Company Registration No. SC109802

INVERESK CLINICAL RESEARCH LIMITED

Report and Financial Statements

26 December 2003

REPORT AND FINANCIAL STATEMENTS 2003

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REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

W S Nimmo BSc, MD, FRCP, FRCA, FANZCA, FFPM, FRSE
A S McEwan BComm, CA
D J P E Cowan BBus

SECRETARY

D J P E Cowan BBus

REGISTERED OFFICE

Elphinstone Research Centre
Tranent
EH33 2NE

AUDITORS

Deloitte & Touche LLP
Edinburgh

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 26 December 2003.

ACTIVITIES

The principal activity of the company is scientific research and consultancy.

REVIEW OF DEVELOPMENTS

The directors are satisfied with the trading performance of the company during the year and are of the opinion that the state of affairs at the year end is satisfactory and operations will continue to expand.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £3,194,702 (2002 - £ 2,150,661). A final dividend of £nil (2002 - £nil) was proposed in respect of the year.

On 1 January 2004 the company transferred certain trade and assets to fellow group undertakings.

In July 2004 the ultimate parent company, Inveresk Research Group Inc. (Note 18), announced its intention to merge with Charles Rivers Laboratories Inc. This is subject to shareholder and regulatory approval.

DIRECTORS AND THEIR INTERESTS

	Ordinary shares of £1 each	
	2003	**2002**
W S Nimmo	-	-
I P Sword (resigned 3 August 2004)	-	-
S G Leslie (resigned 16 April 2004)	-	-
A S McEwan	-	-
D J P E Cowan (appointed 23 July 2003)	-	-

The interests of the directors in the ultimate parent company are shown in the financial statements of Inveresk Research Group Limited (Note 18).

DISABLED EMPLOYEES

Applications for employment by disabled employees are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

EMPLOYEE INVOLVEMENT

The company remains committed to its quality management programme which involves all staff in seeking to continuously improve the services offered to sponsors. Staff share in the success of the company through bonus arrangements. Staff training and development have continued to be emphasised through the availability of extensive in-house training courses and through performance appraisal systems.

DIRECTORS' REPORT (CONTINUED)

AUDITORS

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989.

Approved by the Board of Directors
and signed on behalf of the Board

D J P E Cowan

Secretary

20 October 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Deloitte.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

INVERESK CLINICAL RESEARCH LIMITED

We have audited the financial statements of Inveresk Clinical Research Limited for the year ended 26 December 2003 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 20. These financial statements have been prepared under 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 United Kingdom legal and regulatory requirements and 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 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 company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of 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 judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company'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 the company's affairs at 26 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Edinburgh

26th October 2004

PROFIT AND LOSS ACCOUNT
Year ended 26 December 2003

	Note	2003 £	2002 £
TURNOVER	2	18,296,425	15,816,147
Cost of sales		(13,854,011)	(10,918,483)
GROSS PROFIT		4,442,414	4,897,664
Other operating expenses (net)	3	(1,106,778)	(2,801,947)
OPERATING PROFIT	4	3,335,636	2,095,717
Bank interest received		25,128	50,921
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,360,764	2,146,638
Tax on profit on ordinary activities	6	(166,062)	4,023
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		3,194,702	2,150,661
RETAINED PROFIT FOR THE YEAR	13	3,194,702	2,150,661

A statement of movement on reserves is given in Note 13.

The current year and prior year results have been derived wholly from continuing operations.

As permitted by Financial Reporting Standard 3 'Reporting Financial Performance' the company has not prepared a Statement of Total Recognised Gains and Losses as it has no recognised gains or losses in either year other than the retained profit for that year.

There is no difference between the profit and the historical cost profit in either year.

The accompanying notes form an integral part of this profit and loss account.

BALANCE SHEET
26 December 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible fixed assets	7	3,038,851	2,003,163
CURRENT ASSETS			
Stocks	8	1,073	1,074
Debtors	9	19,063,622	18,236,852
Cash at bank and in hand		32,023	699,149
		19,096,718	18,937,075
CREDITORS: amounts falling due within one year	10	(5.997,706)	(8,118,785)
NET CURRENT ASSETS		13,099,012	10,818,290
TOTAL ASSETS LESS CURRENT LIABILITIES		16,137,863	12,821,453
PROVISIONS FOR LIABILITIES AND CHARGES	11	(677,283)	(555,575)
NET ASSETS		15,460,580	12,265,878
CAPITAL AND RESERVES			
Called-up equity share capital	12	100	100
Profit and loss account	13	15,460,480	12,265,778
EQUITY SHAREHOLDERS' FUNDS	14	15,460,580	12,265,878

The accompanying notes form an integral part of this balance sheet.

These financial statements were approved by the Board of Directors on 20 October 2004.

Signed on behalf of the Board of Directors

D J P E Cowan

Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Basis of accounting

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

Basis of preparation

The company is a wholly owned subsidiary of Inveresk Research Group Limited. The company's results and cash flows are included in the consolidated financial statements of that company, which are available to the public. Consequently, the company is exempt under the terms of FRS 1 (revised) from publishing a cash flow statement.

Research and development expenditure

Research and development expenditure is written off in the period in which it is incurred.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight-line basis over their expected useful lives as follows:

Long leasehold property	-	Forty years
Plant and machinery	-	Three to five years

Stock and work-in-progress

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Work-in-progress includes direct material and labour costs, plus an appropriate proportion of overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Long term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as work-in-progress balances in stock.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

1. ACCOUNTING POLICIES (CONTINUED)

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Turnover

Turnover, which excludes value added tax and trade discounts, represents amounts receivable for goods and services provided in the normal course of business.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

Pension costs

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either accruals or prepayments in the balance sheet.

Leases

Where assets are financed by leasing agreements ("finance leases") or hire purchase contracts that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the fair value of the asset and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on finance leased assets is charged to the profit and loss account over the term of the lease or expected useful life of the asset, if shorter. Depreciation on hire purchase assets is charged to the profit and loss account over the expected useful life of the asset. Finance lease and hire purchase payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest is charged to the profit and loss account so as to give a consistent periodic rate of charge on the remaining balance outstanding.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

1. ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Rentals under operating leases are charged on a straight-line basis over the lease term, even if payments are not made on such a basis.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities in foreign currencies at the balance sheet date are reported at rates ruling at the balance sheet date. All exchange rate differences are included in the profit and loss account.

2. SEGMENTAL INFORMATION

The directors are of the opinion that the company has only one class of business, namely scientific research and consultancy. However, the company provided its services to customers in a number of geographical areas and its turnover can be summarised as follows:

	2003 £	2002 £
United Kingdom	6,733,084	3,764,243
Export	11,563,341	12,051,904
	18,296,425	15,816,147

3. OTHER OPERATING EXPENSES (NET)

	2003 £	2002 £
Administrative expenses	1,594,858	2,801,947
Other operating income	(488,080)	-
	1,106,778	2,801,947

4. OPERATING PROFIT

Operating profit is stated after charging:

	2003 £	2002 £
Depreciation on tangible fixed assets	176,628	170,056
Auditors' remuneration		
- audit services	-	20,329
- other services	8,320	8,320
Operating lease rentals		
- motor vehicles	57,435	46,376
- property	69,133	63,439
Foreign exchange loss	49,305	41,038

In the current year, all audit fees have been borne by another group undertaking.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

5. DIRECTORS AND EMPLOYEES

The average monthly number of persons both full time and part time (including executive directors) employed by the company during the year was:

	2003 Number	2002 Number
Operating areas	84	85
Administration	35	17
	119	102

Their aggregate remuneration (including directors' remuneration) comprised:

	2003 £	2002 £
Wages and salaries	3,117,945	2,582,390
Social security costs	237,606	231,733
Other pension costs (Note 17)	317,069	292,670
Share option (income)/costs	(121,083)	1,102,822
	3,551,537	4,209,615

The ultimate parent company (Note 18) has established a number of share option plans and arrangements. Employees of the company participate in these plans and arrangements, which give them the right to acquire shares in the ultimate parent company at various prices ("exercise prices").

Under the terms of an agreement with the ultimate parent company, gains made by employees on the exercise of these share options are recharged to the company. The charge recorded by the company represents both the actual gains made by employees on options exercised during the year, and the intrinsic gain on all unexercised options. The intrinsic gain is calculated by reference to the year end market value of the shares and the individual exercise prices. Where share options do not vest in employees immediately, the gain is spread over the vesting period on a straight-line basis.

The credit in the current year is the result of movement in the Sterling to US dollar exchange rate and the actual gains on options exercised during the year.

Directors' remuneration

In the current year and the prior year directors' emoluments were borne by other group undertakings.

The directors participate in share option schemes and long-term incentive schemes operated by the ultimate parent company. The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under these long-term incentive schemes. Two directors exercised share options during the year (2002 – none). No directors had shares or share options that were received or receivable under long-term incentive plans during the year (2002 – none).

There are three directors (2002 – three) to whom retirement benefits are accruing under defined benefit pension schemes in respect of qualifying services.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge/(credit) comprises:

	2003 £	2002 £
Deferred tax – origination and reversal of timing differences	166,062	(4,023)

There was no current tax charge in either the current year or the prior year. The differences between this and the amounts calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2003 £	2002 £
Profit on ordinary activities before tax	3,360,764	2,146,638
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2002 – 30%)	1,008,229	643,991
Effects of:		
Expenses not deductible for tax purposes	2,456	349,695
Other timing differences	(198,452)	-
Research and development tax credits	(336,922)	(283,353)
Capital allowances in excess of depreciation	(271,139)	8,890
Utilisation of group relief	(204,172)	(719,223)
Current tax charge for the year	-	-

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

7. TANGIBLE FIXED ASSETS

The following are included in the net book value of tangible fixed assets:

	Long leasehold property £	Plant and machinery £	Total £
Cost			
At 28 December 2002	2,684,963	1,649,318	4,334,281
Additions	166,577	1,046,419	1,212,996
Disposals	-	(99,166)	(99,166)
At 26 December 2003	2,851,540	2,596,571	5,448,111
Depreciation			
At 28 December 2002	918,548	1,412,570	2,331,118
Charge for the year	53,463	123,165	176,628
Disposals	-	(98,486)	(98,486)
At 26 December 2003	972,011	1,437,249	2,409,260
Net Book Value			
At 28 December 2002	1,766,415	236,748	2,003,163
At 26 December 2003	1,879,529	1,159,322	3,038,851

8. STOCK AND WORK-IN-PROGRESS

	2003 £	2002 £
Raw materials and consumables	1,073	1,074

9. DEBTORS

The following amounts are included in the net book value of debtors:

	2003 £	2002 £
Amounts falling due within one year:		
Trade debtors	2,980,218	2,536,111
Amounts recoverable on contracts	1,173,038	2,956,749
Amounts owed by group undertakings	14,701,065	12,457,422
Corporation tax recoverable	133,688	133,688
Prepayments and accrued income	67,982	50,622
Other debtors	7,631	102,260
	19,063,622	18,236,852

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

10. CREDITORS

	2003 £	2002 £
Amounts falling due within one year:		
Bank overdraft	74,885	332,044
Payments received on account	2,099,308	4,210,360
Trade creditors	82,679	139,102
Amounts owed to group undertakings	2,522,396	2,479,629
Other taxation and social security	282,294	237,975
Accruals and deferred income	936,144	719,675
	5,997,706	8,118,785

11. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

	2003 £	2002 £
Deferred taxation	675,836	509,774
Other provisions	1,447	45,801
	677,283	555,575

Deferred taxation

Deferred taxation is provided as follows:

	2003 £	2002 £
Accelerated capital allowances	675,835	509,774

The movement in the year was as follows:

	2003 £	2002 £
At beginning of year	509,774	513,797
Charge/(credited) to profit and loss account	166,062	(4,023)
At end of year	675,836	509,774

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

11. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Other provisions

The movement in the year was as follows:

	2003 £	2002 £
At beginning of year	45,801	-
(Credited)/charged to profit and loss account	(44,354)	45,801
At end of year	1,447	45,801

Other provisions relate to National Insurance Contributions which will become payable on exercise of share options. The share options can be exercised between the year end date and July 2012. The amount payable is dependent on the ultimate parent company's share price at the date of exercise of the options. The provision has been calculated based on the share price at the balance sheet date of £13.86 ($24.73), the assumption that all employees will exercise their share options and that the rate of NIC is 11.8%.

12. CALLED-UP EQUITY SHARE CAPITAL

	2003 £	2002 £
Authorised:		
100,000 ordinary shares of £0.01 each	1,000	1,000
Allotted, called-up and fully paid:		
10,000 ordinary shares of £0.01 each	100	100

13. PROFIT AND LOSS ACCOUNT

	2003 £	2002 £
At beginning of year	12,265,778	10,115,117
Retained profit for the year	3,194,702	2,150,661
At end of year	15,460,480	12,265,778

14. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2003 £	2002 £
Retained profit for the year	3,194,702	2,150,661
Opening equity shareholders' funds	12,265,878	10,115,217
Closing equity shareholders' funds	15,460,580	12,265,878

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

15. OBLIGATIONS UNDER OPERATING LEASES

The company had annual commitments under non-cancellable operating leases which expire as follows:

	2003		2002	
	Property £	Motor vehicles £	Property £	Motor vehicles £
Within one year	-	17,890	9,900	5,755
Between two and five years	32,500	4,395	-	31,525
Over five years	25,350	-	25,350	-
	57,850	22,285	35,250	37,280

16. CAPITAL COMMITMENTS

Contracts placed for future capital expenditure not provided in the financial statements are as follows:

	2003 £	2002 £
Amounts contracted but not provided for	6,000	-

17. PENSION COSTS

The company operates a defined benefit pension scheme with assets being held in a separate trustee administered fund, and the related costs are assessed in accordance with the advice of professionally qualified actuaries. The company is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the scheme as if it were a defined contribution scheme.

The company's pension arrangements are consistent with those of Inveresk Research Group Limited, and full details are disclosed in the financial statements of Inveresk Research Group Limited.

The total pension cost charge for the year in these financial statements amounted to £317,069 (2002 – £292,670). The agreed contribution rate for the next 24 months is 14% on the understanding that the company bears all administration costs.

A full actuarial valuation of the scheme at 1 January 2002 indicated that the scheme was 87% funded with the updated valuation at the balance sheet date indicating that the scheme was 62% funded. However, the contributions payable by the subsidiary remain fixed at 14% until the next full actuarial valuation which will be carried out on 1 January 2005.

18. ULTIMATE HOLDING COMPANY AND ULTIMATE CONTROLLING PARTY

The whole share capital of the company is owned by Inveresk Research International Limited which is the immediate holding company. The ultimate parent company is Inveresk Research Group, Inc., a company registered in the United States of America and the largest group into which the results of the company are consolidated. The smallest group into which the results of the company are consolidated is that headed by Inveresk Research Group Limited, a company registered in the United Kingdom. Copies of the financial statements of Inveresk Research Group Limited are available from Companies House.

19. RELATED PARTY TRANSACTIONS

Under the terms of Financial Reporting Standard 8, the company is exempt from disclosing related party transactions and balances with other members of the group headed by Inveresk Research Group Limited.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 26 December 2003

20. SUBSEQUENT EVENTS

On 1 January 2004 the company transferred certain trade and assets to fellow group undertakings.

In July 2004 the ultimate parent company, Inveresk Research Group Inc. (Note 18), announced its intention to merge with Charles Rivers Laboratories Inc. This is subject to shareholder and regulatory approval.