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## Chairman's Statement



We have delivered strong sales and operating profit growth for more than five years because of our sound management and successful innovation from our bovine genetics research programme. We are now looking for ways of changing the size and diversity of our core Bovine Genetics business, upon which we will be concentrating our efforts for future expansion.

### Overview of Company Results

Genus has again produced strong trading results in challenging global agricultural markets.

Group turnover from continuing operations in the year to 31st March 2003 increased by 10% to £169.7m (including £8.8m of revenue from the Dunnwood acquisition) from £154.4m in 2002.

Underlying operating profit from continuing operations (before exceptional items and amortisation of goodwill) increased by 16% to £11.9m (2002: £10.3m) and reflected the expected recoveries in Animal Health (previously Distribution) and areas of the Consultancy business. While reported Bovine Genetics (previously Breeding) revenue fell by 3.8% to £79.0m, in constant currency terms revenue grew by 1.3%. Underlying operating profit in the Bovine Genetics business grew by a healthy 12%, and 16% in constant currency terms (the latter stating 2002/3 results at 2001/2 exchange rates).

Animal Health increased its like-for-like turnover by £8.0m (15%) to £61.2m, demonstrating the underlying strength of the business which operates in a highly competitive market. In July 2002, the business moved swiftly to acquire the business of Dunnwood V S Limited (Dunnwoods) in Scotland from the receivers and this added a further £8.8m (17%). As part of the Group's plan to accelerate the development of this business, the management team was strengthened in February by the appointment of Philip Acton, previously the Genus Finance Director, to head the division.

The Consultancy Division broke even in the first half, a significant improvement on the losses incurred for the full year in 2001/02. This improvement was helped by the return of normal trading conditions to the UK Agricultural Consultancy business following the Foot & Mouth Disease (FMD) epidemic. However, the small Market Research Consultancy business continued to generate losses in the first half and, accordingly, it was decided to withdraw from this sector in February. Its operations have since been divested for nominal sums.

Following the above disposals, the profitable UK Agricultural and Food Consulting businesses have been transferred to the Bovine Genetics business where, we believe, there will be cross-selling opportunities through the common customer base.

The net result has been an increase in underlying EPS of 5.7 pence to 22.2 pence, up 35%. Basic EPS was up 6.6 pence to 8.3 pence.

### Cash Flow and Gearing

Net debt reduced by £3.2m to £12.2m at 31st March 2003. Cash flow from operations was £7.5m, after investing £6.0m of capital expenditure. The principal items of non operating cash flow were tax payments of £1.6m, dividend payments of £1.6m, proceeds from property sales of £4.7m, principally of the former Head Office in Crewe, and the cost of the Dunnwood and RAB acquisitions totalling £4.8m.

### Dividend

On the basis of these continued good results, and to demonstrate the confidence the Board has in the future, it is recommending an increase in dividend of 16%, resulting in a full year dividend of 5.50 pence per share (2002: 4.75 pence per share). This will be paid on 27th August 2003 to shareholders on the register at the close of business on 1st August 2003 with an ex-dividend date of 30th July 2003.

### Share Capital

Last year, we undertook, when circumstances were appropriate, to buy back small share holdings for cancellation and then to make placings of blocks of shares to meet institutional demand. During the first half of the year, we repurchased 75,000 ordinary shares and allotted 350,000 shares to institutional investors.

Given the ongoing cost to the company of maintaining such a large share register, it remains an objective of the Board to assist shareholders with small shareholdings to exit from the register. We will shortly be announcing particulars of a low cost dealing facility to assist small shareholders to sell their shares more cheaply.

### Personnel

This year, there were two changes to the Board. In October 2002, I appointed Tim Yeo, the Shadow Minister for Trade & Industry, to strengthen the Board as an additional Non-Executive Director. Then in March 2003, following the structural changes mentioned above, Philip Acton became Chief Operating Officer of the Animal Health business, and was replaced by the appointment of Michael Roller, previously the Finance Director of IDS Group plc.

I would like to welcome Tim and Michael to the Board, to thank Philip for his past contribution and to wish him well in his new role within the Company.

During the year, I have visited a number of our operations, both in the UK and overseas. However, with a Company as internationally diverse as Genus has become, the principal opportunity I have to thank staff

is by way of this report. I see the Genus staff as being the back bone of our success and would like to thank them for their efforts, which have continued to be of the highest standard.

### Company Outlook

The Board is concentrating on the development of its world leading core business in Bovine Genetics.

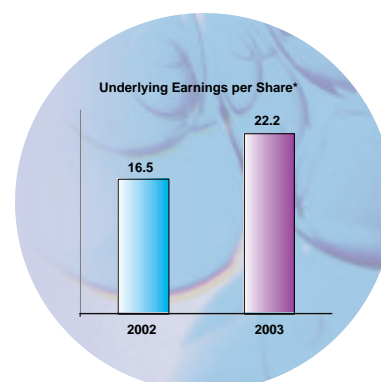
This business is operating in an evolving market with growth opportunities in agricultural markets not previously addressed by Genus, including Australasia, Latin America, Eastern Europe and the Far East. The principal short term opportunity for growth, either organic or acquisition driven, is to target these as demonstrated by Genus' penetration of the Australian market.

In Genus' major existing markets such as North America, Continental Europe and the UK, production capacity has been in excess of demand for many years and growth is accordingly more difficult to achieve. In the recent past, Genus has demonstrated that it can grow profitably in these major markets and this has brought considerable pressure on less efficient competitors. We believe that there will be opportunities for industry consolidation and that Genus, whose business has easily the largest geographical reach in the market, is well placed to be a beneficiary of this process.

In the longer term, scientific innovation will lead to differentiation between the offerings of the principal bovine genetics companies. The timescales in which scientific innovation can impact the financial performance of the business are necessarily long – Genus is now seeing the benefits of initiatives taken five years ago. Initiatives presently being invested in include enhancing output per bull, gene markers, semen sexing, fertility and freezing technology.

Against this background, we are confident that we can maintain the momentum of past business growth.

John Beckett, Chairman



\*on continuing operations before exceptional items and amortisation of goodwill.

## Chief Executive's Review



We have achieved another year of strong trading results. We have also made progress with our strategy of extending the diversity and global leadership of our Bovine Genetics business. The level of fundamental bioscience expenditure has been increased by a further \$1m per year. This is aimed at increasing our competitive edge, so that we can maintain the momentum of past business growth.

### Bovine Genetics Business

This business strengthened its world leading position in bovine genetics and increased its international reach and diversity by making two acquisitions in Australia. Continued research and development expenditure, now investing at a rate of £8.5m per year, has produced world leading bulls. This research is carefully targeted so as to achieve early practical and competitive advantage.

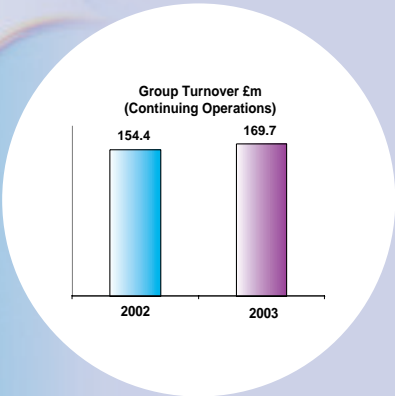
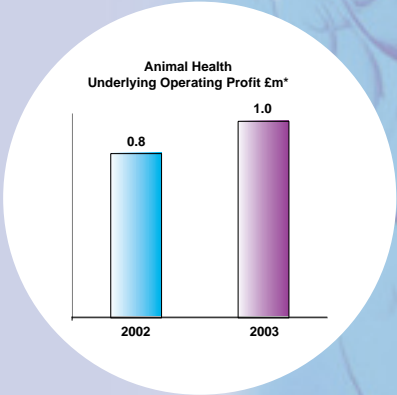
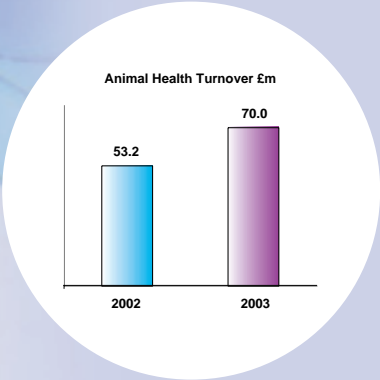
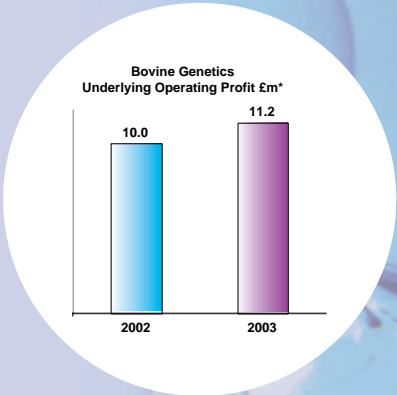
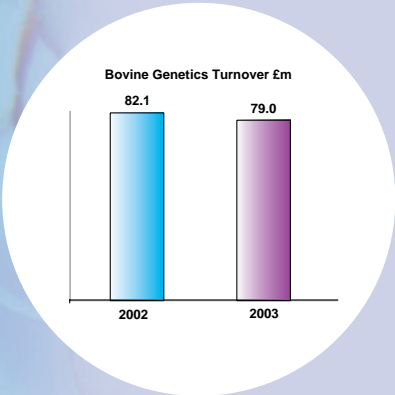
Semen sales volume increased by 4% to 8.5m doses. Prices were held in a globally depressed agricultural market.

Worldwide sales of £79.0m were slightly below last year for two principal reasons. First, the business mix moved away from the higher priced "direct to farmer" sector in the UK market, which is now smaller in size since its recovery from FMD. This reduction was counterbalanced by increased volume elsewhere in the world, where Genus trades via exclusive agents, at lower prices, but with lower costs, in the wholesale sector. Secondly, the value of the sales made in foreign currencies suffered translation losses when converted into sterling. In constant currency, sales would have increased by 1.3% to £83.1m. We have restated the historical segmental analysis of the Business so as to include within it the results of the Agricultural and Food Consulting activities, transferred into Bovine Genetics in February 2003.

Despite the market issues and the impact on overseas earnings of adverse movements in currency translation of £400,000, operating profit rose to £11.2m, a 12% improvement on last year's exceptional result and 16% in constant currency terms.



# Genus Highlights



\*before exceptional items and amortisation of goodwill.

# Bovine Genetics

We are excited about the potential of this business. Its bioscience has both short and long-term commercial targets. It has continued to increase our inventive lead over all competitors. Its worldwide distribution strength and the diversity of its five studs in four continents are second to none.

HOLSTEIN HILTON





Significant progress was made in many leading markets. Market share increased by 1% in the USA with a 6% volume increase. We have started to sell pregnancies as opposed to semen among the larger West Coast herds in order to capture the stronger "direct to farmer" margins available in what is a growing sector of the US market.

In Latin America, market share in Brazil increased by 6%, new distributors were added in Colombia and Peru and a distributor was changed in Puerto Rico. These changes are expected to improve local currency sales and profit potential next year.

In November, the company acquired the outstanding 70% of the equity in ABSA, its joint venture distributor in Australia, as a vehicle to extending its market position in this important and growing market. In March, Genus acquired RAB, the second largest Australian cattle breeding company. The ABSA and RAB businesses are now being integrated. Together they will have a 35% market share in Australia and will become joint market leader alongside the local company, Genetics Australia. The traditional breeding programme operated by RAB has already produced 'Donor', formerly the No.1 Holstein Friesian bull in Australia. Research and Development investment in Australia will be enhanced, over the next few years, by the addition of Genus' scientific expertise and this should improve inventiveness and reduce costs.

#### **Bovine Genetics Research & Development**

At the core of the business lies an £8.5m per year research and development programme. Laboratory bioscience is used to target and augment traditional mating and selection programmes, testing 400 new bulls a year. The rolling five year programme aims continuously to improve the genetic make-up of the successive generations of the bulls created. Semen from the bulls selected from this programme for stud is sold for use on customers' herds, to improve the output and stature of their offspring.

In the quest to find elite genetics, comparative mapping with gene markers identified in other species has isolated genes for health, fitness and meat quality. These genes are being incorporated into the breeding programmes but the work is, because of its complexity, of a long term nature.

Shorter term projects have already raised the semen output from stud bulls to well in excess of that achieved by other cattle genetics companies. Our researchers have developed proprietary freezing techniques that reduce damage by 20% and we have developed a unique feed additive that strengthens sperm membranes, making the semen more robust to the freezing and thawing process.

Multiple projects researching novel methods of gender selection were set up in October 2001, following the closure of Gensel. The new projects

are aimed at enabling cattle breeders to pre-determine the sex of offspring, so that a dairy farmer can generate a high percentage of females for milking and a beef farmer a high percentage of males for superior meat quality.

Other projects include looking for ways to extend the life of sperm inside the cow, so improving the chance of a successful pregnancy and making the timing of insemination less critical.

All this bioscience work is being supported by a discovery programme for innovative research in the top 25 research institutions.

The impact of the above bioscience programme on the traditional mating programmes, last year lifted the business's inventive rate to 20% ahead of its nearest competitor. Amongst the leading bulls now at stud are:

- Machoman, No.1 in the world
- Lookout, No.1 in the UK
- Big Ben, No.1 Zebu in Brazil
- No.1 Jerseys in the US & Australia

#### **Bovine Genetics Outlook**

We believe Genus' market leading position and the strength of its research & development will ensure that it continues to drive through profitable growth, although developed world agriculture remains depressed. Many new research projects have been established in-house, with institutions and universities. This new work is being aimed at improving the efficacy of the existing genetic improvement programmes, reducing production costs, increasing semen output and, in particular, improving fertility. All these projects are aimed at creating short and medium term competitive advantage through innovation.

The Genus studs, now located in four continents, provide biosecurity and unrivalled genetic diversity. Not all these advantages are yet fully exploited worldwide. For instance, the new Australian grassland genetics, recently acquired, will be sold in Ireland, Denmark and Holland, while tropical animals developed in the Latin American studs will now also be sold in the Far East through the new Australian business.

## Other Business

We have demonstrated that the Animal Health business is on a firm upward track. Management has been strengthened and there is a good pipeline of licensed pharmaceuticals close to approval, to ensure business improvement continues.





## OTHER CONTINUING GENUS BUSINESSES

### Animal Health Business

This business markets both licensed veterinary pharmaceuticals and other products under the Animalcare brand and wholesales veterinary products to vets under the Genusxpress brand.

The business recovery began last year and accelerated this year. Sales rose 31% to a total of £70.0m, £8.8m of sales coming from the Dunnwood acquisition. The underlying operating profit, net of £0.2m of one-off costs, was up 20% on the prior year. Organic sales growth was achieved by winning a total of 31 new accounts in the year and by growth in the market as a whole.

The acquisition of Dunnwoods, from the receiver, was made towards the end of the first half of the year. It has been integrated and began to contribute to the Genusxpress business in the second half.

Two new licenced "over the counter" pharmaceutical products were launched during the year, and the product pipeline for prescription only pharmaceuticals was enhanced by the submission of a number of licence applications, due to be registered in 2003/4.

The market leading identichip range continued to command a premium price in the market place, despite price pressure from the competition. This has been partly achieved by the introduction during the year of a client service database product, called Locate. This enhancement to the registration process helps clients to retrieve their lost animals more easily. The new temperature sensing chip, announced last year, will help differentiate the product range in the coming year.

The "palm pilot" based hand held electronic ordering device, Genuslynx, continued to be welcomed by the market. Enhanced system features will be launched in 2003/4.

### Animal Health Outlook

During the year, the Animal Health business was set up as a wholly separate operation. Its management has been strengthened by the transfer, in February 2003, of Philip Acton, previously Genus' Finance Director, to become Chief Operating Officer. Also, a new head of the Animalcare business has been recruited.

Following the Secretary of State for Trade & Industry's approval of the Competition Commission's recommendations in April 2003, veterinary prescriptions will also be able to be dispensed by retail pharmacies. Genus will be able to service pharmacies, as well as vets, with a same day service rather than the next day service offered by all competitors. This will mean that pharmacies will receive the same good service they already receive from human pharmaceutical wholesalers and will not need to carry large stocks of veterinary

medicines, for the relatively small market demand for veterinary products.

### Development Consultancy Business

This small business provides consulting services to the UK Government, the EU and overseas aid agencies

Sales increased by 9.4% to £20.9m and operating profit by an underlying 27% to £576,000, prior to taking account of the recovery of a £0.4m debt, for which there was a provision. The business won 80 assignments in 42 countries. The largest were:

#### UK Department for International Development

- Three year policy studies for the UK Rural Livelihoods Department
- Institutional reform of South African Forestry programme

#### European Union

- Financial disciplines in Lithuanian Enterprises
- DTI nuclear non-proliferation programme, redeployment studies for Russian Closed Nuclear cities

#### Asian Development Bank

- Central region poverty reduction programme

### Development Consultancy Outlook

Continued growth in sales and operating profit is expected.



Richard Wood, Chief Executive

## Chief Operating Officers of Genus plc



### **Ian Biggs**

Bovine Genetics

Ian Biggs (45) is a graduate chartered accountant having qualified in 1982 with KPMG.

Prior to joining Genus in 2000, he was with Roslin Bio Med, a company formed by the Roslin Institute to commercialise technology based on animal cloning using somatic cells.

Before this, he worked for PIC, now Sygen, first as Group Finance Director and later as Managing Director of their European business and subsequently as President of its North American operations.



### **Philip Acton**

Animal Health

Philip Acton (45) is a graduate chartered accountant having qualified in 1982 with Deloittes.

Prior to joining Genus he worked for 10 years in the electrical engineering sector and was the Group Finance Director for the Scholes Group plc.

He joined Genus in 1995 and was its Finance Director until March 2003 at which point he became the Chief Operating Officer of Genus Animal Health.

## Studs in Four Continents

We now have five studs operating in four continents. Genus' stud bulls range from dairy to beef in tropical as well as temperate agriculture and from grassland fed to those bred for intensive rearing.



### **1 USA and Canada**

Machoman, Holstein



### **2. UK**

Lookout, Holstein,



Hawk, Limousin



### **3. Brazil**

Big Ben, Zebu



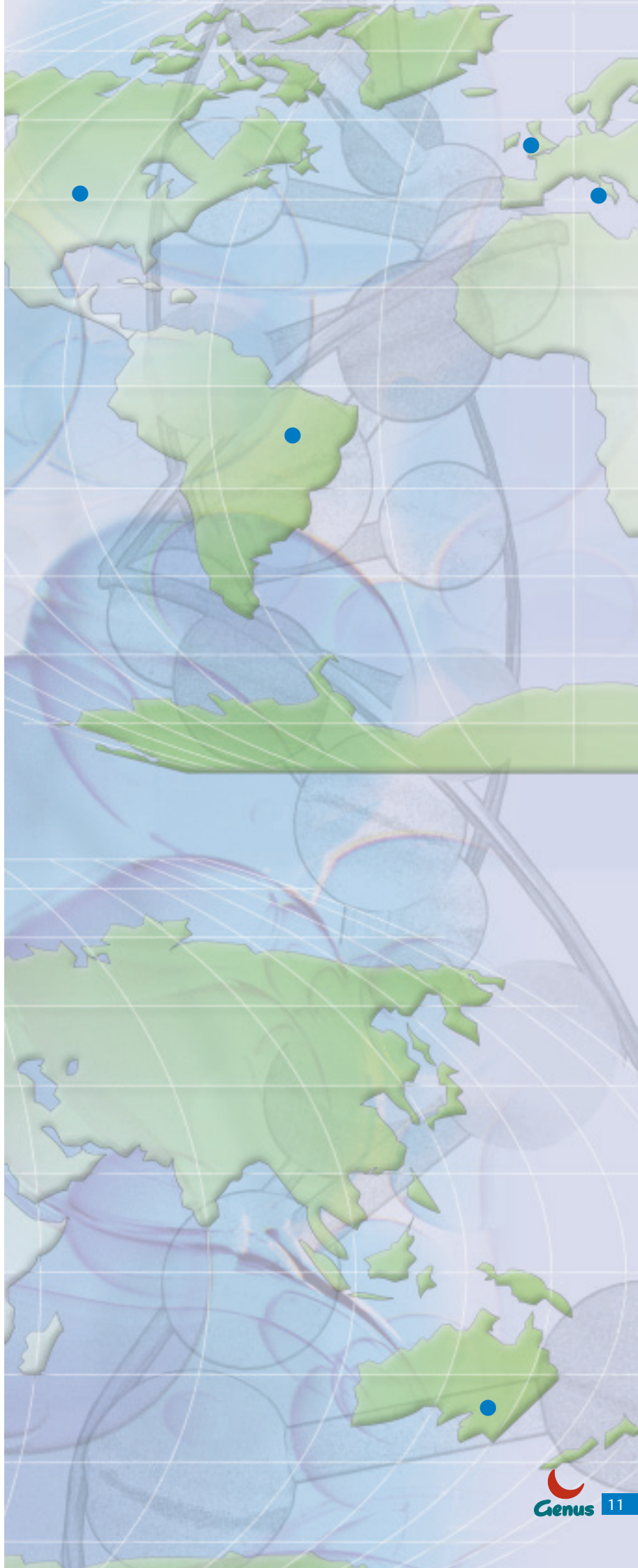
### **4. Italy**

Larky, Holstein



### **5. Australia**

Donor, Holstein





## Finance Director's Review



### Results

As is discussed more fully in the Chief Executive's review, 2002/3 was another successful year for the Group. Operating profit on continuing activities before the amortisation of goodwill and exceptional items increased by 16% to £11.9m. All divisions improved their reported performance on prior years. The Bovine Genetics business (formerly the Breeding Division) increased operating profit before goodwill amortisation by 12% to £11.2m. The Animal Health business (formerly the Distribution Division) increased its operating profit by 20% to £1.0m. The continuing activities of the Consulting division generated an operating profit of £1.0m, compared with £0.4m in 2001/2. This comparison was flattered by the recovery of a £0.4m debt in 2002/3 that had previously been provided for.

The segmental analysis of operating profit set out in note 2 to the financial statements has been restated so as to include the results of the Farm & Rural Consulting business within the Bovine Genetics division. This reflects the transfer of management responsibility for this business.

The interest charge reduced by £0.5m to £1.3m, reflecting both lower average borrowings and lower interest rates.

During the year the group sold its former Head Office building in Crewe for £3.4m. The profit arising on sale of £1.3m, net of a provision for loss on disposal of another property of £0.1m, has been recorded as an exceptional item. £0.2m of costs associated with relocating out of the former Head Office building have been treated similarly.

The tax charge remained unchanged at £2.3m, despite an increase in profit before tax from £2.9m to £5.1m. Underlying this is the different tax treatment of exceptional items compared with the prior year. In 2001/2 neither the £1.1m loss on disposal of discontinued operations nor the £1.8m

### Financial Calendar

Dividend record date

1 August 2003

Ex-dividend date

30 July 2003

Annual General Meeting

21 August 2003

Payment of dividend

27 August 2003

Announcement of

interim results

November 2003

Financial year end

31 March 2004

Announcement

of final results

May 2004

write down of the investment in Gensel were tax deductible. In 2002/3 the gain on disposal of properties is offset by brought forward capital losses and the loss on disposal of discontinued operations is not deductible for corporation tax.

### Earnings per Share and Dividends

The underlying earnings per share (on continuing operations before amortisation of goodwill and exceptional items) increased by 35% to 22.2 pence (2002: 16.5 pence).

The Board has recommended a 15.8% increase in the dividend to 5.5 pence per share (2002: 4.75 pence per share). This dividend is covered 4.0 times by underlying earnings (2002: 3.4 times). The Board continues to take the view that splitting the dividend between interim and final payments is inappropriate, owing to the administrative cost of generating and posting some 28,000 dividend cheques.

### Financing and Cash Flow

Net debt reduced from £15.4m to £12.2m during the year, a reduction of £3.2m. The principal reasons for the movement are set out in the table below:

	£m
<b>Net Cash Flow from Operations</b>	<b>13.5</b>
Interest Paid	(1.3)
Tax Paid	(1.6)
Proceeds from disposal of Head Office building	3.4
Dividends Paid	(1.6)
Acquisitions	(4.8)
Capital Expenditure (net of other asset disposals)	(4.7)
Other Movements	0.3
<b>Movement in Net Debt</b>	<b>3.2</b>

### Treasury

The Group has a centralised treasury function to manage foreign exchange and interest rate risk following guidelines laid down by the Board. Derivative instruments are used solely to mitigate these risks.

The Group's borrowings are of three principal types:

- Bank borrowings, provided by Barclays Bank PLC
- Finance Leases and Hire Purchase contracts, which are used to finance the acquisition of certain fixed assets
- Loan notes, originally issued on the acquisition of VDC plc

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and these policies are summarised below.

### Interest Rate Risk

The Group borrows principally in US Dollars, Australian Dollars and Sterling. Interest rate swaps may be used to generate the desired interest profile and to manage exposure to interest rate fluctuations. The Group's policy is to keep up to two thirds of its borrowings at capped rates of interest. At the year-end, 22% of the Group's borrowings were capped.

### Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans, loan notes and finance leases. At the year end, 71% of the Group's borrowings were due to mature within one year, 21% between one and two years and 8% between two and five years.

Short term flexibility is achieved through overdraft facilities, a bank multi-option facility to cover bank guarantees, borrowings and other items of £15m and a bank revolving credit facility of £10m which is available until 30th September 2005. At 31st March 2003, the group had drawn £5m on the revolving credit facility.

### Foreign Currency Risk

The Group is exposed to two principal types of foreign exchange risk: - transaction risk and translation risk. Transactional exposures arise from operating units selling and/or purchasing goods and services in currencies other than their reporting currency. Where these exposures are large or other than short term, they are typically hedged by the use of forward contracts.

Translation exposure arises on the retranslation of overseas subsidiary companies' profits and net assets into sterling for financial reporting purposes. Retranslation of overseas profits is not hedged, while retranslation of overseas net assets may be hedged by borrowings in the currency of those net assets where the exposure is perceived to be material to the Group's net assets. At the year end, the Group had borrowings in Australian dollars and US dollars partially hedging the retranslation of its net investment in those currencies.

### Pensions

Genus's largest pension scheme is the Milk Pension Fund, a UK-based defined benefit scheme which has a number of participating employers. Milk Marque Limited, the principal employer has given notice of its intention to withdraw from the scheme. Negotiations are ongoing between the participating employers and the Scheme Trustees regarding the basis on which this withdrawal is to be effected.

Under FRS 17, a snapshot of the value of the scheme's assets and liabilities at 31 March 2003 showed the assets of the Genus section of the scheme as having a market value of £85.9m representing 91% of accrued benefits. The last full actuarial valuation of the Milk Pension Fund was in March 2001, when the actuarial value of the assets was sufficient to cover 104% of the members' accrued benefits. The results of the March 2003 full actuarial valuation will become available during the 2003/04 financial year.



Michael Roller, Finance Director



*From left – John Hawkins, Tim Yeo, John Beckett, Richard Wood, Edwin White and Michael Roller.*

## Directors' Profiles

### Directors

#### **John Beckett (68), Non-Executive Chairman**

John Beckett is a proprietor of Belton Cheese Limited and a businessman from Shropshire. He has held a number of directorships with agricultural and food companies, including serving as Chairman of NWF Plc for eleven years. He is a director of the Royal Association of Dairy Farmers.

#### **Richard Wood (58), Chief Executive**

Richard Wood is a graduate chartered chemical engineer. He worked for ICI for twenty three years and is a former Managing Director of ICI Seeds UK. He then worked for seven years in the pharmaceutical industry, firstly as Chief Executive of Daniels Pharmaceutical Limited until it was acquired by Lloyds Chemists PLC and then as Managing Director of a division of Lloyds. He joined Genus in December 1996.

#### **Michael Roller (38), Finance Director**

Michael Roller qualified as a Chartered Accountant with KPMG in 1989. Subsequently, he worked for Johnson Matthey plc in a number of senior financial positions, latterly as Finance Director of Cookson Matthey Ceramics. He has since been Group Finance Director of Money Controls plc (formerly Quadramatic plc) and IDS Group plc. He joined Genus in March 2003.

#### **Edwin White (62), Non-Executive Director**

Edwin White is a Somerset dairy farmer and businessman. He is a director of the Royal Bath and West of England Society, Chairman of the South West Dairy Show and the founder and Chairman of the annual Dairy Industry dinner.

#### **John Hawkins (49), Non-Executive Director**

John Hawkins was Chief Executive of the Anite Group plc until May 2003 and is a non-executive director of Psion Plc. Prior to this he was with Philips Electronics for 19 years. During that period he became European President of Philips Media. He took his first general management role more than ten years ago. He has lived and worked in Sweden, Holland and the United States.

#### **Tim Yeo MP (58), Non-Executive Director**

Tim Yeo is a graduate of Cambridge University. He is currently Shadow Secretary of State for Trade & Industry, having been Shadow Minister of Agriculture between 1998 and 2001. Prior to entering Parliament in 1983, he worked in investment banking. Since 1995 he has been the Non-Executive Chairman of Univent plc, an AIM quoted operator of private nursing homes. Between 1980 and 1983 he was Chief Executive of the Spastics' Society (now SCOPE) and he was the former Chairman of the Tadworth Court Trust.



# Directors' Report

The directors present their annual report and the financial statements for the year ended 31 March 2003.

## Results and Dividends

The profit for the year, after taxation and minority interests, amounted to £2,754,000 (2002: £565,000). The directors are pleased to recommend the payment of a dividend of 5.5 pence per share amounting to £1,846,000 (2002: 4.75 pence amounting to £1,576,000) payable on 27 August 2003 to shareholders on the register at the close of business on 1 August 2003. The profit transferred to reserves is £908,000 (2002: loss transferred from reserves - £1,015,000).

## Activities, Business Review and Future Developments

The principal activities of the Group during the year were the development of new genetic traits in cattle, sold as cattle semen world-wide, providing consultancy advice to farmers, food manufacturers, agri-businesses and national and international policy makers, wholesale distribution of veterinary products and marketing of branded products for the small animal sector.

A review of the business and its future developments is contained in the Chief Executive's Review on pages 4 to 9 and the Finance Director's review on pages 12 and 13.

## Charitable and Political Donations

During the year there were no charitable donations (2002: £18,192). There were no contributions for political purposes.

## Directors and Their Interests

The directors holding office during the year were:

J H Beckett	- non-executive Chairman
R K Wood	- Chief Executive
T P Acton	- Group Finance Director (Resigned 17 March 2003)
M R D Roller	- Group Finance Director (Appointed 17 March 2003)
E W White	- Senior non-executive Director
J E Hawkins	- non-executive Director
T S K Yeo	- non-executive Director (Appointed 1 October 2002)

Details of the directors' interests in the Company's shares are shown in the Report on Directors' Remuneration on pages 17 to 19.

R K Wood, T P Acton and M R D Roller were employed full-time by the Company. Other than as disclosed on page 14, no directors have any other directorships of companies not in the Genus Group. In accordance with the Articles of Association and

best practice J E Hawkins and E W White will retire as directors by rotation at the Annual General Meeting, and, being eligible, will offer themselves for re-election.

## Research and Development

Further details relating to the Group's programme of Research and Development are contained in the Chief Executive's review on pages 4 to 9.

## Employment Policies

The Group's policies respect the individual regardless of sex, race or religion. Full and fair consideration is given to applications for employment from disabled people. The services of employees who become disabled are retained wherever possible and training, career development and promotion opportunities are provided where appropriate.

The Group has a well established structure to communicate with employees at every level and to encourage their involvement regarding the Group's performance and future activities. At the balance sheet date, 439 employees held options over a total of 775,990 shares under the three year Savings Related Share Scheme.

## Environmental Policy

The directors recognise and accept that concern for the environment is an essential part of business strategy and seek to minimise risk to the environment by effective management of the Group's activities.

## Suppliers

The Company endeavours to agree the terms of payment with suppliers prior to placing business. This ensures that suppliers are aware of these terms in advance. It is the Company's policy to settle liabilities by the due date. At 31 March 2003 the Group had an average of 55 days purchases outstanding in trade creditors.

## Major Interest in Shares

At the date of this report, the NFU Mutual held interests of 18.32% of the Company's issued ordinary share capital and Friends Provident Life Office held 3.1% of the Company's issued share capital. No other person has notified an interest in the ordinary shares of the Company which is required to be disclosed to the Company in accordance with Sections 198 – 208 of the Companies Act 1985.

## Special Business at Annual General Meeting

At the Annual General Meeting on 21 August 2003 resolutions 1 to 6 are termed ordinary business, while resolutions 7 and 8 will be special business. The special business covers the directors' authority

## Directors' Report (continued)

to allot share, the partial disapplication of pre-emption rights and the directors' authority to buy back shares as explained below. The resolutions are set out in the Notice of Annual General Meeting on page 54 to 55.

Resolution 6 gives authority to the directors to allot shares up to a total nominal amount of £950,399.60 being the nominal value of the authorised ordinary share capital less the nominal value of the issued share capital at the date of the notice of the resolution and representing 28.3% of the equity share capital in issue on that date. The authority will expire at the earlier of 15 months after its passing or the conclusion of the Annual General Meeting to be held in 2004 and replaces similar authorities granted on 22 August 2002 which expire at the conclusion of the forthcoming Annual General Meeting. The directors intend to exercise the authority conferred by this resolution both to allot shares in respect of any options granted under the share option scheme and to allot shares in place of ordinary shares which are purchased by the Company as one or more market purchases on the Alternative Investment Market pursuant to the authority conferred by resolution 8.

The passing of resolution 7, a special resolution, will permit the directors, until the earlier of 15 months after its passing or the conclusion of the Annual General Meeting of the Company to be held in 2004, to make issues of equity securities for cash by way of rights issue or similar pre-emptive offer. In addition, they may issue equity securities for cash on a non-pre-emptive basis, provided the shares so issued be limited to shares with a nominal value of £335,660, being nearly 10% of the equity share capital in issue on 31 March 2003. £167,830 of this authority (approximately 5% of the issued share capital) can only be used to allot ordinary shares in the Company in place of ordinary shares which have been purchased by the Company as one or more market purchases on the Alternative Investment Market of the London Stock Exchange plc pursuant to the authority conferred by resolution 8. The power will, if granted, replace the similar power conferred on the directors on 22 August 2002.

The passing of resolution 8, a special resolution, will permit the directors, until the earlier of 18 months after its passing or the conclusion of the Annual General Meeting of the Company to be held in 2004, to buy back shares on the open market to a limit of 5,034,900 ordinary shares. The minimum price payable per share is 10 pence (exclusive of expenses) and the maximum is limited to 105% of the average of the middle market quotation for ordinary shares on the Alternative Investment

Market for the five business days prior to the date of purchase (again, exclusive of expenses).

In the opinion of the directors, the passing of these resolutions is in the best interests of the shareholders.

### Auditors

Ernst & Young LLP are willing to continue in office as auditors and a resolution to re-appoint them and fix their remuneration, will be put to the forthcoming Annual General Meeting.

By order of the board.



C J Vickers  
Secretary  
21 July 2003

## Report on Directors' Remuneration

As a company whose shares are traded on the Alternative Investment Market, the Company is not required to, and does not, comply with Schedule 7A of the Companies Act 1985. The following disclosures are provided on a voluntary basis.

The Remuneration Committee comprises three non-executive directors – Tim Yeo (Chairman), John Beckett and Edwin White. The Committee makes recommendations to the Board, within agreed terms of reference, on an overall remuneration package for executive directors in order to attract, retain and motivate high quality executives capable of achieving the Group's objectives.

### Remuneration Policy

The Remuneration Committee policy for executive directors' pay is to provide basic salaries and benefits of car, fuel and private health insurance at a rate competitive with that paid to directors of similar sized international public companies. Incentives are approached in a similar manner. A short-term bonus is paid on the improvement in underlying pre-tax profits, subject to a maximum bonus payable of 50% of annual salary. This bonus is pensionable. Long-term incentives are driven by achievement of milestones established for the long-term strategic plan and take the form of share options. The Remuneration Committee can award share options annually as a proportion of salary in any one year, subject to this not exceeding, in aggregate, four times salary. The shares can only be released if stringent performance criteria are met during a three year period following the grant of the options, as set out below.

The Committee made awards of share options this year to the executive directors and to a number of senior managers. The conditions are:

- 1) that the average annual percentage growth in EPS exceeds 6% per annum over the performance period; and
- 2) that the average annual percentage growth in EPS exceeds the average annual percentage increase in RPI by a minimum of 3% per annum over the performance period.

Details of awards to directors are shown in the table of directors' interests on page 18 and details of the performance criteria for other share option schemes are included in note 21 to the accounts.

### Pension Arrangements

Philip Acton is a member of a defined benefit scheme which pays an annual pension of 1/30th of final pensionable pay for each year of service. The Company's contributions were 9.9% (2002: 9.9%) of total pensionable earnings. Richard Wood is a member of a defined contribution scheme whereby Genus plc pays contributions based on 30% of pensionable capped earnings; he also has a FURBS into which the Company made a contribution of £30,000 in the year ended 31 March 2003. Genus plc pays contributions to Michael Roller's personal pension scheme based on 12% of his gross salary, equivalent to 18% of pensionable capped earnings. The executive directors are provided with life cover for death in service equivalent to four times basic pensionable earnings.

### Service Contracts

The service contracts of the executive directors may be terminated by the Company on twelve months notice. There are provisions for compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly.

During the year, Richard Wood's contracted retirement age of 60 years was extended by two years to 62 years.

In the event of a change in control the executive directors would be entitled to resign within six months following a change of control and receive compensation amounting to two times gross emoluments including the average of the last three years' bonuses paid to the executive.

### Non-Executive Directors

Fees for the non-executive directors are determined by the Board as a whole having regard to the time devoted to the Company's affairs. The non-executive directors do not participate in any of the Company's incentive schemes. Their appointment is not for a fixed term and they are subject to periodic re-election at the Company's Annual General Meeting by rotation.



## Report on Directors' Remuneration (continued)

### Directors' Remuneration

	Salary & fees £000	Bonus £000	Benefits £000	Total 2003 £000	Total 2002 £000	Pension 2003 £000	Pension 2002 £000
<b>Executive directors</b>							
R K Wood	190	49	39	278	208	59	29
T P Acton	98	26	7	131	130	9	9
M R D Roller	6	-	-	6	-	-	-
<b>Non-executive directors</b>							
J H Beckett	55	-	-	55	54	-	-
E W White	25	-	-	25	22	-	-
J E Hawkins	22	-	-	13	-	-	-
T S K Yeo	13	-	-	13	-	-	-
<b>Total</b>	<b>409</b>	<b>75</b>	<b>46</b>	<b>530</b>	<b>434</b>	<b>68</b>	<b>38</b>

T P Acton resigned on 17 March 2003. M R D Roller was appointed on 17 March 2003. T S K Yeo was appointed on 1 October 2002.

### Pension Entitlements

The pension entitlement of the former director who is a member of the defined benefit scheme is as follows:

	Increase, excluding inflation, in accrued pension during the year	Transfer value of increase*	Accumulated total accrued pension at 17 March 2003 date of resignation	31 March 2002
	£000	£000	£000	£000
T P Acton	2	8	21	19

\* Transfer values represent a liability of the scheme not a sum paid or due to the individual.

### Directors' Share Interests

The directors at 31 March 2003 had the following beneficial interests in shares and share options:

	Shareholdings			Exercise price	Share options	
	At 31 March 2003	At 31 March 2002*			At 31 March 2003	At 31 March 2002*
R K Wood	-	-	(1)	50p	149,400	149,400
			(2)	50p	15,600	15,600
			(3)	175p	89,800	89,800
			(4)	175p	89,800	89,800
			(5)	90p	194,837	194,837
			(6)	173p	43,414	-
M R D Roller	-	-			-	-
J H Beckett	46,717	46,717			-	-
E W White	21,002	21,002			-	-
J E Hawkins	-	-			-	-
T S K Yeo	20,000	-			-	-
<b>Total</b>	<b>87,719</b>	<b>67,719</b>			<b>582,851</b>	<b>539,457</b>

\* or subsequent date of appointment.

## Directors' Share Interests (continued)

The options are exercisable between the following dates:

- (1) 28 August 2000 and 29 August 2007
- (2) 20 March 2000 and 21 March 2007
- (3) 3 November 2002 and 4 November 2009
- (4) 5 March 2003 and 6 March 2010
- (5) 28 November 2004 and 29 November 2011
- (6) 11 June 2005 and 12 June 2012

T P Acton was granted options over 31,254 shares at an option price of 173 pence during the year prior to his resignation as a director on 17 March 2003.

The market price of the Company's shares on 31 March 2003 was 154 pence and the high and low share prices during the year were 122 pence and 183 pence respectively.

During the period from the end of the financial year to 21 July 2003, J H Beckett acquired a beneficial interest in 10,000 ordinary shares in the company, increasing his total beneficial holding to 56,717 shares. T S K Yeo also acquired a beneficial interest in 7,000 ordinary shares, increasing his total beneficial holding to 27,000 shares. In the same period, R K Wood exercised options over 149,400 shares and subsequently disposed of 90,000 shares, leaving him with a beneficial holding of 59,400 shares.

Details of options awarded to directors since the year end are set out below.

	Issue Date	Exercise Price	Number of Options
R K Wood	3 June 2003	192.5p	79,480
M R D Roller	3 June 2003	192.5p	77,922

Further details on the share options schemes and on the performance criteria before they can be exercised are shown in note 21.

T S K Yeo

Chairman of the Remuneration Committee

# Corporate Governance Statement

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Code provisions set out in section 1 of the Combined Code prepared by the Committee on Corporate Governance chaired by Sir Ronald Hampel and the recommendations contained in the Turnbull report.

## Statement by the Directors on Compliance with the Provisions of the Combined Code

The directors consider that throughout the whole of the financial year the Company has fully complied with all the relevant provisions set out in Section 1 of the Combined Code except the Board did not nominate a senior, independent non-executive director other than the Chairman until 1 November 2002, when Edwin White was nominated to fill this post. In this respect therefore, the Company has not complied with provision A.2.1 of the Combined Code throughout the year.

## The Workings of the Board and its Committees

The Board is responsible to shareholders for the proper management of the Group and currently comprises an independent non-executive Chairman, the Chief Executive, the Group Finance Director and three other independent non-executive directors. Biographies of the directors appear on page 14. The Board considers that these demonstrate a range of experience and sufficient calibre to bring independent judgement to bear on issues of strategy, performance, resource and standards of conduct which are vital to the success of the Group. A statement of the directors' responsibilities in respect of the accounts and a statement on going concern are given on page 22. The Board meets every second month with a schedule of matters reserved for it to decide including setting and monitoring Group strategy, reviewing trading performance, ensuring adequate funding, examining major acquisition possibilities, formulating policy on key issues and reporting to shareholders.

All directors have access to the advice and services of the Company Secretary, John Vickers, or to independent professional advice as required. In addition, the Company ensures that the directors receive appropriate training as and when necessary. To ensure the Board is able to discharge its duties, all directors receive appropriate and timely information, with Board packs being issued to all directors in advance of Board meetings. The Company Secretary ensures that Board procedures

are followed and that all applicable rules and regulations are complied with.

The following committees deal with the specific aspects of the Group's affairs:

- The Audit Committee, comprising John Hawkins (Chairman), John Beckett and Edwin White, is formally constituted with a written basis of reference, meets at least twice a year and has particular consideration of the cost effectiveness, independence and objectivity of the external auditors. Meetings are attended by the Group Finance Director and minutes are circulated to all directors.
- The Remuneration Committee, comprising Tim Yeo (Chairman), John Beckett and Edwin White meets as required to review the performance of the executive directors, to recommend their remuneration and other benefit packages, including performance related bonus schemes, pension rights and compensation payments, and, in accordance with the Articles of Association, the Board sets the remuneration of the non-executives. The Report on Directors' Remuneration is shown on pages 17 to 19 and provides further details of the Company's policies on remuneration and service contracts.

All directors are subject to re-election every three years in accordance with the Articles of Association.

- The Nomination Committee comprising John Beckett (Chairman), Richard Wood and John Hawkins is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases, recruitment consultants are used to assist the process.

The Board takes the opportunity at the Annual General Meeting to meet with and communicate to private and institutional investors and welcomes their involvement. John Hawkins will answer questions as chairman of the Audit Committee and Tim Yeo will answer questions on behalf of the Remuneration Committee at the Annual General Meeting on 21 August 2003. The Chairman's Statement on pages 2 and 3 and the Chief Executive's Review on pages 4 to 9 provide a detailed review of the Group's performance and future developments.

## Internal Control

The Board has overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. However, such a system is designed to



manage rather than eliminate the risks of failure to achieve business objectives, and provides only reasonable and not absolute assurance against material misstatement or loss. The Board established procedures necessary to implement the guidance 'Internal Control – Guidance for Directors on the Combined Code', (the Turnbull Report) in the period to 31 March 2001 and confirms that key elements of the process have been in place during the year under review and up to the date of this report.

The Board considers risk assessment and control to be fundamental to achieving its corporate objectives within an acceptable risk/reward profile, and confirms that there is an ongoing process for identifying and evaluating the significant risks faced by the Group and the effectiveness of related controls. The process is regularly reviewed by the Board and accords with the Turnbull guidance on internal control. The key elements of this process are:

#### *Identification of business risks*

The Board is responsible for identifying the major business risks faced by the Group. The Group Finance Director is responsible for monitoring and reporting areas of significant business risk to the Board and for co-ordinating the management of such risks within each division. Divisional heads are responsible for identification and monitoring of risks within their divisions.

#### *Management structure*

Authority to operate the various subsidiary companies is delegated to local management within limits set by the Board. The appointment of executives to the most senior positions within the Group requires the approval of the Board. Functional, operating and financial reporting standards are established by the Group Finance Director for application across the whole Group. The corporate procedures manual sets out delegation of authority and authorisation levels, and other control procedures together with Group accounting policies. These procedures are supplemented by operating standards set by the local management, as required for the type of business and the geographical location of each subsidiary.

Divisional operating boards, comprising the Chief Executive as Chairman, the Group Finance Director, the divisional Chief Operating Officer and other executives meet every month to review the Division's performance against its budget, long and short term strategies and other key business issues.

#### *Information and financial reporting systems*

The Group's comprehensive planning and financial reporting procedures include detailed operational budgets for the year ahead, together with the preparation of three and five year strategic plans. The Board reviews and approves them. Performance is monitored and relevant action taken throughout the year through the monthly reporting of variances and key performance indicators, updated forecasts for the year, together with information on the key risk areas.

#### *Quality and integrity of personnel*

The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated throughout the organisation.

#### *Investment appraisal*

Capital expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specific levels, detailed written proposals have to be submitted to the Board. Due diligence work is carried out if a business is to be acquired and reviews are carried out after the acquisition is complete. Investigations are performed on any significant overspends and corrective action is taken where required.

#### *Audit Committee*

The Audit Committee monitors the controls which are in force and considers and determines appropriate action in respect of any control issues raised by the external auditors.

The directors have reviewed the effectiveness of the Group's system of internal control as it operated during the year.



John Beckett, Chairman



## Statement of Directors' Responsibilities in Relation to the Financial Statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

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

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

### Going Concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

# Independent Auditors Report

to the members of Genus plc

We have audited the Group's financial statements for the year ended 31 March 2003 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Cash Flows, Analysis of Changes in Net Debt and the related notes 1 to 31. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

## *Respective responsibilities of directors and auditors*

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

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

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

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Chief Executive's Review, Finance Director's Review, Directors' Report, Report on Directors' Remuneration, Corporate Governance Statement and Notice of Annual General Meeting. 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.

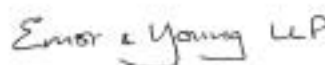
## *Basis of audit opinion*

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

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

## *Opinion*

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
Manchester  
21 July 2003



## Consolidated Profit and Loss Account

for the year ended 31 March 2003

	Notes	Continuing Operations Before Exceptional Items £000	Exceptional Items £000	Discontinued Operations £000	Total 2003 £000	Total 2002 £000
<b>Turnover</b>						
Continuing operations - ongoing		160,972	-	-	160,972	154,424
- acquisitions		8,777	-	-	8,777	-
Discontinued operations		-	-	3,041	3,041	5,997
	2	169,749	-	3,041	172,790	160,421
<b>Underlying operating profit/(loss)</b>	2,3	11,854	(247)	(1,425)	10,182	9,198
Amortisation of goodwill	3	(1,636)	-	(169)	(1,805)	(1,894)
<b>Operating profit/(loss)</b>	2,3	10,218	(247)	(1,594)	8,377	7,304
Of which:						
Continuing operations - ongoing		10,309	(247)	-	10,062	8,572
- acquisitions		(91)	-	-	(91)	-
Discontinued operations		-	-	(1,594)	(1,594)	(1,268)
Loss on disposal of discontinued operations	12	-	-	(3,179)	(3,179)	(1,181)
Profit on disposal of properties		-	1,205	-	1,205	458
Profit on disposal of investment		-	34	-	34	-
Write down of investment		-	-	-	-	(1,809)
Interest receivable and similar income	4	62	-	-	62	66
Interest payable and similar charges	5	(1,357)	-	-	(1,357)	(1,890)
<b>Profit/(loss) on ordinary activities before taxation</b>		8,923	992	(4,773)	5,142	2,948
Tax on profit on ordinary activities	6	(2,887)	74	488	(2,325)	(2,349)
<b>Profit/(loss) on ordinary activities after taxation</b>		6,036	1,066	(4,285)	2,817	599
Minority interests - equity		(63)	-	-	(63)	(34)
<b>Profit/(loss) for the financial year</b>		5,973	1,066	(4,285)	2,754	565
Dividends on equity shares	7				(1,846)	(1,580)
<b>Retained loss for the year</b>	22				908	(1,015)
<b>Earnings per share</b>						
- underlying	8				22.2p	16.5p
- basic	8				8.3p	1.7p
- diluted	8				8.1p	1.7p
Dividend per share	7				5.5p	4.75p

## Consolidated Statement of Total Recognised Gains and Losses

	2003 £000	2002 £000
Profit for the financial year	2,754	565
Exchange difference on the re-translation of net assets of subsidiary undertakings	(2,522)	(164)
Tax on exchange differences	254	102
<b>Total recognised gains and losses relating to the year</b>	<b>486</b>	<b>503</b>

# Consolidated Balance Sheet

at 31 March 2003

	Notes	2003 £000	2002 £000
<b>Fixed assets</b>			
Intangible assets	10	28,147	31,298
Tangible assets	11	16,851	16,602
Investments	12	83	76
		<b>45,081</b>	<b>47,976</b>
<b>Current assets</b>			
Stocks	13	17,640	14,726
Debtors	14	32,177	29,511
Cash at bank and in hand		6,831	2,703
		<b>56,648</b>	<b>46,940</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>47,636</b>	<b>37,620</b>
<b>Net current assets</b>		<b>9,012</b>	<b>9,320</b>
<b>Total assets less current liabilities</b>		<b>54,093</b>	<b>57,296</b>
<b>Creditors: amounts falling due after more than one year</b>	16	<b>5,759</b>	<b>8,026</b>
<b>Provisions for liabilities and charges</b>	19	<b>623</b>	<b>711</b>
<b>Accruals and deferred income</b>	20	<b>32</b>	<b>33</b>
<b>Equity minority interests</b>		<b>222</b>	<b>194</b>
<b>Net assets</b>		<b>47,457</b>	<b>48,332</b>
<b>Capital and reserves</b>			
Called up share capital	21	3,357	3,325
Share premium account	22	34,708	34,138
Profit and loss account	22	9,392	10,869
<b>Equity shareholders' funds</b>	23	<b>47,457</b>	<b>48,332</b>

Approved by the Board on 21 July 2003  
and signed on their behalf



J H Beckett CHAIRMAN



R K Wood CHIEF EXECUTIVE

# Company Balance Sheet

at 31 March 2003

	Notes	2003 £000	2002 £000
<b>Fixed assets</b>			
Investments	12	40,953	43,423
		<b>40,953</b>	43,423
<b>Current assets</b>			
Debtors	14	34,427	36,109
		<b>34,427</b>	36,109
<b>Creditors: amounts falling due within one year</b>	15	<b>31,050</b>	26,991
<b>Net current assets</b>		<b>3,377</b>	9,118
<b>Total assets less current liabilities</b>		<b>43,330</b>	52,541
<b>Creditors: amounts falling due after more than one year</b>	16	<b>4,151</b>	7,843
<b>Provisions for liabilities and charges</b>	19	-	307
<b>Net assets</b>		<b>40,179</b>	44,391
<b>Capital and reserves</b>			
Called up share capital	21	3,357	3,325
Share premium account	22	34,708	34,138
Profit and loss account	22	2,114	6,928
<b>Equity shareholders' funds</b>		<b>40,179</b>	44,391

Approved by the Board on 21 July 2003  
and signed on their behalf



J H Beckett CHAIRMAN



R K Wood CHIEF EXECUTIVE

# Consolidated Statement of Cash Flows

for the year ended 31 March 2003

	Note	2003 £000	2002 £000
<b>Net cash inflow from operating activities</b>	24	<b>13,454</b>	12,099
<b>Returns on investments and servicing of finance</b>			
Interest received and similar income		62	66
Interest paid and similar charges		(1,180)	(1,686)
Interest element of finance lease and hire purchase rental payments		(177)	(131)
Dividends received from investments		-	47
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(1,295)</b>	(1,704)
<b>Taxation</b>			
Corporation tax paid		(991)	(568)
Overseas tax paid		(646)	(1,147)
		<b>(1,637)</b>	(1,715)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(6,005)	(3,445)
Payments to acquire investments		-	(120)
Receipts from sales of tangible fixed assets		4,693	1,185
Receipts from sales of investments		34	-
<b>Net cash outflow on capital expenditure</b>		<b>(1,278)</b>	(2,380)
<b>Acquisitions and disposals</b>			
Purchase of subsidiaries and businesses		(4,838)	(19)
Net cash acquired		42	-
Receipts from sale of subsidiaries		-	167
Net cash and bank overdrafts disposed of		-	13
		<b>(4,796)</b>	161
<b>Equity dividends paid</b>		<b>(1,576)</b>	(1,481)
<b>Net cash inflow before management of liquid resources and financing</b>		<b>2,872</b>	4,980



## Consolidated Statement of Cash Flows (continued)

for the year ended 31 March 2003

	Notes	2003 £000	2002 £000
<b>Net cash inflow before management of liquid resources and financing</b>		<b>2,872</b>	4,980
<b>Management of liquid resources</b>			
Decrease in short-term deposits		-	700
		<b>2,872</b>	5,680
<b>Financing</b>			
Repayment of loan notes		(835)	(989)
Repayment of bank loans		(3,541)	(2,545)
Finance leases		2,382	297
Repayments of capital element of finance leases and hire purchase rental payments		(920)	(630)
Issue of ordinary share capital		602	173
<b>Net cash outflow from financing</b>		<b>(2,312)</b>	(3,694)
<b>Increase in cash</b>	25	<b>560</b>	1,986

### Analysis of changes in net debt during the year

Reconciliation of net cash flow to movement in net debt:

	Note	2003 £000	2002 £000
Increase in cash in year		560	1,986
Cash inflow from short term deposits		-	(700)
		<b>560</b>	1,286
Repayment of loan notes		835	989
Repayment of bank loans		3,541	2,545
New finance leases		(2,382)	(297)
Repayment of capital element of finance lease contracts		920	630
Change in net debt resulting from cash flows		<b>3,474</b>	5,153
Exchange differences		(24)	(71)
Other		(219)	(73)
Movement in net debt		<b>3,231</b>	5,009
Net debt at 1 April		<b>(15,427)</b>	(20,436)
Net debt at 31 March	25	<b>(12,196)</b>	(15,427)

# Notes to the Accounts

at 31 March 2003

## 1. Accounting Policies

### Accounting convention and financial reporting standards

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

### Goodwill

For acquisitions made on or after 1 April 1998 positive goodwill is capitalised as an intangible fixed asset and amortised through the profit and loss account over its useful economic life to a maximum of 20 years. It is reviewed for impairment at the end of its first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill arising on acquisitions prior to 1 April 1998 has been eliminated against reserves and has not been re-instated on implementation of FRS 10.

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

### Basis of consolidation

The Group's financial statements consolidate the financial statements of Genus plc and its subsidiary companies made up to 31 March. No profit and loss account is presented for the holding company as permitted by Section 230 of the Companies Act 1985.

The results of new subsidiaries are consolidated from the date of acquisition and have been included in the Group accounts using the acquisition method of accounting.

### Fixed assets, depreciation and amortisation

Fixed assets, with the exception of the MOET herd, are stated at cost less depreciation. Depreciation and amortisation is calculated to write off the assets over their estimated lives on a straight line basis. Milk quota is amortised on a straight line basis over 10 years. The rates of annual depreciation on tangible fixed assets are as follows:

Freehold land	Nil
Freehold buildings	2% - 10%
Equipment	5% - 33⅓%
Motor vehicles	20% - 30%
Livestock	14% - 50%

The MOET herd is initially stated at cost less any provision for impairment in accordance with FRS 11, which is revised annually. An annual charge for depreciation is not recorded in respect of the MOET herd as the estimated residual value is not materially different from the carrying value.

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

# Notes to the Accounts

at 31 March 2003

## 1. Accounting Policies (continued)

### Government grants

EC and UK Government grants received for the purchase of fixed assets are included in deferred income and subsequently released to the profit and loss account over the useful lives of the assets.

### Leased assets

Assets acquired under finance leases are capitalised in the balance sheet and depreciated over their estimated useful lives. The capital elements of future lease obligations are included as liabilities on the balance sheet. The related finance charges are charged in the profit and loss account over the periods of the leases and represent a constant proportion of the balance of capital repayments outstanding. Rentals under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

### Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value. Cost represents purchase price or production costs including labour and attributable overheads, based on normal levels of activity.

The Group holds stock on consignment from third party suppliers which is not recognised in the accounts. Title to such stock only passes to the Group when it is sold on to a third party and no payment is due until title passes. The Group has no obligation to purchase the stock and is able to return it to the supplier at no cost.

### Contract revenues and profit recognition

Contracts are reviewed individually on a consistent basis to assess costs to completion and enable the assessment of the outcome of the contract. Profit is recognised on a percentage of completion basis when the contract's outcome can be foreseen with reasonable certainty. Provision is made for the full amount of any foreseeable losses on contracts.

### Pensions

The Group operates a defined benefit scheme for some of its employees. Pension costs are recognised on a systematic basis to match the costs of providing retirement benefits evenly over the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities is allocated over the average remaining service lives of current employees.

A number of employees are members of defined contribution pension schemes. Contributions are charged to profit and loss as they become payable in accordance with the rules of the scheme. The assets of these schemes are held separately from those of the Group.

### Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date. This is subject to deferred taxation assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Group's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods.

Deferred taxation is recognised in respect of the future remittance of retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

## 1. Accounting Policies (continued)

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

### Foreign currencies

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

The accounts of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the re-translation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account, with the exception of differences on foreign currency borrowing to the extent that they are used to finance or provide a hedge against investments in overseas subsidiaries. These are taken directly to reserves together with the exchange difference on the net investment in the subsidiaries. Tax charges and credits attributed to exchange differences on those borrowings are also taken to reserves.

### Research and development

The Group's policy is to write-off expenditure on research and development as incurred.

### Derivative instruments

The Group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The Group also uses interest rate swaps to adjust interest rate exposures.

The Group considers its derivative instruments qualify for hedge accounting when certain criteria are met.

#### *Forward foreign currency contracts*

The criteria for forward currency contracts are:

- the instrument must hedge an identified and probable foreign currency asset or liability;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency exchange movements on the Group's operations.

The contract rates are used to record the hedged items. As a result the gains and losses on the hedging instruments are offset against those on the related financial assets and liabilities. Where the investment is used to hedge a committed or probable future transaction, the gains or losses on the hedging instrument are not recognised until the transaction occurs.

#### *Interest rate swaps*

The Group's criteria for interest rate swaps are:

- the instrument must hedge an identified asset or liability; and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised by accruing the net interest payable. Interest rate swaps are not revalued to fair value or shown on the Group balance sheet at the year end. If they are terminated early, the gain/loss is spread over the remaining maturity of the original instrument.



# Notes to the Accounts

at 31 March 2003

## 2. Turnover and Segmental Analysis

The prior year comparative data have been restated to show the results of the continuing agricultural consulting business within the Bovine Genetics business segment. This reflects the revised management arrangements to focus these activities on the same customer base. The impact of this is to increase reported turnover of the Bovine Genetics segment for 2002 by £7,570,000 and to reduce reported underlying operating profit of that segment by £527,000 with a consequential opposite impact on the Consultancy segment.

Turnover, which is stated net of value added tax and overseas sales taxes, represents amounts invoiced to third parties.

	Turnover		Underlying operating profit*		Net assets	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
Area of activity						
Bovine Genetics	79,002	82,088	11,198	9,984	38,000	39,458
Consultancy	23,930	25,138	(442)	(645)	6,544	7,825
Animal Health	69,955	53,218	962	805	18,329	20,118
	172,887	160,444	11,718	10,144	62,883	67,401
Inter-segmental sales	(97)	(23)	-	-	-	-
Unallocated	-	-	(1,536)	(946)	(15,426)	(19,069)
	172,790	160,421	10,182	9,198	47,457	48,332

\*before amortisation of goodwill

	Operating profit	
	2003 £000	2002 £000
Area of activity		
Bovine Genetics	10,317	9,014
Consultancy	(642)	(845)
Animal Health	238	81
	9,913	8,250
Unallocated	(1,536)	(946)
	8,377	7,304
Non-operating exceptional items		
Bovine Genetics	1,266	458
Consultancy	(3,179)	(1,181)
Animal Health	(61)	-
Unallocated	34	(1,809)
Net interest	(1,295)	(1,824)
Profit on ordinary activities before taxation	5,142	2,948

Geographical region of destination	Turnover	
	2003 £000	2002 £000
United Kingdom	107,217	96,637
Europe	17,077	14,496
North America	25,248	26,438
Rest of the World	23,248	22,850
	172,790	160,421

## 2. Turnover and Segmental Analysis (continued)

### Geographical region of origin

	Turnover		Operating profit		Net assets	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
United Kingdom	131,421	116,542	4,099	2,626	40,820	52,442
Europe	6,231	6,063	1,196	992	1,854	2,195
North America	37,128	39,380	3,947	4,079	15,793	9,567
Rest of the World	6,552	7,017	671	553	4,416	3,197
	181,332	169,002	9,913	8,250	62,883	67,401
Inter-segment sales	(8,542)	(8,581)				
Unallocated	-	-	(1,536)	(946)	(15,426)	(19,069)
	172,790	160,421	8,377	7,304	47,457	48,332
Non-operating exceptional items			(1,940)	(2,532)		
Net interest			(1,295)	(1,824)		
Profit on ordinary activities before taxation			5,142	2,948		

The results of the acquisitions and discontinued businesses in the year, included above, are tabulated separately below.

Unallocated costs within operating profit are common corporate costs.

Unallocated net liabilities comprise:

	2003 £000	2002 £000
Fixed assets and investments	533	-
Debtors	961	652
Creditors	(577)	(931)
Net Debt	(12,196)	(15,427)
Taxation	(2,079)	(1,593)
Proposed dividends	(1,846)	(1,576)
Minority interest	(222)	(194)
	(15,426)	(19,069)

The segmental analysis includes the following results from discontinued activities:

	Geographical region of origin				Region of destination	
	Turnover		Operating loss		Turnover	
	2003 £000	2002 £000	2003 £000	2002 £000	2003 £000	2002 £000
United Kingdom	2,430	4,416	(1,498)	(1,137)	1,237	2,348
Europe	-	193	-	(27)	160	1,155
North America	611	1,388	(96)	(104)	1,116	2,001
Rest of the World	-	-	-	-	528	493
	3,041	5,997	(1,594)	(1,268)	3,041	5,997

	Area of Activity			
	Turnover		Operating loss	
	2003 £000	2002 £000	2003 £000	2002 £000
Consultancy	3,041	5,997	(1,594)	(1,268)

The segmental analysis includes the following results from acquisitions:

	Turnover 2003 £000	Operating loss 2003 £000
Animal Health	8,777	(91)

The acquired activities took place in the UK and all sales were made to destinations within the UK.

# Notes to the Accounts

at 31 March 2003

## 3. Operating Profit

Operating costs comprise:

	Continuing operations £000	Discontinued operations £000	2003 Total £000
Cost of sales	101,702	3,997	105,699
Distribution costs	32,198	-	32,198
Administrative expenses	25,885	638	26,523

	Continuing operations £000	Discontinued operations £000	2002 Total £000
Cost of sales	82,664	5,160	87,824
Distribution costs	34,309	-	34,309
Administrative expenses	28,911	2,073	30,984

This is stated after charging/(crediting):

	2003 £000	2002 £000
Auditors' remuneration		
- audit services	215	267
- non-audit services	14	236
Depreciation of owned fixed assets	2,535	3,294
Depreciation of assets held under finance leases and hire purchase contracts	900	690
Amortisation of milk quota	7	8
Amortisation of goodwill	1,805	1,894
Operating lease rentals		
- plant and machinery	507	625
- land and buildings	711	892
Research and development costs	8,045	8,617
Government grants released	(1)	(1)
(Profit)/loss on sale of fixed assets	(304)	222

£47,700 (2002: £58,000) of auditors' remuneration for audit services relates to the Company.

The exceptional operating costs of £247,000 in 2003 relate to the relocation of operations from the Group's former head office.

## 4. Interest Receivable and Similar Income

	2003 £000	2002 £000
Bank interest receivable	61	62
Other similar income	1	4
	62	66

## 5. Interest Payable and Similar Charges

	2003 £000	2002 £000
Bank loans and overdrafts	995	1,444
Loan notes	111	238
Finance charges payable under finance lease and hire purchase contracts	177	131
Amortisation of issue costs	72	73
Other similar charges	2	4
	<b>1,357</b>	<b>1,890</b>

## 6. Taxation

### (a) Tax on profit on ordinary activities

The taxation charge for the year is made up as follows:

	2003 £000	2002 £000
UK corporation tax	876	691
Overseas tax	1,114	1,612
Adjustment in respect of previous periods – UK corporation tax	89	138
Adjustment in respect of previous periods – Overseas tax	-	(136)
Total current tax (note 6(c))	<b>2,079</b>	<b>2,305</b>
Deferred tax - origination and reversal of timing differences	345	325
- adjustment in respect of previous periods	(99)	(281)
Group deferred tax (note 19)	<b>246</b>	<b>44</b>
Tax on profit on ordinary activities	<b>2,325</b>	<b>2,349</b>

The tax effect of the disposal of properties and the disposal of businesses amounted to a credit of £120,000 (2002: £nil).

### (b) Tax included in Consolidated statement of total recognised gains and losses

The tax (credit)/charge is made up as follows:

	2003 £000	2002 £000
UK corporation tax	53	216
Total current tax	<b>53</b>	<b>216</b>
Deferred tax - origination and reversal of timing differences	(320)	(253)
- adjustment in respect of previous periods	13	(65)
Total deferred tax (note 19)	<b>(307)</b>	<b>(318)</b>
	<b>(254)</b>	<b>(102)</b>



# Notes to the Accounts

at 31 March 2003

## 6. Taxation (continued)

(c) Factors affecting the tax charge for the year

The tax charged for the year is higher than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2003 £000	2002 £000
Profit on ordinary activities before tax	5,142	2,948
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	1,542	885
Effects of:		
Expenses not deductible for tax purposes	556	1,017
Tax effect of timing differences arising in the accounts	(499)	(90)
Adjustments to tax charge in respect of previous periods	89	2
Overseas tax rate higher than in UK	342	346
Utilisation of tax losses	(106)	(256)
Consolidation adjustments that are not tax deductible and losses unrelieved	155	401
Total current tax (note 6(a))	2,079	2,305

## 7. Dividend

	2003		2002	
	Per share	£000	Per share	£000
Dividend under provided in prior year		-		4
Proposed dividend	5.5p	1,846	4.75p	1,576
		1,846		1,580

## 8. Earnings Per Share

The basic earnings per share of 8.3p (2002: 1.7p) is based on the profit for the financial year of £2,754,000 (2002: £565,000) and the weighted average number of ordinary shares in issue of 33,322,000 (2002: 32,894,000).

The underlying earnings per share of 22.2p (2002: 16.5p) is based on the earnings of continuing operations before amortisation of goodwill and exceptional items as set out below:

	2003 £000	2002 £000
Profit for the financial year	2,754	565
Add: Amortisation of goodwill	1,805	1,894
Exceptional operating items	247	-
Write down of investment	-	1,809
Profit on disposal of investment	(34)	-
Loss on disposal of properties and businesses	1,974	723
Loss on discontinued operations	1,425	1,099
	8,171	6,090
Less: Associated taxation on adjustments	(775)	(674)
Underlying earnings	7,396	5,416

The directors consider that underlying earnings per share as calculated is an appropriate and consistent measure of the Group's performance.

## 8. Earning per Share (continued)

The diluted earnings per share of 8.1p (2002: 1.7p) is based on profit for the financial year of £2,754,000 (2002: £565,000) and on 34,175,000 (2002: 33,170,000) diluted ordinary shares as set out below:

	2003 000's	2002 000's
Basic weighted average number of shares	33,322	32,894
Dilutive potential ordinary shares:		
Employee share options	853	276
	<b>34,175</b>	<b>33,170</b>

## 9. Employees

Staff costs during the year amounted to:

	2003 £000	2002 £000
Wages and salaries	28,358	31,247
Social security costs	5,405	2,293
Other pension costs	2,163	1,347
	<b>34,926</b>	<b>34,887</b>

The monthly average number of employees during the year was as follows:

	2003 No	2002 No
Production and service	581	741
Distribution	479	320
Administration	292	281
	<b>1,352</b>	<b>1,342</b>

Details of directors' emoluments, pensions and share options are included in the Report on Directors' Remuneration on pages 17 to 19.

## 10. Intangible Fixed Assets

### Group

	Goodwill £000	Milk quota £000	Total £000
Cost:			
At 1 April 2002	36,354	126	36,480
Additions	2,882	-	2,882
Exchange rate adjustment	(1,747)	-	(1,747)
At 31 March 2003	37,489	126	37,615
Amortisation:			
At 1 April 2002	5,086	96	5,182
Charge in the year	1,805	7	1,812
Impairment	2,643	-	2,643
Exchange rate adjustment	(169)	-	(169)
At 31 March 2003	9,365	103	9,468
Net book value:			
At 31 March 2003	28,124	23	28,147
At 1 April 2002	31,268	30	31,298

Goodwill arising on acquisitions is being amortised over the directors' estimate of the useful life of 20 years. The impairment charge relates to the discontinued operations disposed of in April 2003.

# Notes to the Accounts

at 31 March 2003

## 11. Tangible Fixed Assets

### Group

	Land and buildings	Motor vehicles and equipment			
	Freehold	Owned	Leased	Livestock	Total
	£000	£000	£000	£000	£000
Cost:					
At 1 April 2002	10,352	14,457	3,607	5,999	34,415
Additions	1,340	1,075	2,523	1,431	6,369
Acquisitions	837	357	-	223	1,417
Disposals	(3,635)	(2,254)	(868)	(1,628)	(8,385)
Transfers	-	(198)	198	-	-
Disposal of business	-	(125)	(122)	-	(247)
Exchange rate difference	(48)	(355)	-	(182)	(585)
At 31 March 2003	8,846	12,957	5,338	5,843	32,984
Depreciation:					
At 1 April 2002	2,427	9,744	2,945	2,697	17,813
Charge in the year	111	1,673	900	812	3,496
Disposals	(781)	(2,122)	(838)	(974)	(4,715)
Transfers	-	(12)	12	-	-
Disposal of business	-	(105)	(112)	-	(217)
Exchange rate difference	28	(198)	-	(74)	(244)
At 31 March 2003	1,785	8,980	2,907	2,461	16,133
Net book value:					
At 31 March 2003	7,061	3,977	2,431	3,382	16,851
At 1 April 2002	7,925	4,713	662	3,302	16,602

Included within the depreciation charge for the year is £61,000 relating to a provision for loss on disposal of certain properties. This has been included within the exceptional profit on disposal of properties figure of £1,205,000 in the consolidated profit and loss account.

## 12. Investments Group

	Trade Investments		Total
	Listed £000	Unlisted £000	£000
Cost:			
At 1 April 2002	1,809	76	1,885
Additions	-	7	7
Disposals	(1,809)	-	(1,809)
At 31 March 2003	-	83	83
Provision for impairment:			
At 1 April 2002	1,809	-	1,809
Disposals	(1,809)	-	(1,809)
At 31 March 2003	-	-	-
Net book value:			
At 31 March 2003	-	83	83
At 1 April 2002	-	76	76

## Company

	Subsidiary Undertakings £000	Other Listed £000	Total £000
Cost:			
At 1 April 2002	43,423	1,809	45,232
Additions	1,672	-	1,672
Disposals	-	(1,809)	(1,809)
At 31 March 2003	45,095	-	45,095
Provision for impairment:			
At 1 April 2002	-	1,809	1,809
Charge for the year	4,142	-	4,142
Disposals	-	(1,809)	(1,809)
At 31 March 2003	4,142	-	4,142
Net book value:			
At 31 March 2003	40,953	-	40,953
At 1 April 2002	43,423	-	43,423

The impairment charge relates to the Company's investment in Promar International Limited. A substantial element of the activities of this Company were discontinued in April 2003.

# Notes to the Accounts

at 31 March 2003

## 12. Investments (continued)

### Analysis of acquisitions during the year

On 15 July 2002 the Group acquired the trade and certain assets of Dunnwood VS Ltd for a consideration of £861,000. An analysis of this acquisition is set out below.

	Book Value £000	Fair Value Adjustments £000	Fair Value £000
Net assets acquired:			
Fixed assets	150	-	150
Stocks	711	-	711
	861	-	861
Goodwill arising on acquisition			-
Consideration:			
Cash consideration			861
			861

On 11 November 2002, the Group acquired ABS Australia Pty Ltd for a consideration of £190,000 inclusive of fees.

On 19 February 2003 the Group acquired the trade and certain assets of RAB Australia Pty Ltd for a consideration of £3,895,000 inclusive of fees. An analysis of these acquisitions is set out below.

	Book Value £000	Fair Value Adjustments £000	Fair Value £000
Net assets acquired:			
Fixed assets	2,943	(1,679)	1,264
Stocks	534	-	534
Debtors	533	-	533
Cash in bank and in hand	42	-	42
Creditors: less than one year	(1,251)	236	(1,015)
Creditors: more than one year	(47)	-	(47)
	2,754	(1,443)	1,311
Goodwill arising on acquisition			2,774
			4,085
Consideration:			
Cash consideration			3,849
Deferred consideration			108
Fees			128
			4,085

Fair value adjustments comprise a restatement of the value of the acquired bull stud to align the valuation with Group accounting policies and the forgiveness of an intercompany trading liability.

The deferred consideration becomes payable on the achievement of certain post-acquisition results.



## 12. Investments (continued)

### Analysis of disposals during the year

In February 2003, it was decided to exit from the Market Research Consulting business. These operations have subsequently been divested or closed, giving rise to a loss on disposal of £3,179,000 (including an impairment of goodwill of £2,643,000).

On 11 March 2003 the Group disposed of its investment in Gensel Biotechnologies Ltd, a company incorporated in Canada and previously held as a trade investment. The investment had previously been fully provided against and the consideration received of £34,000 therefore represents the gain on disposal. The company was not regarded as an associated undertaking as Genus plc was not in a position to exercise significant influence in its management or over its operations and policies.

## 13. Stocks

	Group	
	2003 £000	2002 £000
Consumable stores	15	17
Goods for resale	16,851	13,915
Livestock	774	794
	<b>17,640</b>	<b>14,726</b>

In the directors' opinion the replacement cost of stocks is not materially different from their balance sheet value. Stock held on consignment, not included above, from third party suppliers amounted to £nil (2002: £137,000).

## 14. Debtors

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade debtors	26,954	24,402	-	-
Amounts recoverable on contracts	2,862	2,342	-	-
Other debtors	1,417	1,909	-	144
Amounts owed by subsidiaries	-	-	33,774	35,460
Prepayments and accrued income	944	858	11	20
Prepaid corporation tax recoverable	-	-	642	485
	<b>32,177</b>	<b>29,511</b>	<b>34,427</b>	<b>36,109</b>

# Notes to the Accounts

at 31 March 2003

## 15. Creditors: amounts falling due within one year

	Note	Group		Company	
		2003 £000	2002 £000	2003 £000	2002 £000
Bank loans	17	4,007	3,856	4,007	3,756
Bank overdrafts		5,908	2,396	9,533	8,231
Loan notes*	17	2,616	3,451	2,616	3,451
Obligations under finance leases	18	962	401	-	33
Trade creditors		19,364	14,642	-	-
Payments on account on contracts		1,007	1,595	-	-
Other creditors		346	642	-	-
Corporation and overseas tax		1,456	882	-	-
Amounts owed to subsidiaries		-	-	12,493	9,614
Other taxes and social security		3,510	2,211	-	37
Accruals and deferred income		6,506	5,968	447	293
Proposed dividend		1,846	1,576	1,846	1,576
Deferred consideration		108	-	108	-
		<b>47,636</b>	<b>37,620</b>	<b>31,050</b>	<b>26,991</b>

\* In accordance with FRS 4 these loan notes are classified under creditors due within one year, though they are backed by medium term facilities from Barclays Bank PLC.

The bank loans and overdrafts are secured by fixed and floating charges over certain of the Group's assets. The loan notes are unsecured and are underwritten by bank guarantees. The loan notes are repayable on request at 31 March and 30 September every year until 30 September 2004.

## 16. Creditors: amounts falling due after more than one year

	Note	Group		Company	
		2003 £000	2002 £000	2003 £000	2002 £000
Bank loans	17	4,151	7,843	4,151	7,843
Obligations under finance leases:	18	1,383	183	-	-
Deferred income		225	-	-	-
		<b>5,759</b>	<b>8,026</b>	<b>4,151</b>	<b>7,843</b>

## 17. Loans

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Amounts falling due:				
In one year or less or on demand	6,695	7,380	6,695	7,280
In more than one year but not more than two years	3,217	4,279	3,217	4,279
In more than two years but not more than five years	1,044	3,745	1,044	3,745
	10,956	15,404	10,956	15,304
Less: issue costs	(182)	(254)	(182)	(254)
	10,774	15,150	10,774	15,050
Less: included in creditors - amounts falling due within one year	(6,623)	(7,307)	(6,623)	(7,207)
	4,151	7,843	4,151	7,843
Loans comprise:				
Bank loans - due within one year	4,007	3,856	4,007	3,756
Bank loans - due after more than one year	4,151	7,843	4,151	7,843
Loan notes	2,616	3,451	2,616	3,451
	10,774	15,150	10,774	15,050

## 18. Obligations Under Finance Leases and Hire Purchase Contracts

The maturity of these is as follows:

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Amounts payable:				
within one year	962	401	-	33
within two to five years	1,383	183	-	-
	2,345	584	-	33

## 19. Provisions for Liabilities and Charges

The movements in deferred taxation are as follows:

	Group	Company
	£000	£000
At 1 April 2002	711	307
Deferred tax charge in profit and loss account (note 6(a))	246	-
Deferred tax credit in statement of total recognised gains and losses (note 6(b))	(307)	(307)
Foreign exchange movement	(27)	-
At 31 March 2003	623	-

The amounts provided are as follows:

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Capital allowances in excess of depreciation	243	(56)	-	-
Other timing differences	380	767	-	307
	623	711	-	307

# Notes to the Accounts

at 31 March 2003

## 20. Accruals and Deferred Income

	Group £000
Deferred government grants:	
At 1 April 2002	33
Released to profit and loss account	(1)
At 31 March 2003	32

## 21. Share Capital

	2003		2002	
	No	£000	No	£000
Authorised				
Ordinary shares of 10p	43,070,000	4,307	43,070,000	4,307
Allotted and fully paid				
Ordinary shares of 10p	33,566,004	3,357	33,248,331	3,325

The movements in share capital for the year are as follows:

		2003		2002	
	Notes	No	Consideration £000	No	Consideration £000
New shares issued		350,000	588	-	-
Issued under the following share option plans –					
Executive	(1)	-	-	44,400	22
Company Share Option Plan	(1)	-	-	295,600	148
Savings Related		42,673	14	2,624	3
Issued to the Quest	(2)	-	-	92,334	128
Repurchased and cancelled		(75,000)	-	-	-
		317,673	602	434,958	301

(1) Shares issued directly under the Executive and Company share option plans in 2002 were issued at an option price of 50p per share.

(2) At 31 March 2003 the Qualifying Employee Share Ownership Trust ("Quest") held 92,334 shares in the Company (2001: 92,334). The Quest has waived its rights to dividends from the Company.

## 21. Share Capital (continued)

Options outstanding to employees were as follows:

Option scheme	Options granted	Number of shares	Option price per share
(1) Company Share Option Plan	29 August 1997	299,400	50p
(2) Executive Plan	21 March 1997	15,600	50p
(3) 1999 Executive Plan	4 November 1999	141,909	175p
(4) 1999 Executive Plan	6 March 2000	289,740	175p
(5) 2000 Company Share Plan	21 December 2000	80,487	123p
(6) Savings Related Scheme	1 April 2001	775,990	93p
(7) 2000 Company Share Plan	28 November 2001	615,703	90p
(8) 2000 Company Share Plan	11 June 2002	357,966	173p
(9) 2000 Company Share Plan	19 December 2002	25,000	173p

The options are exercisable between the following dates

- (1) 28 August 2000 and 29 August 2007
- (2) 20 March 2000 and 21 March 2007
- (3) 3 November 2002 and 4 November 2009
- (4) 5 March 2003 and 6 March 2010
- (5) 20 December 2003 and 21 December 2010
- (6) 1 May 2004 and 1 November 2004
- (7) 28 November 2004 and 29 November 2011
- (8) 11 June 2005 and 12 June 2012
- (9) 19 December 2005 and 20 December 2012

The options under (1), (2), (3) and (4) are now exercisable. Shares from (6) have been exercised in the year when members of the scheme have been made redundant. The options under (3), (4), (5), (7), (8) and (9) can only be exercised if over a three year period the average annual percentage growth in EPS exceeds either 6% or a minimum of 3% above RPI for the same period. The Company has taken advantage of the exemption of UITF 17 revised in not applying UITF 17 to its SAYE scheme.



# Notes to the Accounts

at 31 March 2003

## 22. Reserves

	Share premium account £000	Profit and loss account £000
<b>Group</b>		
At 1 April 2002	34,138	10,869
Retained profit for the year	-	908
Premium on shares issued	570	-
Exchange difference on re-translation of net assets	-	(2,522)
Tax on exchange differences	-	254
Repurchase of shares	-	(117)
At 31 March 2003	34,708	9,392
<b>Company</b>		
At 1 April 2002	34,138	6,928
Retained loss for the year	-	(4,062)
Premium on shares issued	570	-
Exchange difference on re-translation of loans	-	(889)
Tax on exchange differences	-	254
Repurchase of shares	-	(117)
At 31 March 2003	34,708	2,114

The loss attributable to members of the parent company was £2,216,000 (2001: £687,000).

The cumulative amount of goodwill written off to reserves at 31 March 2003 is £1,368,000 (2002: £1,368,000).

## 23. Reconciliation of Shareholders' Funds

	2003 £000	2002 £000
<b>Group</b>		
Shareholders' funds at 1 April	48,332	48,215
Retained profit/(loss) for the year	908	(1,015)
New share capital subscribed	602	301
Exchange rate difference on translation of net assets from overseas subsidiaries	(2,522)	(164)
Tax on exchange rate difference	254	102
Deducted in respect of shares issued to Quest	-	(128)
Goodwill re-instated on sale of subsidiary	-	1,021
Repurchase of shares	(117)	-
Shareholders' funds at 31 March	47,457	48,332

## 24. Reconciliation of Operating Profit to Net Cash Flow from Operating Activities

	2003 £000	2002 £000
Operating profit	8,377	7,304
Depreciation	3,435	3,984
Amortisation of milk quota	7	8
Amortisation of goodwill	1,805	1,894
(Profit)/loss on disposal of fixed assets	(304)	222
Deferred government grants	(1)	(1)
(Increase) in stocks	(2,850)	(298)
(Increase)/decrease in debtors	(2,555)	558
Increase/(decrease) in creditors	5,540	(1,572)
Net cash inflow from operating activities	13,454	12,099

## 25. Analysis of Changes in Net Debt During the Year

	At 1 April 2002 £000	Cash flows £000	Other £000	At 31 March 2003 £000
Cash at bank and in hand	2,703			6,831
Bank overdrafts	(2,396)			(5,908)
Cash	307	560	56	923
Bank loans	(11,699)	3,541	-	(8,158)
Loan notes	(3,451)	835	-	(2,616)
Obligations under finance leases and hire purchase contracts	(584)	(1,462)	(299)	(2,345)
	(15,427)	3,474	(243)	(12,196)

## 26. Capital Commitments

At 31 March 2003 no capital expenditure (2002: £238,000) had been contracted for.

# Notes to the Accounts

at 31 March 2003

## 27. Operating Lease Rentals

Annual commitments under non-cancellable operating leases are as follows:

Group	Land and buildings		Other	
	2003 £000	2002 £000	2003 £000	2002 £000
Operating leases which expire:				
within one year	53	127	48	265
within two to five years	229	265	318	420
after five years	449	319	-	-
	731	711	366	685

## 28. Pensions

Some permanent staff of Genus plc are eligible for membership of The Milk Pension Fund, which is a defined benefit scheme administered by Milk Pension Fund Trustees Limited which includes three Genus Trustee directors, T P Acton, S J Amies and P Nunn. The scheme was closed to new members during the year.

The funded scheme is that previously operated by the Milk Marketing Board, and is also open to membership of staff working for Milk Marque Ltd (the principal employer), National Milk Records plc, Axis and Scottish Milk Ltd, Zenith Milk Ltd, Milk Link Ltd, the Milk Development Council and hauliers associated to Axis, Zenith and Milk Link.

Milk Marque Ltd has given notice of its intention to withdraw from the Milk Pension Fund. The Trustees of the Fund are currently negotiating with Milk Marque Ltd the terms of their withdrawal.

The net pension cost charged for the year was £1,163,000 (2002: £1,119,000) which is after deduction of an offset of £282,000 (2002: £282,000) in respect of the amortisation of past service surpluses over the average remaining service lives of employees. The term of the amortisation is eleven years from 2001. This cost is determined on the basis of the latest actuarial valuation of the Fund which was made by an independent qualified actuary as at 31 March 2001 using the projected unit method. The principal actuarial assumptions adopted for the valuation, with each being expressed as the excess over the assumption for the annual rate of price inflation, were as follows. For the annual rate of return on the investments for discounting liabilities pre-retirement: four per cent, and for discounting liabilities post-retirement: two per cent. For the annual increase in the present and future pensions in payment: nil, for the annual rate of increase in pensionable pay for past service liabilities: one and a half per cent and for the annual rate of increase in pensionable pay for future service liabilities: nil for the first three years, then one per cent. Assets were valued by smoothing the market value of assets over five years. As at the date of valuation the market value of the Fund's assets amounted to £292 million. The actuarial value of the assets was sufficient to cover 104 per cent of the value of the members' accrued benefits.

The contribution rate of the Company in respect of pension payments until 31 March 2004 has been agreed with the Milk Pension Fund at 9.9%.

The Group operates a closed defined benefit scheme for a small number of former employees of VDC plc. The total market value of scheme assets at 31 March 2003 under the provisions of FRS 17 was £1.2m. No contributions were made into the scheme during the year and the scheme is in the process of being wound-up.

The Group also operates defined contribution pension schemes in respect of some employees. The assets of the schemes are held separately from those of the companies to which they relate in an independently administered fund.

## 28. Pensions (continued)

### Pension Arrangements

Under the transitional arrangements of Financial Reporting Standard No 17 (FRS 17), "Retirement Benefits", the Company is required to disclose the following information about the pension schemes and the figures that would have been shown under FRS 17 in the current balance sheets as at 31 March 2003 and 31 March 2002 and in the profit and loss account and statement of total recognised gains and losses for the period ended 31 March 2003.

The actuarial valuation was updated by the actuary to 31 March 2003 using the following assumptions:

	At 31 March 2003 (p.a.)	At 31 March 2002 (p.a.)
Rate of increase in salaries	3.9%	4.2%
Rate of increase in pensions	2.4%	2.7%
Discount rate	5.5%	6.1%
Inflation	2.4%	2.7%

The share of the overall Milk Pension Fund's assets and liabilities notionally allocated to Genus, together with those in the VDC retirement plan, and the expected rates of return on their investments as at 31 March 2003 are as follows:

	At 31 March 2003 (p.a.)		At 31 March 2002 (p.a.)	
	Long term		Long term	
	Expected	Market	Expected	Market
	Rate of	Value	Rate of	Value
	Return (p.a.)	£000	Return (p.a.)	£000
Equities	8.0%	26,700	7.5%	43,600
Bonds	4.5%	59,600	5.0%	54,200
Cash	4.0%	800	4.0%	400
Total market value of scheme assets		87,100		98,200
Present value of scheme liabilities		(95,200)		(86,600)
(Deficit)/Surplus in the scheme		(8,100)		11,600
Less deferred taxation		2,400		(3,500)
Net pension (liability)/asset		(5,700)		8,100

# Notes to the Accounts

at 31 March 2003

## 28. Pensions (continued)

An analysis of amounts that would have been charged in the profit and loss account or statement of total recognised gains and losses is as follows:

	2003 £000
Amounts charged to operating profit:	
Current service cost	1,500
Total operating charge	1,500
Amounts charged/(credited) to finance income:	
Expected return on pension scheme assets	(5,700)
Interest on pension scheme liabilities	5,000
Net Return	(700)
Amounts recognised in the statement of total recognised gains and losses (STRGL):	
Actual return less expected return on pensions scheme assets	(13,600)
Experience gains and losses arising on the scheme liabilities	(900)
Changes in assumptions underlying the present value of the scheme liabilities	(5,300)
Actuarial loss recognised in the STRGL	(19,800)

The experience gains and losses were as follows:

	2003
Difference between expected and actual return on scheme assets:	
Amount	(£13,600,000)
Percentage of scheme assets	(15.6%)
Experience gains and losses arising on the scheme liabilities:	
Amount	(£ 900,000)
Percentage of present value of the scheme liabilities	(1.0%)

Total amount recognised in the statement of total recognised gains and losses:

Amount	(£19,800,000)
Percentage of present value of the scheme liabilities	(20.8%)

The movement in the surplus/(deficit) in the scheme is analysed as follows:

	2003 £000
Surplus in the scheme at 1 April 2002	11,600
Current service cost	(1,500)
Contributions	900
Other finance income	700
Actuarial loss	(19,800)
Deficit in the scheme at 31 March 2003	(8,100)

Had the above amounts been recognised in the financial statements, the Group's net assets and profit and loss reserves at 31 March 2003 would be as follows:

	2003 £000	2002 £000
Net assets excluding pension asset	47,457	48,332
Pension (liability)/asset	(5,700)	8,100
Net assets including pension (liability)/asset	41,757	56,432
Profit and loss reserve excluding pension asset	9,392	10,869
Pension (liability)/asset	(5,700)	8,100
Profit and loss reserve including pension (liability)/asset	3,692	18,969



## 29. Derivatives and Other Financial Instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments can be found in the Finance Director's Review on pages 12 to 13. The accounting policy for derivative instruments is set out in note 1.

Short term debtors and creditors are excluded from the analyses (except for the currency analyses) as permitted by FRS 13.

In the opinion of the directors the fair values of all financial instruments required to be reported are not materially different to their carrying values, with the exception of foreign currency hedges (see below).

### Interest rate risk profile of financial assets and liabilities

Currency	Total financial liabilities £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000
<b>2003</b>			
Sterling	11,406	2,047	9,359
US Dollar	5,139	298	4,841
Australian Dollar	2,482	-	2,482
	19,027	2,345	16,682
<b>2002</b>			
Sterling	10,950	558	10,392
US Dollar	7,180	26	7,154
	18,130	584	17,546

Financial assets consist of £5,263,000 (2002: £335,000) of cash on money market deposits at floating rates, together with £1,568,000 (2002: £2,368,000) which earns no interest.

Currency	Fixed rate financial liabilities Weighted average interest rate %	Weighted average period for which rate is fixed
<b>2003</b>		
Sterling	5.6	2.7
<b>2002</b>		
Sterling	12.4	1.6
US Dollar	13.0	0.6
	12.4	1.5

Fixed rate financial liabilities consist of finance leases.

Floating rate financial liabilities comprise:

- Sterling denominated bank loans, overdrafts and loan notes that bear interest at rates based on LIBOR;
- US dollar bank loans and overdrafts that bear interest at rates based on US Prime rate; and
- Australian dollar borrowings under the multi-option facility at rates based on LIBOR.

# Notes to the Accounts

at 31 March 2003

## 29. Derivatives and Other Financial Instruments (continued)

### Currency exposures

The table below shows the Group's currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the operating currency of the operating unit involved.

Functional currency of group operations	Net currency monetary assets/(liabilities)			
	US Dollar £000	Euro £000	Other £000	Total £000
<b>2003</b>				
Sterling	139	162	(75)	(226)
US Dollar	-	-	(438)	(438)
Euro	(2,348)	-	-	(2,348)
	(2,209)	162	(513)	(2,560)
<b>2002</b>				
Sterling	(6,886)	804	17	(6,065)
US Dollar	-	-	(664)	(664)
Euro	(884)	-	-	(884)
	(7,770)	804	(647)	(7,613)

### Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 March was as follows:

	2003 £000	2002 £000
Amounts falling due:		
In one year or less or on demand	13,493	10,104
In more than one year but not more than two years	4,049	4,366
In more than two years but not more than five years	1,485	3,660
	19,027	18,130

### Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 March in respect of which all conditions precedent had been met at that date are as follows:

	2003 £000	2002 £000
Expiring in one year or less	5,050	10,709
Expiring in more than one year but not more than two years	-	412
Expiring in more than two years	2,653	10,009
	7,703	21,130

### Hedges

The Group's policy is to hedge a proportion of net transactional currency exposures and future contracted sales.

The nominal value of forward contracts on foreign currency liabilities, entered into in the normal course of business, at 31 March 2003 amounted to £8,081,000 (2002: £nil).

The fair value of these contracts at 31 March amounted to a liability of £60,000 (2001: £nil), based on the estimated amount which the Group would expect to pay or receive on termination of the contracts taking into consideration current exchange rates.

The recognised gains on forward exchange contracts included in the profit and loss account that arose in previous years amounted to £nil (2002: £nil).

The deferred loss on the forward exchange contracts at 31 March 2003 amounted to £60,000 (2002: £nil), all of which is expected to be recognised in the next year.

### 30. Related Party Transactions

During the course of the year, the Group entered into transactions with related parties as follows:

- T P Acton purchased his car from the Group for £7,350; and
- Belton Cheese Limited, a company controlled by J H Beckett, chartered the Group's twin-propeller aircraft for a return flight for £1,050.

There were no amounts outstanding for these transactions at 31 March 2003. There were no related party transactions requiring disclosure in the year ended 31 March 2002.

### 31. Principal Subsidiary Undertakings

The principal subsidiaries of Genus plc and their main activities are set out below. Except where shown, all the companies are registered in England and Wales. The companies listed below include all those which principally affected the amount of the profit and assets of the Group. A full list of subsidiary and other related companies will be annexed to the next annual return of Genus plc to be filed with the Registrar of Companies.

Subsidiary companies	Holding	Proportion of voting right and shares held	Nature of business
ABS Global Inc (incorporated in United States)	US\$1 capital stock	100%	Supply of dairy and beef semen
ABS Italia Srl (incorporated in Italy)	€ 1 quota capital	100% <sup>1</sup>	Supply of dairy and beef semen
ABS Mexico SA de CV (incorporated in Mexico)	US\$1 common stock	100%	Supply of dairy and beef semen
ABS Pecplan Ltda (incorporated in Brazil)	RS1 quota stock	100%	Supply of dairy and beef semen
American Breeders Services of Canada Limited (incorporated in Canada)	CN\$1 common shares	100%	Supply of dairy and beef semen
Animalcare Limited	£1 ordinary shares	100% <sup>1</sup>	Supply and distribution of veterinary and other products
BOVEC SA (incorporated in France)	€1 ordinary shares	75% <sup>1</sup>	Supply of dairy and beef semen
Genus Australia Pty Ltd	AU\$1 ordinary shares	100%	Supply of dairy and beef semen
Genus Breeding Limited	£1 ordinary shares	100%	Supply of dairy and beef semen
Genus Management Services Limited	£1 ordinary shares	100%	Management services
Genusxpress Limited	£1 ordinary shares	100% <sup>1</sup>	Supply and distribution of veterinary and other products
HTS Development Limited	£1 ordinary shares	100%	Consultancy and contract management
P-E International Consultants Limited	£1 ordinary shares	100% <sup>1</sup>	Business and management consultancy
Promar International Limited	£1 ordinary shares	100% <sup>1</sup>	Market research and consultancy

<sup>1</sup> Held by subsidiary undertaking

NOTICE IS HEREBY GIVEN that the 2003 Annual General Meeting of Genus plc (the "Company") will be held at Buchanan Communications, 107 Cheapside, London EC2V 6DT on 21 August 2003 at 2.30 p.m. for the following purposes:

#### Ordinary Business

1. To receive and approve the directors' report and audited accounts for the year ended 31 March 2003.
2. To declare a final dividend of 5.5 pence per ordinary share, payable to shareholders on the register of members at the close of business on 1 August 2003.
3. To re-elect as a director of the Company John Hawkins (who retires in accordance with the Company's Articles of Association) and who, being eligible, offers himself for re-election.
4. To re-elect as a director of the Company Edwin White (who retires in accordance with the Company's Articles of Association) and who, being eligible, offers himself for re-election.
5. To re-appoint Ernst & Young LLP as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the directors to fix their remuneration.

To consider and, if thought fit, pass the following resolutions as an ordinary resolution

#### Ordinary Resolution

6. THAT in substitution for and to the exclusion of the authorities granted to the directors by the resolution passed on 22 August 2002 (save to the extent already utilised) to allot relevant securities of the Company, the directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 (the "Act") to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £950,399.60 being 9,503,996 ordinary shares of 10 pence each PROVIDED THAT this authority shall expire on the date of the next Annual General Meeting of the Company or, if earlier, fifteen months after the passing of this resolution or its renewal except that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

#### Special Business

To consider and, if thought fit, pass the following resolutions, which will be proposed as special resolutions.

#### Special Resolutions

7. THAT subject to the passing of resolution 6 set out above and in substitution for and to the exclusion of the authority conferred upon the directors at the Annual General Meeting of the Company held on 22 August 2002 (save to the extent already utilised) the directors be and are hereby empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94 of the Act) for cash, pursuant to the authority conferred by resolution 6 above, as if section 89(1) of the Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

7.1 the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them (subject, in either case, to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of, or the requirements of, any regulatory body or stock exchange in any territory or otherwise howsoever); and

7.2 the allotment (otherwise than pursuant to paragraph 7.1 above) of equity securities up to an aggregate nominal value of £167,830 being 1,678,300 ordinary shares of 10 pence each representing not more than five per cent of the issued share capital of the Company as at 31 March 2003; and

7.3 the allotment (otherwise than pursuant to paragraphs 7.1 and 7.2 above) of equity securities up to an aggregate nominal value of £167,830 being 1,678,300 ordinary shares of 10 pence each representing not more than five per cent of the issued share capital of the company as at 31 March 2003 for the purpose of allotting ordinary shares in the Company in place of ordinary shares which have been purchased by the Company as one or more market purchases (as defined in section 163 of the Act) on the Alternative Investment Market of the London Stock Exchange plc pursuant to the authority conferred by the terms of resolution 8 below,

and shall expire upon the earlier of the renewal of

this power, the conclusion of the next Annual General Meeting of the Company, or fifteen months after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

8 THAT in accordance with Part V of the Companies Act 1985 ("the Act"), the Company be and is hereby generally and unconditionally authorised (pursuant to section 166 of the Act) to make one or more market purchases (as defined in section 163 of the Act) on the Alternative Investment Market of London Stock Exchange plc of any of its own ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the board of directors of the Company may from time to time determine provided that:

8.1 the maximum number of Ordinary Shares hereby authorised to be purchased is 5,034,900;

8.2 the maximum price which may be paid for an Ordinary Share is an amount equal to not more than 105 per cent of the average of the middle market quotations for an Ordinary Share on the Alternative Investment Market of the London Stock Exchange plc for the five business days before the day on which the purchase is made exclusive of attributable expenses payable by the Company;

8.3 the minimum price which may be paid for an Ordinary Share is 10 pence exclusive of attributable expenses payable by the Company; and

8.4 the authority conferred by this resolution shall expire on the conclusion of the next

Annual General Meeting of the Company held after the passing of this resolution or 18 months after the date of its passing (whichever shall first occur), except that the Company may, before such expiry, enter into a contract for the purchase of Ordinary Shares which may be completed by or executed wholly or partly after the expiration of this authority.

21 July 2003

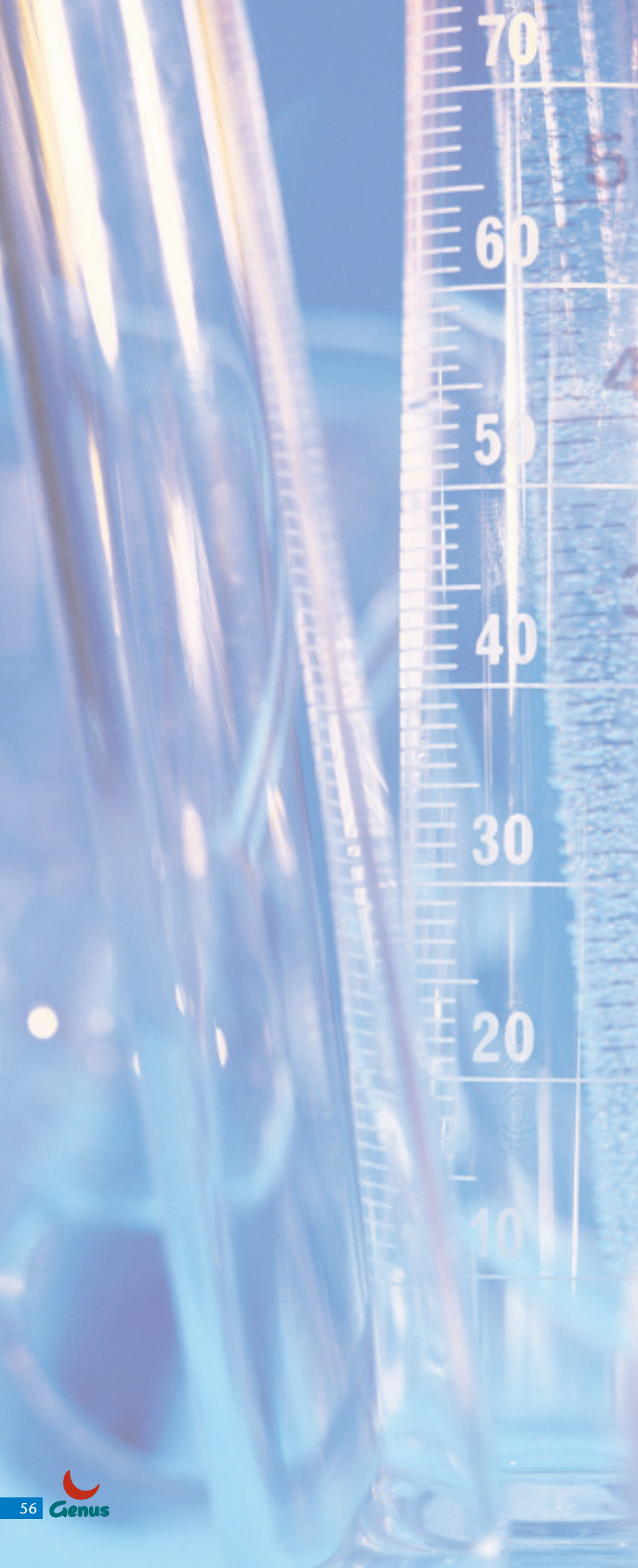
BY ORDER OF THE BOARD



C J Vickers

COMPANY SECRETARY





**Notes:**

1. Any member entitled to attend and vote at this meeting may appoint one or more proxies to attend and on a poll, to vote instead of him. A proxy need not be a member of the Company. A form of proxy accompanies this notice of Annual General Meeting.
2. To be valid, a duly executed form of proxy for use at the meeting together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a duly certified copy of such power or authority must be deposited at the offices of Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA at least 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Completion and return of a form of proxy will not preclude shareholders from attending the meeting and voting in person if they wish to do so.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the meeting is 6.00 p.m. on 19 August 2003 being 48 hours before the time fixed for the meeting. Changes to entries on the register of members after the relevant time will be disregarded in determining the rights of any person to attend or vote at the meeting.