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Objectives of the Microgen Group

To be the recognised leader in the provision of customer driven solutions for information management through the delivery of innovative and unrivalled service for the management of business information.

To offer all our people satisfying and rewarding employment with the opportunity to progress.

To provide our shareholders with consistent long term growth in the value of their investment.

documents

expertise

managing information for business

data

During the last three years Microgen has been going through a major transformation developing its Information Management Services (IMS) business as an outsource supplier of services for managing, printing, distributing, viewing and archiving computer generated information while benefiting from the strong cash flow generated by the Group's original COM (Computer Output to Microfilm) business.

In the year ended 31 October 1997, further real progress was made in focusing the Group on those areas of the business considered to have the best potential for future growth.

The invoice printing and inserting business, Transactional Business Services (TBS), was acquired for a total cash consideration of £5.7 million. The Current Knowledge business and Microgen's 49% interest in Printpost were sold for £987,000 which, together with working capital released by the disposals, produced cash of £1.25 million for reinvestment. A major programme for the development and launch of a new service, Microgen Axess, was begun and, following initial favourable market reaction, accelerated. Three UK production sites were closed after their business was merged into other branches.

Turnover and profits

As anticipated in November's trading update, profit before tax for the year to 31 October 1997 was £5.3 million (1996: £8.8 million) on turnover of £66.4 million (1996: £73.4 million); earnings per share were 8.8p (1996: 15.1p). Earnings per share before reorganisation costs on acquisition and exceptional profit on disposal (exceptional items) were 10.1p (1996: 15.1p).

The underlying trading performance of the company was much better than these figures imply given the following important factors:

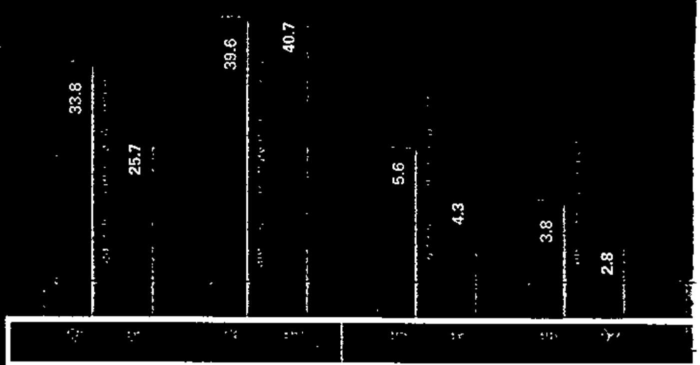
- the strength of sterling during this year compared to last reduced turnover by some £6.7 million and operating profits by nearly £800,000 even though it has had no effect on the Group's underlying trading activities;
- the deduction of £1 million of exceptional items relating to acquisitions and disposals; and
- infrastructure and development costs of approximately £1 million for the new Axess service which has not generated significant revenue in the year under review.

Cash and dividends

The net borrowing at the end of the year was £1.4 million (1996: net cash of £2.8 million) after net investment of £9.8 million in fixed assets and acquisitions less disposals. Year end gearing of 9.5% of shareholders' funds will increase during the year, as a result of £3 million deferred cash outflow for the TBS acquisition, but is unlikely to exceed 30%.

Financial Highlights

	[illegible] £000	[illegible] £000	[illegible] £000	[illegible] £000	1997 £000
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	25,660
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	40,738
Total Turnover	[illegible]	[illegible]	[illegible]	[illegible]	66,398
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5,324
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.8p
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.0p



Turnover million

Operating profit million

"Today's business environment is constantly evolving and Microgen is continuously responding to that challenge. The growth of electronically based information management soloutions is one such area we are addressing."

In future years there will be a continuing investment in IMS and a reduced cash flow from the COM business. The Board has concluded that Microgen should limit distributions to dividends which are clearly sustainable with an earnings cover of some two times.

Accordingly, the Directors are recommending a final dividend of 2.6p (net) per share to be paid on 6 April 1998 to shareholders on the register on 6 March 1998. This dividend, together with the interim dividend already paid, will make a total dividend for the year of 5.0p (1996: 7.8p), covered 2.0 times (1996: 1.9 times) by earnings before exceptional items.

The Directors have also concluded that shareholders' interests would be well served in the medium and long term by a share buy-back programme which would result in a more efficient capital structure for the Group and enhanced earnings per share. A resolution seeking shareholder approval for the repurchase of up to 10% of Microgen's issued share capital will be proposed at the forthcoming Annual General Meeting. The implementation of any such repurchases would be as and when conditions are appropriate.

People

On behalf of the shareholders I should like to express my appreciation and admiration to all our staff for their dedication and determination to succeed during this period of transition.

Prospects

The first half of the current year will again be adversely affected by currency translation of non-UK profits as sterling is likely to be some 10% to 15% stronger than in the first half of last year. Assuming no significant changes in current exchange rates, there should be less impact on the second half.

Underlying trading revenues in the current year so far are in line with our expectations. However, the ongoing costs associated with the integration of TBS are continuing to have an adverse impact on the Group's results. IMS services are expected to make progress and the new Axess service is being well received in the marketplace. A further steady decline in COM is anticipated.

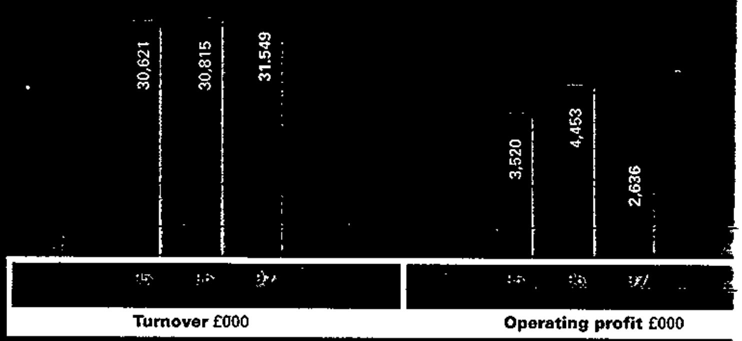
Overall, whilst the current year will be a difficult one, the Board is confident that the longer term prospects of the Group remain encouraging.

Douglas Lee

Douglas Lee *Chairman*

Acquisitions, disposals, [illegible] rationalisation and the development and [illegible] costs of Axess, have affected the results of the UK company where turnover has marginally increased to £[illegible] million but operating profits, before exceptional items, have declined by [illegible]% to £[illegible] million.

[illegible]



"We originally selected Microgen as they offered a total service at the right price combined with very good quality. We are very pleased with the service we have had so far. With our move into the domestic mains gas market, Calor's customer base is set for dramatic growth and we look forward to continuing and extending our relationship with Microgen."

The business of Microgen

Microgen is an information management services group with 5,000 customers in the UK, Ireland, Germany, Denmark, Sweden, Norway and Finland. The Group provides outsourcing services for the transmitting, processing, viewing, printing, distributing, archiving and retrieving of computer generated business information.

The services incorporate a broad range of technologies for managing computer data in its raw form and all aspects of its conversion into useable information. These include high speed data transmission, computer processing, electronic data storage, laser printing, automated secure mailing, and computer output to microfilm.

Microgen has invested in facilities which offer economies of scale and professional expertise to customers unable or unwilling to justify the expenditure of money or technical resources themselves. These services are available individually but in most cases Microgen draws on several areas of its expertise to create bespoke services which meet the particular needs of its customers in solving specific business information management problems.

Microgen has focused its expertise into branded services addressing particular aspects of the market. The **Chronos** brand concentrates on the problems of customer cash flow associated with the sales ledger where time is of the essence. At the heart of **Chronos** lies the ability to produce large numbers of invoices, statements and credit notes which are then automatically inserted into envelopes and posted, against tight time schedules.

Microgen's **Memory** services are derived from our 25 year involvement with Computer Output to Microfilm. Memory services cover the life cycle of computer generated information from creation to destruction. The services include **COM** and Computer Output to **CD**, together referred to as **CDCOM.** The recent addition of **CD** based services brings a new dimension to data archiving combining the power of digital data management with the security of the long term analogue archive provided by **COM.**

Microgen **Axess** is an intranet based data and document management service which allows customers to outsource their data and document storage to Microgen while providing their users with secure on-line access to search, retrieve, view, print and fax documents from their desktop.

Axess is of particular value to credit control or customer service departments allowing them rapid retrieval of relevant documentation such as invoices or proof of delivery documents to give prompt answers to customer queries.

Axess has been developed both as a service and as a software platform available for in house use where the sensitivity of data does not allow off site storage.

Review of 1997

Microgen Axess One of the most important developments in Information Technology in recent years has been the movement towards the creation and processing of electronic or 'virtual' documents coupled with a dramatic increase in the 'information' generated by and available to all organisations. Recognising this trend, Microgen commissioned the development of software, to be incorporated within our Information Management Services, that gives our customers access to the information we manage for them in ways that allow them to extract and use the valuable 'knowledge' therein but to print and distribute physical documents only when required.

In July 1997 we acquired the company building this software and thus obtained the exclusive rights thereto and a resource for developing further products and services. The software is now fully operational, integrated into our UK branded services and also launched as a stand alone service for document management under the name Microgen Axess.

We have a growing list of customers for Axess and the prospects in the UK are most encouraging. We also anticipate rolling out the service to our overseas subsidiaries later this year and we intend to sell user licences outside our market areas.

The investment and revenue costs of supporting and enhancing the Axess service are significant and continuing. Although we expect income to grow rapidly this year, we do not expect to reach break-even point for some time.

TBS In the four months to 31 October 1997, TBS generated revenue of £2.3 million and made a small contribution to Group profits of £154,000 before taking into account the exceptional costs of £1.6 million involved in integrating the business into the Group. These reorganisation costs, which will continue to a lesser extent in the current year, are higher than we originally anticipated because of additional redundancy and staff costs incurred as a result of the reluctance of TBS staff to relocate from West Bromwich to our own facilities in Manchester and Welwyn Garden City. Nevertheless, the transfer of the business was completed in December and we expect that TBS will make an increased contribution to UK profits in the current year as operating efficiencies develop.

Electronic Data Systems Inc. (EDS) In December 1997, our Swedish company entered into a long term strategic partnership with the Swedish subsidiary of EDS, a large US computer service outsourcing company. This partnership, which will extend to cover the whole Nordic area in due course, involves the supply of all computer output services to EDS and its customers from our bureaux throughout the region with effect from 1 January 1998. After a period of transfer and training we expect this partnership to make a useful contribution to Nordic operations from the second half of this year.

COM Across the Group, COM volumes have reduced by approximately 11% as COM's role as an off-line storage and distribution medium continues to diminish. At constant currency rates, revenue was down by 13% to £25.7 million and the contribution to Group results was £4.3 million, 17.0% less than the previous year.

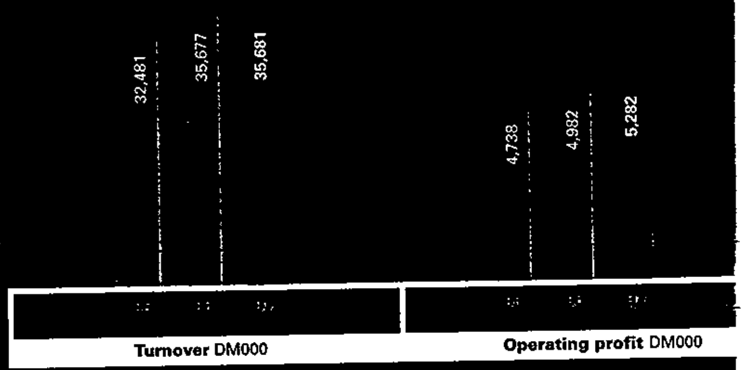
Although COM volumes and revenues will continue to decline, if placed in its proper context as a long term archive for analogue information, COM is without equal and has a secure future. We now couple our Axess (on-line) and CD (off-line) services for short term storage and retrieval with COM for the long term; this combination is showing encouraging signs of stability.

Information Management With the exception of COM and Axess, all our services are grouped under the heading of Information Management Services IMS. At constant currency rates, IMS revenue grew by 11% to £37.5 million and the contribution to group operating profit has increased by 10% to £3.6 million.

Germany

[illegible] turnover unchanged at DM 35.7 million [illegible]. Declines in COM revenue [illegible] gains from Information Management Services [illegible] margins [illegible] cash flow has been particularly good in Germany with the completion of [illegible]

[illegible]



"Outsourcing our printing to Microgen removes a major logistical headache from our work. With the high levels of service Microgen provides, we know that vital documents will be printed, sorted and, in the case of reports, distributed quickly, allowing us to improve our relationship with our customers."

Operating profit

Table 1 opposite restates the 1996 comparative profit figures at 1997 rates in order to allow direct comparison of underlying profitability by service. 'Discontinued operations' refers to the Current Knowledge business disposed of in October. The 1997 operating profit was significantly affected by the TBS acquisition, continuing COM revenue decline and cost rationalisation, and investment in the 'Axess' document management service. These are covered more fully in the Operating Review.

Pre tax profit

In the Group Profit and Loss Account on page 28, turnover and profit from acquisitions refers to four months trading from the TBS business acquired in July 1997. The 'one off' reorganisation costs arising from the transfer of this operation from West Bromwich to our sites at Manchester and Welwyn are shown as a separate item.

Pre tax profit of £5.3 million is arrived at after adjusting the operating profit of £4.9 million by exceptional profit on disposal (from the sale of Current Knowledge and our 49% interest in the PrintPost joint venture in Ireland), together with our share of the operating loss in this joint venture and finally deducting the net interest charge. The increased interest charge reflects cost of borrowings associated with the acquisition of TBS.

Effect of exchange rates

Table 2 shows actual exchange rates used. The Profit and Loss Account is translated at average rate for the year. The Balance Sheet is translated at year end rate.

If the 1997 average rates are applied to the 1996 comparatives, turnover would reduce by £6.7 million and profit by £0.8 million. Translation of overseas subsidiary balance sheets at the 1997 year end rates has resulted in a £1.8 million reduction in Reserves.

As there is negligible trading between Group companies the above differences primarily arise from year end translation. Where an actual transaction occurs, creating a commitment in a currency other than the local currency of the company undertaking the transaction, equal and opposite commitments are made in the foreign exchange markets to protect against subsequent movement in exchange rates.

The Group does not seek to protect the sterling value of profits generated in overseas currencies from changes which may arise as a result of exchange rate fluctuations. The Group is however reviewing its overseas borrowing facilities to minimise the effect of exchange movements on the Balance Sheet.

Cash flow

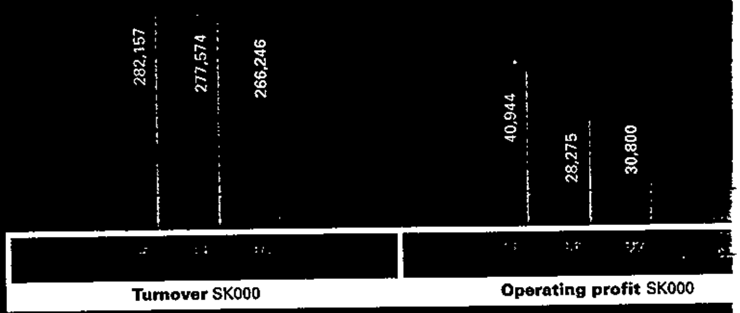
Table 3 analyses our free cash flow (ie operating cash flow before dividends and acquisitions).

The increase in tax payments represents the payment of UK tax on last year's higher profits, together with the restoration of Germany's tax to a more normal level following the exhaustion of its carried forward tax loss.

Capital expenditure is further analysed in Table 5. Purchases and sales of businesses are shown in detail in Note 20 to the accounts on page 39.

The favourable movement in working capital partly arises from £0.9 million deferred redundancy payments in connection with the TBS acquisition.

[illegible]



"I don't know what we'd do without COM, it's absolutely the ideal storage medium for us. Many people in the IT industry feel it's old hat but I believe there's no point in implementing a complex and costly solution if your existing approach is working perfectly well. The added bonus is that fiche doesn't rely on computers – so if our system went down, a rare occurence I am happy to say, we could still access all our records."

[illegible]

Borrowings

Normal working capital and investment requirements are funded from local overdraft facilities which more than cover the Group's needs for the foreseeable future.

The UK loan and finance leases shown in Table 4 were specifically used to fund the TBS acquisition and are repayable over 5 years.

Interest rates on cash deposits are obtained on the most favourable overnight or short term rates available from the Group's regular bankers. Group subsidiaries with surplus cash may lend to another Group company on an exchange rate protected basis at local commercial rates.

During the current financial year, further payments of around £2.7 million are due in connection with the TBS acquisition, representing deferred consideration and reorganisation costs. These will increase the Group's gearing from 10% at October 1997 to a peak of around 30% by the middle of this year. The Board is seeking shareholders' approval at the AGM to buy back up to 10% of the Group's share capital. If this option is exercised in full at the present market price, gearing could rise to 50% of shareholders' funds.

Capital expenditure.

A total of £6.3 million was invested in fixed assets during the year as shown in Table 5. A further £2.2 million of assets were acquired as part of the TBS purchase. Leasehold expenditure included the expansion of our Manchester and Welwyn sites to absorb the ongoing volume growth and to enable the integration of the TBS operation.

£5.5 million (87%) of the above total represents investment in Information Management services, including £0.5 million on the new Axess service. The remainder was invested in efficiency improvements within the COM service.

All capital expenditure is justified on a Discounted Cash Flow basis, discounted at the Group's weighted average cost of capital, with a maximum payback period depending on the nature of the project.

Taxation

The effective tax rate for the Group was 34% compared with 32% last year.

The UK tax rate has been favourably distorted by the profit on disposal of the Current Knowledge operation which is treated as a capital gain. Excluding this, the underlying rate is 34%.

Germany has now fully utilised its carried forward tax losses. The effective tax rate of 44% is therefore closer to the underlying rate of 56%.

There is still a wide range of underlying tax rates within the Group, ranging from 28% in the Nordic region to 56% in Germany. However, our overall tax planning strategy is to keep the Group tax rate within the 33% to 35% range.

Going Concern and Internal Financial Control

Statements on Going Concern and Internal Financial Control are both included in the Corporate Governance section on page 21.

Gerry Liddle *Financial Director*

Table 1 [illegible]

[illegible]	1997 profit
[illegible]	4,267
[illegible]	3,574
[illegible]	(868)
[illegible]	85
[illegible]	7,058

Table 2 [illegible]

	1997 average	1997 year end
[illegible]	1.062	1.110
[illegible]	12.169	12.250
[illegible]	10.508	10.850
[illegible]	8.233	8.535
[illegible]	11.305	11.470
[illegible]	2.751	2.855

Table 3 [illegible]

[illegible]	1997
[illegible]	4,875
[illegible]	5,851
[illegible]	(67)
[illegible]	(3,332)
[illegible]	(6,300)
[illegible]	168
[illegible]	1,684
[illegible]	(236)
Free cash flow	2,643
[illegible]	(3,085)
[illegible]	(3,727)
[illegible]	39
[illegible]	2,750
Closing net cash and borrowings	(1,380)

Profit and Loss account	1993 £000	1994 £000	1995 £000	1996 £000	**1997 £000**
Turnover by service					
Computer Output to Microfilm	35,024	33,952	35,494	33,823	**25,660**
Information Management Services	18,327	24,822	33,535	39,568	**40,738**
	53,351	58,774	69,029	73,391	**66,398**
Turnover by region					
UK and Ireland	25,576	27,378	30,621	30,815	**31,549**
Nordic countries	18,172	20,954	24,347	26,928	**21,879**
Germany	9,603	10,442	14,061	15,648	**12,970**
	53,351	58,774	69,029	73,391	**66,398**
Operating profit by service					
Computer Output to Microfilm	*	*	6,280	5,618	**4,267**
Information Management Services	*	*	2,824	3,763	**2,791**
	6,983	6,706	9,104	9,381	**7,058**
Operating profit by region					
UK and Ireland	3,351	1,954	3,520	4,453	**2,636**
Nordic countries	2,253	3,247	3,533	2,743	**2,502**
Germany	1,379	1,505	2,051	2,185	**1,920**
	6,983	6,706	9,104	9,381	**7,058**
Central costs	(470)	(455)	(519)	(575)	**(563)**
Reorganisation costs of acquisition	—	—	—	—	**(1,620)**
Exceptional profit on disposal	—	—	—	—	**582**
Share of associate results	—	(53)	(57)	(53)	**(22)**
Interest	187	(25)	(145)	30	**(111)**
Profit before taxation	6,700	6,173	8,383	8,783	**5,324**
Taxation	(2,473)	(2,116)	(2,423)	(2,776)	**(1,810)**
Profit after taxation	4,227	4,057	5,960	6,007	**3,514**
Minority interests	(86)	(104)	(113)	(57)	**(22)**
Profit available to shareholders	4,141	3,953	5,847	5,950	**3,492**
Dividend	(2,866)	(2,858)	(2,959)	(3,087)	**(1,979)**
Net profit retained	1,275	1,095	2,888	2,863	**1,513**
Earnings per share	10.5p	10.0p	14.8p	15.1p	**8.8p**
Dividend per share	7.25p	7.25p	7.5p	7.8p	**5.0p**
Dividend cover (times)	1.4	1.4	2.0	1.9	**1.8**
Shares in issue at year end (million)	39.42	39.43	39.45	39.53	**39.57**

*Individual figures are not available for the two services for these years.

Table 4 [illegible]

[illegible]	[illegible]	[illegible]	[illegible]	net total
[illegible]	[illegible]	[illegible]	[illegible]	(4,030)
[illegible]	[illegible]			369
[illegible]				728
				232
				181
				564
				576
				(1,380)

Table 5 [illegible]

	total
	3,968
	1,690
	642
	6,300

Table 6 [illegible]

	1997	[illegible]
	23%	[illegible]
	29%	[illegible]
	44%	[illegible]
	34%	[illegible]

Directors and advisers

Directors of Microgen Holdings plc, showing years of service with the Group

Douglas Norfolk Lee,
Executive Chairman, 24 years

Brian George Allison,
Non-executive, 5 years

Patrick Frank Barbour,
Non-executive, 20 years

Ulf Dietrich Bunge (Germany),
MD Eurocom-Depora GmbH, 26 years

George Michael Winston Gordon,
Non-executive, 2 years

David Christopher Herridge,
Appointed 28 January 1997,
MD Microgen UK Limited, 13 years

Jan Erik Ronald Jinert (Sweden),
Resigned 20 March 1997

Gerald Ernest Liddle,
Financial Director and Secretary, 8 years

Auditors

Price Waterhouse
Chartered Accountants and
Registered Auditors
10 Bricket Road
St Albans
Hertfordshire AL1 3JX

Solicitors

Cumberland Ellis Peirs
Columbia House
69 Aldwych
London WC2B 4RW

Bankers

National Westminster Bank plc
St. James & Piccadilly Branch
PO Box 2DG
208 Piccadilly
London W1A 2DG

Stockbrokers

Kleinwort Benson Securities Limited
20 Fenchurch Street
London EC3P 3DB

Registrars

IRG plc
Balfour House
390/398 High Road
Ilford
Essex IG1 1NQ

Registered Office

New Lodge
Drift Road
Windsor
Berkshire SL4 4RQ

Balance sheet	1993 £000	1994 £000	1995 £000	1996 £000	**1997 £000**
Fixed assets	13,742	15,844	15,557	15,298	**15,870**
Net cash/(borrowings)	1,286	(2,396)	2,053	2,750	**(1,380)**
Other assets less liabilities	(1,273)	(273)	(752)	858	**72**
Minority interests	(192)	(320)	(323)	(272)	**—**
Shareholders funds	13,563	12,855	16,535	18,634	**14,562**

Cash flow	1993 £000	1994 £000	1995 £000	1996 £000	**1997 £000**
Net cash inflow from operating activities	10,500	10,831	14,934	12,967	**12,506**
Returns on investment and servicing of finance	222	(91)	(313)	(38)	**(153)**
Tax paid	(3,411)	(2,393)	(1,742)	(2,533)	**(3,332)**
Cash flow attributable to ordinary shareholders	7,311	8,347	12,879	10,396	**9,021**
Purchase of fixed assets	(4,440)	(7,640)	(6,068)	(5,977)	**(6,300)**
Sale of fixed assets	319	1,069	414	197	**168**
Purchase/sale of business	(1,814)	(1,726)	100	(988)	**(3,237)**
Dividends paid to shareholders	(2,846)	(2,858)	(2,898)	(3,004)	**(3,085)**
Cash flow before management of liquid resources and financing	(1,470)	(2,808)	4,427	624	**(3,433)**
Financing (net)	323	(366)	(264)	660	**3,615**
Change in net (borrowings)/funds resulting from cash flows and other non cash items	(48)	(508)	286	(587)	**(4,312)**
Opening net cash and borrowings	2,481	1,286	(2,396)	2,053	**2,750**
Closing net cash and borrowings	1,286	(2,396)	2,053	2,750	**(1,380)**
Cash flow per share	18.60p	21.17p	32.66p	26.30p	**22.80p**

Cash flow per share is calculated by dividing the cash flow attributable to ordinary shareholders by the average number of shares in issue.

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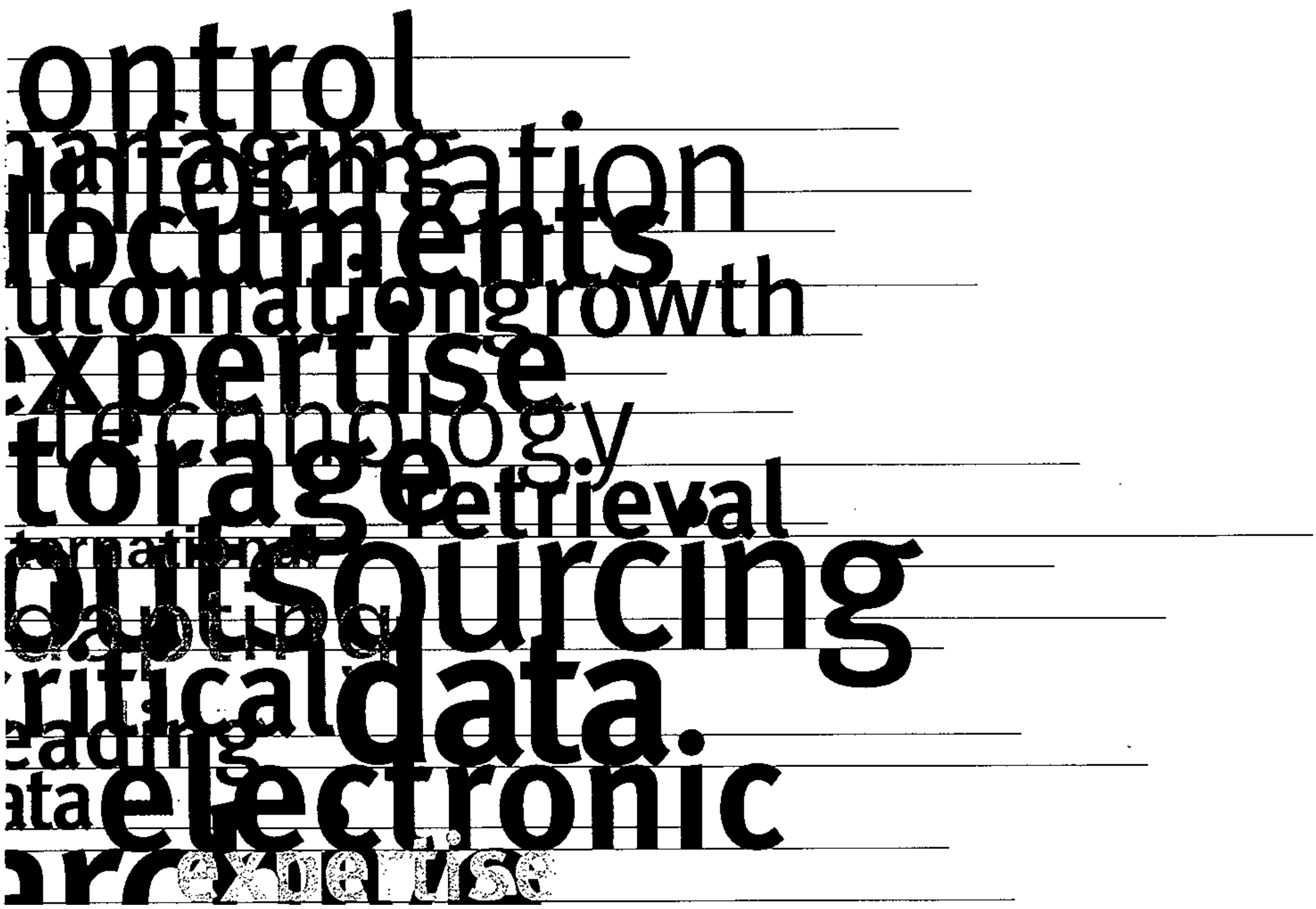

The directors submit their report together with the audited financial statements for the year ended 31 October 1997.

Results and dividends

The results for the year are set out in the attached financial statements.

The directors recommend the payment of a final dividend of 2.6p per ordinary share (payable on 6 April 1998 to shareholders registered on 6 March 1998) which, together with the interim dividend of 2.4p per ordinary share, will make a total distribution for 1997 of 5.0p per share (1996: 7.8p), being £1,979,000. The transfer to reserves was £1,513,000.

Principal activities

The Company is a holding company, with the Group's principal activity being the provision of specialist services for the management of computer-generated data and other information which enable its customers to increase efficiency and reduce costs in essential administrative areas of business as described in the Operating Review.

Developments in the business

Developments in the business are stated in the Chairman's Statement and Operating Review.

Research and development

Each operating company in the Group carries out research and development as a fundamental part of keeping its services relevant and competitive. Research and development costs have increased in the year due to the development of Axess, as described in the Operating Review.

Employment policies

Full and fair consideration is given to suitable applications for employment from disabled persons. So far as is practical opportunities exist for employees who become disabled either to continue in their existing jobs or to be retrained for other positions. Employee participation is encouraged through periodic company newsletters, informal briefing sessions and discussions at all levels. It is Group policy to encourage equal employment opportunities for all people.

Political donations

No political donations have been made by the Company and its subsidiaries during the year.

Share capital

The share capital of the Company and all changes therein during the year are shown in note 16 to the accounts.

Substantial shareholdings

The directors have been informed of the following interests in excess of 3% of the issued share capital at 1 February 1998 and are not aware of any other such interests, save those shown under Directors' interests in the Report of the Remuneration Committee.

	number of shares	% issued share capital
Schroder Investment Management Limited	4,811,699	12.16
Legal and General Assurance	2,938,000	7.43
Newton Investment Management Limited	2,393,950	6.05
Framlington Group plc	2,061,803	5.21

Significant contracts

There was not existing at any time during the year any contract involving the Company or any of its subsidiaries in which a director of the Company was or is materially interested or any contract which was either a contract of significance with a controlling shareholder or a contract for the provision of service by a controlling shareholder.

Directors

Details of directors who have held office during the year are given on page 16.

UD Bunge and DN Lee retire by rotation and, being eligible, offer themselves for re-appointment.

Neither UD Bunge nor DN Lee has a service contract expiring or determinable after more than one year and without payment of predetermined compensation which equals or exceeds one year's salary and benifits in kind.

Non-executive directors

Brian Allison, 64, was appointed to the board in 1992. He is non-executive chairman of Amtico Holdings Limited, and of SSE Holdings plc (Smith Systems Engineering). His previous directorships include Holt Lloyd Group (until November 1997), Brammer plc (until June 1997), Electra Corporate Ventures Limited (until May 1996), Unitech plc (until May 1996), NYNEX Network Systems (until December 1993), English China Clays plc (until April 1992) and BIS Group Limited (until July 1991). He was a member of the London Board of the Halifax Building Society until November 1996.

Patrick Barbour, 63, was appointed to the board as Chairman when the Company was incorporated in 1982. He relinquished this post in 1991 but remains as a non-executive director. He is also a director of Barbour Index plc.

Michael Gordon, 60, was appointed to the Board in November 1995. He is Chief Operating Officer of the CRT Group and became a director in June 1994 following 10 years with BIS Group. He has worked for a number of manufacturing companies and spent a total of 11 years at PA Management Consultants and Booz Allen and Hamilton Management Consultants.

Auditors

Resolutions to re-appoint Price Waterhouse as auditors and to authorise the directors to set their remuneration will be put to the members at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at 4.30pm on Tuesday 31 March 1998 at Standard House, Epworth Street, London EC2. The notice of the Annual General Meeting, enclosed with this report, contains the full text of the resolutions to be proposed.

In addition to the ordinary business of the meeting, two resolutions are proposed as Special Business in the Notice of Meeting:

Resolution 7 – Authority for the Company to purchase its own shares

This resolution is being proposed as a Special Resolution to give the Company a general authority to purchase on the Stock Exchange up to 10% of its issued ordinary shares at a price per share of up to 5% above the average mid market price on the Stock Exchange in the preceding five days (but no less than 5p). The authority will be used only in circumstances where the Board after careful consideration believes that such a purchase would result in an increase in expected earnings per share and would be in the best interests of the shareholders generally. All ordinary shares that are purchased will be cancelled.

The authority sought would expire at the conclusion of the next Annual General Meeting but the intention of the Board is to seek to renew the authority then and on a continuing basis thereafter.

Resolution 8 – Power to allot shares for cash

This resolution is being proposed as a Special Resolution by which the directors ask the shareholders for permission to relax the statutory pre-emption provisions that apply where new shares are issued for cash (up to 1,978,300 shares representing 5% of the issued share capital at 31 January 1998) for a further year. The authority will terminate on 25 June 1999 at the latest.

Going Concern and Internal Financial Control

Statements on Going Concern and Internal Financial Control are both included in the Corporate Governance section on page 21.

Creditor payment policy

The Group agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms, subject to the terms and conditions being met by suppliers.

The Company has no trade creditors.

At 31 October 1997, for the main UK trading subsidiary, Microgen UK Limited, the number of days of annual purchases represented by year end creditors was 43.

By Order of the Board
GE Liddle Secretary
23 February 1998

Statement of compliance

Other than disclosed elswhere in this Annual Report, the Group is in full compliance with the Cadbury Committee's Code of Best Practice, as incorporated in the Listing Rules of the London Stock Exchange. The auditors' report to the directors on Corporate Governance is on page 22

Board of directors

The Board of directors meets regularly and retains full and effective control over the Group. It has a schedule of matters specifically reserved to it for decision and has delegated authority to committees of directors on other matters. The roles of Chairman and Chief Executive are not separated.

Non-executive directors are appointed for specified terms and re-appointment is not automatic. They are selected by a formal process and their appointment is considered by the Board as a whole.

All directors have access to the advice and services of the Company Secretary, and all directors are able to take independent professional advice, if necessary, at the Company's expense.

Board Committees

All three non-executive directors serve on the Remuneration and Audit Committees. The committees have written terms of reference which clearly specify their authority and duties.

Michael Gordon chairs the Remuneration Committee, which also includes the Executive Chairman. The report of the Remuneration Committee appears on pages 23-26.

Brian Allison chairs the Audit Committee. The Executive Chairman and Financial Director attend its meetings. The Audit Committee meets regularly with management and the external auditors to review audit procedures, internal controls and financial reporting matters. It also recommends the appointment of the Company's external auditors. The auditors have unrestricted access to the Audit Committee.

Internal Financial Control

The Board of directors has overall responsibility for the Group's system of internal financial control. The system of internal financial control is designed to provide reasonable but not absolute assurance against material mis-statement or loss. The framework comprises:

- a comprehensive budgeting system with an annual budget approved by the Board.
- the monthly comparison of actual results against budget and the previous year.
- the quarterly updating of forecast profit and cash flow.
- a Group procedure manual which is revised on a regular basis.
- regular reporting to the Board on treasury and legal matters.
- clearly defined investment control guidelines and procedures.

On behalf of the Board, the Audit Committee has reviewed the operation and effectiveness of this framework for the year ended 31 October 1997.

Going Concern

The Cadbury Code requires that directors should report that the Group and Company are going concerns. After reviewing detailed profit projections and taking into account the available bank facilities, the directors consider that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the accounts.

Report by the Auditors to the Directors of Microgen Holdings plc on Corporate Governance Matters

In addition to our audit of the financial statements we have reviewed your statements on page 21 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not express any opinion on, the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls and on going concern on page 21 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the company and examination of relevant documents, your statement on page 21 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse.

Price Waterhouse
Chartered Accountants
10 Bricket Road
St Albans
Hertfordshire AL1 3JX

23 February 1998

Membership

The membership of the Remuneration Committee during the year ended 31 October 1997 comprised the three non-executive directors, Michael Gordon, Brian Allison and Patrick Barbour, together with Douglas Lee. The Committee is chaired by Michael Gordon.

The Company is in compliance with Section A of the best practice provisions annexed to the London Stock Exchange Listing Rules, except that Douglas Lee, Executive Chairman, remains a member of the Committee but is not involved in any discussion regarding his own remuneration.

Policy statement

The Remuneration Committee sets the remuneration and other terms of employment of executive directors of the Holding Company and its principal operating subsidiaries. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved.

Each of the executive directors is entitled to participate in a variable reward scheme. The amount of each variable reward is determined by reference to personal performance appropriate to their particular executive responsibilities. The variable reward for those directors with profit responsibility is based on profit performance in excess of inflation over a rolling three year period.

It is the Committee's intention to continue to seek to align the interests of the executive directors with those of the shareholders.

The Committee has given full consideration to Section B of the best practice provisions annexed to the London Stock Exchange Listing Rules.

Service contracts

There are no contracts of service whereunder any director of the Company is employed by the Company or any of its subsidiaries other than contracts expiring or determinable by the employing company within one year and without payment of predetermined compensation which equals or exceeds one year's salary and benefits in kind.

Pension schemes

The UK based directors, management and staff are all eligible to participate on the same basis in the Group's UK Pension Scheme. The scheme is a defined contribution scheme to which the Company contributes 7% of gross earnings and the employee contributes a minimum of 4%. It is established policy that variable rewards, including those of the directors, are included in gross earnings for contribution purposes.

The scheme also offers income protection in the case of permanent ill-health as well as lump sum and dependants' pension payable where death occurs in service or in retirement.

The overseas directors and staff are members of separate pension schemes appropriate to local conditions.

Directors' remuneration

The remuneration of all directors was as follows:

	1997 £000	1996 £000
Remuneration	**589**	727
Pension contributions	**23**	58
	612	785

United Kingdom directors	basic salary/ fees £	variable reward £	benefits in kind £	pension £	1997 total £	1996 total £
DN Lee (Chairman)	112,042	7,073	9,817	8,338	**137,270**	133,896
BG Allison	12,000	—	—	—	**12,000**	12,000
PF Barbour	—	—	—	—	**—**	—
GMW Gordon	12,000	—	—	—	**12,000**	12,000
DC Herridge	49,449	3,804	4,753	3,744	**61,750**	*
GE Liddle	65,250	5,000	11,457	5,086	**86,793**	86,982
	250,741	15,877	26,027	17,168	**309,813**	244,878
Other directors						
UD Bunge	187,968	75,718	9,675	1,418	**274,779**	268,023
JER Jinert	5,390	14,630	3,241	4,042	**27,303**	272,567
	193,358	90,348	12,916	5,460	**302,082**	540,590
Total, all directors	444,099	106,225	38,943	22,628	**611,895**	785,468

Fees of £10,000 (1996: £10,000) were payable to a company in which PF Barbour has a substantial interest, in respect of his services and expenses.

*DC Herridge was appointed to the Board in the current year.

Directors' interests

The interests of the directors holding office at 31 October 1997 and at 1 November 1996 (or the date of appointment, if later), in the share capital of the Company are as follows:

Ordinary shares of 5p	ordinary shares 1 Nov 96	ordinary shres 31 Oct 97
BG Allison	5,000	**10,000**
PF Barbour	6,365,803	**6,580,803**
UD Bunge	50,000	**9,000**
GMW Gordon	2,000	**2,000**
DC Herridge	8,241	**13,241**
DN Lee	242,213	**337,159**
GE Liddle	5,000	**8,000**

	executive options			savings-related options			
Options over ordinary shares of 5p	1 Nov 96	granted	31 Oct 97	1 Nov 96	granted	lapsed	31 Oct 97
UD Bunge	57,088	—	**57,088**	—	—	—	**—**
DC Herridge	12,675	140,845	**153,520**	17,257	21,666	17,257	**21,666**
DN Lee	191,082	—	**191,082**	16,586	—	—	**16,586**
GE Liddle	64,339	—	**64,339**	15,923	17,333	12,718	**20,538**

No directors' share options were exercised in the year.

No other changes to the directors' shareholdings took place between 1 November 1997 and 23 February 1998.

The Company's Register of Directors' Interests (which is open to inspection) contains full details of directors' shareholdings and options to subscribe.

Executive share options by option price, date of grant and exercise date are:

Option price Date of grant Earliest exercise date	242p 11 Sept 88 11 Sep 91	232p 6 Mar 89 6 Mar 92	151p 25 Mar 91 25 Mar 94	157p 8 Feb 94 8 Feb 97	177.5p 26 Mar 97 26 Mar 02	total
UD Bunge	26,886	30,202	—	—	—	**57,088**
DC Herridge	6,204	6,471	—	—	140,845	**153,520**
DN Lee	—	—	—	191,082	—	**191,082**
GE Liddle	—	—	16,569	47,770	—	**64,339**
	33,090	36,673	16,569	238,852	140,845	**466,029**

Savings-related share options by option price, date of grant and exercise date are:

Option price Date of grant Earliest exercise date	117p 7 Sep 92 1 Oct 97	104p 1 Sep 94 1 Oct 99	90p 27 Aug 97 1 Oct 04	total
DC Herridge	—	—	21,666	**21,666**
DN Lee	—	16,586	—	**16,586**
GE Liddle	3,205	—	17,333	**20,538**
	3,205	16,586	38,999	**58,790**

For all options, the exercise price exceeds the market price of the underlying shares as at 23 February 1998.

For executive share options granted after 20 March 1997 exercise is not permitted until five years after the date of grant and only if the Company's earnings per share over a five year period have progressed at least as well as those of the Company's peer group. The peer group is selected by the Remuneration Committee in consultation with the Company's corporate advisors.

The mid-market price of the Company's shares at 31 October 1997 was 101p and the range during the year was 100p to 178.5p.

No director had at any time during the year a material interest in a contract of significance to which the Company or any of its subsidiaries was a party.

Mike Gordon

Michael Gordon
Chairman, Remuneration Committee

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company and the 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
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring proper records are kept which disclose with reasonable accuracy the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also generally responsible for taking reasonable steps to safeguard the assets of the Group and hence for the prevention and detection of fraud and other irregularities.

Auditors' Report

Auditors' report to the shareholders of Microgen Holdings plc

We have audited the financial statements on pages 28 to 41 incorporating pages 24 to 26 which have been prepared under the historical cost convention and the accounting policies set out on page 31.

Respective responsibilities of directors and auditors

As described above, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 affairs of the Company and of the Group as at 31 October 1997 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants and Registered Auditors
10 Bricket Road
St Albans
Hertfordshire AL1 3JX

23 February 1998

Group profit and loss account

for the year ended 31 October 1997

notes		1997 £000	1996 £000
1	**Turnover**		
	Continuing operations	**60,937**	69,921
20	Acquisitions	**2,274**	—
	Discontinued operations	**3,187**	3,470
		66,398	73,391
2	Operating costs	**(61,523)**	(64,585)
	Continuing operations	**6,256**	8,619
	Acquisitions	**154**	—
	Discontinued operations	**85**	187
	Operating profit before reorganisation costs on acquisition	**6,495**	8,806
2	Reorganisation costs on acquisition (continuing operations)	**(1,620)**	—
	Operating profit	**4,875**	8,806
27	Exceptional profit on disposal	**582**	—
		5,457	8,806
9	Share of losses of associated undertaking	**(22)**	(53)
5	Net interest	**(111)**	30
	Profit on ordinary activities before taxation	**5,324**	8,783
6	Tax on profit on ordinary activities	**(1,810)**	(2,776)
	Profit on ordinary activities after taxation	**3,514**	6,007
	Minority interests	**(22)**	(57)
	Profit for the financial year	**3,492**	5,950
7	Dividends	**(1,979)**	(3,087)
17	**Retained profit tranferred to reserves**	**1,513**	2,863
19	Basic earnings per share	**8.8p**	15.1p
19	Earnings per share before reorganisation costs on acquisition and exceptional profit disposal	**10.1p**	15.1p
7	Dividend per share	**5.0p**	7.8p

Statement of total recognised gains and losses

for the year ended 31 October 1997

	1997 £000	1996 £000
Profit for the financial year	**3,492**	5,950
Exchange rate adjustments	**(1,775)**	(484)
Total recognised gains and losses for the year	**1,717**	5,466

Balance sheet

for the year ended 31 October 1997

notes		group 1997 £000	group 1996 £000	company 1997 £000	company 1996 £000
	Fixed assets				
8	Tangible assets	**15,870**	15,192	**—**	—
9	Investments	**—**	106	**300**	300
		15,870	15,298	**300**	300
	Current assets				
	Stocks – raw materials and consumables	**972**	945	**—**	—
10	Debtors	**15,884**	15,408	**6,069**	11,522
	Cash at bank and in hand	**3,969**	4,186	**22**	956
		20,825	20,539	**6,091**	12,478
11	**Creditors: due within one year**				
	Borrowings	**(704)**	(1,436)	**—**	—
	Other creditors	**(15,706)**	(14,272)	**(2,676)**	(6,001)
		(16,410)	(15,708))	**(2,676)**	(6,001)
	Net current assets	**4,415**	4,831	**3,415**	6,477
	Total assets less current liabilities	**20,285**	20,129	**3,715**	6,777
12	**Creditors: due after more than one year**				
	Borrowings	**(4,645)**	—	**—**	—
14	**Provisions for liabilities and charges**	**(1,078)**	(1,223)	**—**	—
	Equity minority interests	**—**	(272)	**—**	—
	Net assets	**14,562**	18,634	**3,715**	6,777
	Equity capital and reserves				
16	Called up share capital	**1,978**	1,977	**1,978**	1,977
17	Share premium account	**1,477**	1,439	**1,477**	1,439
17	Other reserves	**377**	377	**—**	—
17	Profit and loss account	**10,730**	14,841	**260**	3,361
18	**Equity shareholders' funds**	**14,562**	18,634	**3,715**	6,777

Douglas Lee G E Liddle

DN Lee, GE Liddle, directors. Approved by the board of directors on 23 February 1997

Douglas Lee G E Liddle

Group cash flow statement

for the year ended 31 October 1997

notes		1997 £000	1996 £000
24	**Net cash inflow from operating activities**	**12,506**	12,967
	Returns on investments and servicing of finance		
	Interest received	**118**	189
	Interest paid	**(133)**	(133)
	Interest element of finance lease rental payments	**(52)**	(3)
	Equity dividend paid to minority interest in subsidiary undertakings	**(86)**	(91)
		(153)	(38)
	Taxation	**(3,332)**	(2,533)
	Capital expenditure and financial investment		
	Purchase of tangible fixed assets	**(6,300)**	(5,977)
	Sale of tangible fixed assets	**168**	197
		(6,132)	(5,780)
	Acquisitions and disposals		
20	Purchase of businesses	**(4,224)**	(963)
27	Sale of business	**775**	—
	Increase in interest in associated undertaking	—	(25)
9	Sale of interest in associated undertaking	**212**	—
		(3,237)	(988)
	Equity dividends paid to shareholders	**(3,085)**	(3,004)
	Cash outflow before use of liquid resources and financing	**(3,433)**	624
	Financing		
	Issue of share capital	**39**	76
	New borrowings	**3,000**	832
	New finance leases	**2,001**	—
	Repayments of amounts borrowed	**(1,242)**	(105)
	Capital element of finance lease rental payments	**(183)**	(143)
		3,615	660
25	**Increase in cash**	**182**	1,284

Basis of accounting
The accounts have been prepared under the historical cost convention and are in accordance with applicable Accounting Standards. No profit and loss account is presented for Microgen Holdings plc as allowed by section 230 of the Companies Act 1985.

Basis of consolidation
The consolidated accounts incorporate the accounts of the Company and all of its subsidiary undertakings (subsidiaries). The accounts of all subsidiaries are prepared to 31 October annually, except those of the Nordic and German companies which are prepared to 30 September to avoid undue delay in the presentation of the Group's accounts. The results of subsidiaries acquired are included in the profit and loss account from the date that control passes to the Group. Intra-Group transactions are eliminated fully on consolidation.

The Group's share of profits less losses of associated undertakings (associates) is included in the consolidated profit and loss account, and the Group's share of their net assets is included in the consolidated balance sheet.

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries and associates is written off immediately against the goodwill reserve.

Depreciation and amortisation
Depreciation is provided so as to write off the cost of tangible fixed assets over their estimated useful lives by equal annual instalments at the following rates:

Leasehold Improvements 20%
Equipment 20-50%
Fixtures and fittings 20%
Motor vehicles 25%

Leasing
Tangible fixed assets acquired under finance leases are capitalised and the capital element of outstanding lease rentals is included in creditors. Depreciation is provided on the same basis as owned assets or over the unexpired portion of the lease if shorter. The interest element of lease rentals is charged in the profit and loss account. Operating lease rentals are charged in the profit and loss account as incurred.

Stocks
Stocks, which comprise raw materials and consumables, have been valued at the lower of cost and net realisable value.

Pensions
The Group operates a money purchase pension scheme in respect of its UK employees. The scheme is a defined contribution scheme and contributions are based on total earnings for the current year. The scheme is funded by payments to a trustee-administered fund completely independent of the Group's finances. The charge for 1997, representing contributions payable by the Group, amounted to £332,850 (1996: £274,000). Appropriate pension arrangements are made for non-UK employees in their respective countries. These arrangements are either money purchase or government insured schemes.

Deferred taxation
Provision is made for deferred taxation, using the liability method, to the extent that it is probable the liabilities will crystalise in the future. The provision for deferred taxation has been calculated at the rates of corporate tax at which the liability is expected to crystalise.

Fixed asset investments
Investments in subsidiaries are stated in the accounts of the Company at cost less any provisions for permanent diminution in value.

Research and development
Expenditure on research and development is written off against profits in the year in which it is incurred.

Rates of exchange
Trading transactions by UK based companies within the Group are translated into sterling at the exchange rate ruling when the transaction was entered into, or the exchange rate fixed under forward exchange contracts. Monetary assets and liabilities denominated in foreign currencies in respect of UK companies, are translated into sterling at the exchange rates ruling at the balance sheet date or the exchange rate fixed under forward exchange contracts. Exchange gains or losses thereon are included in the profit and loss account. On consolidation the balance sheet of each overseas company is converted at the rate of exchange ruling on the balance sheet date of that company and the profit and loss account at the average rate of exchange for the year then ended. Exchange gains and losses arising thereon are included as a movement on reserves.

1 Turnover and profit analysis

Turnover comprises Computer Output to Microfilm and Information Management Services as described in the Operating Review starting on page 6.

Inter-divisional sales are not material and sales by destination are not materially different to sales by origin.

Turnover and profit by service	**turnover 1997 £000**	turnover at 1997 exchange rates 1996 £000	turnover as previously reported 1996 £000	**profit 1997 £000**	profit at 1997 exchange rates 1996 £000	profit as previously reported 1996 £000
Computer Output to Microfilm	**25,660**	29,556	33,823	**4,267**	5,139	5,618
Information Management Services	**37,490**	33,632	36,098	**3,574**	3,263	3,576
On-line document viewing (Axess)	**61**	—	—	**(868)**	—	—
Discontinued operations	**3,187**	3,470	3,470	**85**	187	187
	66,398	66,658	73,391	**7,058**	8,589	9,381

Turnover and profit by region	**1997 £000**	1996 £000	1996 £000	**1997 £000**	1996 £000	1996 £000
United Kingdom and Ireland	**31,549**	30,822	30,815	**2,636**	4,438	4,453
Nordic countries	**21,879**	22,859	26,928	**2,502**	2,340	2,743
Germany	**12,970**	12,977	15,648	**1,920**	1,811	2,185
	66,398	66,658	73,391	**7,058**	8,589	9,381
Central costs				**(563)**	(575)	(575)
Operating profit before acquisition reorganisation costs				**6,495**	8,014	8,806
Acquisition reorganisation costs				**(1,620)**	—	—
Operating profit				**4,875**	8,014	8,806

The 1996 turnover and profit figures, which were previously reported at 1996 average exchange rates, have also been disclosed at 1997 average rates to ease comparison with 1997 performance. The effect of this is to reduce the 1996 Group turnover by £6,733,000 and the 1996 Group profit by £792,000.

Net assets by region	**1997 £000**	1996 £000
United Kingdom and Ireland	**4,726**	7,659
Nordic countries	**6,174**	7,203
Germany	**3,662**	3,772
	14,562	18,634

2 Operating profit

This is stated after charging:

	continuing operations £000	continuing operations acquisitions £000	discontinued operations £000	total 1997 £000	total 1996 £000
Operating costs					
Operating expenses	27,197	996	1,965	**30,158**	33,388
Staff costs (see note 3)	22,186	896	812	**23,894**	24,748
Depreciation	5,319	228	304	**5,851**	6,449
Reorganisation costs on acquisition*	—	1,620	—	**1,620**	—
	54,702	3,740	3,081	**61,523**	64,585
Operating costs					
Cost of sales	40,404	1,990	2,530	**44,924**	47,355
Administration expenses (including selling costs)	11,992	1,712	200	**13,904**	14,055
Distribution costs	2,306	38	351	**2,695**	3,175
	54,702	3,740	3,081	**61,523**	64,585

The following items are included in operating costs:		
Directors' emoluments (see note 4)	**612**	785
Auditors' remuneration:		
Audit**	**108**	114
Other services	**80**	15
Depreciation of tangible fixed assets:		
Owned	**5,851**	6,410
Leased	**282**	39
Operating lease rentals:		
Premises	**2,460**	2,768
Other	**1,788**	1,903
Loss of sale of tangible fixed assets	**96**	33
Research and development	**452**	4
Vacated premises:		
UK	**253**	220
Germany	**237**	252

* Reorganisation costs on acquisition relate to redundancy and integration costs.

** The auditors' remuneration in respect of the Company was £2,000 (1996: £2,000).

3 Staff

	1997 £000	1996 £000
Staff emoluments:		
Wages and salaries	**19,893**	20,740
Social security costs	**3,135**	3,403
Other pension costs	**866**	605
	23,894	24,748

The average weekly number of employees:	1997 number	1996 number
United Kingdom and Ireland	**445**	431
Nordic countries	**220**	220
Germany	**193**	178
	858	829

4 Directors' remuneration

The information required by the Companies Act and the London Stock Exchange Listing rules is contained in the Report of the Remuneration Committee on pages 23-26 and forms part of these financial statements.

5 Net Interest

	1997 £000	1996 £000
Interest receivable:		
Bank	**110**	116
Other	**9**	10
Interest on borrowings repayable within 5 years:		
Bank loans and overdrafts	**(176)**	(93)
Finance lease charges	**(54)**	(3)
	(111)	30

6 Tax on profit on ordinary activities

	1997 £000	1996 £000
Based on the taxable profit for the year:		
UK corporation tax at 31.8% (1996: 33%)	**134**	1,314
UK deferred taxation	**—**	258
Surplus ACT	**83**	—
Overseas taxation	**1,521**	1,263
Overseas deferred taxation	**42**	(1)
Prior year adjustment	**30**	(58)
	1,810	2,776

7 Dividends

	ordinary shares 1997	ordinary shares 1996	dividend per share 1997	dividend per share 1996	amount 1997 £000	amount 1996 £000
Interim	**39,565,808**	39,529,531	**2.40p**	2.40p	**950**	949
Final	**39,565,808**	39,533,342	**2.60p**	5.40p	**1,029**	2,135
			5.00p	7.80p	**1,979**	3,084

The 1995 final dividend was underprovided by £3,000 due to the exercise of share options between the provision and payment of the 1995 dividend. This was reflected in the 1996 total.

8 Tangible fixed assets

	leasehold property £000	plant & machinery £000	fixtures & fittings £000	motor vehicles £000	total £000
Cost					
At 1 November 1996	4,692	41,876	1,299	1,272	49,139
Business acquired	—	2,143	—	12	2,155
Additions	1,146	4,729	146	279	6,300
Disposals	(1,597)	(3,962)	(157)	(207)	(5,923)
Exchange rate adjustments	(289)	(3,897)	(170)	(202)	(4,558)
At 31 October 1997	**3,952**	**40,889**	**1,118**	**1,154**	**47,113**
Depreciation					
At 1 November 1996	2,917	29,468	846	716	33,947
Charge for the year	569	4,918	153	211	5,851
Disposals	(1,423)	(3,578)	(163)	(184)	(5,348)
Exchange rate adjustments	(213)	(2,767)	(107)	(120)	(3,207)
At 31 October 1997	**1,850**	**28,041**	**729**	**623**	**31,243**
Net Book Value					
At 31 October 1996	1,775	12,408	453	556	15,192
At 31 October 1997	**2,102**	**12,848**	**389**	**531**	**15,870**

The cost of plant and machinery held under finance leases is £2,446,185 (1996: £ nil). Accumulated depreciation for those assets at 31 October 1997 was £315,149 (1996: £ nil).

9 Investments

	group 1997 £000	group 1996 £000	**company 1997 £000**	company 1996 £000
Shares in Group undertakings	—	—	**300**	300
Interest in associated undertaking	—	106	—	—
	—	106	**300**	300
Interest in associated undertaking:				
Loan	—	269	—	—
Group share of retained losses	—	(163)	—	—
	—	106	—	—

Details of the Group's principal subsidiaries are given on page 42.

On 31 October 1997 the Company sold its 49% stake in PrintPost Limited to An Post, the controlling shareholder (see note 27).

10 Debtors

	group 1997 £000	group 1996 £000	company 1997 £000	company 1996 £000
Trade debtors	**11,308**	11,729	—	—
Amounts owed by Group undertakings	—	—	**5,812**	10,988
Corporation tax recoverable	**2,100**	1,039	**257**	534
Other debtors	**359**	294	—	—
Prepayments and accrued income	**2,117**	2,346	—	—
	15,884	15,408	**6,069**	11,522
Included above are amounts due after one year:				
Owed by subsidiaries	—	—	—	4,818
Corporation tax recoverable	**257**	534	**257**	534
	257	534	**257**	5,352

11 Creditors: due within one year

	group 1997 £000	group 1996 £000	company 1997 £000	company 1996 £000
Bank loans	—	1,436	—	—
Net obligations under finance leases	**704**	—	—	—
Trade creditors	**4,640**	3,726	—	—
Amounts owed to Group undertakings	—	—	**1,365**	3,312
Corporation tax	**1,494**	2,138	**257**	534
Other taxes and social security costs	**2,007**	1,932	—	—
Other creditors	**2,406**	404	—	—
Deferred consideration on acquisition	**1,750**	—	—	—
Accruals	**2,380**	3,937	**25**	20
Proposed dividend	**1,029**	2,135	**1,029**	2,135
	16,410	15,708	**2,676**	6,001

12 Creditors: due after more than one year

	group 1997 £000	group 1996 £000	company 1997 £000	company 1996 £000
Bank loans due 2 to 5 years	**3,000**	—	—	—
Net obligations under finance leases due 1 to 2 years	**622**	—	—	—
Net obligations under finance leases due 2 to 5 years	**1,023**	—	—	—
	4,645	—	—	—

13 Obligations under finance leases

	group 1997 £000	group 1996 £000	company 1997 £000	company 1996 £000
Repayable as follows:				
Within one year	**865**	—	—	—
Between one and five years	**1,870**	—	—	—
	2,735	—	—	—
Finance charges allocated to future periods	**(386)**	—	—	—
	2,349			
Analysed in the balance sheets as:				
Within one year	**704**	—	—	—
Between one and five years	**1,645**	—	—	—
	2,349	—	—	—

14 Provisions for liabilities and charges

	group 1997 £000	group 1996 £000	company 1997 £000	company 1996 £000
Deferred taxation (see note 15)	**1,078**	1,223	**—**	—

15 Deferred taxation

	full potential liability 1997 £000	full potential liability 1996 £000	provision made 1997 £000	provision made 1996 £000
Fixed assets	**304**	389	**304**	389
Other timing differences	**774**	834	**774**	834
	1,078	1,223	**1,078**	1,223

	1997 £000	1996 £000
Movements during the year:		
At 1 November 1996	**1,223**	928
Deferred tax charge for the year	**42**	257
Exchange rate adjustments	**(187)**	38
At 31 October 1997	**1,078**	1,223

There is no deferred tax liability in the Company.

The deferred tax liability disclosed above refers to timing differences in respect of the Group's overseas operations. The UK and Ireland group has a deferred tax asset totalling £101,000 (1996: £258,00) which has not been recognised. This deferred tax asset has arisen in respect of depreciation in advance of capital allowances.

To the extent that dividends received from overseas undertakings are expected to result in additional taxes, appropriate amounts have been provided. No taxes have been provided for future dividends which will be subject to double taxation relief.

16 Share capital

	number	£
Authorised	45,000,000	2,250,000
Issued, allotted and fully paid:		
At 1 November 1996	39,533,342	1,976,667
Issued under share option schemes:		
Executive	24,024	1,201
Savings Related	8,442	422
At 31 October 1997	**39,565,808**	**1,978,290**

The new shares were allotted, in accordance with the schemes' rules, at prices per share of 104p, 117p, 118p, 125p and yielded aggregate consideration of £39,606.

The following grants of options have been made under the Rules of the Microgen Holdings plc Executive and Savings Related Share Option Schemes and had neither lapsed nor been exercised at 31 October 1997:

scheme	exercise dates	option price	number of shares
Executive	November 1997 – August 2007	111.5p–278p	1,126,501
Savings Related	November 1997 – March 2005	90p–118p	565,153

17 Reserves

Group	share premium account £000	other reserves £000	revenue reserve £000	goodwill reserve £000	profit and loss account £000
At 1 November 1996	**1,439**	**377**	26,388	(11,547)	**14,841**
Retained profit for the year	—	—	1,513	—	**1,513**
Exchange rate adjustments	—	—	(1,775)	—	**(1,775)**
Shares issued during the year	**38**	—	—	—	—
Goodwill adjustment (see note 20)	—	—	—	(3,849)	**(3,849)**
At 31 October 1997	**1,477**	**377**	26,126	(15,396)	**10,730**

Company	share premium account £000	other reserves £000	revenue reserve £000	goodwill reserve £000	profit and loss account £000
At 1 November 1996	**1,439**	—	8,296	(4,935)	**3,361**
Retained loss for the year	—	—	(3,101)	—	**(3,101)**
Shares issued during the year	**38**	—	—	—	—
At 31 October 1997	**1,477**	—	5,195	(4,935)	**260**

Other reserves, which are non-distributable, represent reserves of overseas subsidiaries maintained in accordance with local requirements.

18 Reconciliation of movements in shareholders' funds

	1997 £000	1996 £000
Profit for the financial year	**3,492**	5,950
Dividends	**(1,979)**	(3,087)
	1,513	2,863
Other recognised gains and losses for the year	**(1,775)**	(484)
Shares issued during the year	**39**	76
Goodwill	**(3,849)**	(356)
Net (reduction in)/addition to shareholders' funds	**(4,072)**	2,099
Shareholders' funds at 1 November 1996	**18,634**	16,535
Shareholders' funds at 31 October 1997	**14,562**	18,634

19 Earnings per share

	1997 £000	1996 £000
Basic earnings per share	**8.8**	15.1
Reorganisation costs on acquisition	**2.8**	—
Exceptional profit on disposal	**(1.5)**	—
Earnings per share before restructuring costs on acquisition and exceptional profit on disposal	**10.1**	15.1

Basic earnings per share are based on the net attributable profit of £3,492,000 (1996: £5,950,000) available to shareholders and on share capital of 39,555,745 shares (1996: 39,525,602) being the weighted average number of shares in issue during the year.

The earnings per share figure calculated on a fully diluted basis is not materially different from the figures shown above.

20 Acquisitions

	TBS division of Kenrick & Jefferson					
	net assets acquired £000	fair value adjustments £000	**TBS total £000**	other acquisitions £000	**total 1997 £000**	1996 £000
Fixed assets	1,809	346	**2,155**	—	**2,155**	577
Stocks	295	—	**295**	—	**295**	—
Finance leases	(490)	—	**(490)**	—	**(490)**	—
Minority interest	—	—	**—**	165	**165**	—
	1,614	346	**1,960**	165	**2,125**	577
Goodwill			**3,741**	108	**3,849**	356
			5,701	273	**5,974**	933
Satisfied by:						
Cash paid			**3,951**	273	**4,224**	933
Deferred consideration			**1,750**	—	**1,750**	—
			5,701	273	**5,974**	933

20 Acquisitions continued

The TBS division of Kenrick & Jefferson was purchased on 1 July 1997.

Fair value adjustments relate to the revaluation of fixed assets to bring them into line with their value in use to Microgen. There were no other significant adjustments. There were no fair value adjustments in respect of the other acquisitions.

The deferred consideration is payable only if the turnover of the acquired operation is not less than £6,100,000 in the year to 30 June 1998.

The acquired business had operated as a division for which detailed financial information was not prepared on a stand alone basis. Accordingly, it has been impracticable to produce a detailed profit and loss acount for either the period up to the date of acquisition or the previous period. However, in the year to 31 December 1996, the acquired business had turnover of £6,100,000 and made a small loss after allocation of group services and other year end charges. In the six months to 30 June 1997, the turnover of business was £3,300,000. The business was integrated with Microgen on acquisition. As such, it is impractical to identify the contribution made by the acquired business to the amounts reported under each of the standard headings in the cash flow statement.

The 1996 figures refer to the purchase of Ljungdahls Mailman in Sweden.

21 Capital commitments

At 31 October 1997, the Group had capital commitments, contracted for but not provided for, of £176,000 (1996: £416,000).
The Company had no capital commitments.

22 Operating leases

	premises 1997 £000	premises 1996 £000	other 1997 £000	other 1996 £000
At 31 October 1997 the Group had the following annual lease commitments which expire:				
Within one year	**63**	779	**646**	669
Between one and five years	**1,482**	1,407	**872**	1,807
After five years	**823**	865	**—**	—
	2,368	3,051	**1,518**	2,476

23 Borrowings

Finance lease obligations of £2,349,000 (1996: £nil) are secured against the assets to which they relate. Additionally, composite cross guarantees exist between the various Group companies.

The Company has guaranteed loan and overdraft facilities in its subsidiaries at 31 October 1997 totalling £11,598,000 (1996: £8,495,000).

In the UK, bank loans are secured by way of a fixed charge over the UK company's trade debtors.

24 Reconciliation of operating profit to net cash inflow from operating activities

	continuing operations £000	discontinued operations £000	total 1997 £000	1996 £000
Operating profit	4,790	85	**4,875**	8,806
Depreciation	5,526	325	**5,851**	6,449
Loss on sale of fixed assets	96	—	**96**	33
(Increase)/decrease in stocks	(142)	(36)	**(178)**	41
Increase in debtors	(193)	(104)	**(297)**	(2,177)
Decrease/(increase) in creditors	1,965	194	**2,159**	(185)
Net cash inflow from operating activities	12,042	464	**12,506**	12,967

25 Reconciliation of net cash flow to movement in net debt

	1997 £000	1996 £000
Increase in cash in the period	**182**	1,284
Cash outflow from decrease in debt	**1,242**	105
Cash inflow from increase in debt	**(3,000)**	(832)
Cash outflow from decrease in lease financing	**—**	143
Cash inflow from increase in lease financing	**(1,818)**	—
Change in net (debt)/funds resulting from cash flows	**(3,394)**	700
Finance leases acquired with subsidiary	**(490)**	—
New finance leases	**(41)**	—
Translation difference	**(205)**	(3)
Movement in net (debt)/funds in the period	**(4,130)**	697
Net funds at 1 November 1996	**2,750**	2,053
Net debt at 31 October 1997	**(1,380)**	2,750

26 Analysis of net debt

	at 1 November 1996 £000	cash flow £000	acquisition £000	other non-cash changes £000	exchange movements £000	**31 October 1997 £000**
Cash at bank and in hand	4,186	182	—	—	(399)	**3,969**
Debt due after 1 year	—	(3,000)	—	—	—	**(3,000)**
Debt due within 1 year	(1,436)	1,242	—	—	194	**—**
Finance leases	—	(1,818)	(490)	(41)	—	**(2,349)**
	2,750	(3,394)	(490)	(41)	(205)	**(1,380)**

27 Disposals

On 31 October 1997 the Company sold the business and assets of its Wokingham 'On Demand' printing business (trading as Current Knowledge) to IKON Office Solutions Plc. The net consideration of £775,000 included £50,000 which is payable after one year and is largely dependent upon the warranties in the sale and purchase agreement. The profit of £471,000 has been recognised in the profit and loss account.

The Company also sold its 49% investment in PrintPost Limited to An Post, the controlling shareholder, on 31 October 1997. The net proceeds were £212,000 and the profit on disposal was £111,000. No goodwill arose on the original purchase of this investment.

The exceptional profit on disposal of the "On Demand" printing business and PrintPost did not give rise to a capital gain because of capital relief available on qualifing capital acquisitions.

Analysis of ordinary shareholders at 31 October 1997

Size of holding	number of shareholders	%	number of shares 000s	%
1-1,000	221	39.5	104	0.3
1,001-5,000	182	32.6	449	1.1
5,001-20,000	61	10.9	675	1.7
20,001-200,000	57	10.2	3,960	10.0
200,001 and above	38	6.8	34,378	86.9
	559	100.0	39,566	100.0

Investor type	number of shares 000s	%
Investment and unit trusts	24,033	60.8
Private individuals	11,160	28.2
Pension funds	2,745	6.9
Other investors	1,628	4.1
	39,566	100.0

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Microgen Holdings plc ordinary shares are quoted on the London Stock Exchange.

Shareholder enquiries

Enquiries regarding shareholdings or dividends should in the first instance be addressed to IRG plc.

Annual General Meeting

The Annual General Meeting will be held at 4.30pm on Tuesday 31 March 1998 at Standard House, Epworth Street, London E2A 4DL. Details are given in a separate notice to shareholders enclosed with this Annual Report.

Dividend payments

	Record date	Payment date
Final	6 March 1998	6 April 1998
Interim	July 1998	August 1998

Results announcements

Interim results	July 1998
Final results	January 1999
Report and Accounts	February 1999

The Company's principal trading subsidiaries all undertake activities as described in the Directors' Report and operate in their country of incorporation or registration. Direct investments by the Company comprise Microgen Investments Limited and Microgen UK Limited. The issued share capital of all subsidiaries consists solely of ordinary shares.

Principal subsidiaries	country	equity held	year end
Capella AB	Sweden	100%	30 September
Capella Sverige AB	Sweden	100%	30 September
Capella Danmark A/S	Denmark	100%	30 September
Capella Norge AS	Norway	100%	30 September
Capella Finland Oy	Finland	100%	30 September
Eurocom-Depora Informationssysteme GmbH	Germany	100%	30 September
Imagen Systems Limited	England and Wales	100%	31 October
Microgen UK Limited	England and Wales	100%	31 October
Microgen Investments Limited	England and Wales	100%	31 October
Microgen (Ireland) Limited	Ireland	100%	31 October

Group Head Office

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Finland

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Ingmar Wedar *Managing Director*	Capella Sverige AB S-120 82 Stockholm Byängsgränd 1	Tel: 46 8 602 65 00 Fax: 46 8 602 65 01

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Ulf Bunge *Managing Director*	Eurocom-Depora Informationssysteme GmbH Goldsteinstraße 235 60528 Frankfurt am Main	Tel: 49 69 66573 0 Fax: 49 69 66573 190

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