

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.

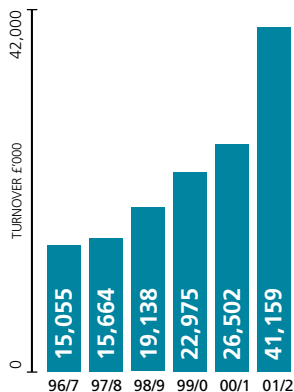
We have been fortunate in being joined by some highly experienced managers, notably Liz Bewick, General Manager of LGC Promochem, and Tilo Karrer, formerly Managing Director of Promochem GmbH, who is now in charge of expanding our reference materials business in central and eastern Europe and Italy.

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.

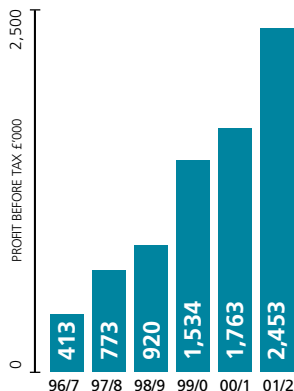
Turnover

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) 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



The outsourcing of their laboratories to LGC has been a resounding success for both the Medicines Control Agency and LGC, delivering customised services cost-effectively.

New ventures



During the year we have continued to expand our services to the pharmaceutical sector. LGC's position as the leading supplier of reference substances from USP and other pharmacopeia and cell lines from the American Type Culture Collection (ATCC) is firmly established. This year, we have added a unique range of pharmaceutical metabolites and impurities to our catalogue.

Manchester GKP. As announced jointly by the Department of Health and the DTI in January 2002, the UK will have six GKPs, bringing together academics, healthcare providers and UK genetics businesses for the benefit of patients.

The Medicines Control Agency (MCA), responsible for all aspects of the regulation of medicines in the UK, has chosen to outsource its laboratory testing

LGC has taken its first step into the healthcare genetics market by becoming a lead commercial partner in the new Genetics Knowledge Park (GKP) centred on Newcastle and a commercial associate of the Manchester GKP.

LGC is developing a range of cell-based studies in support of the early phase in drug discovery. More than 80% of drug candidates fail in clinical trials and more than 40% of these fail because of poor pharmacokinetics. ADME-Tox tests (absorption, distribution, metabolism, elimination, toxicology) are cost-effective tools for screening out compounds likely to fail clinical trials. LGC now offers a high throughput ADME-Tox testing service using a wide range of both conventional and cutting edge methodologies. Gut transport is measured using the Caco-2 intestinal epithelial model and metabolism studies are performed using isolated human hepatocytes and pooled microsomes, coupled to high performance ion trap LC-MS-MS analysis. Toxicity is assessed using a variety of assays, ensuring that potential safety complications can be picked up at an early stage.

LGC moves into genetics

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operations to LGC. We won the ten-year contract over strong competition from a number of other companies. The dedicated MCA laboratory is already receiving samples and is enabling MCA to deliver a faster, more efficient service and to access specialised analytical techniques available from other laboratories within LGC.

LGC has granted the first testing licence for CYP2D6, the key DNA variant in the drug metabolising gene, to Orchid BioSciences Inc, Princeton, USA. LGC holds the exclusive rights to the patent for this 'poor metaboliser' gene variation and, in granting this licence, LGC is making this beneficial technology available internationally.

Strategic alliance with Kodak

Kodak Ltd R&D and LGC have established a strategic alliance in the area of analytical services. A programme of staff exchange has proved extremely successful. We have identified Kodak work that can be done more cost-effectively by LGC, and Kodak and LGC are jointly bidding for third party funded work drawing on the considerable analytical expertise of the two companies.

Forensic and life sciences



The forensic and life sciences division is rapidly expanding the range of services offered and opening a number of new facilities at both the Teddington and Runcorn laboratories.

Increasing demand for our services has encouraged us to open forensic Criminal Justice DNA profiling and drug analysis facilities at our Runcorn laboratory to provide a locally-based service for customers in the north west of the country. We were pleased that Peter Bottomley, head of our drugs team, was appointed the lead assessor (Drugs) for the new Council for the Registration of Forensic Practitioners.

Bioanalysis and toxicology expanded its product range over the last year, moving from a mainly workplace drug testing laboratory to one offering a full range of

LGC was pleased to retain a three-year contract covering the forensic questioned documents work undertaken for the Department of Work and Pensions, previously the Benefits Agency. The service provided has expanded considerably to include the forensic examination of mobile telephones and computers.

Genotyping laboratory

LGC's Single Nucleotide Polymorphism (SNP) genotyping laboratory opened in October 2001, initially carrying out genotyping of sheep in support of DEFRA's programme to eliminate scrapie from the national sheep flock. Samples are profiled using a state-of-the-art analytical system based on laser desorption and ionisation prior to time-of-flight mass spectrometry. This ground-breaking approach offers

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forensic toxicological services. The workplace drugs testing unit is now one of the largest facilities of its kind outside the USA. The toxicology unit has also come to be recognised as the leading UK centre in the forensic examination of hair samples for the presence of drugs. This service is of particular value to authorities wishing to establish an individual's history of drug use, in cases such as child custody or alleged administration of drugs ('date rape').

Setting up our new crime scene DNA laboratory, recruiting and training staff, proficiency testing and accreditation took almost a whole year. Finally approved for operation in February 2002, the team was already operating close to its capacity by the end of the financial year.

very significant efficiency savings in DNA profiling, particularly in high throughput applications.

The challenges experienced in applying this new approach to genotyping have already enabled LGC to introduce a number of developments to improve the reliability of the results produced. As programmes such as the Human Genome Project identify and reveal the significance of SNPs, a major requirement for SNP analysis to underpin disease diagnosis and treatment can be expected. LGC is now well placed to capitalise on these opportunities.



LGC's new DNA profiling laboratory at Runcorn provides a north west regional centre for our genotyping services.



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APEX III

The exceptionally high mass accuracy and resolution of the new Bruker Daltonics Apex III Fourier Transform Mass Spectrometer provides LGC with a major capability for analysis of the proteome.

Technology and innovation



We are committed to maintaining our position at the leading edge of analytical science and expanding our capabilities, particularly in the bio-analytical field. To this end, during the year we acquired a major new instrument - a Bruker Daltonics Apex III Fourier Transform Mass Spectrometer. The exceptionally high resolution and mass accuracy of this instrument enables us to characterise high molecular weight materials and complex mixtures, particularly proteins and peptides. We are collaborating with Bruker to develop applications in a variety of fields.

As part of a broader collaboration with the UK mass spectrometry community, we are producing a good practice guide for high accuracy mass measurement. Over 50 leading laboratories representing industry,

some suitable reference materials and have had a paper accepted by *Analytical Chemistry* which covers some pioneering work on the use of mass spectrometry for quantitative DNA measurement. We were pleased to sign a memorandum of understanding with the Federal Institute for Materials Research and Testing (BAM), a leading German institute, which reflects the growing collaboration between our two organisations.

We bid successfully for several major projects in the DTI's Measurements for Biotechnology Programme. These include work on microarrays to improve the comparability of gene expression measurements and a proteomics project aimed at improving the techniques for quantitative proteomic measurement. In these projects, we are collaborating with leading academic and

Our contribution to the development of an international system for ensuring the global comparability of chemical and bio-measurement continues through our work with the BIPM, the international weights & measures organisation.

academia and the instrument manufacturers have contributed by participating in an inter-laboratory study using a variety of techniques and instrumental platforms. Other knowledge transfer activities have included the establishment of three training networks in the environmental, point of care testing and specialised organics sectors, supported by the Valid Analytical Measurement (VAM) Training & Education Programme.

Our contribution to the development of an international system for ensuring the global comparability of chemical and bio-measurement continues through our work with the BIPM, the international weights and measures organisation. During the year we reported results on seven international studies and key comparisons, maintaining our strong track record. On the bio-measurement front, we are working on techniques to improve the quantitative measurement of DNA. In collaboration with NIST in the US, we are developing

industrial partners, including UMIST, The Royal London Hospital, The Human Genome Project, GlaxoSmithKline, Avecia and a range of small and medium-sized enterprises.

LGC and the National Physical Laboratory (NPL) have agreed to collaborate to develop a centre of excellence in biometrology, covering current applied biometrology as well as emerging methods where biology interfaces with physics and chemistry. Through complementary investments in equipment and skills, the two laboratories plan to establish a centre with broad strengths, influential in the UK and internationally. In the centre photograph above, John Marriott, Government Chemist (left) and Roy Dietz CBE, LGC's Technology Adviser (right) discuss circular dichroism, a technique useful in characterising proteins, with Kamal Hossain, NPL's Director of Science Programmes (centre).

Food chain and environment



During the year, LGC was awarded a significant contract by DEFRA to provide bovine spongiform encephalopathy (BSE) testing of brain stem from up to 150,000 cattle in line with EU requirements. Purpose-built BSE testing facilities were constructed at Teddington, enabling us to analyse in excess of 600 samples per day and to report the results to DEFRA within 24 hours.

An additional liquid chromatograph linked to a tandem mass spectrometer (LC-MS-MS) was installed for the

On behalf of the Food Standards Agency, we have developed DNA-based methods for the determination of neuronal tissue, the detection of genetically modified ingredients in foods and for the molecular typing of pathogens. Several projects, including the immunological determination of lean meat and the evaluation of methods for the determination of histamine and arsenic in foods, have been carried out.

A rapid and sensitive method for the determination of plutonium and other actinides in samples from the

The identification and determination of low concentrations of over 200 pesticide residues in foods, on behalf of the Pesticides Safety Directorate, has continued to be a major activity.

determination of veterinary drug residues which forms the core of the Veterinary Medicines Directorate's ongoing UK statutory surveillance programme. During this year approximately 36,000 samples of animal tissue and foods were analysed for the presence of veterinary drugs, pesticides, PCBs, mycotoxins and heavy metal residues.

The identification and determination of low concentrations of over 200 pesticide residues in foods, on behalf of the Pesticides Safety Directorate (PSD), has continued to be a major activity, with surveys on dietary staples, fruit and vegetables being undertaken. This programme requires continual development of analytical methods to ensure the reliability and quality of the data provided on a very wide range of sample matrices and at low concentrations of target analyte.

food chain was developed and analytical surveys involving the determination of sodium concentrations in bread and a wide range of metals in total diet samples were undertaken.

The product of four years of joint research by LGC and our subsidiary, Pipeline Developments Limited, was published by the American Water Works Research Foundation in a book entitled "Water Quality Impacts from Blending Multiple Water Types". Blended waters can result in water quality deterioration that is unacceptable to the customer and until now there has been little data to document these effects. It is anticipated that the findings of the research will be applied to communities throughout the world.



Our new BSE testing laboratory processed just over 36,000 samples during its first six months of operation and identified seven positive samples (none of which was destined to enter the food chain).



LGC's high accuracy measurements support customer supply chain needs from research, through registration, to production and distribution.

Chemical process industries



The chemical process industries division provides services to customers primarily involved in the oil, chemical, pharmaceutical and water utility sectors. The technology and expertise utilised by these customers is also used to support regulatory and enforcement agencies such as the Environment Agency and Customs and Excise. The division has a network of three facilities located at Teddington, Pipeline Developments Ltd in Salford Quays and our Runcorn laboratory.

for chemical analysis. Our laboratories are well equipped, with a wide range of analytical techniques, and we employ experienced analysts with first and second degree qualifications.

During 2001 there was a significant increase in demand for a number of our services, including geochemical analysis and consultancy offered to major oil companies. Demand for regulatory analyses to identify

During 2001 there was a significant increase in demand for a number of our services, including geochemical analysis and consultancy offered to major oil companies.

Some customers need support because they have no in-house laboratory, whilst others operate their own laboratories. The latter range from facilities that are limited in their range of analytical techniques, through to major research and development laboratories with sophisticated instrumentation. LGC offers a "one-stop shop" service to its customers, which means that we can offer simple, standard tests through to the complex investigative analysis associated with research or troubleshooting activities. LGC also offers an outsource service to provide all of a customer's requirements

whether fuels have been modified to avoid excise duties also increased dramatically.

There was further growth in outsource services to the chemical industry and also provision of supplementary and complementary analytical techniques to support the pharmaceutical sector. Our subsidiary, Pipeline Developments Limited, won a major contract with United Utilities to supply on-site installation auditing services and also achieved certification to ISO 9001 during the year.

Government Chemist department



The Government Chemist (GC) department continues to provide independent advice, support, consultancy, technical evaluation and programme management in areas relating to regulation, innovation, consumer protection and biomaterials.

LGC supports the DTI and other UK government departments on chemical regulatory issues. This year has seen a high level of activity on European and

LGC offers extensive support to UK government in managing some of its collaborative initiatives, particularly in the areas of biotechnology and healthcare.

Through the UK Analytical Partnership (UKAP), LGC works closely with DTI, The Royal Society of Chemistry and a range of stakeholders in the area of measurement science to maximise the impact of

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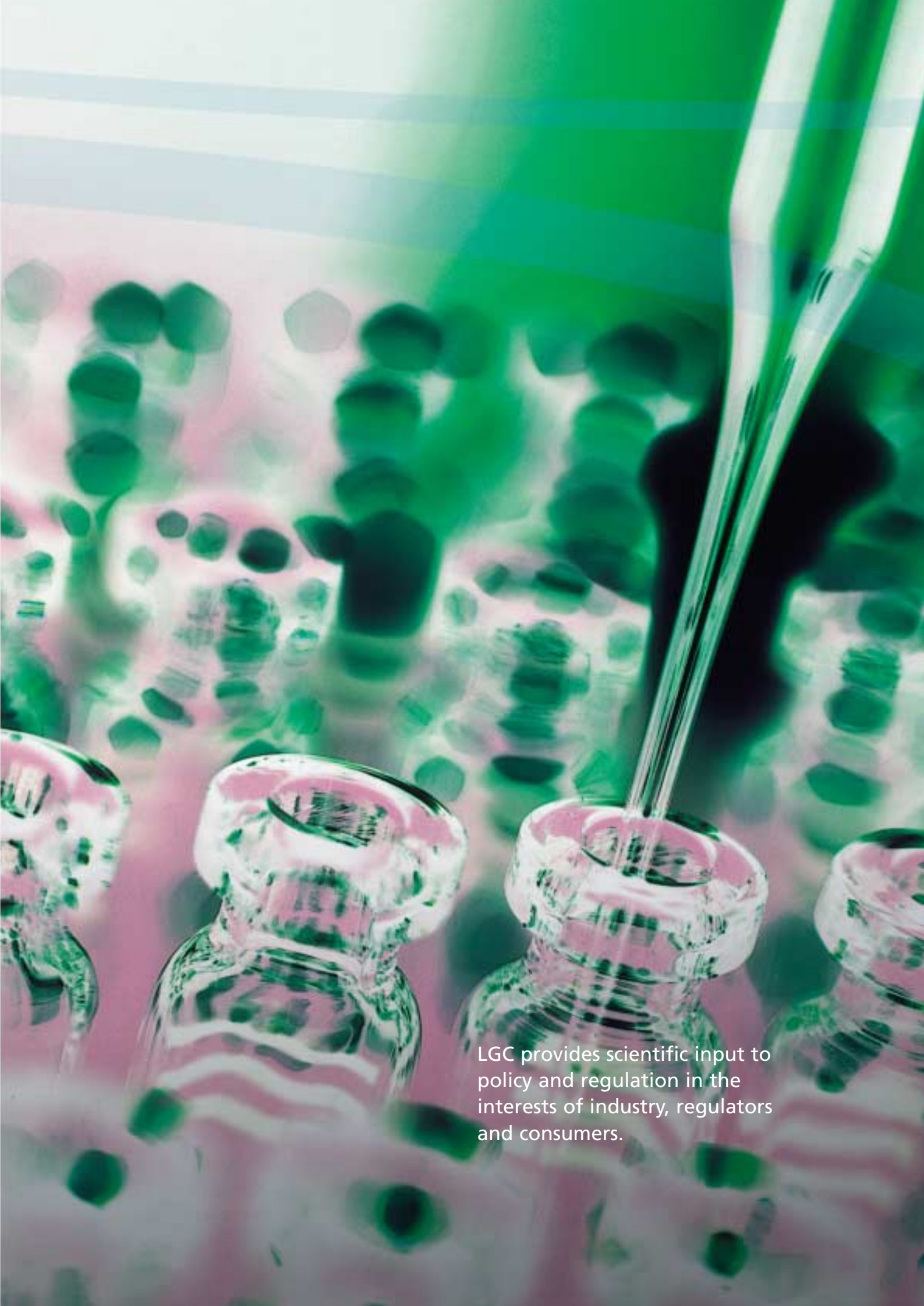
international initiatives including the new EU Chemical Strategy (REACH). A food regulatory atlas has been launched, providing invaluable guidance on complying with food legislation and manufacturing regulations. A chemical regulatory advisory service is also providing one-to-one support to industry on current legislation as well as advice on future and emerging regulation. Regional industry clubs, such as the consultancy service on Integrated Pollution Prevention and Control (IPPC), have also aided regulatory compliance for small companies.

Through the Biomaterials Partnership, LGC provides management support to both the UK DTI Building up Biomaterials Programme and the European Medical Device Materials Network, co-ordinating the development of medical device materials.

analysis on UK industry and society. This year has seen a number of key outputs - further information is available at www.ukap.org.

LGC has continued to provide practical and advisory support to government, industry and consumers on the impact of chemicals in consumer products, focusing primarily on those relating to children, including toys, childcare products and textiles. Key concerns related to the ongoing issue of phthalate plasticisers in PVC-containing products and the presence of organo-tin species in sanitary products.

Additional developments and surveys have focused on sunscreen protection factors, temporary tattoos, nickel in jewellery and frozen food content. As we continue to monitor all UK cigarette brands for tar, nicotine and carbon monoxide content in mainstream smoke, LGC is the only European-based laboratory developing methods for the measurement of the further 43 Hoffman analytes.



LGC provides scientific input to policy and regulation in the interests of industry, regulators and consumers.



Our facilities at Wesel, Germany include a plant for the production of high purity solvents for spectroscopic use.

Reference materials



Following the acquisition of the Promochem Group in July 2001, we have successfully integrated the activities of the two groups. We are now the leading supplier of reference materials in Europe and India.



Our reference materials brand, LGC Promochem, was launched to customers and staff in March 2002. LGC Promochem brings together LGC's established track record and scientific expertise with Promochem's excellent reputation for customer service and logistics capabilities.

During the integration of our two businesses we have sought to improve our service to customers. These improvements include centralisation of our warehousing in Teddington (UK) and Wesel (Germany), increasing our stock of ATCC cell lines to over 750 and opening ATCC sales offices in Germany and Poland. We have recruited further scientifically-qualified sales staff to enable technical support to be given at a local level.

As the pharmaceutical industry grows so does the demand for pharmaceutical reference standards. Our strategic partnership with United States Pharmacopeia

(USP) continues to thrive. In April 2002, USP and LGC extended the partnership agreement by signing a new long-term contract, cementing the relationship that has developed over many years. The launch of a new catalogue featuring the full range of pharmaceutical reference standards underpins our commitment to the sector. Recently, we were particularly delighted when USP presented us with an award to mark our position as the world's leading distributor.

We have had another successful year with our forensic standards partner. This important niche market understandably demands products of very high quality and Cerilliant products continue to fulfill these requirements.

We have made significant progress in researching customer requirements in the environmental market and, as a result, will be focusing our promotional efforts in partnership with ULTRA Scientific. We are launching a new catalogue for this important sector.

Our relationship with Cambridge Isotopes Ltd (CIL) will be strengthened as we agree on a three-year contract for European distribution of their stable isotope products for use with IDMS techniques in environmental laboratories.

Some of LGC's management team



Board members at Teddington (from left to right: John Mason, Dennis Stocks, Ian Kent, Clive Hall, Richard Worswick, John Beacham) make use of new videoconferencing facilities to discuss LGC Promochem business with colleagues in Germany

John Marriott, Government Chemist, discusses a presentation on advances in analytical science with Jo Bloomfield, Head of Marketing and Communications



Emily Gardner, Manager, External Programmes, Peter Lyne, Head of the Government Chemist Department and Derek Craston, Manager, Bioanalytical Innovation, discuss new testing methods for medical devices

Morris Legge, Head of Chemical Process Industries, Neil Malone, Business Development Manager and Graham Jackson, Operations Manager, assess data for a major chemical industry outsourcing contract at Runcorn



Helen Parkes (centre), Biotechnology Business Development Manager, addresses an international conference on the challenges of achieving global comparability of bio-measurements

Nick Claxton, Head of Forensic and Life Sciences, Linda Hassell, Client Services Manager and Paul Debenham, Director, Life Sciences, discuss business plans for our new crime scene DNA laboratory



Ric Treble, Manager of the scrapie genotyping team and Surrinder Johal, Business Development Manager, check operating procedures for the time-of-flight mass spectrometer in the state-of-the-art genotyping laboratory



Ian Lumley, Head of Food Chain and Environment and Peter Farnell, Head of Food Chain Analysis, assess the performance of new methods for the determination of functional ingredients in foods



Liz Bewick, General Manager, LGC Promochem, Jeffrey Anthony, Marketing Manager, Tilo Karrer, Managing Director, LGC Promochem GmbH and Ray Ah-Sun, Director, Business Development, discuss the new pharmaceutical reference materials catalogue