

## Annual Report and Accounts 2005

BOVINE GENETICS   ANIMAL HEALTH   DEVELOPMENT CONSULTING



## Company Profile

Genus is the world's leading Bovine Genetics company. At the core of its business lies an approximately £9m per year research and development programme. Laboratory bioscience is used to target and augment traditional mating and selection programmes testing 400 new bulls each 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.

Genus distributes beef and dairy semen, both for tropical and temperate agricultures, from its six studs located in four continents to farmers in 70 countries. It operates an unrivalled network of overseas selling offices and exclusive agents. In some countries it also offers insemination services and the sale of supporting products.

In the UK, Genus Animalcare markets licensed veterinary pharmaceuticals and Genusxpress wholesales a range of other companies' veterinary pharmaceuticals and products. Genus also operates an overseas consultancy practice which manages projects funded by aid agencies for less developed countries.

Genus offers unrivalled expertise in its sector of modern agricultural technology.



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# Chairman's Statement

**“Genus increased its underlying operating profit for the ninth consecutive year. We continue to view Group prospects positively”**

In this, my first year as Chairman of Genus plc, I am pleased to be able to report yet another year of record profits.

Group turnover was £183.2m (£183.7m in 2004). At constant exchange rates (applying 2003/2004 exchange rates to 2004/2005 results), Group turnover was £185.3m, an increase of 1% on prior year. Bovine Genetics was up 6% at constant exchange rates and Development Consulting was up 6%. Animal Health turnover was down £4.2m to £76.2m (£80.4m in 2004) due to a deliberate policy of exiting some very low margin bulk trade in wholesaling.



Group underlying operating profit before non-recurring charges was up 4% to £11.8m (£11.4m in 2004). Non-recurring charges in the current year totalling £0.4m related to securing the Research & Development tax credits and consultancy and redundancy costs regarding the global re-organisation for Bovine Genetics referred to in the Chief Executive's report.

The Bovine Genetics contribution to Group underlying operating profit of £11.0m (£10.6m in 2004), was up 4% at constant exchange rates, but was reduced by £0.3m to £10.7m due to the impact of the weak US Dollar. By December 2004, Bovine Genetics was well ahead of last year's underlying operating profit. However, a stronger performance for the full year was held back, in the final quarter, because of temporary market uncertainties in the UK and Europe prior to the recent implementation of a new European Union agricultural subsidy regime.

In the other businesses, underlying operating profit together increased by 12% to £2.7m (£2.4m in 2004). Animal Health's underlying operating profit contribution was up 19% to £1.9m (£1.6m in 2004), despite the competitive veterinary wholesale market.

Development Consulting's underlying operating profit of £0.79m was up 4% (£0.76m in 2004) despite having absorbed the cost of opening a new office in Pakistan.

Group operating profit before exceptional and non-recurring charges and goodwill amortisation was up 8% to £11.8m (£10.9m in 2004).

The net result was a 9% increase in profit before tax to £8.8m (£8.1m in 2004). The reduced tax rate resulting from current and retrospective tax rebates on R&D expenditure, largely in the USA, further improved profit after tax which rose by 21% to £6.4m (£5.3m in 2004). Basic earnings per share increased by 14% to 17.6 pence (15.5 pence in 2004), despite the Group having issued and placed with institutions 1.7m new shares, partly to fund a small UK acquisition for Bovine Genetics, and thereby improving liquidity in the Company's shares.

## Share Capital

The Board made considerable progress with its strategy for restructuring the share register to improve liquidity. A voluntary buyback scheme was implemented in November 2004. This procedure reduced the number of small shareholders by 3,500, or 19% (13% of total number of shareholders), by acquiring 1,589,974 shares into treasury.



These shares, together with 699,470 shares issued as a result of the exercise of executive options, were then placed with new and existing institutional investors. As a result, the percentage of issued shares now held by institutions has increased from 37% to 45%.

The Board will continue to keep under review options for further restructuring of the share register to improve the liquidity of the Company's shares.

I am pleased to be able to inform shareholders that Genus plc shares have been included in the new FTSE AIM 50 Index of top companies launched on 16th May 2005.

### **Dividend**

As a result of the continued confidence the Board has in the long-term strategy for growth, it is recommending a record dividend of 7.5 pence (6.5 pence in 2004). This dividend will be 2.6 times covered by underlying earnings. Subject to shareholder approval at the Company's AGM, this dividend will be paid on 30th August 2005 to shareholders on the register at the close of business on 5th August 2005 with an ex-dividend date of 3rd August 2005.

### **Personnel**

I succeeded John Beckett as Chairman of the Board upon his retirement at the Annual General Meeting held on 12th August 2004. I would like to thank John for his considerable contribution to the success of Genus as the inaugural Chairman. During his stewardship, Genus has evolved from being a small UK private company to become a public company which is world leader in its sector.

John Worby was appointed to the Board on 1st September 2004 and replaced me as Chairman of the Audit Committee. His strong financial background means he is well qualified for this role.

With a company as internationally diverse as Genus, employing approximately 1,300 people located on four continents, it is impossible for me to thank personally all those who contributed to making this year the success that it was.

Thank you for those efforts and please keep up the good work. I look forward to working with you in the coming year to achieve even more progress than we have this year.

### **New Accounting Reference Date**

The Board has been considering for some time the desirability of changing the accounting reference date from 31st March to 30th June. The seasonal nature of the Bovine Genetics business means that peak selling seasons straddle both the interim and final reporting dates. Also, the Board is aware that for comparative purposes it would be useful to align with the accounting reference dates of public companies in our sector.

Accordingly, the Board proposes to effect a change to 30th June 2006 by issuing interim reports for the six months ending 30th September 2005, for the 12 months ending 31st March 2006 and then Group Report and Accounts for the 15 month period ending 30th June 2006.

### **Outlook**

We view the Group's future positively. We are confident of the improving prospects and long term potential for Bovine Genetics. We expect the UK and Europe to return to a more normal trend, with farmers adjusting to the new support mechanisms. Indeed, early signs are already evident.

Internationally, the competitiveness of the stud has again improved dramatically with the addition of six new high ranking bulls. Also, an extension to the sales force in the USA will hasten our activity in that market. Operating productivity improvements resulting from the re-organisation should offset inflationary pressures. The decision to maintain the location of a large part of the cost base in the USA rather than the UK should provide a natural hedge against some of the profit impact of any adverse Dollar exchange movements.

We expect both Animal Health and Development Consultancy to continue to grow at historical rates. New product introductions to the range of exclusively marketed veterinary pharmaceuticals should underpin profitable growth in Animal Health, despite extreme price competition in veterinary wholesaling.



John Hawkins  
Chairman

# Chief Executive's Review

“The competitiveness of our international stud has again improved dramatically with the addition of six new high ranking bulls.

Operating productivity improvements will result from a global reorganisation which should offset inflationary pressures.

Further investment has been made in expanding the sales force in the USA, Chile and Japan.

The potential of new pharmaceutical licences will strengthen the Animal Health business.”



## Group Strategy

At the beginning of the financial year, the Board met to review group strategy and the five year business plan.

The strategy for development involves:-

- Concentration on Bovine Genetics over the long term.
- Increasing the level of intellectual property, directly owned or exclusively licensed, in both Bovine Genetics and Animal Health.
- Driving underlying sales and achieving profit growth from improved margins and increased productivity in all businesses, pending achievement of a step change through:
  - a product differentiating R&D invention in Bovine Genetics and/or;
  - synergy through major international acquisition in the Bovine Genetics or related sectors.
- Continuing to improve the liquidity of the Company's shares by initiating buybacks, placings and issuing shares in preference to other types of funding for small as well as large acquisitions, but balancing earnings dilution.

## Operating Progress

This year, all three businesses improved their market penetration.

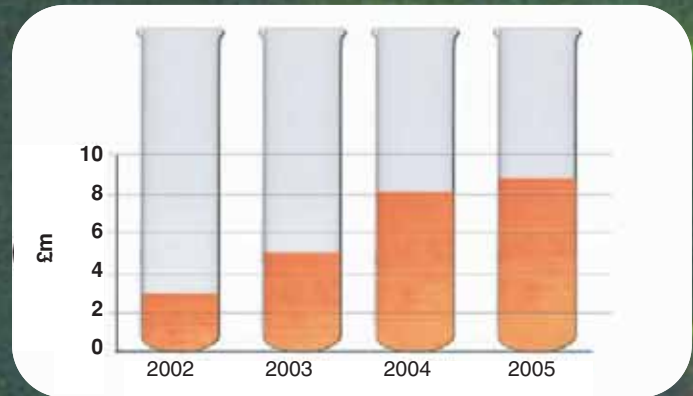
To reduce costs and improve productivity in the core Bovine Genetics business, we began to re-organise distribution operations worldwide. Bovine Genetics now sells to 70 countries from six studs on four continents. Until recently, effort has been concentrated on improving the R&D investment, maximising global product availability and reducing the overlap within the studs. This year we began a two year project aimed at harmonising country operations and removing superfluous costs by beginning to operate as one worldwide business, rather than an amalgamation of independent country businesses.

In the USA, the retail sales force was extended by a further twenty six people as part of a plan aimed at reducing dependency on distribution agents. We expect this investment in the future to hasten penetration of the large US market.

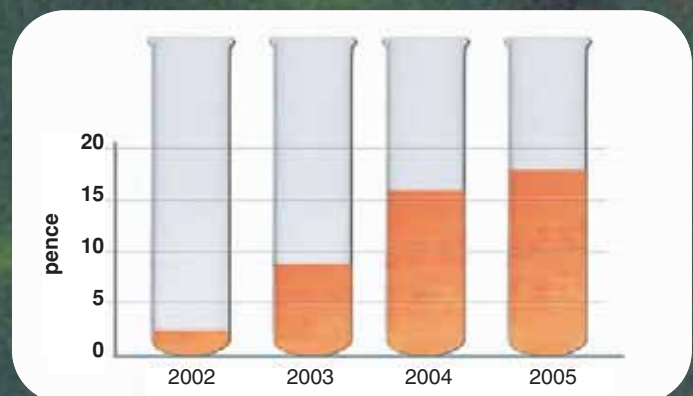


## Genus Highlights

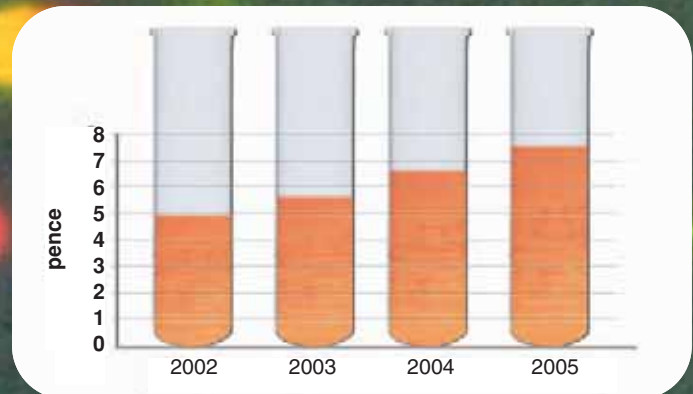
### Profit before tax (£m)



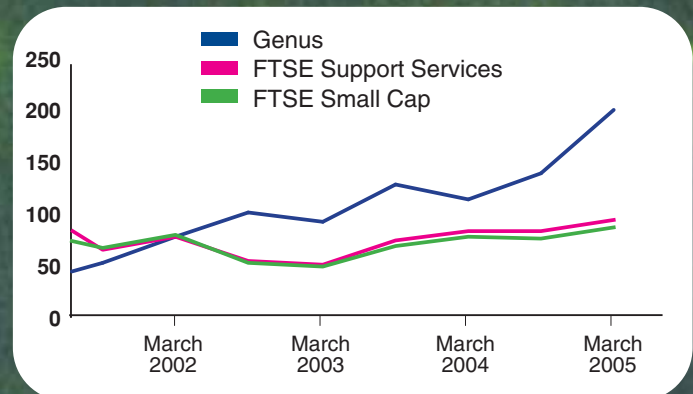
### Basic earnings per share (pence)



### Dividend per share (pence)



### Share performance



# Chief Executive's Review

We have also extended distribution strength in the UK by acquiring the Supersires insemination business from the French co-operative competitor.

In Animal Health we began to extend intellectual property by applying for a product licence for a new veterinary pharmaceutical therapeutic.

Details of the operating results for the three businesses are set out below:-

## Bovine Genetics – 45% of Group Turnover

This international business uses bio-technology to drive genetic change in beef and dairy cattle. This year it sold 9.5m doses of semen (9.2m doses in 2004) sourced from the Group's six bull studs on four continents to farmers in 70 countries. Sales increased by £5m, up 6%, to £85.7m (£80.7m in 2004) at constant exchange rates but the weakening of the US Dollar reduced the increase on translation by £2.1m to £83.6m.

The business had a good year until the final quarter when a change in the EU agricultural price support mechanism temporarily changed farmers' buying patterns in the UK and Continental Europe.

By the end of the third quarter, underlying operating profit was well ahead of the same period last year but then slowed to achieve a 4% underlying increase to £11.0m (£10.6m in 2004) for the year as a whole at constant exchange rates, before the translation impact of £0.3m relating to the weak US Dollar.

Throughout the year in the UK and Europe, farmers faced the most major change to their subsidy regime for a decade but few industry changes were noticeable until close to the first phase implementation dates in February and March 2005. At that stage, farmers were forced into making lifestyle decisions as the subsidies changed in some markets from being output related to being based on the acreage and historical receipts. The less efficient farmers needed to consider whether to retire over the next few years or continue. In anticipation of selling their herds, some farmers stopped buying Holstein semen to impregnate their animals in favour of cheaper beef semen, which achieves a milk producing pregnancy, but without producing a replacement calf for the herd.

We judge this change to be of a temporary nature pending quotas being released by exiting farmers to the more efficient farmers who are ultimately Genus' best customers.

Even against this background, sales volume in the UK was up by 2.7% and UK insemination numbers increased by 3%, despite cow numbers being down, as they have been in each of the last 10 years because of industry consolidation.

Elsewhere in the world business was strong, particularly in the large US market, Canada, Mexico and Latin America. Prices for Holstein semen were steady and beef semen prices increased.

In the USA, milk prices were buoyant and this provided a "feel good" factor for farmers. With the Canadian border remaining closed because of BSE, US farmers were unable to buy-in replacements for their herds from Canada and so used more higher priced dairy semen to breed their own replacements. Dairy semen prices increased, beef semen volume improved and the sale of support products increased.

Sales in Canada were also strong, primarily due to a strengthened product range that had specific appeal to pedigree breeders. This was possible despite a challenging market environment due to continuing cases of BSE and the closed export border with the USA.

Mexico had an exceptional year locally with sales up 15%. However, the translation impact of its weak currency negated much of the profit benefit.

In Brazil, sales were up by 18% on 2004 in local currency and drove through a strong profit uplift underpinned by cost savings initiated last year.

The new business in Chile, acquired from the Genus agent in March 2004, developed sales and profits strongly. Volume was up 40% on last year as the sales team concentrated business development in the cow-dense area of Southern Chile.

Taking advantage of the improved economic stability in Latin America, towards the end of the financial year, we re-opened operations in the massive Argentinian market and trade has recommenced after the extended closure caused by the economic uncertainties of the past.

Australia proved more of a difficult market, with farming still depressed in the aftermath of the drought 18 months ago. As a result, the agricultural support industry experienced financial difficulties with many wholesalers and distributors being forced to liquidate or amalgamate. This has made Genus' route to market more challenging,





# Bovine Genetics



# Chief Executive's Review

as Australia is the only major market in the world in which we do not have ultimate control of our own distribution.

Accordingly, we have begun to set up a Genus owned distribution network and have already made one small acquisition upon which to base this new network.

Finally, we had a most successful year in Japan with sales volume up 47%. We were able to raise prices because of the strength of our product portfolio.

## Research & Development

Genus' biotechnology strategy aims selectively to concentrate on projects which will differentiate its products in addition to improving the hit rate in the core genetic selection process. Indeed, Genus' application of short-term bioscience advances to those established processes has already made it the most successful Bovine Genetics company in the industry.

As it takes five years from the inclusion of a bull in the development programme to produce commercial test results, we believe that the identification of the traits likely to be important in the market in five years time to be as important as the hit rate in selecting the right bull. Genus used its extensive knowledge of world agriculture to predict in 1999 and 2000 that longevity traits would increase in importance and this has proved to be a correct analysis. Also, we decided to restrict further investment in gene marking technology to that of a watching brief in a science we believe to be of a very long-term nature. Instead, we will be increasing our investment in projects related to improving the fertility of our customers' herds, judged to be a most important trait for the future.

This year, in February, Genus introduced six new bulls to the world top ranking league table while all its competitors added none. The additional traits available from the new bulls introduced this year will enable farmers to breed progeny with special longevity characteristics. The semen now beginning to be sold from these new stud bulls will achieve premium prices.

Last year, the bio-technology programmes developed a particle separation process to be used in separating male and female sperm. Independently, a flow system has since been constructed, capable of handling multi-dose volumes of semen. The immediate challenge is to bring these two technologies together.

An alternative sexed semen project, which enhances the proportion of females in standard semen doses, is now

moving to preliminary field trials. The pregnancy ratios achieved by co-operator farmers in their herds in many disparate locations will be used to establish whether the invention provides sufficient added value to achieve a beneficial marketable effect.

## Animal Health – 42% of Group Turnover

This year the focus was on expanding the higher margin licensed pharmaceutical business whilst exiting, as planned, some very low margin bulk trade in wholesaling. The latter reduced sales by £4.2m but improved the average margin in the business. Sales and profit growth in the licensed pharmaceutical business contributed to a 19% increase in overall divisional underlying operating profit to £1.9m.

Like-for-like sales in Veterinary Wholesaling remained level in the face of increased competitor activity. After some account losses in the early part of the year, marketing and selling initiatives secured recent account gains which increased fourth quarter sales by 3% compared with the prior year.

The Wholesaling business continued to invest in improving the service offered to customers and to achieve operational efficiency improvements. The latest project involves a £300,000 investment in "2D" data matrix bar coding which will improve order picking accuracy and reduce waste. "2D" bar coding also makes it easier for veterinary practices to trace their stock through batch numbers and expiry dates.

In the licensed pharmaceutical business, there were notable advances in all products but particularly from the *idENTICHIP™*, especially the innovative *idENTICHIP™* with Bio-Thermo, from the Aquapharm range of IV fluids and from database related products and services.

In the course of the year, we concluded an international licence and supply agreement with a major supplier of human generic pharmaceuticals. This will lead shortly to the submission for registration in the UK of the product for veterinary use. It is a generic version of a widely used companion animal pharmaceutical. The UK submission will be followed by regulatory submissions in other major European markets.

We are also in the final stages of negotiations with two other multinational companies concerning the development and acquisition of international rights to





Animal Health





# Chief Executive's Review

intellectual property which should see the submission of two more regulatory dossiers in the new financial year.

These investments in new pharmaceutical products and intellectual property are in line with the strategic decision by the Group to maximise the potential of this sector of the veterinary business.

## Development Consulting – 13% of Group Turnover

Based in the UK, Development Consulting increased its turnover by 6% to £24.0m (£22.7m in 2004). This business provides programme management and consulting services to the UK Government, the EU and overseas aid agencies. Most projects are in less developed countries.

In response to changing client requirements, the business began a process of establishing offices in key overseas regions. The first was opened in Pakistan during 2004. The aim is to benefit from the flow of international development funds to Afghanistan and other Asian markets.

Amongst notable projects in progress at the year end were:

1. Kyrgyzstan Republic – Support to the Village Investment Programmes. This continues the successful four-year programme previously reported.
2. Vietnam – Support for the small and medium Enterprise Development Funds.

3. Georgia – Financial management for the Ministry of Agriculture and Food.
4. UK/Ireland – Project for the EC's LIFE Environment programme.

Africa has become a strategic new market for Development Consulting. The very large UK government funded State and Local Government Programme in Nigeria continued to be a focus of the Company's work. At the year end, Genus was named preferred bidder for a project to establish a Policy and Knowledge Facility in the same country. The business also won contracts in South Africa and Uganda.

Governments and international development agencies have increased sharply their commitments to Africa, for example through the Prime Minister's initiative, the Commission for Africa. The Development Consultancy Division has had 50 years experience in the region and operates with a strong team of specialists with African experience. It will be well placed to participate in the expanded programmes that are planned.



Richard Wood  
Chief Executive

## Chief Operating Officers of Genus plc

### Ian Biggs, Bovine Genetics

Ian Biggs (47) is a graduate chartered accountant having qualified with KMPG.

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 plc, first as Group Finance Director and later as Managing Director of the European business followed by head of North American operations.

### Philip Acton, Animal Health

Philip Acton (47) is a graduate chartered accountant having qualified with Deloitte.

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.

### James Morton, Development Consulting

James Morton (53) is a Development Economist who gained his PhD from London University in 1994.

James joined Hunting Technical Services Ltd in 1982 as an Economist. He spent the next 13 years working in a technical capacity, mostly overseas on long term projects. Overseas assignments included seven years in Darfur and three years in the Dominican Republic. He returned full time to the UK in 1995 at which point he took over as Regional Manager for Latin America and the Caribbean.

In 1998 Hunting Technical Services was acquired by Genus plc and in 1999 James was promoted to Chief Operating Officer.





# Development Consulting





# Finance Director's Review

## Operating Results

Group operating profit before goodwill amortisation increased by £1.0m (10%) to £11.4m (2004: £10.4m) with all divisions achieving increases over the prior year. At constant exchange rates, group operating profit before goodwill amortisation would have been £0.3m higher at £11.7m, an increase of 13% over the prior year. In the face of challenging conditions in some of the Bovine Genetics markets, and the highly competitive Veterinary Wholesale market, Group focus has been on improving margin. This has been achieved for all divisions for the reporting year. Group operating margin, before goodwill amortisation, increased from 5.7% to 6.2% of sales.

A one-off consultancy expense for £0.2m and a £0.1m redundancy cost have been incurred in the year in respect of a globalisation strategy in Bovine Genetics to improve operating efficiencies and achieve cost savings, the main benefits of which will accrue over the next two years. A further one-off cost for £0.1m was for specialist tax advice. This related to current and retrospective claims for Research & Development expenditure in the USA and the UK. A charge of £0.1m has been accrued with respect to first time application of UITF 17, regarding the Executive Performance Share Plan.

As part of the global re-organisation for Bovine Genetics, we are integrating operations in the UK regarding bull rearing and lay-off. As a result, one major agricultural facility is being closed in phases and sold in lots. The first major lot was sold during the year and realised £0.3m cash and generated a profit of £0.3m. Further lots are expected to be sold in the new financial year.

## Interest Charge

The interest expense reduced by £0.1m to £1.2m from £1.3m, despite higher interest rates, due to lower average debt levels than the prior year. Interest was covered 9.7 times (2004: 7.9 times) by operating profit before goodwill amortisation.

## Taxation

The tax credits expected from the Research & Development claim amount to £0.5m, of which £0.2m and £0.3m relate to current year and prior years respectively. These credits have reduced the effective rate of tax to 27.3% (2004: 34.3%). On an ongoing basis, the effective rate of tax is expected to be approximately 31%.

## Earnings Per Share & Dividend

Basic earnings per share has increased by 14% to 17.6p (2004: 15.5p). On a like-for-like basis, earnings per share based on profit before goodwill amortisation and exceptional items and excluding the retrospective tax credit, increased by 0.8p (4.1%) to 20.3p (2004: 19.5p).

The Board has recommended a 15% increase in the dividend to 7.5 pence per share (2004: 6.5 pence per share). This dividend is covered 2.6 times by underlying earnings (2004: 2.9 times).

## Financing & Cash Flow

Operating cash inflow for the year was £9.4m (2004: £14.4m) after a working capital increase in the year of £5.6m which was due mainly to temporary timing differences at the end and beginning of the year. Net debt of £7.5m was in line with the previous year end.

## Balance Sheet & Shareholder Funds

Shareholder funds increased to £55.1m during the year (2004: £48.7m) reflecting the retained profit of £3.6m and new issue of approximately 1.9 million new shares (one million as an institutional placing at £2.10 per share and approximately 900,000 shares in respect of share option exercises). Gearing at 31st March 2005 was 14% (2004: 15%).

## 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 at the end of the year were of two 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



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 Sterling, US Dollars and Australian Dollars (AUD). Interest rate swaps may be used to generate the desired interest profile and to manage exposure to interest rate fluctuations. At the year end, the company had fixed interest loans of AUD 6.95m.

#### ● Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans and finance leases. At the year end, 90% of the Group's borrowings excluding overdrafts were due to mature within one year and 10% between one and two years.

During the year, the balance of the loan notes of £1.6m was repaid in full.

Short-term flexibility is achieved through overdraft facilities, a bank multi-option facility to cover bank guarantees, borrowings and other items totalling £15m and a bank revolving credit facility of £10m which is available until 30th September 2005. At 31st March 2005, the Group had drawn down £1m on the revolving credit facility.

#### ● Foreign Currency Risk

The Group is exposed to two principal types of foreign currency 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. The Group operates a policy to settle trading inter-company balances on a monthly basis to minimise foreign currency exposure.

Translational exposure arises on the re-translation of overseas subsidiary companies' profits and net assets into Sterling for financial reporting purposes. Overseas trading is mainly US Dollar linked. The Company's decision to maintain the location of a large part of the Bovine Genetics' cost base in the USA rather than in the UK provides a natural hedge against translation exposure of overseas profits. Translation 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 which largely hedged the translation of its net investment in that currency.

#### Pensions

Genus' 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 recently revoked its notice of intended withdrawal from the Milk Pension Fund and has confirmed its continuing active participation. There is agreement between all parties involved to sectionalise the fund for each employer, but progress is currently awaiting the impact of the recent legislative changes.


Under FRS 17, the value of the scheme's assets and liabilities at 31st March 2005 showed the Genus section of the scheme as having a market value of £99.1m representing 91% of accrued benefits. The last full actuarial funding valuation of the Milk Pension Fund was in March 2003, when the actuarial value of the assets was sufficient to cover 96% of the members' accrued benefits.

#### Acquisition

In August 2004, the Group acquired the entire issued share capital of Supersires (2004) Limited, a UK registered company. The total consideration, including expenses, of £1.5m was financed by a placing for cash of one million ordinary shares at 210p per share. Supersires distributes semen and provides artificial insemination services to cattle farmers in South West England.

#### Adoption of International Financial Reporting Standards (IFRS)

The Group will be required to use IFRS to report its consolidated results for the year ending in 2008, with comparatives recorded under IFRS for the prior year. Our preliminary review would indicate the major differences between our current accounting practice and IFRS will be in respect of business combinations, agricultural assets, proposed dividends, deferred tax, research and development costs and share-based payments.



David Timmins,  
Group Finance Director

## Directors' Profiles

### **John Hawkins (51), Chairman**

John Hawkins joined the Board in June 2000 and was appointed Chairman on 12th August 2004. He is a non-executive Chairman of Salamander and a non-executive director of Psion Plc. Prior to this, he was Chief Executive of Anite Group plc and before that was with Philips Electronics for 19 years. During the latter period he became European President of Philips Media. He took his first general management role more than 10 years ago. He has lived and worked in Sweden, Holland, Asia Pacific and the USA.

### **Richard Wood (60), Chief Executive**

Richard Wood is a graduate chartered chemical engineer. He worked for ICI for 23 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 as Chief Executive in December 1996.

### **David Timmins (52), Group Finance Director**

David Timmins is a graduate chartered accountant, qualifying with KPMG in London. He has significant board experience in international public companies and joined Genus from Robotic Technology Systems PLC, where he was Group Finance Director for the previous five years. He has lived and worked in the USA and Germany and joined Genus as Group Finance Director in March 2004.

### **Edwin White (63), Senior Non-Executive Director**

Edwin White joined the Board in October 1994 and is the senior non-executive Director. He 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 Worby (53), Non-Executive Director**

John Worby joined the Board in September 2004 and is Chairman of the Audit Committee. He was previously Deputy Chairman and Finance Director of Uniq plc (formerly Unigate Plc). Prior to that, he was Group Treasurer of Unigate Plc and Finance Director of Wincanton Ltd. He is a graduate chartered accountant and has lived and worked in the USA.



# Directors' Report

The directors present their annual report and the financial statements for the year ended 31 March 2005.

## Results and Dividends

The profit for the year, after taxation and minority interests, amounted to £6,364,000 (2004: £5,273,000). The directors are pleased to recommend the payment of a dividend of 7.5 pence per share amounting to £2,788,000 (2004: 6.5 pence per share amounting to £2,299,000) payable on 30 August 2005 to shareholders on the register at the close of business on 5 August 2005. The profit transferred to reserves is £3,576,000 (2004: £2,967,000).

## 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, artificial insemination of cattle, providing consultancy advice to farmers and international policy makers, wholesale distribution of veterinary products and marketing of licensed pharmaceutical products for veterinary surgeons.

A review of the business and its future developments is contained in the Chief Executive's Review on pages 4 to 10 and the Finance Director's review on pages 12 to 13.

## Charitable and Political Donations

During the year the Group made charitable donations totalling £9,000 (2004: £nil). There were no contributions for political purposes (2004: £nil).

## Directors and Their Interests

The directors holding office during the year were:

J E Hawkins	- non-executive Chairman (Appointed Chairman 12 August 2004)
J H Beckett	- non-executive Chairman (Retired 12 August 2004)
R K Wood	- Chief Executive
D P Timmins	- Group Finance Director
E W White	- Senior non-executive Director
J G Worby	- non-executive Director (Appointed 1 September 2004)
T S K Yeo	- non-executive Director (Resigned 31 May 2004)

The interests of the directors, who held office at the end of the financial year, in the ordinary shares of the Company, other than with respect to options to acquire ordinary shares (which are detailed in the analysis of options included in the report on directors' remuneration), are as follows:

	Shareholdings	
	At 31 March 2005 No	At 31 March 2004 No
J E Hawkins	15,000	-
J H Beckett	n/a	56,717
R K Wood	59,400	59,400
D P Timmins	-	-
E W White	30,002	21,002
J G Worby	10,000	-
T S K Yeo	n/a	20,000
Total	114,402	157,119

No changes in directors' interests have arisen since the balance sheet date.

R K Wood and D P Timmins 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. At the Annual General Meeting, in accordance with the Articles of Association and best practice, J G Worby will offer himself for election and R K Wood will retire as a director by rotation, and, being eligible, offer himself for re-election.

## Research and Development

Further details relating to the Group's programme of Research & Development are contained in the Chief Executive's review on pages 4 to 10.

## 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.

## 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 Group 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 Group's policy to settle liabilities by the due date. At 31 March 2005 the Company had an average of 46 days' purchases outstanding in trade creditors (2004: nil).

## Major Interest in Shares

At the date of this report, the following interests in the Company's issued ordinary share capital were held:



# Directors' Report

NFU Mutual 13.80%, Jupiter Asset Management 9.17%, M&G Investment Management 3.54%, F&C Asset Management 3.11%. 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 the Annual General Meeting

At the Annual General Meeting on 18 August 2005 resolutions 1 to 6 are termed ordinary business, while resolutions 7 to 9 will be special business. The special business covers the directors' authority to allot shares, the partial disapplication of pre-emption rights, the directors' authority to buy back shares, and the level of aggregate fees that may be payable to non-executive directors as explained below. The resolutions are set out in the Notice of Annual General Meeting on pages 55 and 56.

Resolution 6 gives authority to the directors to allot shares up to a total nominal amount of £580,899 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 15.6% of the equity share capital in issue on that date. The authority will expire five years after its passing and replaces similar authorities granted on 12 August 2004 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 existing share option schemes, to issue shares under the Performance Share Plan 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 five years after its passing, 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 £372,610, being 10% of the equity share capital in issue on 31 March 2005. £186,305 of this authority (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 12 August 2004.

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 2006, to buy back shares on the open market to a limit of 3,726,101 ordinary shares. The minimum price payable per share is 10p (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 (exclusive of expenses).

The passing of resolution 9, a special resolution, will permit the level of aggregate fees payable to the non-executive directors of the Company to be up to £250,000 per annum which will be divided between the non-executive directors in such proportions as the Board shall from time to time determine.

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.

## Adoption of International Financial Reporting Standards

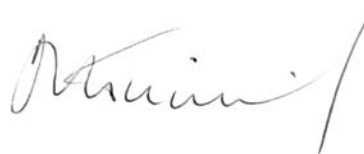
An 'International Accounting Standards Regulation' was adopted by the Council of the European Union (EU) in June 2002. This regulation requires all EU companies listed on an EU stock exchange to use 'endorsed' International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB), to report their consolidated results with effect from 1 January 2005 for companies on the Official List.

For Genus plc, an AIM listed company, the effective date for adoption of IFRS is 1 January 2007.

A process of endorsement of IFRS has been established by the EU for completion in sufficient time to allow adoption by companies in 2005. The Group has established a project team to plan for and achieve a smooth transition to IFRS. The project team is looking at all implementation aspects, including changes to accounting policies, systems impacts and the wider business issues that may arise from such a fundamental change. The Group expects that it will be fully prepared for the transition, commencing with the preparation of the comparative period opening balance sheet in 2006. However, the implementation plan is dependent upon the completion of the standard-setting process by the IASB and the endorsement of such standards by the EU.

The Group has not yet determined the full effects of adopting IFRS. Our preliminary view is that the major differences between our current accounting practice and IFRS will be in respect of accounting for business combinations, agricultural assets, proposed dividends, deferred tax, research and development costs and share-based payments.

By order of the Board



D P Timmins  
Secretary  
24 May 2005

# Report on Directors' Remuneration

The Company is not required to comply with Schedule 7A of the Companies Act 1985 as its shares are traded on the AIM. It thus makes the following disclosures on a voluntary basis.

The Remuneration Committee comprises three non-executive directors – Edwin White (Chairman), John Hawkins and John Worby. 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 profits and achievement of specific personal objectives, subject to a maximum bonus payable of 50% of annual salary. This bonus is pensionable in the case of David Timmins but is no longer so for Richard Wood (see Pension Arrangements below).

Long term incentives are provided under the Genus plc Performance Share Plan and the Genus plc 2004 Executive Share Option Plan. Under the Performance Share Plan, incentives are driven by achievement of growth in underlying earnings per share (as defined in note 8 to the accounts) over a three year period and take the form of either conditional share awards or nil-cost options. No awards under the Performance Share Plan and any other discretionary plan may be made in any financial year over shares worth more than 125% of an executive's remuneration, unless the Committee determines that exceptional circumstances exist. Other than the initial awards made this year, it is not intended that the value of annual awards will exceed 100% of annual remuneration. It is currently intended that participation in the Performance Share Plan will be restricted to the most senior executives.

The Remuneration Committee can grant share options annually under the 2004 Executive Share Option Plan, and any other discretionary plan, up to a maximum value of 100% of annual remuneration. Vesting of the options is conditional on achievement of performance criteria over a three year period. Grants under this scheme are used to incentivise middle and senior management; executive directors do not participate in this plan.

The Committee made conditional share awards during the year ended 31 March 2005 to the executive directors and to the three divisional Chief Operating Officers. These awards have performance conditions which relate to growth in earnings per share over a three year period and which trigger vesting on an incremental basis. Growth in

earnings per share must be greater, on average, than RPI plus 9% each year over a three year period for these awards to vest fully.

The Committee granted share options during the year ended 31 March 2005 to a number of senior and middle managers. The vesting of the options is conditional upon achieving average annual growth in underlying EPS over a consecutive three year period of not less than RPI plus 3%.

Details of awards made to directors are shown in the table of directors' interests on page 19 and details of the performance criteria for historical share option schemes are included in note 20 to the accounts.

## Pension Arrangements

During the year, the Remuneration Committee reviewed the pension arrangements of Richard Wood. Until this review, he was a member of a defined contribution scheme into which the Company made an annual contribution on the basis of 15% of his gross salary, equivalent to 30% of pensionable capped earnings. As a result of this review, the Committee approved the following changes in respect of Richard Wood's current and ongoing pension arrangements:-

- 1) No further contributions would be made by the Company after November 2004 to the defined contribution scheme.
- 2) Payments by the Company at a rate of £30,000 per year into a FURBS would also cease.
- 3) Richard Wood agreed to reduce his current rate of annual salary by £4,900 with effect from 1 April 2005.
- 4) Richard Wood agreed that any performance bonus earned in respect of the three years ending 31 March 2007, would no longer be pensionable.
- 5) Two payments of £97,500 would be made by the Company into a new occupational scheme; these payments were made in January and April 2005. No further pension payments will be made in respect of his remaining service.

As part of the review of his pension arrangements, Richard Wood agreed to extend his contract of employment to at least 31 March 2007.

The Company paid contributions to David Timmins' 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 pensionable capped earnings.

# Report on Directors' Remuneration

## Service Contracts

The service contracts and letters of appointment of the executive directors include the following terms:

	Date of contract	Unexpired term (months)	Notice period (months)
R K Wood	11 July 2001	24	24
D P Timmins	29 March 2004	12	12

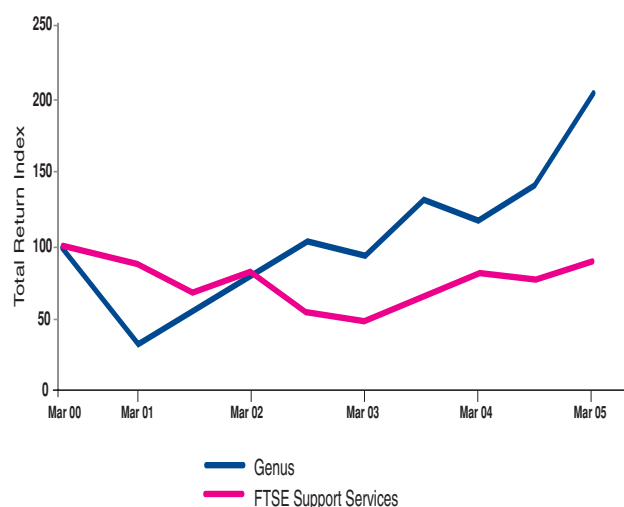
There are provisions for compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly.

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 annual emoluments including the average of the last three years' bonuses paid to the individual executive director.

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.

## Performance Graph

The graph below shows the total shareholder return (with dividends reinvested) for each of the last five financial years in a holding of the Company's shares against the corresponding total shareholder return in a hypothetical holding of shares in the FTSE Support Services index. The FTSE Support Services index was selected as it represents a broad equity market in which the Company is a constituent member.



## Directors' Remuneration

	Salary & fees £000	Bonus £000	Benefits £000	Total 2005 £000	Total 2004 £000	Pension 2005 £000	Pension 2004 £000
<b>Executive directors</b>							
R K Wood	213	44	36	<b>293</b>	239	<b>73</b>	60
D P Timmins	153	31	21	<b>205</b>	2	<b>18</b>	-
M R D Roller	-	-	-	-	140	-	16
<b>Non-executive directors</b>							
J E Hawkins	56	-	-	<b>56</b>	30	-	-
J H Beckett	20	-	-	<b>20</b>	60	-	-
E W White	35	-	-	<b>35</b>	30	-	-
J G Worby	22	-	-	<b>22</b>	-	-	-
T S K Yeo	5	-	-	<b>5</b>	30	-	-
<b>Total</b>	<b>504</b>	<b>75</b>	<b>57</b>	<b>636</b>	<b>531</b>	<b>91</b>	<b>76</b>

T S K Yeo resigned on 31 May 2004. J H Beckett retired on 12 August 2004.

J G Worby was appointed on 1 September 2004.



## Directors' Share Awards and Options

The directors at 31 March 2005 had the following beneficial interests in share awards and share options:

	Note	Exercise price	Share options	
			At 31 March 2005	At 31 March 2004
			No	No
R K Wood	(1)	50p	15,600	15,600
	(2)	175p	89,800	89,800
	(3)	175p	89,800	89,800
	(4)	90p	-	194,837
	(5)	173p	43,414	43,414
	(6)	192.5p	79,480	79,480
			<b>318,094</b>	512,931

Share options are exercisable between the following dates:

- (1) 21 March 2000 and 20 March 2007
- (2) 4 November 2002 and 3 November 2009
- (3) 6 March 2003 and 5 March 2010
- (4) 28 November 2004 and 27 November 2011
- (5) 11 June 2005 and 10 June 2012
- (6) 6 June 2006 and 5 June 2013

The options under (1), (2) and (3) are now exercisable. The options under (5) and (6) 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, unless provisions for "good leavers" have been met on retirement or redundancy.

R K Wood no longer holds options under (4), as all 194,837 options were exercised and subsequently sold in December 2004, realising net proceeds of £489,502 and a taxable gain of £314,149 (2004: £130,500).

At the 2004 Annual General Meeting shareholders approved a new long term incentive plan, the 2004 Performance Share Plan, to replace the executive share option schemes for executive directors and certain senior executives.

The following conditional shares were awarded to the executive directors on 9 September 2004 in respect of the 2004 Performance Share Plan:

	Conditional Share Awards	
	At 31 March 2005	At 31 March 2004
	No	No
R K Wood	121,400	-
D P Timmins	86,700	-

The market price of the Company's ordinary shares on the date of the award was 221.5p.

# Report on Directors' Remuneration

Under the terms of the 2004 Performance Share Plan, executive directors and certain senior executives are eligible to receive a conditional annual award of shares or nil cost options worth up to 100% of base salary. Awards will vest after three years, with the proportion of the award vesting being based on growth in Group underlying earnings per share, as shown in the table below:

Per annum growth in underlying EPS *	% of award vesting **
<RPI +3%	Nil
RPI +3%	40%
RPI +4%	50%
RPI +5%	60%
RPI +6%	70%
RPI +7%	80%
RPI +8%	90%
RPI +9%	100%

\* growth in underlying EPS over the three year performance period will be computed based on a simple average annual growth rate. For the 2004 award, EPS growth will be based on underlying EPS for the year ended 31 March 2004, i.e. 19.5p.

\*\* a linear scale will be applied when performance falls between the bands.

Prior to the vesting of any award, the Remuneration Committee will review the basis of calculation of growth in underlying EPS and satisfy itself that the performance conditions have been met.

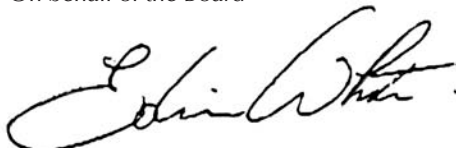
The Company established an Employee Benefit Trust on 9 September 2004. This trust was set up to be the custodian of any shares purchased in respect of the 2004 Performance Share Plan on behalf of the executive directors and certain senior executives.

For the period to 31 March 2005 no shares have been purchased by the trust, nor have there been any transactions since the balance sheet date.

No other director at 31 March 2005 had interests in share options or conditional share awards.

The market price of the Company's shares on 31 March 2005 was 318.0 pence and the high and low share prices during the year were 331.1 pence and 180.0 pence respectively.

On behalf of the Board



E W White  
Chairman of the Remuneration Committee

# Corporate Governance

The Board is committed to high standards of corporate governance and is accountable to the Company's shareholders for good corporate governance. As a Company whose shares are traded on the Alternative Investment Market, the Company is not required to comply with the New Combined Code. This statement describes the Company's voluntary application of the principles of corporate governance and its compliance with the provisions set out in the New Combined Code on corporate governance.

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

The directors consider that the Company has been in full compliance with the provisions set out in section 1 of the 2003 New Combined Code throughout the year except where explained below.

## The Workings of the Board and its Committees

### The Board

The Board is responsible to shareholders for the proper management of the Group and currently comprises two executive directors, two non-executive directors and the non-executive Chairman. 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.

The Chairman and the non-executive directors are considered independent. The Board considers the Chairman to be independent because, other than his interest in the ordinary shares of the Company and his role as Chairman, he has neither financial nor commercial interest in the Group. The senior independent non-executive director, Edwin White, has served on the Board for 11 years, a period longer than specified by provision A.3.1 of the Code. After formal review the Board unanimously agreed that Mr White's independence is not, and has not been, in question and that his background and contribution to the small Board are highly valuable.

The Board meets at least six times a year with a schedule of matters reserved for its approval including setting and monitoring Group strategy, reviewing trading performance, ensuring adequate funding, examining major acquisition possibilities, approval of material contracts, formulating policy on key issues and reporting to shareholders. The Board has delegated authority to local management teams to make day-to-day operating decisions to ensure proper management of the Group's business and implementation of the Board's approved strategy. Local management teams recommend strategy and plans to the Board, make routine decisions on resources and ensure that adequate operational and financial controls are in place.

The attendance of directors at Board and Committee meetings during the year was as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Chairman (non-executive)				
J E Hawkins	8 (8)	2 (2)	5 (5)	2 (2)
Executive directors				
R K Wood	8 (8)	n/a	n/a	2 (2)
D P Timmins	8 (8)	n/a	n/a	n/a
Non-executive directors				
E W White	8 (8)	2 (2)	5 (5)	2 (2)
J G Worby (from 1 September 2004)	4 (4)	1 (1)	3 (3)	n/a
J H Beckett (to 12 August 2004)	4 (4)	1 (1)	2 (2)	n/a
T S K Yeo (to 31 May 2004)	0 (1)	n/a	n/a	n/a

Note: Figures in brackets indicate maximum number of meetings in the period when the individual was a Board member



# Corporate Governance

Terms and conditions of appointment of the non-executive directors are available on request. As their appointment is not for a specified term, the Company has not been in compliance with provision A.7.2 of the Code during the year.

The Chairman, John Hawkins (appointed 12 August 2004), has primary responsibility for running the Board. The Chief Executive, Richard Wood, has executive responsibility for achieving operational and financial targets and for executing the Group's strategy. Clear divisions of accountability and responsibility between the Chairman and Chief Executive have been agreed by the Board and are set out in writing.

Additional Board meetings are held when necessary to consider matters that are time critical.

All directors have access to the advice and services of the Company Secretary, David Timmins, 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 well 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 Audit Committee

The Audit Committee, comprising John Worby (Chairman, appointed to the Committee on 9 September 2004), John Hawkins and Edwin White, is formally constituted with written terms of reference and meets at least twice a year. Meetings are attended by the Group Finance Director and minutes are circulated to all directors. The Audit Committee is responsible for reviewing a wide range of matters including the adequacy of the Group's accounting systems and control environment, the integrity of the Group's financial statements, and its reporting to shareholders.

The Audit Committee advises the Board on the appointment of external auditors and their remuneration, and discusses with the external auditors the nature, scope and results of the audit. The Audit Committee keeps under review the cost-effectiveness, independence and objectivity of the external auditors, including the level of non-audit fees charged. Auditor objectivity and independence is safeguarded by ensuring that non-audit services provided by the external auditors are kept to a minimum and are restricted to matters concerning accounting advisory services.

The Committee considers annually whether it is appropriate to introduce a separate internal audit function. To date it has concluded that this is not necessary given the structure and internal control responsibilities of the Group's accounting function and the size of the Group.

The Committee, in conjunction with the Board, has recently approved a whistle blowing policy and the process of implementation is underway. However, as this policy was not in place during the year the Company was not in compliance with provision C.3.4 of the Code.

## The Remuneration Committee

The Remuneration Committee, comprising Edwin White (Chairman), John Hawkins and John Worby (appointed to the Committee on 9 September 2004), meets at least twice a year to review the performance of the executive directors and divisional Chief Operating Officers, 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 Remuneration Committee has terms of reference which are set out in writing and agreed by the Board. The Report of the Remuneration Committee which includes details of directors' remuneration and directors' interests in options is shown on pages 17 to 20 and provides further details of the Company's policies on remuneration and service contracts.

Due to the small size of the Board, the Chairman is also a member of the Remuneration Committee. Consequently, the Company has intentionally not complied with Provision B.2.2 of the Code requiring the Remuneration Committee to have delegated authority for the setting of the Chairman's fees. Fees for the non-executive directors, including the Chairman, are determined by the Board as a whole.

## The Nomination Committee

The Nomination Committee, comprising John Hawkins (Chairman), Richard Wood and Edwin White is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. The Committee meets at least twice a year and operates within written terms of reference. The Committee sought the advice of external recruitment consultants and followed a formal and transparent procedure to ensure that the appointment of John Worby on 1 September 2004 complied with the principles set out in the New Combined Code.

At the 2004 Annual General Meeting, John Beckett retired as Chairman and John Hawkins, already a non-executive director, was appointed as successor. After taking soundings from the Company's advisors and major institutional shareholders, the existence of a strong internal candidate led the Board to conclude that neither an external consultancy nor open advertising was considered necessary in his appointment and consequently the Company has not complied with provision A.4.6 of the Code.

The terms of reference for the Audit Committee, Remuneration Committee and Nomination Committee are available on request.

### Performance Evaluation

Provision A.6.1 of the New Combined Code requires that the Board undertakes a formal and rigorous annual evaluation of its own performance and that of its Committees and individual directors. During the year the Company has not been in compliance with this provision and no formal evaluation has been carried out. However the Board, led by the Chairman, has agreed a proposal for a new system of evaluation based on one-on-one meetings and he has written to the rest of the Board accordingly. This new framework for evaluation will be initiated this year.

### Shareholder Relations

The Company has a continuing dialogue with institutional investors through a planned programme of investor relations. The Chief Executive and Group Finance Director meet frequently with representatives of institutional shareholders to discuss their views and review corporate governance issues. Feedback from these meetings is discussed at meetings of the Board enabling all directors, particularly the non-executive directors, to understand the views of major shareholders. The Chairman also maintains contact with certain major shareholders. Provision D.1 of the New Combined Code requires the senior independent non-executive director to attend sufficient meetings with major shareholders to develop an understanding of their views and concerns. This was not complied with since the Board believes that the existing arrangements for contact with major shareholders and discussion are sufficient given the size of the Board. The senior non-executive director remains available to be contacted by shareholders should they wish to do so.

The Board takes the opportunity at the Annual General Meeting to meet and communicate with private and institutional investors and welcomes their involvement. The Chairman's Statement on pages 2 and 3, the Chief Executive's Review on pages 4 to 10 and the Group Finance Director's Review on pages 12 and 13 provide a detailed review of the Group's performance and future developments. John Hawkins and Edwin White will answer questions as Chairmen of the Board and Remuneration Committee respectively at the Annual General Meeting on 18 August 2005.

A statement of directors' responsibilities in respect of the accounts and a statement on going concern are given on page 24.

One third of the directors are subject to re-election each year in accordance with the Articles of Association.

### 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 as follows:

#### 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 Group's 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, 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 on a regular basis to review each Division's performance against its budget, long and short term strategies and other key business indicators.

#### 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 monthly reporting of key performance indicators and variances, updated full year forecasts and information on key risk areas.



# Corporate Governance

## Quality and Integrity of Personnel

The integrity and competence of personnel is ensured through high recruitment standards enhanced by post-recruitment 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 pre-determined authorisation levels. For expenditure above 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 post-acquisition reviews are completed on a timely basis. 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.



J E Hawkins  
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 2005 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.

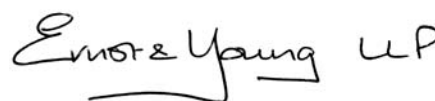
## Basis of Audit Opinion

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 2005 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  
Southampton  
24 May 2005



## Consolidated Profit and Loss Account

for the year ended 31 March 2005

	Notes	Total 2005 £000	Before Exceptional Items 2004 £000	Exceptional Items 2004 £000	Total 2004 £000
<b>Turnover</b>					
Continuing operations	2	183,249	183,710	-	183,710
Underlying operating profit	2	11,389	10,923	(503)	10,420
Amortisation of goodwill		(1,747)	(1,674)	-	(1,674)
<b>Operating profit</b>	2,3	<b>9,642</b>	9,249	(503)	8,746
Of which:					
Continuing operations		9,642	9,685	(503)	9,182
Discontinued operations		-	(436)	-	(436)
Continuing operations					
Profit on disposal of properties		298	-	711	711
Interest receivable and similar income	4	17	5	-	5
Interest payable and similar charges	5	(1,203)	(1,319)	-	(1,319)
<b>Profit on ordinary activities before taxation</b>		<b>8,754</b>	7,935	208	8,143
Tax on profit on ordinary activities					
- continuing operations		(2,390)	(3,135)	189	(2,946)
- discontinued operations		-	150	-	150
	6	(2,390)	(2,985)	189	(2,796)
<b>Profit on ordinary activities after taxation</b>		<b>6,364</b>	4,950	397	5,347
Minority interests - equity		-	(74)	-	(74)
<b>Profit for the financial year</b>		<b>6,364</b>	4,876	397	5,273
Dividends on equity shares	7	(2,788)	(2,306)	-	(2,306)
<b>Retained profit for the year</b>		<b>3,576</b>	2,570	397	2,967
Earnings per share					
- underlying	8	20.3p			19.5p
- basic	8	17.6p			15.5p
- diluted	8	17.3p			15.3p
Dividend per share	7	7.5p			6.5p

## Consolidated Statement of Total Recognised Gains and Losses

	2005 £000	2004 £000
Profit for the financial year	6,364	5,273
Exchange adjustments	(176)	(4,165)
<b>Total recognised gains and losses relating to the year</b>	<b>6,188</b>	1,108

# Consolidated Balance Sheet

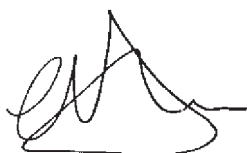
as at 31 March 2005

	Notes	2005 £000	2004 £000
<b>Fixed assets</b>			
Intangible assets	10	26,062	25,875
Tangible assets	11	16,697	15,876
Investments	12	269	241
		<b>43,028</b>	41,992
<b>Current assets</b>			
Stocks	13	17,396	16,233
Debtors	14	36,846	32,456
Cash at bank and in hand		7,559	4,330
		<b>61,801</b>	53,019
<b>Creditors:</b> amounts falling due within one year	15	48,479	45,020
<b>Net current assets</b>		<b>13,322</b>	7,999
<b>Total assets less current liabilities</b>		<b>56,350</b>	49,991
<b>Creditors:</b> amounts falling due after more than one year	16	282	605
<b>Provisions for liabilities and charges</b>	19	923	681
<b>Net assets</b>		<b>55,145</b>	48,705
<b>Capital and reserves</b>			
Called up share capital	20	3,726	3,536
Share premium account	21	39,899	36,975
Profit and loss account	21	11,520	8,194
<b>Equity shareholders' funds</b>	22	<b>55,145</b>	48,705

Approved by the Board on 24 May 2005  
and signed on their behalf



R K Wood CHIEF EXECUTIVE



J E Hawkins CHAIRMAN



# Company Balance Sheet

as at 31 March 2005

	Notes	2005 £000	2004 £000
<b>Fixed assets</b>			
Tangible assets	11	448	-
Investments	12	48,745	46,769
		<b>49,193</b>	46,769
<b>Current assets</b>			
Debtors	14	21,800	25,542
Cash at bank and in hand		636	-
		<b>22,436</b>	25,542
<b>Creditors:</b> amounts falling due within one year	15	26,380	29,555
<b>Net current liabilities</b>		<b>(3,944)</b>	(4,013)
<b>Total assets less current liabilities</b>		<b>45,249</b>	42,756
<b>Creditors:</b> amounts falling due after more than one year	16	157	-
<b>Provisions for liabilities and charges</b>	19	10	-
<b>Net assets</b>		<b>45,082</b>	42,756
<b>Capital and reserves</b>			
Called up share capital	20	3,726	3,536
Share premium account	21	39,899	36,975
Profit and loss account	21	1,457	2,245
<b>Equity shareholders' funds</b>		<b>45,082</b>	42,756

Approved by the Board on 24 May 2005  
and signed on their behalf



R K Wood CHIEF EXECUTIVE



J E Hawkins CHAIRMAN

## Consolidated Statement of Cash Flows

for the year ended 31 March 2005

	Notes	2005 £000	2004 £000
<b>Net cash inflow from operating activities</b>	23	<b>9,403</b>	14,393
<b>Returns on investments and servicing of finance</b>			
Interest received and similar income	4	17	5
Interest paid and similar charges		(1,093)	(1,028)
Interest element of finance lease and hire purchase rental payments		(43)	(291)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(1,119)</b>	(1,314)
<b>Taxation</b>			
UK Corporation tax paid		(1,382)	(1,374)
Overseas tax paid		(1,441)	(1,168)
		<b>(2,823)</b>	(2,542)
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets	10	(117)	-
Payments to acquire tangible fixed assets	11	(4,725)	(3,986)
Payments to acquire investments	12	(13)	(158)
Receipts from sales of tangible fixed assets		759	1,625
<b>Net cash outflow on capital expenditure</b>		<b>(4,096)</b>	(2,519)
<b>Acquisitions and disposals</b>			
Purchase of subsidiaries and businesses	12	(2,225)	(1,234)
<b>Equity dividends paid</b>		<b>(2,298)</b>	(1,853)
<b>Net cash (outflow)/inflow before financing</b>		<b>(3,158)</b>	4,931

## Consolidated Statement of Cash Flows (continued)

for the year ended 31 March 2005

	Note	2005 £000	2004 £000
<b>Net cash (outflow)/inflow before financing</b>		<b>(3,158)</b>	4,931
<b>Financing</b>			
Repayment of loan notes		<b>(1,637)</b>	(979)
New bank loans		<b>437</b>	378
Repayment of bank loans		<b>(1,395)</b>	(6,133)
Sale and leaseback		<b>154</b>	160
Repayments of capital element of finance leases and hire purchase rental payments		<b>(1,103)</b>	(997)
Share register rationalisation			
– sale of shares		<b>4,015</b>	-
– purchase of shares		<b>(4,126)</b>	-
– associated costs		<b>(85)</b>	-
Issue of new ordinary shares		<b>3,134</b>	2,446
<b>Net cash outflow from financing</b>		<b>(606)</b>	(5,125)
<b>Decrease in cash</b>	24	<b>(3,764)</b>	(194)

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

Reconciliation of net cash flow to movement in net debt:

	Note	2005 £000	2004 £000
Decrease in cash in year		<b>(3,764)</b>	(194)
Repayment of loan notes		<b>1,637</b>	979
New long term loans		<b>(437)</b>	(378)
Repayment of bank loans		<b>1,395</b>	6,133
Sale and leaseback		<b>(154)</b>	(160)
Repayments of capital element of finance leases and hire purchase rental payments		<b>1,103</b>	997
Change in net debt resulting from cash flows		<b>(220)</b>	7,377
Exchange differences and other non-cash movements		<b>210</b>	(2,639)
Movement in net debt		<b>(10)</b>	4,738
Net debt at 1 April	24	<b>(7,458)</b>	(12,196)
Net debt at 31 March	24	<b>(7,468)</b>	(7,458)



# Notes to the Accounts

for the year ended 31 March 2005

## 1. Accounting Policies

### Basis of preparation

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 to their estimated residual values over their estimated useful 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 reviewed 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.

Development costs are amortised over the shorter of the period of the patent, marketing right or licence and the estimated life of the product to which it relates.

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

### 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.

## Notes to the Accounts

for the year ended 31 March 2005

### 1. Accounting Policies (continued)

#### Stocks

Stocks are stated at the lower of the 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. Turnover and profit are 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 and 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.

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 currency 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 except for exchange differences on the net investment in, and long term funding loans to, subsidiaries.

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 borrowings to the extent that they are used to finance or provide a hedge against investments in overseas subsidiaries. These are taken directly to reserves. Tax charges and credits attributed to exchange differences on those borrowings are also taken to reserves.

## **1. Accounting Policies** (continued)

### **Research and development**

The Group's policy is to write off expenditure on pure research and development as incurred. Applied development expenditure relating to the granting of patents, marketing rights and licences is capitalised and amortised over the life of the patent, marketing right or licence, provided its future recoverability can reasonably be regarded as assured.

### **Own shares**

The Company has adopted UITF Abstract 38, Accounting for ESOP Trusts, which requires the assets and liabilities associated with the Group's investment in its own shares to be recognised in the Group's financial statements where there is de facto control of the assets and liabilities.

This new abstract has no impact on the reported profit or cash flows for the period.

The Company's own shares held by a Qualifying Employee Share Ownership Trust ("Quest") remain deducted from shareholders' funds until they vest unconditionally with employees.

### **Share awards under the 2004 Performance Share Plan**

Executive Directors and Chief Operating Officers of the Group receive remuneration in the form of share awards which vest upon meeting performance criteria over a three year period.

The cost of such awards is measured by reference to the market value of the shares at the date of the award. At the end of each financial reporting period an estimate is made of the extent to which those performance criteria will be met at the end of three years and an appropriate charge recorded in the profit and loss account together with a corresponding increase to profit and loss reserves. Changes in estimates of the number of shares vesting may result in charges or credits to the profit and loss account in subsequent periods.

### **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 instrument is used to hedge a committed or probable future transaction, the gains and 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

for the year ended 31 March 2005

### 2. Turnover and Segmental Analysis

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

Area of activity	Turnover		Underlying operating profit*		Net assets	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
Bovine Genetics	83,573	80,650	10,719	10,567	46,069	42,648
Consultancy	23,954	22,657	792	764	1,246	127
Animal Health	76,195	80,438	1,926	1,624	19,137	17,770
	183,722	183,745	13,437	12,955	66,452	60,545
Inter-segmental sales	(475)	(43)	-	-	-	-
Unallocated	2	8	(2,048)	(1,596)	(11,307)	(11,840)
	183,249	183,710	11,389	11,359	55,145	48,705

\*operating profit from continuing operations, before goodwill amortisation and exceptional items

Unallocated net liabilities comprise investments, net borrowings, taxation and dividends in addition to corporate fixed assets, debtors and creditors.

Area of activity	Operating profit	
	2005 £000	2004 £000
Bovine Genetics	9,727	9,145
Consultancy	761	297
Animal Health	1,202	900
	11,690	10,342
Unallocated	(2,048)	(1,596)
	9,642	8,746
Non-operating exceptional items		
Bovine Genetics	298	711
Net interest	(1,186)	(1,314)
Profit on ordinary activities before taxation	8,754	8,143

## 2. Turnover and Segmental Analysis (continued)

### Geographical region of origin

	Turnover		Operating profit		Net assets	
	2005 £000	2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
United Kingdom	137,545	139,354	6,974	5,888	45,857	41,481
Europe	5,063	5,593	1,632	1,550	2,172	2,742
North America	32,373	30,925	332	785	14,137	13,408
Rest of the World	8,266	7,830	2,752	2,119	4,286	2,914
	183,247	183,702	11,690	10,342	66,452	60,545
Unallocated	2	8	(2,048)	(1,596)	(11,307)	(11,840)
	183,249	183,710	9,642	8,746	55,145	48,705
Non-operating exceptional items			298	711		
Net interest			(1,186)	(1,314)		
Profit on ordinary activities before taxation			8,754	8,143		

Unallocated costs within operating profit are common corporate costs.

Unallocated net liabilities comprise investments, net borrowings, taxation and dividends in addition to corporate fixed assets, debtors and creditors.

Results from discontinued operations, all originating in the United Kingdom, were £nil (2004: loss £436,000).

### Geographical region of destination

	Turnover	
	2005 £000	2004 £000
United Kingdom	112,897	116,473
Europe	19,652	19,953
North America	24,522	22,721
Rest of the World	26,178	24,563
	183,249	183,710

## Notes to the Accounts

for the year ended 31 March 2005

### 3. Operating Profit

Operating costs comprise:

	2005 Total £000	2004 Continuing operations £000	2004 Discontinued operations £000	2004 Total £000
Cost of sales	109,526	113,755	-	113,755
Distribution costs	40,900	37,466	-	37,466
Administrative expenses	23,181	23,307	436	23,743

There were no discontinued activities in the year. Included in the segmental analysis of the prior year is an operating loss of £436,000 relating to the consulting division and originating wholly in the United Kingdom.

Exceptional costs within administrative expenses above comprise:

	2005 £000	2004 £000
Abortive acquisition costs	-	147
Settlement of employment case in USA and related costs	-	356
	-	503

Cash flows associated with these charges were £nil (2004: £503,000 outflow).

Operating profit is stated after charging/(crediting):

	2005 £000	2004 £000
Auditors' remuneration		
- audit services	212	264
- non-audit services	60	59
Depreciation of owned fixed assets	3,112	2,786
Depreciation of assets held under finance leases and hire purchase contracts	437	850
Amortisation of milk quota	8	8
Amortisation of goodwill	1,747	1,674
Operating lease rentals		
- plant and machinery	454	530
- land and buildings	708	824
Research and development costs	8,422	8,955
Government grants released	(2)	(2)
Loss on sale of fixed assets	1	183

£53,000 (2004: £48,000) of auditors' remuneration for audit services relates to the Company.

### 4. Interest Receivable and Similar Income

	2005 £000	2004 £000
Bank interest receivable	17	5



## 5. Interest Payable and Similar Charges

	2005 £000	2004 £000
Bank loans and overdrafts	1,036	1,036
Loan notes	39	75
Finance charges payable under finance lease and hire purchase contracts	43	124
Amortisation of issue costs	72	72
Other similar charges	13	12
	<b>1,203</b>	<b>1,319</b>

## 6. Taxation

(a) Tax on profit on ordinary activities

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

	2005 £000	2004 £000
UK corporation tax	1,420	1,220
Adjustment in respect of previous periods – UK corporation tax	(32)	(34)
Total UK tax	1,388	1,186
Overseas tax	847	1,491
Adjustment in respect of previous periods – Overseas tax	(234)	77
Total Overseas tax	613	1,568
Total current tax (note 6(b))	2,001	2,754
Deferred tax - origination and reversal of timing differences	627	137
- adjustment in respect of previous periods	(238)	(95)
Group deferred tax (note 19)	389	42
Tax on profit on ordinary activities	2,390	2,796

The tax effect of disposals of properties, investments and businesses amounted to £nil (2004: £nil).

Included in the current tax charge of £2,001,000 (2004: £2,754,000) is a credit of £500,000 (2004: £nil) relating to claims made in respect of research and development costs. Of this amount £200,000 relates to current year and £300,000 relates to prior years.

(b) Factors affecting the tax charge for the year

The tax charge for the year is lower (2004: higher) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2005 £000	2004 £000
Profit on ordinary activities before tax	8,754	8,143
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	2,626	2,443
Effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	321	140
Current year research and development credits	(200)	-
Tax effect of timing differences arising in the accounts	(619)	(154)
Adjustments to tax charge in respect of previous periods	(266)	43
Overseas tax rates higher than in UK	228	378
Utilisation of tax losses	(89)	(96)
Total current tax (note 6(a))	2,001	2,754

## Notes to the Accounts

for the year ended 31 March 2005

### 6. Taxation (continued)

(c) Factors that may affect the future tax charge

A deferred tax asset has not been recognised in respect of timing differences relating to capital allowances, short term timing differences and losses as there is insufficient evidence that the asset will be recovered.

The amount of the asset not recognised is £825,332 (2004: £876,000) and is recoverable against future relevant profits

### 7. Dividend

	2005		2004	
	Per share	£000	Per share	£000
Prior year dividend on shares issued after year end		-		7
Proposed dividend	7.5p	2,788	6.5p	2,299
		<b>2,788</b>		<b>2,306</b>

### 8. Earnings Per Share

The basic earnings per share of 17.6p (2004: 15.5p) is based on the profit for the financial year of £6,364,000 (2004: £5,273,000) and the weighted average number of ordinary shares in issue of 36,208,931 (2004: 34,051,042).

The underlying earnings per share of 20.3p (2004: 19.5p) is based on the earnings of continuing operations before exceptional items, amortisation of goodwill and prior year research and development tax credits, as set out below:

	2005 £000	2004 £000
Profit for the financial year	<b>6,364</b>	5,273
Add: Amortisation of goodwill	<b>1,747</b>	1,674
Exceptional operating items	-	503
Profit on disposal of properties and businesses	<b>(298)</b>	(711)
Loss on discontinued operations	-	436
	<b>7,813</b>	7,175
Less: Associated taxation on adjustments	<b>(179)</b>	(539)
Research and development tax credits relating to prior years	<b>(300)</b>	-
Underlying earnings	<b>7,334</b>	6,636

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

The diluted earnings per share of 17.3p (2004: 15.3p) is based on profit for the financial year of £6,364,000 (2004: £5,273,000) and on 36,755,735 (2004: 34,488,843) diluted ordinary shares as set out below:

	2005 No	2004 No
Basic weighted average number of shares	<b>36,209</b>	34,051
Dilutive potential ordinary shares:		
Employee share options	<b>547</b>	438
	<b>36,756</b>	34,489

## 9. Employees

Staff costs during the year amounted to:

	2005 £000	2004 £000
Wages and salaries	29,036	26,981
Social security costs	4,644	3,928
Other pension costs	1,098	1,260
	<b>34,778</b>	<b>32,169</b>

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

	2005 No	2004 No
Production and service	634	670
Distribution	454	430
Administration	213	225
	<b>1,301</b>	<b>1,325</b>

Details of directors' emoluments, pensions and share options are included in the Report on Directors' Remuneration on pages 17 to 20.

## 10. Intangible Fixed Assets

Group	Goodwill £000	Milk Quota £000	Development Costs £000	Total £000
Cost:				
At 1 April 2004	36,479	126	-	36,605
Additions	2,135	-	117	2,252
Exchange rate adjustment	(347)	-	-	(347)
At 31 March 2005	<b>38,267</b>	<b>126</b>	<b>117</b>	<b>38,510</b>
Amortisation:				
At 1 April 2004	10,619	111	-	10,730
Charge in the year	1,747	8	-	1,755
Exchange rate adjustment	(37)	-	-	(37)
At 31 March 2005	<b>12,329</b>	<b>119</b>	<b>-</b>	<b>12,448</b>
Net book value:				
At 31 March 2005	<b>25,938</b>	<b>7</b>	<b>117</b>	<b>26,062</b>
At 1 April 2004	25,860	15	-	25,875

Goodwill arising on acquisitions is amortised over the directors' estimate of the useful life of 20 years.

The cumulative amount of goodwill written off to reserves at 31 March 2005 is £1,368,000 (2004: £1,368,000).

Additions during the year can be summarised as follows:

	£000
Acquisition of Supersires (2004) Limited	1,511
Acquisition of Heywood AB	203
Fair value adjustments relating to Agrotec ABS Ltda	279
Development expenditure	117
Other additions	142
	<b>2,252</b>

The development expenditure relates to costs incurred in obtaining marketing rights for the distribution of certain veterinary pharmaceutical products in the United Kingdom.



## Notes to the Accounts

for the year ended 31 March 2005

### 11. Tangible Fixed Assets

#### Group

	Land and buildings £000	Motor vehicles and equipment Owned £000	Leased £000	Livestock £000	Total £000
Cost:					
At 1 April 2004	8,132	12,929	5,144	5,779	31,984
Additions	335	2,747	270	1,373	4,725
Acquisitions	-	99	-	-	99
Disposals	-	(1,296)	(425)	(1,237)	(2,958)
Exchange rate adjustment	8	(2)	-	29	35
At 31 March 2005	<b>8,475</b>	<b>14,477</b>	<b>4,989</b>	<b>5,944</b>	<b>33,885</b>
Depreciation:					
At 1 April 2004	1,675	8,876	2,841	2,716	16,108
Charge in the year	287	2,021	371	870	3,549
Disposals	-	(1,278)	(408)	(810)	(2,496)
Exchange rate adjustment	2	-	-	25	27
At 31 March 2005	<b>1,964</b>	<b>9,619</b>	<b>2,804</b>	<b>2,801</b>	<b>17,188</b>
Net book value:					
At 31 March 2005	<b>6,511</b>	<b>4,858</b>	<b>2,185</b>	<b>3,143</b>	<b>16,697</b>
At 1 April 2004	6,457	4,053	2,303	3,063	15,876

As at 31 March 2005 and 31 March 2004, the MOET herd was included in the livestock balance at a cost of £1,817,000 and net book value of £509,000.

As at 31 March 2005 leasehold buildings with a net book value of £388,000 were included within land and buildings (2004: £467,000).

#### Company

	Leasehold Land and Buildings £000	Motor Vehicles and Equipment Owned £000	Total £000
Cost:			
At 1 April 2004	-	-	-
Transfers	15	595	610
Additions	-	61	61
At 31 March 2005	<b>15</b>	<b>656</b>	<b>671</b>
Depreciation:			
At 1 April 2004	-	-	-
Transfers	6	104	110
Charge for the year	6	107	113
At 31 March 2005	<b>12</b>	<b>211</b>	<b>223</b>
Net book value:			
At 31 March 2005	<b>3</b>	<b>445</b>	<b>448</b>
At 1 April 2004	-	-	-

At 1 April 2004 all the tangible fixed assets of Genus Management Services Limited were transferred to Genus plc.

## 12. Investments

### Group

	Trade Investments Unlisted £000
Cost:	
At 1 April 2004	241
Additions	13
Exchange rate adjustment	15
At 31 March 2005	<b>269</b>

### Company

	Loans to Subsidiary Undertakings £000	Subsidiary Undertakings £000	Total £000
Cost:			
At 1 April 2004	5,424	45,487	50,911
Additions	454	1,669	2,123
Foreign exchange movement	(147)	-	(147)
At 31 March 2005	<b>5,731</b>	<b>47,156</b>	<b>52,887</b>
Provision for impairment:			
At 1 April 2004 and at 31 March 2005	-	4,142	4,142
Net book value:			
At 31 March 2005	<b>5,731</b>	<b>43,014</b>	<b>48,745</b>
At 1 April 2004	5,424	41,345	46,769

### Analysis of acquisitions during the year

On 12 August 2004 the Group acquired Supersires (2004) Limited, a company incorporated in the United Kingdom, for a consideration of £1,501,000, inclusive of fees. An analysis of this acquisition is set out below.

	Supersires (2004) Limited		Agrotec ABS Ltda		Other	Total
	Book Value £000	Fair Value Adjustments £000	Fair Value £000	Fair Value Adjustments £000	Acquisitions £000	£000
Net assets acquired:						
Fixed assets	108	(22)	86	7	6	99
Stocks	85	(85)	-	50	15	65
Debtors	324	(45)	279	(46)	-	233
Creditors: amounts falling due within one year	(375)	-	(375)	(82)	(43)	(500)
	142	(152)	(10)	(71)	(22)	(103)
Goodwill arising on acquisition			1,511	279	345	2,135
Consideration inclusive of fees			1,501	208	323	2,032
Discharged by:						
Cash consideration			1,390	155	301	1,846
Acquisition costs			111	53	22	186
Working capital adjustment receivable			136	-	-	136
Deferred consideration paid			-	-	57	57
			1,637	208	380	2,225

Fair value adjustments made in respect of Supersires (2004) Limited include an adjustment to align tangible fixed assets to their fair values, based on market value. Adjustments were made to stock and debtors based on their recoverable amounts.

## Notes to the Accounts

for the year ended 31 March 2005

### 12. Investments (continued)

Supersires (2004) Limited contributed £800,000 to group turnover. The contributions to Group operating profit and cash flow are not separately identifiable as the operations of Supersires (2004) Limited were integrated with the UK breeding business from October 2004. The contribution to group turnover and group operating profit in the year to 31 March 2005 for the other acquired businesses was not material.

During the year, the provisional fair value adjustments relating to the 2004 acquisition of Agrotec ABS Ltda were finalised, as shown below:

	Provisional Fair Values £000	Revisions to Fair Values £000	Final Fair Values £000
Fixed assets	39	7	46
Stocks	151	50	201
Debtors	246	(46)	200
Creditors: amount falling due within one year	(200)	(82)	(282)
	<b>236</b>	<b>(71)</b>	<b>165</b>

Fair value revaluation adjustments made in respect of Agrotec ABS Ltda include an adjustment to align fixed assets to their fair values, reflecting prevailing local market conditions, adjustments to stock and debtors based on their recoverable amounts and an adjustment to creditors to fully recognise the fair value of obligations acquired.

Other acquisitions include the purchase of the trade and assets of Heywood AB, a business based in Australia, and deferred consideration relating to prior year acquisitions.

### 13. Stocks

	Group	
	<b>2005</b>	2004
	<b>£000</b>	£000
Consumable stores	<b>10</b>	8
Goods for resale	<b>16,906</b>	15,635
Livestock	<b>480</b>	590
	<b>17,396</b>	16,233

In the directors' opinion the replacement cost of stocks is not materially different from their balance sheet value.

### 14. Debtors

	Group		Company	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£000</b>	£000	<b>£000</b>	£000
Trade debtors	<b>28,816</b>	26,054	-	-
Amounts recoverable on contracts	<b>4,850</b>	4,220	-	-
Other debtors	<b>1,850</b>	1,172	<b>672</b>	342
Amounts owed by subsidiaries	-	-	<b>20,174</b>	24,950
Prepayments and accrued income	<b>1,330</b>	1,010	<b>130</b>	-
Prepaid corporation tax recoverable	-	-	<b>293</b>	250
Group relief receivable	-	-	<b>531</b>	-
	<b>36,846</b>	32,456	<b>21,800</b>	25,542



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

	Notes	Group		Company	
		2005 £000	2004 £000	2005 £000	2004 £000
Bank loans	17	1,360	2,170	1,360	2,094
Bank overdrafts		12,951	6,240	21,581	16,950
Loan notes	17	-	1,637	-	1,637
Obligations under finance leases	18	434	1,136	-	-
Trade creditors		18,857	16,255	167	-
Payments on account on contracts		2,938	3,825	-	-
Other creditors		305	842	9	-
Corporation and overseas tax		1,008	1,670	-	-
Amounts owed to subsidiaries		-	-	-	6,282
Other taxes and social security		3,380	2,983	29	-
Accruals and deferred income		4,388	5,876	404	293
Deferred government grants		28	30	-	-
Proposed dividend		2,788	2,299	2,788	2,299
Deferred consideration		42	57	42	-
		48,479	45,020	26,380	29,555

The bank loans and overdrafts are secured by fixed and floating charges over certain of the Group's assets.

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

	Notes	Group		Company	
		2005 £000	2004 £000	2005 £000	2004 £000
Bank loans	17	157	233	157	-
Obligations under finance leases:	18	125	372	-	-
		282	605	157	-

**17. Loans**

	Note	Group		Company	
		2005 £000	2004 £000	2005 £000	2004 £000
Amounts falling due:					
In one year or less or on demand		1,396	2,596	1,396	2,520
In more than one year but not more than two years		152	1,396	152	1,320
In more than two years but not more than five years		5	157	5	-
		1,553	4,149	1,553	3,840
Less: issue costs		(36)	(109)	(36)	(109)
		1,517	4,040	1,517	3,731
Less: included in creditors - amounts					
falling due within one year	15	(1,360)	(3,807)	(1,360)	(3,731)
		157	233	157	-
Loans comprise:					
Bank loans - due within one year		1,360	2,170	1,360	2,094
Bank loans - due after more than one year		157	233	157	-
Loan notes - due within one year		-	1,637	-	1,637
		1,517	4,040	1,517	3,731

## Notes to the Accounts

for the year ended 31 March 2005

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

The maturity of these is as follows:

	Group	
	2005	2004
	£000	£000
Amounts payable:		
Within one year	434	1,136
In more than one year but less than two years	101	343
In more than two years but less than five years	24	29
	<b>559</b>	<b>1,508</b>

### 19. Provisions for Liabilities and Charges

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Provision for deferred taxation	923	599	10	-
Other	-	82	-	-
	<b>923</b>	<b>681</b>	<b>10</b>	<b>-</b>

The movements in deferred taxation are as follows:

	Group	Company
	£000	£000
At 1 April 2004	599	-
Deferred tax charge/(credit) in profit and loss account (note 6(a))	389	(8)
Foreign exchange movement	(46)	-
Other movements	(19)	18
At 31 March 2005	<b>923</b>	<b>10</b>

The amounts provided are as follows:

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Capital allowances in excess of depreciation	412	301	25	-
Other timing differences	511	298	(15)	-
	<b>923</b>	<b>599</b>	<b>10</b>	<b>-</b>

### 20. Share Capital

	2005		2004	
	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	37,261,012	3,726	35,363,284	3,536

## 20. Share Capital (continued)

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

	Notes	2005		2004	
		No	Consideration £000	No	Consideration £000
New shares issued	(1)	1,000,000	2,100	725,000	1,450
Issued under the following share option plans –					
Executive	(2)	845,007	971	108,138	193
Company Share Option Plan	(2)	25,000	13	354,887	236
Savings Related	(2)	54,240	50	609,255	567
		<b>1,924,247</b>	<b>3,134</b>	1,797,280	2,446

A managed rationalisation of the share register was performed between 23 November and 15 December 2004 enabling 1,589,974 shares to be purchased from smaller shareholders at an average price of £2.595 per share. These shares were then placed with institutional investors at a price of £2.525 on 16 December 2004.

- (1) 1,000,000 shares were issued and placed with institutional investors on 17 August 2004, principally to finance the acquisition of Supersires (2004) Limited.
- (2) Shares issued directly under share option plans were issued at option prices as follows:

Plan	2005		2004	
	No	Price	No	Price
Executive	207,169	175p	5,710	175p
	604,592	90p	11,111	90p
	-	-	13,395	173p
	33,246	192.5p	77,922	192.5p
Company Share Option Plan	25,000	50p	274,400	50p
	-	-	80,487	123p
Savings Related	54,240	93p	609,255	93p

- (3) At 31 March 2005 the Qualifying Employee Share Ownership Trust ("Quest") held 92,334 shares in the Company (31 March 2004: 92,334). The cost of such shares purchased by the Quest totalled £128,000 (31 March 2004: £128,000) and is recorded as a reduction in shareholders' funds. The Quest was established to be the custodian of any shares purchased in respect of a number of share option schemes on behalf of employees. At 31 March 2005 and 31 March 2004 none of the shares held by the Quest were under option. The Quest has waived its rights to dividends from the Company. The market value of shares in the Quest as at 31 March 2005 was £293,622 (31 March 2004: £174,050).

Options outstanding to employees were as follows:

Option scheme	Options granted	Number of shares	Option price per share
(1) Executive Plan	21 March 1997	15,600	50p
(2) 1999 Executive Plan	4 November 1999	89,800	175p
(3) 1999 Executive Plan	6 March 2000	106,400	175p
(4) 2000 Company Share Plan	11 June 2002	294,916	173p
(5) 2000 Company Share Plan	19 December 2002	25,000	162.5p
(6) 2000 Company Share Plan	6 June 2003	284,829	192.5p
(7) 2004 Company Share Plan	9 September 2004	470,000	221.5p

## Notes to the Accounts

for the year ended 31 March 2005

### 20. Share Capital (continued)

The options are exercisable between the following dates

- (1) 21 March 2000 and 20 March 2007
- (2) 4 November 2002 and 3 November 2009
- (3) 6 March 2003 and 5 March 2010
- (4) 11 June 2005 and 10 June 2012
- (5) 19 December 2005 and 18 December 2012
- (6) 6 June 2006 and 5 June 2013
- (7) 9 September 2007 and 8 September 2014

The options under (1), (2) and (3) are now exercisable. Some share options from (6) have been exercised in the year when members of the scheme have been made redundant. The options under (4), (5), (6) and (7) 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, unless provisions for "good leavers" have been met at the absolute discretion of the Remuneration Committee.

In addition to the outstanding share options above, 363,500 conditional shares were awarded to executive directors and certain senior executives on 9 September 2004 under the new 2004 Performance Share Plan. In accordance with the terms of this plan, executive directors and certain senior executives are eligible to receive a conditional annual award of shares or nil cost options. Awards will vest after three years, with the proportion of the award vesting being based on growth in Group underlying earnings per share. Further details of the performance conditions attaching to the 2004 Performance Share Plan are given in the report on directors' remuneration.

### 21. Reserves

	Share premium account £000	Profit and loss account £000
<b>Group</b>		
At 1 April 2004	36,975	8,194
Retained profit for the year	-	3,576
Premium on shares issued	2,942	-
2004 Performance Share Plan	-	102
Other movements	2	-
Exchange difference on re-translation of net assets of subsidiary undertakings	-	(458)
Exchange difference on permanent as-equity loans	-	282
Share register rationalisation	(20)	(176)
At 31 March 2005	<b>39,899</b>	<b>11,520</b>
<b>Company</b>		
At 1 April 2004	36,975	2,245
Profit for the financial year	-	2,220
Proposed dividend	-	(2,788)
Premium on shares issued	2,942	-
2004 Performance Share Plan	-	102
Other movements	2	-
Exchange difference on permanent as-equity loans	-	(146)
Share register rationalisation	(20)	(176)
At 31 March 2005	<b>39,899</b>	<b>1,457</b>

The profit attributable to members of the parent company was £2,220,000 (2004: £4,189,000).



## 22. Reconciliation of Shareholders' Funds

Group	2005 £000	2004 £000
Shareholders' funds at 1 April	48,705	47,457
Retained profit for the year	3,576	2,967
New share capital subscribed	3,134	2,446
2004 Performance Share Plan	102	-
Share register rationalisation		
sale of shares	4,015	-
purchase of shares	(4,126)	-
associated costs	(85)	-
Exchange rate adjustments	(176)	(4,165)
Shareholders' funds at 31 March	55,145	48,705

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

	2005 £000	2004 £000
Operating profit	9,642	8,746
Depreciation	3,549	3,636
Amortisation of milk quota	8	8
Amortisation of goodwill	1,747	1,674
Loss on disposal of fixed assets	1	183
Deferred government grants	(2)	(2)
(Increase)/decrease in stocks	(1,262)	1,558
Increase in debtors	(3,976)	(33)
Decrease in creditors	(304)	(1,377)
Net cash inflow from operating activities	9,403	14,393

## 24. Analysis of Changes in Net Debt during the Year

	At 1 April 2004 £000	Cash flows £000	Foreign Exchange and non-cash movements £000	At 31 March 2005 £000
Cash at bank and in hand	4,330	3,268	(39)	7,559
Bank overdrafts	(6,240)	(7,032)	321	(12,951)
Cash	(1,910)	(3,764)	282	(5,392)
Bank loans	(2,403)	958	(72)	(1,517)
Loan notes	(1,637)	1,637	-	-
Obligations under finance leases and hire purchase contracts	(1,508)	949	-	(559)
	(7,458)	(220)	210	(7,468)

## Notes to the Accounts

for the year ended 31 March 2005

### 25. Capital Commitments

At 31 March 2005 capital expenditure amounting to £37,000 (2004: £53,000) had been contracted for.

### 26. Contingent Liabilities

#### Group

At 31 March 2005 Barclays Bank PLC had issued performance bonds and guarantees totalling £1,447,000 (31 March 2004: £3,995,000) to the customers of the Development Consulting business as surety for completion of the projects undertaken. All bonds and guarantees were issued with full recourse.

#### Group and Company

The Company is a participating employer of the Milk Pension Fund, a defined benefit scheme administered by Milk Pension Fund Trustees Limited. Although managed on a sectionalised basis the Company, together with the other participating employers, is joint and severally liable for the scheme's obligations. Further details of the pension scheme arrangements are given in note 28.

### 27. Operating Lease Rentals

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

#### Group

	Land and buildings		Other	
	2005	2004	2005	2004
	£000	£000	£000	£000
Operating leases which expire:				
within one year	139	65	72	65
within two to five years	212	452	468	376
after five years	322	320	-	-
	<b>673</b>	<b>837</b>	<b>540</b>	<b>441</b>

### 28. Pensions

Some permanent staff of Genus are eligible for membership of The Milk Pension Fund ("the 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 A J Gatley. The scheme is closed to new Genus members.

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, First Milk Ltd, Dairy Farmers of Britain Ltd, Milk Link Ltd, the Milk Development Council and hauliers associated to First Milk Ltd, Dairy Farmers of Britain Ltd and Milk Link Ltd. It is managed on a sectionalised basis but ultimate liabilities are joint and several. In the past year Milk Marque Ltd has revoked its notice of intended withdrawal from the Milk Pension Fund and intends to remain an active participant.

The net pension cost for the year was £1,098,000 (2004: £1,260,000), split between £842,000 into defined benefit schemes (2004: £952,000) and £256,000 into defined contribution schemes (2004: £308,000), which includes £122,000 (2004: £nil) in respect of the amortisation of the past service deficits over the remaining service lives of employees. The term of the amortisation is 11 years from 2003. This cost is determined on the basis of an actuarial valuation of the Fund for SSAP 24 purposes which was made by an independent qualified actuary as at 31 March 2003, using the projected unit method.

The principal actuarial assumptions adopted for the funding valuation as at 31 March 2003, with each being expressed as the excess over the assumption for the annual rate of inflation, were as follows; for the annual rate of return on the investments for discounting liabilities pre-retirement: 4 per cent, and for discounting liabilities post-retirement: 2.25 per cent. For the annual increase in the present and future pensions in payment: nil, for the annual rate of increase in pensionable earnings for past service liabilities: 1 per cent, and for the annual rate of increase in pensionable earnings for future service liabilities: nil for the first three years, then 1 per cent. Assets were valued by smoothing the market value of assets over five

## 28. Pensions (continued)

years. At the date of the valuation, the market value of the Fund's assets amounted to £249 million, of which Genus plc's notional share is £95m. The actuarial value of the assets of the whole fund was sufficient to cover 96 per cent of the value of the benefits that had accrued to members after allowing for assumed increases in earnings.

The deficit in the Fund as a whole, disclosed by the 31 March 2003 valuation, is £10.5 million (of which Genus plc's notional share is £2.7m) and this shortfall is being addressed by additional contributions from the participating employers.

With effect from 1 April 2004, the Group amended the benefit and member contribution structure for future service, which has had the effect of reducing Group contributions in respect of future service accrual. This is reflected in the current valuation of the SSAP 24 and FRS 17 liabilities. As a result, the contribution rate of the Group in respect of pension payments from 1 April 2004 has been agreed with the Milk Pension Fund at 10.7%. This rate includes a contribution of 1.4% per annum to the past service deficit of £2,676,000 as at 31 March 2003.

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 2005 under the provisions of FRS 17 was £891,000. No contributions were made into the scheme during the year and the scheme is in the process of being wound-up.

For closed schemes and those in which the age profile of the active membership is rising significantly, under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

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 independently administered funds.

### Pension Arrangements

Under the transitional arrangements of FRS 17, the Group 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 2005 and 31 March 2004 and in the profit and loss account and statement of total recognised gains and losses for the period ended 31 March 2005.

The actuarial valuation was updated by the actuary to 31 March 2005 using the following assumptions:

	At 31 March 2005 (p.a.)	At 31 March 2004 (p.a.)	At 31 March 2003 (p.a.)
Rate of increase in salaries	4.3%	4.3%	3.9%
Rate of increase in pensions in payment and deferred pensions	2.8%	2.8%	2.4%
Discount rate	5.5%	5.5%	5.5%
Inflation	2.8%	2.8%	2.4%

## Notes to the Accounts

for the year ended 31 March 2005

### 28. Pensions (continued)

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 are as follows:

	At 31 March 2005		At 31 March 2004		At 31 March 2003	
	Long term Expected Rate of Return (p.a.)	Market Value £000	Long term Expected Rate of Return (p.a.)	Market Value £000	Long term Expected Rate of Return (p.a.)	Market Value £000
Equities	8.0%	32,100	8.0%	31,500	8.0%	26,700
Bonds	5.5%	66,200	4.8%	63,400	4.5%	59,600
Cash	4.75%	800	4.0%	800	4.0%	800
Total market value of scheme assets		99,100		95,700		87,100
Present value of scheme liabilities		(108,600)		(103,200)		(95,200)
Deficit in the scheme		(9,500)		(7,500)		(8,100)
Less deferred taxation		2,900		2,300		2,400
Net pension liability		(6,600)		(5,200)		(5,700)

An analysis of amounts that would have been charged in the profit and loss account or statement of total recognised gains and losses under FRS 17 is as follows:

	2005 £000	2004 £000	2003 £000
Amounts charged to operating profit:			
Current service cost	1,300	1,400	1,500
Total operating charge	1,300	1,400	1,500
Amounts charged/(credited) to finance income:			
Expected return on pension scheme assets	(5,400)	(4,600)	(5,700)
Interest on pension scheme liabilities	5,600	5,000	5,000
Net charge/(credit)	200	400	(700)
Amounts recognised in the statement of total recognised gains and losses (STRGL):			
Actual return less expected return on pension scheme assets	1,500	7,300	(13,600)
Experience (losses) and gains arising on the scheme liabilities	(2,600)	300	(900)
Changes in assumptions underlying the present value of the scheme liabilities	(300)	(6,000)	(5,300)
Actuarial (loss)/gain recognised in the STRGL	(1,400)	1,600	(19,800)
The experience gains and losses were as follows:			
Difference between expected and actual return on scheme assets:			
Amount (£000)	1,500	7,300	(13,600)
Percentage of scheme assets	1.5%	7.6%	(15.6%)
Experience gains and losses arising on the scheme liabilities:			
Amount (£000)	(2,600)	300	(900)
Percentage of present value of the scheme liabilities	2.4%	0.3%	(1.0%)
Total amount recognised in the STRGL			
Amount (£000)	(1,400)	1,600	(19,800)
Percentage of present value of the scheme liabilities	1.3%	1.6%	(20.8%)



## 28. Pensions (continued)

	2005 £000	2004 £000
The movement in the deficit in the scheme is analysed as follows:		
Deficit in the scheme at 1 April	(7,500)	(8,100)
Current service cost	(1,300)	(1,400)
Contributions	900	800
Other finance charges	(200)	(400)
Actuarial (loss)/gain	(1,400)	1,600
Deficit in the scheme at 31 March	(9,500)	(7,500)

Had the above amounts been recognised in the financial statements, the Group's net assets and profit and loss reserves, stated net of associated deferred tax asset, at 31 March would be as follows:

	2005 £000	2004 £000
Net assets excluding pension liability	55,145	48,705
Pension liability	(6,600)	(5,200)
Net assets including pension liability	48,545	43,505
Profit and loss reserve excluding pension liability	11,520	8,194
Pension liability	(6,600)	(5,200)
Profit and loss reserve including pension liability	4,920	2,994

## 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 and 13. The accounting policy for derivative instruments is set out in note 1.

Short term debtors and creditors are excluded from the analyses below (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 from their carrying values.

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

Currency	Financial assets (cash) Floating rate £000	Financial liabilities Fixed rate £000	Floating rate £000	Net financial (assets)/ liabilities £000
<b>2005</b>				
Sterling	(486)	430	10,724	10,668
US Dollar	(4,127)	21	128	(3,978)
Euro	(1,446)	-	414	(1,032)
Australian Dollar	(146)	2,951	-	2,805
Other	(1,354)	-	359	(995)
	(7,559)	3,402	11,625	7,468
<b>2004</b>				
Sterling	(225)	1,263	7,581	8,619
US Dollar	(2,415)	84	-	(2,331)
Euro	(809)	-	-	(809)
Australian Dollar	(86)	161	2,699	2,774
Other	(795)	-	-	(795)
	(4,330)	1,508	10,280	7,458

## Notes to the Accounts

for the year ended 31 March 2005

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

Financial assets include cash but exclude trade investments. Trade investments at 31 March 2005 amounted to £269,000 (2004: £241,000) and are non interest-bearing in both periods.

Currency	Fixed rate financial liabilities	
	Weighted average interest rate	Weighted average period for which rate is fixed years
	%	
<b>2005</b>		
Sterling	<b>5.04</b>	<b>1.30</b>
US Dollar	<b>7.38</b>	<b>0.33</b>
Australian Dollar	<b>6.29</b>	<b>0.77</b>
<b>2004</b>		
Sterling	5.30	2.10

Fixed rate financial liabilities consist of finance leases and Australian Dollar borrowings under the multi-option facility. The Australian Dollar borrowings were converted from floating to fixed rate in the year in order to optimise the mix of fixed and floating debt.

Floating rate financial liabilities comprise sterling denominated bank loans, overdrafts and loan notes that bear interest at rates based on LIBOR.

#### 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. The balances concerned are reviewed by the Group and hedged as necessary to avoid incurring currency losses.

Functional currency of group operations	Net currency monetary assets/(liabilities)					
	US Dollar £000	Canadian Dollar £000	Australian Dollar £000	Euro £000	Other £000	Total £000
<b>2005</b>						
Sterling	<b>414</b>	-	<b>(2,482)</b>	<b>768</b>	<b>(550)</b>	<b>(1,850)</b>
US Dollar	-	<b>(4,976)</b>	-	<b>(2)</b>	<b>(341)</b>	<b>(5,319)</b>
Euro	<b>(89)</b>	-	-	-	<b>(11)</b>	<b>(100)</b>
Australian Dollar	<b>(1,756)</b>	-	-	-	<b>(48)</b>	<b>(1,804)</b>
	<b>(1,431)</b>	<b>(4,976)</b>	<b>(2,482)</b>	<b>766</b>	<b>(950)</b>	<b>(9,073)</b>
<b>2004</b>						
Sterling	(74)	-	(2,699)	(60)	(83)	(2,916)
US Dollar	-	(1,855)	-	(14)	(454)	(2,323)
Euro	(155)	-	-	-	(25)	(180)
Australian Dollar	(1,158)	-	-	-	(35)	(1,193)
	(1,387)	(1,855)	(2,699)	(74)	(597)	(6,612)

#### Maturity of financial liabilities

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

	<b>2005</b> <b>£000</b>	2004 £000
Amounts falling due:		
In one year or less or on demand	<b>14,745</b>	11,183
In more than one year but not more than two years	<b>282</b>	233
In more than two years but not more than five years	-	372
	<b>15,027</b>	11,788

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

### 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:

	2005 £000	2004 £000
Expiring in one year or less	9,721	9,466
Expiring in more than one year but not more than two years	-	12,131
Expiring in more than two years	-	-
	<b>9,721</b>	<b>21,597</b>

### Hedges

The Group's policy is to monitor net transactional currency exposures and future contracted sales, in order to hedge such exposures, where appropriate.

There were no forward contracts or options on foreign currency liabilities entered into in the normal course of business at 31 March 2005. The nominal value of forward contracts and options on foreign currency liabilities at 31 March 2004 amounted to £138,000.

The fair value of these contracts at 31 March 2004 amounted to an asset of £2,000, 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 included in the profit and loss account on forward exchange contracts taken out in previous years amounted to £2,000 (2004: £60,000 loss).

The unrecognised gain on forward contracts and options on foreign currency liabilities at 31 March 2004 amounted to £2,000, all of which was recognised in the current year.

## 30. Related Party Transactions

There were no related party transactions in the year.

## Notes to the Accounts

for the year ended 31 March 2005

### 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 rights and shares held	Nature of business
ABS Global Inc (incorporated in the United States)	US\$1 capital stock	100% <sup>1</sup>	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
ABS Global (Canada) Inc	CN\$1 common shares	100% <sup>1</sup>	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	100% <sup>1</sup>	Supply of dairy and beef semen
Genus Australia Pty Ltd (incorporated in Australia)	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 Chile Ltda (incorporated in Chile)	Peso 1 quota stock	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>	Consultancy and contract management
Promar International Limited	£1 ordinary shares	100%	Market research and consultancy
Supersires Limited	£1 ordinary shares	100%	Supply of dairy and beef semen

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



**NOTICE IS HEREBY GIVEN that the 2005 Annual General Meeting of Genus plc (the "Company") will be held at Buchanan Communications Limited, 107 Cheapside, London EC2V 6DT on 18 August 2005 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 2005.
2. To declare a final dividend of 7.5 pence per ordinary share, payable to shareholders on the register of members at the close of business on 5 August 2005.
3. To re-elect as a director of the Company, Richard Wood (who retires in accordance with the Company's Articles of Association) and who, being eligible, offers himself for re-election.
4. To elect as a director of the Company, John Worby (whose appointment comes to an end in accordance with the Company's Articles of Association) and who, being eligible, offers himself for re-election.
5. To appoint Deloitte & Touche 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 resolution 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 12 August 2004 (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 £580,899 being 5,808,988 ordinary shares of 10 pence each PROVIDED THAT this authority shall expire on 17 August 2010 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 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 12 August 2004 (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 £186,305 being 1,863,050 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 2005; 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 £186,305 being 1,863,050 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 2005 for the purpose of allotting ordinary shares in the Company in place of ordinary shares which have been purchased by the Company by 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 in each case shall expire on 17 August 2010, 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. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution 7 the words "pursuant to the authority conferred by resolution 6 above" were omitted.


- 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 the 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 3,726,100 (representing 10 per cent of the Company’s issued ordinary share capital on 31 March 2005);
  - 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.
9. THAT pursuant to Article 103 of the Company’s Articles of Association, the level of aggregate fees payable to the Non-Executive Directors of the Company be fixed at an amount not exceeding £250,000 per annum to be divided between the Non-Executive Directors in such proportions as the Remuneration Committee of the Board shall from time to time determine.

22 July 2005

BY ORDER OF THE BOARD



D P Timmins

COMPANY SECRETARY

#### NOTES:

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.

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.

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.

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 2.30 p.m. on 16 August 2005 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.

## Registered Office and Advisers

### **Secretary and Registered Office**

D P Timmins  
da Vinci House  
Basing View  
Basingstoke  
Hampshire  
RG21 4EQ  
Registered number 2972325

### **Auditors**

Ernst & Young LLP  
19 Threefield Lane  
Southampton  
SO14 3QB

### **Registrars**

Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6DA

### **Stockbrokers**

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Moorgate Hall  
155 Moorgate  
London  
EC2M 6XB

Teather & Greenwood Limited  
Beaufort House  
15 St Botolph Street  
London  
EC3A 7QR

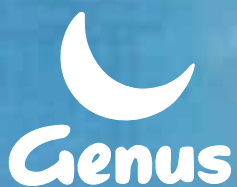
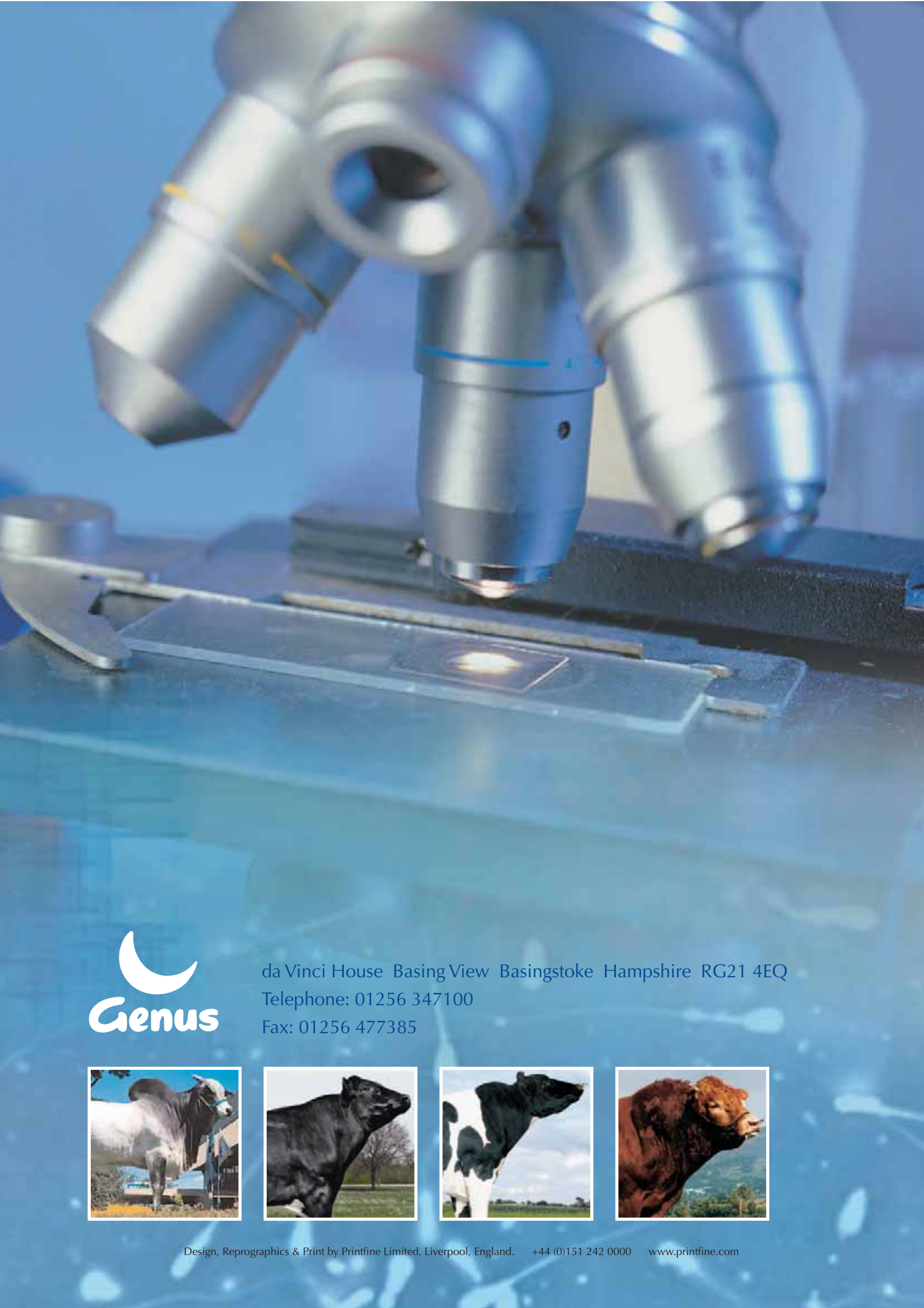
### **Solicitors**

Berwin Leighton Paisner  
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London Bridge  
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EC4R 9HA

DLA Piper Rudnick Gray Cary  
UK LLP  
3 Noble Street  
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EC2V 7EF

### **Financial Advisers**

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