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microgen plc *annual report*

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Directors *and Advisors*

Directors of Microgen plc

Martyn Ratcliffe Executive Chairman

Martyn Ratcliffe was appointed a non-executive director of Microgen on 7 May 1998 and Executive Chairman on 31 July 1998. Prior to joining Microgen, he was a senior vice-president and general manager of Dell Computer Corporation, responsible for the Europe, Middle East and Africa region. Previous experience includes president/chief operating officer of Zeos International Ltd, a US-based computer vendor and senior management positions with Vtech Computers Inc. and Nokia Mobile Phones/Technophone Ltd.

Paul Davies Group Managing Director

Paul Davies, was appointed on 1 December 1999 and was previously Chief Executive Officer of Parity Plc. Before this, he was Managing Director of Easams Ltd, GEC's I.T. company. During his earlier career he ran the systems integration business of SD-Scicon Plc and was Project Director of a Babcock International Group Plc subsidiary. He has also held senior management positions with Plessey and Kent Instruments.

Mike Phillips Group Finance Director

Mike Phillips was appointed to the Board of Microgen on the 3 August 1998. He qualified as a Chartered Accountant with KPMG, and then specialised in Corporate Finance advisory work. He spent seven years in the Corporate Finance Department of Smith & Williamson and immediately prior to his appointment at Microgen he was a senior member of the Corporate Finance Technology Group of PricewaterhouseCoopers.

Patrick Barbour Non Executive Director

A major shareholder in Microgen, Patrick Barbour was appointed to the Board of Microgen as Chairman when the Company was incorporated in 1982, a position he held until 1991. He has remained as a non-executive director at Microgen since that time. Until April 1999 he was also an executive director of Barbour Index plc.

Len Crisp Non Executive Director

Len Crisp was appointed to the Board of Microgen as a non-executive director in April 1999 following the acquisition of Kaisha Technology Limited. Kaisha was formed in 1992 as the vehicle for a management buy-out of the Thorn International Rental systems group. Len joined Thorn EMI in 1979 where he held a series of middle management positions prior to being appointed, in 1984, to the Board of Thorn International Rentals with world-wide responsibility for IT. Having seen through the successful integration of Kaisha into the Microgen Group Len has decided to retire from the Board with effect from 3 May 2000.

Andrew Goodman Non Executive Director

Andrew Goodman was appointed as a non-executive Director on 3 August 1998 and Chairman of the Remuneration Committee of the Board on 16 September 1998. A founder of Goodman-Graham, an executive search consultancy, later sold to BNB Resources PLC, he now actively advises various companies on management and organisational development.

Ralph Kanter Non Executive Director

Ralph Kanter was appointed to the Board of Microgen as a non-executive Director on 16 September 1998 and Chairman of the Audit Committee of the Board on 1 November 1998. He was Chairman and Chief Executive of TRACKER Network plc, a company he formed in 1990, until it was sold to a management buyout in 1999. He was previously Group Managing Director of Britannia Security Group plc, a company he co-founded in 1983, until it was sold in 1990. He currently holds a wide range of non-executive directorships in small and medium sized public and private companies.

Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered
Auditors
1 Embankment Place
London WC2N 6NN

Stockbrokers

Dresdner Kleinwort Benson Limited
20 Fenchurch Street
London EC3P 3DB

Registrars

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

Registered Office

11, Park Street
Windsor
Berkshire SL4 1LU

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Chairman's Statement

“ *The Group has been successfully repositioned as an IT services and application service provider (“ASP”) company at the forefront in a number of e-business sectors in the UK.* **”**

The transformation of Microgen plc has made substantial progress during 1999, both in terms of operating performance and strategic direction. The Group has been successfully repositioned as an IT services and application service provider (“ASP”) company at the forefront in a number of e-business sectors in the UK. The strategy for continuing Microgen's transition from the legacy services is well defined and continues to progress in line with the Board's expectations.

Financial Summary

The audited results for the year ended 31 December 1999 confirm the success of the operational turnaround following the restructuring of the Group in 1998. Turnover for the period was £31.3 million (1998 : £35.7 million for the 14 month period from continuing operations) producing an adjusted operating profit of £3.0 million (1998 : operating loss of £3.4 million for the 14 month period from continuing operations.) The Group's balance sheet remains strong with net cash at 31 December 1999 of £10.8 million after deferred consideration payable of £2.4 million.

(As a result of the 1998 restructuring and the change in the accounting period in 1998, prior year

comparisons provide limited insight and should be interpreted with caution. The adjusted operating profit provides the closest comparison and excludes goodwill amortisation, restructuring charges, surplus property provisions and charges related to positive share price movements. The share price related charges are explained more fully in note 2 but are primarily related to the introduction in April 1999 of National Insurance Contributions on share options.)

As a result, the adjusted earnings per share before goodwill amortisation and the share price related charges were 5.8p (1998 : 2.2p). The impact of deferred tax asset movements in the year contributed 0.8 p to the adjusted earnings per share and is explained in note 6. The Board are recommending a final dividend of 1.0p per share, making a total dividend of 1.5p for the year (1998 : 1.0p). The final dividend is payable on 12 May 2000 to shareholders on the register at the close of business on 24 March 2000.

e-Business Services

In November, Microgen announced a major investment program to accelerate the transition from

the legacy services into e-business sectors where the Group has already proven its capability. This strategy includes :

- Increasing investment in the e-business opportunities and redirecting existing resources to support the strategy
- The development of a Central Processing Facility integrating the processing of all Microgen's outsource services
- Strengthening the operational management infrastructure

As a result, the former Managed Information Services and Document Processing Services divisions were consolidated, consistent with the convergence of the strategic direction of the divisions using Microgen Axess technology and infrastructure in the development of the database management and e-billing services. The future services are based on an ASP model producing sustainable, recurring revenue streams as the key strategic objective.

For the year ended 31 December 1999, including legacy businesses, these operations generated £3.7 million operating profit before Group overheads (1998 : loss of £2.3 million in the 14 month period) from revenue of £26.6 million (1998 : £35.7 million in the 14 month period.) This substantial improvement in profitability was primarily due to increased operational productivity and the refocusing and repositioning of Microgen's services.

Progress in transitioning the Group to focus on e-business continues to be in-line with the Board's expectations. The investment level is under continual review as part of the management of this strategy such that a disciplined investment program is being implemented, maximising the investment to accelerate the transition whilst maintaining financial prudence, taking into account the revenue reduction from the legacy businesses as resources are redirected towards the e-business opportunities.

Database and Document Management ASP Services

Microgen currently has over 40 customers using, or committed to using, the Axess on-line database

Chairman's Statement

“ *Microgen's customer base and experience in billing outsourcing provides a platform for launching its e-billing services and the ability to provide a managed transition for customers from print & mail into e-billing media is a strategic differentiator for Microgen.* **”**

management services with a total of over 60 applications. On-line recurring revenue now accounts for 70% of the total revenue and exceeded £1.0 million during the year, compared with £0.3 million for the 14 month period for 1998.

e-Billing ASP Services

Following the successful Business-to-Business (“B2B”) e-billing pilot during the third quarter, recruitment of e-billing customers commenced during the fourth quarter of 1999 and has continued aggressively thereafter. As a result, Microgen now has a total of 18 customers (corporate billers) signed up to its ASP e-billing services which should go live in the coming months. The Board are very pleased with the current adoption rate which reaffirms the benefits of an ASP model in launching innovative e-business services, enabling Microgen to establish a leading position in the B2B sector of the e-billing market.

While the Business-to-Consumer (“B2C”) e-business sector has received a higher profile, it is now apparent that the complexities associated with aggregated B2C e-billing services, together with

diverging interests of some of the major participants, indicate that the sector is unlikely to deliver on the potential in the near term. This complexity has caused independent researchers to forecast that the B2B sector will account for 88% of the total UK e-billing market for the next five years.

As a result, Microgen will continue to focus its resources accordingly, whilst continuing to monitor B2C opportunities and develop services to enable Microgen to participate in this sector, as appropriate.

Microgen's customer base and experience in billing outsourcing provides a platform for launching its e-billing services. Microgen has already proven its e-billing capability and has established a significant position in the UK, particularly in the B2B sector. It is also clear that many bills/statements will continue to be delivered by traditional print & mail services for some years and the ability to provide a managed transition for customers from print & mail into e-billing media is a strategic differentiator for Microgen. However, the Board believes that e-billing and other e-business services will accelerate the commoditisation of print & mail services and that the print industry will experience substantial excess

production capacity in the future. The combination of excess capacity and service commoditisation is likely to produce significant margin erosion in print & mail services as volumes move to electronic distribution. For this reason, since 1998 Microgen has been pro-actively reducing its exposure to print customers where the value-add processing and/or the potential for account development into e-business services is limited. This strategy clearly has an impact on revenue but has been a key element of the transition strategy of the Group. Furthermore, due to the substantial productivity improvements achieved within this business, the Board has now decided to consolidate all its print operations into the Welwyn Garden City bureau. Accordingly, a one-time exceptional charge, primarily due to the bureau consolidation, estimated to be £2.4 million, will be incurred in the current year. While this strategy has an impact on print-based revenue, it is consistent with the transition strategy to e-billing and should reduce Microgen's future exposure to the commoditisation of print & mail services.

Consultancy

Microgen-Kaisha was established in April 1999 following the acquisition of Kaisha Technology. The division focuses on providing data warehousing solutions and customer relationship management ("CRM") and knowledge management consultancy services, with vendor-independence being a key differentiator. With the technical relationship between CRM and billing data, together with the repositioning of Microgen's database management and billing services, the consultancy division should increasingly provide value-added services to Microgen's broader customer base.

For the period 23 April to 31 December 1999, the division had turnover of £4.7 million and operating profit of £0.7 million, before Group overheads. As an IT consultancy, in the second half of 1999, the division suffered from the industry-wide effects of customer Y2K deferrals but still maintained growth in the strategic sectors of the business. Furthermore, the new year has started well with a number of new customer projects and the Board anticipate good growth in the year ahead.

Chairman's Statement

“ *The primary strategic objective is to further develop the Group's position as a leading B2B e-business company in the UK.* **”**

Exit from Legacy COM Business and Disposal of Ireland Operations

In October 1998, Microgen outsourced the production of microfiche in the UK to Anacomp. Throughout the past year, the legacy COM business has continued to decline, accelerated by a combination of market factors and also the successful migration of some COM customers to Microgen Axxess e-business services. The accelerating decline means that the UK COM business will shortly cease to have any commercial value to Microgen and since the year end agreement has been reached with Anacomp to amend the current outsourcing agreement with effect from 1 July 2000. From that date until September 2001, Microgen may receive 50% of an adjusted profit figure to be paid as a royalty, but will effectively exit the UK COM business with no further exceptional charges, although an accelerated goodwill amortisation is anticipated during the current year.

The implementation of Microgen's exit strategy from COM includes the disposal of the Group's operations in Ireland to Anacomp for a total consideration of £125,000 on a nil debt/cash basis. For the year to 31 December 1999, the Ireland business had

revenue of £0.7 million, producing an operating profit before Group overheads of £16,000 and had net assets, excluding cash, of approximately £165,000 at the year end. This disposal should give rise to an estimated exceptional loss of £50,000 in the current year.

Managing the transition out of the legacy COM business has been well executed. With the value from the COM operations now limited and future contribution uncertain, the Board have determined to effectively exit this market ending over 25 years in the business and marking a key milestone in the transition of the Group.

Future Prospects

The transformation of Microgen plc into an IT services company over the past 18 months has been successful. During 1999, the strategic repositioning gained momentum with Microgen becoming established as a leading ASP in database management and e-billing services in the UK. With the Group's strong balance sheet, proven technology and expertise, Microgen is well positioned to continue the transition. Managing this dynamic

environment from legacy services into e-business will however produce revenue declines which are unlikely to be compensated in the short-term by the growth in the evolving e-business market sectors. The Board are implementing a disciplined investment program and will continually review the level of investment in e-business with the objective of maintaining satisfactory financial results whilst allowing the Group to take full advantage of the strategic opportunities open to it in the identified growth sectors. Consistent with this prudent strategy, the Board have decided that, during the transition period, dividends will be paid once per year after the announcement of the full year results.

During the year ahead, the primary strategic objective is to further develop the Group's position as a leading B2B e-business company in the UK. This strategy is to be implemented through use of

Microgen's ASP business model, increasing market penetration and continuing the development of the related infrastructure. In pursuit of this strategy, the Board will continue to evaluate acquisition and strategic partnership opportunities. However, it should be noted that most e-business markets are still in their early stages and rates of adoption are difficult to predict, although the sectors targeted by Microgen are considered by the Board to be robust and sustainable in the future. As a result, the Board considers that, through the adoption of the defined strategy, Microgen has the technology, capability and resources to deliver on the potential opportunities.

Martyn Ratcliffe
Executive Chairman

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 1999.

Results and Dividends

The results for the period are set out in the financial statements and notes which appear on pages 19 to 36.

The directors recommend the payment of a final dividend of 1.0 pence per ordinary share (payable on 12 May 2000 to shareholders registered on 24 March 2000) making a total distribution for the year ended 31 December 1999 of 1.5 pence at a cost of £762,000 (1998: 1.0p : £435,000).

Principal Activities

The Company is a holding company, with the Group's principal activity being the provision of Billing Services and Database Management and Consultancy to the business community. Further details are provided in the Chairman's Statement.

Developments in the Business

Developments in the business during the period are outlined in the Chairman's Statement.

Research and Development

Each operating company in the Group carries out research and development as a fundamental part of keeping its service relevant and competitive.

Year 2000

The Group developed a Year 2000 Strategic Plan during 1998 and 1999, supported by detailed plans for each business unit. The Year 2000 Strategic Plan identified potential risks and considered the Group's relationships with both customers and suppliers. In the event, no major risk crystallised and during the year the cost for implementation of the Year 2000 Strategic Plan was £197,000.

The Euro

The single currency, 'the euro', was introduced on 1 January 1999 with initially eleven members of the European Union participating in this stage of European Monetary Union (EMU). Microgen currently has very limited exposure to the euro as almost all our trade is in the UK. The Group's accounting system implemented in 1998 is euro ready. The Board will continue to review the Group's position regarding the euro and take appropriate action to implement the necessary changes at the appropriate time.

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.

Going Concern

The directors, having made appropriate enquiries, consider that the Company and the Group 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 financial statements.

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

informal briefing sessions and discussions at all levels. It is Group policy to encourage equal employment opportunities for all people. Employee participation in the Company's performance is encouraged through a savings related share option scheme and annual profit share scheme.

Donations

Charitable donations of £550 have been made by the Company and its subsidiaries during the year. No political donations have been made.

Share Capital

The share capital of the Company and all changes therein during the period are shown in note 18 to the accounts.

Substantial Shareholdings

The directors have been informed of the following interest in excess of 3% of the issued share capital at 31 March 2000 and have not been formally notified of any other such interests, save those shown under Directors' interests in the Directors' Report on Remuneration.

	Number of shares	% issued share capital
Schroder Investment Management Limited	9,640,000	18.95%
Edinburgh Fund Managers	4,335,200	8.52%

Significant Contracts

With the exception of the Kaisha Acquisition agreement to which Len Crisp was a party, there was

Report of the Directors

not existing at any time during the period 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.

Len Crisp's interest in the Kaisha Acquisition agreement is detailed in note 22.

Directors

Details of directors who have held office during the period are given below:

Executive directors

MR Ratcliffe (Executive Chairman)

P Davies (Group Managing Director). Appointed to the board on 1 December 1999

MS Phillips (Group Finance Director)

Non-executive directors

PF Barbour

R Kanter (Audit Committee Chairman)

A Goodman (Remuneration Committee Chairman).

L Crisp. Appointed to the board on 30 April 1999

Biographical details of the directors are given on the inside front cover. At the forthcoming Annual General Meeting Messrs Davies and Barbour will stand for re-election.

Len Crisp was appointed to the Board at the time of the Kaisha acquisition. Having seen through the successful integration of Kaisha Technology into the Microgen Group Len has decided to retire from the Board of Directors.

Neither Martyn Ratcliffe, Paul Davies nor Mike Phillips 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 benefits in kind.

Auditors

Resolutions to re-appoint PricewaterhouseCoopers 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 9.00 a.m. on Thursday, 4 May 2000 at 11, Park Street, Windsor, Berkshire SL4 1LU. The notice of the Annual General Meeting, enclosed with this report, contains the full text of resolutions to be proposed.

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.

At 31 December 1999, for the main trading subsidiary, Microgen UK Limited, the number of days of annual purchases represented by year end creditors was 37 (31 December 1998: 40). For Microgen Kaisha Limited, the number of days of annual purchases represented by year end creditors was 26.

By Order of the Board

GE Liddle

4 April 2000



Statement of Compliance

Other than disclosed below, the Group is in full compliance with the Combined Code on Corporate Governance, as incorporated in the Listing Rules of the London Stock Exchange.

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 such matters. Information is supplied to the board on a timely basis and the Executive Chairman ensures that all directors are properly briefed on the matters being discussed.

The roles of Chairman and Chief Executive are not separated and there is no senior non-executive director. It is intended that non-executive directors will be the majority of the board.

Non-executive directors are appointed for specified terms and re-appointment is not automatic. There is a formal selection process to appoint non-executive directors but due to the size of the board there is not a separate nomination committee. Instead the appointment of non-executive directors is considered by the whole of the Board. All of the non-executive directors are considered to be independent of the management of the company except for Len Crisp's interest in the Kaisha acquisition agreement and do not have any business or other relationship with them.

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.

Directors offer themselves for re-election at the AGM following their appointment and otherwise at least once every three years.

Board Committees

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

Andrew Goodman chairs the Remuneration Committee. The report of the directors on remuneration appears on page 14.

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

Relations with Shareholders

In order to maintain dialogue with institutional shareholders the Executive Directors meet with them following interim and final results announcements and following other significant announcements. Where practicable the Annual Report is sent to shareholders 20 working days before the AGM and each issue for consideration at the AGM is proposed as a separate resolution. All directors are expected to attend the AGM.

Internal Control

The Group maintains systems of internal control to safeguard the shareholders' investment and the Group's assets, and to facilitate the effective and efficient operation of the Group. These systems enable the Group to respond appropriately and in a timely fashion, to significant business, operational, financial, compliance and other risks which may otherwise prevent the achievement of the Group's objectives. However, the Group recognises that it operates in a highly competitive market that can be affected by factors and events outside its control. It is committed to minimising risks arising wherever possible and accepts that internal controls, rigorously applied and monitored, are an essential tool in achieving this objective. The key elements of Group internal control, the majority of which have operated through out 1999 and all of which will be fully effective from 1 January 2000, are set out below.

- The existence of a clear organisational structure with well defined lines of responsibility and delegation of authority from the Board to its executive Directors and operating managers;
- A procedure for the regular review and reporting of risks by operating managers;
- Regular review meetings with the operating management.

With effect from 1 January 2000 the Directors have adopted procedures to review annually the effectiveness of internal control and to report thereon to shareholders pursuant to Principle D.2 of the Code. The first such report will be included in the Annual Report for 2000. In line with the transitional approach permitted by the London Stock Exchange, the Directors report below on the internal financial controls only.

Review of internal Financial Controls

The Directors have overall responsibility for establishing financial reporting procedures to provide them with a reasonable basis on which to make proper judgements as to the financial position and prospects of the Group, and have responsibility for establishing the Group's system of internal financial control and for monitoring its effectiveness. The Group's systems are designed to provide the Directors with reasonable assurance that physical and financial assets are safeguarded, transactions are authorised and properly recorded and material errors and irregularities are either prevented or detected with the minimum of delay. However, systems of internal financial control can provide only reasonable and not absolute assurance against material misstatement or loss.

The majority of the Group's financial and management information is processed and stored on computer systems. The Group is dependant on systems that require sophisticated computer networks. The Group has established controls and procedures over the security of data held on such systems, including disaster recovery arrangements.

The Group's financial instruments comprise cash and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group has in place appropriate treasury procedures, which are approved by the Board.

It is the Group's policy not to undertake any speculative transactions which create additional

exposures over and above those arising from normal trading activity. The Group has not entered into any derivative transactions in the year.

The main risks arising from the Group's financial instruments are interest rate and liquidity risk. The Group seeks to ensure that cash deposits earn competitive rates of interest whilst at the same time being accessible to the Group at relatively short notice.

During the year, the Directors have reviewed the effectiveness of the system of internal financial control, the key features of which include:

- a financial planning process with an annual financial plan approved by the Board. The plan is updated each quarter to provide a rolling four quarter financial plan.
- the monthly comparison of actual results against plan and revised forecasts.
- a Group procedure manual which is revised on a regular basis.
- regular reporting to the Board on 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 December 1999.

Report of the Directors on Remuneration

Membership

The membership of the Remuneration Committee during the year ended 31 December 1999 comprised Andrew Goodman, Ralph Kanter, Patrick Barbour and Len Crisp, from the date of his appointment to the Board. The committee is chaired by Andrew Goodman, non-executive director.

The company is in compliance with Section A of the best practice provisions annexed to the London Stock Exchange Listing Rules.

Policy Statement

The Remuneration Committee sets the remuneration and other terms of employment of executive directors of the Company and of the Senior Management of 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.

The Senior Management bonus scheme is a variable reward scheme where the amount of each variable reward is determined by reference to Group, Division and personal performance during the financial period.

It is the Committee's intention to continue to seek to align the interests of the executive directors and Senior Management 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 basic earnings and the employee contributes a minimum of 4%. With effect from 1 January 2000 variable rewards, including those of the directors, are excluded from 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 Group pays 7% of Messrs Ratcliffe's, Davies' and Phillips' basic earnings into a personal pension scheme.

Directors' Remuneration

The remuneration of all directors who served during the period was as follows:

	Year ended 31 Dec 1999	14 months ended 31 Dec 1998
	£	£
Remuneration	564,114	742,079
Pension contributions	24,738	11,609
	<u>588,852</u>	<u>753,688</u>

	Basic salary/Fees £	Variable Reward £	Benefits in kind £	Pension £	1999 total £	1998 total £
United Kingdom						
Directors						
<u>Current Directors</u>						
MR Ratcliffe (note 1)	197,133	50,000	102,375	17,496	367,004	119,007
MS Phillips	97,133	20,820	1,904	6,192	126,049	39,394
P Davies **	16,150	-	189	1,050	17,389	-
R Kanter	22,500	-	-	-	22,500	6,576
A Goodman (note 2)	22,500	-	-	-	22,500	7,625
PF Barbour (note 3)	20,000	-	-	-	20,000	11,667
L Crisp **	13,410	-	-	-	13,410	-
<u>Former Directors</u>						
DN Lee *	-	-	-	-	-	213,290
BG Allison *	-	-	-	-	-	14,000
GMW Gordon *	-	-	-	-	-	14,000
DC Herridge*	-	-	-	-	-	61,065
GE Liddle*	-	-	-	-	-	68,499
UD Bunge*	-	-	-	-	-	198,565
<u>Total all directors</u>	<u>388,826</u>	<u>70,820</u>	<u>104,468</u>	<u>24,738</u>	<u>588,852</u>	<u>753,688</u>

** - from date of appointment

* - to date of resignation

Note 1:

Included in Mr Ratcliffe's benefits in kind is an amount of £100,000 relating to a UITF 17 charge. The reason for this charge is detailed below. However, the Directors do not believe that Mr Ratcliffe received any benefit from the granting of the options.

Note 2:

Fees of £22,500 (1998:£7,625) were payable to a partnership in which Mr. A Goodman has a substantial interest, in respect of his services and expenses.

Note 3:

Fees of £20,000 (1998:£11,667) were paid to PF Barbour of which £6,667 (1998: £11,667) was paid to a company in which Mr PF Barbour had a substantial interest in respect of his services and expenses.

Report of the Directors on Remuneration

Directors' Interests

The interests of the directors holding office at 31 December 1999 and at 31 December 1998 (or the date of appointment, if later), in the share capital of the Company are as follows:

	Ordinary shares of 5p	
	31 Dec 98	31 Dec 99
	or date of appointment	
Current Directors		
MR Ratcliffe	4,300,000	4,450,000
P Davies		
(appointed 1 December 1999)	50,000	50,000
MS Phillips	22,000	22,000
PF Barbour	6,805,803	6,805,803
R Kanter	Nil	38,700
A Goodman	12,000	32,000
L Crisp		
(appointed 30 April 1999)	2,788,140	2,788,140

On 30 March 1999, Ralph Kanter purchased 26,000 shares and then a further 12,700 shares on 16 September 1999. Andrew Goodman purchased a further 20,000 shares on 30 March 1999. Len Crisp acquired 2,788,140 shares as part of the Kaisha acquisition on 30 April 1999. On 31 March 1999 Martyn Ratcliffe purchased 100,000 shares and then on 27 August 1999 he purchased a further 50,000 shares.

Executive options

	Options over ordinary shares of 5p		
	31 Dec 1998	Granted	31 Dec 1999
MR Ratcliffe	1,000,000	-	1,000,000
P Davies	-*	400,000	400,000
MS Phillips	112,145	50,000	162,145

* at date of appointment (1 Dec 1999)

No directors' share options were exercised in the period.

No other changes to the directors' shareholdings took place between 1 January 2000 and 31 March 2000.

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 earliest exercise date and expiry date are:

Exercise price	90p	89.17p	159.8p	363.5p	Total
Date of grant	31 July 98	12 Oct 98	25 May 99	2 Dec 99	
Earliest exercise date	31 July 01	12 Oct 03	25 May 02	2 Dec 02	
Expiry date	31 July 08	12 Oct 08	25 May 09	2 Dec 09	
MR Ratcliffe	1,000,000	-	-	-	1,000,000
P Davies	-	-	-	400,000	400,000
MS Phillips	-	112,145	50,000	-	162,145

For all options, the exercise price is below the market price of the underlying shares as at 31 March 2000.

Martyn Ratcliffe's share options were granted on the same terms as the Executive Share Option Scheme, subject to certain exclusions which were approved by shareholders on 6 May 1998. 500,000 options became exercisable when Microgen's share price achieved a price of 150 pence for 20 consecutive business days and the remaining 500,000 became exercisable when Microgen's share price achieved a price of 225 pence for 20 consecutive business days. These performance criteria were achieved during the year and so Martyn Ratcliffe's options may be exercised on or after 31 July 2001.

The exercise price of 90 pence on Martyn Ratcliffe's options is the same as the subscription price of 90 pence negotiated as part of the subscription agreement dated 2 April 1998 between the Company and Martyn Ratcliffe whereby Martyn Ratcliffe subscribed for 3,900,000 Ordinary Shares. The agreement was approved by shareholders at an extraordinary general meeting held on 6 May 1998. The market price of Microgen shares on the day before announcement of the subscription agreement was 75 pence and therefore the subscription and option exercise price were at a 20% premium to the then market price.

Martyn Ratcliffe was not able to accept the grant of the options until 31 July 1998, when he was appointed Executive Chairman, by which time the market price had increased to 120 pence. Whilst the exercise price of Martyn Ratcliffe's options were negotiated at a premium to market price at the time, the benefit of 30 pence per share at the time they were granted is technically caught by Urgent Issues Task Force 17. Consequently, the total potential benefit of £300,000 is being charged to the profit and loss account over the three year period until the options can be exercised. The charge in the year ended 31 December 1999 is £100,000 and this is disclosed as a benefit in kind in Martyn Ratcliffe's remuneration for the year and credited to the Other Reserves in Capital and Reserves on the Balance Sheet. As stated above, the Board of Directors do not believe that Mr Ratcliffe received any benefit from the grant of these options.

The mid-market price of the Company's ordinary shares at 31 December 1999 was 667.5 pence and the range during the year was 118.5 p to 667.5 p.

No director had at any time during the year a material interest in any contract of significance to which the Company or any of its subsidiaries was a party, except for Len Crisp's interest in the Kaisha acquisition agreement

Paul Davies' share options were granted on the same terms as the Executive Share Option scheme. The performance criteria were agreed at the time that Mr Davies accepted his appointment as an executive director in October 1999. 200,000 options will only become exercisable if Microgen's share price achieves a price of 240p for 20 consecutive business days during the 10 year period from the date of grant and the remaining 200,000 will be exercisable if Microgen's share price achieves a price of 320p for 20 consecutive business days during the 10 year period from the date of grant. These performance criteria have been achieved.

Mike Phillips share options were granted on the same terms as the Executive Share Option scheme.

For executive share options granted after 20 March 1997 exercise is not permitted until either three or five years after the date of grant and only if specific criteria based on increase in Shareholder value have been achieved. The actual criteria are determined by the Remuneration Committee and reviewed on a regular basis.

Auditors' *Report*

Auditors' report to the shareholders of Microgen plc

We have audited the financial statements on pages 19 to 36 (including additional disclosures on pages 14 to 17 relating to the remuneration of the directors of Microgen plc specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention and the accounting policies set out on page 22.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 8 this includes responsibility for preparing the financial statements. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange 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's 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 or the Listing Rules 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.

We review whether the statement on page 11 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

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 affairs of the Company and the Group as at 31 December 1999 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.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London

4 April 2000

Group Profit and Loss

Account for the year ended 31 December 1999

microgen
Information Management Services

	Notes	Year ended 31 Dec 1999 £000	14 months ended 31 Dec 1998 £000
Turnover			
- continuing operations	1	26,633	35,709
- acquisitions	1	4,691	-
- discontinued operations		-	34,396
		<u>31,324</u>	<u>70,105</u>
Operating costs	2	<u>(30,352)</u>	<u>(72,981)</u>
Operating profit/(loss):			
Continuing operations			
- adjusted operating profit/(loss) - including acquisition		2,958	(3,427)
- re-structuring costs and surplus property costs provision		(299)	(3,520)
Operating profit/(loss) before goodwill amortisation and charges related to positive share price movements		<u>2,659</u>	<u>(6,947)</u>
Goodwill amortisation and charges related to positive share price movements		(1,687)	(50)
Operating profit/(loss)		<u>972</u>	<u>(6,997)</u>
Discontinued operations		-	4,121
Operating profit/(loss) - (continuing operations £1,413 - acquisition (£441))	1	<u>972</u>	<u>(2,876)</u>
Loss on Disposal of Fixed Assets - continuing operations		-	(1,552)
Profit on disposal of subsidiary operation - discontinued operations		-	12,981
		<u>972</u>	<u>8,553</u>
Net interest	5	<u>862</u>	<u>(61)</u>
Profit on ordinary activities before tax		<u>1,834</u>	<u>8,492</u>
Tax on profit on ordinary activities	6	<u>(446)</u>	<u>(7,569)</u>
Profit on ordinary activities after taxation		<u>1,388</u>	<u>923</u>
Dividends	7	<u>(762)</u>	<u>(435)</u>
Retained profit transferred to reserves	19	<u>626</u>	<u>488</u>
Earnings per share (after goodwill amortisation and charges related to positive share price movements)			
Basic	21	<u>2.9p</u>	2.2p
Diluted	21	<u>2.8p</u>	2.2p
Adjusted earnings per share (before goodwill amortisation and charges related to positive share price movements)			
Basic	21	<u>5.8p</u>	2.2p
Diluted	21	<u>5.7p</u>	2.2p
Dividend per share	7	<u>1.5p</u>	<u>1.0p</u>
Statement of total recognised gains and losses			
		<u>1999</u>	<u>1998</u>
		<u>£000</u>	<u>£000</u>
Profit on ordinary activities after taxation		1,388	923
Exchange rate adjustments		(50)	263
Total recognised gains and losses for the period		<u>1,338</u>	<u>1,186</u>

Notes on pages 23 to 36 form part of the financial statements

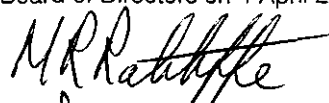
Balance Sheets as at 31 December 1999

	Notes	Group As at 31 Dec 1999 £000	Group As at 31 Dec 1998 £000	Company As at 31 Dec 1999 £000	Company As at 31 Dec 1998 £000
Fixed Assets					
Tangible assets	8	4,524	5,381	-	-
Intangible assets	9	24,276	-	-	-
Investments	10	372	-	25,980	300
		<u>29,172</u>	<u>5,381</u>	<u>25,980</u>	<u>300</u>
Current assets					
Stock – raw material and consumables		288	388	-	-
Debtors	11	4,855	9,641	6,717	8,384
Cash at bank and in hand	12	18,824	26,695	5,075	25
		<u>23,967</u>	<u>36,724</u>	<u>11,792</u>	<u>8,409</u>
Creditors: due within one year	13	(13,320)	(16,077)	(17,192)	(449)
Net current assets/(liabilities)		10,647	20,647	(5,400)	7,960
Total assets less current liabilities		39,819	26,028	20,580	8,260
Creditors: due after more than one year	14	(1,840)	(997)	(623)	-
Provisions for liabilities and charges	16	(2,438)	(2,550)	-	-
Net assets		<u>35,541</u>	<u>22,481</u>	<u>19,957</u>	<u>8,260</u>
Equity capital and reserves					
Called up share capital	18	2,543	2,173	2,543	2,173
Share premium account	19	16,762	4,748	16,762	4,748
Other reserves	19	150	50	150	50
Profit and loss account	19	16,086	15,510	502	1,289
Equity shareholders' funds		<u>35,541</u>	<u>22,481</u>	<u>19,957</u>	<u>8,260</u>

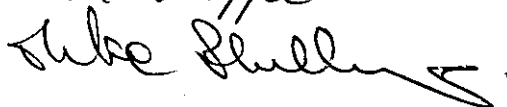
Notes on pages 23 to 36 form part of the financial statements

Approved by the Board of Directors on 4 April 2000 and signed on its behalf by

M R Ratcliffe



M S Phillips



Group Cash Flow

Statement for the year ended 31 December 1999

microgen

Information Management Services

	Notes	Year ended 31 Dec 1999 £000	14 months ended 31 Dec 1998 £000
Net cash flow from operating activities	26	4,647	5,136
Returns on investments and servicing of finance			
Interest received		1,363	592
Interest paid		(418)	(533)
Interest element of finance lease rental payments		(106)	(222)
		839	(163)
Taxation		(5,522)	(871)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,319)	(4,300)
Sale of tangible fixed assets		318	1,220
		(1,001)	(3,080)
Acquisitions and disposals			
Purchase of business	22	(5,658)	(1,750)
Sale of business		-	24,467
		(5,658)	22,717
Equity dividends paid to shareholders		(688)	(1,029)
Cash (outflow)/inflow before use of liquid resources and financing		(7,383)	22,710
Management of liquid resources			
Movement on term deposits		9,148	(26,498)
Financing			
Issue of share capital		132	3,466
New finance leases		-	131
Repayments of amounts borrowed		-	(3,000)
Capital element of finance lease rental payments		(620)	(845)
		(488)	(248)
Increase/(Decrease) in cash	27	1,277	(4,036)

Notes on pages 23 to 36 form part of the financial statements

Accounting Policies

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 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 December annually. 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.

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 is capitalised on the balance sheet and amortised over an appropriate period.

Turnover

Turnover represents the invoiced value of sales (net of VAT) on services in the normal course of business and is recognised as earned.

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 installments 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 money purchase pension schemes in respect of its UK employees. The schemes are defined contribution schemes and contributions are based on total earnings for the current year. The schemes are funded by payments to a trustee-administered fund completely independent of the

Group's finances. The charge for 1999, representing contributions payable by the Group, amounted to £356,000 (1998: £411,000). 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 crystallise in the future. The provision for deferred taxation has been calculated at the rates of corporate tax at which the liability is expected to crystallise.

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.

Financial instruments

The Group does not use derivatives to manage its exposures to interest rates. Financial instruments are recognised in the balance sheet at their historical cost with long term liabilities discounted to their present value.

Employee share schemes

The Group has established an Employee Participation Share Scheme Trust. Where the Trust acquires shares in the company, these shares are included within investments at cost. Provision is made for any diminution in value.

Notes to the Accounts

1. Turnover, profit and net assets analysis:

	Year ended 31 Dec 1999 £000	14 months ended 31 Dec 1998 £000
Turnover		
Continuing Operations		
- Billing services and database management	26,633	35,709
Acquisition		
- Consultancy	4,691	-
	<u>31,324</u>	<u>35,709</u>
Discontinued Operations	-	34,396
	<u>31,324</u>	<u>70,105</u>
Operating Profit/(loss) before group overhead		
Continuing Operations		
- Billing services and database management	3,692	(2,272)
Acquisition		
- Consultancy	735	-
	<u>4,427</u>	<u>(2,272)</u>
Group overhead	(1,469)	(1,155)
Goodwill amortisation - acquisition	(836)	-
Charges related to positive share price movements (Note 2)	(851)	(50)
Provision for surplus property costs	(299)	(2,550)
Restructuring costs	-	(970)
	<u>972</u>	<u>(6,997)</u>
Discontinued Operations	-	4,121
	<u>972</u>	<u>(2,876)</u>

The acquisition in the period consisted of the Kaisha consultancy business (Note 22).

Discontinued operations in 1998 consisted of the Nordic and German computer output to microfilm business.

	Turnover year ended 31 Dec 1999 £000	Turnover 14 months ended 31 Dec 1998 £000	Profit year ended 31 Dec 1999 £000	(Loss)/Profit 14 months ended 31 Dec 1998 £000
Turnover and profit by region:				
United Kingdom and Ireland	31,324	35,709	972	(6,997)
Nordic countries	-	21,258	-	2,454
Germany	-	13,138	-	1,667
	<u>31,324</u>	<u>70,105</u>	<u>972</u>	<u>(2,876)</u>
Loss on disposal of fixed assets - continuing operations			-	(1,552)
Profit on disposal of subsidiary undertakings			-	12,981
Net interest receivable			862	(61)
			<u>1,834</u>	<u>8,492</u>

Notes to the Accounts

1. Turnover, profit and net assets analysis: – (continued)

	31 Dec 1999 £000	31 Dec 1998 £000
Net Assets by region:		
United Kingdom & Ireland	<u>35,541</u>	<u>22,481</u>
Net Assets by type of business:		
	£000	£000
Billing Services and database management	10,342	22,481
Consultancy	25,199	–
	<u>35,541</u>	<u>22,481</u>

2. Operating costs

	Continuing operations £000	Acquired operations £000	Year ended 31 Dec 1999 £000	Continuing operations £000	Discontinued operations £000	14 months ended 31 Dec 1998 £000
Staff costs (note 3)	8,779	3,107	11,886	14,197	13,302	27,499
Depreciation and amortisation						
– Depreciation	2,208	97	2,305	3,562	2,721	6,283
– Amortisation	–	836	836	–	–	–
Other operating expenses						
– Other operating charges	13,423	752	14,175	22,347	14,252	36,599
– Charges related to positive share price movements	511	340	851	50	–	50
– Provision for surplus property costs	299	–	299	2,550	–	2,550
Total operating costs	<u>25,220</u>	<u>5,132</u>	<u>30,352</u>	<u>42,706</u>	<u>30,275</u>	<u>72,981</u>

The charges related to positive share price movements during the year of £851,000 (1998: £50,000) comprise National Insurance Contributions (NIC) on grant of share options of £671,000 (1998: £Nil) and UITF 17 charges of £180,000 (1998: £50,000). For share options granted on or after 6 April 1999 Employers NIC is payable on the uplift in share price from the date of grant to the date of exercise. The Group has made provision in the accounts for the period for the increase in value of these share options granted on or after 6 April 1999 to reflect the increase in share price to 667.5 pence as at 31 December 1999.

The Company made a loss after tax for the year of £25,000 (1998: loss £73,000).

2. Operating costs – (continued)

The following items are included in operating costs:

	Year ended 31 Dec 1999 £000	14 months ended 31 Dec 1998 £000
Directors' remuneration (see note 4)	589	754
Auditors remuneration		
Audit*	77	111
Other services	55	265
Depreciation of tangible fixed assets:		
Owned	1,731	5,517
Leased	574	766
Operating lease rentals:		
Property	533	2,614
Other	615	1,314
(Profit)/loss on sale of tangible assets	(106)	236
Research and development	419	330
Provision for surplus property:		
UK	299	2,550
Germany	-	29
	<u> </u>	<u> </u>

*Included in the above is the auditors' remuneration in respect to the Company of £2,000 (1998: £2,000). In addition, non-audit fees of £137,000 relating to acquisitions were capitalised by the Group (1998: NIL).

3. Staff

Staff emoluments:

Wages and salaries	10,468	22,899
Social security costs	1,062	3,595
Other pension costs	356	1,005
	<u>11,886</u>	<u>27,499</u>

The average weekly number of employees:

By location:

United Kingdom and Ireland	449	562
Nordic countries	-	213
Germany	-	159
	<u>449</u>	<u>934</u>

By category:

Operations	337	653
Administration and sales	89	261
Management	23	20
	<u>449</u>	<u>934</u>

Notes to the Accounts

4. Directors' Remuneration

The information required by the Companies Act and the London Stock Exchange Listing rules is contained in the Directors' Report on Remuneration on pages 14 to 17 and forms part of these financial statements.

	Year ended 31 Dec 1999 £000	14 months ended 31 Dec 1998 £000
Directors remuneration	<u>589</u>	<u>754</u>

5. Net Interest

Interest receivable:

Bank	1,416	694
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Interest payable on borrowings:

Bank loans and overdrafts	-	(533)
Finance lease charges	(107)	(222)
Interest payable on loan notes	(439)	-
Amortisation of discount on provision	(8)	-
	<u>862</u>	<u>(61)</u>

6. Tax on profit on ordinary activities:

UK corporation tax (charge)/credit at 30.25% (1998: 31%)	(435)	774
Tax on profit on disposal of Nordic and German subsidiaries	-	(6,488)
Overseas taxation	(11)	(1,855)
	<u>(446)</u>	<u>(7,569)</u>

The effective rate of tax for the Group on its profit on ordinary activities after tax but before goodwill is 16.8% (1998: 89.1%). At 31 December 1999, the UK group had a potential deferred tax asset of £1,526,000 (1998: £1,911,000), due to timing differences relating to accounting provisions, principally the property provision and capital allowances which has not been recognised in the accounts. The movement in the deferred tax asset in the year was £385,000 (1998: £1,810,000) and without this movement the effective rate of tax would have been 31.3% (1998: 67.8%).

7. Dividends

	Dividend per share 1999	Dividend per share 1998	Amount 1999 £000	Amount 1998 £000
Interim	0.5p	-	254	-
Final	1.0p	1.0p	508	435
	<u>1.5p</u>	<u>1.0p</u>	<u>762</u>	<u>435</u>

The Board recommended a final dividend of 1.0 pence per share (1998: 1.0 pence) and if approved, this will be paid on 12 May 2000 to shareholders on the register on 24 March 2000. The total dividend for the year will be 1.5 pence per share (1998: 1.0 pence).

8. Tangible fixed assets	Leasehold property £000	Plant & machinery £000	Fixtures & fittings £000	Motor vehicles £000	Total £000
Cost					
At 1 January 1999	1,547	8,973	281	12	10,813
Additions	47	1,319	62	-	1,428
Acquired from acquisition	-	538	35	284	857
Disposals	-	(426)	-	(229)	(655)
Exchange rate adjustments	-	(44)	(1)	-	(45)
At 31 December 1999	1,594	10,360	377	67	12,398
Depreciation					
At 1 January 1999	603	4,716	101	12	5,432
Charge for the year	305	1,930	57	13	2,305
Acquired from acquisition	-	368	12	136	516
Disposals	-	(258)	-	(94)	(352)
Exchange rate adjustments	-	(25)	(2)	-	(27)
At 31 December 1999	908	6,731	168	67	7,874
Net Book amount					
At 31 December 1999	686	3,629	209	-	4,524
At 31 December 1998	944	4,257	180	-	5,381

The net book amount of plant and machinery included above and held under finance lease is £921,000 (1998: £1,496,000), fixtures and fittings £21,000 (1998: nil).

Accumulated depreciation for those assets at 31 December 1999 was £1,656,000 (1998: £1,081,000).

9. Intangible assets	Goodwill £000
Cost	
As at 1 January 1999	-
Addition from acquisition of subsidiary (Note 22)	25,112
At 31 December 1999	25,112
Amortisation	
As at 1 January 1999	-
Provided during period	836
At 31 December 1999	836
Net Book amount	
At 31 December 1999	24,276
At 31 December 1998	-

Notes to the Accounts

10. Investments

	Investment in own shares Group £000	Investment in subsidiaries Company £000
Cost		
At 1 January 1999	–	300
Acquired in the year	452	25,680
At 31 December 1999	452	25,980
Provision		
At 1 January 1999	–	–
Charge for the year	80	–
At 31 December 1999	80	–
Net Book amount		
At 31 December 1999	372	25,980
At 31 December 1998	–	300

The Investment in own shares relates to shares held by the Microgen Employee Share Participation Trust ("the Trust") which was set up in March 1999 to facilitate the issue of replacement options to employees of Kaisha Technology Limited. The transactions undertaken by the Trust are explained in Note 22 (a) below. The investment in 362,000 shares is shown at cost of £1.25 less an UITF 17 charge in respect of options granted over 280,000 shares at nil consideration which are being written off over the three year vesting period ending in May 2002.

As at 31 December 1999 the Trust held 1,138,831 Ordinary Shares of 5p each in Microgen plc representing 2.2 % of the issued share capital of the Company with a market value at that date of £7,601,697. 1,056,000 are under option to employees and the balance are available for use by the trustees in accordance with the terms of the Trust. The options are first exercisable from the third anniversary of original grant and for a further seven years thereafter.

Details of investments in subsidiaries are shown on page 38.

11. Debtors

	31 Dec 1999 Group £000	31 Dec 1998 Group £000	31 Dec 1999 Company £000	31 Dec 1998 Company £000
Trade debtors	4,099	4,805	–	–
Amounts owed by Group Undertakings	–	–	6,695	8,384
Corporation tax recoverable	–	937	–	–
Other debtors	236	3,276	–	–
Prepayments and accrued income	520	623	22	–
	4,855	9,641	6,717	8,384

12. Cash at bank and in hand

Cash at bank and in hand	1,474	197	475	25
Term deposits	17,350	26,498	4,600	–
	18,824	26,695	5,075	25

13. Creditors: due within one year

	31 Dec 1999 Group £000	31 Dec 1998 Group £000	31 Dec 1999 Company £000	31 Dec 1998 Company £000
Net obligations under finance leases	469	638	-	-
Trade creditors	1,508	2,604	-	-
Amounts owed to Group undertakings	-	-	10,053	-
Corporation tax	481	5,850	(11)	-
Other taxes and social security costs	689	482	-	-
Other creditors	314	3,032	-	-
Deferred consideration on acquisition	1,807	-	1,807	-
Loan notes payable	4,600	-	4,600	-
Accruals	2,944	3,036	234	14
Proposed dividend	508	435	509	435
	<u>13,320</u>	<u>16,077</u>	<u>17,192</u>	<u>449</u>

14. Creditors: due after more than one year

Net obligations under finance leases	546	997	-	-
Deferred consideration on acquisition	623	-	623	-
Other taxes and social security costs	671	-	-	-
	<u>1,840</u>	<u>997</u>	<u>623</u>	<u>-</u>

15. Finance lease obligations

	31 Dec 1999 Group £000	31 Dec 1998 Group £000
<i>Repayable as follows:</i>		
Within one year	532	762
Between one and five years	586	1,100
	<u>1,118</u>	<u>1,862</u>
Finance charges allocated to future periods	(103)	(227)
	<u>1,015</u>	<u>1,635</u>
<i>Analysed in the balance sheets as:</i>		
Within one year	469	638
Between one and two years	546	430
Between two and five years	-	567
	<u>1,015</u>	<u>1,635</u>

Notes to the Accounts

16. Provisions for liabilities and charges

Provisions for liabilities and charges relate to surplus properties and may be analysed as follows:

	1999
	£000
At 1 January 1999	2,550
Charged to profit and loss account	299
Utilised in the year	(419)
Amortisation of discount	8
	<hr/>
At 31 December 1999	2,438
	<hr/>

The period end balance is expected to mature during the following period analysed as follows:

	31 Dec 1999	31 Dec 1998
	Group	Group
	£000	£000
Within one year	419	373
Between one and two years	546	546
Between two and five years	462	474
More than five years	1,011	1,157
	<hr/>	<hr/>
	2,438	2,550
	<hr/>	<hr/>

The provision covers costs associated with surplus and vacant properties where rent and service charges are predominantly predetermined for the life of the lease. A number of properties have been sublet and rental income has been assumed for these properties. At the end of each lease the company incurs dilapidation costs which are negotiated on a case by case basis. An assessment of these costs has been included in the provision.

17. Deferred taxation

The potential deferred tax asset comprises:

Accelerated capital allowances	574	703
Other timing differences	952	1,208
	<hr/>	<hr/>
At end of period	1,526	1,911
	<hr/>	<hr/>

No deferred tax asset or liability has been recognised in the accounts in either 1999 or 1998.

18. Share capital

	Number	£000
Authorised ordinary shares of 5p each	61,420,000	3,071
	<hr/>	<hr/>
<i>Issued allotted and fully paid:</i>		
At 1 January 1999	43,469,137	2,173
Issued on acquisition of Kaisha Group	6,091,866	305
	<hr/>	<hr/>
<i>Issued under share option schemes:</i>		
Issued to Employees Participation Scheme Trustees (Note 21)	1,200,000	60
Savings related	97,598	5
	<hr/>	<hr/>
At 31 December 1999	50,858,601	2,543
	<hr/>	<hr/>

19. Reserves

	Share premium account £000	Other reserves £000	Profit and loss account		
			Revenue reserve £000	Goodwill reserve £000	Total £000
Group					
At 1 January 1999	4,748	50	27,254	(11,744)	15,510
Retained profit for the year	-	-	626	-	626
Exchange rate adjustments	-	-	(50)	-	(50)
Shares issued during the year	128	-	-	-	-
Shares issued on acquisition	11,886	-	-	-	-
Arising on grant of share options	-	100	-	-	-
At 31 December 1999	16,762	150	27,830	(11,744)	16,086

	Share premium account £000	Other reserves £000	Profit and loss account		
			Revenue reserve £000	Goodwill reserve £000	Total £000
Company					
At 1 January 1999	4,748	50	6,224	(4,935)	1,289
Retained profit for the year	-	-	(787)	-	(787)
Shares issued during the year	128	-	-	-	-
Shares issued on acquisition	11,886	-	-	-	-
Arising on grant of share options	-	100	-	-	-
At 31 December 1999	16,762	150	5,437	(4,935)	502

20. Reconciliation of movements in shareholders' funds

	Year ended 31 Dec 1999	14 months ended 31 Dec 1998
	Group £000	Group £000
Profit for the period	1,388	923
Dividends	(762)	(435)
	626	488
Reserves arising on grant of share options	100	50
Other recognised gains and losses for the period	(50)	263
Shares issued during the period	12,384	3,466
Goodwill on disposal	-	3,652
	13,060	7,919
Shareholders' funds at 31 December 1998	22,481	14,562
Shareholders' funds at 31 December 1999	35,541	22,481

Notes to the Accounts

21. Earnings per share

	Year ended 31 Dec 1999 £000	14 months ended 31 Dec 1998 £000
Basic earnings per share	2.9p	2.2p
Diluted earnings per share	2.8p	2.2p
Adjusted basic earnings per share (before goodwill amortisation, NIC on Share Options and UITF 17 charges)	5.8p	2.2p
Adjusted diluted earnings per share (before goodwill amortisation, NIC on Share Options and UITF 17 charges)	5.7p	2.2p

Adjusted and basic earnings per share are based on the share capital of 48,275,585 shares (1998: 41,751,023) being the weighted average number of shares in issue during the year. Diluted earnings per share are based on share capital of 49,428,598 (1998: 41,822,495).

A reconciliation of earnings to adjusted earnings is set out below:

	Earnings £000	Basic EPS Pence	Diluted EPS Pence
Profit on ordinary activities after tax	1,388	2.9	2.8
Charges related to positive share price movements (net of tax)	595	1.2	1.2
Goodwill amortisation	836	1.7	1.7
Profit on ordinary activities after tax but before goodwill and charges related to positive share price movements	<u>2,819</u>	<u>5.8</u>	<u>5.7</u>

22. Acquisitions

Acquisition of Kaisha Group

On 29 March 1999, the Company announced the acquisition of the Kaisha Group, a leading independent business intelligence consultancy. Shareholders' approval was obtained at an EGM on 22 April 1999 and the acquisition of Kaisha Group was formally completed on 23 April 1999.

The key financial details in respect of the acquisition are scheduled below:

	Notes	£000
Consideration and costs in respect of acquisition:		
Cash		5,965
Loan Notes		4,600
Ordinary Shares		7,615
Initial consideration		18,180
Shares issued in respect of replacement options	(i)	1,048
Increase in fair value of consideration	(ii)	3,137
Deferred consideration	(iii)	2,430
Fees and costs in respect of the acquisition		885
Total consideration and costs		<u>25,680</u>
Reconciliation of cash paid to purchase of business per cashflow statement:		
Cash paid to vendors		5,965
Acquisition costs paid		695
		6,660
Cash acquired from business		(856)
Post acquisition liquidation of Thistle Enterprises Ltd.		(146)
Purchase of business per cash flow statement		<u>5,658</u>

22. Acquisitions – (continued)

- (i) At the time of the transaction, the Company established The Microgen Employee Share Participation Scheme 1999 to facilitate the issue of replacement options over Microgen plc shares to Kaisha employees in exchange for their options to Kaisha Technology Limited. 1,200,000 shares were issued to the MESPS 1999 at £1.25 per share. Options over 838,000 Microgen shares were issued to Kaisha employees in consideration for their interest in Kaisha share options with a value of £1,048,000. The balance of 362,000 shares are shown as investment in own shares in the consolidated balance sheet of the Group. An option over 280,000 of these shares has been granted to an employee of Kaisha at nil subscription which are subject to performance criteria. The costs of these shares is being written off over the three year vesting period in accordance with UITF 17.
- (ii) The increase in fair value of consideration represents the increase in value of the Ordinary shares in Microgen plc between exchange of contracts for the transaction and completion.
- (iii) The deferred consideration payment is split between £1,800,000 relating to a Year 2000 indemnity and £630,000 relating to profit performance targets in the period ending 31 December 2000. To date no significant Year 2000 issues have arisen and it is likely that the £1,800,000 payment will be made in July 2000.

As the major shareholder in Kaisha Group Len Crisp had a significant interest in the Acquisition agreement. He also had an interest in the Year 2000 Indemnity.

In its last financial year to 31 August 1998, Kaisha Group made a profit after tax and minority interests of £1.24m. For the period since that date to the date of acquisition, Kaisha management accounts show:

	£m
Turnover	5.2
Operating Profit	0.4
Interest	0.1
Profit before tax	0.5
Taxation	(0.2)
Total recognised gains for the period	0.3

	Preliminary Balance Sheet £000	Provisional Fair Value Adjustment £000	Net Assets Acquired £000
Kaisha Group (at date of acquisition)			
Fixed Assets	378	(37)	341
Debtors	1,495	(52)	1,443
Cash at bank	856	–	856
Creditors	(1,151)	(277)	(1,428)
Taxation	(644)	–	(644)
Net assets	<u>934</u>	<u>(366)</u>	<u>568</u>
Total consideration			<u>25,680</u>
Goodwill on acquisition			<u>25,112</u>

The provisional fair value adjustments relate to (i) a reduction in the net book value of fixed assets to a directors estimate of their value (£37,000); (ii) adjustment to accounting policies to bring them in line with those of Microgen plc (£52,000) and (iii) an accrual in respect of liabilities not recognised in the preliminary balance sheet (£277,000).

The goodwill on acquisition has been capitalised and is being amortised over 20 years.

Notes to the Accounts

23. Capital commitments

At 31 December 1999, the Group had no capital commitments contracted for (1998: £488,466). The Company has no capital commitments.

24. Operating leases

	1999 £000	1998 £000	1999 £000	1998 £000
	properties	properties	other	other
At 31 December the Group had the following annual commitments which expire:				
Within one year	28	13	351	205
Between one and five years	107	133	62	469
After five years	389	978	-	-
	<u>524</u>	<u>1,124</u>	<u>413</u>	<u>674</u>

25. Borrowings

Finance lease obligations of £1,015,000 (1998: £1,635,000) are secured against the assets to which they relate. Additionally, a composite cross guarantee exists between the various Group companies.

The Company has guaranteed loan and overdraft facilities in its subsidiaries at 31 December 1999 totalling £13,000,000 (1998: £3,000,000).

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

26. Reconciliation of operating profit to net cash flow from operating activities

	Year ended 31 Dec 1999 £000	14 months ended 31 Dec 1998 £000
Operating profit/(loss)	972	(2,876)
Depreciation	2,305	6,283
(Profit)/loss on sale of fixed assets	(106)	236
Other non-cash movements	1,687	50
Decrease in stocks	100	220
Decrease/(increase) in debtors	5,292	(2,466)
(Decrease)/increase in creditors	(5,603)	3,689
Net cash inflow from operating activities	<u>4,647</u>	<u>5,136</u>

Other non-cash movements relate to goodwill amortisation and charges arising from positive share price movements.

27. Reconciliation of net cash flow to movement in net funds

	Year ended 31 Dec 1999 £000	14 months ended 31 Dec 1998 £000
Increase/(decrease) in cash in the period	1,277	(4,036)
Cash outflow from decrease in debt	-	3,000
Cash outflow from decrease in lease financing	620	845
Cash (outflow)/inflow from movement in term deposits	<u>(9,148)</u>	<u>26,498</u>
Change in net funds/(debt) resulting from cash flow	<u>(7,251)</u>	26,307
Issue of loan note	<u>(4,600)</u>	-
New finance leases	-	(131)
Translation difference	-	264
Movement in net funds/(debt) in the period	<u>(11,851)</u>	26,440
Net funds/(debt) at start of period	<u>25,060</u>	<u>(1,380)</u>
Net funds at end of period	<u><u>13,209</u></u>	<u><u>25,060</u></u>

28. Analysis of net funds

	As at 1 January 1999 £000	Cash flow £000	Acquisition £000	As at 31 December 1999 £000
Cash at bank and in hand	26,695	(7,871)	-	18,824
Debt due within 1 year	-	-	(4,600)	(4,600)
Finance leases	(1,635)	620	-	(1,015)
	<u>25,060</u>	<u>(7,251)</u>	<u>(4,600)</u>	<u><u>13,209</u></u>

29. Financial Instruments

The following analysis excludes debtors and creditors falling due within one year, other than cash at bank, short term deposits or borrowings.

Financial assets and liabilities

The interest rate and currency profiles of the group's financial assets and liabilities at 31 December 1999 were:

Interest rate risk of financial assets

	Cash at bank and in hand £000	Short term deposits £000	Total £000
Floating rate			
Sterling	1,318	17,350	18,668
IR Punts	156	-	156
At 31 December 1999	<u><u>1,474</u></u>	<u><u>17,350</u></u>	<u><u>18,824</u></u>

Floating rate cash and short term deposits earn interest based on relevant national LIBOR equivalents or government bond rates.

Notes to the Accounts

29. Financial Instruments – (continued)

Interest rate risk of financial liabilities, all of which are sterling

	Loan notes £000	Finance lease £000	Deferred consideration £000	Total £000
Fixed rate	–	1,015	–	1,015
Floating rate	4,600	–	–	4,600
Non interest bearing	–	–	2,430	4,600
At 31 December 1999	4,600	1,015	2,430	8,045

In addition to the above, the Group's provision of £2,438,000 for vacant leasehold properties (note 16) meet the definition of financial liabilities. These financial liabilities are considered to be floating rate financial liabilities as, in establishing the provisions, the cash flows have been discounted and the discount rate is re-appraised at each year reporting to ensure that it reflects current market assessments of the time value of money and the risks specific to the liability.

The non-interest bearing financial liabilities consists of deferred consideration payments payable to the vendors of Kaisha. These are only payable if certain pre-determined performance targets are achieved in 1999 and 2000. The weighted average period to maturity to these liabilities is 1.2 years.

The weighted average interest rate of fixed rate liabilities is 8.1% and the weighted average period for which the rate is fixed is fixed in years is 1.5 years.

Maturity of financial liabilities	Loan notes £000	Finance lease £000	Deferred consideration £000	Total £000
Within 1 year, or on demand	–	469	1,807	2,276
Between 1 and 2 years	–	546	623	1,169
Between 2 and 5 years	**4,600	–	–	4,600
At 31 December 1999	4,600	1,015	2,430	8,045

** Any Loan Note not previously repaid or purchased will be repaid on 1 June 2004.

Any Noteholder may require all or any part (being an amount of £1 nominal or an integral multiple thereof) of the principal amount of any Loan Notes held by him to be repaid at par together with accrued interest (less any applicable tax) on any subsequent interest payment date falling after 1 December 1999, by giving to the Company not less than 30 days prior notice in writing to expire on or before the relevant interest payment date accompanied by the certificate for all the Loan Notes to be repaid.

Currency Exposures:

There are no currency exposures for the group as no group company has monetary assets or liabilities in currencies other than their local currency.

Borrowing Facilities:

The group's principal source of borrowing facilities is through (1) Medium term LIBOR (Revolving) - £10 million and "on demand" bank overdrafts - £3 million. These facilities are generally reviewed on an annual or ongoing basis and hence the facilities expire within one year or less.

The £3 million "on demand" facility is due for review on the 1 March 2001 and the £10 million revolving facilities on the 21 April 2000.

Fair value of assets and liabilities:

There is no material difference between the fair value of the group's financial assets and liabilities and their book values as shown in the financial statements.

Hedges of future transactions:

No derivative financial instruments were undertaken during the period and there were no such instruments held at 31 December 1999.

Analysis of ordinary shareholders at 31 December 1999

Size of holding	Number of shareholders	%	Number of shares 000s	%
1-1,000	1,049	60.6	496	1.0
1,001-5,000	445	25.7	1,091	2.2
5,001-20,000	119	6.9	1,292	2.5
20,001-200,000	74	4.3	5,293	10.4
200,001 and above	43	2.5	42,687	83.9
	1,730	100.0	50,859	100.0

Investor type	Number of shares 000s	%
Investment and unit trusts	20,457	40.2
Directors' interests	14,187	27.9
Private individuals	4,691	9.2
Pension funds	4,705	9.3
Other investors	6,819	13.4
	50,859	100.0

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Registered number 1602662

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Registrars

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

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

Shareholders Enquiries

Enquires 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 9.00 a.m. on 4 May 2000, at 11, Park Street, Windsor, Berkshire SL4 1LU. Details are given in a separate notice to shareholders enclosed with this Annual Report.

Dividend Payments

	Record Date	Payment Date
Final	24 March 2000	12 May 2000

Results Announcement

Interim results	August 2000
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Principal Subsidiaries

and Group Organisation

PRINCIPAL SUBSIDIARIES

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.

Company Name	Country	Equity Held	Nature of Business
Microgen UK Limited	England and Wales	100%	Billing Services and Document Management
Microgen (Ireland) Limited	Ireland	100%	Microfiche Services
Microgen Kaisha Limited	England and Wales	100%	Consultancy

GROUP ORGANISATION

Group Head Office

Martyn Ratcliffe
Executive Chairman

Paul Davies
Group Managing Director

Mike Phillips
Group Finance Director

Gerry Liddle
Company Secretary

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