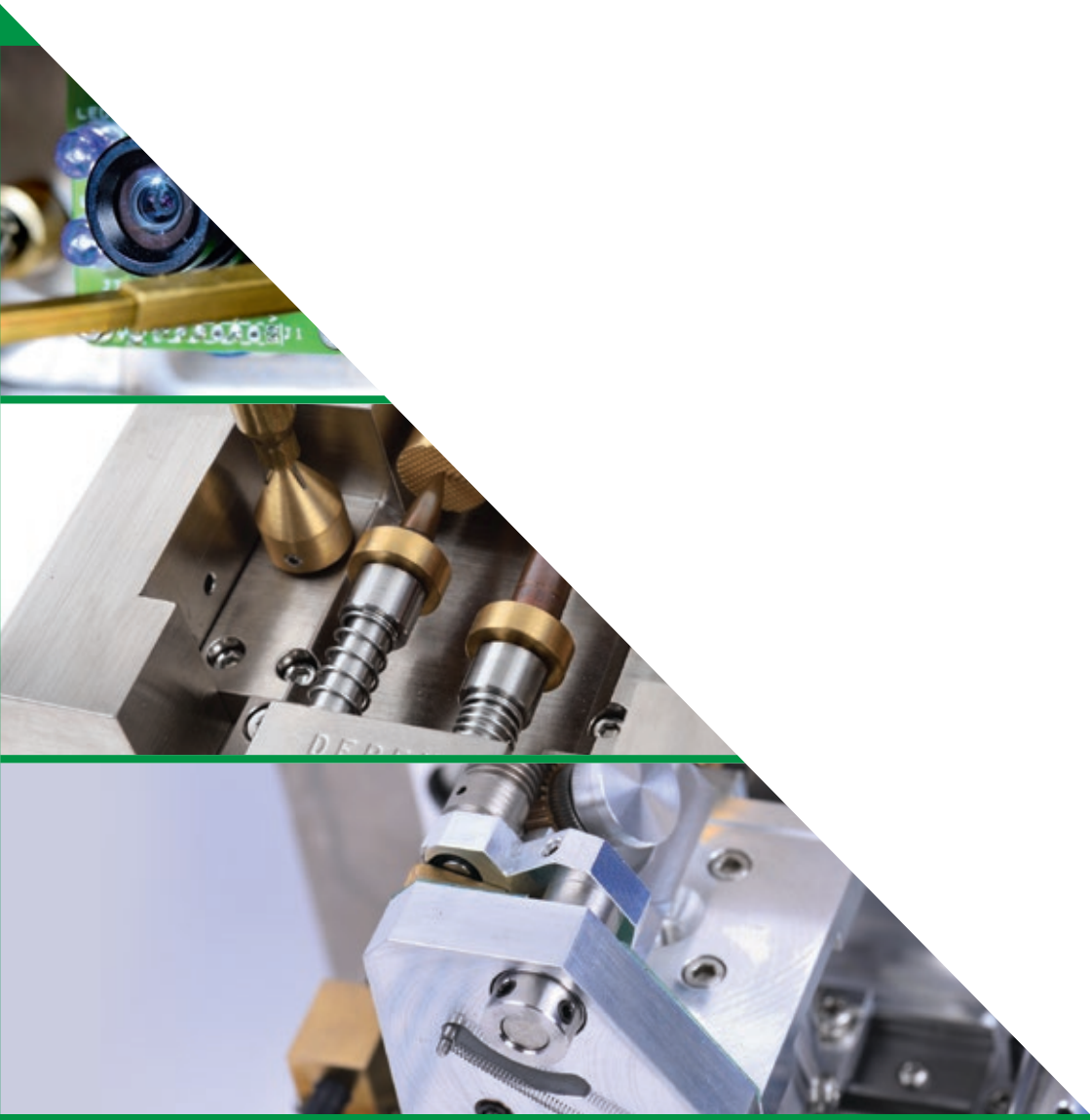
Judges Scientific plc

Interim Report 30 June 2015



Introduction

Judges Scientific plc is an AIM-listed company specialising in the design and production of scientific instruments. Corporate expansion is being pursued, both through organic growth within its subsidiary companies and through the acquisition of top-quality businesses with established reputations in world-wide markets.

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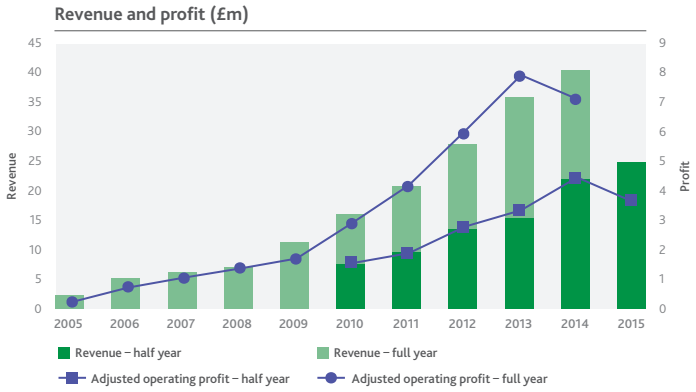
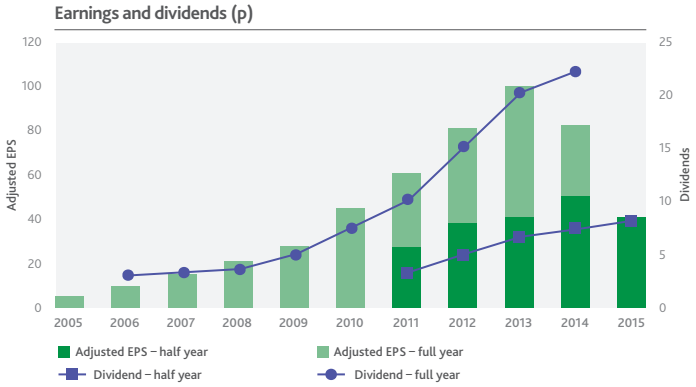
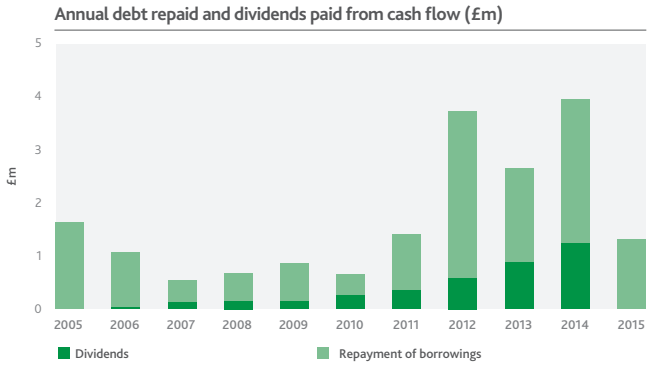
Financial history







Chairman's statement

"These mid-year figures reflect the weak order intake experienced throughout much of 2014 and the first quarter of this year. I am pleased to report, however, that order intake in the last six months has shown a significant improvement which will bear fruit in the second half."

Alex Hambro
Chairman

Summary

- On 22 January 2015, Judges acquired Armfield Limited for a consideration of £9.6 million.
- Organic order intake for the six months to 30 June 2015, registered a 9.5% increase compared with the first half of 2014.
- Group revenues for the six months ended 30 June 2015 rose 13.7% to £24.9 million (H1 2014: £21.9 million), with organic revenues declining by 9.6%.
- The Board is declaring an interim dividend of 8.1p (2014: 7.3p), an increase of 11%.

For the tenth consecutive year, I am able to announce record revenues at the interim stage and a record dividend; our other performance measures, predictably, reflect the difficult business climate experienced during much of 2014 and the first quarter of 2015: organic revenues, adjusted operating profits and earnings per share all decreased. On a more positive note, order intake, which acts as a store of future revenue and profitability, has recovered.

On 22 January 2015, Judges acquired Armfield Limited ("Armfield"), manufacturers of engineering equipment and research instruments for educational applications and R&D systems in the food, beverage and pharmaceutical sectors, for a consideration of £9.6 million. To facilitate meaningful comparisons, all references to "Organic" data in this statement exclude Armfield, and include only those businesses owned by the group since 1 January 2014.

Group revenues for the six months ended 30 June 2015 rose 13.7% to £24.9 million (H1 2014: £21.9 million), including a five-month contribution from Armfield. Organic revenues suffered a 9.6% decline with weak performances in the US, Germany, France and Japan contrasted by a strong increase in China.

Adjusted pre-tax profit for the first half of 2015 declined 18.5% to £3.3 million (H1 2014: £4.1 million); this was in spite of the maiden contribution from Armfield. Organic EBITA contribution fell 35.8% compared with the first half of 2014, echoing the reduction in revenues. Adjusted basic earnings per share decreased 18.3% to 41.1p (H1 2014: 50.3p). Adjusted diluted earnings per share contracted 17.2% to 40.3p (H1 2014: 48.7p). Return on total invested capital ("ROTIC") decreased from 29.2% at 30 June 2014 to 18.7%; ROTIC bears the full brunt of the difficulties experienced during the past 18 months due to the fact that it is based on trailing twelve-month EBITA numbers.

Consistent with past reports, the group's figures have been adjusted to present, in the directors' opinion, the true operating performance of the group. Within these adjustments, the most significant item during the half-year was a £4.3 million charge for amortisation of intangible assets primarily arising from the Armfield acquisition (H1 2014: £2.2 million). Taken together, these adjusting items reduce profit before tax from £3.3 million to a loss of £1.5 million (H1 2014: £1.9 million profit) and earnings per share to a negative 24.7p for both basic and diluted (H1 2014: positive 22.2p basic and 21.6p diluted).

These results, of course, are the predictable consequence of the group's order intake history since the beginning of 2014. Organic order intake was weak throughout the first three quarters of 2014 and during the first quarter of 2015. The last quarter of 2014 was positive and the second quarter of 2015 was strong. In the first half of 2014, the group maintained sales but at the expense of the order book which declined from 10.9 weeks to 7.8 weeks. The order book subsequently recovered in H2 2014 to 9.9 weeks at the year-end. The recovery in the order book has continued to progress, despite a weaker Q1 2015, with the order book rising to 11.7 weeks at the period end. As explained in the recent trading statement, reduction/improvement in the order book has a significant positive/negative impact on earnings respectively. Your Board estimates that a one week movement in the Organic order book currently equates to approximately 6.5p in earnings per share in respect of the period; comparative results should be seen in that perspective.

Organic order intake for the six months to 30 June 2015, as a whole, registered a 9.5% increase compared with the first half of 2014 and was consistent with the group's sales target for the year. Armfield also recorded solid post-acquisition order intake which brings the group order book to 13.7 weeks of sales at the period end.

Cash flow during the first half of 2015 was healthy, with cash from operations representing 63% of adjusted EBIT; the interim balance sheet includes cash balances of £8.2 million and adjusted net debt of £7.5 million.

The two share option plans (approved and unapproved) introduced during the company's early years as a manufacturer of scientific instruments, lapse at the end of this month. These schemes have proved important in that they have provided a way to motivate senior group employees and the company will shortly put in place similar plans in respect of the next ten years.

In accordance with the company's dividend policy, the Board is declaring an interim dividend of 8.1p (2014: 7.3p), which will be paid on Friday 6 November 2015 to shareholders on the register on Friday 9 October 2015. The shares will go ex-dividend on Thursday 8 October 2015. The interim dividend is covered five times by adjusted earnings. Your Board is pleased to highlight the fact that after payment of the interim dividend, the company will have cumulatively paid out a total 97.5p in dividends, exceeding the original 95p subscription price of the shares on admission to AIM in 2003. The Board is conscious of the impending withdrawal of the dividend tax credit and will therefore consider paying a substantial second interim dividend before the end of the current tax year to utilise the current tax legislation before the changes come into effect. The Board would then seek to pay a nominal final dividend in the new tax year.

Our business environment has remained stable, with the slowdown in China, government spending restrictions in most developed economies and the relative strength of Sterling still representing the most predictable challenges to our business.

The second half has commenced positively, aided by the strong mid-year order book. Organic order intake in the third quarter is well ahead of last year, albeit less buoyant than in Q2 2015. Overall order intake since the beginning of the year is consistent with the group's sales budget and your Board remains confident in the ability of the group to meet market expectations for the full year.

The Hon. Alexander Hambro
Chairman
25 September 2015

Condensed consolidated interim statement of comprehensive income

	Note	Adjusted £000	Adjusting items £000	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Revenue	3	**24,933**	**—**	**24,933**	21,927	40,568
Operating costs		**(21,359)**	**—**	**(21,359)**	(17,533)	(33,555)
Adjusted operating profit	3	**3,574**	**—**	**3,574**	4,394	7,013
Adjusting items	4	**—**	**(4,814)**	**(4,814)**	(2,206)	(4,078)
Operating profit/(loss)		**3,574**	**(4,814)**	**(1,240)**	2,188	2,935
Interest income		**12**	**—**	**12**	9	19
Interest expense	4	**(246)**	**(29)**	**(275)**	(305)	(577)
Profit/(loss) before tax		**3,340**	**(4,843)**	**(1,503)**	1,892	2,377
Taxation (charge)/credit		**(717)**	**845**	**128**	(444)	(25)
Profit/(loss) for the period		**2,623**	**(3,998)**	**(1,375)**	1,448	2,352
Attributable to:						
Owners of the parent		**2,477**	**(3,967)**	**(1,490)**	1,311	2,123
Non-controlling interests		**146**	**(31)**	**115**	137	229
Other comprehensive income						
Items that will not be reclassified subsequently to profit or loss						
Retirement benefits actuarial gains				**162**	—	—
Items that may be reclassified subsequently to profit or loss						
Exchange differences on translation of foreign subsidiaries				**(16)**	—	—
Other comprehensive income for the period, net of tax				**146**	—	—
Total comprehensive (expense)/income for the period				**(1,229)**	1,448	2,352
Attributable to:						
Owners of the parent				**(1,344)**	1,311	2,123
Non-controlling interests				**115**	137	229
				Pence	Pence	Pence
Earnings per share – adjusted						
Basic	5			**41.1**	50.3	82.7
Diluted	5			**40.3**	48.7	80.5
Earnings per share – total						
Basic	5			**(24.7)**	22.2	35.7
Diluted	5			**(24.7)**	21.6	34.7

Condensed consolidated interim balance sheet

	Note	30 June 2015 £000	30 June 2014 £000	31 December 2014 £000
ASSETS				
Non-current assets				
Goodwill		**10,927**	8,678	8,678
Other intangible assets	6	**11,491**	10,728	8,662
Property, plant and equipment		**4,704**	4,546	4,511
Deferred tax assets		**369**	—	—
		27,491	23,952	21,851
Current assets				
Inventories		**8,751**	5,926	6,296
Trade and other receivables		**8,650**	6,960	6,227
Cash and cash equivalents		**8,242**	10,129	11,148
		25,643	23,015	23,671
Total assets		**53,134**	46,967	45,522
LIABILITIES				
Current liabilities				
Trade and other payables		**(8,584)**	(5,387)	(6,397)
Derivative financial instruments – Convertible Redeemable shares		**—**	(585)	—
Trade and other payables relating to acquisitions		**(103)**	(155)	(118)
Borrowings		**(3,527)**	(4,039)	(3,139)
Current tax liabilities		**(1,341)**	(1,521)	(992)
		(13,555)	(11,687)	(10,646)
Non-current liabilities				
Retirement benefit obligations		**(1,535)**	—	—
Borrowings		**(12,689)**	(9,759)	(9,666)
Deferred tax liabilities		**(2,413)**	(2,228)	(1,820)
		(16,637)	(11,987)	(11,486)
Total liabilities		**(30,192)**	(23,674)	(22,132)
Net assets		**22,942**	23,293	23,390
EQUITY				
Share capital	7	**304**	298	300
Share premium		**14,380**	14,255	14,294
Other reserves	8	**1,974**	1,374	1,374
Retained earnings		**5,657**	6,946	6,910
Equity attributable to owners of the parent		**22,315**	22,873	22,878
Non-controlling interests		**627**	420	512
Total equity		**22,942**	23,293	23,390

Condensed consolidated interim statement of changes in equity

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total attributable to owners of parent £000	Non-controlling interests £000	Total equity £000
At 1 January 2015	300	14,294	1,374	6,910	22,878	512	23,390
Share-based payments	—	—	—	75	75	—	75
Issue of share capital	4	86	616	—	706	—	706
Transactions with owners	4	86	616	75	781	—	781
(Loss)/profit for the period	—	—	—	(1,490)	(1,490)	115	(1,375)
Retirement benefit actuarial gains	—	—	—	162	162	—	162
Foreign exchange differences	—	—	(16)	—	(16)	—	(16)
Total comprehensive (expense)/ income for the period	—	—	(16)	(1,328)	(1,344)	115	(1,229)
At 30 June 2015	**304**	**14,380**	**1,974**	**5,657**	**22,315**	**627**	**22,942**

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total attributable to owners of parent £000	Non-controlling interests £000	Total equity £000
At 1 January 2014	293	14,186	497	5,635	20,611	283	20,894
Issue of share capital	5	69	877	—	951	—	951
Transactions with owners	5	69	877	—	951	—	951
Profit for the period	—	—	—	1,311	1,311	137	1,448
Total comprehensive income for the period	—	—	—	1,311	1,311	137	1,448
At 30 June 2014	298	14,255	1,374	6,946	22,873	420	23,293

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total attributable to owners of parent £000	Non-controlling interests £000	Total equity £000
At 1 January 2014	293	14,186	497	5,635	20,611	283	20,894
Dividends	—	—	—	(1,237)	(1,237)	—	(1,237)
Issue of share capital	7	108	876	—	991	—	991
Conversion and redemption of Convertible Redeemable shares	—	—	1	389	390	—	390
Transactions with owners	7	108	877	(848)	144	—	144
Profit for the year	—	—	—	2,123	2,123	229	2,352
Total comprehensive income for the year	—	—	—	2,123	2,123	229	2,352
At 31 December 2014	300	14,294	1,374	6,910	22,878	512	23,390

Condensed consolidated interim cash flow statement

	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Cash flows from operating activities			
(Loss)/profit after tax	**(1,375)**	1,448	2,352
Adjustments for:			
Financial instruments measured at fair value:			
Convertible Redeemable shares	**—**	12	(185)
Hedging contracts	**(172)**	(7)	(4)
Contingent consideration measured at fair value	**25**	16	16
Share-based payments	**75**	—	—
Depreciation	**223**	193	376
Amortisation of intangible assets	**4,333**	2,185	4,251
Loss/(profit) on disposal of property, plant and equipment	**16**	(13)	(5)
Foreign exchange gains on foreign currency loans	**(40)**	(19)	(34)
Interest income	**(12)**	(9)	(19)
Interest expense	**246**	305	577
Retirement benefit obligation net interest cost	**29**	—	—
Tax recognised in income statement	**(128)**	444	25
Increase in inventories	**(212)**	(102)	(472)
(Increase)/decrease in trade and other receivables	**(187)**	(406)	320
(Decrease)/increase in trade and other payables	**(570)**	(714)	268
Cash generated from operations	**2,251**	3,333	7,466
Finance costs paid	**(251)**	(305)	(572)
Tax paid	**(723)**	(719)	(1,237)
Net cash from operating activities	**1,277**	2,309	5,657
Cash flows from investing activities			
Paid on acquisition of new subsidiaries	**(11,421)**	(500)	(500)
Gross cash inherited on acquisition	**3,904**	—	—
Acquisition of subsidiaries, net of cash acquired	**(7,517)**	(500)	(500)
Paid on the acquisition of trade and assets	**(15)**	(22)	(37)
Purchase of property, plant and equipment	**(182)**	(31)	(187)
Interest received	**12**	9	19
Net cash used in investing activities	**(7,702)**	(544)	(705)
Cash flows from financing activities			
Proceeds from issue of share capital	**88**	72	113
Repayments of borrowings	**(1,313)**	(1,762)	(2,734)
Proceeds from bank loans	**4,755**	—	—
Equity dividends paid	**—**	—	(1,237)
Net cash from/(used in) financing activities	**3,530**	(1,690)	(3,858)
Net change in cash and cash equivalents	**(2,895)**	75	1,094
Cash and cash equivalents at start of period	**11,148**	10,054	10,054
Exchange movements	**(11)**	—	—
Cash and cash equivalents at end of period	**8,242**	10,129	11,148

Notes to the interim report

1. General information and basis of preparation

Judges Scientific plc is the ultimate parent company of the group, whose principal activities comprise the design, manufacture and sale of scientific instruments. The subsidiaries are grouped into two segments: Materials Sciences and Vacuum. The results of the company's recent acquisition of Armfield Limited ("Armfield") are included in the Materials Sciences segment.

The financial information set out in this interim report for the six months ended 30 June 2015 and the comparative figures for the six months ended 30 June 2014 are unaudited. The interim report has been prepared in accordance with IAS 34 "Interim Financial Reporting". The interim report does not contain all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the group for the year ended 31 December 2014, which have been prepared in accordance with IFRS as adopted by the European Union.

The financial information for the year ended 31 December 2014 set out in this interim report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The group's statutory financial statements for the year ended 31 December 2014 have been filed with the Registrar of Companies. The Auditor's Report in respect of those financial statements was unqualified and did not contain statements under section 498 of the Companies Act 2006.

Judges Scientific plc is the group's ultimate parent company. The company is a public limited company incorporated and domiciled in the United Kingdom. Its registered office and principal place of business is Unit 19, Charlwoods Road, East Grinstead, West Sussex RH19 2HL. Its shares are quoted on the Alternative Investment Market. The interim report is presented in Sterling, which is the functional currency of the parent company. The interim report has been approved for issue by the Board of directors on 24 September 2015.

Notification to Shareholders of Intention to Adopt FRS 101 (Reduced Framework Disclosure)

The group intends to adopt the reduced disclosure framework of FRS 101 in the individual accounts of all group companies. The first accounts prepared on this basis will be drawn up for the year ending 31 December 2015, unless objections are received from shareholders as set out in FRS 101.5(a).

2. Significant accounting policies

The interim report has been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2014, except for the taxation policy where, for the purposes of the interims, the tax charge on adjusted business performance is calculated by reference to the estimated effective rate for the full year.

The accounting policies have been applied consistently throughout the group for the purposes of preparation of these condensed consolidated interim financial statements, except that following the acquisition of Armfield Limited on 22 January 2015, the group now operates a defined benefit scheme. Further details on this scheme are included in note 10 and the new accounting policy is included below.

Retirement benefit obligations

The group operates a funded defined benefit scheme, where payments are made to trustee administered funds. The asset or liability recognised in the consolidated statement of financial position is calculated as the present value of the defined benefit obligation less the fair value of the plan assets, as at the balance sheet date.

The defined benefit obligation is calculated at least triennially by independent actuaries using the projected unit credit method and is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds, matched to the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The plan administration expenses and past service costs or credits are recognised as an operating expense in the consolidated statement of comprehensive income. There is no current service cost. The retirement benefits net interest cost is the change during the year in the net defined benefit liability due to the passage of time and is recognised as an interest expense in the consolidated income statement. The interest rate is based on the yield on high quality corporate bonds. Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments are recognised in the consolidated statement of comprehensive income in the year which they arise.

3. Segmental analysis

For the period ended 30 June 2015	Note	Materials Sciences £000	Vacuum £000	Unallocated items £000	Total £000
Revenue		11,652	13,281	—	24,933
Operating costs		(10,027)	(10,931)	(401)	(21,359)
Adjusted operating profit		1,625	2,350	(401)	3,574
Adjusting items	4				(4,843)
Operating loss					(1,269)
Net interest expense					(234)
Loss before tax					(1,503)
Income tax credit					128
Loss for the period					(1,375)

For the period ended 30 June 2014	Note	Materials Sciences £000	Vacuum £000	Unallocated items £000	Total £000
Revenue		7,569	14,358	—	21,927
Operating costs		(5,685)	(11,498)	(350)	(17,533)
Adjusted operating profit		1,884	2,860	(350)	4,394
Adjusting items	4				(2,206)
Operating profit					2,188
Net interest expense					(296)
Profit before tax					1,892
Income tax charge					(444)
Profit for the period					1,448

For the year ended 31 December 2014	Note	Materials Sciences £000	Vacuum £000	Unallocated items £000	Total £000
Revenue		14,427	26,141	—	40,568
Operating costs		(11,224)	(21,501)	(830)	(33,555)
Adjusted operating profit		3,203	4,640	(830)	7,013
Adjusting items	4				(4,078)
Operating profit					2,935
Net interest expense					(558)
Profit before tax					2,377
Income tax charge					(25)
Profit for the year					2,352

Unallocated items relate to the group's head office costs.

Notes to the interim report continued

3. Segmental analysis continued

Segment assets and liabilities

At 30 June 2015	Materials Sciences £000	Vacuum £000	Unallocated items £000	Total £000
Assets	14,877	13,223	25,034	53,134
Liabilities	(5,576)	(6,048)	(18,568)	(30,192)
Net assets	9,301	7,175	6,466	22,942
Capital expenditure	42	115	25	182
Depreciation	75	120	28	223
Amortisation	3,090	1,243	—	4,333

At 30 June 2014	Materials Sciences £000	Vacuum £000	Unallocated items £000	Total £000
Assets	6,918	12,194	27,855	46,967
Liabilities	(5,140)	(12,097)	(6,437)	(23,674)
Net assets/(liabilities)	1,778	97	21,418	23,293
Capital expenditure	5	26	—	31
Depreciation	38	127	29	194
Amortisation	820	1,365	—	2,185

At 31 December 2014	Materials Sciences £000	Vacuum £000	Unallocated items £000	Total £000
Assets	6,548	12,006	26,968	45,522
Liabilities	(4,892)	(5,819)	(11,421)	(22,132)
Net assets/(liabilities)	1,656	6,187	15,547	23,390
Capital expenditure	14	177	(4)	187
Depreciation	76	243	57	376
Amortisation	1,641	2,610	—	4,251

Unallocated items are borrowings, intangible assets and goodwill arising on acquisition, deferred tax, defined benefit obligations and parent company net assets.

Geographic analysis	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
UK (domicile)	4,679	4,118	7,160
Rest of Europe	6,036	6,403	12,799
United States/Canada	4,833	4,606	8,235
Rest of the world	9,385	6,800	12,374
Revenue	24,933	21,927	40,568

4. Adjusting items

	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Amortisation of intangible assets	**4,333**	2,185	4,251
Contingent consideration measured at fair value	**25**	16	16
Financial instruments measured at fair value:			
Hedging contracts	**(172)**	(7)	(4)
Convertible Redeemable shares	**—**	12	(185)
Share-based payments	**75**	—	—
Acquisition costs	**553**	—	—
Retirement benefits obligation net interest cost	**29**	—	—
Total adjusting items	**4,843**	2,206	4,078
Taxation	**(845)**	(476)	(1,175)
Total adjusting items net of tax	**3,998**	1,730	2,903
Attributable to:			
Owners of the parent	**3,967**	1,662	2,803
Non-controlling interests	**31**	68	100
	3,998	1,730	2,903

Notes to the interim report continued

5. Earnings per share

	Note	Six months to 30 June 2015 £000	Six months to 30 June 2014 £000	Year to 31 December 2014 £000
Profit/(loss) for the period attributable to owners of the parent				
Adjusted profit		**2,477**	2,973	4,926
Adjusting items	4	**(3,967)**	(1,662)	(2,803)
(Loss)/profit for the period		**(1,490)**	1,311	2,123
		Pence	Pence	Pence
Earnings per share – adjusted				
Basic		**41.1**	50.3	82.7
Diluted		**40.3**	48.7	80.5
Earnings per share – total				
Basic		**(24.7)**	22.2	35.7
Diluted		**(24.7)**	21.6	34.7
		Number	Number	Number
Issued Ordinary shares at start of the period	7	**5,996,211**	5,862,270	5,862,270
Movement in Ordinary shares during the period	7	**72,238**	101,472	133,941
Issued Ordinary shares at end of the period	7	**6,068,449**	5,963,742	5,996,211
Weighted average number of shares in issue		**6,024,498**	5,914,964	5,952,952
Dilutive effect of share options		**121,213**	164,889	151,350
Dilutive effect of Convertible Redeemable shares		**—**	29,263	17,002
Weighted average shares in issue on a diluted basis		**6,145,711**	6,109,116	6,121,304

Adjusted basic earnings per share is calculated on the adjusted profit, which is presented before any adjusting items, attributable to the company's shareholders divided by the weighted average number of shares in issue during the period.

Adjusted diluted earnings per share is calculated on the adjusted basic earnings per share, adjusted to allow for the issue of Ordinary shares on the assumed conversion of all dilutive options and any other dilutive potential Ordinary shares. The calculation is based on the treasury method prescribed in IAS 33. This calculates the theoretical number of shares that could be purchased at the average middle market price in the period out of the proceeds of the notional exercise of outstanding options. The difference between this theoretical number and the actual number of shares under option is deemed liable to be issued at nil value and represents the dilution.

Total earnings per share is calculated as above whilst substituting total profit for adjusted profit.

6. Other intangible assets

The following tables show the significant additions to and amortisation of intangible assets:

	Carrying amount at 1 January 2015 £000	Acquisition £000	Amortisation £000	**Carrying amount at 30 June 2015 £000**
Distribution agreements	562	707	250	**1,019**
Research and development	2,199	1,905	584	**3,520**
Customer relationships	1,700	402	658	**1,444**
Brand and domain names	4,201	2,201	894	**5,508**
Sales order backlog	—	1,947	1,947	**—**
Total	8,662	7,162	4,333	**11,491**

	Carrying amount at 1 January 2014 £000	Additions £000	Amortisation £000	Carrying amount at 30 June 2014 £000
Distribution agreements	866	—	152	714
Research and development	3,067	—	441	2,626
Customer relationships	3,352	—	875	2,477
Brand and domain names	5,628	—	717	4,911
Total	12,913	—	2,185	10,728

	Carrying amount at 1 January 2014 £000	Additions £000	Amortisation £000	Carrying amount at 31 December 2014 £000
Distribution agreements	866	—	304	562
Research and development	3,067	—	868	2,199
Customer relationships	3,352	—	1,652	1,700
Brand and domain names	5,628	—	1,427	4,201
Total	12,913	—	4,251	8,662

Notes to the interim report continued

7. Share capital

Movements in the group's Ordinary shares in issue are summarised as follows:

Ordinary shares of 5p each	**Six months to 30 June 2015 Number**	Six months to 30 June 2014 Number	Year to 31 December 2014 Number
Issued and fully paid			
Start of the period	**5,996,211**	5,862,270	5,862,270
Shares issued as part of the Armfield earn-out (note 10)	**36,738**	—	—
Shares issued as part of the Scientifica earn-out	**—**	42,372	42,372
Conversion of Convertible Redeemable shares	**—**	—	29,969
Exercise of share options	**35,500**	59,100	61,600
End of the period	**6,068,449**	5,963,742	5,996,211

During the first six months of 2015 the following allotments took place:

- 35,500 Ordinary shares were issued to satisfy the exercise of share options as follows:
  - on 21 January 2015 when the mid-market share price was 1,555.0p;
  - on 10 February 2015 when the mid-market share price was 1,655.0p;
  - on 15 April 2015 when the mid-market share price was 1,577.5p;
  - on 20 April 2015 when the mid-market share price was 1,570.0p;
  - on 28 April 2015 when the mid-market share price was 1,487.5p;
  - on 26 May 2015 when the mid-market share price was 1,845.0p;
  - on 28 May 2015 when the mid-market share price was 1,887.5p; and
  - on 5 June 2015 when the mid-market share price was 1,807.5p.
- 36,738 Ordinary shares were issued to satisfy the requirements of the earn-out on the acquisition of Armfield when the mid-market share price was 1,682.5p.

8. Other reserves

	Capital redemption reserve £000	Merger reserve £000	Translation reserve £000	Total £000
1 January 2015	23	1,351	—	1,374
Issue of share capital	—	616	—	616
Transactions with owners	—	616	—	616
Exchange differences on translation of foreign subsidiaries	—	—	(16)	(16)
Total comprehensive expense for the period	—	—	(16)	(16)
30 June 2015	**23**	**1,967**	**(16)**	**1,974**

The movement on the merger reserve arises from the issue of 36,738 shares as part of the acquisition costs of Armfield (see note 10).

	Capital redemption reserve £000	Merger reserve £000	Translation reserve £000	Total £000
1 January 2014	22	475	—	497
Issue of share capital	—	877	—	877
Transactions with owners	—	877	—	877
30 June 2014	22	1,352	—	1,374

	Capital redemption reserve £000	Merger reserve £000	Translation reserve £000	Total £000
1 January 2014	22	475	—	497
Issue of share capital	—	876	—	876
Arising on conversion and redemption of Convertible Redeemable shares	1	—	—	1
Transactions with owners	1	876	—	877
31 December 2014	23	1,351	—	1,374

Notes to the interim report continued

9. Changes in net debt

Changes in net debt for the six months ended 30 June 2015 were as follows:

	1 January 2015 £000	Cash flow £000	Non-cash items £000	**30 June 2015 £000**
Cash at bank and in hand	11,148	(2,895)	(11)	**8,242**
Debt	(12,280)	(3,442)	45	**(15,677)**
Net senior debt	(1,132)	(6,337)	34	**(7,435)**
Effect of payments relating to the 2012 acquisition of the trade and certain assets of KE Developments Limited not settled at 30 June 2015 (included within current liabilities)	(118)	15	—	**(103)**
Adjusted net debt	(1,250)	(6,322)	34	**(7,538)**
Subordinated loans	(497)	—	—	**(497)**
Total net debt	(1,747)	(6,322)	34	**(8,035)**

Non-cash items represent foreign exchange differences on bank loans.

10. Acquisition of Armfield Limited

On 22 January 2015 the company acquired the entire issued share capital of Armfield Limited ("Armfield"), a company based in Hampshire, UK, and New Jersey, USA, which designs and markets engineering equipment and research instruments for educational applications, together with research and development systems focused on the food, beverage, dairy, vegetable oils and pharmaceutical industries.

The provisional fair value of the cost of acquisition includes the components stated below:

Consideration	£000
Initial cash consideration	8,280
Deferred consideration paid in cash	755
Deferred consideration settled by the issue of 36,738 Ordinary shares	593
	9,628
Gross cash inherited on acquisition	3,904
Cash retained in the business	(1,518)
Payment in respect of surplus working capital	2,386
Total consideration	12,014
Acquisition-related transaction costs charged to the income statement	553

Deferred consideration consisted of an earn-out of a maximum of £1.51 million relating to Armfield's 2014 financial results, which was payable 50% in cash (£755,000) and 50% in new Ordinary shares of the company at an issue price of 2,055p per share (the prevailing price of Judges' Ordinary shares on the day the headline terms of the acquisition were agreed). The initial fair value of the deferred consideration payable in Ordinary shares was based on the closing mid-market price on 22 January 2015 of 1,615p per Ordinary share, which totalled £593,000. The deferred consideration was settled in May 2015 in full and 36,738 new Ordinary shares were issued. The closing mid-market price of 1,682.5p per Ordinary share on 21 May 2015 valued the earn-out shares at £618,000, and hence a charge of £25,000 was recorded in the income statement.

10. Acquisition of Armfield Limited continued

There is a further contingent payment of £360,000 which may become due if the triennial actuarial valuation of Armfield's defined benefit pension fund as at 31 March 2017 shows a reduction in the yearly contribution required to eliminate its funding deficit. The fair value of this consideration has been recorded at £nil as the directors consider that it is unlikely that the company will be required to settle this potential payment. The defined benefit scheme closed to new members with effect from 2001 and closed to new accrual in 2006. Further information on this pension scheme is disclosed later in this note.

The consideration and associated transaction costs were financed from existing cash resources and £4.75 million was drawn down from the group's existing £10 million acquisition loan facility.

The provisional fair values recognised for the assets and liabilities acquired are as follows:

	Book value £000	Fair value adjustments £000	Fair value £000
Property, plant and equipment	256	—	256
Intangible assets	—	7,162	7,162
Deferred tax assets	342	62	404
Inventories	2,289	(46)	2,243
Trade and other receivables	2,120	(57)	2,063
Cash and cash equivalents	3,904	—	3,904
Total assets	8,911	7,121	16,032
Deferred tax liabilities	—	(1,432)	(1,432)
Trade payables	(2,562)	(210)	(2,772)
Current tax liability	(355)	—	(355)
Retirement benefit obligations	(1,708)	—	(1,708)
Total liabilities	(4,625)	(1,642)	(6,267)
Net identifiable assets and liabilities	4,286	5,479	9,765
Total consideration			12,014
Goodwill recognised			2,249

Management performed a detailed review of the acquiree's intangible assets. The intangible assets recognised reflect recognition of acquired customer relationships, the value of the acquired future committed order book, internally generated technology, trademarks, domain names and distributor relationships. A significant amount of the value of the acquired business is attributable to its workforce and sales knowhow. As no assets can be recognised in respect of these factors, they contribute to the goodwill recognised upon acquisition.

Other fair value adjustments reflect specific inventory and trade receivable provisions and accruals and related deferred tax asset. The deferred tax liability recognised represents the tax effect which will result from the amortisation of the intangible assets, estimated using the tax rate substantively enacted at the balance sheet date and the fair value of the assets.

Notes to the interim report continued

10. Acquisition of Armfield Limited continued

Defined benefit obligations

Armfield operates a defined benefit scheme for certain of its employees. The latest full actuarial valuation was carried out as at 31 March 2014 and the retirement benefit liability was independently revalued as at 31 December 2014. No fair value adjustment has been made to this valuation due to the short time elapsed between the valuation date and the acquisition date, on the grounds of materiality. As a result, details of these defined benefit obligations are provided below as at 31 December 2014.

The scheme has been closed to new members from 2001 and closed to new accrual in 2006. The average duration of the plan's liabilities has been calculated to be approximately 19 years. The trustees are drawn partly from Armfield's employees and also from nominees of the Judges group.

The full actuarial valuation carried out as at 31 March 2014 was in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the plan is agreed between Armfield and the pension trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions. It was agreed with the trustees that contributions be increased to £198,000 per annum to eliminate the deficit over a period of six years. The next full actuarial valuation will be carried out no later than 31 March 2017. The asset investment strategy is the responsibility of the trustees.

Summary

	31 December 2014 £000	31 December 2013 £000
Fair value of plan assets	5,286	4,908
Present value of defined benefit obligation	(6,994)	(6,104)
Deficit in scheme	(1,708)	(1,196)
Deferred tax	342	287
Net retirement benefit obligation	(1,366)	(909)

Changes in the fair value of plan assets

	31 December 2014 £000	31 December 2013 £000
At 1 January	4,908	4,710
Interest income	225	218
Return on plan assets (excluding amounts in interest income)	165	(72)
Contributions by the company	126	126
Benefits paid	(138)	(74)
At 31 December	5,286	4,908

The actual return on plan assets of the period ending 31 December 2014 was £390,000 (2013: £146,000).

10. Acquisition of Armfield Limited continued

Defined benefit obligations continued

Changes in the fair value of defined benefit pension obligations

	31 December 2014 £000	31 December 2013 £000
At 1 January	6,104	5,852
Current service cost	—	—
Expenses	3	—
Interest expense	278	268
Actuarial (gains)/losses due to scheme experience	(374)	58
Actuarial gains due to changes in demographic assumptions	(69)	—
Actuarial losses due to financial assumptions	1,190	—
Benefits paid	(138)	(74)
At 31 December	6,994	6,104

There were no plan amendments, curtailments or settlements in above years.

Major categories of plan assets

	31 December 2014 £000	31 December 2013 £000
Quoted equities	1,874	1,779
Bonds	2,914	2,671
Property	398	347
Cash and other assets	100	111
	5,286	4,908

Principal actuarial assumptions

	31 December 2014 %	31 December 2013 %
Discount rate	3.60	4.60
Inflation rate	3.10	3.40
In payment pension increases	3.30	3.20
In deferment pension increases	5.00	5.00

The mortality assumptions used in valuing the liabilities of the plan are based 100% on the standard tables S2PxA, projected using the CMI 2013 model with a 1.00% per annum long-term rate of improvement.

The life expectancies assumed are as follows:

	Life expectancy at age 65 (years)
Male retiring in 2014	22.1
Female retiring in 2014	24.0
Male retiring in 2034	23.4
Female retiring in 2034	25.5

10. Acquisition of Armfield Limited continued
Defined benefit obligations continued
Sensitivity
The significant actuarial assumptions in determining the defined benefit obligation are the discount rate, the rate of mortality and rate of inflation. Changes to these actuarial assumptions may impact this obligation as follows:

	Change in liabilities £000
Discount rate – decrease of 0.25% per annum	329
Inflation rate – increase of 0.25% per annum	91
Mortality rate – increase of one year in life expectancy	217

The above shows the impact on the defined benefit obligation if the assumptions were changed as shown (assuming all other assumptions remain constant). The sensitivity analysis may not be representative of the actual change in the obligation as it is unlikely that any change in assumption would happen in isolation.

Risk management
There is a risk that changes in discount rates, price inflation, asset returns and/or mortality assumptions could lead to a materially greater deficit. Given the long-term time horizon of the pension plan cash flows, the assumptions used are uncertain. The assumptions can also be volatile from year to year due to changes in investment market conditions. A higher pension deficit could directly impact the group's equity valuation, credit rating and may lead to additional funding requirements in future years. Any deficit relative to the actuarial liability for funding purposes, which may differ from the funding position on an accounting basis, will generally be financed over a period that ensures the contributions are reasonably affordable to the group and in line with local regulations.

11. Dividends
No dividends were paid during the period (2014: £nil).

The company paid a final dividend of 14.7p per share (£892,062) on 10 July 2015 relating to the financial year ended 31 December 2014.

The company will pay an interim dividend for 2015 of 8.1p per share on 6 November 2015 to shareholders on the register on 9 October 2015. The shares will go ex-dividend on 8 October 2015.

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