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**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 1997

Kidsons Impey
Spectrum House
20-26 Cursitor Street
London EC4A 1HY



**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

DIRECTORS' REPORT

31 December 1997

Directors:

W S Cairns
Mrs K J Martin

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 1997.

Principal activities and business review

The group did not trade during the year.

On 4 June 1997 the company's creditors approved the basis of a company voluntary arrangement, under the terms of which the creditors agreed to accept less than their full claims in full and final settlement of amounts due to them by the company. Further details are given in Note 16 to the financial statements.

Results and dividends

The group profit for the year after taxation was £210,000. No dividend is recommended.

Directors

The directors at the date of this report are W S Cairns and Mrs K J Martin, both of whom were appointed on 11 July 1997.

In addition, the following directors held office during the year, but resigned on 11 July 1997:

Dr H Simon
M N Sennett
K N Bowhill
Sir Stuart Burgess
G C Forrest
A W Marchant

Directors' interests

The interests of the directors in the company's share capital, all of which are beneficial, were as follows:

	31 December 1997		At date of appointment	
	Ordinary shares of 0.01p each	Deferred shares of 9.99p each	Ordinary shares of 0.01p each	Deferred shares of 9.99p each
W S Cairns	180,166,899	-	139,503,000	-
Mrs K J Martin	-	-	-	-

Save as disclosed above, the directors had no interests in the share or loan capital of any group company at the date of their appointment or 31 December 1997.

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

DIRECTORS' REPORT

31 December 1997
(continued)

Directors' responsibilities

The directors are required under company law to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the company and of the group and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make reasonable and prudent judgements and estimates;
- state whether Accounting Standards have been followed and give details of any departures; and
- prepare the financial statements on a going concern basis unless in their view the company will be unable to continue in business.

The directors are also responsible for:

- ensuring the group keeps proper accounting records which disclose with reasonable accuracy the financial position of the company and of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985;
- taking reasonable steps to safeguard the group's assets; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

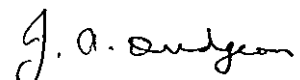
Policy on payment of suppliers

The group has a policy to pay its suppliers in accordance with the terms and conditions under which business transactions with its suppliers are conducted. The ratio, expressed in days, between the amounts invoiced to the group by its suppliers in the year ended 31 December 1997 and the amounts owed to its trade creditors at the end of the year, excluding those which are subject to the Company Voluntary Arrangement approved by the creditors on 4 June 1997, was 13 days.

Auditors

The auditors, Kidsons Impey, have expressed their willingness to continue in office and a resolution for their re-appointment in accordance with the provisions of Section 385 of the Companies Act 1985 will be proposed at the Annual General Meeting.

By order of the Board


J A Dudgeon
Secretary

Registered Office:

8/9 Lambton Place
London W11 2SH

8 September 1998

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

AUDITORS' REPORT

Auditors' report to the shareholders of Anagen PLC

We have audited the financial statements on pages 4 to 13 which have been prepared under the accounting policies set out on page 7.

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.

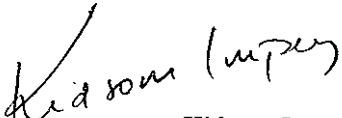
Basis of opinion

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 group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and of the group as at 31 December 1997 and of the profit of the group for the year ended on that date and have been properly prepared in accordance with the Companies Act 1985.


Kidsons Impey

Kidsons Impey

Registered Auditors

Chartered Accountants

London

8 September 1998

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**
GROUP PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1997

	Note	1997 £'000	1996 £'000
Turnover	2	1	58
Cost of sales	1(b)	<u>-</u>	<u>(42)</u>
Gross profit		1	16
Release of creditors under a Company Voluntary Arrangement	17	265	-
Administrative expenses		<u>(126)</u>	<u>(600)</u>
Operating profit (loss)	3	140	(584)
Loss on liquidation of subsidiary company		68	(3,919)
Interest receivable	6	2	74
Net loss on current asset investments	6	<u>-</u>	<u>(3)</u>
Profit (loss) on ordinary activities before taxation		210	(4,432)
Tax on loss on ordinary activities	7	<u>-</u>	<u>-</u>
Profit (loss) for the financial year	13	<u>210</u>	<u>(4,432)</u>

Operations

All of the group's operations are classed as discontinued.

Total recognised gains and losses

The group has no recognised gains or losses for the two years ended 31 December 1997 apart from the results shown above.

The notes on pages 7 to 13 form part of these financial statements.

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

BALANCE SHEETS

at 31 December 1997

	Note	Group 1997 £'000	Group 1996 £'000	Company 1997 £'000	Company 1996 £'000
Fixed assets					
Investments	8	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current assets					
Debtors	9	364	246	363	244
Cash at bank		<u>14</u>	<u>18</u>	<u>14</u>	<u>1</u>
		378	264	377	245
Creditors: amounts falling due within one year	10	<u>(513)</u>	<u>(662)</u>	<u>(513)</u>	<u>(6,789)</u>
Net current liabilities		<u>(135)</u>	<u>(398)</u>	<u>(136)</u>	<u>(6,544)</u>
Total assets less current liabilities		(135)	(398)	(136)	(6,544)
Creditors: amounts falling due after more than one year	11	<u>(36)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net liabilities		<u>(171)</u>	<u>(398)</u>	<u>(136)</u>	<u>(6,544)</u>
Equity capital and reserves					
Called up share capital	12	4,664	4,650	4,664	4,650
Share premium account	13	18,110	18,100	18,110	18,100
Other reserve	13	4,309	4,309	-	-
Profit and loss account	13	<u>(27,254)</u>	<u>(27,457)</u>	<u>(22,910)</u>	<u>(29,294)</u>
Equity shareholders' funds (deficit)	14	<u>(171)</u>	<u>(398)</u>	<u>(136)</u>	<u>(6,544)</u>

The financial statements were approved by the board of directors on 8 September 1998

W S Cairns - Director

The notes on pages 7 to 13 form part of these financial statements.

**ANAGEN PLC
AND SUBSIDIARY COMPANIES
GROUP CASH FLOW STATEMENT
for the year ended 31 December 1997**

	Note	1997 £'000	1996 £'000
Net cash outflow from operating activities	15(a)	<u>(173)</u>	<u>(199)</u>
Returns on investments and servicing of finance			
Interest received		<u>2</u>	<u>119</u>
Net cash inflow from returns on investments and servicing of finance		<u>2</u>	<u>119</u>
Acquisitions and disposals			
Acquisition of subsidiary company		(7)	-
Cash outflow on liquidation of subsidiary company	15(b)	<u>-</u>	<u>(2,373)</u>
		<u>(7)</u>	<u>(2,373)</u>
Management of liquid resources			
Net proceeds on sale of current asset investments	15(c)	<u>-</u>	<u>1,756</u>
Net cash outflow before financing		<u>(178)</u>	<u>(697)</u>
Financing			
Issue of share capital		24	-
Receipt of shareholders' loan		<u>150</u>	<u>-</u>
		<u>174</u>	<u>-</u>
Decrease in cash		<u>(4)</u>	<u>(697)</u>
Reconciliation of net cash flow to movement in net cash (debt)			
Decrease in cash	15(d)	(4)	(697)
Increase in shareholders' loan		<u>(150)</u>	<u>-</u>
Change in net cash (debt)		(154)	(697)
Opening net cash		<u>18</u>	<u>715</u>
Closing net cash (debt)		<u>(136)</u>	<u>18</u>

The notes on pages 7 to 13 form part of these financial statements.

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

NOTES TO THE FINANCIAL STATEMENTS

31 December 1997

1 Accounting policies

(a) *Basis of accounting*

The financial statements have been prepared under the historical cost accounting convention and in accordance with applicable Accounting Standards, except as explained in note 1(d) below. The financial statements have been prepared on a going concern basis, which assumes continued financial support of the principal shareholder. The principal shareholder has confirmed that he will not request repayment of amounts due to him for a period of at least one year from the date of signing these financial statements, if to do so would prejudice the company's ability to pay its debts. He has also undertaken to provide further funds to the company, if required, to enable the company to meet debts incurred after the Company Voluntary Arrangement on 4 June 1997.

(b) *Cost of sales*

Cost of sales is stated as all those costs directly incurred by the group to bring each product sold to its saleable condition and to provide services to customers.

(c) *Deferred taxation*

Deferred taxation is provided, using the liability method, on all timing differences between the profit computed for taxation purposes and the profit stated in the financial statements to the extent that it is probable the liability will crystallise.

(d) *Consolidation*

The consolidated financial statements include the results of the company and its subsidiary companies made up to 31 December 1997, except as explained below.

The company's principal trading subsidiary, Anagen (UK) Limited, was placed into creditors' voluntary liquidation on 27 September 1996. The results of Anagen (UK) Limited for the period from 1 January 1996 to 27 September 1996 have been omitted from the comparative figures in the consolidated financial statements on the grounds that the inclusion of these results will incur cost and provide no useful information to members. This treatment does not accord with Financial Reporting Standard No.3, "Reporting Financial Performance", which states that the results of a subsidiary should be included in the consolidated financial statements up to the date on which control passes from the group.

As permitted by Section 230(3) of the Companies Act 1985, the profit and loss account of the company is not presented as part of these financial statements.

(e) *Goodwill*

Goodwill on acquisition is written off directly to reserves in the year of acquisition.

2 Turnover and segmental analysis

Turnover represents the value, excluding value added tax, of goods sold and services provided. All the group's sales originate in the United Kingdom and all turnover was within the European Union.

A geographical analysis of the group's loss for the year and net assets at the balance sheet date, as proposed by Statement of Standard Accounting Practice No.25, is not provided as the operating loss and net operating assets of Anagen (Bermuda) Limited are immaterial in relation to those of the group as a whole.

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

NOTES TO THE FINANCIAL STATEMENTS

31 December 1997
(continued)

3	Operating profit (loss)	1997	1996
		£'000	£'000
	Operating profit (loss) is stated after charging (crediting):		
	Auditors' remuneration - audit services	8	8
	- non-audit services	7	19
	Profit on exchange	<u>-</u>	<u>(1)</u>
4	Directors' emoluments		
	All directors - emoluments excluding pension contributions	-	548
	- pension contributions	<u>-</u>	<u>26</u>
		<u>-</u>	<u>574</u>
	Highest paid director - emoluments excluding pension contributions	-	195
	- pension contributions	<u>-</u>	<u>10</u>
		<u>-</u>	<u>205</u>

Amounts totalling £332,000 in respect of the year ended 31st December 1996 were unpaid at 31st December 1997 and are subject to abatement under the terms of the Company Voluntary Arrangement summarised in note 16.

5	Employees	1997	1996
		Number	Number
	The average number of persons including executive directors employed by the group during the year was:		
	Administration	<u>2</u>	<u>3</u>
	Staff costs:	£'000	£'000
	Wages and salaries	15	21
	Social security costs	-	4
	Other pension costs	<u>-</u>	<u>3</u>
		<u>15</u>	<u>28</u>

Staff costs in 1997 represent arrears of wages paid by the supervisor of the Company Voluntary Arrangement.

6	Net investment income		
	Interest receivable		
	- Bank and other	2	6
	- Interest bearing listed investments (including short term deposits)	<u>-</u>	<u>68</u>
		2	74
	Net loss on disposal of current asset investments	<u>-</u>	<u>(3)</u>
	Net investment income	<u>2</u>	<u>71</u>

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**
NOTES TO THE FINANCIAL STATEMENTS

31 December 1997
(continued)

7 Taxation

No taxation charge arises on the result for the year because of the use of tax losses brought forward (1996 £Nil).

At 31 December 1997 the company has capital losses and excess management expenses for taxation purposes available for carry forward, estimated at £32,600,000 and £480,000 respectively. These losses have arisen during the years ended 31 December 1996 and 1997 and have yet to be agreed with the Inland Revenue.

8 Fixed asset investments

**Company
£'000**

Shares in subsidiary companies

Cost

1 January 1997

2,799

Additions

7

31 December 1997

2,806

Provision

1 January 1997

2,799

Profit and loss account

7

31 December 1997

2,806

Net book amount

31 December 1997

-

31 December 1996

-

The subsidiary companies at 31 December 1997 are as follows:

	Country of incorporation	Percentage of shares held
Anagen (Bermuda) Limited	Bermuda	100
ProMed Diagnostics Limited	Great Britain	100

The subsidiary companies did not trade during the year ended 31 December 1997.

The group's investment in ProMed Diagnostics Limited was previously held through Anagen (U.K.) Limited, which was placed into creditors' voluntary liquidation on 27 September 1996. During the year the company paid £7,500 to the liquidator of Anagen (U.K.) Limited to acquire the whole of the issued share capital of ProMed Diagnostics Limited.

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

NOTES TO THE FINANCIAL STATEMENTS

31 December 1997
(continued)

9	Debtors	Group		Company	
		1997	1996	1997	1996
		£'000	£'000	£'000	£'000
	Trade debtors	1	3	-	-
	Other debtors	<u>363</u>	<u>243</u>	<u>363</u>	<u>244</u>
		<u>364</u>	<u>246</u>	<u>363</u>	<u>244</u>
10	Creditors: amounts falling due within one year				
	Accruals	359	596	358	595
	Other creditors (note (i))	154	66	154	-
	Amounts owed to subsidiary companies	<u>-</u>	<u>-</u>	<u>1</u>	<u>6,194</u>
		<u>513</u>	<u>662</u>	<u>513</u>	<u>6,789</u>
	(i) Other creditors totalling £142,500 (1996 : £Nil) are secured by fixed and floating charges over the assets and undertaking of the company. Other creditors of £154,000 (1996: £Nil) are due to Mr W S Cairns, a director and shareholder of the company.				
11	Creditors: amounts falling due after more than one year			Group	
				1997	1996
				£'000	£'000
	Other creditors			<u>36</u>	<u>-</u>
12	Share capital	1997		1996	
		Number	£'000	Number	£'000
	Authorised:				
	Ordinary shares of 0.1p each	17,545,501,000	1,755	-	-
	Deferred shares of 9.99p each	46,501,000	4,645	-	-
	Ordinary shares of 10p each	<u>-</u>	<u>-</u>	<u>64,000,000</u>	<u>6,400</u>
		<u>17,592,002,000</u>	<u>6,400</u>	<u>64,000,000</u>	<u>6,400</u>
	Allotted, called up and fully paid:				
	Ordinary shares of 0.1p each	186,004,000	19	-	-
	Deferred shares of 9.99p each	46,501,000	4,645	-	-
	Ordinary shares of 10p each	<u>-</u>	<u>-</u>	<u>46,501,000</u>	<u>4,650</u>
		<u>232,505,000</u>	<u>4,664</u>	<u>46,501,000</u>	<u>4,650</u>

On 4 June 1997 each issued ordinary share of 10p was subdivided into one ordinary share of 0.01p and one deferred share of 9.99p and each authorised but unissued ordinary share of 10p was divided into 1,000 ordinary shares of 0.01p.

On 11 July 1997 the company issued 139,503,000 ordinary shares of 0.01p each at a subscription price of 0.0179p per share.

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

NOTES TO THE FINANCIAL STATEMENTS

31 December 1997
(continued)

12 Share capital (continued)

At 31 December 1997 the company had the following outstanding options in respect of 142,511 ordinary shares of 0.01p each (1996: 2,288,249 ordinary shares of 10p each), as follows:

	1997	1996
(a) Ordinary shares of 0.01p each:		
Exercisable at 0.0118p per share	81,037	-
Exercisable at 0.1p per share	61,474	-
(b) Ordinary shares of 10p each:		
Exercisable at 11.8p per share	-	1,312,484
Exercisable at 100p per share	-	975,765

All of the outstanding options are exercisable until 15 June 2000.

13 Share premium and reserves

	Share premium account £'000	Group Other reserve £'000	Profit and loss account £'000	Company Share premium account £'000	Profit and loss account £'000
1 January 1997	18,100	4,309	(27,457)	18,100	(29,294)
Arising on issue of ordinary shares	10	-	-	10	-
Profit for the year	-	-	210	-	6,384
Goodwill on consolidation written off	-	-	(7)	-	-
31 December 1997	<u>18,110</u>	<u>4,309</u>	<u>(27,254)</u>	<u>18,110</u>	<u>(22,910)</u>

The other reserve represents the reserve which arose on the acquisition of Anagen (Bermuda) Limited in 1993, which was accounted for in accordance with merger accounting principles.

14 Reconciliation of movement in equity shareholders' funds

	1997 £'000	1996 £'000	1997 £'000	1996 £'000
1 January 1997	(398)	4,034	(6,544)	22,956
Issue of ordinary shares	24	-	24	-
Profit for the financial year	210	(4,432)	6,384	(29,500)
Goodwill on consolidation written off	(7)	-	-	-
31 December 1997	<u>(171)</u>	<u>(398)</u>	<u>(136)</u>	<u>(6,544)</u>

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

NOTES TO THE FINANCIAL STATEMENTS

31 December 1997
(continued)

15	Cash flow statement	1997 £'000	1996 £'000
(a)	<i>Net cash outflow from operating activities</i>		
	Operating profit (loss)	140	(584)
	Decrease (increase) in stocks	-	1
	Increase in debtors	(50)	(236)
	(Decrease) increase in creditors	<u>(263)</u>	<u>620</u>
	Net cash outflow from operating activities	<u>(173)</u>	<u>(199)</u>
(b)	<i>Cash outflow on liquidation of subsidiary</i>		
	Cash advanced to Anagen (UK) Limited during the year, now irrecoverable	-	2,316
	Cash balances of Anagen (UK) Limited at 31 December 1995	<u>-</u>	<u>57</u>
	Net cash outflow	<u>-</u>	<u>2,373</u>
(c)	<i>Net proceeds on sale of current asset investments</i>		
	Acquisition of investments	-	(1,954)
	Proceeds from sale of investments	<u>-</u>	<u>3,710</u>
		<u>-</u>	<u>1,756</u>

The group had a diverse portfolio of low-risk non-equity investments which were managed on behalf of the group by professional investment managers. Investments were purchased and sold, as opportunities arose, to maximise the available returns. Consequently the gross amounts of investments purchased and sold were incidental compared with the net investment or disinvestment during the year. It is therefore considered to be more informative to show the net amount on the face of the cash flow statement. The investments were all realised during the year ended 31 December 1996.

(d)	<i>Analysis of changes in net cash (debt)</i>	1 January 1997 £'000	Cash flows £'000	31 December 1997 £'000
	Cash at bank	18	(4)	14
	Debt due within one year	<u>-</u>	<u>(150)</u>	<u>(150)</u>
	Net cash (debt)	<u>18</u>	<u>(154)</u>	<u>(136)</u>

**ANAGEN PLC
AND SUBSIDIARY COMPANIES**

NOTES TO THE FINANCIAL STATEMENTS

31 December 1997
(continued)

16 Company Voluntary Arrangement

On 4 June 1997 the company's creditors approved the basis of a Company Voluntary Arrangement, under the terms of which the creditors agreed to accept less than their full claims in full and final settlement of amounts due to them by the company.

The principal features of the Company Voluntary Arrangement are as follows:

- (i) Mr W S Cairns, at that time a third party investor but now a director of the company, made available to the company the sum of £142,500 by way of a loan, secured by a debenture on the assets of the company. Out of these funds a payment was to be made to the supervisor of the Company Voluntary Arrangement of £90,000 or such lesser sum as will provide a dividend to unsecured creditors of 15 pence in the pound, being in addition to any dividend from the realisation of the assets of the company.

The Company Voluntary Arrangement has not yet been finalised, but the current estimated total dividend to unsecured creditors, including the additional amount made available from such new funds injected, is 50 pence in the pound.

- (ii) On 30 April 1997 Anagen (Bermuda) Limited waived repayment of the amount due to it by the company, £6,174,000, conditional upon the implementation of the Company Voluntary Arrangement.
- (iii) On 11 July 1997 Mr Cairns subscribed for 139,503,000 new ordinary shares of 0.01p each at a subscription price of 0.0179p per share.

The effect of the expected outcome of the implementation of the Company Voluntary Arrangement has been reflected in these financial statements, which has resulted in the release to profit and loss of creditors provided in the financial statements at 31 December 1996 amounting to £265,000.