




REPORT & FINANCIAL STATEMENTS
FROM 31 OCTOBER 2005 TO 31 MARCH 2007



This publication includes the Executive Chair's statement, the Directors' report, the Corporate Social Responsibility statement, the Corporate Governance report, the Auditor's report and Financial statements for the period ended 31 March 2007.

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EXECUTIVE CHAIR'S STATEMENT

Welcome to the first annual report for Forensic Science Service Ltd, which covers the period from 31 October 2005 (the date of the company's incorporation) to 31 March 2007.

This period has been very challenging for the business in a number of aspects as the market place in which we operate develops and becomes more competitive. We have embarked upon a significant transformation of our efficiency and our cost effectiveness in order to provide improved services and better value for money to our customers.

Our two operating divisions UKCJSD (UK Criminal Justice System Division) and NBD (New Business Division) have both focussed their efforts on becoming more customer driven. UKCJSD has embarked upon significant restructuring and other efficiency initiatives to ensure it is best placed to respond to forthcoming tenders from Police forces. NBD has fulfilled its role in both developing new products and services for the Police markets as well as delivering established services in overseas markets. Working in collaboration with companies around the world, NBD has improved its business position in a number of key market areas. In the corporate centre the focus is now on policy, strategy, audit and compliance.

We have also addressed the ramifications of the high profile reputation issues arising from the Damilola Taylor Review conducted by Alan Rawley QC and Professor Brian Caddy, which reported in May 2007. We have accepted in full all the recommendations arising from the review and we are on track with implementing them in order to learn lessons and make any improvements possible to our ways of working.

We are committed to ensuring our quality standards and operating procedures remain world class and in this regard the review, together with other initiatives undertaken during the period, will be invaluable.

The huge amount of change we have implemented this year has been made possible by the dedication and hard work of our staff. I recognise the transformation from Government agency to limited company has been, and continues to be, unsettling. Therefore, I would like particularly to thank all staff for the way they have continued to carry out their work professionally and with the interests of the Criminal Justice System always in mind.

Board membership has changed significantly since incorporation and I thank former colleagues Trevor Howitt, Mike Loveland, Rod Anthony and Peter Hobbs for their loyalty and contributions. In particular I would like to acknowledge the major contribution of Dave Werrett, who stood down as Chief Executive on 31 July 2007. He is leaving the business after nearly 33 years service, during which time he has seen it develop into a major company with a world-wide reputation. He has had an outstanding career as a forensic scientist and was instrumental in ensuring, as CEO, the transition of the company from an agency to a Government owned company.

We now look forward to meeting the significant challenges ahead and the opportunities that these present.



Bill Griffiths
Executive Chairman

The directors submit their report and the financial statements for the period from 31 October 2005 (the date of incorporation) to 31 March 2007.

Principal activities

Forensic Science Service Ltd (the company) provides a full range of forensic science services to customers across all types of crime. The company has expanded its geographical coverage to become an international provider with a growing global customer base. A comprehensive Research and Development programme ensures that the techniques available and applied to casework are amongst the most advanced in the world.

Incorporation

The Forensic Science Service Trading Fund operated for a period of six years to 2005. From 1991 to 1999 it was an Executive Agency of the Home Office, having evolved from a Government Department.

The Trading Fund Order was revoked on 5 December 2005, and all assets and liabilities of the Trading Fund (except those relating to the Custodianship of the National DNA Database which were transferred to the Home Office at the same time) were transferred to the company, Forensic Science Service Ltd.

The company is a private limited company, whose controlling shareholder is the Secretary of State for the Home Office, with the Treasury Solicitor holding all of the issued share capital on behalf of the Home Office. Forensic Science Service Ltd was incorporated on 31 October 2005 and during the pre-trading period was

nominally under the control of directors appointed by the Home Office's solicitors (see page 7). The Board and committee structure is detailed in the corporate governance section of this annual report.

Financial performance

The sales revenue achieved in the trading period from 5 December 2005 to 31 March 2007 was £210.5m.

Operating costs were £211.4m for the period and this included a special contribution of £3.6m to the Pension Scheme, on an agreed basis following the bulk transfer. Operating costs included exceptional costs of £7.1m relating to restructuring, which were incurred as part of the cost saving initiatives.


Operating profit (excluding exceptional costs) in the period was £6.2m.

Key performance indicators

The Shareholder (the Home Office) receives regular monthly reports from the Board. These reports detail financial performance, turnaround times of casework and other matters of significance such as contracts won or lost. In addition, the company reports on quality and health and safety.

Principal risks and uncertainties

The Board has overall responsibility for the company's approach to assessing risks and systems of internal control. This includes reviewing financial, operational and compliance controls and risk management procedures.



The role of executive management is to implement the Board's policies on risk and control and, provide assurance of compliance with these policies.

All employees are accountable for operating within these policies and independent assurance is provided through contracted professional auditors.

As an integral part of planning and review, project and business area managers identify the risks to their plans, the probability of these risks occurring, potential impact and mitigating actions. This information is communicated to the executive team, the Board, and the Shareholder.

Quality is a fundamental requirement for the company. The reputation of the company and the trust of its customer base may be eroded if mistakes are made, particularly in high profile cases. In the last 18 months, the company has been the subject of two independent enquiries. The first relates to an independent review of the Damilola Taylor case, where blood had been missed on certain items. The review concluded that there was no systemic failure in the operations, but that there were, however, human failures in implementing the operating procedures which brought about the failure to recover crucial evidence in this case. The company recognises that there are significant lessons to be learned from this case.

The second review concerned the Low Copy Number (LCN) technique. The Forensic Science Service developed the breakthrough technique, which was first used in court in 1999, to enable minute samples of just a few cells to yield a profile.

The technique has continued to develop over the last six years and significant advancements have been made both in laboratory practices and the interpretation of often complex results. The company is now working closely with police forces to review cases on which the technique had been used in order to see if these advances can achieve an improved result.

The principal risks facing the company are:

- uncertainties surrounding the development of the competitive marketplace, which are created by:
 - increased competition in the market;
 - police forces tendering for forensic services;
 - police in-house provision;
 - technological development and innovation;
 - the role of the Forensic Regulator.
- accommodation. The lease on the Lambeth Laboratory is limited and remains an issue to be resolved; and
- failure to fill senior level vacancies, which currently leave the Board with no executive directors other than the Executive Chairman.

Future developments

Following its strategic business plan the company continues to reduce costs, pursue innovation and enhance the services it provides to its customers. A balanced portfolio of products and services provides an unrivalled offering to customers both in the UK and internationally, supported by a track record of delivering on commitments.

Research and development

The portfolio will continue to be enhanced through research, working in partnership with others and being responsive to customer needs.

Since December 2005 the Research and Development group has seen the successful implementation of a number of key projects to improve and develop products and services for the UK Criminal Justice System Division (UKCJSD) as well as our overseas markets.

During the period, DNA has remained a prime focus. The world's first method for identifying and recovering male epithelial cells in sexual assault cases was introduced – a further step-change in specialist DNA services.

Other pieces of work have centred on evidence recovery. The implementation of 'mini tapes' has reduced time, cost and improved success rates for some of the more challenging items submitted for DNA testing.

Research and development into software solutions development continues to increase both in focus and significance. The company recently concluded the DNAbio pilot with selected police forces and the results demonstrated a notable increase in the number of cases where this new tool could prove valuable. A plan for validation and implementation is now well underway. Software development has not been restricted to DNA. A world's first is the development of a fingerprint interpretation system based on probability analysis.

On the product side, the DNA software range has been expanded with FSS-ibd – a powerful computer application enabling re-analysis of simple and complex family relationships.

Additionally FSS-iD, the world's first commercially available forensic DNA database solution for the international market has been launched and the package has already resulted in preliminary sales, together with interest from further potential customers.

Electronic forensic science has seen a number of innovations such as new services like iVan and CellDEK® – the world's first 'at scene' eforensic solution. Both of these will see further expansion in the next year.

Tools have also been developed to assist with the isolation of a mobile phone from the network, inference of the location of suspects at a given time through their mobile phone network and call data and tools that enable the extraction and interpretation of deleted data from mobile phones.

The Research and Development group also continues to enhance the company's intellectual property base through the review and patenting of internally developed innovations.



Dividends

The Home Office has provided guidance on a formula for calculation of dividend payments. This, together with interest payable, should equate in total to a capital charge of 3.5% on the average net assets.

The directors have not declared a dividend for the period.

Directors

The following directors have held office since incorporation:

Directors' interests in shares

The directors did not hold any interests in the shares of the company.

Third party indemnity provision for directors

The company maintains liability insurance for its directors and officers.

Charitable contributions

During the period the company made charitable contributions totalling £3,080 including a contribution to Victim Support of £3,000.

Forensic Science Service Ltd does not make any political contributions.

		Date appointed	Date resigned
M Griffiths	Home Office Nominee	31 Oct 2005	6 Dec 2005
C Nagpal	Home Office Nominee	1 Dec 2005	6 Dec 2005
N Palmer	Home Office Nominee	31 Oct 2005	6 Dec 2005
W R Griffiths	Chairman	6 Dec 2005	–
D J Werrett	Chief Executive	6 Dec 2005	31 July 2007
M R Loveland	HR and Support Services Director	6 Dec 2005	25 Sep 2006
T H Howitt	Deputy Chief Executive & UKCJS Director	6 Dec 2005	31 Dec 2006
R J Anthony	Finance Director	6 Dec 2005	30 Apr 2006
P T G Hobbs	Non-Executive Director	6 Dec 2005	25 Apr 2006
D M Clarke	Non-Executive Director	22 Dec 2005	–
N P Baldwin	Non-Executive Director	6 Dec 2005	–
A Bloxham	Non-Executive Director	25 Apr 2006	–
P M Hay-Plumb	Non-Executive Director	27 Nov 2006	–

Share capital

On the date of incorporation (31 October 2005), the company issued one £1 ordinary share at par. This was transferred to the Treasury Solicitor on 5 December 2005, the transfer date. At this date a further 48,000,000 £1 ordinary shares were issued at par to the Treasury Solicitor who holds these shares on behalf of the Home Office.

Treasury policy and financial risk management

Subject to the provisions included in the company's governance documents, the Board approves treasury policies; day-to-day operations are controlled by senior managers.

The company's financial instruments comprise loan stock, cash and liquid resources such as trade debtors and trade creditors.

Interest rates on debt are fixed at 6%.

The company utilises money market investments to maximise investment income.

In respect of currency transactional exposure, the company undertakes a limited number of foreign exchange transactions and risk is restricted to currency movements between invoice and payment dates.

Auditors

Baker Tilly was appointed as auditor of the company during the period ended 31 March 2007. The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26 (5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged.

It is the company's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed both on matters affecting them as employees and on the various factors affecting the performance of the company. Staff notices are distributed electronically and an internal intranet site is used by all business areas. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. Senior management meetings are combined with visits to the sites and opportunities to meet staff.

Statement as to disclosure of information to auditors

The directors in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each director has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board



Director

16 August 2007

CORPORATE SOCIAL RESPONSIBILITY

The company's *raison d'être* is to be an impartial provider of forensic science services to both the prosecution and defence within the Criminal Justice System. The responsibility that is laid upon our scientists is to ensure fairness and equality of treatment and to assist in the conviction of the guilty and the freedom of the innocent. It may be that, in a civilised society, this is the very nature of corporate and social responsibility.

The company realises the importance of its core business but also the evolving nature of the world at large and its responsibility to achieve good environmental practices and to improve its environmental impact.

The essence of the business results in its main impact arising from chemical, paper and energy consumption. Wherever possible waste materials are disposed of in such a way as to leave the least carbon footprint and least effect on the environment.

The company encourages good practice through its ecosave policy – this allows staff to participate in and suggest ways that the business can embrace the environmental challenges ahead.

It is an opportunity for a forward-looking scientific establishment to focus its skills in a complimentary area and be a leader on green issues as it is in Criminal Justice.



The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

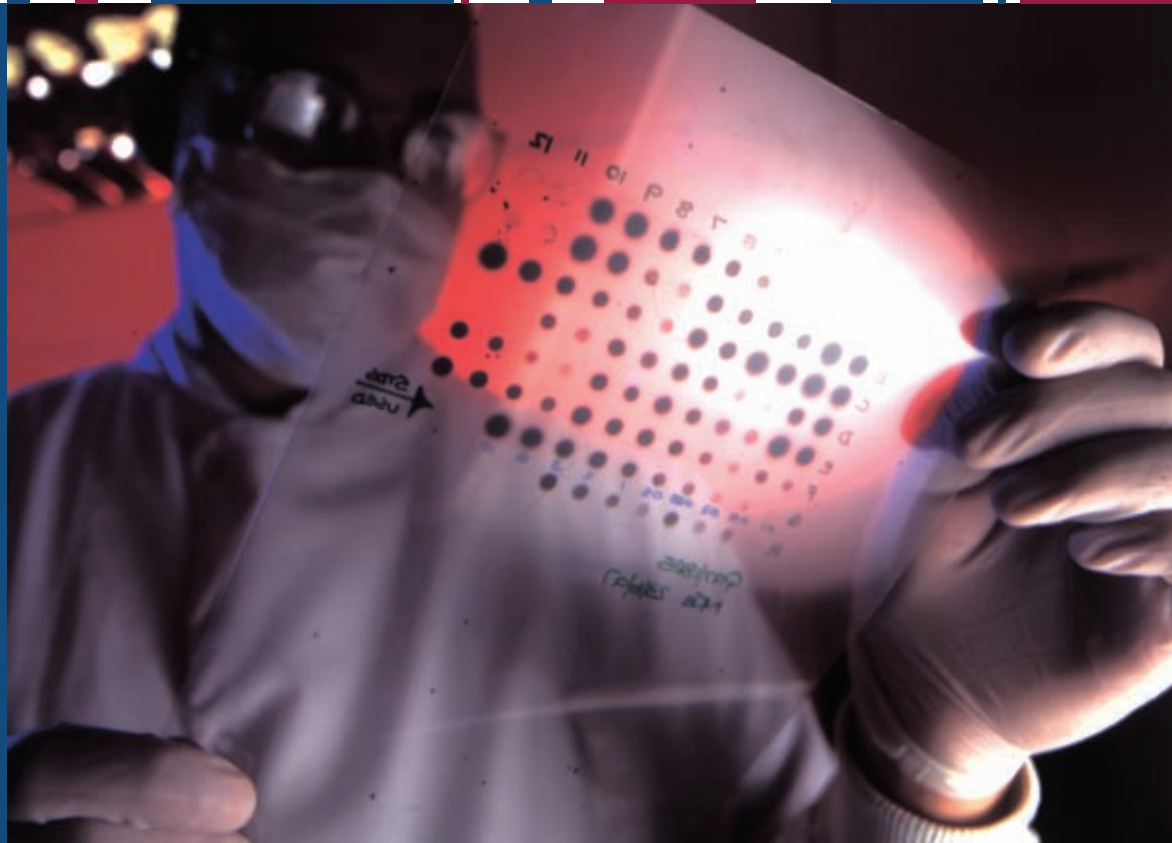
In preparing these financial statements, the directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgments and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



On incorporation the company, in agreement with the Home Office, adopted a Board Plan which described the composition, method of working and committee structure of the Board. Many of the arrangements included in this are derived from guidelines set out in the Combined Code. The Shareholder, advised and supported by the Treasury Shareholder Executive, meets with the company on a quarterly basis to monitor performance against the strategic plan, approve future plans and review risks. Regular performance reports are provided to the Shareholder. In addition to this, the Minister meets with the Chairman and Chief Executive to ensure that the Home Office is kept informed about the company's progress.

Board effectiveness

During a period of considerable change the Board has continued to actively review its efficiency. A formal review will be undertaken when the executive director vacancies on the Board have been filled.

FSS Board

The FSS Board was supported by the following committees:

- Audit
- Remuneration
- Nominations
- Finance and Performance

The Board met on a monthly basis to review the strategic plan and direction of the business.

The main areas of responsibility were:

- developing and delivering the corporate strategy;
- the overall performance of the company;
- identifying, assessing and reviewing risks, and ensuring adequate control measures are in place;
- approving policies and monitoring compliance with these; and
- ensuring that the company complies with its statutory obligations.



Members of the Board at 31 March 2007 were:

W R Griffiths	Chairman
D J Werrett	Chief Executive
N P Baldwin	Non-Executive Director
A Bloxham	Non-Executive Director
D M Clarke	Non-Executive Director
P M Hay-Plumb	Non-Executive Director

In regular attendance at the Board meetings were J D Best, interim Finance Director and J A W Strachan, Company Secretary.

Audit Committee

The Audit Committee's role was to assist the Board in meeting its responsibilities in the areas of internal control and management of risks, together with oversight of the internal and external audit process. This Committee also had particular responsibility for good business principles and quality matters. It reported to the Board and was chaired by a non-executive director. Both internal and external auditors regularly attended the meetings.

Members of the Audit Committee at 31 March 2007 were:

P M Hay-Plumb	Committee Chair
N P Baldwin	
D M Clarke	

Remuneration Committee

The Remuneration Committee was responsible for determining the terms of service and remuneration of the executive directors and members of the executive team. The Committee evaluates and makes recommendations to the Board on overall executive remuneration policy.

The Remuneration Committee was chaired by a non-executive member of the Board and comprised two other non-executive directors.

The Chief Executive, and the Head of Human Resources, were invited to attend.

The members of the Remuneration Committee at 31 March 2007 were:

A Bloxham	Committee Chair
N P Baldwin	
P M Hay-Plumb	



Nominations Committee

The Nominations Committee reviews and makes recommendations on the structure, size and composition of the Board and on Board appointments.

This Committee also monitors succession planning to the Board and senior management teams.

The Nominations Committee was chaired by a non-executive director and also included the chairman. The Head of Human Resources was also invited to attend.

The members of the Nominations Committee at 31 March 2007 were:

N P Baldwin Committee Chair
W R Griffiths
D J Werrett

Finance and Performance Committee

The Finance and Performance Committee reviews and identifies issues with regard to financial and overall performance of the business, highlighting these to the Board as necessary. This Committee is also responsible for advising on production and content of financial reports and other management information throughout the company.

Members of the Committee at 31 March 2007 were:

D M Clarke Committee Chair
W R Griffiths
D J Werrett

J D Best, interim Finance Director, attends meetings.



We have audited the financial statements on pages 18 to 34.

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 auditor's 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions 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 only the Executive Chair's Statement, Directors' Report, Corporate Social Responsibility Statement and the Corporate Governance Statement.

We consider the implications for our report if we become aware of any apparent misstatements 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 International Standards on Auditing (UK and Ireland) 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 company's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the



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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 March 2007 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Baker Tilly UK Audit LLP
Registered Auditor
Chartered Accountants
2nd floor
St Philips Point
Temple Row
Birmingham
B2 5AF

16 August 2007





FINANCIAL STATEMENTS
FROM 31 OCTOBER 2005 TO 31 MARCH 2007

PROFIT AND LOSS ACCOUNT
for the period 31 October 2005 to 31 March 2007

Notes

Period ended
31 March 2007
£'000

TURNOVER		210,449
Cost of sales		(120,744)
		<hr/>
GROSS PROFIT		89,705
Administrative expenses	1	
– Other		(80,908)
– Exceptional items		(7,062)
Distribution costs		(3,082)
Other operating income		442
		<hr/>
OPERATING LOSS		(905)
Investment income	2	1,921
Interest payable and similar charges	3	(986)
Loss on disposals of fixed assets	4	(548)
		<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4	(518)
Taxation	6	(670)
		<hr/>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	17	(1,188)
		<hr/>

The operating loss for the period wholly arises from the company's acquired operations. The company commenced trading on 5 December 2005.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the period 31 October 2005 to 31 March 2007

Notes

Period ended
31 March 2007
£'000

Loss for the financial period		(1,188)
Actuarial gain – defined benefit pension scheme	22	6,940
– deferred tax		(2,082)
		<hr/>
Total recognised gains and losses relating to the period		3,670
		<hr/>

The notes on pages 21 to 34 form part of these accounts.

BALANCE SHEET
31 March 2007

Notes

2007
£'000

FIXED ASSETS

Intangible assets	7	-
Tangible assets	8	39,920
Investments	9	-
		<hr/>
		39,920
		<hr/>

CURRENT ASSETS

Stocks	10	5,066
Debtors	11	28,476
Cash at bank and in hand	19	31,633
		<hr/>
		65,175
		<hr/>

CREDITORS

Amounts falling due within one year	12	(28,128)
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NET CURRENT ASSETS

37,047

TOTAL ASSETS LESS CURRENT LIABILITIES

76,967

CREDITORS

Amounts falling due after more than one year	13	(22,376)
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PROVISIONS FOR LIABILITIES AND CHARGES

14

(2,996)

NET ASSETS EXCLUDING PENSION ASSET

51,595

PENSION ASSET

15

75

NET ASSETS INCLUDING PENSION ASSET

51,670

CAPITAL AND RESERVES

Called up share capital	16	48,000
Profit and loss account	17	3,670

SHAREHOLDER FUNDS

18

51,670

The financial statements on pages 18 to 34 were approved by the board of directors and authorised for issue and are signed on its behalf by:

Doni Anjimes

Director

16 August 2007.

The notes on pages 21 to 34 form part of these accounts.

CASH FLOW STATEMENT
for the period 31 October 2005 to 31 March 2007

Notes

Period ended
31 March 2007
£'000

Cash flow from operating activities	19a	19,731
Returns on investments and servicing of finance	19b	752
Capital expenditure and financial investment	19b	(7,186)
Acquisitions and disposals	19b	14,298
CASH INFLOW BEFORE FINANCING		27,595
Financing	19b	2,386
INCREASE IN CASH IN THE PERIOD	19c	29,981

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

Period ended
31 March 2007
£'000

Increase in cash in the period		29,981
Cash inflow from increase in debt		(2,386)
Non-cash changes		(18,066)
NET FUNDS AT 31 MARCH 2007	19c	9,529

The notes on pages 21 to 34 form part of these accounts.

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

COMPARATIVE AMOUNTS

The company was incorporated on 31 October 2005 and commenced trading on 5 December 2005. Accordingly these financial statements report the financial results and position for the first period of trade and no comparative figures are presented. Details of the acquisition of the trade, assets and liabilities of The Forensic Science Service Trading Fund are shown in note 25.

RESEARCH AND DEVELOPMENT

Research and development expenditure including all expenditure on generating Intellectual Property Rights is written off to the profit and loss account in the year in which it is incurred.

GOODWILL

Goodwill representing the excess or shortfall of the purchase price compared with the fair value of net assets acquired is capitalised and written off evenly over its expected useful economic life. Impairment of this value is recognised where necessary.

Goodwill is amortised over its useful economic life of one year which, in the opinion of the directors, represents its useful economic life to the company.

TANGIBLE FIXED ASSETS

The minimum value for capitalisation of an asset or group of assets is £2,500.

Depreciation is provided on all tangible fixed assets other than freehold land at rates calculated to write each asset down to its residual value evenly over its expected useful life, as follows:

Freehold buildings	10 to 25 years as advised by professional valuers
Leasehold interests	term of the lease
Refurbishment of buildings	5 years or the remaining life of the lease if shorter
Laboratory equipment	5 to 10 years
Computer equipment	3 years
IT software	5 years
Office equipment	5 years
Motor vehicles	5 years

INVESTMENTS

These financial statements reflect the income, expenditure, assets and liabilities of Forensic Science Service Ltd only. The company's subsidiary undertakings have not been consolidated as, in the opinion of the directors, the figures would be of no value to the members.

STOCKS AND WORK IN PROGRESS

Stocks are valued at the lower of cost and net realisable value.

Work in progress is valued at the lower of cost of professional time plus attributable laboratory overheads and net realisable value.

Provision is made for obsolete and slow-moving items.

DEFERRED TAX

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

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

LEASED ASSETS AND OBLIGATIONS

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

RETIREMENT BENEFITS

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The interest cost and expected return on assets are included within other finance costs.

Actuarial gains and losses arising from new valuations and from updating valuations to the balance sheet date are recognised in the Statement of Total Recognised Gains and Losses.

Defined benefit schemes are funded, with the assets held separately from the company in separate trustee administered funds. Full actuarial valuations, by a professionally qualified actuary, are obtained at least every three years, and updated to reflect current conditions at each balance sheet date. The pension scheme assets are measured at fair value. The pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency.

A pension scheme asset is recognised on the balance sheet only to the extent that the surplus may be recovered by reduced future contributions or to the extent that the trustees have agreed a refund from the scheme at the balance sheet date. A pension scheme liability is recognised to the extent that the company has a legal or constructive obligation to settle the liability.

Pensions have been accounted for in accordance with FRS 17, including early adoption of the amendment to FRS 17 (7 December 2006).

TURNOVER

Turnover represents the amount derived from providing goods and services that fall within ordinary activities, after deducting VAT and any discounts. Income received in advance is recognised as deferred income in the balance sheet and released to income as earned.

FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

1. ADMINISTRATIVE EXPENSES

Administrative expenses include exceptional expenditure of £7.1m incurred in the reorganisation of the trading activities of three divisions of the company.

2. INVESTMENT INCOME

**Period ended
31 March 2007
£'000**

Financial element of pensions income	183
Other interest receivable	1,738
	<hr/>
	1,921

3. INTEREST PAYABLE AND SIMILAR CHARGES

**Period ended
31 March 2007
£'000**

On Government loans	986
	<hr/>

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

**Period ended
31 March 2007
£'000**

Loss on ordinary activities before taxation is reported after charging:

Amortisation of goodwill	160
Depreciation and amounts written off tangible fixed assets:	
Charge for the period:	
owned assets	10,918
in respect of impairments	674
Loss on disposals of fixed assets	548
Research and development costs	5,889
Exchange losses	197
Operating lease rentals:	
Plant and machinery	829
Land and buildings	5,829
Exceptional item (see note 1)	7,062
	<hr/>

Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of audit and non-audit services

**Period ended
31 March 2007
£'000**

Comprising:

– audit services	85
– tax services	25
	<hr/>
	110

5. EMPLOYEES

The average monthly number of persons
(including directors) employed during the period was :

Caseworkers and specialists
Management and support staff

**Period ended
31 March 2007
No.**

1,692

663

2,355

Agency staff

76

2,431

Staff costs for the above persons:

Wages and salaries
Social security costs
Other pension costs

**Period ended
31 March 2007
£'000**

92,585

7,440

24,100

124,125

Agency staff

1,613

125,738

DIRECTORS' REMUNERATION

Emoluments
Compensation for loss of office (3 directors)
Pension costs
Total

674

1,138

81

1,893

The remuneration relates to a period of 16 months and includes an amount
of £875k (including pension costs of £35k) for the highest paid director.

At 31 March 2007, the accrued pension of the highest paid director
was £2k and accrued lump sum was £6k.

**Period ended
31 March 2007
No.**

The number of directors to whom relevant benefits are accruing under:
Defined benefit pension scheme was

4

6. TAXATION

Period ended
31 March 2007
£'000

Current tax:

UK corporation tax on losses of period

1,923

Total current tax

1,923

Deferred tax:

Origination and reversal of timing differences

(1,276)

Pension asset

23

Total deferred tax

(1,253)

Tax on loss on ordinary activities

670

Factors affecting tax charge for the period

The tax assessed for the period is higher than the standard rate of corporation tax (30%) as explained below:

Loss on ordinary activities before tax

(518)

Loss on ordinary activities multiplied by the standard rate of corporation tax (30%)

(155)

Effects of:

Expenses not deductible for tax purposes

961

Short term timing differences

423

Capital allowances less than depreciation

694

Current tax charge for the period

1,923

7. INTANGIBLE ASSETS

2007
£'000

Goodwill

Additions

160

31 March 2007

160

Amounts written off:

Charged in the period

160

31 March 2007

160

Net book value

31 March 2007

-

8. TANGIBLE FIXED ASSETS

	Land & buildings £'000	Plant & machinery £'000	Information technology £'000	Other £'000	Total £'000
Cost					
Acquired from Forensic Science Service Trading Fund on 5 December 2005	36,094	27,513	18,682	765	83,054
Additions	2,931	1,982	2,286	(13)	7,186
Disposals	(57)	(2,903)	(15)	(142)	(3,117)
At 31 March 2007	38,968	26,592	20,953	610	87,123
Depreciation					
Acquired from Forensic Science Service Trading Fund on 5 December 2005	9,848	16,587	11,412	333	38,180
Provided during the period	3,174	3,407	4,276	61	10,918
Disposals	(212)	(2,187)	(27)	(143)	(2,569)
Impairment	-	582	54	38	674
At 31 March 2007	12,810	18,389	15,715	289	47,203
Net book value at 31 March 2007	26,158	8,203	5,238	321	39,920

The balance of acquired furniture and fittings included in other tangible fixed assets was £299k. Purchases of furniture and fittings in the period amounted to £431k. A write off representing depreciation of £465k has been deducted from these figures and charged to the profit and loss account as an equivalent charge representing depreciation, giving a closing balance of £265k.

Impairment relates to the write down of assets which no longer serve the purpose for which they were bought.

The net book value of land and buildings comprises:

Freehold	14,843
Short leasehold	11,315
	<u>26,158</u>

9. FIXED ASSETS INVESTMENTS

The company holds 100% of the equity of the following subsidiary undertakings:

Name	Class of holding	Proportion	Nature of business
FSS Enterprises Limited	Ordinary	100%	Dormant
Forensic 8 Limited	Ordinary	100%	Dormant
Forensic Science Solutions Limited	Ordinary	100%	Dormant
JFK Audio Visual & Photographic Services Ltd	Ordinary	100%	Dormant

All shares in the above companies are held by directors of Forensic Science Service Ltd as nominees for Forensic Science Service Ltd.

SUBSIDIARIES EXCLUDED FROM CONSOLIDATION

All of the above subsidiary undertakings are not consolidated as, in the opinion of the directors, the figures would be of no value to the members. At 31 March 2007 each of the subsidiary companies had capital and reserves of £2 and have not traded during the period.

All of the subsidiary undertakings had no intra-group balances at 31 March 2007.

10. STOCKS	2007
	£'000
Raw materials and consumables	3,743
Work in progress	1,323
	<hr/> 5,066 <hr/>

11. DEBTORS	2007
	£'000
Due within one year:	
Trade debtors	25,551
Other debtors	1,773
Prepayments and accrued income	1,152
	<hr/> 28,476 <hr/>

Other debtors includes a deferred tax asset of £1,276k

Provision for deferred tax has been made as follows:

Excess of tax allowances over depreciation	855
Other timing differences	421
Deferred tax asset	1,276
Deferred tax on pension asset (note 15)	(33)
	<hr/> 1,243 <hr/>

12. CREDITORS: amounts falling due within one year	2007
	£'000
Bank overdraft	1,652
Government loans	1,193
Trade creditors	2,714
Corporation tax	1,923
Other taxation and social security costs	5,593
Other creditors	2,068
Accruals	11,396
Deferred income	1,589
	<hr/> 28,128 <hr/>

13. CREDITORS: amounts falling due in more than one year	2007
	£'000
Government loans	19,259
Deferred income	3,117
	<hr/> 22,376 <hr/>

a) The company received two Government loans during the period, details of which are as follows: the Government loan of £18m bears interest at an annual rate of 6% and is repayable in full on 31 March 2013. One third of the loan could become repayable on 31 March 2008 and on 31 March in each year thereafter upon submission of a notice of repayment, by the noteholder in accordance with the conditions outlined in the Series "A" Loan Note Instrument. No notice of repayment has been received at 31 March 2007. The other Government loan of £2.4m bears interest at an annual rate of 6% and is repayable in equal annual instalments by 2009.

b) Analysis of debt maturity	2007
	£'000
Amounts payable:	
In one year or less or on demand	1,193
In more than one year but not more than two years	1,193
In five years or more	18,066
	<hr/> 20,452 <hr/>

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Reorganisation costs £'000	Other £'000	Total £'000
Acquired from Forensic Science Service Trading Fund on 5 December 2005	636	1,018	1,654
Utilised during the period	(354)	(323)	(677)
Unused amounts reversed during the period	(282)	(695)	(977)
Additional amounts provided	1,706	1,290	2,996
At 31 March 2007	<hr/> 1,706 <hr/>	<hr/> 1,290 <hr/>	<hr/> 2,996 <hr/>

The reorganisation costs relate to redundancy both on voluntary and compulsory terms. Other provisions relate to casework and a dilapidations claim. It is anticipated that these provisions will be utilised within 12 months from the balance sheet date.

15. PENSION ASSET	2007
	£'000
Actuarial valuation	108
Deferred tax	(33)
	<hr/> 75 <hr/>

16. SHARE CAPITAL	2007
	£'000
Authorised:	
60,000,000 ordinary shares of £1 each	60,000
Allotted, issued and fully paid:	
48,000,001 ordinary shares of £1 each	<hr/> 48,000 <hr/>

At incorporation on 31 October 2005, the company allotted and issued one ordinary share at the value of £1. On 5 December 2005 the company allotted and issued 48,000,000 ordinary shares of £1 each fully paid.

17. PROFIT AND LOSS ACCOUNT	2007
	£'000
Retained loss for the period	(1,188)
Other recognised gains and losses relating to the period	4,858
At 31 March 2007	<hr/> 3,670 <hr/>

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDER FUNDS

2007
£'000

Allotment of share capital	48,000
Loss for the financial period	(1,188)
Other recognised gains and losses relating to the period	4,858
Net additions to shareholder funds being closing shareholder funds	<u>51,670</u>

19. CASHFLOWS

2007
£'000

a) Reconciliation of operating loss to net cash inflow from operating activities

Operating loss	(905)
Depreciation	10,918
Amortisation of goodwill	160
Impairment write off	674
Increase in stocks	(646)
Decrease in debtors	2,693
Increase in creditors	5,387
Increase in provisions	1,342
Movement in pension liability	108
Net cashflow from operating activities	<u>19,731</u>

b) Analysis of cash flows for headings netted in the cash flow statement

2007
£'000

Returns on investments and servicing of finance	
Interest received	1,738
Interest paid	986
Net cash inflow for returns on investments and servicing of finance	<u>752</u>

Capital expenditure and financial investment

Purchase of tangible fixed assets	(7,186)
Net cash outflow for capital expenditure and financial investment	<u>(7,186)</u>

Acquisitions and disposals

Purchase of JFK Audio Visual and Photographic Services	(160)
Cash acquired on acquisition of Forensic Science Service Trading Fund	20,683
Overdraft acquired on acquisition of Forensic Science Service Trading Fund	(6,225)
Net cash inflow for acquisitions and disposals	<u>14,298</u>

Financing				2007
				£'000
Increase in short term borrowings				3,579
Repayment of secured loan				(1,193)
Net cash inflow from financing				<u>2,386</u>

c Analysis of net debt

	At 31 October 2005 £'000	Cash flow £'000	Other non - cash change £'000	At 31 March 2007 £'000
Cash on short term deposit	-	31,633	-	31,633
Overdraft	-	(1,652)	-	(1,652)
	-	<u>29,981</u>	-	<u>29,981</u>
Debt due within one year	-	-	(1,193)	(1,193)
Debt due after one year	-	(2,386)	(16,873)	(19,259)
Total	-	<u>27,595</u>	<u>(18,066)</u>	<u>9,529</u>

				2007
				£'000
Other non-cash changes comprise:				
a) Acquisition of The Forensic Science Service Trading Fund (see note 25)				18,066
b) Government loan re-analysed as due within one year				1,193
c) Government loan re-analysed from debt due in more than one year				(1,193)
				<u>18,066</u>

20. CAPITAL COMMITMENTS				2007
				£'000
Capital expenditure contracted for but not provided in the financial statements				<u>1,594</u>

21. COMMITMENTS UNDER OPERATING LEASES				
At 31 March 2007 the company had annual commitments under non-cancellable operating leases as follows:				
		Plant and machinery	Land and buildings	
		2007	2007	
		£'000	£'000	
Expiring within one year		259	17	
Expiring between two and five years		206	-	
Expiring after five years		-	1,965	
		<u>465</u>	<u>1,982</u>	

22. RETIREMENT BENEFITS

The company operates a defined benefit scheme in the UK.
The major assumptions used by the actuary were:

	At 31 March 2007
	%
Rate of increase in salaries*	3.7
Rate of increase in pensions in payment on pre 88 GMP** in payment	-
on post 88 GMP** in payment	3.0
on pensions in payment in excess of GMP**	3.2
Discount rate	5.4
Inflation assumption	3.2

Mortality assumptions

The specific mortality rates used for both the pre and post retirement liabilities are based on PA92 YOB mc.
The weighted average life expectancy underlying the valuation were:

	Male	Female
Member age 61 (current life expectancy)	25.7	28.6
Member age 40 (life expectancy at age 61)	26.9	29.8

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31 March 2007 %	Value at 31 March 2007 £'000	Long term rate of return expected at 5 December 2005 %	Value at 5 December 2005 £'000
Equities	7.5		N/A	
Bonds	4.8		N/A	
Cash and net current assets	4.75		N/A	
Corporate bonds	5.4		N/A	
Bulk transfer from PCSPS***	N/A		5.7	
Total market value of assets		76,445		45,028
Present value of scheme liabilities		<u>(76,337)</u>		<u>(51,936)</u>
Surplus / (deficit) in scheme		108		(6,908)
Related deferred tax (liability) / asset		(33)		2,072
Net pension asset / (liability)		<u>75</u>		<u>(4,836)</u>

* plus a promotional salary scale

** Guaranteed Minimum Pension

*** in line with the investment adjustment on the bulk transfer payment made on 15 November 2006

Analysis of amount charged to operating loss	2007 £'000
Current service cost	23,650
Effect of curtailments	450
Total operating charge	<u>24,100</u>

Analysis of amount credited to other finance income

Expected return on pension scheme assets	4,435
Interest on pension scheme liabilities	<u>(4,252)</u>
Net return	<u>183</u>

Analysis of amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

Actual return less expected return on pension scheme assets	1,403
Experience gains and losses arising on scheme liabilities	5,537
Changes in assumptions underlying the present value of the scheme liabilities	-
Actuarial gain recognised in STRGL	<u>6,940</u>

Movement in surplus during the period

Deficit in scheme on acquisition	(6,908)
Movement in period:	
Current service cost	(23,650)
Effect of curtailments	(450)
Contributions	23,993
Other finance income	183
Actuarial gain	<u>6,940</u>
Surplus in scheme at end of the period	<u>108</u>

Contributions

The company paid a special contribution of £3,580k to the Pension Scheme to fund the FRS17 deficit arising from the bulk transfer. During the period the company contributed 23.6% of pensionable pay into the Scheme. The company expects to continue contributions at this rate for the year beginning 1 April 2007 having regard to the pension asset and scheme valuation. This is the rate agreed as part of the initial valuation of the Scheme as at 5 December 2005.

History of experience gains and losses		2007 £'000
Difference between the expected and actual return on scheme assets:		
Amount		1,403
Percentage of scheme assets	2%	
Experience gains and losses on scheme liabilities:		
Amount		-
Percentage of present value of the scheme liabilities	-	
Total amount recognised in the STRGL:		
Amount		6,940
Percentage of present value of the scheme liabilities	9%	

23. RELATED PARTY DISCLOSURES

Forensic Science Service Ltd is a wholly Government owned company, the Home Office being the stakeholder. The Home Office is regarded as a related party and has provided loans during the period as follows:

	Acquired on 5 December 2005 £'000	New loans in the period £'000	Repayment £'000	31 March 2007 £'000	Interest payable £'000
Tranche A	-	3,579	1,193	2,386	35
Tranche B	12,000	-	-	12,000	951
Tranche B	6,066	-	-	6,066	-
	<u>18,066</u>	<u>3,579</u>	<u>1,193</u>	<u>20,452</u>	<u>986</u>

24. ULTIMATE CONTROLLING PARTY

The Secretary of State for the Home Office controls the company. The Treasury Solicitor holds all of the issued share capital of the company on behalf of the Home Office.

25. ACQUISITIONS

THE FORENSIC SCIENCE SERVICE TRADING FUND

On 5 December 2005 the company acquired the trade, assets and liabilities of The Forensic Science Service Trading Fund for consideration of £66.1 million, which was financed by the issue of 48 million ordinary shares of £1 each, and £18 million loan stock in Forensic Science Service Ltd. The assets and liabilities of The Forensic Science Service Trading Fund have been accounted for at their fair values to the company as set out below:

	At date of acquisition	
	book value £'000	fair value £'000
Tangible fixed assets	44,874	44,874
Stocks and work in progress	4,420	4,420
Debtors	29,893	29,893
Cash at bank	20,683	20,683
TOTAL ASSETS	<u>99,870</u>	<u>99,870</u>
Bank overdraft	6,225	6,225
Trade creditors	2,963	2,963
Accruals and deferred income	14,678	14,678
Taxation	3,448	3,448
Provisions		
Other	1,018	1,018
Reorganisation costs	636	636
Pensions (net of deferred tax)	4,836	4,836
TOTAL LIABILITIES	<u>33,804</u>	<u>33,804</u>
NET ASSETS	<u>66,066</u>	<u>66,066</u>
CONSIDERATION	<u>66,066</u>	<u>66,066</u>
GOODWILL	-	-

The results of the initial period of trading for the company are shown below, together with the comparative figures for The Forensic Science Trading Fund for the preceding periods.

	Period ended 31 March 2007 (16 months) £'000	Period ended 4 December 2005 (8 months) £'000	Year to 31 March 2005 (12 months) £'000
Turnover	210,449	109,211	150,386
Operating surplus before exceptional items	6,157	6,277	12,190
Exceptional items	(7,062)	(2,017)	(919)
Operating (loss)/surplus after exceptional items	(905)	4,260	11,271
Total recognised gains and losses	3,670	629	10,098

Exceptional items in the last period of Trading Fund (period ended 4 December 2005) related to reorganisation costs due to the change in status. For analysis of exceptional items for the period ended 31 March 2007 see note 1.

JFK AUDIO VISUAL AND PHOTOGRAPHIC SERVICES

On 15 July 2006 the company acquired the trade, assets and liabilities of JFK Audio Visual and Photographic Services for a cash consideration of £160,000.

	At date of acquisition	
	book value £'000	fair value £'000
Low value equipment	41	-
Assumed contracts/other	14	-
	<u>55</u>	<u>-</u>

Goodwill arising from this transaction of £160,000, representing the difference between the fair value of net assets acquired and the consideration paid, has been fully amortised during the period.



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