

MICROGEN UK LIMITED

Report and Accounts

Year ended 31 October 1997

1187233



Report of the Directors for the year ended 31 October 1997

Directors

DN Lee
DC Herridge (Managing Director)
GE Liddle
BJ Page
SP Brown (resigned 6 June 1997)
L Scott (appointed 13 December 1996)

Results and dividend

The results for the year are set out on page 4 of the attached accounts.

The directors confirm the payment of an interim dividend of £1,389,579 and recommend that no final dividend be proposed.

Principal activity

The Company is an information management services company providing outsourcing services for the transmitting, processing, viewing, printing, distributing, archiving and retrieving of computer generated business information.

Review of the business

The Company increased turnover to £30.6 million (1996 : £30.1 million). Pre-tax profit increased by 73% to £6.7 million (1996 : £3.9 million) after taking into account the waiver of a loan of £4,818,000 from the parent undertaking.

During the year the Company acquired 100% of the equity of Imagen Systems Limited, the company developing the software which is offered with the Company's Axxess service.

The Transaction Business Service (TBS) of Kenrick & Jefferson was acquired in July 1997. The TBS business has been integrated into the Company's service centres at Welwyn Garden City and Manchester.

In October 1997 the Company disposed of its Wokingham-based 'On Demand' printing business and assets.

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 Company policy to encourage equal employment opportunities for all people.

Political donations

No political donations were made by the Company during the year.

Creditor payment policy

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

At 31 October 1997, the number of days of annual purchases represented by year-end creditors was 43.

Directors' interests in shares

No director had any interest in the shares of the Company at 1 November 1996 or 31 October 1997. DC Herridge, DN Lee and GE Liddle are also directors of Microgen Holdings plc, the ultimate parent company, and their shareholdings therein are disclosed in the annual report of that company.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint Price Waterhouse as auditors will be put to the members at the Annual General Meeting.

By Order of the Board



GE Liddle Secretary

23 April 1998

Report of the Auditors to the shareholders of Microgen UK Limited

We have audited the financial statements set out on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 October 1997 and of the profit of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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

23 April 1998

Profit and loss account for the year ended 31 October 1997

		1997 £000	1996 £000
notes	2 Turnover		
	Continuing Operations	25,152	26,640
5	Acquisitions	2,274	-
6	Discontinued Operations	3,187	3,470
		<hr/>	
		30,613	30,110
2	Operating Costs	30,260	26,310
		<hr/>	
	Continuing Operations	1,734	3,613
5	Acquisitions	154	-
6	Discontinued Operations	85	187
		<hr/>	
	Operating profit before reorganisation costs on acquisition	1,973	3,800
3	Reorganisation costs on acquisition (continuing operations)	(1,620)	-
		<hr/>	
	Operating profit	353	3,800
6	Exceptional profit on disposal of business	471	-
		<hr/>	
		824	3,800
	Income from shares in group undertaking	1,130	-
	Waiver of loan from parent undertaking	4,818	-
8	Net interest	(98)	59
		<hr/>	
	Profit on ordinary activities before taxation	6,674	3,859
9	Taxation on profit on ordinary activities	(172)	(1,511)
		<hr/>	
	Profit for the financial year	6,502	2,348
10	Dividend	(1,390)	(949)
		<hr/>	
17	Retained profit transferred to reserves	5,112	1,399

The Company had no recognised gains or losses other than the profit disclosed above.

Balance Sheet at 31 October 1997

		1997 £000	1996 £000
Fixed Assets			
notes 11	Tangible assets	8,593	5,917
12	Investments	215	-
		8,808	5,917
Current Assets			
	Stocks - raw materials and consumables	483	323
13	Debtors	9,824	9,438
	Cash at bank and in hand	1,393	510
		11,700	10,271
Creditors:			
14	Amounts falling due within one year	(8,763)	(9,150)
	Net Current assets	2,937	1,121
Total assets less current liabilities			
		11,745	7,038
Creditors:			
15	Amounts falling due after more than one year	(8,154)	(4,818)
	Net assets	3,591	2,220
Capital and reserves			
18	Called up share capital:		
	Equity	1	1
	Non-equity	5	5
17	Profit and loss account - equity	3,585	2,214
19	Shareholders' funds	3,591	2,220



GE Liddle, director. Approved by the board of directors on 23 April 1998.

Notes to the accounts 31 October 1997

1 Accounting policies

a Basis of accounting

The accounts have been prepared under the historical cost convention and are in accordance with applicable Accounting Standards.

b Group accounts

The Company is exempt from producing consolidated accounts as its immediate parent company Microgen Holdings plc is incorporated in the UK and produces consolidated accounts including the results of this company. As such, these financial statements present information about Microgen UK Ltd as an individual undertaking and not about its group.

Goodwill arising on acquisition of an unincorporated business is eliminated against reserves in the year of acquisition.

c Depreciation and amortisation

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

Leasehold improvements 20%

Equipment 20-33½%

Fixtures and fittings 20%

Motor vehicles 25%

d 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.

e Stocks

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

f Pensions

The Company operates a money purchase pension scheme in respect of its employees. Contributions are based on total earnings for the current year. The scheme is funded by payments to a trustee-administered fund completely independent of the Company's finances. The charge for 1997, representing contributions payable by the Company amounted to £332,850 (1996: £274,000).

g 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. Deferred taxation assets are only recognised to the extent that it is considered probable that the timing differences will reverse.

h Fixed asset investments

Investments in subsidiaries are stated in the accounts of the Company at cost less any provision for permanent diminution in value.

i Cash flow statement

The Company is a subsidiary undertaking where all of the voting rights are controlled in the group. In addition, the consolidated financial statements in which the Company is included are publicly available (see note 24). As such, advantage has been taken of the exemption in Financial Reporting Standard 1 not to produce a cash flow statement.

j Rates of exchange

Transactions in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into, exchange gains or losses thereon being included in the profit and loss account. Monetary assets and liabilities denominated in foreign currencies, are translated into sterling at the exchange rate ruling at the balance sheet date.

2 Turnover

Turnover comprises the provision of specialist services for the management of computer generated data and other information which enables its customers to increase efficiency and reduce cost in essential administrative areas of the business. All sales are within the UK.

3 Operating profit

	continuing operations acquisition £000	£000	discontinued operations £000	total 1997 £000	1996 £000
This is stated after charging:					
Operating costs					
Staff costs	8,605	896	812	10,313	9,171
Depreciation	2,059	228	304	2,591	2,553
Operating expenses	12,775	996	1,965	15,736	14,586
Reorganisation costs on acquisition*	-	1,620	-	1,620	-
	23,439	3,740	3,081	30,260	26,310
Operating costs					
Cost of sales	15,969	2,080	2,530	20,579	17,910
Administrative expenses	6,150	1,622	200	7,972	6,897
Distribution costs	1,320	38	351	1,709	1,503
	23,439	3,740	3,081	30,260	26,310
Directors' emoluments (see note 7)				574	483
Auditors' remuneration:					
Audit				24	30
Other services				28	8
Depreciation of tangible fixed assets:					
Owned				2,309	2,553
Leased				282	-
Operating lease rentals:					
Premises				915	907
Other				852	875
Loss on sale of tangible fixed assets				141	8
Vacant premises costs				253	220

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

In addition to the auditors' remuneration above, costs of £13,132 were incurred in connection with the acquisition during the year. These are included within the acquisition cost.

4 Staff

	continuing operations number	acquisition number	discontinued operations number	total 1997 number	1996 number
The average weekly number of employees	384	132	36	552	424

	continuing operations £000	acquisition £000	discontinued operations £000	total 1997 £000	1996 £000
Staff costs:					
Wages and salaries	7,610	793	744	9,147	8,109
Social security costs	706	68	59	833	788
Other pension costs	289	35	9	333	274
	8,605	896	812	10,313	9,171

5 Acquisitions

On 1 July 1997 the Company acquired the business and assets of the Transactional Business Services Division ('TBS') of Kenrick & Jefferson. The aggregate consideration and the fair value of assets acquired were as follows:

	net assets acquired £000	fair value adjustments £000	fair value £000
Net assets :			
Tangible assets	1,809	346	2,155
Stocks	295	-	295
Finance leases	(490)	-	(490)
Total	1,614	346	1,960
Goodwill			3,741
			5,701
Satisfied by:			
Cash paid			3,951
Deferred consideration (cash)			1,750
			5,701

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

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

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

The acquired business had operated as a division for which detailed financial information was not prepared on a stand-alone basis. Accordingly, it has been impracticable to produce a detailed profit and loss account for either the period up to the date of the acquisition or the previous period. However, in the year to 31 December 1996, the acquired business had turnover of £6,100,000 and made a small loss after allocation of group services and other year end charges. In the six months to 30 June 1997, the turnover of the business was £3,300,000. The business was integrated with that of Microgen on acquisition.

6 Disposal of business

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

The exceptional profit on disposal of the 'On Demand' printing business did not give rise to a taxable capital gain because of capital relief available on qualifying capital acquisitions.

7 Directors' remuneration

	1997 £000	1996 £000
Aggregate emoluments	473	454
Company contributions to money purchase pension scheme	30	29
Compensation for loss of office	71	-
	574	483

The remuneration of the highest paid director:

Aggregate emoluments	129	126
Company contributions to money purchase pension scheme	8	8
	137	134

8 Net interest

	1997 £000	1996 £000
Interest receivable and similar income:		
Bank	50	63
Interest payable and similar charges:		
Interest on borrowings repayable within 5 years:		
On bank loans and overdrafts	(95)	(4)
Finance lease charges	(53)	-
	(148)	(4)
Net interest	(98)	59

9 Tax on profit on ordinary activities

	1997 £000	1996 £000
Based on the taxable profit for the year:		
UK corporation tax at 31.8% (1996: 33%)	65	1,314
UK deferred taxation	-	258
Prior year adjustment	24	(61)
Surplus ACT	83	-
	172	1,511

10	Dividends	1997 £000	1996 £000
	Interim paid	1,390	949

11 **Tangible fixed assets**

	leasehold improvements £000	equipment £000	fixtures fittings £000	motor vehicles £000	total £000
Cost					
At 1 November 1996	2,849	17,102	232	12	20,195
Business acquired	-	2,143	-	12	2,155
Additions	1,019	2,590	55	-	3,664
Disposals	(1,056)	(3,371)	(86)	(9)	(4,522)

At 31 October 1997	2,812	18,464	201	15	21,492
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Depreciation

At 1 November 1996	1,587	12,534	148	9	14,278
Charge for the year	422	2,142	25	2	2,591
Disposals	(911)	(2,975)	(76)	(8)	(3,970)

At 31 October 1997	1,098	11,701	97	3	12,899
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Net Book Amount

At 31 October 1996	1,262	4,568	84	3	5,917
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At 31 October 1997	1,714	6,763	104	12	8,593
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The cost of assets held under finance leases is £2,446,185 (1996: £nil). Accumulated depreciation for those assets as at 31 October 1997 was £315,149 (1996: £ nil).

12	Investments	£000
	At 1 November 1996	-
	Additions	215
	At 31 October 1997	215

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 (Ireland) Limited and Imagen Systems Limited which was acquired during the year for £215,000. The issued share capital of all subsidiaries consist solely of ordinary shares.

Subsidiary:	Country	Equity held	Year end
Microgen (Ireland) Limited	Ireland	100%	31 October
Imagen Systems Limited	UK	100%	31 October

13	Debtors	1997	1996
		£000	£000
	Trade debtors	6,490	5,642
	Owed by group undertakings	1,702	3,044
	Other debtors	201	54
	Prepayments and accrued income	751	647
	Corporation tax	680	51
		<hr/>	<hr/>
		9,824	9,438
		<hr/>	<hr/>
14	Creditors: due within one year	1997	1996
		£000	£000
	Trade creditors	2,546	1,942
	Owed to group undertakings	-	4,280
	Corporation tax	93	563
	Other taxation and social security costs	906	675
	Other creditors	2,094	30
	Accruals	2,420	1,660
	Net obligations under finance leases	704	-
		<hr/>	<hr/>
		8,763	9,150
		<hr/>	<hr/>
15	Creditors: due after more than one year	1997	1996
		£000	£000
	Bank loan	3,000	-
	Net finance lease obligations due 1 to 2 years	622	-
	Net finance lease obligations due 2 to 5 years	1,023	-
	Owed to parent company	-	4,818
	Owed to Group undertaking	3,509	-
		<hr/>	<hr/>
		8,154	4,818
		<hr/>	<hr/>
	The bank loan matures within two to five years of the year end.		
16	Deferred taxation	1997	1996
		£000	£000
	Movements during the year:		
	At 1 November 1996	-	(258)
	Deferred tax movement in the year	-	258
		<hr/>	<hr/>
	At 31 October 1997	-	-
		<hr/>	<hr/>

The UK and Ireland group has a deferred tax asset of £101,000 which has not been recognised. This asset has arisen in respect of depreciation in advance of capital allowances.

17 Reserves

	revenue reserve £000	goodwill reserve £000	profit and loss account £000
At 1 November 1996	2,864	(650)	2,214
Goodwill adjustment (see note 5)	-	(3,741)	(3,741)
Retained profit for the year	5,112	-	5,112
At 31 October 1997	7,976	(4,391)	3,585

18 Share capital

	1997 £000	1996 £000
Authorised, allotted, issued and fully paid:		
5,000 2% non-cumulative preference shares of £1 each	5	5
20,000 ordinary shares of 5p each	1	1
	6	6

The holders of 2% non-cumulative preference shares are not entitled to receive notice of or to attend or vote at any general meeting of the Company. Their only rights are to receive the dividend of 2% per annum and the preferential right to repayment of capital on winding-up. The dividend for the non-cumulative preference shares has been waived.

19 Reconciliation of movements in shareholders' funds

	1997 £000	1996 £000
Profit for the financial year	6,502	2,348
Dividends	(1,390)	(949)
	5,112	1,399
Goodwill eliminated against reserves	(3,741)	-
	1,371	1,399
Net increase in shareholders' funds	2,220	821
Shareholders' funds at 1 November 1996		
	3,591	2,220

20 Borrowings

The Company has guaranteed the bank borrowings of its parent company and fellow subsidiary undertaking. At 31 October 1997 these borrowings amounted to £nil (1996: £nil).

21 Capital commitments

At 31 October 1997, the Company had capital commitments, contracted for but not provided for, of £89,000 (1996: £304,000).

22 Operating leases

	land buildings 1997 £000	land buildings 1996 £000	other 1997 £000	other 1996 £000
At 31 October 1997 the company had the following annual lease commitments which expire:				
Within one year	-	10	317	219
In years two to five inclusive	91	88	534	618
After five years	810	810	-	-
	901	908	851	837

23 Finance leases

	1997 £000	1996 £000
Amounts payable under finance leases		
within one year	864	-
between 2 and 5 years	1,871	-
	<hr/> 2,735	<hr/> -
less finance charges allocated to future periods	(386)	-
	<hr/> 2,349	<hr/> -

Finance lease obligations of £2,349,000 (1996: £nil) are secured against the assets to which they relate.

24 Ultimate parent company

The Company's ultimate parent company is Microgen Holdings plc, a listed company registered in England and Wales. This is the parent undertaking of the smallest and largest groups for which group accounts are prepared and of which the Company is a member. A copy of the published financial statements can be obtained from the Company Secretary at the address below.

25 Related party transactions

The Company is a member of a group whose consolidated financial statements are publicly available (see note 24). As such advantage has been taken of the exemption in Financial Reporting Standard 8, Related Party Disclosures, not to disclose transactions and balances with other entities, 90% or more of whose voting rights are controlled within the group.

Registered Office

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