

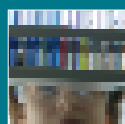
Our vision

To be an international business, recognised for setting standards in analytical science and providing best value products, services and solutions.

Contents



Our vision



New ventures
in pharmaceuticals 4



Reference
materials 16



Chairman's
statement 1



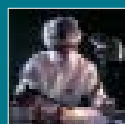
Technology and
innovation 8



The Board of LGC
Group Holdings plc 20



Chief Executive's
statement 2



Analytical and
diagnostic services 12



Accounts 21

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.

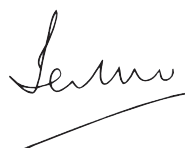
As part of the share transaction, 3i agreed to waive its dividends in 2003-04. LGC's Board is not proposing the payment of dividends to other shareholders.

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.

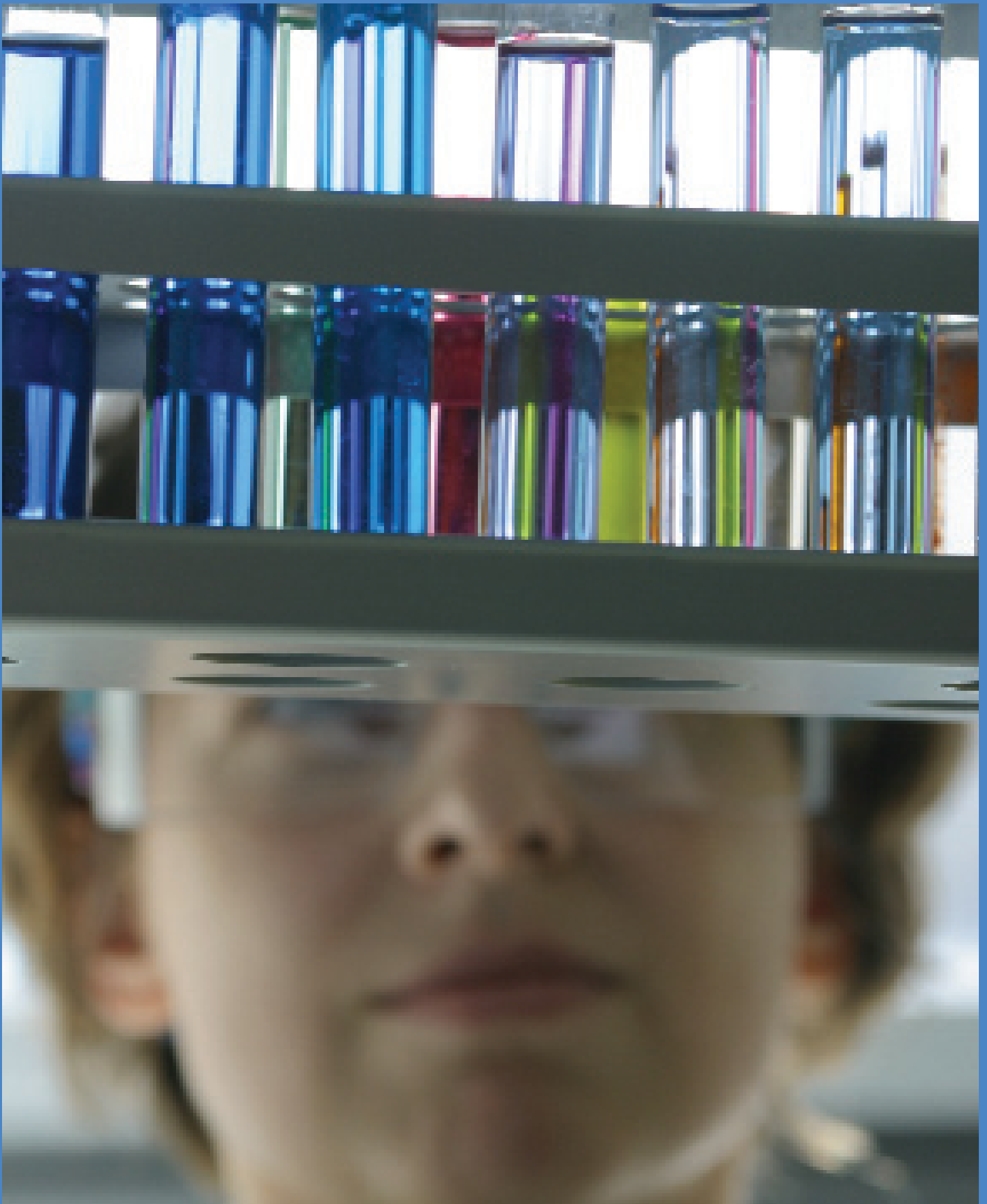
One of the key staff development initiatives is our training programme. Last year, 18 managers completed the third management development course we have organised with Ashridge Business School, and our wider programme of management

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



Acquiring Mikromol, world leader in the synthesis and sale of pharmaceutical impurities and metabolites as reference materials, has significantly enhanced our pharmaceutical services offering.

New ventures in pharmaceuticals

LGC has forged alliances with a number of leading pharmaceutical services companies, so that we can now offer a wealth of technical and industry expertise tailored to meet specific client needs.



Acquisition of Mikromol

During 2003, LGC acquired Mikromol, a rapidly expanding and dynamic company located in Luckenwalde, near Berlin, Germany. Since the acquisition, we have invested in 500m² of additional laboratory facilities and increased staff numbers substantially. Mikromol's key skills are in reaction design, complex synthesis, purification, analysis and certification. These skills are mostly applied to identifying and producing impurities associated with active pharmaceutical ingredients. These impurities, which are used as reference standards, are of high specification and are supplied with comprehensive certificates of analysis.

Mikromol identifies impurity compounds that are of interest to the pharmaceutical industry and then undertakes a process of design, reaction optimisation, purification and analysis to prepare and fully characterise these to reference material standards. After certification, these products are made available through a catalogue at a small fraction of the cost usually associated with in-house synthesis.

Mikromol's catalogue lists around 1,500 compounds spanning hundreds of active pharmaceutical ingredients, which are distributed exclusively by LGC Promochem. LGC aims to ensure that Mikromol

"LGC aims to ensure that Mikromol is recognised as the world's leading pharmaceutical impurities company."

is recognised as the world's leading pharmaceutical impurities company. With this in mind, we continue to grow our product catalogue both through internal synthesis and by collaboration with third parties worldwide, particularly in India, China and Eastern Europe. In India, LGC is planning substantial investment in laboratory facilities and PhD chemists to increase significantly the Group's capabilities in impurities synthesis, design and production.

In addition to its experience in reference standards, Mikromol brings in-depth synthetic skills that enhance LGC's pharmaceutical services offering. Mikromol benefits from a flexible and multi-skilled workforce as well as excellent equipment, a knowledge of a diverse range of chemistries for synthetic design and expertise in pharmaceutical science for consultancy and molecular prediction. Thus, Mikromol is able to offer wider synthetic support to pharmaceutical companies; for example, in preparing scaffolds and starting materials for lead optimisation, and in synthesising low volumes of active ingredients, including isotopically labelled compounds for biological trials.

Alliances in drug discovery services

Over the course of this year, LGC has developed a strong and flexible product offering to support pharmaceutical and biotechnology companies in their quest to discover new chemical entities to fill their product development pipelines. Our in-house services include chemical synthesis at Mikromol, *in vitro* ADME-Tox testing for lead optimisation and leading edge chemical measurement to support all stages of the discovery process, including

LGC exhibited its products and services at a number of exhibitions throughout the year.

New ventures in pharmaceuticals

library characterisation and the identification and quantitative analysis of biological samples. In addition to these in-house offerings, LGC has forged alliances with four leading pharmaceutical services companies, so that we can now offer a wealth of technical and industry expertise tailored to meet specific client needs.

Pharmidex

With its in-depth knowledge of a major area of drug development, Pharmidex complements LGC's *in vitro* and analytical testing facilities. This London-based neuroscience research service provider offers highly advanced DMPK (drug metabolism and pharmacokinetics) screening services to drug discovery companies, which assess the ability of compounds to enter the central nervous system. The founders of Pharmidex, Dr Mohammad Alavijeh and Dr Alan Palmer, are world experts in their fields.

In describing the alliance, Dr Palmer, Chief Executive Officer of Pharmidex, said: "By bringing our knowledge of the whole drug discovery process to the alliance, Pharmidex and LGC can now offer high level problem-solving in addition to a top screening service. We have met companies that offer analytical services, but none comes close to touching the quality of LGC. It will be exciting to work closely with their teams in the future."

AKOS

In February 2004, LGC signed a partnership agreement with AKOS, the UK-based consultancy group specialising in all aspects of pharmaceutical strategic development and regulatory affairs. AKOS has a strong track record of working with clients to achieve their strategic aims in the drug discovery and development processes, clinical studies, product

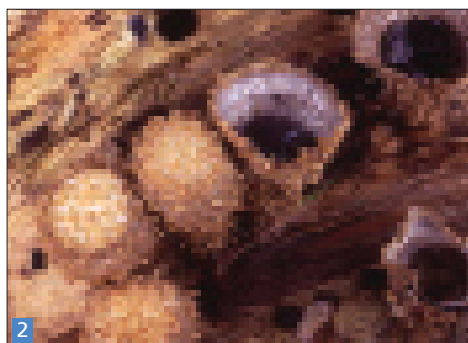
launch and licensing. Through this alliance, our clients will benefit from the best in advice and services and this will speed up the development of new products. Dr Paul Evans, President and Chief Executive Officer of AKOS, commented: "AKOS is both a service company and a consultancy. We tailor our response to the clinical, financial or administration needs of the client, working with them from the preclinical phase of drug discovery through early clinical development to 'proof of concept'. LGC has a world-class reputation for quality and offers a broad range of analytical services, from synthesis and biomeasurement to formulation development and we look forward to working with LGC."

ChemOvation

A leading provider of chemistry solutions to the pharmaceutical and biotechnology sectors, ChemOvation provides a fully integrated service encompassing drug design, synthesis, screening and unique libraries designed around key pharmacophores. Its expertise in providing tailored medicinal chemistry solutions enables clients to take compound 'hits' and biological protein targets and decide quickly whether or not to progress into an integrated drug discovery programme. LGC's expertise in biomeasurement and extensive capabilities in cell-based testing – particularly ADME-Tox testing – creates a natural link with ChemOvation's offering in the drug discovery market.

BioDiversity

BioDiversity is a natural products research laboratory that holds a unique collection of fungi, including rare symbionts and traditionally important medicinal fungi. Natural products are a proven source of blockbuster drugs; 60% of drugs currently on the market are natural products or have natural product



pharmacophores. Their potential lies especially in anti-tumour, anti-infective and pain control, and as sources for combinatorial libraries.

By bringing together BioDiversity's expertise with LGC's comprehensive range of bioanalytical capabilities, this alliance delivers a new breadth and depth of drug discovery services to the pharmaceutical, life science and agrochemical sectors. BioDiversity has developed proprietary fermentation technologies that allow precise manipulation and control of secondary metabolism, so that libraries are generated free of fermentation reagents that can interfere with assay performance.

Chemical manufacturing

Our Runcorn laboratories have continued to make a valuable and increasing contribution to our pharmaceutical business, providing services including leachables and extractables, contamination studies, physical properties measurement, method development and validation.

Life sciences/pharmacogenetics

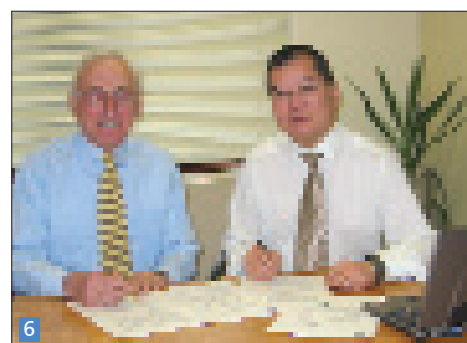
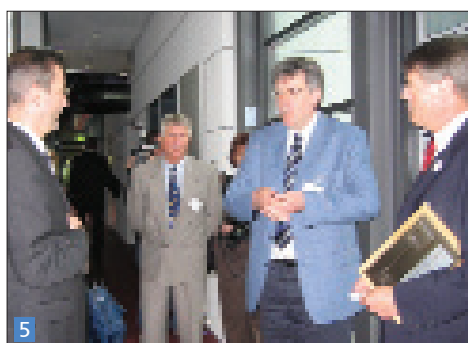
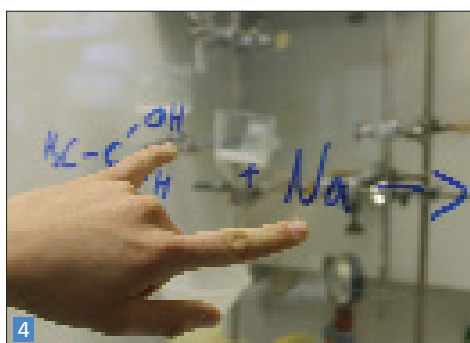
Pharmacogenetics, the field of study relating an individual's genetic variation to their response to medication, continues to grow in importance to the pharmaceutical industry. The Food and Drug Administration's draft guidance (November 2003) on the application of pharmacogenetics to drug dossier submissions of clinical trials data identified CYP2D6 gene tests as a valid test system for which it would welcome submission of data. As a result, a growing number of biotechnology and pharmaceutical companies have negotiated licensing rights to undertake tests for the 'poor metaboliser' status it defines. The patents for CYP2D6 are licensed to LGC from Dundee University.

MHRA Laboratories

During the year, we have continued to invest in the expansion of the Medicines and Healthcare products Regulatory Agency (MHRA) Laboratories at Teddington. Five new scientists have joined the team and new instrumentation has been acquired, including more gas chromatograph-mass spectrometers, electrochemical detectors for HPLC and a state-of-the-art near-infrared spectrometer. The MHRA Laboratories now boast unparalleled expertise for analysis and investigational work.



1. LGC's alliance with Pharmidex has raised the standard for drug metabolism and pharmacokinetics screening services to drug discovery companies.
2. BioDiversity brings to its strategic alliance with LGC its collection of fungi for potential library construction.
3. In 2003 LGC acquired Mikromol, a pharmaceutical impurities company in Germany.
4. Mikromol's key skills include reaction design and complex synthesis.
5. Matthias Platzek, Prime Minister of the State of Brandenburg (left), opened Mikromol's expanded laboratory.
6. Dr Ray Ah-Sun, LGC's Director of Business Development (right) and Paul Evans, President and CEO of AKOS, sign a collaboration agreement.





A major investment in state-of-the-art mass spectrometry provides rapid and high sensitivity analysis of natural products, hydrocarbons and nutraceuticals.

Technology and innovation

Technology and innovation underpin LGC's strategy for organic growth. From advanced spectroscopy and mass spectrometry to surface separation science and trace chemical analysis, we offer a uniquely wide range of technologies.



Major R&D programmes

LGC completed its commitments to the DTI's 2000-03 Valid Analytical Measurement (VAM) programme in September and began working on the new 2003-06 programme in October. The 2000-03 programme included projects covering both chemical and DNA analysis, with LGC delivering the bulk of the work. One of the many outputs was the development of an alcohol reference material to support new regulations for active aircrews. In collaboration with the Institute of Reproductive and Developmental Biology, we improved significantly the robustness of a method for non-invasive, pre-natal genetic testing, which analyses the trace levels of foetal DNA circulating in maternal blood. We also developed a set of prototype performance indicators for use with gene expression microarrays.

Measurements for Biotechnology

LGC completed its work for the 2001-04 MfB programme and helped the DTI to formulate the new, larger programme in which we are now participating. Highlights from the completed programme include the production of guidelines for accurate mass measurement and the evaluation of ultrasound for probing protein conformation. In the new 2004-07 MfB programme, we are working on a project to develop validated procedures and reference standards for proteome analysis.

We will be working closely with the international measurement community to help with the assessment of techniques for robust quantification of complex protein/peptide mixtures. In addition, we will be

delivering a set of projects covering DNA quantification and taking forward our work to improve the methods for trace DNA detection.

Veterinary and pesticide residues

We have continued to develop advanced methods for the determination of veterinary drug residues, for example the determination of thiamphenicol and cephalosporins in milk and a procedure for the determination of a range of steroids, all using liquid chromatography (LC) linked to tandem mass spectrometry (MS-MS). We have also been developing LC-MS-MS methods for the determination of a range of pesticide residues that are not amenable to gas chromatography-mass spectrometry (GC-MS), and also methods for the determination of individual carbamates.

In addition, scientists in our BSE laboratories have participated in the evaluation of novel TSE (transmissible spongiform encephalopathies) test methods in collaboration with a number of organisations.

Chlorinated alkanes

We delivered two method development projects as part of the Government Chemist programme, for the determination of alkylphenols and chlorinated alkanes. The EU Water Framework Directive identified (*inter alia*) medium chain-length chlorinated paraffins (MCCPs) as potentially hazardous chemicals when produced in significant quantities. LGC worked with manufacturers of these substances in establishing and validating analytical methodologies for their accurate

We use LC and GC interfaced with ICP-MS instruments for a variety of applications, including the speciation of the important trace element selenium in food and food supplements.

Technology and innovation

determination, and has now established a European centre for MCCP measurement, whilst also supporting the UK Chemicals Stakeholder Forum. In both of these projects we have been working with industry and the UK Environmental Agency to develop validated analytical methods and to provide data for UK risk assessment. In the case of the chlorinated alkanes project, we have been working with Ineos Chlor, the major European producer of all grades of chlorinated alkanes. In respect of alkylphenols and alkylphenoethoxylates, we have been working with Uniqema, the major supplier of both alkylphenols and alkylphenoethoxylates. The work has also involved links with the relevant UK and European industrial sectors.

LGC continues to deliver specialised analytical tests to Infineum UK Limited, a joint venture between Exxon and Shell, a supplier of oil additives to the industry.

UK Analytical Partnership (UKAP)

The UK Analytical Partnership, managed by the Royal Society of Chemistry (RSC) and LGC, and sponsored by the DTI and RSC, has been engaged in a thorough review of analytical priorities in the UK, with a strong emphasis on innovation. A structured approach involving wide consultation and prioritisation has spawned project development in the area of real-time analysis as well as support to the 'factory of the future', biomimetic analysis and mass environment analysis.

InsightFaraday

InsightFaraday, which is coordinated by LGC, has been active on many fronts, forging a number of active collaborations with users of high throughput technologies (HTT). Interactive and IT-based strategies have led to the development of a road map for the

development and exploitation of HTT in the UK, guided partly by what has been learned from international missions across the USA and Europe. Six CASE (Cooperative Awards in Science and Engineering) awards have been allocated to research groups.

Government Chemist activities

Through the Government Chemist programme, LGC continues to deliver high quality analysis and expertise in its statutory role as referee analyst. A total of 27 referee samples were received during the year and a major project on the development of methods for determining GMO soya products was completed under the EU Framework 5 programme.

LGC has taken a lead role in the discussions on support measures for industry following the EU REACH proposals for the registration, evaluation and assessment of all chemicals and chemical products, working closely with both government agencies and the Chemical Industries Association. The LGC Regulatory Advisory Service has continued to provide regulatory support to chemical supply chain companies (many of which are small and medium-sized enterprises) and has launched a new safety data sheet support service to assist industry in complying with the CHIP3 chemical supply legislation.

LGC has extended its demonstrator consultancy service on registration and compliance for integrated pollution prevention and control for a range of industries, including chemical, food and drink, on a UK-wide basis. LGC has continued to support Her Majesty's Customs and Excise in the identification and prosecution of those laundering and smuggling road fuels. Increasingly sophisticated analytical approaches are required to obtain evidence of these activities.



Life sciences

In January we announced a research collaboration agreement with SEQUENOM Inc which supplies the MALDI-TOF mass spectrometry currently used to detect single nucleotide polymorphisms associated with scrapie susceptibility in sheep. We are currently investigating whether this technology can be applied advantageously to LGC's forensic and paternity testing services.

LGC continues to advance its rapid genetic test technology called HyBeacons. We are working in partnership with Molecular Sensing plc, which has developed complementary hardware and software called Genedrive™. A prototype of the combined device is being demonstrated to interested parties across the spectrum of applications for which rapid point-of-care tests will be highly valued. During the year, aspects of this development were supported by a DTI LINK award in combination with Manchester University and LGC's HyBeacons technology was a finalist in the Medical Futures Innovations Award 2003.

Collaborations

In its role as the designated UK national measurement institute for bioanalysis, LGC currently holds the chair of the recently established BioAnalysis Working Group (BAWG). Helen Parkes, LGC's Biotechnology Business Development Manager, who chairs the BAWG, is leading the group in addressing the broader issues of biomeasurement, including the rapidly evolving regulatory challenges. LGC has collaborated with NIST, the US national measurement institute, in organising the first study on DNA quantification. Involving 17 expert laboratories, this study has provided a valuable contribution to the international debate on the validity of the QPCR (quantitative

polymerase chain reaction) measurements and is the first step towards a global infrastructure to underpin measurements for biotechnology.

Secondments

In line with our policy of encouraging scientific exchanges and staff development, Dr Gavin O'Connor, Senior R&D Scientist, was seconded to NIST in the US. Meanwhile, Dr Peter Evans, a Research Analyst, spent a secondment at the European Commission's national measurement institute in Belgium.

Sharing knowledge and best practice

Sharing scientific knowledge among LGC's 750 staff and within the scientific community is important. Sophie Gabriac, of LGC's BioAnalytical Innovation Team, received an award for 'best poster' at the biannual meeting of the Pharmaceutical Analytical Sciences Group.

LGC ran two successful proficiency testing competitions for schools and colleges. Chemistry competitions targeting students in years 12/13 were run in conjunction with the Nuffield Curriculum Centre with support from Kodak Ltd. The chemistry competition was once again a nominated project for the UK-wide Science Year.

In addition to many other high profile visitors, three members of the Food Standards Agency Board visited LGC in December 2003 to discuss BSE testing and to visit the Teddington BSE testing laboratory. Chrissie Dunn, Michael Walker and Prof Andrew Miller were accompanied on the visit by Dr Debby Reynolds, the Agency's Veterinary Director (now Chief Veterinary Officer at Defra).

1. As part of our policy of encouraging scientific exchanges, Dr Peter Evans and Dr Gavin O'Connor spent time on secondment to IRMM and NIST, respectively.
2. In our role as referee analyst, we carry out analyses of food and drink and the structure of proteins.
3. Dr Alejandro Herrero, Director of IRMM, gave a lunchtime lecture to staff when he visited our Teddington facilities.
4. LGC's Liz Prichard presented Gorseinon School, Swansea, with first prize for the chemistry proficiency testing competition.
5. Romina Barbagallo is analysing DNA to target new drugs.
6. LGC's HyBeacons technology reached the finals of the Medical Futures Innovations Awards.





LGC maintains its position at the cutting edge of forensic science, achieving a ten-fold increase in sample numbers in our scene of crime laboratories this year.

Analytical and diagnostic services

LGC provides analytical and diagnostic services for a diverse range of markets in both the public and private sectors, including foods, pharmaceuticals, biotechnology, environment and chemicals.



Five members of staff at Teddington graduated as Reporting Officers from LGC's in-house training course during the year.

During 2003 LGC significantly expanded its laboratory facilities for BSE testing. To complement the laboratory in Teddington, we established new laboratories at our Runcorn site and on a science park just outside Edinburgh. All three laboratories operate to the requirements of ISO 9001 and are accredited by the United Kingdom Accreditation Service (UKAS) to the requirements of ISO 17025.

During 2003 the Veterinary Medicines Directorate (VMD) put its National Surveillance Scheme to competitive tender. After a thorough audit and evaluation process, LGC was awarded the contract for another five-year period and this is extendable to seven years. LGC has continued to invest in its veterinary residues testing business by developing a range of new methods of analysis based on liquid chromatography linked to tandem mass spectrometry.

LGC has continued to provide the highest quality analytical service to the Pesticides Safety Directorate in support of its UK surveillance programme. A new LC-MS-MS instrument has enabled staff to develop a portfolio of methods for the determination of pesticide residues, with particular emphasis on multi-residue methods. We are also evaluating a new time-of-flight fast GC-MS instrument for the determination of pesticide residues. These new technology offerings, together with our traditional GC-MS instruments, will ensure that LGC remains at the forefront of pesticide residue analysis. Our food chemists have been working on a wide range of projects involving the determination of water and oil

soluble vitamins and other macro- and micro-nutrients. LGC has also examined an increasing number of formal samples submitted to the Government Chemist under the provisions of the Food Safety Act 1990 that pose a variety of analytical challenges. These include the determination of mycotoxins, vitamins, the detection of food irradiation, the examination of probiotics and the identification of meat from undeclared species in minced meat.

In the wider environmental context, LGC's environmental consultancy and analysis business has continued to deliver services in the areas of building surveys, contaminated land investigations, asbestos, drinking water, waste management and radiochemistry. We also manage research and development projects and a proficiency scheme for *cryptosporidium* testing.

Forensic science

Growth and expansion have characterised LGC's forensic services during the past year. In key areas, such as DNA, we have driven down our turn round time to less than five days, investing in new laboratories and expanding our computer forensic capacity and capability. Training and additional information technology accounted for a significant proportion of our investment programme throughout the year.

Through the increase in competitive tendering, our scene of crime DNA work has grown quickly. In July, we opened a new scene of crime laboratory in

Analytical and diagnostic services

Runcorn and we have also expanded our scene of crime operations in Teddington. A significant source of work was a new contract for the Metropolitan Police's scene of crime DNA work, won following a competitive tender. We have also driven down our turn round times for processing DNA profiling samples and have increased the throughput of our scene of crime laboratories ten-fold over the past year.

Workplace drug and alcohol testing, as well as toxicology, are expanding areas of activity and we opened a new toxicology laboratory during the year in Runcorn to complement the one in Teddington. We also won a new contract from the British Transport Police for a range of forensic analytical services. Our new digital crime unit is now well-established. Our analysis of mobile phones for forensic purposes saw a rapid increase after December, following the change in the law relating to the use of mobile phones while driving. Meanwhile, the change in the law that moved cannabis from a class B to a class C drug has not affected the demand for forensic drug analysis. The greater police resource now addressing heroin and crack cocaine has increased levels of demand for analytical support.

Consumer safety

LGC is actively involved in supporting UK government initiatives that promote safety for consumers. Our notable achievements this year include contributions to the development of standards for determining organic chemicals in toys. The EU Commission accepted our report on revising the requirements on nickel release from stainless steel piercing posts. We evaluated techniques for detecting the use of cat and dog hair in the manufacture of clothing. We also

provided substantial support to the private sector, providing analysis for phthalates, ethoxylates, nitrosamines and organotins to companies involved in the childcare, pharmaceutical and textile industries.

Life sciences

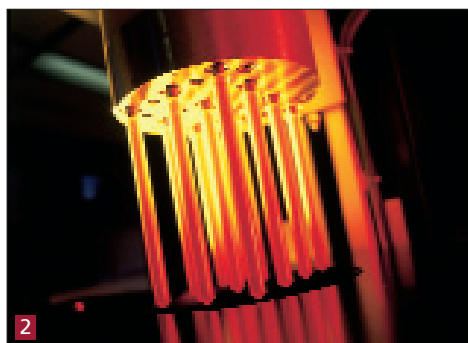
LGC processed significantly increased sample volumes this year in its service to Defra for scrapie genotyping. At the same time, we have continued to improve both the efficiency and speed of service. The Irish Government has awarded LGC approved laboratory status to offer this service in Ireland and, in order to provide local marketing and support for this service, we have established a partnership in Ireland with Oldcastle Laboratories.

We developed a novel extension of mass spectrometry methodology to clinically relevant genetic diagnostics with the validation of a colon cancer gene analysis in collaboration with the Institute of Human Genetics in Newcastle. This forms part of a collaboration established under the DTI/DoH-initiated Genetics Knowledge Park network.

Meanwhile, the growing demand for DNA extraction and storage services associated with patient sample banks for healthcare studies in industry and academe prompted us to adapt our high throughput DNA extraction facilities, normally focused on minute blood sample volumes, to address this potential. This novel application of the technology offers speed and cost savings to this growing market.

Chemical contracts

LGC won a contract with British Nuclear Group to carry out analytical testing of metals present in a variety of materials involved in a novel vitrification process. During the year, we also won a contract



with GE Infrastructure Water and Process Technology's Sentinel business unit to provide automated electronic reporting of water analysis reports to Sentinel customers. We have set up a searchable online database that allows Sentinel to analyse the ordering patterns for its customers.

Passing on the message

LGC's analytical service capabilities were recognised in various ways during the past year. We played a prominent role in the Institute of Electrical Engineers' prestigious Wheatstone Lecture day, contributing speakers who took forensic measurement as their theme. Dr Paul Debenham, LGC's Director of Life Sciences, contributed two articles to *The Sunday Times* Window on Life CD.

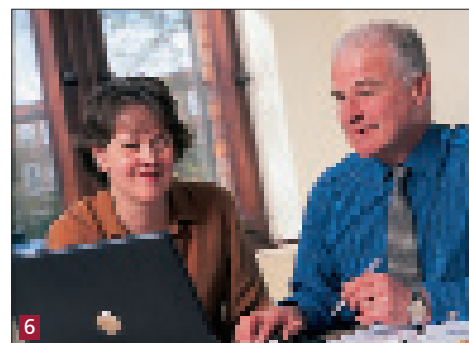
Meanwhile, Dr Peter Farnell, Head of Food Chain Analysis, was invited to present his experiences of BSE testing to audiences in Washington DC and Portland, Maine, in the USA. Dr Farnell has also completed six years as a member of the Association of Public Analysts Training Committee and three years as Chairman of the RSC's Mastership in Chemical Analysis Examinations Board.

We support a number of learned societies. Alan Handley, one of LGC's senior scientists, is currently chairman of the Analytical Methods Committee of the RSC Analytical Division. This group comprises representatives from all the main UK sectors and groups and has a remit to 'promote the development, standardisation and validation of all methods of analysis'. He is also Vice President of the Chromatographic Society, a role that involves organising events designed to promote analytical science. As Series Editor for the analytical chemistry series by Blackwell Publishing, Alan Handley has

contributed to the publication of a book by LGC's Mike Cullen (Technical Support and Development Manager), entitled *Atomic Spectroscopy in Elemental Analysis*, which has contributions from both Mike Cullen and Vicki Barwick (Training and Knowledge Transfer Executive).

John Points, Head of LGC's Veterinary Drug Residues Group, gave a presentation entitled 'The Analysis of Food for Residues of Pesticides and Veterinary Drugs' as an invited speaker at a meeting organised by the Royal College of Pathologists. Meanwhile, the veterinary drugs and food chemistry groups presented some of their novel methods of analysis at EuroFood Chem XII, a biennial European conference on food safety.

1. L-R: Steve Dean, Chief Executive of the Veterinary Medicines Directorate, with John Points and Dr Richard Worswick.
2. LGC has updated its Chemagen system to achieve high volume extraction from human blood.
3. The new BSE laboratory in Runcorn can process several thousand samples a day.
4. R-L: David Miles shows Dr David Harper, Director of Health Protection at the Department of Health, our genotyping laboratory.
5. The new computer forensics unit is now well-established – mobile phone analysis saw a rapid increase after a change in the law in December 2003.
6. Helene Jones and Ian Lumley plan the expansion of our BSE testing laboratories.





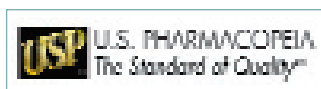
ATCC cell lines are carefully stored in liquid nitrogen before being despatched using high-speed couriers through our international offices to pharmaceutical companies across Europe.

Reference materials



Reference materials and biological standards play a vital role in ensuring the accuracy and quality of analytical measurement, which underpins the majority of LGC's activities. As Europe's most comprehensive source of reference materials, LGC Promochem has a key role to play in fostering LGC's reputation as the national measurement laboratory for chemical and biochemical analysis.

LGC Promochem has continued to show strong organic growth in 2003. All three business sectors have performed well but we have had particular success in the pharmaceutical sector, which includes products from Mikromol, the German-based company LGC acquired during the year. This acquisition has enabled us to improve customer service and address more effectively the important and rapidly growing generic pharmaceutical market into which Mikromol's reference standards for impurities and metabolites are sold. In particular, staff have attended a number of key exhibitions and scientific conferences, and Mikromol has provided technical training to our sales staff.



LGC Promochem's successful partnership with the United States Pharmacopeia (USP) was strengthened further this year as a result of the three pharmacopoeial education seminars we held in Berlin, London and Barcelona. These seminars were run by USP staff and over 50 of our customers learned how to use USP publications and products more effectively.

In response to the very positive customer feedback, we will be holding further seminars during the coming year. In July 2003 USP awarded LGC Promochem a prize for being the distributor that grew its USP business most successfully over the previous year. LGC Promochem India won the 'large' distributor group prize, showing approximately 50% growth in unit sales over the set period and LGC Promochem Spain won the 'small' distributor group showing approximately 80% growth. LGC Promochem companies won not only first place in the 'large' distributor group, but also second, third and fourth places. The prize was \$25,000 to spend on developing our USP business. We chose to have our staff trained in Europe by experienced USP personnel. The two-day courses were held in Milan and Barcelona.

Our general reference materials business has continued to focus its resources on key suppliers this year. Together with Cambridge Isotope Laboratories (CIL) we attended the annual Dioxin conference, which this year was in CIL's home city of Boston, Massachusetts. Staff from our UK, French, German and Swedish offices were able to meet some of their key customers at this conference.



"The close collaborative relationship between the sales groups of LGC and Cambridge Isotope Laboratories is a key element to our combined success in the European environmental products market." Maureen Duffy, CIL

LGC is collaborating with BAM and IRMM to produce ERM-branded reference standards.

Reference materials

In its capacity as Europe's major supplier of certified reference materials, LGC joined forces in 2003 with two major European reference material producers, IRMM and BAM, to launch the European Reference Materials initiative. LGC, IRMM and BAM are collaborating to produce ERM-branded materials that will set new standards to improve the quality and reliability of analytical measurements. The materials are produced using the most advanced principles currently available and each is subjected to an uncompromising peer review before being accepted. The brand was officially launched to the public at this year's Analytica exhibition in Munich.



At the press conference, Dr John Marriott, Government Chemist, provided an overview of the range of ERMs developed to support measurements related to environment and health. He talked about the development of reference materials for low sulfur fuels, which will play an important role in the efforts to reduce environmental pollution as the levels of sulfur in fuels are progressively reduced by European legislation.

We welcomed visits from ULTRA Scientific personnel this year, both to provide technical training and to discuss our future promotional plans. We have also welcomed several other suppliers who have assisted us in training our staff at our regular sales meetings. These have included CIL, USP and ATCC.



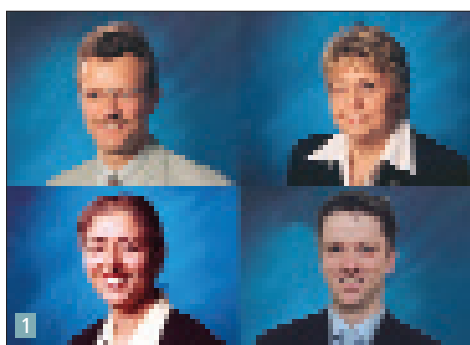
"We wanted a distributor in Europe that could strongly support our products. LGC Promochem brought the same reputation for excellence and expertise in this area for which we have been known in North America for nearly 30 years."

David Krost, ULTRA Scientific

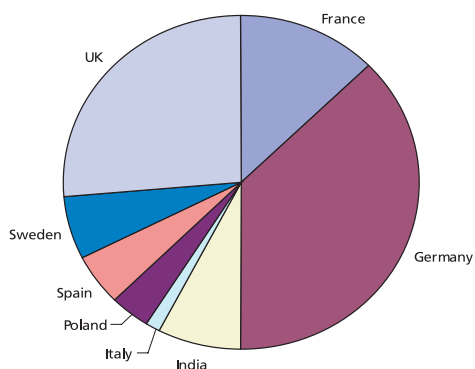
Our success in biomaterials this year has been helped by the availability of a new catalogue from ATCC, our supplier. This cell biology catalogue contains details of many thousands of cell lines and other products and was produced in response to customer requests. It lists ATCC cell lines by tissue source, disease and application, and hybridomas by antigenic specificity. The catalogue also includes a technical guide derived from ATCC's in-house cell culture protocols as well as information on its extensive line of cell culture reagents and other kits.



We have also launched several new additions to the bioproduct range from ATCC, some for ground-breaking research applications, including the fields of cell biology and molecular genomics. The new product additions complement the existing cultures and other products in this range, and in many cases have been developed from products and protocols already in place within ATCC's own laboratories near Washington DC.



Reference materials turnover by country 2003-04



One of our areas of focus during the coming years will be to develop further our business in the new EU countries, which represent an important opportunity for reference materials.

Customer service

Catalogue production has been an important part of our promotional strategy and we have published four new catalogues for our general reference materials business in order to keep our customers better informed. These include a new catalogue for the food and beverage industry.

Our commitment to quality standards has been underpinned by the certification of our German office to ISO9001/2000. Our Swedish and Italian offices will be working towards certification in the coming year.

This year we have been joined by four new country managers; in Germany, the UK, Sweden and Italy. We have continued to invest significantly in the development of our country managers and their staff. We are particularly focusing on ensuring that all of our staff are equipped with the skills to provide

excellent customer service but also to spend more time with our customers to ensure that we are able to meet their changing needs.

Our Italian office, located in Milan, was opened in September. In addition to the new country manager, we have recruited three new sales specialists, one for biomaterials, one for pharmaceuticals and one for general reference materials. We have seen very quickly the benefits of local support for our Italian customers in terms of increased sales. Our staff were able to meet key customers at the Rich.MAC (Milan) exhibition and at the IALM Congress, an international legal medicine exhibition at the University of Milan.

During the year, we met a large number of our customers and potential customers at several other exhibitions held in Europe and India. LGC Promochem had a joint stand with USP at CPhI, held in Frankfurt in 2003. We also exhibited at ACHEMA and Analytica in Munich, two of the world's most important events for chemistry, biotechnology and environmental protection.

One-stop shop

An important factor in the success of LGC Promochem is our specialist one-stop shop. In response to customer feedback, we have continued to add to our product range, to develop reference materials in new areas, to open local offices and to enhance our scientific support, backed by the considerable resources of the LGC Group.

1. New country managers (clockwise from top left): Eike Griess, Gabriella Somaschini; Anders Persson and Surrinder Johal.
2. LGC Promochem releases a new food, industry and occupational hygiene catalogue and ATCC's new cell biology catalogue – the first print edition in ten years.
3. LGC spends US\$25,000 on staff training.
4. Staff in LGC Promochem's office in Bangalore, India.
5. Cambridge Isotope Laboratories is one of our key suppliers.
6. The ERM brand was officially launched at the Analytica 2004 exhibition in Munich.



The Board of LGC Group Holdings plc



Ian Kent



Richard Worswick



Nigel Law



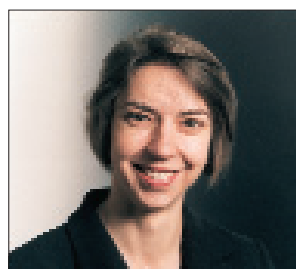
John Mason



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 Etiologies 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.