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microgen

microgen plc
annual report

2000

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 and senior management positions with Vtech Computers Inc. and Nokia Mobile Phones/Technophone Ltd.

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.

Paul Davies
Deputy Chairman and Non Executive Director
Paul Davies was appointed on 1 December 1999 as Group Managing Director 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. He was appointed Deputy Chairman and Non Executive Director on 5 September 2000.

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.

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
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London WC2N 6NN

Stockbrokers
UBS Warburg
1-2 Finsbury Avenue
London EC2M 2PP

Registrars
Capita IRG PLC
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Information Management Services

Chairman's Statement

The past year has seen the completion of the transition of the Microgen Group, initiated in 1998, from a service provider in mature and/or declining markets, into a successful information management services group with a market leading position in key growth sectors. The extent of the transition undertaken has been significant. New businesses developed or acquired over the past 2 years now account for over 60% of the total Group revenue.

Microgen plc now comprises two operating divisions :

- The Billing and Database Management Division, derived from the original business operations, generates recurring revenue primarily from transactional activities of billing, payment and hosted on-line database management services. The self-funded investment programme has enabled the division to establish a market leading position in sell-side B2B e-business.

- Microgen-Kaisha, the Group's consultancy division, formed from the acquisition of Kaisha Technology in April 1999, is focused on Customer Relationship Management, Knowledge Management and e-business systems implementation, sectors compatible with the transactional services operations.

Financial Summary

For the year ended 31 December 2000, Microgen generated adjusted Profit Before Tax from continuing operations including acquisitions but excluding exceptional items, goodwill amortisation and charges related to share price movements of £1.2 million from revenue of £22.6 million (1999: £1.1 million on revenue of £19.6 million).

The Group produced an adjusted basic earnings per share of 1.7 p (1999: 5.8p) and a net loss after tax of £2.7 million, equivalent to a basic loss per share of 5.4p, after exceptional costs of £2.3 million related to the restructuring programme, £0.2 million of costs associated with an aborted acquisition as noted in the interim report, an operating loss of £0.5 million from the discontinued operations, goodwill amortisation of £1.3 million and £0.2 million related to costs derived from share price movements. (1999: profit after tax of £1.8 million, equivalent to basic earnings per share of 3.7p.)

Throughout this period of transition, the Board has managed a disciplined investment programme, maintaining a strong balance sheet and positive operating cash flow. At 31 December 2000, net free cash was £8.4 million (note 27). The Board are therefore recommending a dividend of 1.0p (1999:1.5p, including interim dividend). The final dividend is payable on 8 May 2001 to shareholders on the register at the close of business on 17 April 2001.

Billing & Database Management

During the first half of the year, sales and marketing resources were focused on signing potential billers for Microgen's e-billing services, thereby proving the concept, confirming market demand and establishing the Group's position in the sector. In order to convert this potential into revenue for

Microgen, there need to be two parties to a B2B transaction and therefore during the second half of 2000, resources were increasingly allocated to getting e-billers operational. This requires the buyer (bill recipient) to be enabled to accept invoices via Microgen's transactional model. This "recipient" programme has been very successful with 300 buyers now receiving e-bills from 15 billers, making Microgen one of the UK's most successful independent hosted B2B transactional models.

The significance of establishing a large recipient base should not be under-estimated, since an overlap in biller customer bases is a major facilitator to the widespread adoption of the B2B transaction service and the expanding number of recipients facilitates connecting new billers.

Being at the forefront of B2B e-billing has highlighted several critical operational enhancements (eg invoice grouping, parent-subsidiary relationships, VAT master invoice versus copy) all of which have been implemented and which provide increased barriers-to-entry for competitive B2B e-billing services. Operational experience is also highlighting the regular, repetitive nature of transactions associated with B2B buyer/seller relationships, eliminating the need for e-mail notification. This further reinforces Microgen's database management model for B2B e-billing and it is the value-added services which the Microgen model can provide that are proving to be the stimulus for adoption.

The Division's hosted database management business has continued to make progress throughout the year with 34 blue-chip customers now live. Consistent growth has been achieved in this business from both new customers and additional applications from existing customers, producing a growth rate of 56% for the on-line recurring revenue. The average annualised revenue per customer for hosted databases is currently approx £60,000 of which 80% is on-line recurring revenue. Due to the inherent database management technology in the Microgen B2B e-billing model, the same infrastructure, which is owned by the Group, is used to host databases and to enable the e-billing service. The evolution of customers from print & mail billing, in which Microgen has 12 years experience, to e-billing and then into additional hosted value-added services utilising the sales ledger database is the core of Microgen's sell-side e-business strategy.

Revenue from continuing operations for the division was £13.7 million, producing an operating profit of £0.3 million before Group overhead (1999: comparable revenue of £14.0 million produced an operating profit of £1.6 million). The revenue decline occurred in the legacy print business and the Board anticipate that print revenue will continue to decline during 2001, due to account rationalisation and as part of the ongoing managed transition process. The reduction in profitability of the division is consistent with the internally-funded, disciplined investment programme and is in line with Board expectations, such that the contribution and cash flow derived from the legacy print operations are being reinvested in transitioning customers into e-services. However the strategic significance of the print & mail capability and expertise, in enabling Microgen to provide a managed transition from traditional billing into electronic services, should not be overlooked and continues to be a key competitive advantage and barrier to entry. It is also this expertise which has enabled Microgen to facilitate the VAT approval process for billers and recipients, a fundamental requirement in the widespread acceptance of e-billing and the development of a sustainable e-billing service in the UK.

Consultancy

Microgen-Kaisha, the Group's consultancy division, had an excellent year. Acquired in April 1999, the division is now focused on Customer Relationship Management, Knowledge Management and e-business systems implementation with a particular emphasis on the integration of legacy and new application data. Following the repositioning of the business, the division has progressed very well due to the acceleration in growth in the strategic business areas, producing significant increases in both utilisation and fee rates. As a result, operating margin before Group overhead increased to 27% (1999: 16%) and the original low margin legacy business now accounts for less than 15% of the Division's revenue, compared with 30% in 1999. Excluding the legacy business, the underlying growth rate was approximately 36% on an annualised basis.

Revenue for the division was £8.0 million, producing an operating profit of £2.2 million before Group overhead and goodwill amortisation (23 April – 31 December 1999: revenue of £4.7 million, operating profit of £0.8 million).

The synergies anticipated at the time of the acquisition are now being realised. Increasingly customers are seeking services from across the Microgen Group, a key differentiator being the integrated offering of data warehousing consultancy with database hosting capability and leading-edge e-business skills. The natural relationship between billing and CRM further strengthens the Microgen offering.

Microgen-Telesmart

Telesmart Developments Limited ("Telesmart"), a leading UK supplier of payment solutions, was acquired on 11 August 2000 for a total consideration of up to £2.4 million in order to provide billing and payment solutions to the B2B sector. This business has been rapidly integrated into the Group, with three distinct operations :

- BACS payment software - a relatively mature market but anticipated to remain the predominant payment method for B2B transactions in the UK for the foreseeable future. Technology developments within the BACS environment provide a significant refresh and/or upgrade opportunity and a new development programme has been initiated.

- Consultancy – Telesmart had established a presence in developing and implementing payment solutions which, by integrating these activities with the Group's existing consultancy operations, has opened a new channel of business for Microgen-Kaisha.

- e-payment services – using the NHSnet, Microgen-Telesmart now has 38 NHS Health Authorities, Trusts and/or other Agencies processing payments via Microgen e-payment service infrastructure. (With an additional 60 Health Service organisations now receiving e-bills, the Group is establishing a significant e-business presence in the NHS sector.)

For the period 11 August to 31 December 2000, the newly-acquired business produced an operating loss of £0.2 million on revenue of £0.9 million. As a result of the integration of the business into the Group, the Board anticipate that the payment operations should now provide a positive contribution and a significant strategic enhancement to the Group's offerings.

Future Prospects

With the completion of the transition, the Group is now focused on developing the potential of its sell-side e-services model. The primary documentary communication between seller and buyer is the invoice and Microgen has developed value-added services derived from the data management associated with this fundamental business-to-business transaction. Managing the transition from paper to electronic communication is a key element of the service and continues to be a significant differentiator for Microgen. The weaknesses in some alternative B2B models have become increasingly apparent over the past year but the evolutionary nature and operational benefits of the Microgen model are enabling the reality of B2B e-business while creating barriers to entry.

Through Microgen-Kaisha the value-added services can be extended to include customer data analysis and business integration, providing a unique e-business Customer Relationship Management capability. The acquisition of Telesmart has extended billing services into payment processing. This combined capability has enabled further service extension into electronic payment remittance advice notification, for which the Group has recently received its first contract.

The benefits of the investments made are starting to be realised and the Board will maintain the disciplined investment programme during this window of opportunity. In addition, as the sector consolidates, strategic opportunities which could accelerate the development of the Group will continue to be explored by the Board.

In summary, the Board are pleased with the success of the transition and transformation of the Group into a leading information management services company. The future opportunity is tangible and exciting.

M R Ratcliffe

Martyn Ratcliffe
Executive Chairman

16 March 2001

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2000.

Results and Dividends

The results for the period are set out in the financial statements and notes which appear on pages 17 to 34.

The directors recommend the payment of a final dividend of 1.0 pence per ordinary share (payable on 8 May 2001 to shareholders registered on 17 April 2001) making a total distribution for the year ended 31 December 2000 of 1.0 pence at a cost of £512,000 (1999: 1.5p : £762,000).

Principal Activities and Developments in Business

The Company is a holding company, with the Group's principal activity being the provision of Billing Services, Database Management and Consultancy to the business community. Further details of the Group's activities and developments in the business during the period are provided 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. Research and development costs are expensed as incurred.

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 confirm they have complied with the above requirements in preparing the financial statements.

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

The directors are responsible for the maintenance and integrity of the Microgen website upon which the financial statements will be available. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 £196 (1999: £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 9th March 2001 and are not aware of any other such interests.

	Number of shares	**% issued share capital**
Schroder Investment Management Limited	9,040,000	17.66%
PF Barbour	6,805,803	13.29%
Edinburgh Fund Managers	6,117,244	11.95%
MR Ratcliffe	4,500,000	8.79%
Mrs H Crisp	2,148,331	4.20%
L Crisp	1,562,771	3.05%

Report of the *Directors*

Significant Contracts

There was 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.

Directors

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

Executive directors

MR Ratcliffe (Executive Chairman)

MS Phillips (Group Finance Director)

Non-executive directors

P Davies (Deputy Chairman)

PF Barbour

A Goodman (Remuneration Committee Chairman)

R Kanter (Audit Committee Chairman)

L Crisp (resigned 3 May 2000)

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

Mr Crisp was appointed to the Board at the time of the acquisition of Microgen Kaisha and retired from the Board once the company had been successfully integrated into the Group.

Mr Davies was an Executive Director from 1 December 1999 to 5 September 2000, when he was appointed Deputy Chairman and Non executive director.

Neither Mr Ratcliffe nor Mr 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 24th April 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.

The Company has no trade creditors.

At 31 December 2000, for the main UK trading subsidiaries, Microgen UK Limited and Microgen Kaisha Limited, the number of days of annual purchases represented by year end creditors was 41 days and 47 days respectively (31 December 1999: 37 days and 26 days respectively).

By Order of the Board

GE Liddle

Secretary

16 March 2001

Statement of Compliance

The Group has applied the principals set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Services Authority, as incorporated in the Listing Rules of the London Stock Exchange. Other than disclosed below, the Group has complied with the Combined Code throughout the period under review.

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 Chairman ensures that all directors are properly briefed on the matters being discussed.

The roles of Chairman and Chief Executive are not separated. Until the appointment of Mr Davies as Deputy Chairman on 5 September 2000, there was no senior Non-executive Director.

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 at the year end and do not have any business or other relationship with them. Mr Davies was independent of the management only after 5 September 2000 due to his role until that date as Group Managing Director. It is intended that non-executive directors will be the majority of the board.

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.

Mr Goodman is chairman of the Remuneration Committee. The report of the directors on remuneration appears on page 12.

Mr Kanter is chairman of the Audit Committee. The Executive Chairman 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 an ongoing process in respect 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 processes 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.

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, which have been in operation during 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 divisions;
- A procedure for the regular review and reporting of business issues and risks by operating divisions;
- A comprehensive planning and management reporting system operated by each division and the Executive Directors;
- The establishment of prudent operating and financial policies.

The Directors have overall responsibility for establishing financial and other 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 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 key features of the systems of internal financial control include:

- comprehensive 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;
- monthly comparison of actual results against plan;
- written procedures detailing operational and accounting internal control policies which are reviewed on a regular basis;
- regular reporting to the Board on treasury and legal matters;
- clearly defined investment control guidelines and procedures;
- Periodic reviews by the Audit Committee of the Group's systems and procedures.

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 business continuity arrangements.

The Group has in place appropriate treasury policies and procedures, which are approved by the Board. The treasury function manages interest rates for both borrowings and cash deposits for the Group and is also responsible for ensuring there is sufficient headroom against the banking covenants contained within its credit facilities, and for ensuring there are appropriate facilities available to meet the Group's strategic plans.

All these treasury policies and procedures are regularly monitored and reviewed and conservatively managed. 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.

On behalf of the Board, the Audit Committee has reviewed the operation and effectiveness of this framework of internal control for the year ended 31 December 2000.

Report of the Directors on *Remuneration*

Membership

The membership of the Remuneration Committee during the year ended 31 December 2000 comprised Mr Goodman, Mr Kanter, Mr Barbour, Mr Crisp (until he retired on 3 May 2000) and Mr Davies from the date of his appointment as a non-executive director. The committee is chaired by Mr 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 directors, management and staff are all eligible to participate on the same basis in the Group's 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.

As part of their service agreements, the Group pays 7% of Messrs Ratcliffe and Phillips gross remuneration into their pension schemes.

Directors' Remuneration

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

	2000 £	1999 £
Remuneration	**661,992**	564,114
Pension contributions	**28,470**	24,738
	690,462	588,852

United Kingdom Directors	Basic salary/Fees £	Variable Reward £	Benefits in kind £	Pension £	2000 total £	1999 total £
Current Directors						
MR Ratcliffe (note 1)	213,800	40,500	102,968	14,966	372,234	367,004
MS Phillips	102,967	21,000	1,889	6,268	132,124	126,049
P Davies (note 2)	103,367	–	2,168	7,236	112,771	17,389
R Kanter	22,500	–	–	–	22,500	22,500
A Goodman (note 3)	22,500	–	–	–	22,500	22,500
PF Barbour	20,000	–	–	–	20,000	20,000
Former Directors						
L Crisp *	8,333	–	–	–	8,333	13,410
Total all directors	493,467	61,500	107,025	28,470	690,462	588,852

* 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 in respect of share options granted at a discount to market price. The reasons for this charge are detailed below however the Directors do not believe that Mr Ratcliffe has received the benefit implied by the UITF 17 charge arising from the grant of the option

Note 2:

From the date of his appointment as a non-executive director, fees of £7,500 were payable to a company in which Mr Davies has a substantial interest in respect of his services and expenses.

Note 3:

Fees of £22,500 (1999: £22,500) were payable to a partnership in which Mr A Goodman has 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 2000 and at 31 December 1999 (or the date of appointment, if later), in the share capital of the Company are as follows:

	Ordinary shares of 5p	
	31 Dec 99	31 Dec 00
Current Directors		
MR Ratcliffe	4,450,000	4,450,000
P Davies	50,000	50,000
MS Phillips	22,000	22,000
PF Barbour	6,805,803	6,805,803
R Kanter	38,700	38,700
A Goodman	32,000	32,000

Mr Crisp had interests in 2,788,140 shares at 31 December 1999 and at the date of his retirement.

On 21 February 2001 Mr Ratcliffe and Mr Phillips increased their holding in the Company by purchasing 50,000 and 5,000 ordinary shares respectively. On 6 March 2001, Mr Davies increased his holding in the company by purchasing 20,000 Ordinary Shares.

Executive Options

	Options over ordinary shares of 5p		
	31 Dec 1999	Granted	31 Dec 00
MR Ratcliffe	1,000,000	–	1,000,000
MS Phillips	162,145	50,000	212,145

Mr Phillips was granted a further 50,000 share options on 27 February 2001.

Mr Davies was granted 400,000 share options on his appointment as Group Managing Director on 1 December 1999. When he became Deputy Chairman on 5 September 2000, he waived the right to 200,000 share options.

No directors' share options were exercised in the period.

No other changes to the directors' shareholdings took place between 1 January 2001 and the date of this report.

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, exercise date and expiry date are:

Exercise price	Date of grant	Earliest exercise date	Expiry date	M R Ratcliffe	M S Phillips	P Davies
90p	31-Jul-98	31-Jul-01	31-Jul-08	1,000,000	–	–
89.17p	12-Oct-98	12-Oct-03	12-Oct-08	–	112,145	–
159.8p	25-May-99	25-May-02	25-May-09	–	50,000	–
*363.5p	2-Dec-99	2-Dec-02	2-Dec-09	–	–	200,000
*397.5p	4-May-00	4-May-03	4-May-10	–	50,000	–
168.0p	27-Feb-01	27-Feb-04	27-Feb-11	–	50,000	–
				1,000,000	262,145	200,000

For all options, except those marked with an *, the exercise price is below the market price of the underlying shares as at 15 March 2001.

Mr 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 1999 and so Mr Ratcliffe's options may be exercised on or after 31 July 2001.

The exercise price of 90 pence 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 Mr Ratcliffe whereby Mr 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.

Mr 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 Mr 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 years until the options can be exercised. The charge in the period ended 31 December 2000 is £100,000 and this is disclosed as a benefit in kind in Mr Ratcliffe's remuneration for the year and credited to Other Reserves in Capital and Reserves on the Balance Sheet. As stated above, the Directors do not believe that Mr Ratcliffe received the benefit implied by the UITF 17 charge as a result of the granting of the options.

Mr Davies' share options were granted on the same terms as the Executive Share Option scheme subject to certain exclusions which were approved by the shareholders on 27 October 1999. However, 100,000 options only became exercisable when Microgen's share price achieved a price of 240p for 20 consecutive business days and the remaining 100,000 became exercisable when Microgen's share price achieved a price of 320p for 20 consecutive business days. These performance criteria have both been achieved.

Mr 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.

The mid-market price of the Company's share at 31 December 2000 was 307.5 pence and the range during the year was 892.5p to 280.0p.

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.

A Goodman
Remuneration Committee Chairman 16 March 2001

Auditors' Report

Independent auditors' report to the members of Microgen plc

We have audited the financial statements, which comprise the group profit and loss account, the balance sheets, the group cash flow statement, the statement of total recognised gains and losses, and the related notes. We have audited the disclosures relating to the directors' remuneration in the report of directors on remuneration specified for our review by the Listing Rules of the Financial Services Authority.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if 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. The other information comprises only the report of the directors, the chairman's statement, the report of the directors on remuneration and the corporate governance statement.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or 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 at 31 December 2000, and of the loss and cash flows of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London 16 March 2001

Group Profit and Loss Account for the year ended 31 December 2000

microgen
Information Management Services

	Notes	**Year ended 31 Dec 2000 £'000**	Year ended 31 Dec 1999 as restated £'000
Turnover			
- continuing operations		**21,711**	19,608
- acquisition		**867**	–
		22,578	19,608
- discontinued operations		**2,766**	11,716
	1	**25,344**	31,324
Operating costs	2	**(26,711)**	(29,776)
Operating (loss)/profit			
Continuing operations (including acquisition loss of £246,000)		**(913)**	(898)
Discontinued operations		**(454)**	2,446
Operating (loss)/profit	1	**(1,367)**	1,548
Exceptional items			
- Loss on disposal of discontinued operations		**(240)**	–
- Loss on disposal of fixed assets – discontinued operations		**(1,006)**	–
- Restructuring costs – discontinued operations		**(1,077)**	–
(Loss)/profit on ordinary activities before interest and tax		**(3,690)**	1,548
Net interest	5	**604**	862
(Loss)/profit on ordinary activities before tax		**(3,086)**	2,410
Tax on (loss)/profit on ordinary activities	6	**358**	(620)
(Loss)/profit on ordinary activities after taxation		**(2,728)**	1,790
Dividends	7	**(512)**	(762)
Retained (loss)/profit transferred (from)/to reserves		**(3,240)**	1,028
(Loss)/earnings per share (after goodwill amortisation, exceptional charges and charges related to share price movements)	21		
Basic		**(5.4)p**	3.7p
Diluted		**(5.2)p**	3.6p
Adjusted earnings per share (before goodwill amortisation, exceptional charges and charges related to share price movements)	21		
Basic		**1.7p**	5.8p
Diluted		**1.7p**	5.7p
Dividend per share		**1.0p**	1.5p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	**2000 £000**	1999 £000
(Loss)/profit on ordinary activities after taxation	**(2,728)**	1,790
Exchange rate adjustments	**12**	(50)
Total recognised gains and losses for the period	**(2,716)**	1,740
Prior year adjustment relating to NI on share options (note 19)	**401**	
Total recognised gains and losses since last annual report	**(2,315)**	

Notes on pages 21 to 34 form part of the financial statements

Balance
Sheets *as at 31 December 2000*

	Notes	**Group As at 31 Dec 2000 £000**	Group As at 31 Dec 1999 as restated £000	**Company As at 31 Dec 2000 £000**	Company As at 31 Dec1999 £000
Fixed assets					
Intangible assets	8	**26,665**	24,276	**–**	–
Tangible assets	9	**2,044**	4,524	**–**	–
Investments	10	**252**	372	**28,392**	25,980
		28,961	29,172	**28,392**	25,980
Current assets					
Stock – raw material and consumables		**122**	288	**–**	–
Debtors	11	**5,023**	4,855	**7,436**	6,717
Cash at bank and in hand	12	**13,871**	18,824	**3,338**	5,075
		19,016	23,967	**10,774**	11,792
Creditors: due within one year	13	**(12,236)**	(13,494)	**(18,787)**	(17,192)
Net current assets		**6,780**	10,473	**(8,013)**	(5,400)
Total assets less current liabilities		**35,741**	39,645	**20,379**	20,580
Creditors: due after more than one year	14	**(295)**	(1,265)	**–**	(623)
Provisions for liabilities and charges	16	**(1,708)**	(2,438)	**–**	–
Net assets		**33,738**	35,942	**20,379**	19,957
Equity capital and reserves					
Called up share capital	18	**2,560**	2,543	**2,560**	2,543
Share premium account	19	**17,569**	16,762	**17,569**	16,762
Other reserves	19	**250**	150	**250**	150
Profit and loss account	19	**13,359**	16,487	**–**	502
Equity shareholders' funds	20	**33,738**	35,942	**20,379**	19,957

Notes on pages 21 to 34 form part of the financial statements.

Approved by the Board of Directors on 16 March 2001 and signed on its behalf by

M R Ratcliffe
M S Phillips Mike Phillips M R Ratcliffe

Group Cash Flow Statement *for the year ended 31 December 2000*

microgen
Information Management Services

	Notes	**Year ended 31 Dec 2000 £000**	Year ended 31 Dec 1999 as restated £000
Net cash flow from operating activities	26	**1,520**	4,647
Returns on investments and servicing of finance			
Interest received		**928**	1,363
Interest paid		**(229)**	(418)
Interest element of finance lease rental payments		**(95)**	(106)
		604	839
Taxation		**102**	(5,522)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(736)**	(1,319)
Sale of tangible fixed assets		**233**	318
		(503)	(1,001)
Acquisitions and disposals			
Purchase of subsidiary undertaking	22	**(1,530)**	(5,658)
Debt assumed from purchased subsidiaries		**(351)**	-
Sale of business		**135**	-
Closure of business		**(929)**	-
		(2,675)	(5,658)
Equity dividends paid to shareholders		**(509)**	(688)
Cash outflow before use of liquid resources and financing		**(1,461)**	(7,383)
Management of liquid resources		**4,040**	9,148
Financing			
Issue of share capital		**124**	132
Repayments of loan notes and deferred consideration		**(3,187)**	-
Capital element of finance lease rental payments		**(429)**	(620)
		(3,492)	(488)
(Decrease)/Increase in cash	27	**(913)**	1,277

Notes on pages 21 to 34 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, currently 20 years.

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 2000, representing contributions payable by the Group, amounted to £368,000 (1999: £356,000).

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 exposure 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 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.

Share options
The cost to the company of granting shares or rights to shares, including options, to employees is charged to the profit and loss account over the period in which the benefit vests to the employees. The cost is calculated as the difference between the market value of the shares at the date of grant and the cost to the employees of the rights.

Employers' National Insurance contributions on share options granted
The provision for employers' National Insurance contributions is charged to the profit and loss account over the period in which the benefit vests to the employees. This provision is adjusted to reflect changes in the market value of the Company's shares. The adjustment is taken to profit and loss account over the remaining period in which the benefit vests to the employees.

1. Turnover, profit and net assets analysis:

	Year ended 31 Dec 2000	Year ended 31 Dec 1999 as restated
Turnover	**£'000**	£'000
Continuing operations		
– Billing services and database management	**13,666**	14,917
– Consultancy	**8,045**	4,691
	21,711	19,608
– Acquisition	**867**	–
	22,578	19,608
Discontinued operations	**2,766**	11,716
	25,344	31,324
Operating profit before group overhead		
Continuing operations		
– Billing services and database management	**312**	1,636
– Consultancy	**2,198**	758
	2,510	2,394
– Acquisition	**(171)**	–
	2,339	2,394
Group overhead	**(2,047)**	(1,882)
	292	512
Movement in property provisions	**331**	(299)
Operating profit from continuing operations before goodwill and share price related items	**623**	213
Charges related to share price movements	**(208)**	(275)
Goodwill amortisation: Consultancy	**(1,253)**	(836)
Acquisition	**(75)**	–
Operating loss on continuing operations	**(913)**	(898)
Operating (loss)/profit on discontinued operations	**(454)**	2,446
Operating (loss)/profit	**(1,367)**	1,548
Adjusted profit before tax from continuing activities comprises:		
Operating profit from continuing operations before goodwill and share price related items	**623**	213
Net interest receivable	**604**	862
Adjusted profit before tax from continuing activities	**1,227**	1,075

The acquisition in the period consisted of Telesmart Developments Limited (note 22) which is part of the Billing and Database Management Division.

All turnover and profit is derived from the UK and Ireland.

The Company made a profit after tax for the year of £10,000 (1999: loss £25,000).

Notes to the
Accounts

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

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 as restated £000
Net Assets by region:		
United Kingdom & Ireland	**33,738**	35,942
Net Assets by type of business:		
Billing and Database Management	**8,108**	10,743
Consultancy	**25,630**	25,199
	33,738	35,942

2. Operating costs

	Continuing operations £000	Acquired operations £000	Discontinued operations £000	Year ended 31 Dec 2000 £000	Continuing operations £000	Discontinued operations £000	Year ended 31 Dec 1999 as restated £000
Staff costs:	11,586	498	567	**12,651**	9,845	2,041	11,886
Depreciation and amortisation							
– Depreciation	1,469	26	337	**1,832**	1,521	784	2,305
– Amortisation	1,253	75	–	**1,328**	836	–	836
Other operating expenses							
– Other operating charges	8,194	513	2,316	**11,023**	7,730	6,445	14,175
– Charges related to share price movements	208	–	–	**208**	275	–	275
– (Credit)/charge relating to surplus property provision	(331)	–	–	**(331)**	299	–	299
Total operating cost	22,379	1,112	3,220	**26,711**	20,506	9,270	29,776

The following items are included in operating costs:

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 as restated £000
Directors' emoluments (see note 4)	**690**	589
Auditors remuneration		
– Audit*	**74**	77
– Other services	**156**	55
Depreciation of tangible fixed assets:		
– Owned	**1,354**	1,731
– Leased	**478**	574
Operating lease rentals:		
– Property	**493**	533
– Other	**419**	615
Loss/(profit) on sale of tangible assets	**21**	(106)
Research and development	**1,136**	419
(Credit)/charge relating to surplus property provision	**(331)**	299

*Included in the above is the auditors' remuneration in respect to the Company of £2,000 (1999: £2,000). No non audit fees were capitalised as part of acquisitions (1999: £137,000).

3. Staff

	Year ended 31 Dec 00 £000	Year ended 31 Dec 99 as restated £000
Staff emoluments:		
Wages and salaries	**11,127**	10,468
Social security costs	**1,156**	1,062
Other pension costs	**368**	356
	12,651	11,886
The average weekly number of employees:		
By location:		
United Kingdom and Ireland	**335**	449
	335	449
By category:		
Operations	**237**	337
Administration and sales	**76**	89
Management	**22**	23
	335	449

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 12 to 15 and forms part of these financial statements.

	Year ended 31 Dec 00 £000	Year ended 31 Dec 99 as restated £000
Directors' remuneration	**690**	589

5. Net interest

Interest receivable:		
Bank	**945**	1,416
Interest payable on borrowings:		
Bank loans and overdrafts	**(1)**	–
Finance lease charges	**(95)**	(107)
Amortisation of discount on provision	**–**	(8)
Interest payable on loan notes	**(245)**	(439)
	604	862

6. Tax on Profit on Ordinary Activities:

	Year ended 31 Dec 00	Year ended 31 Dec 99 as restated
	£000	£000
UK corporation tax credit/(charge) at 30% (1999: 30.25%)	**358**	(609)
Overseas taxation	**-**	(11)
	358	(620)

The effective rate of tax for the Group on its loss on ordinary activities after tax but before goodwill is 20.4% (1999: 16.8%). At 31 December 2000, the UK group had a potential deferred tax asset of £1,423,000 (1999: £1,526,000) due to timing differences relating to accounting provisions and capital allowance which, in accordance with UK GAAP, has not been recognised in the accounts. The movement in the potential deferred tax asset in the year was £103,000 (1999: £385,000) and without this movement the effective rate of tax would have been 26.2% (1999: 31.3%). The remainder of the effective tax rate difference is due to permanent differences.

7. Dividends

	Dividend per share 2000	Dividend per share 1999	**Amount 2000 £000**	Amount 1999 £000
Interim	**-**	0.5p	**-**	254
Final	**1.0p**	1.0p	**512**	508
	1.0p	1.5p	**512**	762

The Board recommended a final dividend of 1.0 pence per share (1999: 1.0 pence) and if approved, this will be paid on 8 May 2001 to shareholders on the register on 17 April 2001. The total dividend for the year will be 1.0 pence per share (1999: 1.5 pence) following the prior termination of interim dividend payment.

8. Intangible assets

	Goodwill £000
Cost	
As at 1 January 2000	25,112
Addition from acquisition of subsidiary (Note 22)	3,717
At 31 December 2000	**28,829**
Amortisation	
As at 1 January 2000	836
Charge for the year	1,328
At 31 December 2000	**2,164**
Net book amount	
At 31 December 2000	**26,665**
At 31 December 1999	24,276

9. Tangible fixed assets

	Leasehold property £000	Plant & machinery £000	Fixtures & fittings £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2000	1,594	10,360	377	67	12,398
Additions	–	732	33	–	765
Acquired from acquisition	24	229	43	–	296
Disposals	(827)	(4,713)	(138)	(23)	(5,701)
At 31 December 2000	**791**	**6,608**	**315**	**44**	**7,758**
Depreciation					
At 1 January 2000	908	6,731	168	67	7,874
Charge for the year	229	1,550	53	–	1,832
Acquired from acquisition	2	211	31	–	244
Disposals	(458)	(3,681)	(74)	(23)	(4,236)
At 31 December 2000	**681**	**4,811**	**178**	**44**	**5,714**
Net book amount					
At 31 December 2000	**110**	**1,797**	**137**	**–**	**2,044**
At 31 December 1999	686	3,629	209	–	4,524

The net book amount of plant and machinery included above and held under finance lease is £443,000 (1999: £921,000), fixtures and fittings £Nil (1999: £21,000).

Accumulated depreciation for those assets at 31 December 2000 was £2,134,000 (1999: £1,656,000).

10. Investments

	Investment in own shares Group £000	Investment in subsidiaries Company £000
Cost		
At 1 January 2000	452	25,980
Acquired in the year	–	2,412
At 31 December 2000	**452**	**28,392**
Provision		
At 1 January 2000	80	-
Charge for the year	120	-
At 31 December 2000	**200**	**–**
Net Book Amount		
At 31 December 2000	**252**	**28,392**
At 31 December 1999	372	25,980

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 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 2000, the Trust held 762,938 Ordinary Shares of 5p each in Microgen plc, representing 1.49% of the issued share capital of the Company with a market value at that date of £2,346,034. 681,917 Ordinary Shares 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 the original grant and for a further seven years thereafter.

Details of investments in subsidiaries are shown on page 36.

11. Debtors

	31 Dec 2000 Group £000	31 Dec 1999 Group £000	**31 Dec 2000 Company £000**	31 Dec 1999 Company £000
Trade debtors	**3,911**	4,099	**–**	–
Amounts owed by Group Undertakings	**–**	–	**7,410**	6,695
Corporation tax recoverable	**369**	–	**11**	–
Other debtors	**122**	236	**–**	–
Prepayments and accrued income	**621**	520	**15**	22
	5,023	4,855	**7,436**	6,717

12. Cash at bank and in hand

	31 Dec 2000 Group £000	31 Dec 1999 Group £000	**31 Dec 2000 Company £000**	31 Dec 1999 Company £000
Cash at bank and in hand	**561**	1,474	**138**	475
Term deposits	**13,310**	17,350	**3,200**	4,600
	13,871	18,824	**3,338**	5,075

13. Creditors: due within one year

	31 Dec 2000 Group £000	31 Dec 1999 Group £000	**31 Dec 2000 Company £000**	31 Dec 1999 Company £000
Net obligations under finance leases	**358**	469	**–**	–
Trade creditors	**1,559**	1,508	**–**	–
Amounts owed to Group undertakings	**–**	–	**14,062**	10,053
Corporation tax	**769**	655	**4**	(11)
Other taxes and social security costs	**835**	689	**–**	–
Other creditors	**834**	314	**–**	–
Deferred consideration on acquisition	**773**	1,807	**773**	1,807
Loan notes payable	**3,219**	4,600	**3,219**	4,600
Accruals	**3,377**	2,944	**217**	234
Proposed dividend	**512**	508	**512**	509
	12,236	13,494	**18,787**	17,192

14. Creditors: due after more than one year

	31 Dec 2000 Group £000	31 Dec 1999 Group £000	**31 Dec 2000 Company £000**	31 Dec 1999 Company £000
Net obligations under finance leases	**210**	546	**–**	–
Deferred consideration on acquisition	**–**	623	**–**	623
Other taxes and social security	**85**	96	**–**	–
	295	1,265	**–**	623

15. Finance lease obligations:

	31 Dec 2000 Group £000	31 Dec 1999 Group £000
Repayable as follows:		
Within one year	**392**	532
Between one and five years	**216**	586
	608	1,118
Finance charges allocated to future periods	**(40)**	(103)
	568	1,015
Analysed in the balance sheets as:		
Within one year	**358**	469
Between one and two years	**210**	546
	568	1,015

16. Provisions for liabilities and charges

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

	2000
	£000
At 1 January 2000	**2,438**
Credited to profit and loss account	**(331)**
Utilised in the year	**(399)**
At 31 December 2000	**1,708**

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

	31 Dec 2000	31 Dec 1999
	Group	Group
	£000	£000
Within one year	**297**	419
Between one and two years	**249**	546
Between two and five years	**398**	462
More than five years	**764**	1,011
	1,708	2,438

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:	**31 Dec 2000**	31 Dec 1999
	Group	Group
	£000	£000
Accelerated capital allowances	**688**	574
Other timing differences	**735**	952
At end of period	**1,423**	1,526

No deferred tax asset or liability has been recognised in the accounts in either 2000 or 1999.

18. Share Capital

	Number	**£**
Authorised ordinary shares of 5p each	**70,000,000**	3,500,000
Issued allotted and fully paid:		
At 1 January 2000	**50,858,601**	2,542,930
Shares issued to the vendors of Telesmart Developments Limited	**217,388**	10,869
Issued under share option schemes:		
Savings related	**126,292**	6,315
At 31 December 2000	**51,202,281**	**2,560,114**

19. Reserves

Group	Share premium account £000	Other reserves £000	Profit and loss account: Revenue reserve £000	Goodwill reserve £000	Total £000
At 1 January 2000	16,762	150	27,830	(11,744)	**16,086**
Restatement of opening balance	–	–	401*	–	**401**
	16,762	150	28,231	(11,744)	**16,487**
Retained (loss) for the year	–	–	(3,240)	–	**(3,240)**
Exchange rate adjustments	–	–	12	–	**12**
Shares issued during the year under savings related share option scheme	118	–	–	–	**–**
Shares issued to the vendors of Telesmart Developments Limited	689	–	–	–	**–**
Goodwill on discontinued businesses transferred to profit and loss account	–	–	–	100	**100**
Charges related to positive share price movements	–	100	–	–	**–**
At 31 December 2000	**17,569**	**250**	**25,003**	**(11,644)**	**13,359**

Company	Share Premium account £000	Other reserves £000	Profit and Loss Account: Revenue reserve £000	Goodwill reserve £000	Total £000
At 1 January 2000	16,762	150	5,437	(4,935)	**502**
Retained profit for the period	–	–	(502)	–	**(502)**
Shares issued during the period	118	–	–	–	**–**
Shares issued on acquisition	689	–	–	–	**–**
Arising on grant of share options	–	100	–	–	**–**
At 31 December 2000	**17,569**	**250**	**4,935**	**(4,935)**	**–**

*Employers' NIC's relating to gains on share options are accrued based on the share price movement from the date of grant to that ruling at the balance sheet date. During 1999, the first period in which such charges arose, the total liability was accrued and charged to the profit and loss account. During the year the Accounting Standards Board issued Urgent Issues Task Force Abstract 25 (National Insurance Contributions on share options) which requires that the total cost be amortised over the vesting period of the relevant share option. The UITF 25 treatment has been adopted in the current period and, as this is a change in accounting policy the December 1999 comparative balance sheet and profit and loss account have now been revised. The impact of this revision has been to increase net assets at 31 December 1999 by £0.4m (by reducing creditors due after more than one year by £0.6m and increasing corporation tax by £0.2m) and to increase 1999 reported profit by £0.4m.

20. Reconciliation of Movements in Shareholders' funds

	Year ended 31 Dec 2000 Group £000	Year ended 31 Dec 1999 as restated Group £000
(Loss)/profit for the year	**(2,728)**	1,790
Dividends	**(512)**	(762)
	(3,240)	1,028
Other recognised gains and losses for the period	**129**	49
Shares issued during the period	**807**	12,384
Goodwill written back on disposal of discontinued operations	**100**	-
	(2,204)	13,461
Shareholders' funds brought forward at 1 January	**35,942**	22,481
Shareholders' funds carried forward at 31 December	**33,738**	35,942

21. Earnings per share

	Earnings £000	Basic EPS Pence	Diluted EPS Pence
Loss on ordinary activities after tax	(2,728)	(5.4)	(5.2)
Charges related to positive share price movements (net of tax)	146	0.3	0.3
Exceptional items (net of tax)	2,037	4.0	3.9
Goodwill previously written off relating to disposal of discontinued operations	100	0.2	0.2
Goodwill amortisation	1,328	2.6	2.5
Profit on ordinary activities after tax but before goodwill exceptional charges and charges related to positive share price movements	883	1.7	1.7

The above basic earnings per share calculations are based on the weighted average number of shares in issue during the period of 50,617,742 (1999: 48,275,585). Diluted earnings per share calculations are based on 52,386,756 (1999: 49,428,598) ordinary shares calculated as the basic weighted average number of ordinary shares plus 1,769,014 (1999: 1,153,013) dilutive share options.

22. Acquisition

On 8 August 2000 the Company announced the acquisition of Telesmart Developments Limited. The acquisition was formally completed on 11 August 2000 and is analysed as follows:

Telesmart Developments Limited (at date of acquisition)	**Preliminary balance sheet £'000**	**Provisional fair value adjustment £'000**	**Provisional net assets/ (liabilities) acquired £'000**
Fixed assets (note (i))	105	(53)	52
Debtors	475	–	475
Cash at bank	(126)	–	(126)
Creditors (note (ii))	(1,569)	(74)	(1,643)
Taxation	(63)		(63)
Net liabilities	(1,178)	(127)	(1,305)
Goodwill on acquisition			3,717
			2,412

Discharged by:

	£'000
Consideration and costs in respect of acquisition:	
Cash	1,500
Ordinary shares	700
Initial consideration	2,200
Deferred consideration	150
Fees and costs in respect of the acquisition	62
Total consideration and costs	2,412

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 £53,000

(ii) adjustment to accounting policies to bring them in line with those of Microgen plc and an accrual in respect of liabilities not recognised in the preliminary balance sheet totalling £74,000.

The Goodwill on acquisition has been capitalised in accordance with FRS 10 and is being amortised over 20 years.

23. Capital Commitments

At 31 December 2000, the Group had capital commitments contracted for £250,000 (1999: nil). The Company has no capital commitments.

24. Operating leases

	2000 £000 properties	2000 £000 other	1999 £000 properties	1999 £000 other
At 31 December 2000 the Group had the following annual commitments which expire:				
Within one year	–	43	28	351
Between one and five years	10	63	107	62
After five years	295	–	389	–
	305	106	524	413

25. Borrowings

Finance lease obligations of £568,000 (1999: £1,015,000) are secured against the assets to which they relate. Additionally, composite cross guarantee exists between the various Group companies.

The Company has guaranteed loan and overdraft facilities in its subsidiaries at 31 December 2000 totalling £13,000,000 (1999: £13,000,000).

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

26. Reconciliation of operating (loss)/profit to net cash flow from operating activities

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 as restated £000
Operating (loss)/profit	(1,367)	1,548
Depreciation	1,832	2,305
Goodwill amortisation	1,328	836
Loss/(profit) on sale of fixed assets	24	(106)
Other non-cash movements	(123)	275
Decrease in stocks	158	100
Decrease in debtors	535	5,292
Decrease in creditors	(867)	(5,603)
Net cash inflow from operating activities	1,520	4,647

Other non-cash movements relate to charges arising from positive share price movements and provisions movement.

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

	Year ended 31 Dec 2000 £000	Year ended 31 Dec 1999 as restated £000
(Decrease)/increase in cash in the period	**(913)**	1,277
Cash outflow from movement in term deposits	**(4,040)**	(9,148)
Cash outflow from decrease in lease financing	**429**	620
Change in net funds resulting from cash flows	**(4,524)**	(7,251)
Redemption/(Issue) of loan note	**1,381**	(4,600)
Disposal of leases from discontinued operations	**18**	–
Movement in net funds in the period	**(3,125)**	(11,851)
Net funds at beginning of period	**13,209**	25,060
Net funds at end of period	**10,084**	13,209

The net free cash figure of £8.4m referred to in the Chairman's statement is arrived at after deducting net Corporation Tax payable (£0.4m), Deferred Consideration (£0.8m) and Proposed Dividend (£0.5m), from the net funds of £10.1m. This is a more conservative view of the available cash within the Group.

28. Analysis of net funds

	At 1 Jan 2000 £000	**Cash flow £000**	**Other non-cash changes £000**	**At 31 Dec 2000 £000**
Cash at bank and in hand	18,824	(4,953)	–	**13,871**
Debt due within 1 year	(4,600)	1,381	–	**(3,219)**
Finance leases	(1,015)	429	18	**(568)**
Total	13,209	(3,143)	18	**10,084**

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 2000 were:

Interest rate risk of financial assets

Floating rate	**Cash at bank and in hand £000**	**Short term deposits £000**	**2000 Total £000**	**1999 Total £000**
Sterling	539	13,310	13,849	18,668
IR Punts	22	–	22	156
At 31 December 2000	**561**	**13,310**	**13,871**	**18,824**

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

29. Financial instruments – (continued)

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

	Loan Notes £000	Finance Lease £000	Deferred consideration £000	2000 Total £000	1999 Total £000
Fixed rate	–	568	–	568	1,015
Floating rate	3,219	–	–	3,219	4,600
Non interest bearing	–	–	773	773	2,430
At 31 December 2000	**3,219**	**568**	**773**	**4,560**	**8,045**

In addition to the above, the Group's provision of £1,708,000 for vacant leasehold properties (note 16) meets the definition of financial liability. This financial liability is considered to be a floating rate financial liability as the cash flows have been discounted and the discount rate is re-appraised 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 and Telesmart. These are only payable if certain pre-determined performance targets are achieved in 2001. 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 in years is 1.5 years.

Maturity of financial liabilities	Loan Notes £000	Finance Lease £000	Deferred consideration £000	2000 Total £000	1999 Total £000
Within 1 year, or on demand	**3,219	358	773	4,350	6,876
Between 1 and 2 years	–	210	–	210	1,169
At 31 December 2000	**3,219**	**568**	**773**	**4,560**	**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 2000, 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 30 June 2001 and the £10 million revolving facilities expire on 21 April 2009.

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 2000.