

Chairman's statement

After eight years as our main institutional investor, 3i Group plc has now sold its shareholding in LGC. Private equity investor Legal & General Ventures (LGV) has acquired 3i's stake and a proportion of the staff shareholding, thus becoming the majority shareholder in LGC.

Following indications from 3i that it wished to realise the significant return on its original investment in LGC, the LGC Board appointed Deloitte to manage the refinancing process. After receiving several attractive offers, the Board selected LGV because it will bring capital, financial acumen and broad experience that will enable LGC to continue along its path of strong growth. LGV's 'buy and build' approach is ideal for LGC at this stage in its development.

Although the refinancing of LGC was a major undertaking, we nevertheless pressed ahead with our policy of investment for growth. Our prudent accounting policies have meant that many of the costs associated with these investments, including substantial scientific development, recruitment and training costs, have been written off during the year. In this context, the recently introduced R&D tax allowances will make modest but welcome contributions to some major expenditure.

The position of our pension fund has improved following last year's decisions to increase the Company's pension contributions and to close the final salary scheme to new members. Staff have further strengthened the financial position of the fund by agreeing to an increase in employee contributions from April 2004 and a cap on the level of future increases to pension payments.

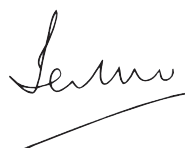
As part of the share transaction, 3i agreed to waive its dividends in 2003-04. LGC's Board is not proposing the payment of dividends to other shareholders.

The changes in the Group have been accompanied by changes to our Board and two of our Non-Executive Directors have retired. I should like to thank Dennis Stocks, who has been a member of the Board since the Company was formed in 1996, for his major contribution to the development of LGC. I should also like to thank Marion Sears, who joined the Board more recently, particularly for her contribution in relation to the refinancing process. Clive Hall, Group Finance Director, decided to leave following the completion of the share transaction and we wish him well for the future. I am pleased to welcome Brian Phillips and Joanne Parfrey, both of LGV, to the Board of our new holding company, LGC Group Holdings plc. I am confident that LGC will continue to do well under its new Board and with LGV as its new majority shareholder.

It has been gratifying that our success has been recognised externally by several awards to the Company and to individuals. Because safety and quality are at the heart of our operations, we were particularly proud to have been awarded the prestigious RoSPA President's Award for Occupational Health and Safety for the third year running. LGC was named as one of the UK's top 100 unquoted companies in *The Sunday Times* PricewaterhouseCoopers Profit Track 100 league table and we were also listed in the Deloitte Indy 100 in *The Independent*, in recognition of our sales growth rate. LGC was also ranked in the 2003 Europe's 500 listing of fast-growing, job-creating companies.

Meanwhile, LGC's innovative HyBeacons™ technology reached the finals of the Medical Futures Innovations Awards and Lorna Hopkinson Hall was a finalist in *The Times* Crème/DHL PA of the Year competition. In addition, I would like to congratulate Richard Worswick on being awarded Ernst & Young UK Entrepreneur of the Year for Business Products and Services.

I am pleased that about 400 staff shareholders and share option holders have received returns as a consequence of the share restructuring of the Group. The skills and dedication of staff throughout the Group have, in no small measure, contributed to LGC's success.



Ian Kent
Chairman
LGC Group Holdings plc



Chief Executive's statement

Investment in science – acquiring state-of-the-art instrumentation and developing excellent people – has been central to LGC's growth strategy over the eight successful years since the Company was formed.

Over the past year we have opened two new BSE testing laboratories, one at our Runcorn site and the other in Edinburgh. These laboratories were set up at the request of the Department for Environment, Food and Rural Affairs (Defra) in anticipation of changes to the UK's Over Thirty Month (OTM) Rule, which currently prevents older cattle entering the food chain. Although changes to the rule, leading to testing of all OTM cattle for human consumption, were recommended by the Food Standards Agency last summer, ministerial decisions have yet to be taken. As a result, the demands on our three BSE laboratories have so far been much lower than anticipated. However, we are confident that the investment we have made, including extensive trials of the testing systems, will bring returns when a decision is made to move to a new OTM Rule.

Our largest single investment this year has been the acquisition of Mikromol, a dynamic company in Luckenwalde, near Berlin in Germany, which has particular expertise in the synthesis of pharmaceutical impurity reference standards. Since the acquisition we have expanded the laboratory facilities and recruited more staff. Mikromol's products are being marketed through our reference materials business, LGC Promochem, which this year has grown strongly, opening a new office in Milan, Italy. We are also pleased to have acquired all shares held by minority shareholders in our subsidiary in Poland which, with the European Union's expansion, is poised for further growth.

In a year of record investment and in which fundamental changes to the shareholding structure were negotiated and agreed, it is a considerable achievement that the Group's turnover grew by 11% on a like-for-like basis. The delay with

the change to BSE surveillance mentioned above contributed to a reduction in the Group's operating profit.

Part of our strategy of developing our pharmaceutical and biotechnology services is to form alliances with established market players. Over recent months we have entered into agreements with a number of companies including Pharmidex, BioDiversity, AKOS and ChemOvation.

Other highlights of the past year include:

- LGC's scene of crime DNA forensic laboratory at Runcorn in Cheshire, which complements a similar laboratory at Teddington, Middlesex, was completed and accredited. We were delighted that it was formally opened by Baroness James of Holland Park (P. D. James) and the laboratory is now carrying out work for an increasing number of police constabularies in the north and north-west of England.
- In July 2003 the Metropolitan Police awarded LGC a major contract to provide DNA forensic services from a dedicated part of our Teddington laboratory. Gearing up for this work was part of our investment programme for the year.
- We entered into agreements to exploit intellectual property developed or owned by LGC, including our rapid genetic measurement technology, HyBeacons, and the genetic sequence, CYP2D6, which predicts pharmacogenetic interactions.
- LGC assisted the Department of Trade and Industry (DTI) in the planning and formulation of the new Measurements for Biotechnology (MfB) programme, which involves extensive collaboration with, among others, the National Physical Laboratory and the BioIndustry Association.
- Our Runcorn chemical analytical laboratories have recently been awarded a significant outsourcing contract by British Nuclear Group for the accurate determination of metals present in a variety of materials involved in a novel vitrification process.
- LGC's External Project Management Group won a three-year contract for the management and support of the Department of Health's new Genetics Research Programme.
- The partnership of three leading measurement institutes across Europe – LGC, IRMM (the Institute for Reference Materials and Measurements) and





Baroness James of Holland Park (P. D. James) formally opened LGC's new forensic laboratory at Runcorn in December 2003.

BAM (the Federal Institute for Material Research and Testing) – has resulted in an agreement with the European Commission to create a European brand of reference materials (ERM®). This initiative will enhance the quality, reliability and range of reference materials, strengthening the competitiveness of European companies.

One of our challenges in the continuing development of LGC is to ensure that people throughout the organisation are able to respond to new demands and can manage and work in a constantly changing environment. The role of our Director of Corporate Development, John Mason, is in part to provide a focus for such change, helping to drive through continuous improvement initiatives and deliver significant business benefits in each of five strategic objective areas: staff development; technological innovation; brand development; customer focus and operational efficiency.

One of the key staff development initiatives is our training programme. Last year, 18 managers completed the third management development course we have organised with Ashridge Business School, and our wider programme of management

training has been substantially expanded. We are currently taking forward some key initiatives arising from a Group-wide survey last year of staff attitudes and opinions. As part of our staff development programme, we have held a series of lectures and seminars on scientific topics given by internal and external speakers. This year's external speakers included: Dr Alejandro Herrero, Director of IRMM; Dr Vince Vilker, Chief of Biotechnology Division at the National Institute of Science and Technology (NIST); and Dr Brian Warrington, Director of Technology Development at GlaxoSmithKline. Prof Stanley Prusiner, Nobel prize winner, was among the many other visitors we welcomed to our sites in the UK and Europe during the year.

Our considerable achievements over the past year were the result of the efforts of our staff and I thank them all for their dedication, professionalism and enthusiasm.

Richard Worswick

Dr Richard Worswick
Chief Executive

The Board of LGC Group Holdings plc



Ian Kent



Richard Worswick



Nigel Law



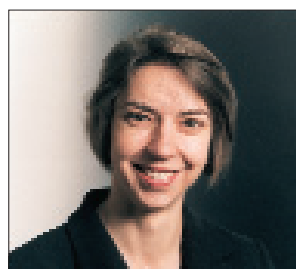
John Mason



John Beacham



Brian Phillips



Joanne Parfrey

The following Directors of LGC (Holdings) Ltd have been appointed Directors of LGC Group Holdings plc.

Ian Kent (60) - Chairman and Non-Executive Director

Ian Kent was appointed to the Board of LGC (Holdings) Ltd in May 2001 and became Chairman in July 2001. He is Chairman of Etiologics Ltd, Intercytex Ltd and Plramed Ltd. He is a Non-Executive Director of Biofocus plc and Ardana Ltd.

Dr Richard Worswick (57) - 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 the new company. He was Government Chemist from 1991 until June 2002.

Dr Nigel Law (50) - Director, Group Operations

Nigel Law joined LGC as an Executive Director on 18 November 2002 filling the new role of Director, Group Operations. He joined LGC from Hoyer and previously held various operations, planning and marketing roles with Exxon Mobil in addition to a period with Mercer Management Consulting Ltd.

Dr John Mason (45) - Director, Corporate Development

John Mason was appointed an Executive Director in April 2000, having joined LGC from AEA Technology in 1994. Formerly Managing Director of LGC's North West Operations, he became Director, Corporate Development in April 2002 with responsibility for the human resources and marketing functions. He is also a Director of Chemicals Northwest Ltd.

Dr John Beacham CBE (63) - Non-Executive Director

John Beacham was appointed to the Board in June 1999. He is Vice Chairman of North Cheshire Hospitals NHS Trust, Chairman

of the ProBio Faraday Partnership, Chairman of ULivE Enterprises, a Director of TrusTech, a Director of CLIK, a member of the Council of the University of Liverpool and Chairman of the Society of the Chemical Industry.

The following Directors of LGC Group Holdings plc were appointed subsequent to the year end.

Brian Phillips (44) - Non-Executive Director

Brian Phillips joined KPMG in 1980. In 1984 he joined 3i on secondment. He returned to KPMG Corporate Finance for two years, before joining INVESCO Ventures in 1987 as a Director. In 1993 he joined Gartmore Private Capital and, on their integration in 1996, NatWest Equity Partners (Bridgepoint). He joined LGV in September 2000.

Joanne Parfrey (31) - Non-Executive Director

A chemist by training, Joanne qualified as a chartered accountant with Arthur Andersen in 1998. She was subsequently a corporate finance executive with The BOC Group and Elementis plc. She joined LGV in October 2000. She is also on the Board of Hayley Conferences Centre Ltd.

Subsequent to the year end, the following resigned as Directors of LGC (Holdings) Ltd.

Clive Hall (41) - Group Finance Director and Company Secretary

Marion Sears (40) - Non-Executive Director

Dennis Stocks (68) - Non-Executive Director

Subsequent to the year end, Maxine Chow, Group Legal Advisor, was appointed Company Secretary.

Accounts

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Report on corporate governance

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

The workings of the Board and its committees

The Board

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

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

Executive Management Committee

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

Audit Committee

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

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

Remuneration Committee

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

Nomination Committee

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

Internal financial control

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

Identification of business risks

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

Budgetary process

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

Investment appraisal

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

Going concern

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

Report of the Remuneration Committee

Information not subject to audit

Remuneration policy

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

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

Remuneration Committee

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

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

Benefits

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

Salaries

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

Pensions

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

Performance related bonus

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

Share options

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

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

Other benefits

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

Service contracts

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

Information subject to audit

Directors' remuneration

Directors' emoluments

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

* Including car allowances introduced in 2003-04

Report of the Remuneration Committee

Senior management share option plan

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

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

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

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

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

Directors' interests in shares

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

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

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

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

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

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

Report of the Directors

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

Results and dividends

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

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

Principal activities, trading review and future developments

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

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

Fixed assets

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

Quality, safety and environmental performance

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

Creditor payment policy and practice

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

Political and charitable contributions

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

Employees

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

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

Disabled persons

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

Post balance sheet events

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

Directors

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

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

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

Substantial interests in share capital at 31 March 2004

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

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

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

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

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

Auditors

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

Annual General Meeting

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

On behalf of the Board

Maxine Chow

Company Secretary

22 July 2004

Statement of Directors' responsibilities in respect of the accounts

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

In preparing the financial statements, the Directors have:

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

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

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

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

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of Directors and auditors

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

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

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

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

Basis of audit opinion

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

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

In our opinion:

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

Ernst & Young LLP
Registered Auditor
London
22 July 2004

Consolidated profit and loss account for the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Turnover			
Continuing operations		56,077	50,396
Discontinued operations		-	1,856
Group turnover	2	56,077	52,252
Raw materials and consumables	3	(20,640)	(20,426)
Staff costs	3	(20,998)	(17,890)
Depreciation and amortisation	3	(3,271)	(2,474)
Other external charges	3	(7,335)	(6,776)
Operating profit			
Continuing operations		3,833	4,439
Discontinued operations		-	247
Group operating profit	4	3,833	4,686
Share of operating profit of associated company and amortisation of associate goodwill		19	2
Total operating profit: group and share of associate		3,852	4,688
Profit on disposal of business units		-	759
Profit on sale of fixed assets investments		-	182
Profit on ordinary activities before interest and taxation		3,852	5,629
Bank interest receivable		56	32
Bank interest payable and similar charges		(237)	(124)
Profit on ordinary activities before taxation		3,671	5,537
Taxation on profit on ordinary activities	6	(1,337)	(1,688)
Profit for the financial year		2,334	3,849
Minority interest		(135)	(124)
Profit for the financial year attributable to the members		2,199	3,725
Dividends	7	-	(846)
Retained profit for the year	18	2,199	2,879
Group statement of total recognised gains and losses for the year ended 31 March 2004			
Profit for the financial year excluding share of profit of associate		2,180	3,723
Share of associate's profit for the year		19	2
Profit for the financial year attributable to members of the parent company		2,199	3,725
Exchange difference on retranslation of net assets of subsidiary undertakings		(62)	(153)
Total recognised gains and losses relating to the year		2,137	3,572

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

Consolidated balance sheet

as at 31 March 2004

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

On behalf of the Board

Dr Richard Worswick

Chief Executive

22 July 2004

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

Company balance sheet

as at 31 March 2004

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

On behalf of the Board

Dr Richard Worswick

Chief Executive

22 July 2004

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

Consolidated cash flow statement

for the year ended 31 March 2004

	Notes	2004 £'000	2003 £'000
Net cash inflow from operating activities	20	7,482	5,585
Returns on investments and servicing of finance			
Interest received		56	32
Interest paid		(237)	(124)
		(181)	(92)
Taxation			
Corporation and overseas tax paid		(1,202)	(1,194)
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(150)	(111)
Payments to acquire tangible assets		(3,741)	(2,437)
Receipts from sales of own shares		30	140
Payments to acquire own shares		-	(1,973)
Receipts from sales of tangible assets		-	24
		(3,861)	(4,357)
Acquisitions and disposals			
Payment to acquire minority interest		(27)	(48)
Payment to acquire associate		-	(42)
Receipts from sale of business units		-	1,258
Net cash disposed of with business units		-	(65)
Payments to acquire subsidiary undertaking		(2,655)	-
Net cash acquired with subsidiary undertaking		(184)	-
		(2,866)	1,103
Equity dividends paid		(522)	(768)
(Decrease)/increase in cash		(1,150)	277
Cash flow			
Reconciliation of net cash flow to movement in net funds			
Change in net debt resulting from cash flow		(1,150)	277
Exchange difference		43	(192)
Movement in net funds		(1,107)	85
Net funds at 1 April		1,946	1,861
Net funds at 31 March		839	1,946

Notes to the financial statements

Note 1 (a-e)

1. Accounting policies

(a) Accounting convention

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

(b) Basis of consolidation

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

(c) Goodwill

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

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

(d) Intangible fixed assets

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

(e) Depreciation

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

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

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

Notes to the financial statements

Note 1 (f-j)

1. Accounting policies (continued)

(f) Fixed asset investments

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

(g) Stocks

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

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

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

(h) Research and development

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

(i) Deferred income

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

(j) Long-term contracts

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

Notes to the financial statements

Note 1 (k-n)

1. Accounting policies (continued)

(k) Employee Benefit Trust

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

(l) Deferred taxation

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

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

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

(m) Foreign currency

Company

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

Group

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

(n) Financial instruments

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

Notes to the financial statements

Note 1 (o-q)

1. Accounting policies (continued)

(o) Leasing and hire purchase agreements

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

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

(p) Pensions

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

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

(q) Government grants

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

Notes to the financial statements

Notes 2 - 3

2. Turnover

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

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

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

Turnover is analysed as follows:

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

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

3. Cost of sales and operating expenses

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

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

Notes to the financial statements

Notes 4 - 5

4. Operating profit

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

5. Information regarding employees

	2004	2003
	£'000	£'000
(a) Staff costs		
Wages and salaries	17,190	14,634
Social security costs	1,838	1,629
Other pension costs	1,970	1,627
	<u>20,998</u>	<u>17,890</u>

(b) Average number of employees

Direct scientific staff, administration and management	678	531
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(c) Information on Directors' remuneration is included in the Report of the Remuneration Committee on pages 24 to 27.

Notes to the financial statements

Note 6

6. Taxation

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

(b) Factors affecting current tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%).

The differences are explained below:

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

Notes to the financial statements

Notes 7 - 8

7. Dividends

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

8. Profit attributable to members of parent company

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

Notes to the financial statements

Note 9

9. Intangible fixed assets

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

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

Company

The Company has no intangible fixed assets.

Notes to the financial statements

Note 10

10. Tangible fixed assets

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

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

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

Company

The Company has no tangible fixed assets.

Notes to the financial statements

Note 11

11. Fixed assets investments

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

Company

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

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

(b) Subsidiary undertaking

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

(c) Own shares

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

Notes to the financial statements

Note 11 (continued)

11. Fixed assets investments (continued)

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

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

Joint ventures and associates

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

* Held by a subsidiary undertaking

** Held by holding company and subsidiary undertaking

Notes to the financial statements

Note 11 (continued)

11. Fixed assets investments (continued)

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

Analysis of the acquisition of Mikromol GmbH:

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

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

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

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

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

Notes to the financial statements

Notes 12 - 15

12. Stocks

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

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

13. Debtors

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

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

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

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

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

Notes to the financial statements

Notes 16 - 17

16. Provisions for liabilities and charges

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

17. Share capital

			2004 £'000	2003 £'000
Authorised				
Dividend share of £0.10			-	-
'B' ordinary shares of £0.10 each			252	252
Ordinary shares of £0.10 each			100	100
			352	352
Allotted called up and fully paid	2004 Number	2003 Number	2004 £'000	2003 £'000
Dividend share	1	1	-	-
'B' ordinary shares	2,521,900	2,521,900	252	252
Ordinary shares	1,000,000	1,000,000	100	100
			352	352

Notes to the financial statements

Notes 17 - 18

17. Share capital (continued)

Dividend rights

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

- 1) Dividend share
- 2) Ordinary shares
- 3) 'B' ordinary shares
- 4) Thereafter equally for the ordinary and 'B' ordinary shares

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

- 1) Dividend share (returning nominal value only)
- 2) Thereafter equally for the ordinary and 'B' ordinary shares

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

18. Reserves

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

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

Company

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

Notes to the financial statements

Notes 19 - 20

19. Financial commitments

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

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

20. Notes to the statement of cash flows

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

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

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

Notes to the financial statements

Notes 21 - 23

21. Post balance sheet events

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

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

22. Group capital commitments

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

23. Pensions and other post retirement benefits

(a) Pensions

SSAP 24 disclosures

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

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

Main assumptions:	%
Rate of return on investments	8.2
Rate of salary increases	4.3
Rate of pension increases	2.3
	£'000
Market value of scheme's assets	11,725
Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases.	75%

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

FRS 17 disclosures

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

Notes to the financial statements

Note 23 (continued)

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

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

An analysis of the defined benefit cost for the year ended 31 March 2004 is as follows:	2004
	£'000
Current service cost and operating charges	(2,284)
Expected return on pension scheme assets	929
Interest on pension scheme liabilities	(1,271)
Total other finance income	(342)
Actual return less expected return on pension scheme assets	2,150
Experience losses arising on scheme liabilities	(356)
(Loss) arising from changes in assumptions underlying the present value of scheme liabilities	(152)
Actuarial gain	1,642
Analysis of movements in (deficit) during the year:	£'000
At 1 April 2003	(11,418)
Total operating charge	(2,284)
Total other finance income	(342)
Actuarial gain	1,642
Contributions	2,003
At 31 March 2004	(10,399)

Notes to the financial statements

Note 23 (continued)

23. Pensions (continued)

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

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

	2004	2003
	£000	£000
Net assets - Group		
Net assets as stated in balance sheet	18,940	16,803
FRS 17 pension liabilities	<u>(7,279)</u>	<u>(7,993)</u>
Net assets including defined benefit liabilities	<u>11,661</u>	<u>8,810</u>
	2004	2003
	£000	£000
Reserves - Group		
Profit and loss reserve as stated in balance sheet	6,906	4,769
FRS 17 pension liabilities	<u>(7,279)</u>	<u>(7,993)</u>
Profit and loss reserve including amounts relating to defined benefit liabilities	<u>(373)</u>	<u>(3,224)</u>