

# Chairman's statement



**Ian Kent**  
Chairman

Strong growth has further strengthened LGC's position as the UK's leading independent provider of analytical and diagnostic services. The Company is now establishing itself as a major science-based service supplier across Europe.

There are major opportunities for LGC in the large and diverse markets of analytical and diagnostic services. During the year we have focused our efforts in those fields where LGC has a strong, and often unique, position. We are on course to achieve substantial further organic growth and our solid balance sheet will enable us to consider acquisitions to accelerate our growth in selected markets.

Now firmly established as an independent company, LGC has developed excellent relations with its customers in both the public and private sectors. Providing scientific support to government continues to be a core part of LGC's work and this was reflected in the award last year of a significant contract with the Department for Environment, Food and Rural Affairs (DEFRA) to undertake BSE testing. More recently, LGC has won several important contracts with the Department of Trade and Industry (DTI) under the Measurements for Biotechnology Programme and our involvement in three Genetics Knowledge Parks, initiatives supported jointly by the Department of Health and DTI, signals major opportunities for expanding our genetic testing services.

Following our acquisition of the Promochem Group of companies, we have simplified the shareholding structure of our subsidiary companies to reduce administrative costs. In particular, we have combined our Teddington and Runcorn operations into a single company, LGC Limited.

Mindful of the possible need to raise capital for future development and the difficulties that this might create for a charitable body, our shareholders have recently agreed a means of allowing the Royal Society of Chemistry (RSC) to sell its shares in LGC. The Agreements between RSC, DTI and LGC, under which the Society supports an Advisory Committee to monitor the work of the Government Chemist and the scientific quality of the organisation, will continue unchanged. We are grateful for the support that the RSC has given since the Company's formation, and that it continues to provide, and we are delighted that its investment in LGC six years ago has given the Society such an excellent financial return, which they will use to further the cause of chemistry.

The Company paid interim dividends for 2001/2002 of 16p on 'A' ordinary shares. The Board proposed a final dividend of £2.83 on 'A' ordinary shares and a dividend of 60p on ordinary and 'B' ordinary shares. A special dividend for 2002/3 of £5.996 for 'A' ordinary shareholders, linked to the sale of RSC's shares and waived by 3i, has also been declared.

Finally, I should like to record our pleasure that Dr John Marriott has been appointed by the Secretary of State for Trade and Industry to succeed Dr Richard Worswick as Government Chemist. John's appointment will allow Richard to concentrate on leading the Company during its next challenging phase of development.

A handwritten signature in black ink, appearing to read 'Ian Kent', with a long horizontal line underneath it.

**Ian Kent**  
Chairman

# Chief Executive's statement



**Dr Richard Worswick**  
Chief Executive

Last year we maintained our record of consistent growth in sales and profits and expanded our business base in the UK and Europe. Sales grew 55% to £41.2M and operating profits rose by 56% to £2.56M.

LGC is developing on all fronts in line with the corporate plan that we drew up two years ago. In addition to building and refurbishing laboratories at Teddington and Runcorn, we invested a record £2.6M last year in scientific instruments and computers. We are currently planning further investments, notably a second DNA laboratory at Runcorn and proteomics facilities at Teddington. Our substantial expenditure on new facilities and equipment, both at Runcorn and Teddington, reflects our belief that clients value reliability, quality, efficiency and excellence in their choice of an outsourcing partner.

The launch of our new reference materials brand, LGC Promochem, in March 2002 signalled the creation of our new distribution business which is the number one supplier of analytical reference materials and biological cell standards in Europe. During the year we devoted considerable effort to achieving full integration of these operations. Our main offices and distribution centres are now at Teddington, UK, and Wesel, Germany, and we have offices in France, Sweden and Spain and a new sales office in the UK at Hatfield. We also have a significant presence in Poland and India and plans to set up an office in Italy during the coming year.

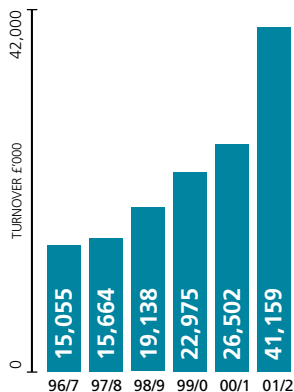
We have been fortunate in being joined by some highly experienced managers, notably Liz Bewick, General Manager of LGC Promochem, and Tilo Karrer, formerly Managing Director of Promochem GmbH, who is now in charge of expanding our reference materials business in central and eastern Europe and Italy.

Maintaining growth whilst delivering often complex services creates new demands and challenges for our scientists and managers. Over the last three years we have rapidly expanded our life science operations into a highly successful business area. During the year we commissioned our new state-of-the-art genotyping laboratory and overcame some technically demanding and expensive initial problems. The facility is now fully established to support an expansion of genotyping services and to tackle the many new opportunities that are in the pipeline.

A year ago we won a major contract with DEFRA to provide BSE testing services as part of the government's surveillance programme and LGC was asked by government to start work as quickly as possible. In the six-week period between agreeing the contract and beginning the service, our new BSE testing laboratory at Teddington was completely fitted out and equipped whilst staff were identified and trained. We are now analysing thousands of samples a week and investments in IT allow us to report results immediately. We see this as a model of how we can use the flexibility of our staff and facilities to adapt rapidly to meet customer needs.

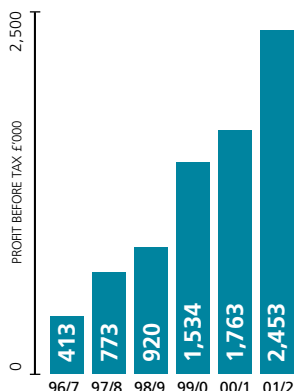
## Turnover

Years ended 31 March



## Profit

Years ended 31 March



Our internal Pentagon Programme aims to be a focus for our corporate development initiatives, which include strengthening our management capabilities through training and development. We have continued our programme with Ashridge Business School and have run a series of management skills courses for staff. The importance we attach to staff development, marketing and communications is reflected in the changed role on the Board of John Mason, who is now responsible for Corporate Development.

Quality, safety and environmental performance remain high priorities. Following ten years as a Gold Medal Award winner, LGC was pleased to be awarded the RoSPA President's Award for Occupational Health and Safety for 2002. Our laboratories at Teddington and Salford Quays are certified to ISO 9001 and there is widespread accreditation to ISO 17025 at Teddington and Runcorn. In future, we intend to extend the certification of our quality systems throughout the Group.

Communication with our customers, with fellow scientists and with the public at large is essential if we are to retain our position as a highly respected science-based company. During the year our staff have contributed to news stories on television, radio and in the press. Our work on the identity of brain tissue used in experiments relating to a possible link between BSE and scrapie was widely reported.

We have welcomed record numbers of visitors to our sites in the UK and Europe and we are particularly pleased that these included Prof David King, the Government's Chief Scientific Adviser and Dr Howard Dalton, the recently appointed Chief Scientist at DEFRA. More recently, Sir John Krebs, Chairman of the Food Standards Agency visited our Teddington laboratory. For those not able to see our work at first hand, our newly updated website ([www.lgc.co.uk](http://www.lgc.co.uk)) provides background information on the Company and news of our activities.

I should like to add to the Chairman's words of appreciation my own personal thanks to the RSC for their support over the last few years and, in particular, during the privatisation process in 1995 and 1996. I should also like to convey my good wishes to my successor as the Government Chemist, John Marriott. Finally, I should like to thank all staff throughout the Group for their professionalism, dedication and enthusiasm during another demanding but highly successful year.

*Richard Worswick*

**Dr Richard Worswick**

Chief Executive



Jim Thomson (right) shows Prof David King, the Government's Chief Scientific Adviser, the robot at the heart of our new genotyping laboratory



John Day, Group Safety Adviser, and his deputy, Jane Pitts display the RoSPA President's Award



Members of LGC's Management Development Programme run by Ashridge gather informally to discuss feedback from their assignments

# Board of LGC (Holdings) Ltd



**Ian Kent (58)**  
Chairman (Non-Executive Director)

Ian Kent was appointed to the Board in May 2001 and became Chairman in July 2001. He is Chairman of Ardana Bioscience Ltd, Adprotech Ltd, Credent Vascular Technologies Ltd, Etiologics Ltd, Intercytex Ltd and Ribotargets Holdings Ltd. He is a Non-Executive Director of Biofocus plc and a Governor of the Roslin Institute.



**Dr Richard Worswick (55)**  
Chief Executive

Richard Worswick was appointed Government Chemist and Chief Executive of LGC in 1991. In 1996, he led a management buy-out, becoming Chief Executive of LGC (Holdings) Ltd. He was Government Chemist from 1991 until June 2002.



**Clive Hall (39)**  
Group Finance Director and Company Secretary

Clive Hall was appointed Executive Director of LGC (Holdings) Ltd on 1 March 1999, Group Finance Director on 1 April 1999 and Company Secretary on 1 June 1999.



**Dr John Mason (43)**  
Director, Corporate Development

John Mason was appointed an Executive Director in April 2000, having joined LGC in 1994. Formerly Managing Director of LGC's North West Operations, he became Director, Corporate Development in April 2002.



**Dr John Beacham CBE (61)**  
Non-Executive Director

John Beacham was nominated by the RSC and appointed to the Board in June 1999. He is Vice Chairman of North Cheshire Hospitals NHS Trust, Chairman of the ProBio Faraday partnership, a Director of the TrusTECH partnership, a member of the Council of the University of Liverpool and a Vice President of the Society of Chemical Industry.



**Dennis Stocks (68)**  
Non-Executive Director

Dennis Stocks was nominated by 3i and appointed to the Board in April 1996. He is Chairman of James Briggs Ltd and Libra Chemicals Ltd, and is a Non-Executive Director of UFC Ltd and Smiths Metal Centres Ltd.

# Report of the Directors

The Directors present this report together with the audited financial statements for the year ended 31 March 2002.

## Results and dividends

The profit and loss account is set out on page 31 and shows the profit for the year of £2,453,000 (2001 - £1,763,000) before taxation and dividends. The Directors propose a final dividend of £436,000 (2001 - £373,000) on the 'A', 'B' and ordinary shares. An interim dividend of £17,000 on 'A' ordinary shares has been paid in respect of the year ended 31 March 2002 (2001 - £17,000).

## 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 17.

## Fixed assets

Significant changes in the fixed assets are shown in notes 9, 10, 11 and 21 to the financial statements.

## Quality, safety and environmental performance

LGC has achieved top standards in quality, safety and environmental performance. LGC received high praise from both UKAS and BSI during the past year's surveillance visits. LGC has been awarded the President's Award for an outstanding performance in Occupational Health and Safety over a period of ten years during which time LGC was a winner of the Gold Medal Award on five occasions. LGC continues to comply with all environmental legislative requirements and seeks to improve upon them further.

## 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 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.

# Report of the Directors

## Directors

The membership of the Board as at 2 September 2002 was as follows:

Mr Ian Kent	Chairman, Non-Executive
Dr Richard Worswick	Chief Executive
Mr Clive Hall	Group Finance Director
Dr John Mason	Director, Corporate Development
Dr John Beacham	Non-Executive
Mr Dennis Stocks	Non-Executive

Sir Brian Richards resigned from the Board by rotation on 24 September 2001.

The Directors' share interests are shown in the report of the Remuneration Committee on pages 26 to 29.

## Directors' responsibilities

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.

## Substantial interests in share capital at 31 March 2002

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

	Number of shares	Percentage
3i plc	91,600	26
The Royal Society of Chemistry	91,600	26
Kleinwort Benson (Jersey) Trustees Ltd	27,540	7.8

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

# Report of the Directors

## Substantial interests in share capital at 2 September 2002

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 Ltd for £1,928,000. The shareholdings of 3i and Kleinwort Benson (Jersey) Trustees Ltd after these transactions were as follows:

	Number of shares	Percentage
3i plc	1,047,250	29.7
Kleinwort Benson (Jersey) Trustees Ltd	1,060,150	30.1

Further details are provided in note 17 to the accounts.

Shareholders also approved the adoption of new Articles of Association of the Company to be unconditionally adopted upon the Company obtaining the requisite approval to the form of the new Articles.

## Auditors

Ernst & Young LLP were appointed auditors in February 2002 and have expressed their willingness to continue in office.

## Annual General Meeting

The Annual General Meeting will be held on 2 October 2002.

On behalf of the Board

**Clive Hall**

Company Secretary

2 September 2002

# Report on corporate governance

Recognising that the Group has a responsibility towards the public sector and industry, 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 workings of the Board and its committees

### The Board

The activities of the Group are ultimately controlled by the Board which currently comprises three 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.

### 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.

### 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.

### The Royal Society of Chemistry Advisory Committee

Under an Agreement between the DTI, the RSC and the Company, the RSC has established an Advisory Committee to advise the Government Chemist in relation to the discharge of his functions, to report to the Secretary of State on the Government Chemist's Annual Review and LGC's discharge of its obligations under the Agreement and make itself available to advise DTI on matters relating to analytical science. The RSC Advisory Committee is currently chaired by Professor Edward Abel CBE.

# Report on corporate governance

The RSC Advisory Committee commissions periodic audits of LGC's science relating to the discharge of the Government Chemist function and the Committee meets to consider this and other reports. The Committee submitted comments on the Annual Review of the Government Chemist to the Secretary of State for Trade and Industry during the year.

## 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 implemented. 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 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 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 LGC Staff Pension Scheme, a defined benefits scheme.

## Performance related bonus

The maximum bonus for each 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 agreed for the year 2002/03 is 50% of base salary.

# Report of the Remuneration Committee

## Share options

The Group operates an Inland Revenue Approved Discretionary Share Option Scheme which is open to employees and Directors. Options are granted at the valuation of the shares on the date of grant.

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

## 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

	<b>Basic salary £'000</b>	<b>Annual bonus £'000</b>	<b>2002 Emoluments excluding pension contributions £'000</b>	<b>Pension contributions £'000</b>	2001 emoluments excluding pension contributions £'000
<b>Executive</b>					
Dr Richard Worswick	105	47	152	14	143
Other Executive Directors	143	31	174	19	159
<b>Non-Executive</b>					
Mr Ian Kent	24	-	24	-	-
Mr Dennis Stocks	19	-	19	-	16
Dr John Beacham	19	-	19	-	16
Sir Brian Richards	6	-	6	-	16
	<b>316</b>	<b>78</b>	<b>394</b>	<b>33</b>	<b>350</b>

# Report of the Remuneration Committee

## Senior management incentive plan

A senior management incentive plan was introduced during the year as a means of attracting and retaining key senior staff for the benefit of the LGC group and all the shareholders and aligning the corporate strategy with the objectives of the institutional shareholder. The following Directors are participants in the plan:

Richard Worswick  
Clive Hall  
John Mason

When the institutional shareholder sells or otherwise can realise the value in the shares it holds in the Company, the participants may receive a bonus linked to the sale value achieved by that shareholder over and above a threshold which increases over time.

Following the completion of the purchase by the Employee Benefit Trust of shares held by The Royal Society of Chemistry, it is the intention of the Remuneration Committee to replace the senior management incentive plan with a senior management share option plan, under which options will be granted over shares held by the Employee Benefit Trust. The terms of the new share option plan are expected to mirror those of the current senior management incentive plan.

# Report of the Remuneration Committee

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

<b>Executive</b>	Number of shares	
	at 1 April 2001	& 31 March 2002
Dr Richard Worswick		25,700
Mr Clive Hall		8,750
Dr John Mason		4,500

<b>Non-Executive</b>	Date of appointment	Number of shares	
		at 1 April 2001	at 31 March 2002
Mr Ian Kent (Chairman)	1 May 2001	-	2,000
Mr Dennis Stocks	1 April 1996	2,000	2,000
Dr John Beacham	16 June 1999	1,000	2,000
Sir Brian Richards (resigned)	1 April 1996	2,000	-

The following Directors each have options for shares exercisable between the dates and at the prices detailed below:

	Number of shares		Date exercisable	Price
	at 1 April 2001	& 31 March 2002		
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

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.

# Auditors' report to the shareholders of LGC (Holdings) Ltd

## Independent auditors' report to the shareholders of LGC (Holdings) Ltd

We have audited the Group's financial statements for the year ended 31 March 2002 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 29. These financial statements have been prepared on the basis of the accounting policies set out therein.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

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 Directors' Report. 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 of the Group as at 31 March 2002 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  
2 September 2002

# Consolidated profit and loss account

## for the year ended 31 March 2002

	Notes	Total 2002 £'000	2001 £'000
<b>Turnover</b>		<b>41,159</b>	26,502
Operating costs	2	(38,331)	(24,987)
Amortised goodwill		(270)	121
<b>Operating profit</b>		<b>2,558</b>	1,636
Investment income	4	114	132
Interest payable and similar charges	5	(219)	(5)
<b>Profit on ordinary activities before taxation</b>		<b>2,453</b>	1,763
Taxation on profit on ordinary activities	6	(920)	(479)
<b>Profit on ordinary activities after taxation</b>		<b>1,533</b>	1,284
Minority interest		(59)	5
<b>Profit on ordinary activities after taxation and minority interest</b>		<b>1,474</b>	1,289
Dividends	8	(453)	(390)
<b>Retained profit for the year</b>	17	<b>1,021</b>	899

All amounts above relate to continuing operations.

The results for the year include the acquisition of Promochem GmbH from 6 June 2001 (note 21). It is not practicable to give the full analysis of turnover and operating profit for the acquisition as sales from continuing operations in the previous year were transferred to the acquired Group.

### Group statement of total recognised gains and losses

The Group has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

*The notes on pages 35 to 52 form part of these financial statements.*

# Consolidated balance sheet

## as at 31 March 2002

	Notes	2002 £'000	2001 £'000
<b>Fixed assets</b>			
Goodwill	21	2,574	101
Other intangible assets	10	347	276
Tangible assets	9	11,072	9,702
		<b>13,993</b>	10,079
<b>Current assets</b>			
Stocks	12	2,374	615
Debtors	13	8,805	5,643
Cash at bank and in hand		4,124	5,553
		<b>15,303</b>	11,811
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	14	<b>(13,843)</b>	(7,600)
<b>Net current assets</b>		<b>1,460</b>	4,211
<b>Total assets less current liabilities</b>		<b>15,453</b>	14,290
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(780)</b>	(878)
<b>Provisions for liabilities and charges</b>	16	<b>(750)</b>	(623)
<b>Equity minority interest</b>		<b>(122)</b>	2
<b>Net assets</b>		<b>13,801</b>	12,791
<b>Capital and reserves</b>			
<b>Share capital</b>			
Ordinary shares	17	352	352
Capital redemption reserve	17	31	31
Share premium account	17	1,386	1,386
Capital reserve	17	9,989	9,989
Profit and loss account	17	2,043	1,033
<b>Shareholders' funds - equity</b>	17	<b>13,801</b>	12,791

On behalf of the Board

**Dr Richard Worswick**

Director

2 September 2002

**Clive Hall**

Director

2 September 2002

*The notes on pages 35 to 52 form part of these financial statements.*

# Company balance sheet

as at 31 March 2002

	Notes	2002 £'000	2001 £'000
<b>Fixed assets</b>			
Investments	11	3,444	2,400
<b>Current assets</b>			
Debtors	13	95	108
Cash at bank and in hand		-	5
		<b>95</b>	<b>113</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	14	<b>(1,766)</b>	(866)
<b>Net current liabilities</b>			
		<b>(1,671)</b>	(753)
<b>Net assets</b>			
		<b>1,773</b>	<b>1,647</b>
<b>Capital and reserves</b>			
<b>Share capital</b>			
Ordinary shares	17	352	352
Capital redemption reserve	17	31	31
Share premium account	17	1,386	1,386
Profit and loss account	17	4	(122)
<b>Shareholders' funds - equity</b>			
	17	<b>1,773</b>	<b>1,647</b>

On behalf of the Board

**Dr Richard Worswick**

Director

2 September 2002

**Clive Hall**

Director

2 September 2002

*The notes on pages 35 to 52 form part of these financial statements.*

# Consolidated cash flow statement

## for the year ended 31 March 2002

	Notes	2002 £'000	2001 £'000
Net cash inflow from operating activities	23	2,260	4,120
Returns on investments and servicing of finance	24	(105)	127
Capital expenditure and financial investment	24	(2,729)	(1,413)
Taxation	24	(403)	(223)
Acquisitions and disposals	24	(2,325)	-
Equity dividends paid		(390)	(257)
Cash (outflow) / inflow before use of liquid resources and financing	25	<b>(3,692)</b>	2,354

*The notes on pages 35 to 52 form part of these financial statements.*

# Notes to the financial statements

## Note 1 (a-h)

### 1. Accounting policies

#### (a) Accounting convention

The accounts are prepared under the historical cost convention, modified to include the revaluation of freehold land and buildings, and in accordance with applicable accounting standards.

#### (b) Basis of consolidation

The Group accounts consolidate the accounts of LGC (Holdings) Ltd 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) 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.

#### (d) Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

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

#### (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 property	40
Leasehold property	over period of lease
Building plant	12
Scientific equipment	3-15
Computers and software	2-7
Motor 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.

#### (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) 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.

#### (h) 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.

# Notes to the financial statements

## Note 1 (i-n)

### 1. Accounting policies (continued)

#### (i) Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is arrived at by reference to the estimated overall profitability of the contract. Appropriate provisions are made for any losses in the year in which they are first foreseen. Work in progress relating to long term contracts is stated at cost less provisions for anticipated losses.

#### (j) Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Results for the year denominated in foreign currencies are retranslated at the average rate of exchange for the year.

All differences are taken to the profit and loss account with the exception of differences on the retranslation of opening net assets of subsidiary undertakings which are taken directly to reserves.

#### (k) Leasing and hire purchase agreements

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

#### (l) Pensions

The Company operates a defined benefit scheme providing benefits based on final pensionable pay. Pension costs are charged to the profit and loss account over the periods benefiting from the employees' services.

#### (m) 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 that, at the balance sheet date, 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.

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 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.

Provision is made for deferred tax that would arise on remittance of retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

#### (n) Turnover

Turnover represents the value of goods and services provided during the year, excluding VAT.

# Notes to the financial statements

## Notes 2 - 5

### 2. Operating costs

	2002	2001
	£'000	£'000
Staff costs (see note 7)	15,314	12,387
Materials and consumables	15,823	6,812
Building, power and repairs to equipment	1,848	1,690
Depreciation	1,795	1,496
Administrative expenses	3,079	2,321
Operating leases - equipment	206	186
- property	183	40
<b>Auditors' remuneration</b>		
For audit work	68	39
For non-audit work	15	16
	<b>38,331</b>	<b>24,987</b>

The above operating costs include self-funded method development and other costs incurred in establishing new businesses of £656,000.

### 3. Operating leases

At 31 March 2002 the Group was committed to making the following payments during the next year in respect of operating leases:

	2002		2001	
	Property	Equipment	Property	Equipment
Leases expiring in the next year	15	55	-	114
Leases expiring in the second to fifth years inclusive	194	137	40	25
	<b>209</b>	<b>192</b>	40	139

### 4. Investment income

	2002	2001
	£'000	£'000
Interest receivable - bank deposits	114	132

### 5. Interest payable and similar charges

Bank interest paid/payable	219	3
Finance charges in respect of finance leases	-	1
Loan note interest	-	1
	<b>219</b>	<b>5</b>

# Notes to the financial statements

## Notes 6 - 7

### 6. Taxation

	2002	2001
(a) Analysis of charge in year	£'000	£'000
<b>Current tax</b>		
UK corporation tax on the profit for the year	557	487
Foreign tax	236	-
<b>Total current tax</b>	<b>793</b>	<b>487</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	127	(8)
<b>Total deferred tax</b>	<b>127</b>	<b>(8)</b>
<b>Total tax charge for the year</b>	<b>920</b>	<b>479</b>

### (b) Factors affecting tax charge for the year

The tax assessed for the year is higher (2001 - lower) than the standard rate of corporation tax in the UK (30%).

The differences are explained below:

Profit on ordinary activities before tax	2,453	1,763
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001 - 30%)	736	529
Effects of:		
Expenses not deductible for tax purposes	169	(30)
Capital allowances in advance of depreciation	(127)	8
Utilisation of tax losses	(10)	(20)
Higher tax rates on overseas earnings	25	-
<b>Current tax for the year</b>	<b>793</b>	<b>487</b>

### 7. Information regarding employees

#### (a) Staff costs

Wages and salaries	12,757	10,283
Social security costs	1,141	796
Other pension costs	1,416	1,308
	<b>15,314</b>	<b>12,387</b>

#### (b) Average number of employees

	2002	2001
Direct scientific staff, administration and management	508	437

(c) Information on Directors' remuneration is included in the Remuneration Committee report on pages 26 to 29.

# Notes to the financial statements

## Notes 8 - 9

### 8. Dividends

	2002 £'000	2001 £'000
<b>Equity dividends</b>		
Interim dividend of 16p on 'A' ordinary shares	17	17
Proposed final dividend of £2.83 on 'A' ordinary shares	306	268
Proposed final dividend of 60p on 'B' ordinary shares	71	60
Proposed final dividend of 60p on ordinary shares	59	45
	<b>453</b>	<b>390</b>

### 9. 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
<b>Cost</b>							
At 1 April 2001	5,241	110	1,987	6,308	1,847	119	15,612
Additions	162	148	258	1,659	710	11	2,948
Acquisition	353	11	-	130	35	45	574
Disposals	(319)	-	-	(299)	(174)	(21)	(813)
<b>At 31 March 2002</b>	<b>5,437</b>	<b>269</b>	<b>2,245</b>	<b>7,798</b>	<b>2,418</b>	<b>154</b>	<b>18,321</b>
<b>Accumulated depreciation</b>							
At 1 April 2001	500	27	777	3,280	1,315	11	5,910
Charge for the year	142	43	197	1,105	276	32	1,795
Disposals	(13)	-	-	(260)	(173)	(10)	(456)
<b>At 31 March 2002</b>	<b>629</b>	<b>70</b>	<b>974</b>	<b>4,125</b>	<b>1,418</b>	<b>33</b>	<b>7,249</b>
<b>Net book value at 31 March 2002</b>	<b>4,808</b>	<b>199</b>	<b>1,271</b>	<b>3,673</b>	<b>1,000</b>	<b>121</b>	<b>11,072</b>
Net book value at 31 March 2001	4,741	83	1,210	3,028	532	108	9,702

The element of land included in land and buildings at 31 March 2002 is £1,104,000 (2001 - £1,104,000).

#### LGC (Holdings) Ltd

The Company has no tangible fixed assets.

# Notes to the financial statements

## Notes 10 - 11

### 10. Other intangible assets

	Group		LGC (Holdings) Ltd	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Balance brought forward at 1 April 2001	276	379	-	-
Development expenditure incurred during the year	174	-	-	-
Development expenditure amortised during the year	(103)	(103)	-	-
<b>Balance at 31 March 2002</b>	<b>347</b>	<b>276</b>	<b>-</b>	<b>-</b>

### 11. Investments

#### Fixed assets

##### Shares in subsidiary undertakings at cost

At 1 April 2001	-	-	2,400	2,319
LGC Beteiligungs GmbH	-	-	296	-

##### Acquired in the year

LGC France Sarl	-	-	-	5
LGC Deselaers SI	-	-	-	11
Promochem Ltd	-	-	748	-
LGC Nordic AB	-	-	-	65
<b>Balance at 31 March 2002</b>	<b>-</b>	<b>-</b>	<b>3,444</b>	<b>2,400</b>

#### Shares in associated undertaking at cost

At 1 April 2001	-	1	-	12
Transfer to current assets	-	(1)	-	(12)
<b>Balance at 31 March 2002</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### Total fixed asset investments

<b>-</b>	<b>-</b>	<b>3,444</b>	<b>2,400</b>
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# Notes to the financial statements

## Notes 12 - 14

### 12. Stocks

	Group		LGC (Holdings) Ltd	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Stocks	2,374	615	-	-

### 13. Debtors

Trade debtors	7,018	4,736	-	-
Amounts recoverable from long term contracts	662	399	-	-
Other debtors	518	81	39	30
Prepayments and accrued income	551	277	-	-
Corporation tax	-	72	-	-
Employee Benefit Trust	56	78	56	78
	<b>8,805</b>	<b>5,643</b>	<b>95</b>	<b>108</b>

The balance on the Employee Benefit Trust arises due to the shares in the Discretionary Share Option Scheme (note 18) being purchased by employees at a higher price than that at which they were bought by the Trust. The cost of the shares still being held by the Trust at the balance sheet date was £43,510.

### 14. Creditors - amounts falling due within one year

Overdraft	2,263	-	-	-
Payments received on account	2,206	1,551	-	-
Trade creditors	2,808	2,081	6	-
Corporation tax	540	140	-	-
Dividend payable	444	381	413	381
Amounts owed to other group undertakings	-	-	1,336	477
Other taxation and social security	1,547	1,200	-	-
Accruals	3,286	2,054	11	8
Deferred income	749	193	-	-
	<b>13,843</b>	<b>7,600</b>	<b>1,766</b>	<b>866</b>

# Notes to the financial statements

## Notes 15 - 17 (a)

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

	Group		LGC (Holdings) Ltd	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Accruals and deferred income	780	878	-	-

Accruals and deferred income includes £1,255,000 (2001 - £1,402,000) in respect of future building works. Of the total amount, £495,000 is included in creditors due within one year (2001 - £493,000). The credit to the profit and loss account was £143,000 (2001 - £70,000).

### 16. Provisions for liabilities and charges

#### Deferred taxation provided in the accounts is as follows:

Accelerated capital allowances	750	623	-	-
Undiscounted provision for deferred tax	750	623	-	-
Provision at 1 April	623	470	-	-
Deferred tax charge in profit and loss account for the year	127	153	-	-
<b>Provision at 31 March</b>	<b>750</b>	<b>623</b>	<b>-</b>	<b>-</b>

### 17. Share capital and reserves

(a) Share capital	£'000	
Authorised at 31 March 2002 and 2001	383	
	Number	Nominal value £'000
Allotted, called up and fully paid at 31 March 2002 and 2001		
<b>Ordinary shares</b>		
'A' ordinary shares	108,200	108
'B' ordinary shares	143,990	144
Ordinary shares	100,000	100
	<b>352,190</b>	<b>352</b>

#### Dividend rights

The different classes of shares rank for dividend in the following order:

- 1) 'A' ordinary shares
- 2) Ordinary shares
- 3) 'B' ordinary shares

On liquidation or capital reduction, the assets would be applied in the following order of priority:

- 1) 'A' ordinary shares
- 2) Ordinary shares
- 3) 'B' ordinary shares
- 4) Thereafter equally for the 'A' ordinary, ordinary and 'B' ordinary shares.

# Notes to the financial statements

## Note 17 (a)

### 17. Share capital and reserves (continued)

#### Voting rights

All classes of ordinary shares carry equal voting rights.

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 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 the reclassification of all of the issued 'A' ordinary shares into 'B' ordinary shares were also approved.

Following the EGM the share capital of the Company was:

Share capital		£'000
Authorised at 1 September 2002		352
	<b>Number</b>	<b>Nominal value</b>
Allotted, called up and fully paid		<b>£'000</b>
<b>Ordinary shares</b>		
Dividend share	1	0
'B' ordinary shares	2,521,900	252
Ordinary shares	1,000,000	100
	<b>3,521,901</b>	<b>352</b>

#### 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.

# Notes to the financial statements

## Note 17 (b-f)

### 17. Share capital and reserves (continued)

<b>(b) Capital redemption reserve</b>	<b>£'000</b>
Balance at 1 April 2001 and 31 March 2002	<u>31</u>
<b>(c) Share premium account</b>	
Balance at 1 April 2001 and 31 March 2002	<u>1,386</u>
<b>(d) Capital reserve</b>	
Balance at 1 April 2001 and 31 March 2002	<u>9,989</u>
<b>(e) Profit and loss account</b>	
Balance at 1 April 2001	1,033
Retained profit for the year	1,021
Foreign exchange	(11)
<b>Balance at 31 March 2002</b>	<u>2,043</u>

	<b>Group</b>		<b>LGC (Holdings) Ltd</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
<b>(f) Summary of shareholders' funds</b>	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Share capital	352	352	352	352
Capital redemption reserve	31	31	31	31
Share premium account	1,386	1,386	1,386	1,386
Capital reserve	9,989	9,989	-	-
Profit and loss account	2,043	1,033	4	(122)
<b>Equity shareholders' funds</b>	<u>13,801</u>	12,791	<u>1,773</u>	1,647

# Notes to the financial statements

## Notes 17 (g) - 19

### 17. Share capital and reserves (continued)

	Group		LGC (Holdings) Ltd	
	2002	2001	2002	2001
(g) Reconciliation of movements in shareholders' funds	£'000	£'000	£'000	£'000
Balance at 1 April 2001	12,791	11,898	1,647	1,544
Profit for year	1,474	1,289	579	493
Dividends	(453)	(390)	(453)	(390)
Foreign exchange	(11)	(6)	-	-
Balance at 31 March 2002	<b>13,801</b>	12,791	<b>1,773</b>	1,647

### 18. Discretionary Share Option Scheme (DSOPS)

An Employee Benefit Trust (the Trust), managed by Kleinwort Benson Jersey Trustees Ltd, has been established to acquire and administer 'B' ordinary and ordinary shares of £1 each for the benefit of employees. A total of 27,540 shares are held by the Trust at the year end.

### 19. Pension commitments

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company, being invested with insurance companies. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the attained age method. The most recent valuation was on 31 March 2002. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 6.2% per annum and that salary increases would average 3.7% per annum. Price inflation was assumed to average 2.7% per annum.

The pension charge for the year was £1,355,000 (2001 - £1,246,000) of which £126,000 (2001 - £119,000) has been accrued.

#### Financial Reporting Standard 17 'Retirement Benefits'

The Company is required to fully adopt FRS 17 in relation to the financial statements for the year ending 31 March 2005.

The impact on the financial statements of FRS 17 could be significant as it would require the Company to include any defined benefit asset/liability as a separate asset/liability on the balance sheet in respect of the defined benefit scheme.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation from August 1999 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 2002.

# Notes to the financial statements

## Note 19

### 19. Pension commitments (continued)

Scheme assets are stated at their market value at 31 March 2002

Company and  
Group UK  
%

#### Main assumptions:

Rate of salary increases	3.7
Rate of increase in pensions in payment	2.7
Discount rate	6.2
Inflation assumption	2.7

The assets and liabilities of the scheme and the expected rates of return at 31 March 2002 are:

	Company and Group UK long-term rate of return expected %	Value £'000
Equities	7.9	12,127
Bonds	5.5	899
Properties	7.9	223
Cash	4.0	381
Total market value of assets		13,630
Present value of scheme liabilities		(15,340)
<b>(Deficit) in the scheme</b>		<b>(1,710)</b>

# Notes to the financial statements

## Note 20

### 20. Group capital commitments and contingent liabilities

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Future capital expenditure contracted but not provided for	109	383
Authorised but not yet contracted for	-	-
	<b>109</b>	383

#### Senior management incentive plan

There existed at the balance sheet date a senior management incentive plan, the details of which are set out in the Report of the Remuneration Committee. The amount of any bonus is linked directly to a number of different outcomes, the main one being the sale price of LGC shares when the institutional shareholder sells its shares. It is not possible to estimate with any reasonable level of reliability the timing and amount of any bonus payment that may become payable. Furthermore, it is the intention of the Remuneration Committee to replace the plan with a senior management share option plan in the near future. The current plan involves a threshold above which the share sale price must be before any bonus is paid. It is considered that the market value of the shares has not reached this threshold and so no provision has been made in these accounts.

# Notes to the financial statements

## Note 21

### 21. Acquisitions

#### Promochem GmbH

On 6 June 2001 the Company acquired Promochem GmbH for a consideration of £2,754,000 plus costs of £330,000. Goodwill arising on the acquisition has been capitalised as an intangible fixed asset. The investment in Promochem GmbH has been included in the Company's balance sheet at its fair value at the date of acquisition.

Net assets at the date of acquisition were:

	<b>Book value and fair value to group £'000</b>
Tangible fixed assets	574
Stock	772
Debtors	1,597
Cash	33
Creditors due within one year	(2,635)
Net assets	<b>341</b>
Goodwill arising on acquisition	<b>2,743</b>
	<b>3,084</b>
<hr/>	
Discharged by:	<b>£'000</b>
Cash	2,028
Present value of deferred contingent cash consideration	726
Costs associated with the acquisition	330
	<b>3,084</b>

The total consideration includes amounts that are dependent on the performance of the acquired businesses over the next three years and amounts realised on certain assets. The net present value of this consideration is £726,000.

# Notes to the financial statements

## Notes 21 - 22

### 21. Acquisitions (continued)

Promochem GmbH earned a profit after tax of £705,000 in the ten month period ended 31 March 2002 (12 months ended 31 March 2002 - £795,000), of which £90,000 arose in the period from 1 April 2001 to 6 June 2001. The summarised profit and loss account for the period from 1 April 2001 to the effective date of acquisition is as follows:

	<b>£'000</b>
Turnover	<b>2,945</b>
Operating expenses	(2,766)
Operating profit	179
Interest payable	(41)
Profit before tax	138
Taxation	(48)
Profit for the period 1 April 2001 to 1 June 2001	<u>90</u>

There were no recognised gains and losses in the period from 1 April 2001 to 1 June 2001 other than the profit of £90,000 above. Promochem GmbH contributed £28,000 to the Company's net operating cash flows.

<b>Goodwill</b>	<b>£'000</b>
<b>Cost</b>	
At 1 April 2001	214
Acquisition of subsidiary undertaking	2,743
<b>At 31 March 2002</b>	<b><u>2,957</u></b>
<b>Amortisation</b>	
At 1 April 2001	113
Provided during the year	270
<b>At 31 March 2002</b>	<b><u>383</u></b>
<b>Net book value at 31 March 2002</b>	<b><u>2,574</u></b>
Net book value at 31 March 2001	<u>101</u>

Goodwill is being amortised as follows:

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

Goodwill arising on the acquisition of Pipeline Developments Ltd is being amortised evenly over the Directors' estimate of its useful economic life of five years.

### 22. Company profit and loss account

The Company has taken advantage of the exemption allowed under Section 230 of the Companies Act 1985 from presenting its own profit and loss account. The profit for the financial year of the Company after taxation amounted to £579,000 (2001 - £504,000) before dividends of £453,000 (2001 - £390,000).

# Notes to the financial statements

## Notes 23 - 24 (a - b)

### 23. Reconciliation of operating profit to net cash inflow from operating activities

	<b>2002</b>	2001
	<b>£'000</b>	£'000
Operating profit	2,558	1,636
Amortised goodwill	270	(121)
Amortised development costs	103	103
Depreciation	1,795	1,496
(Gain)/loss on sale of fixed assets	(24)	17
(Increase) in stocks	(987)	(222)
(Increase) in debtors	(1,659)	(1,132)
Increase in creditors due within one year	302	2,422
(Decrease) in creditors due after one year	(98)	(79)
Net cash inflow from operating activities	<b>2,260</b>	4,120
<b>Movement in working capital in respect of acquisition</b>		
Increase in stocks	772	-
Increase in debtors	1,597	-
Increase in creditors due after one year	2,597	-

### 24. Analysis of cash flows for headings netted in the cash flow statement

	<b>2002</b>	2001
	<b>£'000</b>	£'000
<b>(a) Returns on investments and servicing of finance</b>		
Interest received	114	132
Interest payable	(219)	(5)
	<b>(105)</b>	127
<b>(b) Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(2,948)	(1,349)
Investment in intangible fixed assets	(174)	-
Sale/(purchase) of own shares	22	(90)
Disposal of tangible fixed assets	371	26
	<b>(2,729)</b>	(1,413)

# Notes to the financial statements

## Notes 24 (c-d) - 26

### 24. Analysis of cash flows for headings netted in the cash flow statement (continued)

	2002	2001
	£'000	£'000
<b>(c) Taxation</b>		
UK corporation tax paid	(403)	(223)

### (d) Acquisition and disposals

Payments to acquire subsidiaries	(2,028)	-
Cash balances acquired	33	-
Acquisition expenses	(330)	-
	<b>(2,325)</b>	-

### 25. Reconciliation of net cash flow to movements in net funds

Change in net debt from cash flows	(3,692)	2,354
Net funds at 1 April 2001	5,553	3,199
Net funds at 31 March 2002	<b>1,861</b>	5,553

### 26. Analysis of changes in net funds

	At 31 March 2002	Cash flows	At 1 April 2001
	£'000	£'000	£'000
Cash at bank and in hand	4,124	(1,429)	5,553
Bank overdraft	(2,263)	(2,263)	-
<b>Total</b>	<b>1,861</b>	<b>(3,692)</b>	5,553

# Notes to the financial statements

## Notes 27 - 29

### 27. Group companies

Details of principal subsidiary undertakings

Name	Country of incorporation	Holding company	% Holdings	Activities
LGC Beteiligungs GmbH	Germany	LGC (Holdings) Ltd	100	Holding company
LGC Limited	England	LGC (Holdings) Ltd	100	Chemical and biochemical analysis, consultancy and distribution of analytical reference standards
Pipeline Developments Ltd	England	LGC (Holdings) Ltd	100	Pipeline technology, consultancy and research
LGC Promochem AB	Sweden	LGC (Holdings) Ltd	100	Distributors of analytical reference standards
LGC Promochem Sarl	France	LGC (Holdings) Ltd	100	Distributors of analytical reference standards
LGC Promochem SI	Spain	LGC (Holdings) Ltd	60	Distributors of analytical reference standards
LGC Promochem GmbH	Germany	LGC Beteiligungs GmbH	100	Distributors of analytical reference standards
Promochem Sarl *	France	LGC Promochem Sarl	100	Distributors of analytical reference standards
Promochem Iberia SI *	Spain	LGC Beteiligungs GmbH	100	Distributors of analytical reference standards
Promochem Standard Supplies AB *	Sweden	LGC Promochem AB	100	Distributors of analytical reference standards
LGC Promochem Spzoo *	Poland	LGC Beteiligungs GmbH	66	Distributors of analytical reference standards
Promochem India Private Ltd	India	LGC Promochem GmbH	50	Distributors of analytical reference standards
LGC (Teddington) Ltd	England	LGC (Holdings) Ltd	100	Dormant
University Diagnostics Ltd	England	LGC (Holdings) Ltd	100	Dormant
LGC (North West) Ltd	England	LGC (Holdings) Ltd	100	Dormant
Promochem Ltd *	England	LGC (Holdings) Ltd	100	Dormant

During the year the following changes took place:

#### (a) Name changes

Original company name	New company name
Promochem GmbH	LGC Promochem GmbH
LGC Nordic AB	LGC Promochem AB
LGC France Sarl	LGC Promochem Sarl
LGC Deselaers SI	LGC Promochem SI
Promochem Warszawa Spzoo	LGC Promochem Spzoo

#### (b) Group reorganisation

LGC (Teddington) Ltd changed its name to LGC Limited.

The activities and assets of University Diagnostics Ltd, LGC (North West) Ltd and Promochem Ltd were transferred to LGC Limited.

#### Change of ownership

\* These Companies were transferred from LGC Promochem GmbH to their new holding company shown above.

### 28. Post balance sheet event

On 22 July 2002 LGC Beteiligungs GmbH, a wholly owned subsidiary of LGC (Holdings) Ltd, acquired a 50% shareholding in ULTRA Scientific Europe GmbH, a company incorporated in Germany, for a cash payment of Euros 26,000 (£16,000).

### 29. Ultimate controlling party

Ultimate control lies with the shareholders, none of which individually has a controlling interest.