy is to deal only with creditworthy counterparties or to require settlement in advance, although there can be no certainty that counterparty creditworthiness will be maintained. Cash balances are held with more than one creditworthy institution.

Management reviews the credit status of the financial institutions with whom it holds its deposits.

Science Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

An analysis of trade and other receivables that are considered to be impaired are disclosed in Note 18.

None of Science Group's financial assets are secured by collateral nor other credit enhancements.

3. Financial risk management (continued)

3.1 Financial risk factors (continued)
(d) Liquidity risk analysis
Science Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a weekly and monthly basis. Long-term liquidity needs for a quarterly and semi-annual period are reviewed monthly.

Science Group maintains cash to meet its liquidity requirements in interest bearing current accounts.

As at 31 December 2022, Science Group's financial liabilities have contractual cashflows and maturities as below:

2022		**Current**		**Non-current**	
Group	Note	**< 6 months £000**	**6 to 12 months £000**	**1 to 5 years £000**	**> 5 years £000**
Bank borrowings	23	**600**	**600**	**13,000**	**–**
Interest on bank borrowings		**239**	**232**	**1,084**	**–**
Trade payables	20	**1,689**	**–**	**–**	**–**
Accruals and lease payments	20, 25	**8,921**	**328**	**1,236**	**–**
		11,449	**1,160**	**15,320**	**–**

This compares to the maturity of Science Group's financial liabilities in the previous reporting period as follows:

2021		Current		Non-current	
Group	Note	< 6 months £000	6 to 12 months £000	1 to 5 years £000	> 5 years £000
Bank borrowings	23	600	600	4,800	9,400
Interest on bank borrowings		259	253	1,469	86
Trade payables	20	2,591	–	–	–
Accruals and lease payments	20, 25	9,457	557	419	–
		12,907	1,410	6,688	9,486

As at 31 December 2022, the Company's financial liabilities have contractual cashflows and maturities as below:

2022		**Current**		**Non-current**	
Company	Note	**< 6 months £000**	**6 to 12 months £000**	**1 to 5 years £000**	**> 5 years £000**
Trade payables and other payables	20	**24,380**	**–**	**–**	**–**
Accruals and lease payments	20	**2,028**	**38**	**36**	**–**
		26,408	**38**	**36**	**–**

This compares to the maturity of the Company's financial liabilities in the previous reporting period as follows:

2021		Current		Non-current	
Company	Note	< 6 months £000	6 to 12 months £000	1 to 5 years £000	> 5 years £000
Trade payables and other payables	20	19,147	–	–	–
Accruals	20	1,038	–	–	–
		20,185	–	–	–

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(e) Summary of financial assets and liabilities by category

The carrying amounts of Science Group's financial assets and liabilities as recognised at the balance sheet date of the reporting periods under review may also be categorised as follows:

		Group		Company	
	Note	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Financial assets:					
Trade receivables	18	**9,776**	9,331	**–**	–
Other receivables	18	**1,242**	1,305	**2,055**	11,999
Cash and cash equivalents – Client registration funds	19	**2,867**	2,874	**–**	–
Cash and cash equivalents – Group cash	19	**43,645**	34,315	**35,202**	20,091
		57,530	47,825	**37,257**	32,090
Financial liabilities:					
Non-current borrowings	23	**12,939**	14,123	**–**	–
Current borrowings	23	**1,200**	1,200	**–**	–
Trade payables	20	**1,689**	2,591	**–**	71
Other payables	20	**–**	–	**24,380**	19,076
Accruals and lease payments	20,25	**10,485**	10,433	**2,102**	1,038
		26,313	28,347	**26,482**	20,185
Derivatives used for hedging held at fair value:					
Financial instrument assets	24	**1,417**	129	**–**	–

The fair value of Science Group's financial assets and liabilities is not materially different from the carrying value.

3.2 Fair value estimation

Financial assets and liabilities measured at fair value in the balance sheet are grouped into three levels based on the significance used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- level 2 – inputs other than quoted market prices included within level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- level 3 – input for the asset or liability that are not based on observable market data (unobservable inputs)

The level within which the financial asset or liability is determined is based on the lowest level of significant input to the fair value measurement.

The Group has measured the interest rate swaps and the currency exchange instruments at fair value under level 2 and this is in 'derivative financial instruments' in the Consolidated Balance Sheet.

The Group's finance team performs valuations of financial items for financial reporting purposes in consultation with third party valuation specialists for complex valuations (e.g. acquired assets and liabilities).

3. Financial risk management (continued)

3.3 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital and to provide funds for merger and acquisition activity.

The Group primarily views its capital as being its shareholders' funds, net funds (being Group cash less borrowings) and the freehold properties at Harston Mill and Great Burgh.

		Group	
	Note	**2022 £000**	2021 £000
Shareholders' funds		**78,199**	66,292
Net funds	1	**29,506**	18,992
Freehold property at Harston Mill	15	**12,805**	12,900
Freehold property at Great Burgh	15	**8,008**	8,091

Shareholders' funds
A summary of subsidiary dividends paid to Science Group plc is shown below:

	Company	
	2022 £000	2021 £000
Sagentia Limited	**4,000**	3,500
Oakland Innovation Ltd	**1,000**	1,000
OTM Consulting Ltd	**252**	–
Leatherhead Research Limited	**500**	–
Frontier Smart Technologies Limited	**4,835**	–
Technology Sciences Group Consulting Limited	**1,000**	–
Technology Sciences Group Limited	**867**	500
Technology Sciences Group Inc.	**2,146**	–
Total dividends paid	**14,600**	5,000

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. The Board will recommend the payment of a dividend of 5.0 pence per share at the forthcoming AGM (2021: 5.0 pence per share). The Board anticipates recommending a single dividend being paid each year.

Net funds
The net funds of the Group have increased by £10.5 million in 2022 (2021: increased by £8.4 million) as set out in the Net Funds Movement in Note 1(c).

Details of the Group's borrowings are set out in Note 23 which summarises the terms of the loan and interest rate swap arrangement.

Freehold property
Details of freehold property and related rental income are set out in Note 15.

4. 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 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	**2022 £000**	2021 £000
Services revenue	**58,242**	52,879
Other	**2,423**	2,840
Revenue	**60,665**	55,719
Adjusted operating profit	**16,200**	14,122
Amortisation of acquisition related intangible assets	**(1,463)**	(1,495)
Share-based payment charge	**(1,249)**	(502)
Operating profit	**13,488**	12,125

Product Operating Business	**2022 £000**	2021 £000
Product revenue	**24,979**	24,936
Revenue	**24,979**	24,936
Adjusted operating profit	**3,869**	5,156
Amortisation of acquisition related intangible assets	**(2,303)**	(1,396)
Share-based payment charge	**(265)**	(240)
Operating profit	**1,301**	3,520

Freehold Properties	**2022 £000**	2021 £000
Inter-company property income	**3,436**	3,046
Third party property income	**657**	561
Revenue	**4,093**	3,607
Adjusted operating profit	**132**	361
Share-based payment charge	**(42)**	(27)
Operating profit	**90**	334

4. Segment information (continued)

Corporate	2022 £000	2021 £000
Adjusted operating loss	**(2,599)**	(3,379)
Acquisition integration costs	**(1,128)**	–
Share-based payment (charge)/credit	**(56)**	42
Share of profit/(loss) of equity accounted investment	**602**	(1,061)
Operating loss	**(3,181)**	(4,398)

Group	2022 £000	2021 £000
Services revenue	**58,242**	52,879
Products revenue	**24,979**	24,936
Third party property income	**657**	561
Other	**2,423**	2,840
Revenue	**86,301**	81,216
Adjusted operating profit	**17,602**	16,260
Acquisition integration costs	**(1,128)**	–
Amortisation of acquisition related intangible assets	**(3,766)**	(2,891)
Share-based payment charge	**(1,612)**	(727)
Share of profit/(loss) of equity accounted investment	**602**	(1,061)
Operating profit	**11,698**	11,581
Net finance costs	**(602)**	(654)
Profit before income tax	**11,096**	10,927
Income tax charge	**(541)**	(1,366)
Profit for the period	**10,555**	9,561

In the Freehold Properties segment, income includes £3.4 million (2021: £3.0 million) generated from intra group recharges. The corresponding costs are included within the Services Operating Business and Product Operating Business segments and are eliminated on consolidation.

During 2022, no single customer accounted for more than 10% of the Group's revenue (2021: nil).

Geographical analysis
Non-current assets (excluding derivative financial Instruments and deferred tax assets) by geographical area are as follows:

	2022 £000	2021 £000
United Kingdom	**58,068**	60,065
Other European Countries	**6**	7
North America	**1,462**	2
Asia	**175**	268
	59,711	60,342

Non-current assets are allocated based on their physical location.

Operating profit for the Services Operating Business included a depreciation charge of £0.2 million (2021: £0.7 million), the Product Operating Business included a depreciation charge of £0.1 million (2021: £0.2 million), the Freehold Properties included a depreciation charge of £0.4 million (2021: £0.4 million) and Corporate included a depreciation charge of £0.03 million (2021: £0.2 million).

5. Revenue

5.1 Revenue Streams
The Group's operations and main revenue streams are those described in Note 4. The Group's revenue is derived from contracts with customers.

5.2 Disaggregation of revenue
In the following table, revenue is disaggregated by geographical market and by the currency in which the contract is denominated. For the purpose of the analysis of revenue, geographical markets are defined as the country or area in which the client is based.

Primary geographic markets	**2022 £000**	2021 £000
United Kingdom	**13,240**	11,883
Other European Countries	**10,621**	12,228
North America	**35,878**	29,065
Asia	**26,047**	27,680
Other	**515**	360
	86,301	81,216

Currency	**2022 £000**	2021 £000
US Dollar	**54,663**	50,153
Euro	**2,669**	3,070
Sterling	**28,969**	27,985
Other	**–**	8
	86,301	81,216

Included in the United Kingdom and Sterling disclosure above is rental income of £657,000 (2021: £561,000).

Timeframe	**2022 £000**	2021 £000
Revenue recognised at a point in time	**26,289**	26,408
Revenue recognised over a period of time	**60,012**	54,808
	86,301	81,216

5.3 Contract balances
The following table provides information about receivables, amount recoverable on contracts and contract liabilities from contracts with customers.

	Note	**2022 £000**	2021 £000
Receivables that are included in 'Trade and other receivables'	18	**9,776**	9,331
Amount recoverable on contracts that are included in 'Trade and other receivables'	18	**1,152**	1,202
Contract liabilities which are included in 'Trade and other payables'	19, 20	**(16,812)**	(14,187)

The amounts recoverable on contracts primarily relate to the Group's rights to consideration for work performed but not billed at the reporting date on Services Operating Business revenue streams. The amounts recoverable on contracts are transferred to receivables when the rights to receive cash become unconditional, i.e. when the Group has fulfilled all the performance obligations and an invoice is issued to the customer.

The contract liabilities primarily relate to the advance consideration received from customers (Note 20). The remainder represents revenue to be recognised over time as the work is performed. The balance of £2,867,000 (2021: £2,874,000) that relates to pass through fees which represent advance payments for registration fees to be paid to regulatory bodies is excluded as these balances are not recognised as revenue (Note 19).

5. Revenue (continued)

5.3 Contract balances (continued)

Significant changes in the amount recoverable on contracts and the contract liabilities balances during the period are as follows:

Year ended 31 December 2022	Amount recoverable on contracts £000	Contract Liabilities £000
Revenue recognised that was included in the contract liability at the beginning of the period	–	14,187
Increase due to invoices raised to clients, excluding amounts recognised as revenue in the period	–	(16,812)
Transfers from amount recoverable on contracts recognised at the beginning of the period to receivables	(1,202)	–
Increases as a result of changes in the measure of progress	1,152	–

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

6. Operating expenses

Operating profit is stated after charging/(crediting):

Year ended 31 December	Note	2022 £000	2021 £000
Cost of inventories		12,559	13,067
Share of (profit)/loss of equity accounted investment	16	(602)	1,061
Depreciation of property, plant and equipment	15	655	719
Depreciation of right-of-use asset	15, 25	827	794
Foreign currency losses		252	92
Amortisation of intangible assets	14	3,766	2,891
Research and development*		11,742	10,941

*R&D costs are represented by employee and material costs incurred in relation to R&D projects.

Auditors' remuneration	2022 £000	2021 £000
Auditors' remuneration to Grant Thornton UK LLP:		
Fees payable to the Company's auditors for the audit of the financial statements	100	70
Fees payable to the Company's auditors for the audit of the Company's subsidiaries pursuant to legislation	245	165
Remuneration to Grant Thornton UK LLP for non-audit services:		
Accountancy and taxation services for foreign subsidiaries	32	21
Compliance and other services for foreign subsidiaries	6	–
Audit related assurance services	34	30
Tax compliance services	58	45
Other taxation advisory services	30	28

7. Finance income and finance costs

Net finance costs include all interest-related income and expenses through profit or loss. The following have been included in the Consolidated Income Statement for the reporting periods presented:

	Group	
Year ended 31 December	**2022 £000**	2021 £000
Finance income		
Bank interest receivable and similar income	**291**	19
Amortisation of credit facility arrangement fee	**84**	–
	375	19
Finance costs		
Interest on bank borrowings	**(517)**	(564)
Fees on settlement of revolving credit facility	**(268)**	(8)
Amortisation of loan arrangement fees	**(16)**	(16)
Amortisation of revolving credit facility arrangement fee	**(81)**	–
Bank interest payables and similar costs	**(5)**	–
Interest on lease liabilities	**(90)**	(85)
	(977)	(673)
Net finance costs	**(602)**	(654)

8. Employee benefit expenses

Employment costs are shown below:

		Group	
Year ended 31 December	Note	**2022 £000**	2021 £000
Wages and salaries (including bonuses)		**31,568**	29,975
Social security costs		**4,315**	3,902
Redundancy costs		**18**	9
Pension costs		**1,830**	1,563
		37,731	35,449
Share-based payments	22	**1,612**	727
Total employee benefit expenses		**39,343**	36,176

Wages and salaries costs (including bonuses) for the Company were £605,000 (2021: £1,258,000), with social security costs for the year of £86,000 (2021: £176,000) and pension costs of £nil (2021: £13,000). There was a share-based payment charge for the Company in the year of £nil (2021: a credit of £78,000).

The average monthly number of persons employed (including Executive and Non-Executive Directors and fixed term contractors) by Science Group was as follows:

	Group	
Year ended 31 December	**2022 Number**	2021 Number
Technology consultants	**324**	308
Marketing, support, administration, and other technically qualified staff	**107**	102
Total average number	**431**	410

The average monthly number of persons employed by the Company was 4 (2021: 4).

9. Directors' remuneration, interests and transactions

Directors' emoluments and benefits include:

Year ended 31 December 2022 **Name of Director**	**Salary/ fee** **£000**	**Bonus** **£000**	**Pension contribution** **£000**	**Discretionary payment** **£000**	**Compensation for loss of office** **£000**	**Gain on share options exercised** **£000**	**Total** **£000**
Ratcliffe	**495**	**–**	**–**	**–**	**–**	**–**	**495**
Edwards	**236**	**128**	**16**	**32**	**–**	**–**	**412**
Brett	**147**	**43**	**10**	**1**	**–**	**–**	**201**
Bertram	**45**	**–**	**–**	**–**	**–**	**–**	**45**
Lacey-Solymar	**45**	**–**	**–**	**–**	**–**	**–**	**45**
Clement Davies	**25**	**–**	**–**	**–**	**–**	**–**	**25**
Aggregate emoluments	**993**	**171**	**26**	**33**	**–**	**–**	**1,223**

Year ended 31 December 2021 Name of Director	Salary/ fee £000	Bonus £000	Pension contribution £000	Discretionary payment £000	Compensation for loss of office £000	Gain on share options exercised £000	Total £000
Ratcliffe	385	–	–	225	–	–	610
Edwards	226	269	16	–	–	–	511
Brett	49	23	3	–	–	–	75
Bertram	45	–	–	20	–	–	65
Lacey-Solymar	45	–	–	13	–	–	58
Archer	50	–	4	–	–	–	54
Vohra	112	–	7	–	89	–	208
Aggregate emoluments	912	292	30	258	89	–	1,581

Directors' emoluments and benefits are stated for the Directors of Science Group plc only.

Ms Clement Davies was appointed as Director on 18 May 2022 and her emoluments are included in the table above from this date.

A share-based payment charge of £315,000 was recognised in the Consolidated Income Statement relating to share options held by Directors (2021: £133,000).

The amounts shown were recognised as an expense during the year and relate to the Directors of the Company. Bonuses, pension and medical benefits are not paid to Non-Executive Directors. Mr Ratcliffe does not participate in the Group bonus scheme or receive pension or medical benefits.

Total social security costs related to Directors during the year were £213,000 (2021: £190,000).

9. Directors' remuneration, interests and transactions (continued)

Directors' interests in the shares of Science Group as at 31 December 2022 and 31 December 2021 are as follows.

Science Group plc Ordinary shares of £0.01		**Options**			**Shares**	
	2022	2021	**2022**	2021	**2022**	2021
	Average exercise price (pence)		**Number**	Number	**Number**	Number
Ratcliffe	**–**	–	**–**	–	**9,412,080**	9,412,080
Edwards	**1.0**	1.0	**693,333**	685,000	**109,000**	109,000
Brett	**1.0**	1.0	**105,000**	85,000	**–**	–
Bertram	**–**	–	**–**	–	**5,000**	5,000
			798,333	770,000	**9,526,080**	9,526,080

There have been no changes subsequent to 31 December 2022.

See Note 22 for further details on option plans.

10. Income tax

The tax charge comprises:

Year ended 31 December	Note	**2022 £000**	2021 £000
Current taxation		**(2,666)**	(4,269)
Current taxation – adjustment in respect of prior years		**539**	(481)
Deferred taxation	11	**643**	2,975
Deferred taxation – adjustment in respect of prior years		**413**	85
R&D tax credit		**530**	324
		(541)	(1,366)

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/(losses) of the consolidated companies of 21.4% (2021: 22.0%) as follows:

	2022 £000	2021 £000
Profit before tax	**11,096**	10,927
Tax calculated at domestic tax rates applicable to profits/(losses) in the respective countries	**(2,374)**	(2,401)
Expenses not deductible for tax purposes	**(389)**	(543)
Adjustment in respect of prior years – current tax	**539**	(481)
Adjustment in respect of prior years – deferred tax	**413**	85
Movement in deferred tax due to change in tax rate	**(35)**	(313)
Share scheme movements	**281**	44
Losses used in year	**569**	1,033
(Derecognition)/recognition of tax losses as deferred tax asset	**(190)**	1,119
Share of profit/(loss) of equity accounted investment	**115**	(233)
R&D tax credit	**530**	324
Tax charge	**(541)**	(1,366)

10. Income tax (continued)

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 £0.5 million (2021: £0.3 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.

11. 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 2021	(1,767)	1,001	775	(2,118)	293	(1,816)
Credited/(charged) to the Income Statement	1,721	1,119	(5)	174	(34)	2,975
Deferred tax relating to acquisitions	–	–	–	(246)	–	(246)
Credited to the Income Statement (adjustment in respect of prior year)	–	–	–	–	85	85
Credited/(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
(Charged)/credited to the Income Statement	(131)	(190)	506	588	(130)	643
Credited to the income statement (adjustment in respect of prior year)	129	–	–	–	284	413
Charged to Equity	–	–	(127)	–	(414)	(541)
Effect of movements in exchange rates	76	246	–	(194)	–	128
At 31 December 2022	**28**	**2,176**	**1,768**	**(1,811)**	**(67)**	**2,094**

	Group	
	2022 £000	2021 £000
Deferred tax assets	**2,176**	2,120
Deferred tax liabilities	**(82)**	(669)
Net deferred tax assets	**2,094**	1,451

At 31 December 2022, Science Group had £26.7 million (2021: £27.8 million) of tax losses of which £17.1 million (2021: £17.6 million) related to trading losses in Frontier. Of the Frontier losses, £8.7 million (2021: £10.0 million) is recognised as a deferred tax asset which is anticipated to be used to offset future taxable profits. The balance of £8.4 million (2021: £7.6 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 £9.6 million (2021: £10.2 million) unrecognised as a deferred tax asset due to the low probability that these losses will be utilised.

11. Deferred tax (continued)

Company	Share-based payment £000	Other temporary differences £000	Total £000
At 1 January 2021	**34**	**–**	**34**
Charged to Income Statement	(16)	–	(16)
Charged to Equity	(18)	–	(18)
At 31 December 2021	**–**	**–**	**–**
Credited to Income Statement	–	23	23
At 31 December 2022	**–**	**23**	**23**

The Company has available tax losses of approximately £2.3 million (2021: £2.3 million) and these losses do not expire.

Factors affecting future tax charges –

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

12. Earnings per share

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

	2022			2021		
	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	**10,555**	**45,525,568**	**23.2**	9,561	42,660,991	22.4
Effect of dilutive potential ordinary shares: share options	**–**	**1,268,082**	**(0.6)**	–	1,435,102	(0.7)
Diluted earnings per ordinary share	**10,555**	**46,793,650**	**22.6**	9,561	44,096,093	21.7

Only the share options granted, as disclosed in Note 22, are dilutive.

The calculation of adjusted earnings per share is as follows:

	2022			2021		
	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	**13,362**	**45,525,568**	**29.4**	12,173	42,660,991	28.5
Effect of dilutive potential ordinary shares: share options	**–**	**1,268,082**	**(0.8)**	–	1,435,102	(0.9)
Adjusted diluted earnings per ordinary share	**13,362**	**46,793,650**	**28.6**	12,173	44,096,093	27.6

12. Earnings per share (continued)

*Calculation of adjusted profit after tax:

Group	2022 £000	2021 £000
Adjusted operating profit	**17,602**	16,260
Finance income	**375**	19
Finance costs	**(977)**	(673)
Adjusted profit before tax	**17,000**	15,606
Tax charge at the blended corporation tax rate across the various jurisdictions 21.4% (2021: 22.0%)	**(3,638)**	(3,433)
Adjusted profit after tax	**13,362**	12,173

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

13. Dividends

The final dividend for 2021 of £2.3 million was paid in June 2022 (2021: £1.6 million paid for 2020 in June 2021).

The Board has proposed a final dividend for 2022 of 5.0 pence per share (2021: 5.0 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 2022.

14. Intangible assets

Group	Technology £000	Customer relationships £000	Goodwill £000	Total £000
Cost				
At 31 January 2021	6,792	13,647	15,882	36,321
Acquisitions through business combination	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
Effect of movement in exchange rates	1,350	428	615	2,393
At 31 December 2022	**13,656**	**14,343**	**17,200**	**45,199**
Accumulated amortisation				
At 1 January 2021	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
Amortisation charged in year	2,172	1,594	–	3,766
Effect of movement in exchange rates	335	221	–	556
At 31 December 2022	4,971	12,206	–	17,177
Accumulated impairment				
At 1 January, 31 December 2021 and 31 December 2022	–	**7**	**2,225**	**2,232**
Carrying amount				
At 31 December 2021	9,842	3,517	14,360	27,719
At 31 December 2022	**8,685**	**2,130**	**14,975**	**25,790**

14. Intangible assets (continued)

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:

Group	**2022**		2021	
	Pre-tax discount rate	**£000**	Pre-tax discount rate	£000
R&D Consultancy	**16.8%**	**3,383**	14.2%	3,383
Leatherhead Research	**16.9%**	**650**	14.1%	650
TSG – Americas	**15.2%**	**2,874**	16.4%	2,570
TSG – Europe	**16.6%**	**4,546**	15.8%	4,546
Frontier Smart Technologies Group	**17.5%**	**3,522**	14.1%	3,211
		14,975		14,360

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 or decline 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 four years based on forecast rates of growth or decline in revenue by the CGU.

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.

Impairment testing for the R&D Consultancy CGU
A review of the forecast future cash flows of R&D Consultancy, based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant markets and have been based on historical data from internal sources.

R&D Consultancy CGU	**2022**	2021
Rate of growth in revenue (average of next 5 years)	**4.6%**	5.5%
Rate of increase in operating costs (average of next 5 years)	**3.3%**	6.8%
Terminal value growth rate	**2.0%**	2.3%

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to R&D Consultancy being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

14. Intangible assets (continued)

Impairment testing for the Leatherhead Research CGU
A review of the forecast future cash flows of Leatherhead Research CGU, based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant markets and have been based on historical data from internal sources.

Leatherhead Research CGU	2022	2021
Rate of growth in revenue (average of next 5 years)	**2.0%**	1.7%
Rate of increase in operating costs (average of next 5 years)	**0.1%**	1.8%
Terminal value growth rate	**2.0%**	2.0%

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to Leatherhead Research CGU being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

Impairment testing for the TSG Americas CGU
A review of the forecast future cash flows of TSG Americas, based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant markets and have been based on historical data from internal sources.

TSG Americas CGU	2022	2021
Rate of growth in revenue (average of next 5 years)	**4.8%**	7.8%
Rate of increase in operating costs (average of next 5 years)	**3.2%**	9.2%
Terminal value growth rate	**2.0%**	2.3%

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to TSG Americas being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

14. Intangible assets (continued)

Impairment testing for the TSG Europe CGU

A review of the forecast future cash flows of TSG Europe, based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant markets and have been based on historical data from internal sources.

TSG Europe CGU	**2022**	2021
Rate of growth in revenue (average of next 5 years)	**8.6%**	7.3%
Rate of increase in operating costs (average of next 5 years)	**5.0%**	5.3%
Terminal value growth rate	**2.0%**	2.3%

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to TSG Europe being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

Impairment testing for the Frontier Smart Technologies Group CGU

A review of the forecast future cash flows of Frontier Smart Technologies Group ('Frontier'), based on value in use estimated using discounted cash flows, indicated there was no impairment.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant markets and have been based on historical data from internal sources.

Frontier Smart Technologies Group CGU	**2022**	2021
Rate of growth in revenue (average of next 5 years)	**0.2%**	3.5%
Rate of (decrease)/increase in operating costs (average of next 5 years)	**(0.5%)**	4.9%
Terminal value growth rate	**2.0%**	2.3%

The growth rates used are based on internal forecasts which reflect management's best estimate of the future forecasts. The terminal growth rate was determined based on management's estimate of the long-term compound annual EBIT growth rate, based on market data.

A sensitivity analysis using reasonably possible changes in key assumptions has been performed. None of these changes result in the value of goodwill allocated to Frontier being in excess of its recoverable amount and therefore no sensitivity analysis is presented.

During 2022 Magic Systech Inc was fully integrated into the Frontier CGU as all processes, management and reporting of the businesses are treated as a combined business.

15. Property, plant and equipment

Group	Freehold land and buildings £000	Right-of-use Asset £000	Furniture and fittings £000	Equipment £000	Total £000
Cost					
At 1 January 2021	25,200	4,224	3,751	2,176	35,351
Additions	-	583	257	287	1,127
Disposals	–	(599)	(1,323)	(64)	(1,986)
Exchange differences on cost	–	35	(7)	1	29
At 1 January 2022	25,200	4,243	2,678	2,400	34,521
Additions	–	1,702	–	92	1,794
Disposals	(7)	(2,156)	(272)	(444)	(2,879)
Exchange differences on cost	1	279	21	238	539
At 31 December 2022	**25,194**	**4,068**	**2,427**	**2,286**	**33,975**
Accumulated depreciation					
At 1 January 2021	4,031	2,999	2,673	1,839	11,542
Depreciation charge	178	794	291	250	1,513
Disposals	–	(599)	(1,323)	(64)	(1,986)
Exchange differences on depreciation	–	60	7	1	68
At 1 January 2022	4,209	3,254	1,648	2,026	11,137
Depreciation charge	178	827	219	258	1,482
Disposals	(7)	(2,003)	(272)	(442)	(2,724)
Exchange differences on depreciation	1	167	19	26	213
At 31 December 2022	**4,381**	**2,245**	**1,614**	**1,868**	**10,108**
Carrying amount					
At 31 December 2021	20,991	989	1,030	374	23,384
At 31 December 2022	**20,813**	**1,823**	**813**	**418**	**23,867**

Freehold land and buildings include two properties in the UK.

The Epsom property is held at cost less accumulated depreciation. Included within land and buildings for the Group is freehold land to the value of £500,000 (2021: £500,000) which has not been depreciated. During the year ended 31 December 2016, the property was brought into use from which point depreciation commenced. This property was acquired solely for the use of Science Group. This property was last formally valued at £7.8 million during March 2021 by BNP Paribas Real Estate, subject to the assumption of full vacant possession.

The Harston property is held at cost less accumulated depreciation. Included within land and buildings for the Group is freehold land to the value of £1,360,000 (2021: £1,360,000) which has not been depreciated. Cumulative interest capitalised up to 31 December 2003 was £340,000. No further interest has been capitalised. The Harston property was last formally valued during March 2021 by BNP Paribas Real Estate. Under the assumptions used, including tenant covenant strength and market rents, the indicative valuation range for the building was between £14.0 million based on occupational tenancies where the head lease is merged into the freehold interest, and £23.7 million under a sale and leaseback scenario.

The Epsom and Harston buildings are depreciated using the straight-line method to allocate their cost less their residual values over their estimated useful lives of 25 years. The residual values of the properties are based on estimates of the amounts the Group would receive currently for the properties if they were already of an age and in the condition expected at the end of their useful lives. The residual values are reviewed annually to ensure that they do not exceed the estimated market values of the properties.

15. Property, plant and equipment (continued)

The Harston property generated third party rental and associated income of £657,000 (2021: £561,000). Of this income, £386,000 (2021: £346,000) was rental income and £271,000 (2021: £215,000) was associated income. Associated income includes, but is not limited to, utilities, cleaning, and general maintenance.

The total space on the Harston site available for business use is 97,000 sq. ft. Of this space, the average total space let to third parties during 2022 was 18,000 sq. ft. (2021: 15,900 sq. ft.). The leases to tenants are typically for a 36-month term and normally have a termination notice period of 3 to 6 months. An average of 48,100 sq. ft. (2021: 50,100 sq. ft.) was used by the Group during the year for its business activities including office space and laboratory space and 22,800 sq. ft. are common areas. The remaining space of 8,100 sq. ft. (2021: 10,700 sq. ft.) was vacant during the year.

Given the continuing rental values and occupancy rates the Directors do not believe that the combined carrying value of the Harston and Epsom properties of £20.8 million (2021: £21.0 million) is significantly different to its fair value.

The term loan with Lloyds Bank plc is secured on the Harston and Epsom properties which have a combined net book value at 31 December 2022 of £20.8 million (2021: £21.0 million).

Science Group plc, the Company, had fixed assets with a net book value of £143,000 at 31 December 2022 (£33,000 at 31 December 2021).

16. Investments

(a) Investments in subsidiaries
Science Group plc held investments in the following subsidiaries at 31 December 2022:

Subsidiaries of Science Group plc	Registered office	Country of incorporation	Principal activity	Shares held	%
Sagentia Limited*	(1)	England	Consultancy	Ordinary	100
Quadro Harston Limited*	(1)	England	Property	Ordinary	100
OTM Consulting Ltd*	(1)	England	Consultancy	Ordinary	100
Quadro Epsom Limited*	(1)	England	Property	Ordinary	100
Sagentia Inc.	(2)	USA	Consultancy	Ordinary	100
OTM Consulting Inc.	(3)	USA	Consultancy	Ordinary	100
Oakland Innovation Ltd*	(1)	England	Consultancy	Ordinary	100
Leatherhead Research Limited*	(1)	England	Consultancy	Ordinary	100
Technology Sciences Group Limited*	(1)	England	Consultancy	Ordinary	100
Technology Sciences Group Consulting Limited*^	(1)	England	Consultancy	Ordinary	100
Technology Sciences Group (TSG) Canada Inc.	(7)	Canada	Consultancy	Ordinary	100
Technology Sciences Group Iberia SL	(5)	Spain	Consultancy	Ordinary	100
TSGE Deutschland GmbH	(6)	Germany	Consultancy	Ordinary	100
Technology Sciences Group Inc. *	(2)	USA	Consultancy	Ordinary	100
Technology Science Group France SAS*	(4)	France	Consultancy	Ordinary	100
SG Bidco Ltd*	(1)	England	Holding Company	Ordinary	100
Frontier Smart Technologies Limited*+	(1)	England	Production	Ordinary	100
Frontier Microsystems Ltd*+	(1)	England	Production	Ordinary	100
Frontier Silicon (HK) Ltd	(8)	Hong Kong	Production	Ordinary	100
Magic Systech Inc	(9)	Taiwan	Production	Ordinary	100

* Direct subsidiaries of Science Group plc as at 31 December 2022.

^ On 31 March 2022, Science Group plc acquired 100% of the share capital in Technology Sciences Group Consulting Limited from Technology Sciences Group Limited.

+ On 31 March 2022, Science Group plc acquired 100% of the share capital in Frontier Smart Technologies Limited and 100% of the share capital in Frontier Microsystems Ltd from SG Bidco Ltd.

Frontier Microsystems Ltd was dissolved in January 2023, and SG Bidco Ltd was dissolved in March 2023.

An application has been made to strike off Technology Sciences Group Limited.

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(3) 815 Brazos Street, Suite 500, Austin, Texas, 78701, USA
(4) 229 rue Saint-Honoré, 75001, Paris, France
(5) Avenida De Galicia, 22-1, Isquierda, Dr Oviedo, 33005, Spain
(6) Im Fliegerhorst 12 38642 Goslar, Germany
(7) 50 O'Connor Street, Suite 300, Ottawa, Ontario, K1P 6L2, Canada
(8) 31/F Tower Two Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, China
(9) (11083) 6F, No.508, Sec.5, Zhongxiao East Road, Xinyi District, Taipei City, Taiwan

16. Investments (continued)

(b) Investments summary

	Subsidiary investments £000	Financial investment £000	Associate investment £000	Total investments £000
Cost				
At 1 January 2021	52,364	–	–	52,364
Capital contribution to subsidiaries*	806	–	–	806
Acquisition of financial investment**	–	12,770	–	12,770
Remeasurement of financial investment to reflect fair value on 13 October 2021	–	(2,470)	–	(2,470)
Reclassification from financial investment to associate investment	–	(10,300)	10,300	–
Share of loss in associate investment	–	–	(1,061)	(1,061)
At 1 January 2022	53,170	–	9,239	62,409
Capital contribution to subsidiaries*	1,612	–	–	1,612
Acquisition of associate investment**	–	–	213	213
Acquisition of shares in subsidiaries***	3,703	–	–	3,703
Share of profit in associate investment	–	–	602	602
At 31 December 2022	**58,485**	**–**	**10,054**	**68,539**
Accumulated impairment				
At 1 January 2021, 1 January 2022 and 31 December 2022	**2,185**	**–**	**–**	**2,185**
Carrying amount				
At 31 December 2021	50,985	–	9,239	60,224
At 31 December 2022	**56,300**	**–**	**10,054**	**66,354**

*Capital contributions to subsidiaries are in relation to share-based payment charges for employees of the subsidiaries.

**From August 2021, the Group commenced on-market purchases of shares in TP Group plc, increasing its shareholding to 27.97% at 31 December 2021. Additional on-market purchases of shares in TP Group plc were made in the year to 31 December 2022, increasing the Group's shareholding to 29.21%.

***On 31 March 2022, as part of some Group structure rationalisation, Science Group plc acquired 100% of the share capital in Frontier Smart Technologies Limited and Frontier Microsystems Ltd from SG Bidco Ltd, and also acquired 100% of the share capital in Technology Sciences Group Consulting Limited from Technology Sciences Group Limited.

16. Investments (continued)

(c) Associate investment
The Group's interest in TP Group plc is accounted for using the equity method in the Consolidated Financial Statements.

Summarised financial information for TP Group plc is set out below:

Balance sheet as at 31 December	**2022 £000**	2021 £000
Current assets	**16,762**	24,331
Non-current assets	**13,369**	15,392
Current liabilities	**(12,501)**	(23,077)
Non-current liabilities	**(10,258)**	(11,762)
Equity	**7,372**	4,884
Proportion of ownership interests held by the Group	**29.21%**	27.97%
Group's share in equity*	**2,153**	1,366

Income statement for the year ended 31 December	**2022 £000**	2021 £000
Revenue from continuing operations	**48,666**	44,255
Cost of sales	**(35,016)**	(37,350)
Gross profit from continuing operations	**13,650**	6,905
Administrative expenses	**(12,335)**	(14,405)
Adjusted operating profit/(loss) from continuing operations	**1,315**	(7,500)
Finance costs	**(767)**	(450)
Profit/(loss) before tax from continuing operations	**548**	(7,950)
Tax credit	**928**	59
Profit/(loss) for the year from continuing operations	**1,476**	(7,891)
Profit/(loss) for the year from discontinued operations (attributable to equity holders of the Company)	**988**	(11,138)
Other comprehensive income items	**–**	(481)
Total comprehensive income/(expense) for the year	**2,464**	(19,510)
Group's share of comprehensive income/(expense) for the year	**695**	(1,154)
Adjustment to share of loss in respect of prior year	**(93)**	–
Group's share of profit/(loss) for the year*	**602**	(1,154)

The 2021 comparatives agree to the TP Group plc Annual Report and Financial Statements filed at Companies House on 1 October 2022.

* The 2021 Group's share in TP Group plc equity and share of loss for the year as reported based upon 2021 unaudited results were £2,688,000 and £1,061,000 respectively.

17. Inventories

	Group	
	2022 £000	2021 £000
Raw materials	**263**	304
Work in progress	**485**	793
Finished goods	**1,729**	1,357
	2,477	2,454

The costs of inventory included in operating expenses were £12,559,000 (2021: £13,067,000).

The Company held £nil inventories at 31 December 2022 (2021: £nil).

18. Trade and other receivables

	Group		Company	
Current assets	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Trade receivables	**9,983**	9,406	**–**	–
Provision for impairment	**(207)**	(75)	**–**	–
Trade receivables – net	**9,776**	9,331	**–**	–
Amounts recoverable on contracts	**1,152**	1,202	**–**	–
Other receivables	**90**	103	**20**	25
Amounts owed by Group undertakings	**–**	–	**2,035**	11,974
VAT	**215**	96	**57**	39
Prepayments	**1,759**	1,476	**742**	414
	12,992	12,208	**2,854**	12,452

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

The following table provides information about the exposure to credit risk and Expected Credit Losses ('ECLs') for trade receivables and amounts recoverable on contracts.

Group	2022		2021	
	Gross carrying amount £000	**Provision for impairment £000**	Gross carrying amount £000	Provision for impairment £000
Current (not past due)	**7,243**	**112**	9,058	–
1-30 days past due	**3,359**	**–**	998	–
31-60 days past due	**265**	**8**	370	–
61-90 days past due	**58**	**6**	164	4
More than 90 days past due	**210**	**81**	18	71
	11,135	**207**	10,608	75

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

18. Trade and other receivables (continued)

The ECLs are based on the payment profile for sales over the past 48 months before 31 December 2022 and 31 December 2021 respectively as well as the corresponding historical credit losses during that period. The historical ECLs are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery.

In relation to amounts owed by Group Undertakings, based on historical experience and informed credit assessment, the ECL is not material.

	Group	
Provision for impairment	**2022 £000**	2021 £000
Provision brought forward	**75**	102
Provision made	**313**	101
Provision released	**(195)**	(116)
Movement due to foreign exchange fluctuations	**14**	(12)
Provision carried forward	**207**	75

19. Cash and cash equivalents

	Group		Company	
	2022 £000	2021 £000	**2022 £000**	2021 £000
Cash and cash equivalents – Group cash	**43,645**	34,315	**35,202**	20,091
Cash and cash equivalents – Client registration funds	**2,867**	2,874	**–**	–
	46,512	37,189	**35,202**	20,091

The Group receives cash from clients, primarily in North America, for the purpose of payment of registration fees to regulatory bodies. This cash is separately identified for reporting purposes and is unrestricted.

In connection with the Scheme of Arrangement as referenced in Note 29, £12.6 million of Group cash was held in escrow at 31 December 2022 (2021: £nil).

20. Trade and other payables

	Group		Company	
Current liabilities	**2022 £000**	2021 £000	**2022 £000**	2021 £000
Contract liabilities	**19,679**	17,061	**–**	–
Trade payables	**1,689**	2,591	**–**	71
Other taxation and social security	**1,460**	1,346	**–**	99
Amounts owed to Group undertakings	**–**	–	**24,380**	19,076
VAT	**250**	224	**–**	–
Accruals	**8,468**	8,820	**1,952**	1,038
	31,546	30,042	**26,332**	20,284

21. Provisions

Group	Dilapidations £000	Restructuring £000	Legal £000	Other £000	Total £000
At 1 January 2021	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)
Effect of movement in exchange rates	6	–	8	–	14
At 1 January 2022	770	70	440	–	1,280
Provisions made during the year	44	–	190	–	234
Provisions used during the year	(2)	–	(152)	–	(154)
Provisions reversed during the year	(164)	(30)	(149)	–	(343)
Effect of movement in exchange rates	58	–	22	–	80
At 31 December 2022	**706**	**40**	**351**	**–**	**1,097**
Current liabilities	458	40	351	–	849
Non-current liabilities	248	–	–	–	248
At 31 December 2021	770	70	440	–	1,280
Current liabilities	167	70	440	–	677
Non-current liabilities	603	–	–	–	603

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 as at 31 December 2022 is 1.4 years (2021: 2 years).

The restructuring provision relates to the costs associated with the closure of some non-trading Group entities.

Legal provisions reflect 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.

22. Called-up share capital

	2022 £000	2021 £000
Allotted, called-up and fully paid		
Ordinary shares of £0.01 each	**462**	462
	Number	Number
Allotted, called-up and fully paid		
Ordinary shares of £0.01 each	**46,185,874**	46,185,874

The allotted, called-up and fully paid share capital of the Company as at 31 December 2022 was 46,185,874 shares (2021: 46,185,874) and the total number of ordinary shares in issue (excluding treasury shares) was 45,436,823 (2021: 45,720,276). Of the ordinary shares in issue, 34,800 shares (2021: 104,400) are held by the Frontier Smart Technologies Employee Benefit Trust. The total number of voting rights in the Company was 45,402,023 (2021: 45,615,876).

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

	Company	
Reconciliation of treasury shares	**2022 Number**	2021 Number
At beginning of year	**465,598**	823,643
Purchase of own shares	**323,453**	148,623
Settlement of share options	**(40,000)**	(506,668)
At end of year	**749,051**	465,598

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.

The total charge relating to employee share-based payment plans, all of which related to equity-settled share-based payment transactions, was £1,612,000 (2021: £727,000).

	2022		2021	
Reconciliation of outstanding options	**Number**	**Weighted average exercise price (pence)**	Number	Weighted average exercise price (pence)
At beginning of year	**3,301,058**	**1.0**	2,854,400	1.0
Granted during the year – PSP	**427,000**	**1.0**	1,505,000	1.0
Exercised during the year	**(109,600)**	**1.0**	(506,675)	1.0
Lapsed during the year	**(253,135)**	**1.0**	(551,667)	1.0
At end of year	**3,365,323**	**1.0**	3,301,058	1.0

During the year ended 31 December 2022, share options were issued under the Performance Share Plan ('PSP').

The options outstanding at 31 December 2022 had a weighted average contractual life of 7.8 years (2021: 8.2 years).

Included within the total outstanding options at 31 December 2022 are 368,323 options which are exercisable (2021: 71,658). The weighted average exercise price of exercisable options at the end of the year was 1.0 pence (2021: 1.0 pence).

Options exercised during the year had a weighted average share price at the date of exercise of 393.0 pence (2021: 441.0 pence).

Exercise of an option is subject to continued employment, and normally lapses upon leaving employment.

22. Called-up share capital (continued)

The fair values of options granted under the PSP in 2022 were determined using a variation of the Binomial Option Pricing model that takes into account factors specific to the share incentive plans including performance conditions. The performance conditions have been incorporated into the measurement by means of actuarial modelling. One vesting condition attached to options granted in the year is such that 100% of the options vest dependent on the Company achieving earnings per share targets. For options granted in the year, a risk-free rate of 1.31% and 4.57% and a dividend yield factor of 1.25% and 1.27% has been used for the options issued on 21 March and 27 September 2022 respectively. The share price on the date the options were granted was 398.0 pence and 393.0 pence on 21 March and 27 September 2022 respectively. The other principal assumptions used in the valuation are set out in the table below. The underlying expected volatility was determined by reference to historical data of the Company's shares over the vesting period.

At 31 December 2022, options granted to subscribe for ordinary shares of the Company that remain unexercised are as follows:

	Option exercise period		**Number of shares under option**					
Date of grant	**From**	**To**	**Performance Share Plan**	**Enhanced Executive Incentive Addendum**	**Exercise Price (pence)**	**Fair Value of options (pence)**	**Expected Life (years)**	**Volatility**
Sep 2017	Sep 2020	Sep 2027	5,000	–	1.0	207.1	10	24%
May 2018	May 2021	May 2028	6,663	–	1.0	224.4	10	25%
May 2018	May 2023	May 2028	–	700,000	1.0	121.0	10	25%
Sept 2018	Sep 2021	Sep 2028	46,661	–	1.0	225.3	10	23%
Oct 2019	Oct 2022	Oct 2029	233,330	–	1.0	177.8	10	17%
Nov 2019	Nov 2022	Nov 2029	76,669	–	1.0	211.7	10	18%
Oct 2020	Oct 2023	Oct 2030	425,000	–	1.0	222.3	10	23%
Mar 2021	Mar 2024	Mar 2031	20,000	–	1.0	284.3	10	31%
Oct 2021	Oct 2024	Oct 2031	380,000	–	1.0	435.8	10	31%
Oct 2021	Oct 2026	Oct 2031	–	1,050,000	1.0	245.7	10	31%
Mar 2022	Mar 2025	Mar 2032	30,000	–	1.0	382.4	10	31%
Sept 2022	Sept 2025	Sept 2032	392,000	–	1.0	377.6	10	27%
			1,615,323	**1,750,000**				

At 31 December 2021, options granted to subscribe for ordinary shares of the Company that remain unexercised are as follows:

	Option exercise period		Number of shares under option					
Date of grant	From	To	Performance Share Plan	Enhanced Executive Incentive Addendum	Exercise Price (pence)	Fair Value of options (pence)	Expected Life (years)	Volatility
Sep 2017	Sep 2020	Sep 2027	5,000	–	1.0	207.1	10	24%
May 2018	May 2021	May 2028	13,330	–	1.0	224.4	10	25%
May 2018	May 2023	May 2028	–	700,000	1.0	121.0	10	25%
Sept 2018	Sep 2021	Sep 2028	53,328	–	1.0	225.3	10	23%
Oct 2019	Oct 2022	Oct 2029	415,000	–	1.0	177.8	10	17%
Nov 2019	Nov 2022	Nov 2029	219,400	–	1.0	211.7	10	18%
Oct 2020	Oct 2023	Oct 2030	440,000	–	1.0	222.3	10	23%
Mar 2021	Mar 2024	Mar 2031	20,000	–	1.0	284.3	10	31%
Oct 2021	Oct 2024	Oct 2031	385,000	–	1.0	435.8	10	31%
Oct 2021	Oct 2026	Oct 2031	–	1,050,000	1.0	245.7	10	31%
			1,551,058	1,750,000				

23. Borrowings

(a) Term loan

Group	2022 £000	2021 £000
Current bank borrowings	**1,200**	1,200
Non-current bank borrowings	**12,939**	14,123
Total borrowings	**14,139**	15,323

Group	2022 £000	2021 £000
Opening balance	**15,323**	16,507
Repayments in the year	**(1,200)**	(1,200)
Amortisation of loan arrangement fee	**16**	16
Total borrowings	**14,139**	15,323

Science Group plc, the Company, had no bank borrowings at the start nor end of the year.

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 SONIA 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 have been offset against the balance outstanding and are being amortised over the period of the loan.

At 31 December 2022, the amount outstanding on the term loan was £14.2 million.

The reconciliation of bank loans interest expense is shown below.

Group	2022 £000	2021 £000
Interest expense	**533**	580
Interest paid	**(517)**	(564)
Amortisation of loan arrangement fee	**(16)**	(16)
Interest accrual at the year end	**–**	–

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

Group	2022 £000	2021 £000
Within one year	**1,200**	1,200
Between 1 and 2 years	**1,200**	1,200
Between 2 and 5 years	**11,800**	3,600
Over 5 years	**–**	9,400
	14,200	15,400

23. Borrowings (continued)

(b) Revolving credit facility
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% per annum 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 2.0, in which case reporting moves to quarterly until net leverage returns to below 2.0 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 reconciliation of RCF interest expense is shown below.

Group	**2022 £000**	2021 £000
Interest expense	**349**	–
Interest paid	**(268)**	–
Amortisation of RCF arrangement fee	**(81)**	–
Interest accrual at the year end	**–**	–

(c) Hedge accounting
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 rates on the swaps range from 0.4% to 1.3% which when combined with the margin on the loan economically fix the finance cost at 3.5%.

The notional amount on the interest rate swaps reduces in line with the repayment of the term loan, so an effective hedge remains throughout the term of the loan. There are 4 active swaps in place at 31 December 2022, totalling £14.2 million. Of this total, £2.8 million will mature in September 2025 and the remaining balance of £11.4 million will mature in September 2026.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two. The critical terms of the interest rate swaps entered into exactly match the terms of the hedged item. As such the economic relationship and hedge effectiveness are based on the qualitative factors and the use of a hypothetical derivative where appropriate.

Hedge ineffectiveness may arise where the critical terms of the forecast transaction no longer meet those of the hedging instrument, however the hedged items and the hedging instrument relationship matches one to one. For example, if the payment of the loan and the interest are transacted at different times, the hedge will become ineffective however the timing of the payments are within the control of the Group. All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the consolidated statement of financial position. To the extent the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss. At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued, and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

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 £1,287,000 (2021: gain of £763,000) was recognised in other comprehensive income. The fair value of the swap at 31 December 2022 was an asset of £1,417,000 (2021: £129,000).

23. Borrowings (continued)

(c) Hedge accounting (continued)
The effects of the interest rate swaps on the Group's financial position and performance are as follows:

Interest rate swaps	2022	2021
Carrying amount (non-current assets)	**£1,417,000**	£129,000
Notional amount as at 31 December	**£14,200,000**	£15,400,000
Maturity date	**Sept 2026**	Sept 2026
Hedge ratio	**1:1**	1:1
Change in the fair of the outstanding hedging instruments since 1 January	**£1,357,000**	£630,000
Change in the fair of hedged item used to determine hedge effectiveness	**£1,357,000**	£630,000
Weighted average hedged rate for the year	**3.5%**	3.5%

24. Derivative financial instruments

The Group's derivative financial instruments are measured at fair value and are summarised below:

	Note	2022 £000	2021 £000
Non-current assets			
Interest rate swaps – cash flow hedge	23	**1,417**	129
Total non-current derivative financial instruments		**1,417**	129
Current assets			
US Dollar currency exchange instruments – cash flow hedge		**384**	–
Total current derivative financial instruments		**384**	–

The Group's cashflow hedge reserve relates to the following hedging instruments:

	Cash flow hedge reserve		
	Currency exchange instruments £000	**Interest rate swaps £000**	**Total £000**
At 1 January 2021	–	(538)	(538)
Change in fair value of hedging instrument recognised in other comprehensive income	–	630	630
Reclassified from other comprehensive income to profit or loss	–	133	133
Net change in fair value of hedging instrument recognised in other comprehensive income	–	763	763
Deferred tax charge	–	(151)	(151)
At 1 January 2022	–	74	74
Change in fair value of hedging instrument recognised in other comprehensive income	169	1,357	1,526
Reclassified from other comprehensive income to profit or loss	43	(70)	(27)
Net change in fair value of hedging instrument recognised in other comprehensive income	212	1,287	1,499
Deferred tax charge	(90)	(324)	(414)
At 31 December 2022	**122**	**1,037**	**1,159**

24. Derivative financial instruments (continued)

The interest rate swaps are used to mitigate interest rate risk, see Note 23.

The Group uses currency exchange instruments to mitigate foreign exchange rate exposure arising from highly probable forecast sales in US Dollars.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instruments to determine whether there is still an economic relationship between the two.

The critical terms of the currency exchange instruments exactly match the terms of the hedged item. As such the economic relationship and hedge effectiveness are based on the qualitative factors and the use of a hypothetical derivative where appropriate.

Hedge ineffectiveness may arise where the critical terms of the forecast transaction no longer meet those of the hedging instrument, for example if there was a change in the timing of the forecast sales transactions from what was initially estimated or if the volume of currency in the hedged item was below expectations leading to over-hedging.

The hedged items and the hedging instrument are denominated in the same currency and as a result the hedging ratio is always one to one.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the consolidated statement of financial position.

To the extent the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in the income statement.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income.

If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued, and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

The impact of the currency exchange instruments on the Consolidated Balance Sheet as at 31 December 2022 is, as follows:

Date of inception	22/09/22
Carrying amount (current asset)	£384,000
Amount hedged per month (12 separate instruments, maturing December 2023)	$1,250,000
Hedge ratio	1:1
Strike price	US$1.2 per £1 Sterling
Change in the fair value of the currency exchange instruments since inception	£169,000
Change in the fair value of the hedged item used to determine hedge effectiveness	£169,000

25. Leases

(a) Leases as lessee (IFRS 16)
The Group leases office facilities for periods between 2 and 10 years, based on the non-cancellable period.

At 31 December 2022, the leases had remaining periods of 1 to 5 years.

Right-of-use assets
Information about leases for which the Group is a lessee is presented below.

Group	**2022 £000**	2021 £000
Balance at 1 January	**989**	1,225
Additions	**1,702**	583
Disposals	**(153)**	–
Depreciation charge for the year	**(827)**	(794)
Effect of movements in exchange rates	**112**	(25)
Balance 31 December	**1,823**	989

Lease liabilities
Information about leases for which the Group is a lessee is presented below.

Group	**2022 £000**	2021 £000
Balance at 1 January	**1,553**	2,285
Additions	**1,691**	583
Repayments in year	**(1,135)**	(1,297)
Lease cancellations	**(369)**	–
Effect of movements in exchange rates	**142**	(18)
Balance 31 December	**1,882**	1,553

Lease liabilities are payable as follows:

31 December 2022	**Within 1 year £000**	**1-2 years £000**	**2-3 Years £000**	**3-4 Years £000**	**4-5 Years £000**	**Total £000**
Lease payments	781	413	351	353	119	2,017
Finance charges	(61)	(38)	(24)	(11)	(1)	(135)
Net present values	**720**	**375**	**327**	**342**	**118**	**1,882**

31 December 2021	Within 1 year £000	1-2 years £000	2-3 Years £000	3-4 Years £000	4-5 Years £000	Total £000
Lease payments	1,193	382	38	–	–	1,613
Finance charges	(40)	(20)	–	–	–	(60)
Net present values	1,153	362	38	–	–	1,553

(b) Leases as lessor
The Group leases out some of the Harston site to third parties on leases which normally have a termination notice period of 3 to 6 months and typically for a 36-month term.

The leases are classified as operating leases from a lessor perspective because they do not transfer substantially all the risk and rewards to the ownership of the assets. Note 15 sets out information about the Harston leases.

Refer to Note 15 for rental income recognised by the Group during 2022.

25. Leases (continued)

(b) Leases as lessor (continued)
The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

Operating leases under IFRS 16	2022 £000	2021 £000
Within one year	**742**	569
Between 1 and 2 years	**608**	520
Between 2 and 3 years	**417**	365
Between 3 and 4 years	**206**	226
Between 4 and 5 years	**97**	28
Total	**2,070**	1,708

26. Contingent liabilities

At 31 December 2022, there were £nil contingent liabilities (2021: £nil).

27. Related party transactions

The Group provides support and consultancy services to its subsidiaries and made loans, all of which eliminate on consolidation, and are therefore not disclosed.

During 2022, the Group had an associate investment shareholding in TP Group plc ('TPG'). On 16 December 2021, the Group made available a standby revolving credit facility to TPG. The facility is for up to £5.0 million for the period from the date of signing until 30 September 2023. The facility, which is unsecured, includes an arrangement fee of 3%, interest rate of 1% per month on sums drawn and 0.4% per month on undrawn amounts. The Group received interest income of £284,000 from TPG in 2022 (2021: nil). The facility was utilised for short periods in 2022 to provide liquidity to TPG, however was undrawn at 31 December 2022. TPG was also charged £181,000 for services during 2022 (2021: nil).

The Company held intercompany balances, and charged management fees as follows:

	2022		2021	
Company	**Loans due (to)/from**	**Sale of goods and services**	Loans due (to)/from	Sale of goods and services
SG Bidco Ltd	**–**	**–**	7,279	–
Frontier Smart Technologies Limited	**1,404**	**821**	1,404	438
Oakland Innovations Ltd	**611**	**(179)**	1,967	38
Leatherhead Research Limited	**–**	**256**	1,324	341
Quadro Epsom Limited	**20**	**191**	–	–
	2,035	**1,089**	11,974	817
OTM Consulting Ltd	**(316)**	**–**	(252)	–
Sagentia Limited	**(19,827)**	**(1,774)**	(10,412)	(1,142)
Sagentia Inc.	**–**	**(153)**	(172)	(192)
Quadro Harston Limited	**–**	**280**	(438)	3
Quadro Epsom Limited	**–**	**–**	(1,513)	–
Technology Sciences Group Limited	**(124)**	**–**	–	–
Technology Sciences Group Consulting Limited	**(2,650)**	**645**	(4,791)	558
Technology Sciences Group Inc.	**(1,463)**	**165**	(1,498)	128
	(24,380)	**(837)**	(19,076)	(645)

27. Related party transactions (continued)

Sagentia Limited (a subsidiary of Science Group plc) entered into an agreement with Cambridge Medical Technologies Limited ('CMT') on 26 September 2014 to lease office space to CMT. The lease has subsequently been transferred to Quadro Harston Limited (a subsidiary of Science Group plc). One of the Directors of Science Group plc, Michael Lacey-Solymar, is also a Director of CMT and Director and Shareholder of CMT's ultimate parent company. During the year ended 31 December 2022, £12,300 (2021: £11,700) was charged to CMT in relation to this agreement.

The remuneration of the key management personnel of the Group, recognised in the Income Statement, is set out below in aggregate. Key management personnel include all members of the Science Group plc Board and the Operating Board of Science Group.

Aggregate remuneration

Year ended 31 December	**2022** **£000**	2021 £000
Short-term employee benefits (including social security costs)	**1,669**	2,035
Pension costs	**40**	43
Share-based payment transactions	**445**	205
Termination benefits	**–**	89
	2,154	2,372

28. Critical accounting estimates and judgements

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

Science Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Critical accounting estimate
Property residual values
Residual values have been estimated for the Epsom and Harston properties at £6.5 million and £12.0 million respectively based on estimates of the amounts the Group would receive currently for the properties if they were already of an age and in the condition expected at the end of their useful lives. The residual values are reviewed annually to ensure that they do not exceed the estimated market values of the properties. The most recent market valuations of £7.8 million and £16.3 million for Epsom and Harston respectively provide sufficient headroom over their residual values to hold up to a robust level of sensitivity stress testing. The market value would need to decline by £1.3 million and £4.3 million for the Epsom and Harston properties respectively for the residual values to exceed the market values of these properties.

Fair values
The fair values of identifiable assets acquired, and liabilities assumed are determined as part of the purchase price allocation of the acquisition. The management determine the fair values with the assistance of external independent valuation experts. Further information about the techniques and assumptions made in measuring fair values is included in Note 3.2.

(b) Significant accounting judgement
Accounting for freehold property at Harston Mill
Science Group owns and maintains the freehold property at Harston Mill for use in the supply of its Business Services and for administrative purposes.

Whilst there is remaining space on site not required to fulfil these activities, Science Group lets out space to third party tenants. The revenues and costs attributable to this activity are disclosed as third-party property income activities within the business segment disclosures. It is not accounted for as an investment property, the reasons being:

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

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

Further information about the space let out to third party tenants is included in Note 15.

28. Critical accounting estimates and judgements (continued)

(b) Significant accounting judgement (continued)
Recognition of deferred tax assets
The extent to which deferred tax assets are recognised is based on an assessment of the probability that future taxable income will be available against which deductible temporary differences and tax losses can be utilised.

The Group recognises deferred tax assets in respect of carried forward unused tax losses to the extent that the assets are deemed recoverable from future taxable profits. The deferred tax asset value is based upon an estimate of the next 2 years of respective taxable profits (or a longer period where the use of losses is less restrictive), this being the period over which the Group has reasonable confidence in estimating future taxable profits that meet the evidence requirement for deferred tax asset recognition purposes.

29. Post balance sheet events

Since the year end the Group has completed the acquisition of TP Group plc, which adds significant scale to the Group and provides a strategic entry into the defence sector.

The acquisition of TP Group plc commenced with an initial holding of 10.2% on 9 August 2021. The Group increased its shareholding with further share acquisitions across 2021 and 2022. In October 2022, the Group made an offer to acquire the remaining shares in TP Group plc through a court-approved Scheme of Arrangement. This became effective on 26 January 2023. Including the payment in January 2023 and excluding advisory fees, the total cost of acquiring shares in TP Group plc was £25.4 million.

The acquisition was progressive and occurred over 18 months and judgement has been exercised in order to determine the following key dates:

(i) the date at which TP Group plc became an associate of the Group. This was determined by reference to the ability to exercise significant influence over TP Group plc; and

(ii) the date at which the Group obtained control over TP Group plc. This was determined by reference to the holding of voting shares exceeding 50%.

The fair value of the assets and liabilities in relation to this acquisition have not been presented as the work is ongoing to perform the valuations, in particular:

(i) the factors that make up goodwill to be recognised;

(ii) the acquisition date fair value of the equity interest immediately before the acquisition date and any gain or loss recognised as a result of remeasuring to fair value the equity interest held before the acquisition; and

(iii) the fair values of the assets acquired and the liabilities assumed.

NOTES

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