Setting standards
in analytical science

# Report and Accounts 2004

# LGC (Holdings) Limited

## 31 March 2004

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# Report on corporate governance

Recognising that the Group has a responsibility towards the public sector and industry as well as its staff and all shareholders, the Directors believe that the Group should aim to achieve high standards of corporate governance. They have decided therefore, in so far as it is practicable for a private unlisted company, to comply with the Combined Code. The Group's operations described below are those in place during the year ended 31 March 2004. Since the acquisition of the Company by LGC Group Holdings plc in April 2004, the Group's corporate governance has been effected through the Board of that Company.

## The workings of the Board and its committees

### The Board

The activities of the Group are ultimately controlled by the Board which currently comprises four independent Non-Executive Directors and three Executive Directors. The Board has overall responsibility for the Group whilst each Executive Director has been given responsibility for specific aspects of the Group's affairs. The Board, which meets every month with additional meetings being called if and when required, is responsible to shareholders for the proper management of the Group. It also has a clearly defined set of responsibilities which cover overall control of all financial, strategic and budgetary matters.

The Board has appointed the following committees to deal with specific aspects of the Group's affairs, each of which operate within clear terms of reference and the minutes of Audit, Remuneration and Nomination Committees are circulated to all Non-Executive Directors.

### Executive Management Committee

The Executive Management Committee comprises the Executive Directors and senior managers. It deals with operational matters and has specific powers delegated to it by the Board.

### Audit Committee

The Audit Committee, which during the year was chaired by Dennis Stocks, comprises all the Non-Executive Directors and meets not less than twice a year. The Committee provides a forum for reporting by the Group's external auditors. The Chief Executive and the Group Finance Director attend meetings by invitation.

The Audit Committee is also responsible for reviewing a wide range of financial matters including the annual statement and accompanying reports before their submission to the Board. The Audit Committee also advises the Board on the appointment of external auditors and on their remuneration, both for audit and non-audit work. The Audit Committee meets with the external auditors, in the absence of management, and reports regularly to the Board.

### Remuneration Committee

The Remuneration Committee, which during the year was chaired by John Beacham, is made up of all the Non-Executive Directors and has the responsibilities which are set out on page 24.

### Nomination Committee

The Nomination Committee, which during the year was chaired by Ian Kent, is made up of all the Non-Executive Directors. The Nomination Committee is responsible for putting forward for approval candidates for appointment to the Board, having regard for the structure and balance of the Board and the principal shareholders' special interests as outlined in the Articles of Association.

## Internal financial control

The Audit Committee is responsible for overseeing internal financial control within the Group. Reviews of the Group's procedures and processes for financial and operational control are carried out as part of a rolling programme agreed by the Audit Committee. In addition, the Group's external auditors report to the Audit Committee on any matters that have come to their attention during the course of their work.

## Identification of business risks

The identification of material operational risk is carried out throughout the Group and is overseen by the members of the Executive Management Committee. The significant risks that are identified, the way in which they are being managed and any changes to the risk profiles over time are presented to the Board in a quarterly risk report for review. Strategic and operational decisions are made in the context of the Group's operational risk profile. The Group's internal risk controls are reviewed when the annual risk review of the Group is conducted.

## Budgetary process

Detailed budgets covering all financial aspects of the Group's business are prepared annually and approved by the Board. Performance is monitored at monthly Board meetings where there is a comparison of actual results against budget and updated forecasts.

## Investment appraisal

The Group operates formal appraisal and approval systems whereby all significant capital investment and revenue spending proposals are required to meet appropriate operational and financial criteria.

## Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for the foreseeable future. The accounts are therefore prepared on a going concern basis.

# Report of the Remuneration Committee

## Information not subject to audit

### Remuneration policy

The objectives of the Group's remuneration policy are to:

- set remuneration in accordance with market conditions in order to attract, motivate and retain high quality executives capable of achieving the Group's aims and targets, whilst keeping salary levels within the means of the Group;
- align the interests of shareholders and executives.

### Remuneration Committee

The Remuneration Committee meets as and when necessary. It is responsible to shareholders for determining the remuneration, contract terms, performance related bonuses and other benefits of the Executive Directors and is responsible to the Board for reviewing the benefits for senior managers.

The Remuneration Committee does not consider the fees payable to Non-Executive Directors which are determined by the Executive Directors.

### Benefits

Executive Directors' benefits may include salary, pension and related benefits, performance related bonus, use of a company car or provision of a car allowance and share options. The level of benefits is determined by the Remuneration Committee with reference to prevailing market rates, experience and responsibilities.

### Salaries

Salaries are reviewed annually or when a change in responsibilities occurs.

### Pensions

All Executive Directors are members of the defined benefits pension scheme.

### Performance related bonus

The maximum bonus for each Executive Director and senior manager is determined at the beginning of each year by the Remuneration Committee. Part is related to the performance of the Company and the remainder is in respect of individual performance. The maximum possible bonus for any of the Executive Directors for the year 2003/04 was 50% of base salary. No bonuses were paid to Executive Directors in the year.

### Share options

The Group operates an Inland Revenue Approved Discretionary Share Option Scheme and Enterprise Management Incentive Scheme which are open to employees and Directors. Options are granted at a price no lower than the valuation of the shares on the date of grant.

Details of options held by the Directors are given on page 26 to 27.

### Other benefits

The Remuneration Committee has decided that, for the time being, benefits shall only be through basic salary, performance related bonuses, pension and related benefits, share options and use of a company car or provision of a car allowance.

### Service contracts

The Group's policy in relation to contracts for Executive Directors is to provide contract periods not exceeding two years and notice of one year. Non-Executive Directors are appointed on an annual basis and receive fees.

## Information subject to audit

### Directors' remuneration

Directors' emoluments

| | Basic* salary £'000 | 2004 Emoluments excluding pension contributions £'000 | 2004 Pension contributions £'000 | 2003 Emoluments excluding pension contributions £'000 |
|---|---|---|---|---|
| Executive | | | | |
| Dr Richard Worswick | 137 | 137 | 20 | 180 |
| Mr Clive Hall | 107 | 107 | 16 | 114 |
| Dr Nigel Law | 110 | 110 | 16 | 53 |
| Dr John Mason | 87 | 87 | 13 | 92 |
| Non-Executive | | | | |
| Mr Ian Kent | 31 | 31 | - | 31 |
| Dr John Beacham | 19 | 19 | - | 19 |
| Miss Marion Sears | 19 | 19 | - | 9 |
| Mr Dennis Stocks | 19 | 19 | - | 19 |
| | 529 | 529 | 65 | 517 |

* *Including car allowances introduced in 2003-04*

# Report of the Remuneration Committee

## Senior management share option plan

Options have been granted to senior management over shares held by an Employee Benefit Trust.

The participants in the plan include all the Executive Directors and senior management. The following Directors are participants in the plan:

| | *Number of shares* at 31 March 2004 | Price |
|---|---|---|
| Dr Richard Worswick | 97,500 | £2.50 |
| Mr Clive Hall | 142,500 | £2.50 |
| Dr Nigel Law | 100,000 | £2.50 |
| Dr John Mason | 97,500 | £2.50 |

When the institutional shareholders sell or otherwise can realise the value in the shares they hold in the Company, the participants may exercise their share options provided the sale value achieved by that shareholder is over and above a threshold which increases over time. The threshold at 31 March 2004 was £4.50 per share.

None of the Directors held a material interest in any significant contract to which the Company or any of its subsidiaries were party during the year.

## Directors' interests in shares

The Directors of the Company during the year and their beneficial interests in the ordinary share capital of the Company were:

| Executive | Number of shares at 31 March 2004 | Number of shares at 31 March 2003 |
|---|---|---|
| Dr Richard Worswick | 257,000 | 257,000 |
| Mr Clive Hall | 101,000 | 100,000 |
| Dr Nigel Law | 5,000 | 5,000 |
| Dr John Mason | 62,000 | 62,000 |

| Non-Executive | Date of appointment | Number of shares at 31 March 2004 | Number of shares at 31 March 2003 |
|---|---|---|---|
| Mr Ian Kent (Chairman) (resigned 28 April 2004) | 1 May 2001 | 20,000 | 20,000 |
| Dr John Beacham (resigned 28 April 2004) | 16 June 1999 | 20,000 | 20,000 |
| Miss Marion Sears (resigned 28 April 2004) | 1 October 2002 | 15,000 | 15,000 |
| Mr Dennis Stocks (resigned 28 April 2004) | 1 April 1996 | 20,000 | 20,000 |

In addition to the senior management share option plan shown on page 26, the following Director had options for shares exercisable between the dates and at the prices detailed below:

| | Number of shares at 31 March 2004 | Number of shares at 31 March 2003 | Date exercisable | Price |
|---|---|---|---|---|
| Mr Clive Hall | Nil | 1,000 | 10 November 2003 | £0.63 |

*The purchase of shares in the Company effected in April 2004 was at £16.70 per share.*

# Report of the Directors

The Directors present this report together with the audited financial statements for the year ended 31 March 2004.

## Results and dividends

The profit and loss account is set out on page 32 and shows the profit for the year of £3,671,000 (2003 - £5,537,000) before taxation. The Directors propose no final dividend (2003 - £254,000) on the 'B' ordinary and ordinary shares and nil (2003 - £268,000) on the dividend share.

No interim dividend has been paid in respect of the year ended 31 March 2004 (2003 - nil). A special dividend of £324,000 was paid in 2003.

## Principal activities, trading review and future developments

LGC is a leading provider of chemical and biochemical analysis, research, validation and consultancy services to clients in the public and private sectors. It serves a diverse range of markets which include food and agriculture, environmental and water services, healthcare, chemicals, pharmaceuticals, regulation and law enforcement. LGC is also a leading producer and distributor of certified reference materials and the lead contractor for government programmes to promote best practice and innovation in chemical analysis to enhance UK competitiveness. Internationally, LGC is a key player in developing networks to harmonise standards and protocols in chemical and biochemical analysis to promote a common basis for international trade.

A review of operations is contained in the Chief Executive's statement on pages 2 to 3 and in the reviews on pages 4 to 19.

## Fixed assets

Significant changes in the fixed assets are shown in notes 9, 10 and 11 to the financial statements.

## Quality, safety and environmental performance

LGC has achieved exceedingly high quality, safety and environmental performance and received high praise from both UKAS and BSi during the past year's surveillance visits. LGC has been awarded the RoSPA President's Award for an outstanding performance in Occupational Health and Safety. This is the third year that the President's Award has been bestowed on LGC following awards of five gold medals in previous years. LGC continues to comply with all environmental legislative requirements and seeks to improve upon them further.

## Creditor payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 March 2004, the Company had an average of 30 days (2003 - 31 days) purchases outstanding in trade creditors.

## Political and charitable contributions

During the year, the Group made various charitable contributions totalling £5,000 (2003 - £5,000). The Group made no political donations in the year (2003 - nil).

## Employees

The Group is committed to creating an employment environment which will attract, retain and motivate employees. Throughout the Group, emphasis is placed on personal development to meet both today's needs and those of the future. Employee communication and consultation is encouraged at all levels of the business and there is a Consultative Committee at the Teddington site.

It is the Group's policy to provide equal opportunities for all staff and applicants on the basis of objective criteria and personal abilities regardless of gender and ethnic origin. This policy is supported by systems that are subject to internal audit and are designed to ensure that recruitment and advancement are carried out on the basis of merit.

## Disabled persons

The Group gives full and fair consideration to disabled persons applying for employment, having regard to their particular aptitudes and abilities, as well as the continuing employment and appropriate training of employees who become disabled.

## Post balance sheet events

On 7 April 2004, LGC Investments Limited, a subsidiary of LGC Group Holdings plc, made an offer to acquire the whole of the share capital of the Company. The offer was accepted by all shareholders and declared unconditional on 29 April 2004.

## Directors

The membership of the Board as at 31 March 2004 was as follows:

| | |
|---|---|
| Mr Ian Kent (resigned 28 April 2004) | Chairman, Non-Executive |
| Dr Richard Worswick | Chief Executive |
| Mr Clive Hall (resigned 19 July 2004) | Group Finance Director |
| Dr Nigel Law | Director, Group Operations |
| Dr John Mason | Director, Corporate Development |
| *Dr John Beacham (resigned 28 April 2004)* | *Non-Executive* |
| Miss Marion Sears (resigned 28 April 2004) | Non-Executive |
| Mr Dennis Stocks (resigned 28 April 2004) | Non-Executive |

The Directors' share interests are shown in the report of the Remuneration Committee on pages 26 to 27.

## Substantial interests in share capital at 31 March 2004

At 31 March 2004, the following held in excess of 3 per cent of the ordinary share capital of the Company:

| | Number of shares | Percentage |
|---|---|---|
| 3i plc | 1,047,250 | 29.7 |
| Kleinwort Benson (Jersey) Trustees Limited as nominee for the Employee Benefit Trust | 939,360 | 26.7 |

Of the Employee Benefit Trust shares, 691,830 are subject to options at prices ranging up to £2.50 per share.

In addition, a Director held more than 3% of the ordinary share capital of the Company. Directors' interests are shown on page 27.

Further details of the Company's share capital are provided in Note 17 to the accounts.

## Auditors

Ernst & Young LLP were re-appointed auditors at the Annual General Meeting on 24 July 2003 and have expressed their willingness to continue in office.

## Annual General Meeting

The Annual General Meeting of LGC (Holdings) Limited will be held on 22 July 2004.

On behalf of the Board
Maxine Chow
Company Secretary
22 July 2004

Maxine Chow.

# Statement of Directors' responsibilities in respect of the accounts

The Directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year and of the Group's profit for the year.

In preparing the financial statements, the Directors have:

- selected suitable accounting policies and have applied them consistently;
- *made judgements and estimates that are reasonable and prudent;*
- followed applicable accounting standards;
- prepared the financial statements on the going concern basis.

During the year the Directors were required to ensure that proper accounting records were kept which disclosed with reasonable accuracy at all times the financial position of the Group enabling them to ensure that the financial statements comply with the Companies Act 1985. The Directors are required to safeguard the assets of the Group and to take reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent auditors' report to the members of LGC (Holdings) Limited

We have audited the Group's financial statements for the year ended 31 March 2004 which comprise the Consolidated profit and loss account, Consolidated statement of total recognised gains and losses, Consolidated balance sheet, Company balance sheet, Consolidated cash flow statement and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Report of the Remuneration Committee that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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.

## Respective responsibilities of Directors and auditors

As described in the Statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's statement, Chief Executive's statement, Report on corporate governance, Report of the Remuneration Committee and Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2004 and of the profit of the Group for the year then ended; and
- The financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
22 July 2004

Ernst & Young LLP

# Consolidated profit and loss account

## for the year ended 31 March 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **Turnover** | | | |
| Continuing operations | | 56,077 | 50,396 |
| Discontinued operations | | - | 1,856 |
| **Group turnover** | 2 | **56,077** | 52,252 |
| Raw materials and consumables | 3 | (20,640) | (20,426) |
| Staff costs | 3 | (20,998) | (17,890) |
| Depreciation and amortisation | 3 | (3,271) | (2,474) |
| Other external charges | 3 | (7,335) | (6,776) |
| **Operating profit** | | | |
| Continuing operations | | 3,833 | 4,439 |
| Discontinued operations | | - | 247 |
| **Group operating profit** | 4 | **3,833** | 4,686 |
| Share of operating profit of associated company and amortisation of associate goodwill | | 19 | 2 |
| **Total operating profit: group and share of associate** | | **3,852** | 4,688 |
| Profit on disposal of business units | | - | 759 |
| Profit on sale of fixed assets investments | | - | 182 |
| **Profit on ordinary activities before interest and taxation** | | **3,852** | 5,629 |
| Bank interest receivable | | 56 | 32 |
| Bank interest payable and similar charges | | (237) | (124) |
| **Profit on ordinary activities before taxation** | | **3,671** | 5,537 |
| Taxation on profit on ordinary activities | 6 | (1,337) | (1,688) |
| **Profit for the financial year** | | **2,334** | 3,849 |
| Minority interest | | (135) | (124) |
| **Profit for the financial year attributable to the members** | | **2,199** | 3,725 |
| Dividends | 7 | - | (846) |
| **Retained profit for the year** | 18 | **2,199** | 2,879 |

| **Group statement of total recognised gains and losses for the year ended 31 March 2004** | | |
|---|---|---|
| Profit for the financial year excluding share of profit of associate | 2,180 | 3,723 |
| Share of associate's profit for the year | 19 | 2 |
| **Profit for the financial year attributable to members of the parent company** | **2,199** | 3,725 |
| Exchange difference on retranslation of net assets of subsidiary undertakings | (62) | (153) |
| **Total recognised gains and losses relating to the year** | **2,137** | 3,572 |

*The notes on pages 36 to 55 form part of these financial statements.*

# Consolidated balance sheet
## as at 31 March 2004

| | Notes | **2004** **£'000** | 2003 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 9 | 4,580 | 2,526 |
| Tangible assets | 10 | 12,673 | 11,141 |
| Investments | 11 | 2,103 | 2,114 |
| | | **19,356** | 15,781 |
| **Current assets** | | | |
| Stocks | 12 | 1,815 | 2,359 |
| Debtors | 13 | 9,934 | 10,472 |
| Cash at bank and in hand | | 3,243 | 4,259 |
| | | **14,992** | 17,090 |
| ***Current liabilities*** | | | |
| Creditors: amounts falling due within one year | 14 | (13,649) | (14,181) |
| **Net current assets** | | **1,343** | 2,909 |
| **Total assets less current liabilities** | | **20,699** | 18,690 |
| **Creditors: amounts falling due after more than one year** | 15 | **(688)** | (749) |
| **Provisions for liabilities and charges** | 16 | **(794)** | (949) |
| **Equity minority interest** | | **(277)** | (189) |
| **Net assets** | | **18,940** | 16,803 |
| **Capital and reserves** | | | |
| **Share capital** | | | |
| Called up share capital | 17 | 352 | 352 |
| Capital redemption reserve | 18 | 31 | 31 |
| Share premium account | 18 | 1,386 | 1,386 |
| Capital reserve | 18 | 10,265 | 10,265 |
| Profit and loss account | 18 | 6,906 | 4,769 |
| **Shareholders' funds - equity** | | **18,940** | 16,803 |

On behalf of the Board

R. J. Worswick

**Dr Richard Worswick**
Chief Executive
22 July 2004

*The notes on pages 36 to 55 form part of these financial statements.*

# Company balance sheet
## as at 31 March 2004

| | Notes | **2004** £'000 | 2003 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 11 | 4,741 | 4,745 |
| **Current assets** | | | |
| Debtors | 13 | 2 | 39 |
| Cash at bank and in hand | | - | - |
| | | **2** | 39 |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 14 | (2,962) | (3,007) |
| **Net current liabilities** | | **(2,960)** | (2,968) |
| **Net assets** | | **1,781** | 1,777 |
| | | | |
| **Capital and reserves** | | | |
| **Share capital** | | | |
| Called up share capital | 17 | 352 | 352 |
| Capital redemption reserve | 18 | 31 | 31 |
| Share premium account | 18 | 1,386 | 1,386 |
| Profit and loss account | 18 | 12 | 8 |
| **Shareholders' funds - equity** | | **1,781** | 1,777 |

On behalf of the Board

**Dr Richard Worswick**
Chief Executive
22 July 2004

*The notes on pages 36 to 55 form part of these financial statements.*

# Consolidated cash flow statement
## for the year ended 31 March 2004

| | Notes | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 20 | **7,482** | 5,585 |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | **56** | 32 |
| Interest paid | | **(237)** | (124) |
| | | **(181)** | (92) |
| **Taxation** | | | |
| Corporation and overseas tax paid | | **(1,202)** | (1,194) |
| **Capital expenditure and financial investment** | | | |
| Payments to acquire intangible fixed assets | | **(150)** | (111) |
| Payments to acquire tangible assets | | **(3,741)** | (2,437) |
| Receipts from sales of own shares | | **30** | 140 |
| Payments to acquire own shares | | **-** | (1,973) |
| Receipts from sales of tangible assets | | **-** | 24 |
| | | **(3,861)** | (4,357) |
| **Acquisitions and disposals** | | | |
| Payment to acquire minority interest | | **(27)** | (48) |
| Payment to acquire associate | | **-** | (42) |
| Receipts from sale of business units | | **-** | 1,258 |
| Net cash disposed of with business units | | **-** | (65) |
| Payments to acquire subsidiary undertaking | | **(2,655)** | - |
| Net cash acquired with subsidiary undertaking | | **(184)** | - |
| | | **(2,866)** | 1,103 |
| **Equity dividends paid** | | **(522)** | (768) |
| **(Decrease)/increase in cash** | | **(1,150)** | 277 |

**Cash flow**

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Reconciliation of net cash flow to movement in net funds** | | |
| Change in net debt resulting from cash flow | **(1,150)** | 277 |
| Exchange difference | **43** | (192) |
| **Movement in net funds** | **(1,107)** | 85 |
| **Net funds at 1 April** | **1,946** | 1,861 |
| **Net funds at 31 March** | **839** | 1,946 |

# Notes to the financial statements

## Note 1 (a-e)

### 1. Accounting policies

#### (a) Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### (b) Basis of consolidation

The Group accounts consolidate the accounts of LGC (Holdings) Limited and its subsidiary undertakings, drawn up to 31 March each year. No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985.

#### (c) Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

#### (d) Intangible fixed assets

General research and development expenditure is written off as incurred. Specific development expenditure incurred in relation to the establishment of significant new service capabilities in the year is carried forward when its future recoverability can be foreseen with reasonable assurance. Any expenditure carried forward is amortised over the period of sales from the related project.

#### (e) Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the orginal cost or valuation, less estimated residual value of each asset evenly over its expected useful life as follows:

| | Years |
|---|---|
| Freehold buildings | 40 |
| Leasehold property | over period of lease |
| Building plant | 12 |
| Scientific equipment | 3-15 |
| Computers | 2-7 |
| Vehicles | 5 |

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

# Notes to the financial statements

## Note 1 (f-j)

### 1. Accounting policies (continued)

**(f) Fixed asset investments**

The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

**(g) Stocks**

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value as follows:

| | | |
|---|---|---|
| Raw material consumables and goods for resale | - | purchase cost on a first-in, first-out basis. |
| Work in progress and finished goods | - | cost of direct materials and labour plus attributable overheads based on a normal level of activity. |

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

**(h) Research and development**

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

**(i) Deferred income**

Deferred income represents funds received in respect of future building works. Funds in respect of capital expenditure are released to the profit and loss account over the anticipated life of the assets to match the depreciation charged. Funds which are non-specific are released to the profit and loss account in the period to which they relate.

***(j) Long-term contracts***

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

# Notes to the financial statements

## Note 1 (k-n)

**1. Accounting policies (continued)**

**(k) Employee Benefit Trust**

The Company operates an Employee Benefit Trust (EBT). Shares held by the EBT are included in fixed asset investments at cost less any provision for diminution in value.

**(l) Deferred taxation**

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent, at the balance sheet date, that there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred tax that would arise on remittance of retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**(m) Foreign currency**

**Company**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All other differences are taken to the profit and loss account.

**Group**

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves.

**(n) Financial instruments**

The Group uses forward currency contracts to manage the financial risks associated with the Group's underlying business activities and the financing of these activities. The Group's policy is not to undertake any trading activity in financial instruments.

# Notes to the financial statements

## Note 1 (o-q)

### 1. Accounting policies (continued)

**(o) Leasing and hire purchase agreements**

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

**(p) Pensions**

The Group operates a defined benefit scheme providing benefits based on final pensionable pay which is closed to new members. Contributions are made to separately administered funds, and the contributions to these funds are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet.

The Group also operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

**(q) Government grants**

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

# Notes to the financial statements

## Notes 2 - 3

### 2. Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the Group's ordinary activities, stated net of value added tax.

The Group operates in one principal area of activity as described in the Report of the Directors.

In 2003, the discontinued operations comprised Pipeline Developments Limited, the subsidiary that provided consultancy services to the water industry and the tobacco business, which provided analytical services to the Department of Health and the tobacco industry.

Turnover is analysed as follows:

| Geographical area | Europe | | Asia | | America | | Rest of the world | |
|---|---|---|---|---|---|---|---|---|
| Turnover by destination | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| Continuing operations | **53,744** | 48,540 | **1,719** | 1,421 | **225** | 155 | **286** | 280 |
| Newly acquired operation | **103** | - | **-** | - | **-** | - | **-** | - |
| Discontinued operations | **-** | 1,856 | **-** | - | **-** | - | **-** | - |
| Sales to third parties | **53,847** | 50,396 | **1,719** | 1,421 | **225** | 155 | **286** | 280 |

| Geographical area | Total | |
|---|---|---|
| Turnover by destination | **2004** | 2003 |
| | **£'000** | £'000 |
| Continuing operations | **55,974** | 50,396 |
| Newly acquired operation | **103** | - |
| Discontinued operations | **-** | 1,856 |
| Sales to third parties | **56,077** | 52,252 |

### 3. Cost of sales and operating expenses

| | **2004 Total £'000** | 2003 Continuing £'000 | 2003 Discontinued £'000 | 2003 Total £'000 |
|---|---|---|---|---|
| Raw materials and consumables | **20,640** | 19,957 | 469 | 20,426 |
| Staff costs | **20,998** | 17,184 | 706 | 17,890 |
| Depreciation and amortisation | **3,271** | 2,438 | 36 | 2,474 |
| Other external charges | **7,335** | 6,378 | 398 | 6,776 |
| Total | **52,244** | 45,957 | 1,609 | 47,566 |

The total figures for continuing operations in 2003/04 include the following amounts relating to Mikromol GmbH, which was acquired during the year - raw materials and consumables £83,000, staff costs £488,000, depreciation and amortisation £76,000, other external charges £146,000.

# Notes to the financial statements

## Notes 4 - 5

### 4. Operating profit

| | | 2004 £'000 | 2003 £'000 |
|---|---|---|---|
| This is stated after charging | | | |
| Auditors' remuneration | - audit services | 99 | 135 |
| Amortisation of deferred development expenditure | | 169 | 176 |
| Depreciation of owned assets | | 2,667 | 2,002 |
| Amortisation of goodwill | | 435 | 296 |
| Operating lease rentals | - land and buildings | 714 | 476 |
| | - plant and machinery | 206 | 182 |

### 5. Information regarding employees

| (a) Staff costs | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Wages and salaries | 17,190 | 14,634 |
| Social security costs | 1,838 | 1,629 |
| Other pension costs | 1,970 | 1,627 |
| | **20,998** | 17,890 |
| **(b) Average number of employees** | | |
| Direct scientific staff, administration and management | **678** | 531 |

**(c)** Information on Directors' remuneration is included in the Report of the Remuneration Committee on pages 24 to 27.

# Notes to the financial statements

## Note 6

### 6. Taxation

| (a) Analysis of charge in year | 2004 £'000 | 2003 £'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax on the profit for the year | 512 | 940 |
| Foreign tax | 980 | 531 |
| **Total current tax (note 6b)** | **1,492** | 1,471 |
| **Deferred tax** | | |
| Depreciation in excess of capital allowances | (155) | (30) |
| Capital gains | - | 247 |
| **Total deferred tax (note 16)** | **(155)** | 217 |
| **Total tax charge for the year** | **1,337** | 1,688 |

**(b) Factors affecting current tax charge for the year**

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | 3,671 | 5,537 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30%) | 1,101 | 1,661 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 229 | 116 |
| Research and development tax credit | (103) | (127) |
| Profit on disposal of business units | - | (247) |
| Depreciation in excess of capital allowances | 155 | 30 |
| Utilisation of tax losses | - | (39) |
| Higher tax rates on overseas earnings | 110 | 77 |
| **Current tax for the year (note 6a)** | **1,492** | 1,471 |

# Notes to the financial statements

## Notes 7 - 8

### 7. Dividends

| Equity dividends: | 2004 £'000 | 2003 £'000 |
|---|---|---|
| Special dividend | - | 324 |
| Proposed final dividend on dividend share | - | 268 |
| Proposed final dividend on 'B' ordinary shares | - | 155 |
| Proposed final dividend on ordinary shares | - | 99 |
| | - | 846 |

### 8. Profit attributable to members of parent company

The profit dealt with in the financial statements of the parent Company was £4,000 (2003 - £850,000).

# Notes to the financial statements

## Note 9

**9. Intangible fixed assets**

| Group | Development expenditure £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2003 | 823 | 2,743 | 3,566 |
| Increase during year | 150 | 318 | 468 |
| Acquisition of subsidiary undertaking | - | 2,190 | 2,190 |
| **At 31 March 2004** | **973** | **5,251** | **6,224** |
| **Amortisation** | | | |
| At 1 April 2003 | 541 | 499 | 1,040 |
| Charge for the year | 169 | 435 | 604 |
| **At 31 March 2004** | **710** | **934** | **1,644** |
| **Net book value at 31 March 2004** | **263** | **4,317** | **4,580** |
| Net book value at 1 April 2003 | 282 | 2,244 | 2,526 |

Goodwill arising on the acquisition of Promochem GmbH and Mikromol GmbH is being amortised over the Directors' estimate of their useful economic life of ten years.

**Company**

The Company has no intangible fixed assets.

# Notes to the financial statements

## Note 10

**10. Tangible fixed assets**

| Group | Freehold land and buildings £'000 | Short-term leasehold buildings £'000 | Building plant £'000 | Scientific equipment £'000 | Computers £'000 | Vehicles £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| At 1 April 2003 | 5,709 | 304 | 2,336 | 8,918 | 2,841 | 57 | 20,165 |
| Additions | 38 | 87 | 461 | 2,225 | 888 | 42 | 3,741 |
| Exchange adjustment | (6) | (7) | - | (58) | (7) | (2) | (80) |
| Acquisition of subsidiary | - | 68 | - | 697 | 4 | - | 769 |
| Disposals | (3) | - | - | (299) | (547) | (17) | (866) |
| **At 31 March 2004** | **5,738** | **452** | **2,797** | **11,483** | **3,179** | **80** | **23,729** |
| **Accumulated depreciation** | | | | | | | |
| At 1 April 2003 | 726 | 132 | 1,245 | 5,132 | 1,769 | 20 | 9,024 |
| Charge for the year | 168 | 65 | 367 | 1,614 | 439 | 14 | 2,667 |
| Exchange adjustment | (1) | (4) | - | (34) | (6) | (2) | (47) |
| Acquisition of subsidiary | - | 8 | - | 262 | 3 | - | 273 |
| Disposals | (3) | - | - | (299) | (547) | (12) | (861) |
| **At 31 March 2004** | 890 | 201 | 1,612 | 6,675 | 1,658 | 20 | 11,056 |
| **Net book value at 31 March 2004** | **4,848** | **251** | **1,185** | **4,808** | **1,521** | **60** | **12,673** |
| Net book value at 1 April 2003 | 4,983 | 172 | 1,091 | 3,786 | 1,072 | 37 | 11,141 |

The element of land included in freehold land and buildings at 31 March 2004 is £1,104,000 (2003 - £1,104,000).

The freehold land and buildings at Teddington have been valued by independent valuers at £20 million based on their current use.

**Company**

The Company has no tangible fixed assets.

# Notes to the financial statements
## Note 11

**11. Fixed assets investments**

| Group | Subsidiary undertakings £'000 | Associates £'000 | Own shares £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 April 2003 | - | 44 | 2,070 | 2,114 |
| Additions | - | 19 | - | 19 |
| Disposals | - | - | (30) | (30) |
| **At 31 March 2004** | **-** | **63** | **2,040** | **2,103** |

| Company | | | | |
|---|---|---|---|---|
| At 1 April 2003 | 2,675 | - | 2,070 | 4,745 |
| Additions | 26 | - | - | 26 |
| Disposals | - | - | (30) | (30) |
| **At 31 March 2004** | **2,701** | **-** | **2,040** | **4,741** |

| (a) Associate | Share of net tangible assets £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|
| At 1 April 2003 | (3) | 47 | 44 |
| Share of profit of associate | 24 | - | 24 |
| Amortisation of goodwill | - | (5) | (5) |
| **At 31 March 2004** | **21** | **42** | **63** |

**(b) Subsidiary undertaking**

The outstanding minority interest in LGC Promochem Spzoo was purchased in the year.

**(c) Own shares**

An Employee Benefit Trust (EBT), managed by Kleinwort Benson (Jersey) Trustees Limited, has been established to acquire and administer 'B' ordinary and ordinary shares of £0.10 each for the benefit of the employees. At 31 March 2004 total of 939,360 shares were held by the EBT. Of the EBT shareholding, 691,830 shares were subject to options at prices ranging up to £2.50 per share.

# Notes to the financial statements

## Note 11 (continued)

### 11. Fixed assets investments (continued)

Details of the investments in which the Group and the Company (unless indicated) holds 20% or more of the nominal value of any class of share capital are as follows:

| Subsidiaries | Country of incorporation | Type of shares | Proportion of voting rights and shares held | Nature of business |
|---|---|---|---|---|
| LGC Beteiligungs GmbH | Germany | Ordinary shares | 100 | Holding company |
| LGC Limited | England | Ordinary shares | 100 | Chemical and biochemical analysis, consultancy and distribution of analytical reference standards |
| LGC Promochem Spzoo | Poland | Ordinary shares | 100** | Distribution of analytical reference standards |
| LGC Promochem AB | Sweden | Ordinary shares | 100 | Distribution of analytical reference standards |
| LGC Promochem Sarl | France | Ordinary shares | 100 | Distribution of analytical reference standards |
| LGC Promochem Sl | Spain | Ordinary shares | 100 | Distribution of analytical reference standards |
| LGC Promochem Srl | Italy | Ordinary shares | 100* | Distribution of analytical reference standards |
| LGC Promochem GmbH | Germany | Ordinary shares | 100* | Distribution of analytical reference standards |
| LGC Promochem India Private Limited | India | Ordinary shares | 50* | Distribution of analytical reference standards |
| Mikromol GmbH | Germany | Ordinary shares | 100* | Manufacture of analytical reference standards |
| LGC (Teddington) Limited | England | Ordinary shares | 100 | Holding company |
| LGC (North West) Limited | England | Ordinary shares | 100 | Holding company |
| University Diagnostics Limited | England | Ordinary shares | 100 | Dormant |
| Promochem Limited | England | Ordinary shares | 100 | Dormant |
| Promochem Iberia Sl | Spain | Ordinary shares | 100* | Dormant |

**Joint ventures and associates**

| | | | | |
|---|---|---|---|---|
| Ultra Scientific Europe GmbH | Germany | Ordinary shares | 50* | Distribution of analytical reference standards |

** Held by a subsidiary undertaking*

*** Held by holding company and subsidiary undertaking*

# Notes to the financial statements

## Note 11 (continued)

**11. Fixed assets investments (continued)**

On 6 June 2003 the Group acquired Mikromol GmbH for a consideration of £2,405,000 plus costs of £60,000. The assets of Mikromol GmbH have been included in the Group's balance sheet at their fair value at the date of acquisition.

Analysis of the acquisition of Mikromol GmbH:

| **Net assets at date of acquisition:** | **Book value and fair value to Group £'000** |
|---|---|
| Tangible fixed assets | 496 |
| Stocks | 130 |
| Debtors | 290 |
| Net borrowing | (184) |
| Creditors due within one year | (457) |
| Net assets | 275 |
| Goodwill arising on acquisition | 2,190 |
| | 2,465 |
| Discharged by: | |
| Cash | 2,405 |
| Costs associated with the acquisition | 60 |
| | 2,465 |

Mikromol GmbH utilised £18,000 of the Group's net operating cash flows, paid £18,000 servicing of finance, paid £13,000 in respect of taxation and utilised £208,000 for capital expenditure.

Mikromol GmbH earned a profit after tax of £309,000 in the 15 months ended 31 March 2004, of which £81,000 arose in the period from 1 January 2003 to 30 June 2003. The summarised profit and loss account for the period from 1 January 2003 to the effective date of acquisition is as follows:

| | **£'000** |
|---|---|
| Turnover | 581 |
| Operating profit | 129 |
| Interest payable | (16) |
| Profit before tax | 113 |
| Taxation | (32) |
| Profit for the six months ended 30 June 2003 | 81 |

There were no recognised gains and losses in the six months ended 30 June 2003 other than the profit of £81,000 above.

# Notes to the financial statements

## Notes 12 - 15

### 12. Stocks

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Raw materials and consumables | **1,815** | 2,359 | - | - |

The difference between the purchase price and production cost of stocks and their replacement cost is not material.

### 13. Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Trade debtors | 7,814 | 7,806 | - | - |
| Amounts recoverable from long term contracts | 1,397 | 2,146 | - | - |
| Other debtors | 228 | 76 | 2 | 39 |
| Prepayments and accrued income | 495 | 444 | - | - |
| | **9,934** | 10,472 | **2** | 39 |

| **14. Creditors - amounts falling due within one year** | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Bank overdraft | 2,404 | 2,313 | - | - |
| Payments received on account | 1,911 | 1,414 | - | - |
| Trade creditors | 2,573 | 3,612 | 3 | - |
| Amounts owed to group undertakings | - | - | 2,959 | 2,485 |
| Amounts owed to associate | 8 | 2 | - | - |
| Corporation and foreign tax | 982 | 673 | - | - |
| Other taxation and social security | 1,994 | 1,411 | - | - |
| Accruals and deferred income | 3,777 | 4,234 | - | - |
| Dividend payable | - | 522 | - | 522 |
| | **13,649** | 14,181 | **2,962** | 3,007 |

### 15. Creditors - amount falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| Accruals and deferred income | **688** | 749 | - | - |

Accruals and deferred income includes £1,016,000 (2003 - £1,018,000) in respect of future building works.
Of the total amount, £328,000 is included in creditors due within one year (2003 - £350,000).
The credit to the profit and loss account was £87,000 (2003 - £148,000).

# Notes to the financial statements

## Notes 16 - 17

### 16. Provisions for liabilities and charges

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **£'000** | £'000 | **£'000** | £'000 |
| **Deferred taxation** | | | | |
| Balance at 1 April 2003 | 949 | 750 | - | - |
| Disposal of subsidiary undertaking | - | (18) | - | - |
| (Released)/provided in the year | (155) | 217 | - | - |
| **Balance at 31 March 2004** | **794** | 949 | - | - |
| **The deferred tax consists of:** | | | | |
| Accelerated capital allowances | 547 | 702 | - | - |
| Capital gains | 247 | 247 | - | - |
| **Total deferred tax liability** | **794** | 949 | - | - |

### 17. Share capital

| Authorised | **2004** **£'000** | 2003 £'000 |
|---|---|---|
| Dividend share of £0.10 | - | - |
| 'B' ordinary shares of £0.10 each | 252 | 252 |
| Ordinary shares of £0.10 each | 100 | 100 |
| | **352** | 352 |

| Allotted called up and fully paid | **2004** **Number** | 2003 Number | **2004** **£'000** | 2003 £'000 |
|---|---|---|---|---|
| Dividend share | 1 | 1 | - | - |
| 'B' ordinary shares | 2,521,900 | 2,521,900 | 252 | 252 |
| Ordinary shares | 1,000,000 | 1,000,000 | 100 | 100 |
| | | | **352** | 352 |

# Notes to the financial statements
## Notes 17 - 18

### 17. Share capital (continued)

**Dividend rights**

The different classes of shares rank for dividend in the following order:
1) Dividend share
2) Ordinary shares
3) 'B' ordinary shares
4) Thereafter equally for the ordinary and 'B' ordinary shares

On liquidation or capital reduction, the assets would be applied in the following order of priority:
1) Dividend share (returning nominal value only)
2) Thereafter equally for the ordinary and 'B' ordinary shares

Save for the dividend share which carries no voting rights, all classes of shares carry equal voting rights.

### 18. Reserves

| Group | Capital redemption reserve account £'000 | Share premium account £'000 | Capital reserve £'000 | Profit and loss account £'000 |
|---|---|---|---|---|
| **At 1 April 2002** | 31 | 1,386 | 9,989 | 2,043 |
| Profit for the year | - | - | - | 3,725 |
| Dividend | - | - | - | (846) |
| Exchange difference on retranslation of net assets of subsidiary undertakings | - | - | - | (153) |
| Goodwill reinstated on disposal of subsidiary | - | - | 276 | - |
| **At 1 April 2003** | **31** | **1,386** | **10,265** | **4,769** |
| Profit for the year | - | - | - | 2,199 |
| Dividend | - | - | - | - |
| Exchange difference on retranslation of net assets of subsidiary undertakings | - | - | - | (62) |
| **At 31 March 2004** | **31** | **1,386** | **10,265** | **6,906** |

The cumulative amount of goodwill written off at 31 March 2004, net of goodwill relating to undertakings disposed of, is £579,000 (2003 - £579,000).

| Company | | | | |
|---|---|---|---|---|
| **At 1 April 2002** | 31 | 1,386 | - | 4 |
| Profit for the year | - | - | - | 850 |
| Dividend | - | - | - | (846) |
| **At 1 April 2003** | **31** | **1,386** | - | **8** |
| Profit for the year | - | - | - | 4 |
| Dividend | - | - | - | - |
| **At 31 March 2004** | **31** | **1,386** | - | **12** |

# Notes to the financial statements

## Notes 19 - 20

### 19. Financial commitments

At 31 March 2004 the Group had annual commitments under non-cancellable operating leases as set out below:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| **Operating leases which expire:** | **Land and buildings £'000** | **Other £'000** | Land and buildings £'000 | Other £'000 |
| Within one year | 24 | 88 | 192 | 195 |
| In two to five years | 129 | 158 | - | 108 |
| In over five years | 591 | 1 | 120 | - |
| | **744** | **247** | 312 | 303 |

### 20. Notes to the statement of cash flows

| **(a) Reconciliation of operating profit to net cash flow from operating activities** | **2004 £'000** | 2003 £'000 |
|---|---|---|
| Operating profit | 3,833 | 4,686 |
| Depreciation of tangible fixed assets | 2,667 | 2,002 |
| Amortisation of development expenditure | 169 | 176 |
| Amortisation of goodwill | 435 | 296 |
| Decrease in stocks | 635 | 15 |
| Decrease/(increase) in debtors | 550 | (2,506) |
| (Decrease)/increase in creditors | (52) | 715 |
| (Decrease)/increase in accruals and deferred income | (755) | 201 |
| Net cash inflow from operating activities | **7,482** | 5,585 |

| **(b) Analysis of net funds** | At 1 April 2003 | **Cash flow** | **Exchange differences** | **At 31 March 2004** |
|---|---|---|---|---|
| Cash at bank and in hand | 2,259 | (982) | (34) | 1,243 |
| Bank overdrafts | (2,313) | (168) | 77 | (2,404) |
| Cash | **(54)** | **(1,150)** | **43** | **(1,161)** |
| Short-term deposits* | 2,000 | - | - | 2,000 |
| | **1,946** | **(1,150)** | **43** | **839** |

*Short-term deposits are included within cash at bank and in hand in the balance street.

# Notes to the financial statements

## Notes 21 - 23

### 21. Post balance sheet events

On 7 April 2004, LGC Investments Limited (a newly formed company) made an offer to acquire the whole of the share capital of the Company. The offer was accepted by all shareholders and approved by an Extraordinary General Meeting of the Company on 28 April 2004 and declared unconditional on 29 April 2004.

On 16 April 2004, LGC Investments Limited, together with its parent, LGC Group Holdings plc, entered into a £35,000,000 credit agreement. This provided £30,000,000 term loan and guarantee facilities to finance the acquisition of the Company, together with a £5,000,000 working capital facility. The Company and its principal subsidiaries have provided guarantees and granted security in support of these facilities. The term loans were drawn down on 12 May 2004 and are repayable in instalments up to September 2012.

### 22. Group capital commitments

Amounts contracted for but not provided in the financial statements amounted to £21,000 for the Group and £nil for the Company (2003 - £446,000 and £nil, respectively).

### 23. Pensions and other post retirement benefits

**(a) Pensions**

**SSAP 24 disclosures**

The Group operates a defined benefit pension scheme in the United Kingdom, the LGC Staff Pension Scheme. The scheme is funded by the payment of contributions to a separately administered trust fund.

The pension cost is determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method. The result of the most recent valuation, which was conducted as at 1 August 2002, is as follows:

| **Main assumptions:** | **%** |
|---|---|
| Rate of return on investments | 8.2 |
| Rate of salary increases | 4.3 |
| Rate of pension increases | 2.3 |

| | **£'000** |
|---|---|
| Market value of scheme's assets | 11,725 |
| Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases. | 75% |

Contributions to the scheme have been increased in order to eliminate the deficit by 2013. Employer's contributions have been increased from 13.3% to 15.3% from 1 August 2003, employees from 1.5% to 3.5% from 1 April 2004. The pension charge for the year reflects the increased employer contributions.

**FRS 17 disclosures**

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at August 2002 and updated by the actuaries of Scottish Widows plc to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2004 and 31 March 2003. Scheme assets are stated at their market values at the respective balance sheet dates.

# Notes to the financial statements

## Note 23 (continued)

| 23. Pensions (continued) | 2004 | 2003 |
|---|---|---|
| **Main assumptions for the UK pension scheme:** | % | % |
| Rate of salary increase | 3.8 | 4.0 |
| Rate of increase in pensions in payment | 2.8 | 2.4 |
| Discount rate | 5.7 | 5.6 |
| Inflation assumption | 2.8 | 2.4 |

| | 2004 | | 2003 | |
|---|---|---|---|---|
| **The assets and liabilities of the scheme and the expected rates of return at 31 March are:** | **UK long-term rate of return expected %** | **Value £'000** | UK long-term rate of return expected % | Value £'000 |
| Equities | 7.8 | 14,617 | 8.0 | 10,112 |
| Bond | 4.9 | 953 | 4.7 | 820 |
| Other | 4.0 | 620 | 3.8 | 355 |
| **Total market value of assets** | | **16,190** | | **11,287** |
| Present value of scheme (liabilities) | | (26,589) | | (22,705) |
| Pension (liability) before deferred tax | | (10,399) | | (11,418) |
| Related deferred tax asset | | 3,120 | | 3,425 |
| **Net pension (liability)** | | **(7,279)** | | **(7,993)** |

| **An analysis of the defined benefit cost for the year ended 31 March 2004 is as follows:** | **2004 £'000** |
|---|---|
| **Current service cost and operating charges** | **(2,284)** |
| Expected return on pension scheme assets | 929 |
| Interest on pension scheme liabilities | (1,271) |
| **Total other finance income** | **(342)** |
| Actual return less expected return on pension scheme assets | 2,150 |
| Experience losses arising on scheme liabilities | (356) |
| (Loss) arising from changes in assumptions underlying the present value of scheme liabilities | (152) |
| **Actuarial gain** | **1,642** |

| **Analysis of movements in (deficit) during the year:** | **£'000** |
|---|---|
| **At 1 April 2003** | (11,418) |
| Total operating charge | (2,284) |
| Total other finance income | (342) |
| Actuarial gain | 1,642 |
| Contributions | 2,003 |
| **At 31 March 2004** | **(10,399)** |

# Notes to the financial statements

## Note 23 (continued)

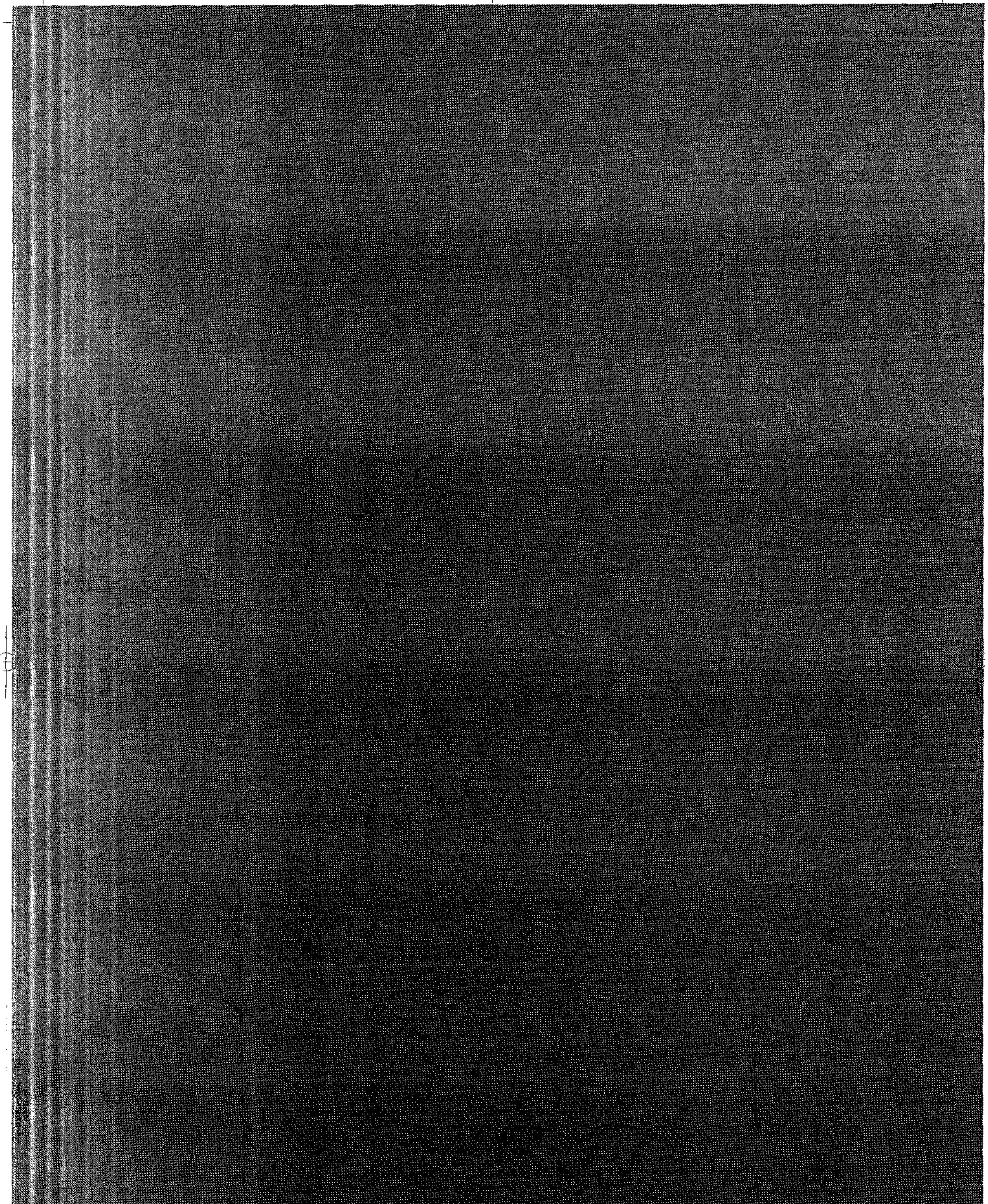
### 23. Pensions (continued)

| History of experience gains and losses: | 2004 £'000 |
|---|---|
| Difference between expected return and actual return on pension scheme assets: | 2,150 |
| % of scheme assets | 13.2% |
| Experience (losses) arising on scheme liabilities: | (356) |
| % of the present value of scheme liabilities: | (1.3%) |
| Change in assumptions: | (152) |
| % of the present value of scheme liabilities: | (0.6%) |

### (b) Reconciliations of net assets and reserves under FRS 17

| Net assets - Group | 2004 £000 | 2003 £000 |
|---|---|---|
| Net assets as stated in balance sheet | 18,940 | 16,803 |
| FRS 17 pension liabilities | (7,279) | (7,993) |
| **Net assets including defined benefit liabilities** | **11,661** | 8,810 |

| Reserves - Group | 2004 £000 | 2003 £000 |
|---|---|---|
| Profit and loss reserve as stated in balance sheet | 6,906 | 4,769 |
| FRS 17 pension liabilities | (7,279) | (7,993) |
| **Profit and loss reserve including amounts relating to defined benefit liabilities** | **(373)** | (3,224) |



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