



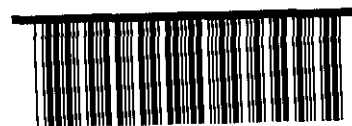
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Report and Accounts 2003

LGC (Holdings) Limited

31 March 2003



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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 Directors are reviewing the Group's corporate governance arrangements in the light of changes proposed to the Combined Code following the recent reports by Higgs and Smith.

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 four 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 is 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 is chaired by John Beacham, is made up of all the Non-Executive Directors and has the responsibilities which are set out on page 26.

Nomination Committee

The Nomination Committee, which is 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 has appointed an independent internal auditor to review and make recommendations on the Group's procedures and processes for financial and operational control. The internal auditor presents his report to the Audit Committee each year and the recommendations included in the report are then discussed. Further 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.

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

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 2002/03 is 50% of base salary.

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 28 to 29.

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.

Directors' remuneration

Directors' emoluments

	Basic salary £'000	2003 bonus £'000	2003 Emoluments excluding pension contributions £'000	2003 Pension contributions £'000	2002 Emoluments excluding pension contributions £'000
Executive					
Dr Richard Worswick	120	60	180	16	152
Mr Clive Hall	88	26	114	12	99
Dr Nigel Law	38	15	53	5	-
Dr John Mason	71	21	92	9	75
Non-Executive					
Mr Ian Kent	31	-	31	-	24
Dr John Beacham	19	-	19	-	19
Miss Marion Sears	9	-	9	-	-
Mr Dennis Stocks	19	-	19	-	19
Sir Brian Richards	-	-	-	-	6
	395	122	517	42	394

Report of the Remuneration Committee

Senior management share option plan

The senior management incentive plan introduced in 2001/02 was replaced during the year, following the purchase by the Employee Benefit Trust of shares previously owned by the Royal Society of Chemistry, by a senior management share option plan, under which options have been granted over shares held by the Employee Benefit Trust. The terms of this new share option plan mirror those of the former senior management incentive plan.

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

	Number of shares at 31 March 2003	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 is currently set at £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.

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 2002	Number of shares at 23 August 2002 after the 10:1 share split	Number of shares at 31 March 2003
Dr Richard Worswick		25,700	257,000	257,000
Mr Clive Hall		8,750	87,500	100,000
Dr Nigel Law		-	-	5,000
Dr John Mason		4,500	45,000	62,000

Non-Executive	Date of appointment	Number of shares at 31 March 2002	Number of shares at 23 August 2002 after the 10:1 share split	Number of shares at 31 March 2003
Mr Ian Kent (Chairman)	1 May 2001	2,000	20,000	20,000
Dr John Beacham	16 June 1999	2,000	20,000	20,000
Miss Marion Sears	1 October 2002	-	-	15,000
Mr Dennis Stocks	1 April 1996	2,000	20,000	20,000

In addition to the senior management share option plan shown on page 28, the following Directors each have options for shares exercisable between the dates and at the prices detailed below:

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

	Number of shares at 31 March 2002	Date exercisable	Price
Mr Clive Hall	1,250	1 December 2002-2009	£5.50
Mr Clive Hall	100	10 November 2003	£6.30
Dr John Mason	200	21 February 2000-2007	£1.00
Dr John Mason	1,500	1 December 2002-2009	£5.50

Report of the Directors

The Directors present this report together with the audited financial statements for the year ended 31 March 2003.

Results and dividends

The profit and loss account is set out on page 34 and shows the profit for the year of £5,537,000 (2002 - £2,453,000) before taxation. The Directors propose a final dividend of £254,000 (2002 - £436,000) on the 'B' ordinary and ordinary shares and £268,000 on the dividend share.

No interim dividend has been paid in respect of the year ended 31 March 2003 (2002 - £17,000). A special dividend of £324,000 was paid to the Royal Society of Chemistry as part of the arrangement for the sale of their shareholding. 3i waived their special dividend.

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 4 to 5 and in the reviews on pages 6 to 21.

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 second year that the President's Award has been bestowed on LGC following awards of five gold and 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 2003, the Company had an average of 31 days purchases outstanding in trade creditors.

Political and charitable contributions

During the year, the Group made various charitable contributions totalling £5,000.

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.

Directors

The membership of the Board as at 30 June 2003 was as follows:

Mr Ian Kent	Chairman, Non-Executive
Dr Richard Worswick	Chief Executive
Mr Clive Hall	Group Finance Director
Dr Nigel Law (appointed 28 November 2002)	Director, Group Operations
Dr John Mason	Director, Corporate Development
Dr John Beacham	Non-Executive
Miss Marion Sears (appointed 1 October 2002)	Non-Executive
Mr Dennis Stocks	Non-Executive

The Directors' share interests are shown in the report of the Remuneration Committee on pages 28 to 29.

Substantial interests in share capital at 30 June 2003

The following held in excess of 3 per cent of the ordinary share capital of the Company:

	<u>Number of shares</u>	<u>Percentage</u>
3i plc	1,047,250	29.7
Kleinwort Benson (Jersey) Trustees Limited as nominee for the Employee Benefit Trust	979,580	27.8

In addition, a Director held more than 3% of the ordinary share capital of the Company. Directors' interests are shown on page 29.

At an Extraordinary General Meeting held on 23 August 2002, a number of changes to the Articles of Association were approved, including a provision to authorise the reclassification of 'A' ordinary shares into 'B' ordinary shares and a variation of the permitted transfer provisions. Approval was also given for the subdivision of each £1 share (ordinary, 'A' ordinary and 'B' ordinary) into 10 £0.10 shares. Following the EGM, the Royal Society of Chemistry sold all of its ordinary shares in LGC, at which time they all became 'B' ordinary shares. 131,250 of their £0.10 'B' ordinary shares were purchased by 3i for £322,000 and the remainder were acquired by Kleinwort Benson (Jersey) Trustees Limited for £1,928,000.

Further details are provided in Note 17 to the accounts.

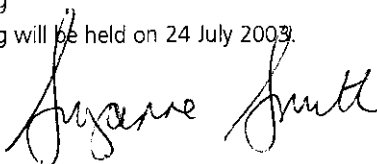
Auditors

Ernst & Young LLP were re-appointed auditors at the Annual General Meeting on 2 October 2002 and have expressed their willingness to continue in office.

Annual General Meeting

The Annual General Meeting will be held on 24 July 2003.

On behalf of the Board
Suzanne Smith
 Company Secretary
 30 June 2003



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 2003 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 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

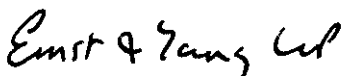
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London
30 June 2003



Consolidated profit and loss account for the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Turnover			
Continuing operations		50,396	38,590
Discontinued operations		1,856	2,569
Group turnover	2	52,252	41,159
Raw materials and consumables	3	(20,426)	(15,823)
Staff costs	3	(17,890)	(15,314)
Depreciation and amortisation	3	(2,474)	(2,168)
Other external charges	3	(6,776)	(5,296)
Operating profit			
Continuing operations		4,439	2,318
Discontinued operations		247	240
Group operating profit	4	4,686	2,558
Share of operating profit of associated company and amortisation of associate goodwill		2	-
Total operating profit: group and share of associate		4,688	2,558
Profit on disposal of business units		759	-
Profit on sale of fixed assets investments		182	-
Profit on ordinary activities before interest and taxation		5,629	2,558
Bank interest receivable		32	114
Bank interest payable and similar charges		(124)	(219)
Profit on ordinary activities before taxation		5,537	2,453
Taxation on profit on ordinary activities	6	(1,688)	(920)
Profit for the financial year		3,849	1,533
Minority interest		(124)	(59)
Profit for the financial year attributable to the members		3,725	1,474
Dividends	7	(846)	(453)
Retained profit for the year	18	2,879	1,021
Group statement of total recognised gains and losses for the year ended 31 March 2003			
Profit for the financial year excluding share of profit of associate		3,723	1,474
Share of associate's profit for the year		2	-
Profit for the financial year attributable to members of the parent company		3,725	1,474
Exchange difference on retranslation of net assets of subsidiary undertakings		(153)	(11)
Total recognised gains and losses relating to the year		3,572	1,463

The notes on pages 38 to 56 form part of these financial statements.

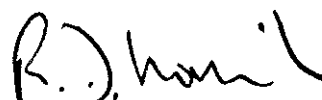
Consolidated balance sheet

as at 31 March 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Intangible assets	9	2,526	2,921
Tangible assets	10	11,141	11,072
Investments	11	2,114	56
		15,781	14,049
Current assets			
Stocks	12	2,359	2,374
Debtors	13	10,472	8,749
Cash at bank and in hand		4,259	4,124
		17,090	15,247
Current liabilities			
Creditors: amounts falling due within one year	14	(14,181)	(13,843)
Net current assets		2,909	1,404
Total assets less current liabilities		18,690	15,453
Creditors: amounts falling due after more than one year	15	(749)	(780)
Provisions for liabilities and charges	16	(949)	(750)
Equity minority interest		(189)	(122)
Net assets		16,803	13,801
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	9,989
Profit and loss account	18	4,769	2,043
Shareholders' funds - equity		16,803	13,801

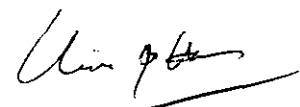
On behalf of the Board

Dr Richard Worswick
Chief Executive
30 June 2003



Clive Hall

Group Finance Director
30 June 2003



The notes on pages 38 to 56 form part of these financial statements.

Company balance sheet

as at 31 March 2003

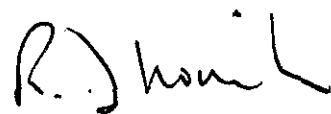
	Notes	2003 £'000	2002 £'000
Fixed assets			
Investments	11	4,745	3,500
Current assets			
Debtors	13	39	39
Cash at bank and in hand		-	-
		39	39
Current liabilities			
Creditors: amounts falling due within one year	14	(3,007)	(1,766)
Net current liabilities		(2,968)	(1,727)
Net assets		1,777	1,773
Capital 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	8	4
Shareholders' funds - equity		1,777	1,773

On behalf of the Board

Dr Richard Worswick

Chief Executive

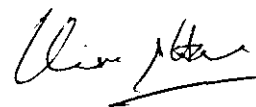
30 June 2003



Clive Hall

Group Finance Director

30 June 2003



The notes on pages 38 to 56 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2003

	Notes	2003 £'000	2002 £'000
Net cash inflow from operating activities	20	5,585	2,284
Returns on investments and servicing of finance			
Interest received		32	114
Interest paid		(124)	(219)
		(92)	(105)
Taxation			
Corporation and overseas tax paid		(1,194)	(403)
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(111)	(174)
Payments to acquire tangible assets		(2,437)	(2,948)
Receipts from sales of own shares		140	22
Payments to acquire own shares		(1,973)	-
Receipts from sales of tangible assets		24	347
		(4,357)	(2,753)
Acquisitions and disposals			
Payment to acquire minority interest		(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		-	(2,358)
Net cash acquired with subsidiary undertaking		-	33
		1,103	(2,325)
Equity dividends paid		(768)	(390)
Increase/(decrease) in cash		277	(3,692)
Cash flow			
Reconciliation of net cash flow to movement in net funds			
Change in net debt resulting from cash flow		277	(3,692)
Exchange difference		(192)	-
Movement in net funds		85	(3,692)
Net funds at 1 April		1,861	5,553
Net funds at 31 March		1,946	1,861

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 methods.

(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 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) which acquired a significant number of shares in the Company during the year. The EBT has been consolidated into the accounts of the Company and the Group for the first time this year resulting in £56,000 being reclassified from debtors to fixed asset investments. 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-p)

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.

Notes to the financial statements

Notes 2 - 3

2. Turnover and segmental analysis

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.

The discontinued operations comprise 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	2003	2002	2003	2002	2003	2002	2003	2002
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Discontinued operations	1,856	2,569	-	-	-	-	-	-
Continuing operations	48,540	37,269	1,421	1,029	155	128	280	164
Sales to third parties	50,396	39,838	1,421	1,029	155	128	280	164

Geographical area	Total	
Turnover by destination	2003	2002
	£'000	£'000
Discontinued operations	1,856	2,569
Continuing operations	50,396	38,590
Sales to third parties	52,252	41,159

3. Cost of sales and operating expenses

	2003	2003	2003	2002	2002	2002
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Raw materials and consumables	19,957	469	20,426	15,141	682	15,823
Staff costs	17,184	706	17,890	14,244	1,070	15,314
Depreciation and amortisation	2,438	36	2,474	2,100	68	2,168
Other external charges	6,378	398	6,776	4,787	509	5,296
Total	45,957	1,609	47,566	36,272	2,329	38,601

Notes to the financial statements

Note 4 - 5

4. Operating profit

	2003 £'000	2002 £'000
This is stated after charging		
Auditors' remuneration - audit services	135	68
- other services	-	15
Amortisation of deferred development expenditure	176	103
Depreciation of owned assets	2,002	1,795
Amortisation of goodwill	296	270
Operating lease rentals - land and buildings	476	183
- plant and machinery	182	206

5. Information regarding employees

	2003 £'000	2002 £'000
(a) Staff costs		
Wages and salaries	14,634	12,757
Social security costs	1,629	1,141
Other pension costs	1,627	1,416
	17,890	15,314

(b) Average number of employees

Direct scientific staff, administration and management	531	508
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(c) Information on Directors' remuneration is included in the Report of the Remuneration Committee on pages 26 to 29.

Notes to the financial statements

Note 6

6. Taxation

	2003	2002
(a) Analysis of charge in year	£'000	£'000
Current tax		
UK corporation tax on the profit for the year	940	557
Foreign tax	531	236
Total current tax	1,471	793
Deferred tax		
Accelerated capital allowances	(30)	127
Capital gains	247	-
Total deferred tax (note 16)	217	127
Total tax charge for the year	1,688	920

(b) Factors affecting current tax charge for the year

The tax assessed for the year is higher/lower (2002) than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

Profit on ordinary activities before tax	5,537	2,453
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002 - 30%)	1,661	736
Effects of:		
Expenses not deductible for tax purposes	116	169
Research and development tax credit	(127)	-
Profit on disposal of business units	(247)	-
Capital allowances in arrears/(advance) of depreciation	30	(127)
Utilisation of tax losses	(39)	(10)
Higher tax rates on overseas earnings	77	25
Current tax for the year (note 6a)	1,471	793

Notes to the financial statements

Notes 7 - 8

7. Dividends

	2003	2002
	£'000	£'000
Equity dividends:		
Interim dividend on 'A' ordinary shares	-	17
Special dividend	324	-
Proposed final dividend on 'A' ordinary shares	-	306
Proposed final dividend on dividend share	268	-
Proposed final dividend on 'B' ordinary shares	155	71
Proposed final dividend on ordinary shares	99	59
	846	453

8. Profit attributable to members of parent company

The profit dealt with in the financial statements of the parent Company was £850,000 (2002 - £579,000).

Notes to the financial statements

Note 9

9. Intangible fixed assets

Group	Development expenditure £'000	Goodwill £'000	Total £'000
Cost			
At 1 April 2002	712	2,957	3,669
Increase during year	111	-	111
Disposal of subsidiary undertaking	-	(214)	(214)
At 31 March 2003	823	2,743	3,566
Amortisation			
At 1 April 2002	365	383	748
Charge for the year	176	296	472
Disposal of subsidiary undertaking	-	(180)	(180)
At 31 March 2003	541	499	1,040
Net book value at 31 March 2003	282	2,244	2,526
Net book value at 1 April 2002	347	2,574	2,921

Goodwill arising on the acquisition of Promochem GmbH is being amortised over the Directors' estimate of its 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 2002	5,437	269	2,245	7,798	2,418	154	18,321
Additions	248	103	91	1,461	528	6	2,437
Exchange adjustment	24	14	-	88	17	(2)	141
Disposal of subsidiary and trading operation	-	(82)	-	(316)	(116)	(39)	(553)
Disposals	-	-	-	(113)	(6)	(62)	(181)
At 31 March 2003	5,709	304	2,336	8,918	2,841	57	20,165
Accumulated depreciation							
At 1 April 2002	629	70	974	4,125	1,418	33	7,249
Charge for the year	96	88	271	1,128	397	22	2,002
Exchange adjustment	1	13	-	78	10	(1)	101
Disposal of subsidiary and trading operation	-	(39)	-	(120)	(52)	(21)	(232)
Disposals	-	-	-	(79)	(4)	(13)	(96)
At 31 March 2003	726	132	1,245	5,132	1,769	20	9,024
Net book value at 31 March 2003	4,983	172	1,091	3,786	1,072	37	11,141
Net book value at 1 April 2002	4,808	199	1,271	3,673	1,000	121	11,072

The element of land included in freehold land and buildings at 31 March 2003 is £1,104,000 (2002 - £1,104,000).

The freehold land and buildings at Teddington were valued during the year 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 2002	-	-	-	-
Reclassified from debtors	-	-	56	56
At 1 April 2002 (restated)	-	-	56	56
Additions	-	44	2,027	2,071
Disposals	-	-	(13)	(13)
At 31 March 2003	-	44	2,070	2,114

Company

At 1 April 2002	3,444	-	-	3,444
Reclassified from debtors	-	-	56	56
At 1 April 2002 (restated)	3,444	-	56	3,500
Additions	48	-	2,027	2,075
Disposals	(817)	-	(13)	(830)
At 31 March 2003	2,675	-	2,070	4,745

	Share of net tangible assets £'000	Goodwill £'000	Total £'000
(a) Associate			
At 1 April 2002	-	-	-
Addition	(10)	52	42
Share of profit of associate	7	-	7
Amortisation of goodwill	-	(5)	(5)
At 31 March 2003	(3)	47	44

(b) Associate

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

(c) Associate

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. A total of 979,580 shares are held by the EBT.

Notes to the financial statements

Note 11

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	66*	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 SI	Spain	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
University Diagnostics Limited	England	Ordinary shares	100	Dormant
LGC (North West) Limited	England	Ordinary shares	100	Dormant
Promochem Limited	England	Ordinary shares	100	Dormant
Promochem Iberia SI	Spain	Ordinary shares	100*	Dormant
Promochem Standard Supplies AB	Sweden	Ordinary shares	100*	Dormant
LGC (Teddington) Limited	England	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

Notes to the financial statements

Notes 11- 12

11. Fixed assets investments (continued)

On 22 October 2002 the Group completed the sale of Pipeline Developments Limited. The disposal is analysed as follows:

Net assets disposed of:	£'000
Fixed assets	300
Debtors	782
Cash	65
Creditors	(508)
Goodwill	310
Loss on disposal (including goodwill of £310,000)	(135)
	<u>814</u>
Satisfied by:	
Cash	<u>814</u>

The profit attributable to members of the parent company includes profits after tax of £25,000 earned by Pipeline Developments Limited up to the date of its disposal on 22 October 2002.

During the year, Pipeline Developments Limited contributed £12,000 to the Group's net operating cash flows, paid £19,000 for servicing of finance and utilised £100,000 for capital investment.

12. Stocks

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Raw materials and consumables	<u>2,359</u>	<u>2,374</u>	<u>-</u>	<u>-</u>

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

Notes to the financial statements

Notes 13 - 15

13. Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	7,806	7,018	-	-
Amounts recoverable from long term contracts	2,146	662	-	-
Other debtors	76	518	39	39
Prepayments and accrued income	444	551	-	-
	10,472	8,749	39	39

14. Creditors - amounts falling due within one year

Bank overdraft	2,313	2,263	-	-
Payments received on account	1,414	2,206	-	-
Trade creditors	3,612	2,808	-	6
Amounts owed to group undertakings	-	-	2,485	1,336
Amounts owed to associate	2	-	-	-
Corporation and foreign tax	673	540	-	-
Other taxation and social security	1,411	1,547	-	-
Accruals and deferred income	4,234	4,035	-	11
Dividend payable	522	444	522	413
	14,181	13,843	3,007	1,766

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

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Accruals and deferred income	749	780	-	-

Accruals and deferred income includes £1,018,000 (2002 - £1,255,000) in respect of future building works. Of the total amount, £350,000 is included in creditors due within one year (2002 - £495,000). The credit to the profit and loss account was £148,000 (2002 - £143,000).

Notes to the financial statements

Notes 16 - 17

16. Provisions for liabilities and charges

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Deferred taxation				
Balance at 1 April 2002	750	623	-	-
Disposal of subsidiary undertaking	(18)	-	-	-
Provided in the year	217	127	-	-
Balance at 31 March 2003	949	750	-	-
The deferred tax consists of:				
Accelerated capital allowances	702	750	-	-
Capital gains	247	-	-	-
Total deferred tax liability	949	750	-	-

17. Share capital

	2003 £'000	2002 £'000
Authorised		
Dividend share of £0.10	-	-
Preference shares of £0.01 each	-	14
'A' ordinary shares of £1 each	-	125
'B' ordinary shares of £0.10 each (2002 - £1)	252	144
Ordinary shares of £0.10 each (2002 £1)	100	100
	352	383

	2003 Number	2002 Number	2003 £'000	2002 £'000
Allotted called up and fully paid				
Dividend share	1	-	-	-
Preference shares	-	-	-	-
'A' ordinary shares	-	108,000	-	108
'B' ordinary shares	2,521,900	144,190	252	144
Ordinary shares	1,000,000	100,000	100	100
			352	352

At an Extraordinary General Meeting held on 23 August 2002, resolutions to approve a share capital restructuring were passed.

The share restructuring involved the cancellation of 1,400,000 unissued preference shares and 16,800 unissued 'A' ordinary shares and the creation of a dividend share which was subsequently allotted at no cost to 3i plc.

The dividend share has rights attached which largely replicate those of the former 'A' shares. A subdivision of each £1 ordinary, 'A' ordinary and 'B' ordinary share into 10 £0.10 shares and reclassification of all of the issued 'A' ordinary share into 'B' ordinary shares was also approved.

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 2001	31	1,386	9,989	1,033
Profit for the year	-	-	-	1,474
Dividend	-	-	-	(453)
Exchange difference on retranslation of net assets of subsidiary undertakings	-	-	-	(11)
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 31 March 2003	31	1,386	10,265	4,769

The cumulative amount of goodwill written off at 31 March 2003, net of goodwill relating to undertakings disposed of is £579,000 (2002 - £855,000).

Company

At 1 April 2001	31	1,386	-	(122)
Profit for the year	-	-	-	579
Dividend	-	-	-	(453)
At 1 April 2002	31	1,386	-	4
Profit for the year	-	-	-	850
Dividend	-	-	-	(846)
At 31 March 2003	31	1,386	-	8

Notes to the financial statements

Notes 19 - 20

19. Financial commitments

At 31 March 2003 the Group had annual commitments under non-cancellable operating leases as set out below:

	2003		2002	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	192	195	15	55
In two to five years	-	108	194	137
In over five years	120	-	-	-
	312	303	209	192

At 31 March 2003 the Group had entered into forward exchange contracts to safeguard the Group against exchange rate fluctuations.

20. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash flow from operating activities	2003	2002
	£'000	£'000
Operating profit	4,688	2,558
Depreciation of tangible fixed assets	2,002	1,795
Amortisation of development expenditure	176	103
Amortisation of goodwill	296	270
Decrease/(increase) in stocks	15	(987)
(Increase) in debtors	(2,506)	(1,659)
Increase in creditors	715	302
Increase/(decrease) in accruals and deferred income	199	(98)
Net cash inflow from operating activities	5,585	2,284

See note 11 for an analysis of disposal of Pipeline Developments Limited.

(b) Analysis of net funds	At 1 April 2002	Cash flow	Exchange differences	At 31 March 2003
Cash at bank and in hand	2,124	123	12	2,259
Bank overdrafts	(2,263)	154	(204)	(2,313)
Cash	(139)	277	(192)	(54)
Short term deposits*	2,000	-	-	2,000
	1,861	277	(192)	1,946

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

Notes to the financial statements

Notes 21 - 23

21. Post balance sheet event

On 30 April 2003, the Company formed LGC Promochem Srl as a wholly owned subsidiary in Italy.

On 6 June 2003, LGC Beteiligungs GmbH, a wholly owned subsidiary of LGC (Holdings) Limited, incorporated in Germany, acquired all the shares of Mikromol GmbH for a cash payment of €3.4 million (£2.3 million).

22. Group capital commitments

Amounts contracted for but not provided in the financial statements amounted to £446,000 for the Group and Enil for the Company (2002 - £109,000 and Enil, respectively).

23. 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%

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 2003. For 31 March 2002, the actuarial valuation at August 1999 was used and updated by the actuaries of Scottish Widows plc.

Scheme assets are stated at their market values at the respective balance sheet dates.

Main assumptions for the UK pension scheme:	2003	2002
	%	%
Rate of salary increase	4.0	3.7
Rate of increase in pensions in payment	2.4	2.7
Discount rate	5.6	6.2
Inflation assumption	2.4	2.7

Notes to the financial statements

Notes 23 - 24

23. Pension (continued)

The assets and liabilities of the scheme and the expected rates of return at 31 March 2003 are:	2003		2002	
	UK long-term rate of return expected %	Value £'000	UK long-term rate of return expected %	Value £'000
Equities	8.0	10,112	7.9	12,127
Bonds	4.7	820	5.5	899
Other	3.8	355	7.9	604
Total market value of assets		11,287		13,630
Present value of scheme liabilities		(22,705)		(15,340)
(Deficit) in the scheme		(11,418)		(1,710)

	2003 £'000	2002 £'000
Reconciliation of net assets and reserves under FRS 17		
Net assets as stated in group balance sheet excluding defined benefits assets/liabilities	16,803	13,801
FRS 17 pension assets	11,287	13,630
FRS 17 defined benefit liabilities	(22,705)	(15,340)
Net assets including defined benefit assets/liabilities	5,385	12,091
Group reserves	4,769	2,043
FRS 17 defined benefit assets	11,287	13,630
FRS 17 defined benefit liabilities	(22,705)	(15,340)
Profit and loss reserves including amounts relating to defined benefit assets/liabilities	(6,649)	333

The company also operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

24. Related party transactions

During the year the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 March 2003, are as follows:

	Sales to related party £'000	Purchases from related party £'000	Amounts owed by related party £'000	Amounts owed to related party £'000
Related party				
Ultra Scientific Europe GmbH	75	3	-	2

The Group has a 50% interest in Ultra Scientific Europe GmbH.