

LEICA MICROSYSTEMS (UK) LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31 MARCH 2000



Registered number 476611

LEICA MICROSYSTEMS (UK) LIMITED

DIRECTORS' REPORT

The directors present their report and the audited accounts for the company for the year ended 31 March 2000.

Principal Activities

The company continued to act as the United Kingdom sales agent for the Leica Microsystems group, manufacturers of microscopic equipment.

Results and Dividends

The results for the year are set out in the profit and loss account on page 4. The directors do not recommend the payment of a dividend.

Review of Business Developments

The company's sales performance of £18.8 million represents an improvement on prior year sales of equivalent products in most microscopy divisions. The company does expect continued success in the future, with the further addition of innovative products and services.

Directors

The directors of the company are as follows:

J D Buckley
M D Pocock

No director had any beneficial interest in the shares of the company or of any UK group company.

Secretary

A J Adams

Registered office

Davy Avenue
Knowlhill
Milton Keynes
MK5 8LB

LEICA MICROSYSTEMS (UK) LIMITED

DIRECTORS' REPORT (Continued)

Year 2000 and Euro

The company has experienced little disruption or malfunction since the turn of the year arising from its own computer systems and equipment with embedded date-reliant computer chips or from related problems at its suppliers or customers.

No material costs over and above normal operating costs were incurred by the company in completing these exercises.

The company, and the group of which the company is a member, already have in place systems and procedures whereby it can purchase, sell, and account in a variety of currencies. The Directors do not anticipate any problems or material costs in preparing the changeover to the Euro.

Statement of Directors' Responsibilities in Respect of the Accounts

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

By order of the Board

A Adams
Secretary

27 September 2000

**REPORT OF THE AUDITORS TO THE MEMBERS OF
LEICA MICROSYSTEMS (UK) LIMITED**

We have audited the financial statements on pages 4 to 13.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 2 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

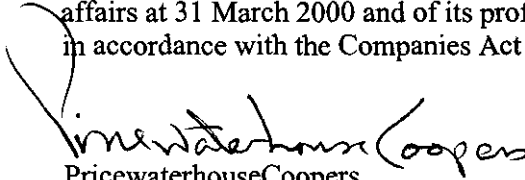
Basis of audit opinion

We conducted our audit in accordance with 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
27 September 2000

LEICA MICROSYSTEMS (UK) LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2000**

	Note	2000 £'000	1999 £'000
TURNOVER	2	18,807	17,424
OPERATING PROFIT	3	1,150	142
Interest payable and similar charges	5	(32)	(37)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	1,118	105
Tax on profit on ordinary activities	6	-	-
RETAINED PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,118	105

The above profits were derived from continuing activities.

There were no gains or losses during the year other than those reflected in the profit and loss account above.

There are no differences between the results presented above and their historical cost equivalents.

The notes on pages 6 to 13 form part of these accounts.

LEICA MICROSYSTEMS (UK) LIMITED

BALANCE SHEET AS AT 31 MARCH 2000

	Note	2000 £'000	1999 £'000
FIXED ASSETS			
Tangible assets	7	546	600
CURRENT ASSETS			
Stocks	8	1,184	853
Debtors	9	12,150	9,711
Cash at bank and in hand		139	3,049
		13,473	13,613
CREDITORS: amounts falling due within one year	10	(4,597)	(5,922)
NET CURRENT ASSETS		8,876	7,691
TOTAL ASSETS LESS CURRENT LIABILITIES		9,422	8,291
PROVISIONS FOR LIABILITIES AND CHARGES	11	(289)	(276)
		9,133	8,015
CAPITAL AND RESERVES			
Called up share capital	13	11,725	11,725
Profit and loss account	14	(2,592)	(3,710)
	14	9,133	8,015

Approved by the board on 27th September 2000 and signed on its behalf by:

.....
M D Pocock

.....
J D Buckley

M D Pocock

J D Buckley

The notes on pages 6 to 13 form part of these accounts.

LEICA MICROSYSTEMS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000 (CONTINUED)

1 ACCOUNTING POLICIES

Accounting convention

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

Cash flow statement

As the company is a wholly owned subsidiary of an EC parent company which produces a group cash flow statement, no such statement has been prepared for the company.

Depreciation

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

Computer software and equipment	20% - 100% per annum
Leasehold improvements	4% per annum
Furniture, fixtures and equipment	10% - 20% per annum
Motor vehicles	10% - 33% per annum

Stocks

Stocks are stated at the lower of cost, including freight and duty where applicable, and net realisable value. Provision is made for obsolete and slow moving stock.

Deferred taxation

Provision is made for deferred taxation, at the current rate, to the extent that, in the opinion of the directors, actual liabilities are expected to arise in the foreseeable future.

Foreign currencies

Foreign currency transactions during the year are translated into sterling at the exchange rates ruling at the date of transaction. Monetary assets and liabilities at the year end are translated at the rates ruling at the balance sheet date. All exchange differences arising in this manner are reported in the profit and loss account for the year.

Leased and hired assets

Assets acquired under hire purchase and finance lease agreements are included in tangible fixed assets and amounts owing to the finance company are included as appropriate in amounts falling due either within or after more than one year. Repayments are treated as consisting of both capital and interest with the interest charged to the profit and loss account on a straight line basis. Payments under operating leases are charged to the profit and loss account as they fall due.

LEICA MICROSYSTEMS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Pensions

The company operates a defined benefit pension scheme which requires contributions to be made to separately administered fund. Contributions to this fund are charged to the profit and loss account so as to spread the costs of pensions over the employees' working lives within the company. Any differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Government grants

Revenues received under government grants are recognised within the profit and loss account so as to match the income against relevant expenditure incurred during the period.

2 TURNOVER

Turnover, all of which arises from continuing activities, is stated net of value added tax and represents amounts invoiced to third parties. All turnover arose from the sale of microscopic equipment in the United Kingdom.

3 OPERATING PROFIT

Operating profit is after charging or crediting:

	2000 £'000	1999 £'000
Crediting:		
Turnover	18,807	17,424
Foreign currency gains	-	6
Charging:		
Change in stocks of finished goods	286	(599)
Raw materials and consumables	(13,293)	(12,005)
Staff costs	(2,456)	(2,238)
Depreciation and other amounts written off tangible fixed assets	(121)	(138)
Other operating charges	(1,491)	(1,774)
Foreign currency losses	(3)	-
Operating lease rentals		
- hire of plant and equipment	(248)	(226)
- other	(350)	(350)
- release of provision for termination of certain lease arrangement	-	60
Auditors' remuneration		
- audit services	(9)	(9)
- non-audit services	(4)	(9)
	1,118	142

LEICA MICROSYSTEMS (UK) LIMITED**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000
(CONTINUED)****3 OPERATING COSTS (CONTINUED)**

Directors' remuneration

	2000 £'000	1999 £'000
Aggregate emoluments	81	83

Retirement benefits of 2 directors (1999: 2) are accruing in a defined benefit pension scheme to which the company contributes.

4 STAFF COSTS

	2000 £'000	1999 £'000
Wages and salaries	2,155	2,016
Social security costs	251	180
Other pension costs	50	42
	2,456	2,238

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

	2000 Number	1999 Number
Marketing, selling and technical service	69	68
General and administration	8	7
	77	75

5 INTEREST PAYABLE

	2000 £'000	1999 £'000
Interest payable to group undertakings	32	37

LEICA MICROSYSTEMS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000 (CONTINUED)

6 TAXATION

No corporation tax charge (1999: nil) arises due to the existence of trading losses incurred in previous years which are available to be offset against current year taxable income.

7 TANGIBLE FIXED ASSETS

	Computer software & equipment £'000	Leasehold improvements £'000	Furniture, fixtures & equipment £'000	Total £'000
Cost:				
At 1 April 1999	370	807	470	1,647
Additions	63	-	4	67
At 31 March 2000	433	807	474	1,714
Depreciation:				
At 1 April 1999	271	384	392	1,047
Charge for the year	74	32	15	121
At 31 March 2000	345	416	407	1,168
Net book value:				
At 31 March 2000	88	391	67	546
At 31 March 1999	99	423	78	600

8 STOCKS

	2000 £'000	1999 £'000
Parts and raw materials	111	66
Goods for resale	1,073	787
	1,184	853

LEICA MICROSYSTEMS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000 (CONTINUED)

9 DEBTORS

	2000 £'000	1999 £'000
Trade debtors	5,353	4,855
Amounts owed by group undertakings	1,172	115
Amounts owed by immediate parent	5,500	4,500
Prepayments and accrued income	125	241
	12,150	9,711

10 CREDITORS: amounts falling due within one year

	2000 £'000	1999 £'000
Trade creditors	299	367
Amounts owed to group undertakings	2,889	2,230
Amounts owed to immediate parent	-	1,731
Other taxation and social security	533	496
Other creditors	10	90
Customer deposits	178	274
Accruals and deferred income	688	734
	4,597	5,922

11 PROVISION FOR LIABILITIES AND CHARGES

	Property Provision £'000	Pension Provision £'000	Total £'000
Balance at 1 April 1999	31	245	276
Charge during the year (note 16)	-	50	50
Utilised during the year	-	(6)	(6)
Released to profit and loss account	(31)	-	(31)
Balance at 31 March 2000	-	289	289

The pension provision represents the cumulative pension cost recognised in the profit and loss account that has not been discharged through payments to the pension fund as a result of the company's contribution holiday referred to in note 16. The provision will be utilised in future periods based on actuarial advice received. The next actuarial valuation of the fund is expected to occur in the financial year to March 2001.

LEICA MICROSYSTEMS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000 (CONTINUED)

12 DEFERRED TAXATION

Potential deferred tax assets in respect of capital allowances and short term timing differences amounting to £155,000 (1999: £83,000) and corporation tax losses of £439,000 (1999: £933,000) have not been recognised in the accounts.

13 CALLED UP SHARE CAPITAL

	2000 £'000	1999 £'000
Authorised 20,000,000 ordinary shares of £1 each	20,000	20,000
Allocated, called up and fully paid 11,725,497 ordinary shares of £1 each	11,725	11,725

14 RECONCILIATION OF TOTAL SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £'000	Profit and loss account £'000	Total share- holders' funds £'000
Balance at 31 March 1999	11,725	(3,710)	8,015
Profit for the year	-	1,118	1,118
At 31 March 2000	11,725	(2,592)	9,133

15 OTHER FINANCIAL COMMITMENTS

The company is committed to annual payments under non-cancellable operating leases as follows:

	Land and buildings £'000	2000 Other £'000	Land and buildings £'000	1999 Other £'000
Operating leases which expire:				
Within one year	-	6	-	17
Between two and five years	-	194	-	205
Over five years	350	-	325	-
	350	200	325	222

LEICA MICROSYSTEMS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000 (CONTINUED)

16 PENSION COSTS

A defined benefit pension scheme is operated for the employees of the UK companies within the Leica group. The scheme is funded by the payment of contributions to a separately administered trust fund. Benefits provided by this scheme are based on final pensionable salary and years of service.

The contributions to the pension scheme are determined with the advice of an independent qualified actuary on the basis of valuations carried out at least triennially. The most recent was made as at 1 April 1997, using the attained age method and the following assumptions:

Rate of future salary increases	7.0% per annum
Valuation rate of investment return	8.5% per annum
Pension increases	4.0% per annum
Rate of growth in equity dividends	4.0% per annum

This valuation showed that the market value of the scheme's assets at that date amounted to £33,341,000 and the actuarial value was sufficient to cover approximately 123% of the benefits that had accrued to members after allowing for the effect of future increases in earnings. The surplus identified by the actuarial valuation will be eliminated by the continuation of the company's pension contribution holiday.

The pension expense of £50,000 charged to the profit and loss account is in line with the actuarial valuation recommendations as at 1 April 1997. The regular cost of providing future service benefits to employees has been reduced in respect of the amortisation of the existing surplus over 20 years, the average expected remaining service lives of these employees.

LEICA MICROSYSTEMS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2000 (CONTINUED)

17 CAPITAL COMMITMENTS

There are no capital commitments at 31 March 2000 (1999: nil)

18 CONTINGENT LIABILITY

The company is a party to an agreement to cross-guarantee banking facilities of companies in the Leica Microsystems Group.

19 ULTIMATE PARENT COMPANY

The directors regard the ultimate holding company to be L M Holdings S.à.r.l. a company registered in Luxembourg. Leica Microsystems International Holdings GmbH, a company incorporated in Germany, is the parent undertaking of the largest and smallest group of which the company is a member and for which group accounts are prepared. The immediate parent undertaking is Leica Microsystems Holdings GmbH.

Copies of the report and accounts of Leica Microsystems International Holdings GmbH can be obtained from Ernst-Leitz Strasse, 35578 Wetzlar, Postfach 2020, D-35530 Wetzlar, Germany.

20 RELATED PARTY DISCLOSURES

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions (but not balances) with entities that are part of the Leica Microsystems Group or investees of the Leica Microsystems Group.