microgen

microgen plc

annual report

2010

Directors
and Advisers

Martyn Ratcliffe
Chairman
Martyn Ratcliffe (49) was appointed a non-executive director of Microgen plc ("Microgen") on 7 May 1998 and chairman on 31 July 1998. Prior to joining Microgen, he was the senior vice-president of Dell Computer Corporation, responsible for the Europe, Middle East and Africa Region. On 15 April 2010 Mr Ratcliffe was appointed Chairman of Sagentia Group plc.

David Sherriff
Chief Operating Officer
David Sherriff (47) joined Microgen on 3 May 1999 as Divisional Managing Director. He became an executive director and was appointed to the Board on 1 August 2002. Prior to joining Microgen he held senior positions within ECsoft UK from 1993 to April 1999, the last two years as Managing Director.

Philip Wood
Group Finance Director
Philip Wood (38) was appointed Group Finance Director on 2 January 2007. A Chartered Accountant, Philip spent seven years with AttentiV Systems Group plc and its group companies during which time Philip, as Group Finance Director, oversaw the group's flotation in 2004 and subsequent acquisition in 2005 by Tieto Corporation.

Paul Davies
Deputy Chairman and Non-Executive Director
Paul Davies (62) was appointed on 1 December 1999 as Group Managing Director and became Deputy Chairman and non-executive Director on 5 September 2000 and Chairman of the Remuneration Committee of the Board on 23 October 2001. On 1 June 2010 Mr Davies was appointed Chief Executive Officer of Parity plc, a role he previously held between 1994 and 1999.

Ralph Kanter
Non-Executive Director
Ralph Kanter (73) was appointed as a non-executive director on 16 September 1998 and Chairman of the Nominations Committee on 1 May 2007. 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 currently holds a wide range of directorships in small and medium-sized private companies. .

Peter Bertram
Non-Executive Director
Peter Bertram (56) was appointed as a non-executive director on 3 October 2006 and Chairman of the Audit Committee on 1 May 2007. A Fellow of the Institute of Chartered Accountants in England and Wales, Mr Bertram is also Chairman of Phoenix IT Group plc, Ten Alps plc and Timeweave plc.

Anjum Siddiqi
Company Secretary and Group Legal Counsel
Anjum Siddiqi (31) was appointed as Company Secretary on 7 October 2008. Ms Siddiqi joined the Group in 2004 and she has held the role of Group Legal Counsel since 1 March 2007. She is a Solicitor of England and Wales. Ms Siddiqi has been on maternity leave since 9 October 2010.

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
1 Embankment Place
London WC2N 6RH

Financial Advisors and Joint Stockbroker
Investec Bank plc
2 Gresham Street
London EC2V 7QP

Joint Stockbroker
Arbuthnot Securities Limited
20 Ropemaker Street
London EC2Y 9AR

Financial Public Relations
Financial Dynamics Limited
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

Registrars
Capita Registrars Limited
The Registry
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Fleet
Hampshire GU51 2QJ

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Chairman's
Statement

Microgen reports another year of strong operating performance for the 12 months ended 31 December 2010. Revenue growth from continuing operations was 16%, led by strong growth of 44% from the Microgen Aptitude Solutions Division ("MASD"). Operating margins from continuing operations increased to 24% (2009: 20%) while continuing to expense all research and development costs. As a result of cash generated from operations of £11.3 million (2009: £9.8 million) the Group has increased its year end cash to £25.4 million (2009: £24.2 million) after returning £8.2 million to shareholders during the year through dividends and the tender offer which completed in September.

Microgen is organised in two operating divisions, with different investment characteristics but with operating synergies through the use of a shared service model for staff and support functions.

- Microgen Aptitude Solutions Division ("MASD") is now the larger of the Group's two operating businesses and is anticipated to continue to grow in 2011 as the global customer base expands, opportunities in new sectors develop and existing customers undertake additional projects using the Microgen Aptitude technology. The operating leverage was demonstrated in 2010 with MASD reporting an operating margin of 15% (2009: 3%) as the business increased in scale. With all research and development costs having been expensed as incurred, the profitability of MASD should increase accordingly, although some further investment in global infrastructure and sales capability is anticipated in 2011 to support the continued growth.

- Financial Systems Division ("FSD") provides software products and services in mature financial market sectors where growth is more limited. The division is highly profitable producing operating margins of 48% in 2010 (2009: 48%) with strong cash flow and high recurring revenues. The Board anticipates the market and business characteristics of FSD to continue in 2011.

In summary, the Board is pleased with the performance of the Group in 2010 and satisfied with the position as we start the New Year. The success of MASD during 2010 and the stability of FSD provide a good platform for the Group in the year ahead and enable the Board to explore strategic opportunities as they arise.

The Board also recognises the need for operational performance to convert into shareholder value and to this end introduced the Value Enhancement and Realisation Bonus Scheme ("VERBS") in October 2008. At that time, the market capitalisation of Microgen was £37.0 million with a share price of 36 pence. Since the introduction of this bonus scheme, the Board have returned £21.5 million through tender offers and dividends, representing 58% of the market capitalisation prior to the introduction of VERBS. Furthermore, at 31 December 2010, Microgen had a market capitalisation of £86.5 million including net funds of £23.6 million.

Reflecting the strong operating performance and consistent with delivering attractive returns to shareholders, the Board is recommending a final dividend of 2.1 pence per share (2009: 1.5 pence) increasing the full year dividend by 30% to 3.0 pence (2009: 2.3 pence in addition to the special dividend of 4.0 pence per share paid in December 2009). The final dividend will be payable on 6 May 2011 to shareholders on the register at the close of business on 15 April 2011.

Martyn Ratcliffe
Chairman

Group Financial Performance and

Finance Director's Report

Revenue from continuing operations for the year ended 31 December 2010 was £33.7 million (2009: £29.1 million) producing an adjusted operating profit of £8.1 million (2009: £5.9 million). (Throughout this statement adjusted operating profit and margin from continuing operations excludes goodwill, property and intangible impairment/amortisation, exceptional items and discontinued operations, unless stated to the contrary.)

The Group reported a profit for the year attributable to equity shareholders of £6.5 million (2009: £8.5 million with 2009 including the exceptional gain on disposal of the Billing Services Division of £6.2 million less a £2.9 million goodwill and property impairment).

In accordance with IFRS, the Board has continued to determine that all internal research and development costs incurred in the year are expensed and therefore the Group has no capitalisation of development expenditure. This is consistent with the Group's conservative accounting policies. The overall group expenditure on research, development and support activities in 2010 was £4.9 million (2009: £4.9 million) of which £2.8 million (2009: £2.8 million) was incurred by the Microgen Aptitude Solutions Division.

Headcount at 31 December 2010 was 264 including 21 contractors and associates (31 December 2009: 259 including 18 contractors and associates). At the year end there were 154 individuals (2009: 145) working within the Microgen Aptitude Solutions Division ("MASD") and 84 individuals (2009: 91) within the Financial Systems Division ("FSD"). In addition 26 individuals (2009: 23) were working at the year end within Group and Central Functions which includes both Group headcount together with individuals working for shared service departments whose costs are recharged to MASD and FSD.

Adjusted diluted earnings per share for the year ended 31 December 2010 was 6.8 pence (2009: 5.0 pence) with diluted earnings per share of 7.5 pence (2009: 9.6 pence). The Group's tax rate used in calculating adjusted earnings per share is 27.4% (2009: 26.4%). The total tax charge of £1.3 million (2009: £1.0 million) represents 17% of the Group's profit before tax (2009: 43%, a higher rate than 2010 due to £3.6 million of exceptional costs in 2009 which were not deductible for tax purposes).

Cash generated from operations in the year was £11.3 million (2009: £9.8 million) enhanced by excellent year end cash collections and some client payments in advance. (The seasonal cash flow peaks towards the end of the financial year with a number of payments, including the 2010 final dividend and management bonuses, payable in the first half of 2011). After returning £8.2 million (2009: £5.4 million) of cash to shareholders through dividends and the tender offer the Group continues to have a strong balance sheet with cash of £25.4 million (2009: £24.2 million) and net funds of £23.6 million (2009: £22.0 million) at 31 December 2010.

Philip Wood
Group Finance Director

Divisional Review and
Chief Operating Officer's Report

Microgen's two operating divisions performed well in 2010 with the Microgen Aptitude Solutions Division reporting strong growth and increasing profitability as the business achieves scale and the Financial Systems Division maintaining very strong operating margins and high recurring revenues.

The Group continues to promote software licence sales on multi-year annual licence contracts, with a conservative revenue recognition policy, although some customers with capital budgets do require traditional initial/maintenance software licensing models. The Group has also maintained its disciplined approach to overhead and operating costs, while selectively investing in key areas to support growth in new geographies and market sectors.

Microgen Aptitude Solutions Division ("MASD")

Combining the capability of Microgen Aptitude, a very high performance Business Process Platform, with the Group's business domain knowledge and experience, Microgen currently provides products and solutions for the financial services (primarily investment banking and insurance), digital media/entertainment and commercial markets. In addition MASD is currently developing new name opportunities in a number of new sectors. Growth during 2010 was generated from existing clients extending their use of Microgen software and the addition of new clients commencing their first implementations. In particular the functionally-rich Microgen Accounting Hub ("MAH"), which is based on Microgen Aptitude, continues to provide strong differentiation against the large global providers of software in both the financial services and digital media/entertainment sectors.

Revenue in MASD increased by 44% to £17.0 million (2009: £11.8 million) and the division reported an operating profit of £2.6 million (2009: £0.3 million). MASD is now the larger of the Group's two operating divisions. With a number of projects continuing into 2011, together with a number of new business opportunities, the strong performance demonstrated in 2010 is anticipated to continue in 2011.

The MASD software development operation, based in Poland, continues to deliver innovative, market-leading functionality and in 2010 MASD launched Version 3 of Microgen Aptitude, significantly extending the transaction processing performance of the core product. Furthermore, innovative and functionally rich enhancement modules were launched in September offering even greater transaction processing performance and graphical in-database analytics. Following the release MAH was also released on the Teradata EDW Platform enabling greater levels of transaction and data processing.

Financial Systems Division ("FSD")

The Financial Systems Division has a well-established customer base with 86% (2009: 83%) of divisional revenue being derived from financial systems software. Recurring revenues account for approximately 80% of the divisional revenue.

The Financial Systems Division delivers:

- Wealth Management software and solutions;
- Banking software and solutions;
- Asset Management software and solutions; and
- Energy software and Application Management.

Revenue in 2010 decreased to £16.7 million (2009: £17.3 million including £0.3 million from previously announced end-of-life products). Operating margins have been maintained at the high level of 48% (2009: 48%). The Board anticipate conditions within the FSD market sectors remaining similar in 2011.

Operations Summary

The Group has a strong and established portfolio of products and solutions, combining proven domain and industry expertise with leading technical and functional capability. The benefits of scale are achieved through the use of shared services centres for support functions. This foundation provides a good platform from which to continue to leverage the success of Microgen Aptitude and its associated application products and to integrate acquisition opportunities, if appropriate, into FSD.

David Sherriff
Chief Operating Officer

Report of the Directors

The directors submit their report together with the audited consolidated and company financial statements for the year ended 31 December 2010.

Results and Dividends

The results for the period are set out in the financial statements and notes that appear on pages 30 to 78. As explained in the Chairman's Statement, the directors propose the payment of a final dividend of 2.1 pence per share, making a total of 3.0 pence per share for the year (2009: 2.3 pence in addition to a special dividend of 4.0 pence per share paid in December 2009 following the disposal of the Group's Billing Services Division).

Principal Activities

The Company is a holding company, with the Group's principal activity being the provision of IT services and solutions, including software, managed services and consultancy, to the business community. The Group's services are provided through two operating businesses which are detailed within the Chief Operating Officer's Report.

Review of the Business

The information that fulfils the requirements of the Business Review can be found in the Chairman's Statement, the Group Finance Director's Report and Chief Operating Officer's Report on pages 2 to 5 which are incorporated into this report by reference.

Principal Risks and Uncertainties

The management of the business and the execution of the Group's strategy are subject to a number of risks. As detailed on page 14 risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them. The key business risks for the Group are set out in the table on pages 8 and 9.

Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Report of the Directors on Remuneration and the financial statements in accordance with applicable UK law and regulations.

UK Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they 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 IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a 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 that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Report of the Directors on Remuneration comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors, whose names and functions are listed at the front of this report confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRS, as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

- the information contained in pages 2 to 5 of this Annual Report includes a fair review of the development and performance of the business and the position of the Group. A description of the principal risks and uncertainties of the Group is set out on pages 8 and 9.

A copy of the Group's financial statements are posted on the Group's website www.microgen.com. The directors are responsible for the maintenance and integrity of the Company's website and the financial information included in the website. Information published on the website is accessible in many countries with differing legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Table detailing Principal Risks and Uncertainties

Demand for the Group's products may be adversely affected if economic and market conditions are unfavourable	Adverse economic conditions worldwide may contribute to slowdowns in the Information Technology spending environment and may impact the Group's business resulting in reduced demand for its products as a result of decreased spending by customers and increased price competition for the Group's products. The Group's revenues, expenses and operating results could vary significantly from period to period as a result of a variety of factors, some of which are outside the Directors' control. These factors include general economic conditions, adverse movements in interest rates, capital expenditure and other costs and the introduction of new products or services by competitors.
If the Group does not expand or enhance its product offerings or respond effectively to technological change, the business may not grow or may decline	The Group's future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address customer requirements in a cost effective manner. If the Group does not expand or enhance its product offerings or respond effectively to technological change, its business may not grow or may potentially decline. Additionally, there is a risk that the Group's technological approach will not achieve broad market acceptance or that other technologies or solutions will supplant the Group's approach. Some of the Group's markets are characterised by rapid technological change, frequent introduction of new products, changes in customer requirements and evolving industry standards.
There is substantial competition in the Group's markets which could adversely affect the Group	Some of the markets for the Group's products are intensely competitive, rapidly evolving and subject to rapid technological change. As a result the Group expects competition to persist, intensify and increase in the future. There are no substantial barriers to entry into these markets and some of the Group's competitors are large organisations with far greater financial resources than Microgen. The Group's ability to compete is dependent upon many factors within and beyond the Group's control, including (a) timing and market acceptance of new solutions and enhancements to existing solutions developed by the Group and its competitors (b) performance, ease of use and reliability of the Group's products (c) price (d) customer service and support and (e) sales and marketing efforts.
The Group's products have lengthy sales and implementation cycles, which could adversely affect the Group's business	Sales of the Group's software products may require the Group to engage in a lengthy sales effort, and these lengthy periods or delays in customer deployment of a product could materially adversely affect the Group's operating results or financial condition. The Group's sales efforts include significant education of prospective customers regarding the use and benefits of the Group's products. As a result, the sales cycle for the Group's products varies. In addition, the implementation of the Group's products involves a significant commitment of resources by customers over an extended period of time. The Group's sales and customer implementation cycles may be subject to a number of potential delays. These include delays related to product development and implementation as well as delays over which the Group has little or no control, including (a) customers' budgetary constraints (b) internal acceptance reviews (c) customer's purchasing process (d) the complexity of customer's technical needs and (e) changing customer requirements.
The Group's operating businesses are dependent on a number of major clients and contracts	A significant part of the revenue of the Group's operating businesses may be derived from large contracts. Loss of turnover from any one of these clients (either as a result of external factors or other factors such as performance on contracts) as well as any expiry without renewal or delay of these contracts could adversely affect the Group's business and results of operations.
Consultancy and development fee rates could decrease	The Group may experience fluctuations in future revenues and profits if fee rates charged for the Group's consultants and/or chargeable development engineers decline. The fee rates could decrease in the future in response to competitive pricing pressures, general market conditions, increased adoption of offshore services, competitor actions or other factors. The Group may not be able to increase sales sufficiently to prevent its revenue and operating margins from declining. Due to contractual or commercial considerations the Group might not be able to pass on any increase it experiences in relation to the delivery of services or products.
If the Group loses its key personnel or cannot recruit additional personnel, the Group's business may suffer	The Group's success greatly depends on its ability to hire, train, retain and motivate qualified personnel, particularly in sales, marketing, research and development, consultancy services and support. The Group faces significant competition for individuals with the skills required to perform the services the Group will offer. If the Group is unable to attract and retain qualified personnel it could be prevented from effectively managing and expanding its business.
Failure to adequately protect the Group's intellectual property could result in significant harm to its business	The Directors regard the Group's intellectual property as fundamental to its success. The Group's future success may depend in part on its ability to protect its proprietary rights and the technologies used in the Group's principal products. Disputes concerning the ownership or rights to use intellectual property could be costly and time consuming, may distract management from other tasks related to the Group's business and may result in the Group's loss of significant rights or the loss of the Group's right to operate its business.
Claims by others that the Group infringes on their intellectual property rights could be costly to defend and could harm the Group's business	The Group may be subject to claims by others that the Group's products or brands infringe on or misappropriate their intellectual property or other property rights. These claims, whether or not valid, could require the Group to spend significant sums in litigation, distract management attention from the business, pay damages, delay or cancel product shipments, re-brand or re-engineer the Group's products or acquire licences to third party intellectual property. In the event that the Group needs to acquire a third party licence, the Group may not be able to secure it on commercially reasonable terms, or at all.
The Group is sometimes unable to pass on increased costs to its clients	Due to contractual or commercial considerations the Group might not be able to pass on any increase it experiences in relation to the delivery of services or products.
The Group's reputation as a quality professional service provider may be adversely affected by any failure to meet its contractual obligations, customer expectations or agreed services levels	The Group's ability to attract new customers or retain existing customers is largely dependent on its ability to provide reliable high quality products and services to them and to maintain a good reputation. Because many of the engagements of the Group involve projects that are critical to the business operations and information systems of their clients, the failure or inability of the Group to meet a client's expectations could have an adverse effect on the client's operations and could result in damage to the reputation of the Group. Certain contracts may provide for a reduction in fees payable by the client if service levels fall below certain specified thresholds, thus potentially reducing or eliminating the profit margin on any particular contract. If the Group fails to meet its contractual obligations or perform to client expectations, it could be subject to legal liability or damage to its reputation and the client may ultimately be entitled to terminate the contract.
The Group's software products may contain undetected errors	The Group's products involve sophisticated hardware and software technology that perform critical functions to highly demanding standards. Software products as complex as those offered by the Group might contain undetected errors or failures. If flaws in design, production, assembly or testing of the Group's products (by the Group or the Group's suppliers) were to occur, the Group could experience a rate of failure in its products that would result in substantial repair, replacement or service costs and potential liability and damage to the Group's reputation. The Group will not be able to be certain that, despite testing by the Group and by current and prospective customers, flaws will not be found in products or product enhancements. Any flaws found may cause substantial harm to the Group's reputation and result in additional unplanned expenses to remedy any defects, and liability stemming therefrom, as well as a loss in revenue and profit.

The Group's products contain, and are integrated with, third party products the loss of which could adversely affect the Group's business	Third party products and databases have been included in or integrated with the Group's products under licences granted to the Group or its customers if any such licence was to expire without renewal or be otherwise terminated, the Group or the relevant customer would need to cease use of, and remove or disintegrate, the relevant third party product or database which could be costly, time-consuming and cause significant disruption to the Group's business. Any such removal or disintegration of third party products or databases would necessitate changes to, and/or the re-engineering of, the Group's products which could also be costly, time-consuming and cause significant disruption to the Group's product development strategies and otherwise adversely affect the Group's business. Even if such third party licences are not terminated, the Group's reliance on third party products or databases could limit and/or adversely affect its ability to control the future development of its own products.
Potential future acquisitions by the Group may have unexpected material adverse consequences	The Group's business is competitive and its growth is dependent upon a number of factors including market growth and its ability to enhance existing products and introduce new products on a timely basis. One of the ways the Group addresses the need to develop new products is by considering acquisitions of complementary businesses and technologies. Acquisitions involve numerous risks, including the following: • difficulties in integration of the operations, technologies, products and personnel of the acquired companies; • the risk of diverting management's attention from normal daily operations of the business; • accounting consequences, including changes in purchased research and development expenses, resulting in variability in earnings; • potential difficulties in completing projects associated with purchased in-process research and development and customer implementations; • risks of entering markets in which the Group has no or limited direct prior experience and where competitors in these markets have stronger market positions; • the potential loss of key employees of the acquired company; • the assumption of known and potentially unknown liabilities of the acquired company; • the Group may find that the acquired company or assets do not further its business strategy or that it paid more than what the company or assets are worth; • the Group may have product liability or intellectual property associated with the sale of the acquired company's products; • the Group may have difficulty maintaining uniform standards, controls, procedures and policies; • the Group's relationship with current and new employees and clients could be impaired; • the acquisition may result in litigation from any terminated employees or third parties who believe a claim against the Group would be valuable to pursue; • insufficient revenues to offset increased expenses associated with acquisitions; • inability to renew third party software licence agreements; • the Group's due diligence process may fail to identify significant issues with product quality, product architecture and legal contingencies, among other matters; • market acceptance of new products; and • the customers, suppliers or partners of the acquired company might not wish to continue to work with the organisation following the acquisition by the Group.
Changes in accounting standards	The Group prepared its financial statements under IFRS. Given the ongoing assessment by the regulatory authorities of the definition of certain key financial reporting standards and the endorsement process by the European Union, it is likely that IFRS will continue to change in the coming years. These changes may affect the reporting of the financial results of the Group. This may have an adverse affect on the market price of shares in the Company.
United Kingdom and other taxation	Current taxation and revenue legislation and practice in the UK and/or other jurisdictions may change. The effective rate of tax paid by the Group may be increased by a number of factors including changes in law and accounting standards and the Group's overall approach to such matters. Additionally, the Group has trading activity in a number of jurisdictions outside the UK. Failure to comply with local tax requirements might result in increased taxes, penalties or damage to the Group's reputation.
Foreign exchange	The Group conducts business internationally and its operations involve both payments from customers and also payments to staff and suppliers in currencies other than Sterling. It is therefore subject to the risks normally associated with foreign businesses, including the need to translate foreign assets and liabilities, income and expenses into Sterling. The US dollar, Polish Zloty, South African Rand and the Euro are the major currencies to which the Group will be exposed. While the Group has taken precautions where appropriate to hedge certain foreign exchange exposure, there is no guarantee that it can insulate itself entirely from the effects of exchange rate fluctuations.
Economic conditions affecting financial circumstances of customers of Group	The profitability of the Group's businesses could be adversely affected by the continuation or worsening of general economic conditions in the United Kingdom and overseas by virtue of the financial failure of customers or potential customers of the Group. It may also involve customers defaulting on the payment of invoices issued by the Group or delaying payment of invoices which may have a significant impact on the income and the business of the Group.

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

The Group is committed to offering equal employment opportunities and its policies are designed to attract, retain and motivate the best staff regardless of sex, race, religion, age or disability. The Group gives proper consideration to applications for employment when these are received from disabled persons and will employ them in posts whenever suitable vacancies arise. Staff who become disabled will be retained whenever possible through retraining, use of appropriate technology and making available suitable alternative employment. The Group encourages the participation of all employees in the operation and development of the business and has a policy of regular communications including overviews of the Group's financial performance. The Group incentivises employees and senior management through the payment of bonuses linked to performance objectives, together with the other components of remuneration detailed in the Report of the Directors on Remuneration.

Environmental Policy

As a supplier of software solutions the Group's operations do not have a material impact on the environment. The Group has no manufacturing facilities and its premises exclusively comprise offices. Any obsolete office equipment and computers are resold or recycled to the extent practicable. The Group has recycling facilities in all of its offices and use of waste paper is minimised by promoting a paperless process and downloadable software products. However the Group recognises that its activities should be carried out in an environmentally friendly manner and therefore aims to:

- comply with relevant environmental legislation;
- reduce waste and, where practicable, re-use and recycle consumables;
- dispose of non-recyclable items in an environmentally friendly manner;
- minimise the consumption of energy and resources in the Group's operations; and
- reduce the environmental impact of the Group's activities and where possible increase the procurement of environmentally friendly products.

Health and Safety

The Group adopts a health and safety policy which is designed to provide and maintain safe and healthy working conditions for all employees. Appropriate information, training and supervision is provided by the Group to support this policy.

Donations

The charitable donation in the period by the Company and its subsidiaries of £1,000 (2009: £12,500) was a donation to Macmillan Cancer Support who cared for one of the Group's employees during the year. No political donations have been made.

Articles of Association

New Articles of Association were adopted at the Company's Annual General Meeting on 22 March 2010 to reflect best practice following the earlier phased implementation of the Companies Act 2006.

Substantial Shareholdings

As at the date of this report, the directors have been notified of the following interests in excess of 3% of the total voting rights of the issued share capital of the Company and are not aware of any other such interests.

	Number of shares	% Issued Share Capital
Schroders plc*	14,745,303	18.24%
Aberforth Partners LLP**	13,641,377	16.88%
P F and C C M Barbour***	6,865,327	8.49%
M R Ratcliffe	5,294,524	6.55%
Invesco Limited	4,584,349	5.67%
L G Crisp and Mrs H Crisp	3,726,602	4.61%
Highclere International Investors LLP	3,234,973	4.00%

* In addition Schroders plc is interested in a further 2,400,000 shares although it does not have access to the voting rights of these shares. Included within Schroders plc's interest are 4,006,692 shares (4.96 per cent.) held by Mineworkers Pension Scheme and 3,588,605 shares (4.44 per cent.) held by British Coal Staff Superannuation Scheme.

** In addition Aberforth Partners LLP is interested in a further 3,941,300 shares although it does not have access to the voting rights of these shares. Included within Aberforth Partners LLP's interest are 8,687,826 shares (10.75 per cent.) held by Aberforth Smaller Companies Trust plc and 2,712,851 shares (3.36 per cent.) held by Aberforth UK Small Companies Fund.

*** CCM Barbour holds 4,734,531 of the voting rights of these shares. Both CCM Barbour and PF Barbour are interested in 2,130,796 shares however neither have any voting rights in these shares.

The Takeovers Directive

The Company has one class of share capital, ordinary shares. All the shares rank pari passu. There are no special control rights in relation to the Company's shares. The Microgen Employee Share Participation Trust owns 60,000 ordinary shares in the Company (0.1 per cent); any voting or other similar decisions relating to those shares would be taken by the trustees, who may take account of any recommendation of the Company.

Awards under the Microgen Value Enhancement and Realisation Bonus Scheme, as detailed on pages 25 to 27 of the Report of the Directors on Remuneration, would be payable following a change of control of Microgen provided that the base level valuations of one or more of the divisions have been exceeded.

Additionally, under the Company's share option schemes, a change of control of the Company following a takeover bid would be considered a vesting event. This would allow the exercise of awards subject to the relevant performance conditions being satisfied. There are a small number of customer contracts which include a change of control clause. Two directors have agreements providing for compensation in the event of a change in control and these have been disclosed in the Report of Directors on Remuneration. Three other senior managers have change of control agreements which increases the notice receivable by one individual from 3 to 6 months and the other two individuals from 6 to 12 months in the event of a change of control.

Repurchase of own shares

On 22 July 2010 the Company announced its intention to return up to £10 million to shareholders by way of a tender offer. The tender offer completed in September 2010 with the Company purchasing 6,837,339 ordinary shares for a cash consideration, excluding expenses, of £6.2 million.

At the General Meeting held on 19 August 2010 members renewed the authority under section 701 of the Companies Act 2006 to make market purchases on the London Stock Exchange of up to 12,002,358 ordinary shares of 5p each. Such purchases could be made at no more than 5% above the middle market quotation in the London Stock

Exchange daily official list on the five business days prior to the date of purchase, nor less than 5p each. No shares have been purchased under this authority since it was last renewed on 19 August 2010, however, a resolution to renew this authority is to be proposed at the forthcoming Annual General Meeting.

Significant Contracts

There did not exist 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 and up to the date of signing these financial statements are given below:

M R Ratcliffe
D J Sherriff
P B Wood
P M Bertram
P Davies
R T L Kanter

Biographical details of the current directors are given on the inside front cover of this Annual Report. At the forthcoming Annual General Meeting Mr Sherriff, who retires by rotation, will stand for re-election. In addition, in accordance with the Combined Code on Corporate Governance, Mr Davies and Mr Kanter will stand for re-election as they have both completed more than nine years of service as non-executive directors of the Company, however, after 12 years of service Mr Kanter has advised the Company of his intention to resign from the Board with effect from the day of the 2012 Annual General Meeting. A search for a replacement non-executive director will be undertaken in 2011 to effect a smooth transition.

The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The directors also have the benefit of the indemnity provision contained at article 138 of the Company's articles of association. On 24 April 2006 the Company executed a deed poll granting an indemnity for the benefit of current and future directors of the Company in respect of liabilities which may attach to them in their capacity as directors of the Company. These provisions, which are qualifying third party indemnity provisions as defined by s.234 of the Companies Act 2006 as applicable, have been in force during the period 24 April 2006 to 23 February 2011 and continue in force for the benefit of the directors.

Treasury and Foreign Exchange

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 any banking covenants contained within its credit facilities, and for ensuring there are appropriate facilities available to meet the Group's strategic plans.

In order to mitigate and manage exchange rate risk, the Group routinely enters into forward contracts in respect of monthly transactions with the Group's Polish development organisation. The Group continues to monitor exchange rate risk in respect of other foreign currency exposures.

In order to mitigate and manage interest rate risk the Group has in place an interest rate hedge to manage exposure on borrowings. Interest rate swaps are used as cash flow hedges of future interest payments, which have the effect of increasing the proportion of fixed interest debt.

All these treasury policies and procedures are regularly monitored and reviewed and conservatively managed. It is the Group's policy not to undertake speculative transactions which create additional exposures over and above those arising from normal trading activity.

See page 45 for further information on the Group's management of financial risk.

Creditor Payment Policy

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

The Company has no trade creditors (2009: nil).

At 31 December 2010, for the main UK trading subsidiaries the average number of days of annual purchases represented by year end creditors reduced to 6 days (31 December 2009: 48 days).

Independent Auditors and Disclosure of Information to Auditors

As far as the directors are aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the Company's auditors are unaware and each of the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

Corporate Governance

The Group's statement on corporate governance is included in the corporate governance report on pages 16 to 18, and is incorporated into the report of directors by cross reference.

Annual General Meeting

The forthcoming Annual General Meeting will be held at 9.00 am on 19 April 2011 at Fleet House, 3 Fleetwood Park, Barley Way, Fleet, Hampshire, GU51 2QJ. The notice of the Annual General Meeting contains the full text of resolutions to be proposed.

By Order of the Board

P Wood
Director
23 February 2011

Statement of Compliance

The Group has applied the principles set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008, as referred to in the UK Listing Authority Listing Rules ("Combined Code") which is available online at www.frc.org.uk. A full statement of compliance with the Combined Code's main principles of the Code of Best Practice is on page 18. The Company has complied with the Combined Code throughout the year ended 31 December 2010, other than the limited exceptions stated as follows:

A.3.1 of the Combined Code - Mr Davies was an employee of the Group in 1999 and, together with Mr Kanter, have served on the Board for more than 9 years from the date of their first election.

The Board considers that all of the non-executive directors are independent in character and judgement of the management of the Company and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. All of the non-executive directors have extensive business experience.

As detailed within the Report of the Directors, after 12 years of service Mr Kanter has advised the Company of his intention to resign from the Board with effect from the day of the 2012 Annual General Meeting. A search for a replacement non-executive director will be undertaken in 2011 to effect a smooth transition.

Board of Directors

The Board of Directors meets regularly to review strategic, operational and financial matters, including proposed acquisitions and divestments, and has a formal schedule of matters reserved to it for decision. It approves the interim and preliminary financial statements, the annual financial plan, significant contracts and capital investment in addition to reviewing the effectiveness of the internal control systems and business risks faced by the Group. Where appropriate, it has delegated authority to committees of directors. Information is supplied to the Board in advance of meetings and the Chairman ensures that all directors are properly briefed on the matters being discussed. The Board also receives detailed presentations from senior managers at the scheduled monthly Board meetings.

It is the Group's policy that the roles and the responsibilities of the Chairman and Chief Operating Officer are separate. The Chairman is primarily responsible for strategy, corporate development and ensuring effective communication with shareholders. The Chief Operating Officer is responsible for managing the Group's operating businesses.

Non-executive directors are appointed for specified terms, up to a maximum of three years, and reappointment is not automatic. There is a formal selection process to appoint non-executive directors and a separate Nomination Committee was formed in 2001. Mr Davies is the independent senior non-executive director.

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

Directors offer themselves for re-election at the Annual General Meeting following their appointment and thereafter in accordance with the Company's current Articles of Association which requires directors to retire from office and offer themselves for reappointment by the members if they were not appointed or reappointed at one of the preceding two Annual General Meetings.

Board Committees

Each of Mr Bertram, Mr Davies and Mr Kanter serve on the Nomination, Remuneration and Audit Committees. The Committees have written terms of reference which clearly specify their authority and duties and those terms of reference are available upon written request to the Company.

The Nomination Committee is chaired by Mr Kanter and the Committee also comprises Mr Bertram, Mr Davies and Mr Ratclilffe.

Mr Davies is chairman of the Remuneration Committee and the Committee also comprises Mr Bertram and Mr Kanter. The report of the directors on remuneration appears on pages 19 to 27.

Mr Bertram, a Fellow of the Institute of Chartered Accountants in England and Wales, is chairman of the Audit Committee and the Committee also comprises Mr Davies and Mr Kanter. The Audit Committee meets regularly with management and the external auditors to review and monitor the financial reporting process, the statutory audit of the consolidated financial statements, audit procedures, internal controls and financial matters.

The Audit Committee also recommends the appointment, reappointment or removal of the Company's external auditors. The Chairman, Chief Operating Officer and Group Finance Director attend the meetings by invitation, however, the Audit Committee meets at least annually with the Company's external auditors without the other directors present. The auditors have unrestricted access to the Audit Committee.

Where the external auditors provide non audit services such work has been put out to tender as appropriate and the Board considers that the auditors' objectivity and independence is safeguarded. The expenditure on non audit services is set out on page 54.

Board Attendance

Details of the number of meetings of the Board (including sub-committees at which only certain directors are required to attend) and committees and individual attendances by directors are set out in the table below.

	Board Meetings	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Number of Meetings held in 2010	**11**	**6**	**9**	**1**
M R Ratcliffe	11	6*	9*	1
D J Sherriff	10	5*	8*	1*
P B Wood	11	6*	9*	1*
P Davies	11	6	9	1
R T L Kanter	11	6	9	1
P M Bertram	11	6	9	1

* attendance by invitation.

The above table details attendance at scheduled meetings. In addition 13 ad hoc meetings were held, of these meetings, 8 meetings were held in relation to the exercise of share options.

Operating Board

The Operating Board is chaired by the Chief Operating Officer and also comprises the Chairman, Group Finance Director and other senior managers within the Group. The Operating Board normally meets on a monthly basis to discuss policy and operational issues. Those issues outside the delegated authority levels set by the plc Board are referred to the plc Board for its decision.

Relations with Shareholders

In order to maintain dialogue with institutional shareholders the Chairman, Chief Operating Officer and Group Finance Director meet with them following interim and final results announcements, or as appropriate, with other directors available to meet institutional shareholders on request. Where practicable the Annual Report is sent to shareholders at least 20 working days before the Annual General Meeting and each issue for consideration at the Annual General Meeting is proposed as a separate resolution. All directors generally attend the Annual General Meeting.

Social, Ethical and Environmental Risks

The Board takes regular account of the significance of social, environmental and ethical ("SEE") matters to the Group's business of providing IT services and solutions (including software, managed services and consultancy) to the business community.

The Board considers that it has received adequate information to enable it to assess any significant risks to the Company's short and long-term value arising from SEE matters and has concluded that the risks associated with SEE matters are minimal. The Board will continue to monitor those risks on an ongoing basis and will implement appropriate policies and procedures if those risks become significant.

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, in line with the Turnbull Guidance, 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. Details of the risks faced by the Group are set out in the table on pages 8 and 9. 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 effective during 2010 and up to the date of approval of these financial statements, are set out below:

- The existence of a clear organisational structure with defined lines of responsibility and delegation of authority from the Board to its executive directors and operating divisions;
- A procedure for the regular review of reporting business issues and risks by operating divisions;

- Regular review meetings with the operating management;

- A planning and management reporting system operated by each division and the executive directors; and

- 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 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 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:

- financial planning process with an annual financial plan approved by the Board. The plan is regularly updated providing an updated forecast for the year;

- monthly comparison of actual results against plan;

- written procedures detailing operational and financial internal control policies which are reviewed on a regular basis;

- regular reporting to the Board on treasury and legal matters;

- 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 dependent 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.

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 2010, and up to the date of approval of the annual report.

Internal Audit

The need for an internal audit function is reviewed on an annual basis by the Audit Committee taking into account the size and complexity of the Group. At present there is no intention to establish an internal audit function.

Corporate Governance
Statement

COMPLIANCE WITH THE COMBINED CODE ON CORPORATE GOVERNANCE		
	Code of Best Practice - Principles	**Microgen Compliance Statement**
A	**DIRECTORS**	
1	**The Board** Every company should be headed by an effective board, which is collectively responsible for the success of the company.	*The directors' responsibilities are outlined in the Report of the Directors. The Board meets regularly on a formal basis plus additional ad hoc meetings as necessary.*
2	**Chairman and Chief Executive** There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	*It is the Group's policy that the roles and responsibilities of the Chairman and Chief Operating Officer are separate. The Chairman is primarily responsible for strategy, corporate development and ensuring effective communication with shareholders. The Chief Operating office is responsible for managing the Group's operating businesses.*
3	**Board Balance and Independence** The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.	*The Board consists of the Chairman, Chief Operating Officer and Group Finance Director plus three non-executive directors. All of the non-executive directors (including those detailed in the Statement of Compliance) are considered by the Board to be independent of the management of the company and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.*
4	**Appointments to the Board** There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	*A separate Nomination Committee, comprising of all the non-executive directors together with the Chairman, is responsible for identifying and nominating candidates to fill Board vacancies.*
5	**Information and Professional Development** The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.	*The Board is supplied with full management accounts and detailed operational reviews prior to each meeting. All non-executive directors have extensive business experience and possess relevant and updated skills and knowledge to perform their duties.*
6	**Performance Evaluation** The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	*Given Microgen's size and Board structure, performance evaluation is an ongoing process. A performance evaluation is undertaken for all directors at the time of their proposed reappointment. The Chief Operating Officer and Group Finance Director receive an annual performance appraisal as part of the Senior Management Bonus Scheme. The performance of each Board Committee is reviewed on an annual basis.*
7	**Re-election** All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance. The board should ensure planned and progressive refreshing of the Board.	*Non-executive directors are appointed for specific terms, up to a maximum of three years and re-appointment is not automatic. All directors offer themselves for election at the AGM following their appointment and for re-election thereafter in accordance with the company's articles, which require one-third of directors to retire in rotation at each AGM.*
B	**REMUNERATION**	
1	**The Level and Make-up of Remuneration** Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.	*The Chief Operating Officer and Group Finance Director's remuneration consists of basic salary and a variable annual bonus. Basic salaries are reviewed annually in the light of individual performance and market comparisons for similar jobs. Annual bonus may be paid, at the sole discretion of the Remuneration Committee, at a target level of up to 50% with an overall cap of 100% of basic salary. The annual bonus payment is determined on the basis of individual and corporate performance. In addition there are long term incentive schemes in place as detailed in the Report of the Directors on Remuneration. These long term incentive schemes include the Microgen Value Enhancement and Realisation Bonus Scheme, Performance Share Plan and Share Option Plans.* *As at 31 December 2010 neither the Chief Operating Officer nor Group Finance Director hold non-executive positions with other companies for which they receive remuneration.*
2	**Procedure** There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.	*Remuneration packages for individual directors are set by the Remuneration Committee after receiving information from independent sources and the company's Human Resources function. The Chairman, Chief Operating Officer and Group Finance Director may be invited to attend the Committee's meetings.*
C	**ACCOUNTABILITY AND AUDIT**	
1	**Financial Reporting** The board should present a balanced and understandable assessment of the company's position and prospects.	*The Board considers it is in compliance with this requirement.*
2	**Internal Control** The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.	*The Company operates a detailed internal control process which is reviewed at least on an annual basis by the Audit Committee and endorsed by the Board. Further information is provided in the Corporate Governance Statement.*
3	**Audit Committee and Auditors** The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.	*The Audit Committee consists of all non-executive directors and meets at least three times a year. The Chairman, Chief Operating Officer and Group Finance Director are invited to attend but the Audit Committee meets at least annually with the company's auditors without the other directors present.*
D	**RELATIONS WITH SHAREHOLDERS**	
1	**Dialogue with Institutional Shareholders** There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	*The Chairman, Chief Operating Officer and Group Finance Director meet on a regular basis with the company's major shareholders. Non-executive directors are available to meet institutional shareholders on an ad hoc basis.*
2	**Constructive Use of the Annual General Meeting** The board should use the Annual General Meeting to communicate with investors and to encourage their participation.	*All directors make themselves available at the Annual General Meeting to respond to any questions raised by the investors in attendance.*

Remuneration Committee

This report by the Remuneration Committee has been approved by the Board of Directors for submission to shareholders for their approval at the forthcoming Annual General Meeting.

Membership

The membership of the Remuneration Committee during the year ended 31 December 2010 was comprised of Mr Bertram, Mr Davies and Mr Kanter. During the year the Committee was chaired by Mr Davies.

Policy Statement

The Remuneration Committee sets the overall policy on remuneration and other terms of employment for directors of the Company and for the senior management. The Committee determines remuneration packages by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved. The Committee also oversees the operation of the Company's share option and other incentive schemes.

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

The Group operates a policy for directors and senior management designed to ensure it attracts and retains the management skills required to operate and develop the Group's businesses.

In fulfilling its role the Remuneration Committee seeks professional advice when considered appropriate to do so.

Components of Remuneration

Base Salary

Base salaries are reviewed on an annual basis by the Remuneration Committee or when an individual changes roles or responsibilities.

Senior Management Bonus Scheme

The Group operates a Senior Management Bonus Scheme, which is determined by the Remuneration Committee on an annual basis by reference to Group, Division and personal performance during the financial period. Annual bonus targets for the participants for the financial period were set at a level up to 50%, with an overall cap of 100% of basic salary. Mr Ratcliffe does not participate in the Senior Management Bonus Scheme and any bonus paid to Mr Ratcliffe is separately determined by the Remuneration Committee.

The Microgen Value Enhancement and Realisation Bonus Scheme

A long term incentive scheme introduced on 14 October 2008 to incentivise the Group's senior management to enhance and realise shareholder value.

Performance Share Plan

Under the Performance Share Plan introduced in 2006 ("PSP") the Remuneration Committee is allowed to grant conditional allocations of par value options to key executives with a maximum value of (normally) 100 per cent. of base salary per annum. Awards granted under the PSP will normally only vest after three years provided the participant is still employed in the Group and that demanding performance conditions have first been achieved.

Report of the Directors on *Remuneration*

Share Option Plans

Option grants are made, at the discretion of the Remuneration Committee, to senior executives and managers across the Group, as well as other staff to recognise significant achievement.

Exercise of Executive Share Options is not permitted until three years after the date of grant and only if specific performance criteria, aligning the interests of executives and management with those of shareholders, have been met.

A Company Share Option Plan ("CSOP"), approved by HMRC, was introduced in 2006. Grants under this CSOP are subject to similar performance conditions as the existing Executive Option Plans.

Service Contracts

No employee or director has a service contract which incorporates more than one year's notice of termination from the Company.

Details of the directors' service contracts and/or terms of appointment are shown in the table below:

Director	Initial agreement date	Expiry date of current agreement	Notice to be given by employer	Notice to be given by individual
M R Ratcliffe	30 July 1998	Indefinite	6 months	6 months
D J Sherriff	4 May 1999	Indefinite	6 months	12 months
P B Wood	21 October 2006	Indefinite	6 months	12 months
P Davies	5 September 2000	14 April 2012	3 months	3 months
R T L Kanter	16 September 1998	14 April 2012	3 months	3 months
P M Bertram	3 October 2006	14 April 2012	3 months	3 months

Mr Sherriff and Mr Wood are entitled to receive bonus payments, separate to both the Microgen Value Enhancement and Realisation and the Senior Management bonus scheme, in the event of any change of control of Microgen up to a maximum of £100,000 and such change of control will amend the notice provisions of their contracts so that the notice period to be given by the employer to either Mr Sherriff or Mr Wood is increased from six to twelve months.

The unexpired term of the service contracts or period of appointment of those directors who seek re-election at the Annual General Meeting are detailed above.

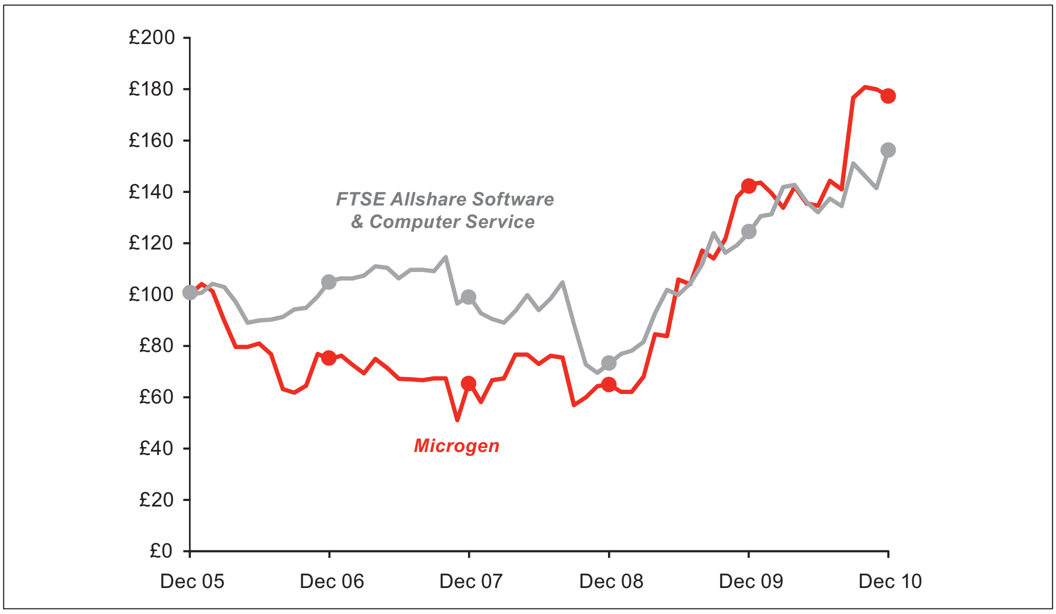
Pension Schemes

The directors, management and staff (excluding Mr Ratcliffe and the non-executive directors) are all eligible to participate on the same basis in the Group Personal Pension Scheme with directors permitted to opt for contributions on their behalf to be paid into self-invested personal pension schemes. The Group Personal Pension Scheme is a defined contribution scheme to which currently the Group contributes up to 7% of basic earnings and the employee contributes a minimum of 3%. With effect from 1 April 2011 the Group will match employee contributions on a 2 (employer) : 1 (employee) basis with employer contributions not exceeding 6% of basic earnings (excluding variable rewards). The Group currently contributes 7% of basic salary on behalf of Mr Sherriff (reducing to 6% with effect from 1 April 2011) and 6% on behalf of Mr Wood. The contributions for Mr Wood are paid into a self-invested personal pension scheme. The scheme also offers income protection for all employees, including the directors (but excluding Mr Ratcliffe and the non-executive directors), in the case of permanent ill-health as well as lump sum and dependants' pension payable where death occurs in service or in retirement.

Performance Graph

The following graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE All Share Software and Computer Services Index for the five years ended 31 December 2010 measured by total shareholder return. The Remuneration Committee consider that the FTSE All Share Software and Computer Services Index is the most appropriate comparison given the similarities between the Company and the companies forming this index.

The total shareholder return performance for the Company includes the impact of the dividends paid to its shareholders across the period, however, it does not reflect either the £8.0m or £6.2m returned to shareholders via Tender Offer in 2008 and 2010 respectively.



In determining the senior management compensation, the Remuneration Committee takes into account the relative operational performance of Microgen compared with that of companies of similar size in the same sector.

Directors' Remuneration

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

	2010 £	**2009** £
Emoluments	939,566	1,108,779
Defined contribution pension contributions	22,626	21,517
	962,192	1,130,296

Directors	Basic salary/fees £	Variable reward £	Benefits in kind £	Pension £	2010 total £	2009 total £
M R Ratcliffe	250,000	–	2,296	–	252,296	350,931
D J Sherriff	215,750	110,000	5,965	14,001	345,716	395,755
P B Wood	164,625	65,000	3,430	8,625	241,680	261,110
R T L Kanter	40,000	–	–	–	40,000	40,000
P Davies	40,000	–	–	–	40,000	40,000
P M Bertram	42,500	–	–	–	42,500	42,500
	752,875	175,000	11,691	22,626	962,192	1,130,296

Total benefits in kind of £11,691 (2009: £9,812) include private health care and fuel benefits. No director waived any emoluments.

Directors' Interests

The interest of the current directors as at 31 December 2010 and at 31 December 2009 in the share capital of the Company are as follows:

	Ordinary shares of 5p	
Current Directors	**31 Dec 2010**	**31 Dec 2009**
M R Ratcliffe	5,294,524	5,294,524
D J Sherriff	189,000	189,000
P B Wood	60,000	30,000
R T L Kanter	291,205	222,205
P Davies	96,160	96,160
P M Bertram	46,022	46,022
	5,976,911	5,877,911

No changes to the directors' shareholdings or share options took place between 1 January 2011 and the date of this report.

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.

Performance Share Plan

Exercise price	Date of grant	Earliest exercise date or date of lapse	Expiry date	D J Sherriff	P B Wood
As at 31 December 2009				554,771	225,000
Lapsed					
5.0p	5 March 2007	22 March 2010	N/A	–	(6,660)
5.0p	6 August 2007	6 August 2010	N/A	(6,660)	(4,995)
As at 31 December 2010				548,111	213,345

Mr Sherriff is also a recipient of share options detailed in the section 'Share Options' below.

On 22 March 2010 93,340 of Mr Wood's options under the PSP vested, with 6,660 options lapsing, following the approval of the Report of the Directors on Remuneration by shareholders at the Annual General Meeting held on that date.

On 6 August 2010 93,340 of Mr Sherriff's options and a further 70,005 of Mr Wood's options under the PSP vested, with 6,660 of Mr Sherriff's options and 4,995 of Mr Wood's options lapsing, following the approval of the Report of the Directors on Remuneration by shareholders at the Annual General Meeting on 22 March 2010.

The PSP performance conditions are as follows:

1. 50% of awards are based on the Company's adjusted earnings per share ("Adjusted EPS") growth over each of the three financial years which together comprise the performance period. To achieve the maximum 50% vesting, Adjusted EPS performance must reach the maximum level shown in the relevant table on page 24. If the minimum performance is achieved, then half of the Adjusted EPS proportion will vest. If the actual performance level is between the minimum and maximum criteria, then the quantity vesting will be on a sliding scale between 50% and 100% of the Adjusted EPS proportion.

2. The remaining 50% of the award is based on the Company's relative total shareholder return index ("TSR Index") measured against the FTSE All Share Software and Computer Services Index over each of the three financial years of the performance period. Minimum vesting will require the TSR Index to match the FTSE All Share Software and Computer Services Index. Maximum vesting will apply if the TSR Index outperforms the FTSE All Share Software and Computer Services Index by 10%. If the actual performance level is between the minimum and maximum criteria, then the quantity vesting will be on a sliding scale between 50% and 100% of the TSR proportion.

Proposed vesting of the 2008 grants under the PSP

In 2008 Mr Sherriff and Mr Wood were granted 56,780 and 50,000 options respectively at an option price of 5p under the PSP. The earliest date of exercise in respect of these options is 2 December 2011. A further 25,000 options, at an option price of 5p, granted to another senior executive has an earliest date of exercise of 19 April 2011 with 245,000 options, at an option price of 5p, granted to other senior executives with an earliest date of exercise of 2 December 2011.

Following completion of the 2010 financial year the Remuneration Committee has reviewed the performance conditions of these options and is able to propose that 91.67% of each individual's options vest. 91.67% is the average of the Adjusted EPS Element (83.33% as detailed on page 24 below) and the TSR Element (100.0% as detailed on page 24 below).

If the Remuneration Committee proposals are supported by shareholders, by approval of the Report of the Directors on Remuneration at the AGM, a total of 345,393 options will vest under the Performance Share Plan as follows:

- 52,050 of Mr Sherriff's options on 2 December 2011;
- 45,835 of Mr Wood's options on 2 December 2011;
- 22,917 of one other senior executive's options on 19 April 2011; and
- 224,591 of other senior executives' options on 2 December 2011.

Adjusted EPS Element in respect of 2008 grants

The Remuneration Committee has assessed whether or not the Adjusted EPS element is satisfied by considering the performance for each financial year. The Remuneration Committee proposes an award in respect of the Adjusted EPS Element of 83.33% as detailed in the table below:

	Minimum target	Maximum target	Maximum percentage available	Actual performance*	Proposed Award
2008	4.8p	5.1p	33.33%	4.8p	16.66%
2009	5.1p	5.6p	33.33%	6.3p	33.33%
2010	5.3p	6.1p	33.34%	7.0p	33.34%
Total			**100.00%**		**83.33%**

* Actual performance for 2008 is as originally reported prior to any adjustment for the disposal of the Billing Services Division. Actual adjusted EPS for 2009 was reported at 5.1p. For the purposes of the 2008 grants under the PSP this has been increased by 1.2p for the Billing Services Division's contribution in 2009 up to the point of its disposal. The exceptional gain arising on the disposal of the division is not included. No adjustment has been made to the 2010 actual performance, or the minimum or maximum targets, pursuant to the disposal of the Billing Services Division which completed in 2009.

TSR Element in respect of 2008 grants

For the period 1 January 2008 to 31 December 2010 the Company's relative total shareholder return index ("TSR Index") has outperformed the FTSE All Share Software and Computer Services Index by an average of 29.7% per annum on one month averaging basis as detailed in the table below:

	Performance 1 January 2008 to 31 December 2010
Microgen's TSR Index	175.4%
FTSE All Share Software and Computer Services Index	57.2%
Outperformance in period by Microgen's TSR Index	+118.2%
Average annual outperformance in three year period	+29.7%

The Remuneration Committee considers that the Maximum Vesting of 100% of the TSR element has been achieved by the TSR Index exceeding the FTSE All Share Software and Computer Services Index as at 31 December 2010 by greater than the required 10%.

As a result the Remuneration Committee propose that 100% of TSR Element is satisfied.

Share Options

	Options over ordinary shares of 5p			
	31 Dec 2009	**Exercised**	**Lapsed**	**31 Dec 2010**
M R Ratcliffe	1,000,000	–	–	1,000,000
D J Sherriff	300,000	–	–	300,000

The Company's Register of Directors' Interests held at the registered office contains full details of directors' shareholdings and options to subscribe.

Share options by option price, date of grant, exercise date and expiry date are:

Exercise price	**Date of grant**	**Earliest exercise date or dates of exercise/ lapse**	**Expiry date**	**M R Ratcliffe**	**D J Sherriff**
87.5p	26 Oct 01	28 Oct 04	26 Oct 11	–	50,000
42.5p	22 Jul 02	22 Jul 05	22 Jul 12	–	25,000
24.5p	24 Feb 03	24 Feb 06	24 Feb 13	–	50,000
42.5p	07 Nov 03	07 Nov 06	07 Nov 13	–	75,000
70.5p	22 Sep 05	22 Sep 08	22 Sep 15	–	100,000
52.33p	2 May 08	2 May 11	2 May 18	1,000,000	–
As at 31 December 2010				1,000,000	300,000

All options were granted at no cost to the directors and can be exercised once performance conditions are met and the initial 3 year vesting period has elapsed. Mr Bertram, Mr Davies and Mr Kanter do not participate in the Company share schemes.

There are a number of different performance criteria including requirements for a specified minimum share price being reached during the performance period and earnings per share related criteria.

The mid-market price of the Company's shares at 31 December 2010 was 107.0 pence and the range during the year was 78.0 pence to 111.0 pence.

The Microgen Value Enhancement and Realisation Bonus Scheme

The scheme was introduced on 14 October 2008 at the time the Group established three independent Divisions with different strategies to enhance and ultimately realise shareholder value over time. The market capitalisation of the Group has increased from £37.0 million on 13 October 2008, the day prior to the announcement of the scheme, to £86.5 million on 31 December 2010. In addition to the £49.5 million increase in the Group's market capitalisation during this period a total of £21.5 million has been returned to shareholders by way of tender offer and ordinary and special dividends.

The scheme is one based on the incentive models adopted by private equity organisations and is structured to incentivise management to enhance and ultimately realise shareholder value. A cash payment will be available under the Scheme by reference to the absolute value enhancement above a base level valuation of each division.

The aggregate base level valuations of the Group's divisions (including the Billing Services Division disposed of in November 2009) were originally set at a level equivalent to an aggregate base level valuation in excess of 70 pence per share which was 95% higher than the closing mid-market share price of 36 pence on the day prior to the announcement of the scheme.

Each of the Group's two continuing divisions are independently incentivised with not more than 25% of the value enhancement above the divisional base level valuation being allocated to employees at realisation. No awards are payable under the Scheme unless and until the Group has realised the full base level value of a division through either its full or partial disposal or by cash from operating profits being paid back to shareholders. Under no circumstances will awards be payable if the base value of a division has not been realised in full. Awards are also payable following a change of control of Microgen provided that the base level valuations of one or more divisions have been exceeded. Participants are awarded a percentage of the realised gain of a division. The following table details the participation of the directors together with the maximum aggregate of other employees' participation and the maximum participation of all directors and employees in the realised gain of each division:-

	Microgen Aptitude Solutions Division	**Financial Systems Division**
M R Ratcliffe	5.0%	5.0%
D J Sherriff	5.0%	5.0%
P B Wood	1.5%	2.0%
Maximum for all other participants	13.5%	13.0%
Maximum participation	**25.0%**	**25.0%**

Completion of the disposal of the Billing Services Division on 30 November 2009 did not result in a payment to the scheme's participants because the consideration was below the base level valuation for that division. In order to protect Shareholder interests by maintaining the aggregate base level valuation, the Remuneration Committee of the Board determined to allocate the shortfall associated with the disposal to the businesses of the continuing group, thereby increasing the base level valuations of the Microgen Aptitude Solutions Division and the Financial Systems Division.

Application of the scheme

During the scheme's second year the remuneration committee performed a review of the scheme's operation. Following this review the Board has approved two amendments to the scheme's rules which are considered to further align the interests of the shareholders and management participating in the scheme. The changes are as follows:-

- Commencing on 1 January 2009, an annual net cost of capital of 15% will be applied to the base level valuation of the Microgen Aptitude Solutions Division and cash generated from operating profits by the division will not reduce the base level valuation of the division; and

- Cash generated from operating profits by the Financial Systems Division will not reduce the base level valuation of the division below 50% of the base level valuation originally set for the division by the remuneration committee when the scheme was originally announced on 14 October 2008. Disposal of part of the division can lower the base level valuation of the division below the figure set above as provided for within the scheme rules.

Illustration of potential award under the scheme

At 31 December 2010 the share price was 107 pence representing a total shareholder return of over 210% since the day prior to the announcement of the scheme on 13 October 2008 at which point the share price was 36 pence. The market capitalisation of the Group has increased from £37.0 million on 13 October 2008 to £86.5 million on 31 December 2010. In addition to the £49.5 million increase in the Group's market capitalisation during this period a total of £21.5 million has been returned to shareholders by way of tender offer and ordinary and special dividends. If a change of control of Microgen plc had completed at 31 December 2010 at the share price on that date the maximum potential award would have been approximately £7 million. In determining the maximum potential award the remuneration committee has allocated the consideration to each of the two divisions on a fair and equitable basis.

Information Subject to Audit

The sections of the Report of the Directors on Remuneration that are subject to audit by PricewaterhouseCoopers LLP are those headed "Directors' Remuneration", "Performance Share Plan" and "Share Options". The remaining sections are unaudited.

Resolution

A resolution to shareholders to accept the report of the Remuneration Committee will be put forward at the Annual General Meeting.

By Order of the Board

P Davies
Remuneration Committee Chairman
23 February 2011

Independent Auditors' Report

Independent Auditors' Report to the members of Microgen plc

We have audited the financial statements of Microgen plc for the year ended 31 December 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit and Group's and Parent Company's cash flows for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 14 to 18 and at www.microgen.com with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 9, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Roger de Peyrecave (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

23 February 2011

Group

Income Statement *for the year ended 31 December 2010*

	Note	Year ended 31 December 2010 Before intangible amortisation £000	Intangible amortisation £000	Total £000	Year ended 31 December 2009 Before goodwill, property and intangible impairment / amortisation and exceptional items £000	Goodwill, property and intangible impairment / amortisation and exceptional items £000	Total £000
Continuing operations							
Revenue	1	33,669	–	**33,669**	29,060	–	29,060
Operating costs	1, 3	(25,576)	(255)	**(25,831)**	(23,116)	(3,635)	(26,751)
Operating profit	3	8,093	(255)	**7,838**	5,944	(3,635)	2,309
Finance income	5	140	–	**140**	162	–	162
Finance costs	5	(126)	–	**(126)**	(198)	–	(198)
		14	–	**14**	(36)	–	(36)
Profit before income tax		8,107	(255)	**7,852**	5,908	(3,635)	2,273
Income tax expense	6			**(1,341)**			(974)
Profit for the year from continuing operations				**6,511**			1,299
Discontinued operations							
Profit for the year from discontinued operations	2			**–**			7,243
Profit for the year				**6,511**			8,542
Earnings per share							
Basic	7			**7.7p**			9.8p
Diluted	7			**7.5p**			9.6p

	Note	2010 pence per share	2010 £000	2009 pence per share	2009 £000
Dividends					
Paid	8	2.4p	**2,084**	2.2p	1,900
Proposed	8	2.1p	**1,698**	1.5p	1,303
Special Dividend					
Paid		–	**–**	4.0p	3,472

The accounting policies and notes on pages 36 to 78 form part of these financial statements

Group Statement
Of Comprehensive Income *for the year ended 31 December 2010*

	Note	Group Year ended 31 Dec 2010 £000	Group Year ended 31 Dec 2009 £000
Profit for the year		**6,511**	8,542
Other comprehensive income			
Fair value gain on investment	12	**–**	70
Reversal of prior year impairment	12	**–**	354
Cash flow hedges, net of tax	22	**(36)**	37
Currency translation difference		**95**	39
Other comprehensive income for the period, net of tax		**59**	500
Total comprehensive income for the period		**6,570**	9,042

The accounting policies and notes on pages 36 to 78 form part of these financial statements

Balance Sheets at 31 December 2010

Company registered number: 1602662

	Note	Group as at 31 Dec 2010	Group as at 31 Dec 2009	Company as at 31 Dec 2010	Company as at 31 Dec 2009
		£000	£000	£000	£000
ASSETS					
Non-current assets					
Property, plant and equipment	11	**5,157**	5,224	**–**	–
Goodwill	9	**41,774**	41,774	**–**	–
Intangible assets	10	**235**	490	**–**	–
Investments	12	**–**	336	**40,576**	40,539
Deferred income tax asset	13	**1,402**	1,350	**–**	–
		48,568	49,174	**40,576**	40,539
Current assets					
Trade and other receivables	14	**5,971**	7,627	**20,678**	26,989
Financial assets - derivative financial instruments	19	**56**	87	**–**	–
Cash and cash equivalents	15	**25,412**	24,178	**21,025**	19,718
		31,439	31,892	**41,703**	46,707
Total assets		**80,007**	81,066	**82,279**	87,246
LIABILITIES					
Current liabilities					
Financial liabilities					
– borrowings associated with property	16	**(370)**	(370)	**–**	–
– derivative financial instruments	19	**(115)**	(74)	**–**	–
Trade and other payables	17	**(18,205)**	(17,537)	**(22,291)**	(19,624)
Current income tax liabilities		**(408)**	(648)	**–**	–
Provisions for other liabilities and charges	18	**(150)**	(43)	**–**	–
		(19,248)	(18,672)	**(22,291)**	(19,624)
Net current assets		**12,191**	13,220	**19,412**	27,083
Non-current liabilities					
Financial liabilities - borrowings associated with property	16	**(1,482)**	(1,852)	**–**	–
Provisions for other liabilities and charges	18	**(139)**	(179)	**–**	–
		(1,621)	(2,031)	**–**	–
NET ASSETS		**59,138**	60,363	**59,988**	67,622
SHAREHOLDERS' EQUITY					
Ordinary shares	20	**4,041**	4,344	**4,041**	4,344
Share premium account	21	**11,531**	11,285	**11,531**	11,285
Capital redemption reserve	22	**1,146**	804	**1,146**	804
Other reserves	22	**37,066**	37,293	**20,257**	20,448
Retained earnings	23	**5,354**	6,637	**23,013**	30,741
TOTAL EQUITY		**59,138**	60,363	**59,988**	67,622

The financial statements on pages 30 to 78 were approved by the Board of Directors on 23 February 2011 and were signed on its behalf by:

M R Ratcliffe
Director

P B Wood
Director

The accounting policies and notes on pages 36 to 78 form part of these financial statements

Group Statement
Of Changes in Shareholders' Equity

for the year ended 31 December 2010

	Note	Ordinary Shares	Share premium account	Retained earnings	Capital redemption reserve	Other reserves	Total equity
		£000	£000	£000	£000	£000	£000
At 1 January 2009		4,341	11,285	2,555	804	37,256	**56,241**
Comprehensive income							
Shares issued under share option schemes	20	3	–	–	–	–	3
Cash flow hedges							
– net fair value gains in the period	22	–	–	–	–	37	37
Exchange rate adjustments	23	–	–	79	–	–	79
Share options – value of employee service	23	–	–	158	–	–	158
Deferred tax on financial instruments	23	–	–	18	–	–	18
Corporation tax on share options	23	–	–	73	–	–	73
Reversal of impairment of Scisys revaluation	12	–	–	354	–	–	354
Unrealised gain on investments	12	–	–	70	–	–	70
Share options issued from Microgen Employee ShareParticipation Scheme Trust	23	–	–	160	–	–	160
Dividends	8	–	–	(5,372)	–	–	(5,372)
Retained profit for the year		–	–	8,542	–	–	8,542
Total comprehensive income		3	–	4,082	–	37	4,122
At 31 December 2009		4,344	11,285	6,637	804	37,293	**60,363**
Comprehensive income							
Shares issued under share option schemes	20	39	246	191	–	(191)	285
Cash flow hedges							
– net fair value losses in the period	22	–	–	–	–	(36)	(36)
Exchange rate adjustments	23	–	–	95	–	–	95
Share options – value of employee service	23	–	–	215	–	–	215
Deferred tax on financial instruments	23	–	–	(18)	–	–	(18)
Corporation tax on share options	23	–	–	93	–	–	93
Shares repurchased and cancelled	20, 23	(342)	–	(6,288)	342	–	(6,288)
Share options issued from Microgen Employee Share Participation Scheme Trust	23	–	–	2	–	–	2
Dividends paid	8	–	–	(2,084)	–	–	(2,084)
Retained profit for the year		–	–	6,511	–	–	6,511
Total comprehensive income		(303)	246	(1,283)	342	(227)	(1,225)
At 31 December 2010		**4,041**	**11,531**	**5,354**	**1,146**	**37,066**	**59,138**

Company Statement

Of Changes in Shareholders' Equity

for the year ended 31 December 2010

	Note	Ordinary Shares	Share premium account	Retained earnings	Capital redemption reserve	Other reserves	Total equity
		£000	£000	£000	£000	£000	£000
At 1 January 2009		4,341	11,285	17,478	804	20,448	54,356
Comprehensive income							
Shares issued under share option schemes	20	3	–	–	–	–	3
Share options – value of employee service	23	–	–	158	–	–	158
Reversal of impairment of investment	12	–	–	354	–	–	354
Unrealised gain on Scisys revaluation	12	–	–	70	–	–	70
Exchange rate adjustments		–	–	40	–	–	40
Share options issued from Microgen Employee Share Participation Scheme Trust	23	–	–	160	–	–	160
Dividends paid	8	–	–	(5,372)	–	–	(5,372)
Dividends received	23	–	–	10,494	–	–	10,494
Retained profit for the year		–	–	7,359	–	–	7,359
Total comprehensive income		3	–	13,263	–	–	13,266
At 31 December 2009		4,344	11,285	30,741	804	20,448	67,622
Comprehensive income							
Shares issued under share option schemes	20	39	246	191	–	(191)	285
Share options – value of employee service	23	–	–	373	–	–	373
Shares repurchased and cancelled	20, 23	(342)	–	(6,288)	342	–	(6,288)
Share options issued from Microgen Employee ShareParticipation Scheme Trust		–	–	2	–	–	2
Dividends paid	8	–	–	(2,084)	–	–	(2,084)
Retained profit for the year		–	–	78	–	–	78
Total comprehensive income		(303)	246	(7,728)	342	(191)	(7,634)
At 31 December 2010		**4,041**	**11,531**	**23,013**	**1,146**	**20,257**	**59,988**

Cash Flow Statements *for the year ended 31 December 2010*

	Note	Group Year ended 31 Dec 2010 £000	Group Year ended 31 Dec 2009 £000	Company Year ended 31 Dec 2010 £000	Company Year ended 31 Dec 2009 £000
Cash flows from operating activities					
Cash generated from/(used in) operations	24	**11,348**	9,788	**(136)**	616
Interest received		**140**	162	**82**	162
Interest paid		**(94)**	(205)	**–**	–
Tax paid		**(1,506)**	(1,057)	**(4)**	–
Net cash flows generated from/(used in) operating activities		**9,888**	8,688	**(58)**	778
Cash flows from investing activities					
Proceeds from sale of investments	12	**336**	1,118	**336**	1,118
Proceeds from disposal of subsidiary		**–**	6,928	**–**	7,400
Purchase of property, plant and equipment	11	**(586)**	(541)	**–**	–
Net cash (used in)/generated from investing activities		**(250)**	7,505	**336**	8,518
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		**285**	153	**285**	153
Dividends paid	8	**(2,084)**	(5,372)	**(2,084)**	(5,372)
Repayment of mortgage		**(370)**	(1,453)	**–**	–
Amounts borrowed from group undertakings		**–**	-	**9,116**	10,387
Purchase of own shares		**(6,288)**	-	**(6,288)**	–
Net cash (used in)/generated from financing activities		**(8,457)**	(6,672)	**1,029**	5,168
Net increase in cash and cash equivalents		**1,181**	9,521	**1,307**	14,464
Opening cash and cash equivalents	15	**24,178**	14,675	**19,718**	5,254
Effects of exchange rate changes		**53**	(18)	**–**	–
Closing cash and cash equivalents	15	**25,412**	24,178	**21,025**	19,718

The accounting policies and notes on pages 36 to 78 form part of these financial statements

Accounting Policies

General Information

The Company is a public limited company incorporated and domiciled in England and Wales.

The Group consolidated financial statements were authorised for issue by the Board of Directors on 23 February 2011.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (`IFRS'') as adopted by the European Union and International Financial Reporting Interpretations Committee (`IFRIC'') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, except for financial instruments which are recognised at fair value through the income statement. The principal accounting policies adopted are set out below and have been consistently applied to all the years presented.

The presentation of financial statements in conformity with IFRS requires the use of estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements are disclosed on page 49.

Going Concern

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Changes in Accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

– IFRS 5, Disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Amendment to clarify that IFRS 5, 'Non-current assets held for sale and discontinued operations', specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

– IFRS 8, Disclosure of information about segment assets. Minor textual amendment to the standard and amendment to the basis for conclusions, to clarify that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker.

- IAS 36, Unit of accounting for goodwill impairment test. Amendment to clarify that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of IFRS 8).

- IAS 38, Additional consequential amendments arising from IFRS 3 (revised). Amendments to paragraph 36 and 37 of IAS 38, 'Intangible assets', to clarify the requirements under IFRS 3 (2008) regarding accounting for intangible assets acquired in a business combination.

- IAS 39, Cash flow hedge accounting. Amendment to clarify when to recognise gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument. The amendment clarifies that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events). The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods, but the group has not early adopted them.

- IFRS 3 (revised) , Business combinations , and consequential amendments to IAS 27, Consolidated separate financial statements, IAS 28 Investments in associates, and IAS 31, Interests in joint ventures, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

- IAS 27 (revised), requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. IAS 27 (revised) has had no impact on the financial statements, as there are no non-controlling interests.

- IFRC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance in accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

- IFRIC 18, Transfers of assets from customers, effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRS for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services.

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when an entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as fair value through profit or loss in its entirety.

Accounting Policies (continued)

- IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedge instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility if different designations at different levels of the group. IAS 38 (amendment), Intangible assets, effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset of each asset has similar useful economic lives.

- IAS 1 (amendment), 'Presentation of financial instruments'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) not withstanding the fact that the entity could be required by the counterpart to settle in shares at any time.

- IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8,'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- IFRS 2 (amendment), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies the general requirements of IAS 1 still to apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS1.

c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted.

The group's and parent entity's assessment of the impact of these new standards and interpretations is set out below.

- IFRS 9, Financial Instruments

- Revised IAS 24 (revised), Related party disclosures

- IAS 32 amended, Classification of rights issues

- FRIC 19, Extinguishing financial liabilities with equity instruments

- IFRIC 14 amended, Prepayments of a minimum funding requirement

Basis of consolidation

The financial statements consolidate the results of Microgen plc and its subsidiary undertakings ("subsidiaries"). The results of the subsidiaries acquired are included within the income statement from the date that control passes to the Group. They are de-consolidated from the date on which control ceases.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets is recorded as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. The accounting policies adopted by the subsidiaries are consistent with those used by the Group.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The Group's two operating business derive their revenues from some or all of the following categories of revenue:

- software based activity relating to the Group's intellectual property (comprising software licences, maintenance, support, funded development and related consultancy);
- managed services (comprising principally of application management services); and,
- general consultancy services.

The Group recognises revenue from each of these categories as follows:-

Software based activity

Software licences

The Group licences its software on an Initial Licence Fee, Perpetual Licence Fee or Annual Licence Fee basis. Licence Fees are first recognised when all of the following criteria are met:

- a signed contract or customer purchase order is in place;
- licence fee is fixed and determinable;
- evidence of software delivery has been received;
- collection of the debt is likely; and,
- no vendor specific obligations relating to the delivered software are outstanding.

Revenue recognition (continued)

Once all of these criteria have been met, all of the Initial or Perpetual Licence Fee is recognised and recognition of the Annual Licence Fee commences. Annual Licence Fees are recognised in the period the services are provided, using a straight-line basis over the term of the licence. In assessing whether the collection of the debt is likely, any deferred payments for Licence Fees are recognised only if they are to be invoiced within 90 days of the period end and such invoice is payable within 30 days of the invoice date.

Maintenance

Fees relating to the maintenance of the Group's software are recognised in the period the services are provided, using a straight-line basis over the term of the maintenance agreement.

Support fees

Support fees are billed to customers where the Group's software is used by a customer as part of an IT solution and that customer contracts with the Group for support relating to that IT solution. The customer will commit to a minimum monthly, quarterly or annual fee that covers an agreed level of support and then agrees additional fees for support used over and above the minimum commitment. Revenue from support contracts are recognised as the fees are earned.

Funded development

Where a customer seeks enhancement to the core functionality of a Group product such enhancements will be considered for inclusion in the product road map. Where customers wish to accelerate the product development the Group may undertake funded development work. Revenue for funded development work is recognised on a percentage completed basis after deferring a proportion of the revenue to cover the resolution of any issues arising after the enhancement has been delivered to the customer. Once the enhancement has been accepted by the customer the deferred portion of the revenue is recognised.

IPR consultancy

The majority of consultancy services which relate to a project which includes the Group's software is contracted for on a time and materials basis and is recognised as such. Occasionally, small amounts of fixed priced or shared risk work is undertaken and this is recognised on a percentage completion basis after deferring a proportion of the overall revenue until the end of the project. The percentage completed is determined with reference to effort incurred to date and effort required to complete the development.

Managed Services

Where the Group provides application management services to a customer for a third party software product or solution revenue from these services are recognised as the services are performed.

General Consultancy

The majority of general consultancy services are contracted for on a time and materials basis, with revenue and costs recognised as incurred. Revenue and costs on fixed price and shared risk contracts are recognised on a percentage completion basis after deferring a proportion of the overall revenue until the end of the project.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to key decision makers. These decision makers are responsible for allocating resources and assessing performance of the operating segments.

Segmental reporting is by business sector being Microgen Aptitude Solutions and Financial Systems.

The divisions and business categories are allocated central function costs in arriving at operating profit. Group overhead costs are not allocated into the divisions or business categories as the Board believes that these relate to Group activities as opposed to the division or business category.

Exceptional items

Items that are both material in size and unusual and infrequent in nature are presented as exceptional items in the income statement. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the Group's underlying business performance.

Leasing

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the life of the lease.

The Group has no material finance leases.

Property, plant and equipment

Property, plant and equipment is shown at historic purchase cost less accumulated depreciation and adjusted for any impairment. Land is not depreciated. Costs include expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on assets so as to write off the cost of property, plant and equipment less their residual value over their estimated useful economic lives by equal annual instalments at the following rates.

Freehold and long leasehold buildings	2 per cent
Leasehold improvements	10 – 20 per cent (or the life of the lease if shorter)
Plant and machinery	20 – 50 per cent
Fixtures and fittings	20 per cent

Estimation of the useful economic life includes an assessment of the expected rate of technological developments and the intensity at which the assets are expected to be used.

The assets residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Goodwill

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 subject to an annual impairment test. The carrying value of goodwill is cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose. Impairment reviews are carried out by the Board at least annually. Impairments to goodwill are charged to the income statement in the period which they arise.

Intangible assets

Research and Development (`R&D'')

Research expenditure is expensed to the income statement as incurred. Costs incurred on internal development projects relating to new or substantially improved products are recognised as intangible assets from the date upon which all IAS 38 criteria have been satisfied.

Intangible assets (continued)

In assessing the IAS 38 criteria it is considered that the technical feasibility of development has only been satisfied once the product is deployed into a live customer environment and there after development expenditure is minimal, therefore all research and development costs have been expensed when incurred.

Externally Acquired Software Intellectual Property Rights

Rights in externally acquired software assets are capitalised at cost and amortised over their estimated useful economic life. Useful economic life is assessed on an individual basis.

In process R&D

In process R&D is recognised only on acquisition. The fair value is derived based on time spent on the project at an average daily cost rate. The carrying value is stated at fair value at acquisition less accumulated amortisation and impairment losses. The useful economic life is assessed on an individual basis. Amortisation is charged on a straight line basis over the estimated useful economic life of the assets.

Customer relationships

Customer relationships are recognised only on acquisition. The fair value is derived based on discounted cash flows from estimated recurring revenue streams. The carrying value is stated at fair value at acquisition less accumulated amortisation and impairment losses. The useful economic life is assessed on an individual basis. Amortisation is charged on a straight line basis over the estimated economic useful life of the assets.

Finance income

Interest income is recognised on a time-proportion basis using the effective interest method.

Finance costs

The only interest expense incurred is in respect of the mortgage held on property. The expense is recorded as payments arise.

Impairment of non-financial assets

Assets that have an indefinite useful economic life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Any impairment of goodwill is not reversed.

Investments

Investments in subsidiaries are stated in the financial statements of the Company at cost less any provision for impairment. Other investments available for sale are stated at fair value with unrealised changes in value taken through the statement of other comprehensive income.

Cash and cash equivalents

Cash is defined as cash in hand and on demand deposits. Cash equivalents are defined as short term, highly liquid investments with original maturities of three months or less.

Share options and Performance Share Plan

The Group operates share-based compensation plans that are equity settled. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the Group income statement over the vesting period with a corresponding adjustment to equity.

No charge is taken to the Company income statement as the new share options are treated in a similar manner to capital contributions with an addition to investments as all employees are employed by subsidiary companies.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The option pricing models used are the Black Scholes pricing model for the share save scheme and the Monte Carlo pricing model for the executive share option and performance share plan schemes.

Foreign currency

Items included within the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in sterling, which is Microgen plc's functional and presentational currency.

Foreign transactions are translated into the functional currency at the exchange rate ruling when the transaction is entered into. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation, the balance sheet of each overseas subsidiary is translated at the closing rate at the date of the balance sheet, and the income and expenses for each income statement are translated at the average exchange rate for the period. Exchange gains and losses arising thereon are recognised as a separate component of equity.

Exchange differences arising from the translation of the net investment in foreign subsidiaries are taken to shareholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Pensions

The Group operates defined contribution retirement benefit plans in respect of its UK employees. Employee and employer contributions are based on basic earnings for the current year. The schemes are funded by payments to a trustee-administered fund completely independent of the Group's finances. The expense is recognised on a monthly basis as accrued. The Group has no further payment obligations once the contributions have been paid.

The assets of the scheme are held separately from those of the company in an independently administered fund.

Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Trade receivables

Trade receivables are recognised initially at fair value and to the extent that it is deemed necessary are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within other operating costs.

Trade payables

Trade payables are recognised at fair value.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Provisions for other liabilities and charges

Provisions are created for vacant or sublet properties when the Group has a legal obligation for future expenditure in relation to onerous leases. The provision is measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Borrowings

Borrowings are initially stated at the amount of the net proceeds after deduction of any issue costs.

The carrying amount is increased by the finance costs in respect of the accounting period and reduced by payments made in the period. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the company's shareholders or in respect of interim dividends when they are paid.

Dividend income to the company received from subsidiary investments are recognised in the company income statement in the period in which they are paid out as post acquisition reserves. Dividends paid from pre acquisition reserves are recognised as a reduction in the cost of investment.

Accounting for derivative financial instruments and hedging activities

The Group has entered into derivative financial instruments in the form of forward exchange contracts, currency options and interest rate swaps. Derivatives are initially recognised and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated hedging instrument. The accounting treatment of derivatives classified as hedges depends on their designation, which occurs on the date that the derivative contract is committed to. At year-end the Group has designated its derivatives as a hedge of the cost of a highly probable forecasted transaction or commitment ('cash flow hedge'). Gains or losses on cash flow hedges that are regarded as highly effective are recognised in equity. If the forecasted transaction or commitment results in future income or expenditure, gains or losses deferred in equity are transferred to the income statement in the same period as the underlying income or expenditure. The ineffective portions of the gain or loss on the hedging instrument are not recognised in equity, rather they are recognised immediately in profit or loss.

For the portion of hedges deemed ineffective or transactions that do not qualify for hedge accounting under IAS 39, any change in assets or liabilities is recognised immediately in the income statement. When a hedging instrument expires or is sold, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecasted transaction is ultimately recognised in the income statement.

Financial Risk Management

The Group's trading, multi-national operations and debt financing expose it to financial risks that include the effects of changes in foreign currency exchange rates, credit risks, liquidity and interest rates.

The Group manages these risks so as to limit any adverse effects on the financial performance of the Group.

(a) Market risk – Foreign exchange

The Group's major foreign exchange exposures are to the Euro, Polish Zloty, South African Rand and US Dollar, arising from its trading subsidiaries in Europe, South Africa and the USA. Group policy in this area is to eliminate foreign currency cash flows between Group companies once the size and timing of transactions can be predicted with sufficient certainty. Since April 2007 this has been achieved by hedging Polish Zloty cash outflows 12 months in advance by using forward foreign currency contracts. These have the effect of fixing the sterling amount of Polish Zlotys to be paid in the future. The average remaining life of the forward exchange contracts at 31 December 2010 was 12 months (2009: 12 months).

In respect of its trading activities in Europe and the USA, the Group seeks to contract with its clients in sterling where possible to reduce the exchange risk.

(a) Market risk – Foreign exchange (continued)

Given the above policy, the table below approximates the impact on the Group's profit before tax of a 5% exchange rate movement (strengthening of sterling against the specified currency) of the Group's major non sterling trading currencies during the year.

	2010 £000	2009 £000
Polish Zloty gain	39	34
Euro loss	(22)	(18)
South African Rand loss	(65)	(38)
US Dollar loss	(9)	(6)
	(57)	(28)

(b) Market risk – Interest rate

The Group's major interest rate exposures arise from interest earned on its cash balances and interest payable on a 10 year sterling LIBOR variable rate commercial mortgage taken out to finance the UK Group property.

The Group's policies in this area are:

– to maximise the interest return on cash balances (subject to the constraints imposed by the need to limit credit and liquidity risk as detailed below)

– to remove interest rate risk on its mortgage liability by using interest rate swaps to convert variable rate debt to a fixed rate. The current swap was entered into in 2009 and expires in 2015.

Given the above policies the table below approximates the impact on the Group's profit before tax of a movement of 100 basis points in interest rates during the year

	2010 £000	2009 £000
Increase in interest receivable on cash balances	203	175

There would be no impact on interest payable on the Group's mortgage liability as the rate has been fixed via an interest rate swap.

(c) Credit risk

The Group's major credit risk exposures arise from its cash and trade receivable balances. The Group's policies in this area are:

– in respect of cash balances to ensure that deposits are always held across at least 2 financial institutions and

– in respect of trade receivables, the client or prospective client's credit risk is assessed at the commencement of any new project with payment terms agreed which are appropriate. Regular receivable reports are provided to senior management.

The table below shows the credit rating and balance of the six major counterparties at the balance sheet date:

Counterparty	**Current Rating (Moody's)**	**31 December 2010 £000**	31 December 2009 £000
Bank A	**Aa3**	**12,585**	10,858
Bank B	**Aa3**	**9,584**	9,386
Bank C	**Aa2**	**2,008**	2,003
		24,177	22,247
Customer A	**Aa2**	**1,143**	999
Customer B	**Aa1**	**751**	821
Customer C	**A2**	**671**	480
		2,565	2,300

(d) Liquidity risk

The Group's major liquidity exposures arise from the need to settle its trade, employee and taxation liabilities as they fall due.

In addition, payments of mortgage principal and associated interest are made quarterly. Whilst the Group is comfortably able to finance all of these payments out of operating cash flows, policies are in place to further limit exposure to liquidity risk:

– surplus cash is never deposited for maturities of longer than 3 months; and

– uncommitted facilities will be entered into to support any specific expansion opportunities that arise.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. The Group's liquidity management policy involves projecting cashflows in major currencies and considering the level of liquid assets necessary to meet these.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2010	**Less than 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**	**Over 5 years £000**
Borrowings	396	391	1,138	–
Derivative financial instruments	115	–	–	–
Trade and other payables	17,950	–	–	–
	18,461	391	1,138	–

At 31 December 2009	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Borrowings	584	452	1,250	381
Derivative financial instruments	74	–	–	–
Trade and other payables	17,537	–	–	–
	18,195	452	1,250	381

(d) Liquidity risk (continued)

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into the relevant maturity groups based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2010	**Less than 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**	**Over 5 years £000**
Forward foreign exchange contracts				
– cash flow hedges				
Outflow	(2,505)	–	–	–
Inflow	2,527	–	–	–
Interest swap				
– cash flow hedges				
Outflow	(70)	(55)	(74)	–
Inflow	26	20	27	–
Net (outflow)/inflow	(22)	(35)	(47)	–

At 31 December 2009	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Forward foreign exchange contracts				
– cash flow hedges				
Outflow	(2,261)	–	–	–
Inflow	2,352	–	–	–
Interest swap				
– cash flow hedges				
Outflow	(85)	(70)	(120)	(9)
Inflow	29	24	41	3
Net inflow	35	(46)	(79)	(6)

Fair value estimation

The fair values of the financial derivative instruments have been estimated based on discounted expected future cash flows.

The fair values of short-term deposits are assumed to approximate to their book values. In the case of loans due after more than one year the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the group for similar financial instruments.

Capital risk management

The Group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is in a net funds position in 2009 and 2010 and therefore is ungeared. The only borrowings held are in respect of the mortgage.

During the period the Group complied with the externally imposed capital requirements to which it is subject relating to the Mortgage on the property, interest swap and foreign currency contracts. There are no further capital requirements to which the Group or Company is subject.

Critical Accounting Estimates And Judgements

(a) Impairment of freehold land and buildings

The Group has carried out an impairment review of its freehold land and buildings. Following the review performed in 2009 which resulted in an impairment of £896,000 the directors have not received any market information in 2010 to require an adjustment to the impairment provision established in 2009.

(b) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The discount rate applied in the value in use calculation approximates to the Group's weighted average cost of capital.

The Group annually reviews the goodwill valuation based on various scenarios and each of these scenarios have different growth rate assumptions and it also reviews the conversion to cash ratio. The growth rate assumptions are in relation to periods covered by Board approved plans.

Impairments recognised during the year are performed against the carrying value of goodwill. The impairment is recognised in the income statements in the period which it is deemed to arise.

(c) Impairment of investments

The Group has also carried out an impairment review on the value of investments held in the Company. Where the investment is held in a company which has an ongoing trade the value is derived by a value in use calculation of the cash generating units. This is done on a similar basis to that used in the impairment of goodwill calculation as detailed above and is therefore subject to the same estimates by management. Where the investment is held in a company which is no longer trading the value is derived from the carrying value of the net assets on the balance sheet of that entity.

(d) Valuation of intangibles

When valuing customer relationships on acquisition the Group uses various assumptions including estimated discount rates, expected levels of customer retention and profit margins relevant to the market in which the company operates. If any of these assumptions were to change materially, the resulting valuation is likely to be different.

1. **Segmental Information**

Business segments

The Board has determined the operating segments based on the reports it receives from management to make strategic decisions.

The segmental analysis is split into Microgen Aptitude Solutions Division ("MASD") and Financial Systems Division ("FSD").

The principal activity of the Group is the provision of IT services and solutions, including software based activity generating the majority of its revenue from software licences, maintenance, support, funded development and related consultancy.

The divisions and business categories are allocated central function costs in arriving at operating profit/(loss). Group overhead costs are not allocated into the divisions or business categories as the Board believes that these relate to Group activities as opposed to the division or business category.

(a) Revenue and operating profit by division

Year ended 31 December 2010	**MASD £000**	**FSD £000**	**Group £000**	**Total £000**
Revenue	16,995	16,674	–	**33,669**
Operating costs	(14,386)	(8,590)	–	**(22,976)**
Operating profit before Group overheads	2,609	8,084	–	**10,693**
Unallocated Group overheads			(2,600)	**(2,600)**
Operating profit before intangible amortisation				**8,093**
Intangible amortisation	–	(255)	–	**(255)**
Operating profit/(loss)	**2,609**	**7,829**	**(2,600)**	**7,838**
Net finance income				**14**
Profit before tax				**7,852**
Income tax expense				**(1,341)**
Profit for the year				**6,511**

CONTINUING OPERATIONS

Year ended 31 December 2009	MASD £000	FSD £000	Group £000	Total £000
Revenue	11,806	17,254	–	29,060
Operating costs	(11,476)	(9,042)	–	(20,518)
Operating profit before Group overheads	330	8,212	–	8,542
Unallocated Group overheads			(2,598)	(2,598)
Operating profit before goodwill, property and intangible impairment/amortisation and exceptional items				5,944
Goodwill impairment	–	(2,000)	–	(2,000)
Property impairment	–	–	(896)	(896)
Intangible amortisation	–	(391)	–	(391)
Exceptional items				
– Gain on sale of shares held in investments	–	–	205	205
– Other	–	–	7	7
– Goodwill adjustment	–	–	(560)	(560)
	–	(2,391)	(1,244)	(3,635)
Operating profit/(loss)	330	5,821	(3,842)	2,309
Net finance cost				(36)
Profit before income tax				2,273
Income tax expense				(974)
Profit for the year from continuing operations				1,299
DISCONTINUED OPERATIONS				
Profit for the year from discontinued operations (note 2)				7,243
Profit for the year				8,542

(b) Other information

Year ended 31 December 2010	MASD £000	FSD £000	Group £000	Total £000
Capital expenditure				
– property, plant and equipment (note 11)	**342**	**141**	**103**	**586**
Depreciation (note 11)	**(289)**	**(68)**	**(292)**	**(649)**
Amortisation of intangible assets (note 10)	**–**	**(255)**	**–**	**(255)**
Reversal of receivables impairment (note 14)	**–**	**17**	**–**	**17**

Year ended 31 December 2009	MASD £000	FSD £000	Group £000	Total £000
Capital expenditure				
– property, plant and equipment	309	86	86	481
Depreciation	(235)	(160)	(377)	(772)
Amortisation of intangible assets (note 10)	–	(391)	–	(391)
Reversal of trade receivables impairment (note 14)	–	99	–	99

The 2009 capital expenditure and depreciation excludes discontinued operations.

(c) Balance sheet

	MASD £000	FSD £000	Group £000	Total £000
Year ended 31 December 2010				
Consolidated total assets	**19,534**	**32,829**	**27,644**	**80,007**
Consolidated total liabilities	**(5,144)**	**(11,889)**	**(3,836)**	**(20,869)**
	14,390	**20,940**	**23,808**	**59,138**

	MASD £000	FSD £000	Group £000	Total £000
Year ended 31 December 2009				
Consolidated total assets	16,739	27,854	36,473	81,066
Consolidated total liabilities	(4,210)	(11,593)	(4,900)	(20,703)
	12,529	16,261	31,573	60,363

Sales between business segments are no greater than £250,000 per annum and hence are not disclosed.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

(d) Geographical segments

The Group has two geographical segments for reporting purposes, the United Kingdom & Ireland and the Rest of the World.

The following table provides an analysis of the Group's sales by origin and by destination.

	Sales revenue by origin		Sales revenue by destination	
	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000	**Year ended 31 Dec 2010 £000**	Year ended 31 Dec 2009 £000
United Kingdom and Ireland	**26,848**	21,732	**17,398**	11,760
Rest of World	**6,821**	7,328	**16,271**	17,300
	33,669	29,060	**33,669**	29,060

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located.

	Carrying amount of segment assets		Capital expenditure	
	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000	**Year ended 31 Dec 2010 £000**	Year ended 31 Dec 2009 £000
United Kingdom and Ireland	**75,262**	76,817	**313**	321
Rest of World	**4,526**	4,249	**273**	160
	79,788	81,066	**586**	481

The Company's business is to invest in its subsidiaries and, therefore, it operates in a single segment.

The 2009 capital expenditure excludes discontinued operations, which total £60,000.

2. Discontinued operations

The Billing Services Division was disposed of on 30 November 2009. There were no discontinued operations in 2010.

The results for Billing Services Division for 2009 are as follows:

	11 months ended 30 Nov 2009 £000
Revenue	5,257
Operating costs	(3,796)
Operating profit before exceptional items	1,461
Exceptional income	6,189
Profit from discontinued operations – before income tax	7,650
Income tax expense	(407)
Profit from discontinued operations – after income tax	7,243

The exceptional income in 2009 relates to the consideration received for the business of £7,531,000 less all associated costs of £537,000 and the net assets of the Billing Services Division as at the time of disposal of £805,000, which included cash of £172,000.

For 2009 operating costs included employee benefits of £1,805,000, depreciation of £72,000 and other operating costs of £1,919,000.

For 2009 the Income tax expense has been calculated using the standard corporation tax rate of 28%.

3. Operating profit

The following items are included in operating costs:

	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000
Employee benefit expense (note 4)	**19,076**	16,961
Depreciation	**649**	772
Intangibles amortisation (note 10)	**255**	391
Goodwill impairment (note 9)	**–**	2,000
Property impairment (note 11)	**–**	896
Exceptional items:		
– Gain on sale of shares held in investment (note 1)	**–**	(205)
– Other exceptional credit (note 1)	**–**	(7)
– Goodwill adjustment (note 1)	**–**	560
Other operating costs	**5,851**	5,383
	25,831	26,751

Profit from continuing operations has been arrived at after charging/(crediting):

Net foreign exchange gains	**27**	(19)
Research, development and support costs – MASD	**2,765**	2,827
Research, development and support costs – FSD	**2,086**	2,038
Depreciation of property, plant and equipment within operating costs:		
– owned assets	**649**	772
Amortisation of intangible assets (note 10)	**255**	391
Goodwill impairment (note 9)	**–**	2,000
Property impairment (note 11)	**–**	896
Profit on disposal of investments	**–**	(6,189)
Operating lease rentals payable:		
– plant and machinery	**38**	37
– other	**487**	437
Repairs and maintenance expenditure on property, plant and equipment	**126**	172
Reversal of trade receivables impairment	**(17)**	(99)

During the year the group obtained the following services from the Group's auditors at costs as detailed below:

	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000
Fees payable to Company auditor for the audit of the Parent Company and consolidated financial statements	**65**	76
Fees payable to the Company's auditor and its associates for other services:		
– the audit of Company's subsidiaries pursuant to legislation	**65**	80
– corporation and sales tax services	**186**	140
– overseas secondment services	**260**	85
– services relating to corporate finance transactions	**–**	92
	576	473

A description of the work of the audit committee is included in the corporate governance statement on pages 14 to 18 and includes an explanation of how auditor objectivity and independence is safeguarded when non–audit services are provided by the auditors.

4. Employees and directors

	Group Year ended 31 Dec 2010 £000	Group Year ended 31 Dec 2009 £000
Employee benefit expense during the year including contractors		
Wages and salaries	**17,346**	15,391
Social security costs	**1,144**	1,035
Other pension costs (note 28)	**371**	377
Share based payments (note 27)	**215**	158
	19,076	16,961

Average monthly number of employees (including executive directors and external contractors) for the Group and Company.

	Group Year ended 31 Dec 2010 Number	Group Year ended 31 Dec 2009 Number
By location:		
United Kingdom and Ireland	**152**	144
Rest of World	**108**	102
	260	246

	Group Year ended 31 Dec 2010 Number	Group Year ended 31 Dec 2009 Number
By category:		
Development	**129**	126
Sales and marketing	**17**	15
Management, finance and administration	**43**	40
Consultants	**71**	65
	260	246

The average monthly number of employees includes 18 contractors (2009:14).

Headcount at 31 December 2010 was 264 (2009: 259) including 21 (2009: 18) contractors.

4. **Employees and directors (continued)**

The Company has no employees.

	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000
Key management compensation:		
Salaries and short-term employee benefits	**2,712**	2,807
Post employment benefits	**143**	112
Share based payments	**169**	110
	3,024	3,029

Average monthly number of employees and directors in key management were 14 (2009: 14).

Key management compensation for the Group includes the Board of the Company and Operating Board of the Group.

	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000
Directors		
Aggregate emoluments	**939**	1,109
Company contributions to money purchase pension scheme	**23**	21
	962	1,130

The key management figures given above include the directors of Microgen plc.

The information required by the Companies Act and the Listing Rules of the Financial Services Authority is contained in the Directors' Report on Remuneration on pages 19 to 27.

5. **Net finance income/cost**

	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000
Finance cost		
Interest payable on bank borrowings	**(92)**	(160)
Interest in respect of interest swap	**(34)**	(38)
	(126)	(198)
Finance income		
Interest on bank deposits	**117**	149
Interest on Corporation Tax	**23**	13
	140	162
Net finance income/(cost)	**14**	(36)

6. Income tax expense

Analysis of charge in the year	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000
Current tax:		
– current year charge	**(1,526)**	(1,105)
– prior year credit/(charge)	**160**	(44)
Total current tax	**(1,366)**	(1,149)
Deferred tax (note 13):		
– current year (charge)/credit	**(11)**	264
– prior year credit/(charge)	**36**	(89)
Total deferred tax	**25**	175
Income tax expense	**(1,341)**	(974)

Corporation tax is calculated at 28% (2009: 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement. Finance (No.2) Act 2010 includes legislation to reduce the rate by 1 per cent per annum to 27 per cent from 1 April 2011. This change has been substantively enacted at the balance sheet date and is therefore included in these financial statements.

Further reductions to the main rate of corporation tax are proposed to reduce the rate by 1 per cent per annum to 24 per cent by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The overall effect of these changes, if these applied to the deferred tax balance at 31 December 2010, would be to reduce the recognised deferred tax asset by up to £154,220 (11% of closing recognised deferred tax asset) and the unrecognised deferred tax asset by up to £266,408 (11% of closing unrecognised deferred tax asset).

6. Income tax expense (continued)

The tax for the year is lower (2009: higher) than the standard rate of corporation tax in the UK (28%). The differences are explained below:

	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000
Profit on ordinary activities before tax	**7,852**	2,273
Tax at the UK corporation tax rate of 28% (2009: 28%)	**(2,199)**	(636)
Effects of:		
Adjustment to tax in respect of prior period	**196**	(133)
Adjustment in respect of foreign tax rates	**24**	5
Expenses not deductible for tax purposes		
Goodwill and intangibles impairment	**–**	(560)
Income not taxable	**–**	56
Share based payment expenses	**13**	84
Revaluation of property	**–**	(251)
Changes in Goodwill	**–**	(157)
Other	**(11)**	(26)
Changes in UK Corporation Tax Rates	**(30)**	–
Movement in unrecognised deferred taxation	**360**	560
Utilisation of losses not previously recognised	**306**	84
Total taxation	**(1,341)**	(974)

The total tax charge of £1,341,000 (2009: £974,000) on continuing operations represents 17.1% (2009: 42.9%) of the Group profit before tax of £7,852,000 (2009: £2,273,000).

After adjusting for the impact of goodwill, property and intangible impairment/amortisation, goodwill adjustment, exceptional items, tax impact of share options, change in tax rates and prior year tax charges, the tax charge for the year of £2,221,000 (2009: £1,560,000) represents 27.4% (2009: 26.4%) of the profit before goodwill, property and intangible impairment/amortisation and exceptional items, which is the tax rate used for calculating the adjusted earnings per share.

7. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding 60,000 shares (2009: 64,213) held by the Microgen Employee Share Participation Scheme Trust, which are treated as cancelled for dividend purposes.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has dilutive potential ordinary shares in the form of share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended 31 Dec 2010			Year ended 31 Dec 2009		
	Earnings £000	Weighted average number of shares (in thousands)	Per-share amount pence	Earnings £000	Weighted average number of shares (in thousands)	Per-share amount pence
Basic EPS						
Earnings attributable to ordinary shareholders	6,511	84,606	7.7	8,542	86,850	9.8
Effect of dilutive securities:						
– share options	–	2,014	(0.2)	–	1,894	(0.2)
Diluted EPS	6,511	86,620	7.5	8,542	88,744	9.6

To provide an indication of the underlying operating performance per share the adjusted profit after tax figure shown below excludes goodwill impairment, property and intangibles impairment/amortisation, exceptional items and discontinued operations and has a tax charge using the effective rate of 27.4% (2009: 26.4%).

	Year ended 31 Dec 2010		Year ended 31 Dec 2009	
	Basic EPS pence	Diluted EPS pence	Basic EPS pence	Diluted EPS pence
Basic earnings per share	7.7	7.5	9.8	9.7
Amortisation of intangibles net of tax	0.2	0.2	0.3	0.3
Discontinued operations	–	–	(8.3)	(8.3)
Exceptional charge net of tax	–	–	1.6	1.6
Prior years' tax charge	(0.2)	(0.2)	0.2	0.2
Share options	–	–	(0.1)	(0.1)
Goodwill impairment	–	–	2.3	2.3
Tax losses recognised	(0.7)	(0.7)	(0.7)	(0.7)
Adjusted earnings per share	7.0	6.8	5.1	5.0

	Year ended 31 Dec 2010 £000	Year ended 31 Dec 2009 £000
Profit on ordinary activities before tax, goodwill, property and intangibles impairment/amortisation, discontinued operations and exceptional items	8,107	5,908
Tax charge at a rate of 27.4% (2009: 26.4%)	(2,221)	(1,560)
Adjusted profit on ordinary activities after tax	5,886	4,348
Discontinued operations	–	7,243
Exceptional items net of tax	–	(1,401)
Prior years' tax charge	196	(133)
Share options	13	129
Amortisation of intangibles net of tax	(185)	(288)
Goodwill impairment	–	(2,000)
Recognition of tax losses	631	644
Change in UK Corporation Tax Rates	(30)	–
Profit on ordinary activities after tax	6,511	8,542

8. Dividends

	2010 pence per share	2009 pence per share	2010 £000	2009 £000
Dividends paid:				
Interim dividend	**0.9**	0.8	**781**	691
Final dividend (prior year)	**1.5**	1.4	**1,303**	1,209
Special dividend	**–**	4.0	**–**	3,472
	2.4	6.2	**2,084**	5,372
Proposed but not recognised as a liability:				
Final dividend (current year)	**2.1**	1.5	**1,698**	1,303

The proposed final dividend was approved by the Board on 23 February 2011 but was not included as a liability as at 31 December 2010, in accordance with IAS 10 'Events after the Balance Sheet date'. If approved by the shareholders at the Annual General Meeting this final dividend will be payable on 6 May 2011 to shareholders on the register at the close of business on 15 April 2011.

9. Goodwill

	31 Dec 2010 £000	31 Dec 2009 £000
Group		
Cost		
At 1 January	**59,709**	60,269
Current year fair value adjustments *	**–**	(560)
At 31 December	**59,709**	59,709
Accumulated impairment		
At 1 January	**(17,935)**	(15,935)
Charge for the year	**–**	(2,000)
At 31 December	**(17,935)**	(17,935)
Net book amount	**41,774**	41,774

* In 2009, a further £1,460,000 of tax losses in respect of Microgen Wealth Management Systems Limited, £340,000 in respect of Microgen Banking Systems Limited and £200,000 in respect of Microgen Asset Management Solutions Limited have been recognised. As a result of this change the goodwill was reduced by £560,000 with a corresponding increase to operating costs.

As a result of a revision to the accounting standards, with regard to the recognition of deferred tax assets in respect of acquired losses, when the recognition occurs more than one year after the acquisition; this no longer results in an adjustment to goodwill. The Group has recognised a further £2,378,000 of tax losses, leading to a £666,000 deferred tax credit in the tax charge. Please see note 6.

In 2009, the Group decided to end-of-life a number of smaller product lines within the Financial Systems Division, which resulted in a £2.0 million impairment to goodwill, being the value in use of the software products prior to termination.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	Microgen Aptitude Solutions £000	Financial Systems £000	Total £000
At 1 January 2010	12,347	29,427	41,774
Transfer	3,000	(3,000)	–
At 31 December 2010	15,347	26,427	41,774

The transfer of £3,000,000 is pursuant to the purchase by the Microgen Aptitude Solutions Division of elements of the consulting business of the Financial Systems Division. Whilst no clients have been transferred from the Financial Systems Division to the Microgen Aptitude Solutions Division there has been a transfer of employees and their know how including project implementation methodology and relevant sector experience.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value.

The Board approved plans project that operating income from the Microgen Aptitude Solutions Division will increase by 10% per annum for the next 5 years. The Financial Systems Division estimates project a reduction in operating income of 2.5% per annum over the same period. The terminal growth rates therafter are estimated to be no greater than 2.25% (2009: 2.25%). The conversion to cash ratio used is 72% based on the current UK corporation tax rate. The utilsation of deferred tax losses to offset the tax payable has not been considered. The discount rate applied to the CGUs was 9.8% (2009: 9.8%).

A movement of 5% in any of the assumptions would not result in an impairment. It is possible that outcomes within the forthcoming financial years different to the key assumptions could require a material adjustment to the carrying value of the Group’s goodwill.

10. Intangible assets

	Software IPR and in process R&D £000	Customer relationships £000	Total £000
Group			
Cost			
At 1 January 2010 and 31 December 2010	**876**	**1,329**	**2,205**
Accumulated amortisation			
At 1 January 2010	476	1,239	1,715
Charge for the year	165	90	255
At 31 December 2010	**641**	**1,329**	**1,970**
Net book amount			
At 31 December 2010	**235**	**–**	**235**

	Software IPR and in process R&D £000	Customer relationships £000	Total £000
Group			
Cost			
At 1 January 2009 and 31 December 2009	**876**	**1,329**	**2,205**
Accumulated amortisation			
At 1 January 2009	301	1,023	1,324
Charge for the year	175	216	391
At 31 December 2009	**476**	**1,239**	**1,715**
Net book amount			
At 31 December 2009	**400**	**90**	**490**

The Company held no intangible assets during the year (2009: nil).

The externally acquired software IPR and in process R&D relates to expected future benefits of development projects in progress at the date of acquisition. As at 31 December 2010 no internal research and development costs have been capitalised.

The customer relationships relate to expected benefits obtained from recurring level of business from customers obtained as a result of acquisitions.

Amortisation in the year is shown in operating costs.

11. Property, plant and equipment

	Freehold land and buildings £000	Leasehold improvements £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Group					
Cost					
At 1 January 2010	4,573	546	3,533	416	9,068
Additions	–	6	575	5	586
Disposals	–	(77)	(1,034)	(209)	(1,320)
Exchange movements	–	–	79	27	106
At 31 December 2010	**4,573**	**475**	**3,153**	**239**	**8,440**
Accumulated depreciation					
At 1 January 2010	323	394	2,883	244	3,844
Charge for the year	70	100	469	10	649
Disposals	–	(77)	(1,034)	(209)	(1,320)
Exchange movements	–	–	83	27	110
At 31 December 2010	**393**	**417**	**2,401**	**72**	**3,283**
Net book amount					
At 31 December 2010	**4,180**	**58**	**752**	**167**	**5,157**

	Freehold land and buildings £000	Leasehold improvements £000	Plant & machinery £000	Fixtures & fittings £000	Total £000
Group					
Cost					
At 1 January 2009	5,485	1,457	7,778	504	15,224
Additions	–	11	475	55	541
Disposals – continuing operations	(16)	(49)	(341)	(13)	(419)
Disposal with divestment of Billing Services Division	–	(872)	(4,284)	(138)	(5,294)
Exchange movements	–	(1)	(95)	8	(88)
Impairment	(896)	–	–	–	(896)
At 31 December 2009	**4,573**	**546**	**3,533**	**416**	**9,068**
Accumulated depreciation					
At 1 January 2009	267	1,101	6,958	324	8,650
Charge for the year	72	201	519	49	841
Disposals – continuing operations	(16)	(49)	(341)	(13)	(419)
Disposal with divestment of Billing Services Division	–	(861)	(4,193)	(124)	(5,178)
Exchange movements	–	2	(60)	8	(50)
At 31 December 2009	**323**	**394**	**2,883**	**244**	**3,844**
Net book amount					
At 31 December 2009	**4,250**	**152**	**650**	**172**	**5,224**

The Company held no property, plant and equipment in the year (2009: nil).

During 2009 the Directors impaired the carrying value of the Group's Freehold property in Fleet, Hampshire to £4,250,000. The charge was shown within the Group segment of the Income Statement.

12. Investments

	2010 Investments £000	2009 Investments £000
Group		
Balance		
At 1 January	**336**	916
Reversal of prior year impairment	**–**	354
Unrealised gain in the year	**–**	70
Disposals	**(336)**	(1,004)
At 31 December	**–**	336

	2010 Investment in subsidiaries £000	2010 Other £000	2010 Total £000	2009 Investments £000
Company				
Balance				
At 1 January	**53,358**	**336**	**53,694**	54,274
Share based payments – share options granted to employees of subsidiaries	**373**	**–**	**373**	–
Reversal of prior year impairment	**–**	**–**	**–**	354
Unrealised gain in the year	**–**	**–**	**–**	70
Disposals	**–**	**(336)**	**(336)**	(1,004)
At 31 December	**53,731**	**–**	**53,731**	53,694
Accumulated impairment				
At 31 December 2009 and 31 December 2010	**13,155**	**–**	**13,155**	13,155
Net book amount				
At 31 December	**40,576**	**–**	**40,576**	40,539

During 2010, the Company sold 770,686 shares in Scisys plc for a consideration of £336,000. In 2009 the Company sold 2,900,000 shares in Scisys plc for a total consideration of £1,209,000. In total, the Company made a gain of £345,000 from its investment in Scisys plc.

The Company also in 2009 sold all its shares in its subsidiary Microgen UK Limited which were held at cost of £nil at 30 November 2009.

The recoverable amounts of the investments are determined by calculating a value in use for the appropriate subsidiary investment. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the subsidiary investments.

Where the investment is held in a company which is no longer trading the value is derived from the carrying value of the net assets on the balance sheet of that entity.

Principal subsidiaries	Country of incorporation	Equity held	Principal activity
Microgen Aptitude Limited	England & Wales	100%	Software and Services
Microgen (Channel Islands) Limited *	Guernsey	100%	Software and Services
Microgen Wealth Management Systems Limited *	England & Wales	100%	Software and Services
Microgen Banking Systems Limited *	England & Wales	100%	Software and Services
Microgen Solutions Limited *	England & Wales	100%	Software and Services
Microgen Asset Management Solutions Limited *	England & Wales	100%	Software and Services
Microgen Solutions Inc.*	USA	100%	Software and Services
Microgen (South Africa) Limited *	South Africa	100%	Software and Services
Microgen Poland Sp. Z.o.o.*	Poland	100%	Development
Microgen Management Services Limited	England & Wales	100%	Employment and Group Services
Microgen Financial Systems Limited	England & Wales	100%	Software and Services
Microgen South Korea Limited*	South Korea	100%	Software and Services

* Indirectly held by Microgen plc

13. Deferred income tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27.25% (2009: 28%).

The following are major deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Accelerated capital allowances £000	Short term timing differences £000	Share-based payments £000	Taxable trading losses £000	Total £000
Group					
At 1 January 2009	421	295	126	518	1,360
Credit/(charge) to income statement for the year	55	26	129	(57)	153
Credit to equity (note 23)	–	18	–	–	18
Disposed with divestment of Billing Services Division	(193)	(17)	–	–	(210)
Exchange differences	–	29	–	–	29
At 31 December 2009	283	351	255	461	1,350
Credit/(charge) to income statement for the year	11	89	35	(110)	25
Charge to equity (note 23)	–	(18)	–	–	(18)
Exchange differences	–	45	–	–	45
At 31 December 2010	**294**	**467**	**290**	**351**	**1,402**

Deferred tax assets have been recognised in respect of taxable losses and other temporary differences giving rise to deferred tax assets where it is probable that these assets will be recovered.

At the balance sheet date, the Group has unused tax losses of £10,172,000 (2009: £13,399,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £1,284,000 (2009: £1,642,000) of such losses. No deferred tax asset has been recognised in respect of the remaining £8,888,000 (2009: £11,757,000) due to the unpredictability of future profit streams.

13. Deferred income tax (continued)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

The following is the analysis of the deferred tax balances:

	31 Dec 2010 £000	31 Dec 2009 £000
Deferred tax assets	**1,402**	1,389
Deferred tax liabilities	**–**	(39)
	1,402	1,350

Included in the deferred tax asset above, £760,000 is expected to be utilised in the next twelve months.

14. Trade and other receivables

	Group 31 Dec 2010 £000	Group 31 Dec 2009 £000	**Company 31 Dec 2010 £000**	Company 31 Dec 2009 £000
Trade receivables	**5,321**	6,462	**–**	–
Less: provision for impairment of receivables	**(78)**	(112)	**–**	–
Trade receivables – net	**5,243**	6,350	**–**	–
Amounts owed by group undertakings	**–**	–	**20,497**	26,989
Other receivables	**66**	68	**60**	–
Prepayments and accrued income	**662**	1,209	**121**	–
	5,971	**7,627**	**20,678**	**26,989**

Amounts due from group undertakings are unsecured and repayable on demand.

An impairment provision for all past due trade receivables is maintained as the Group's experience is that a proportion of all such receivables may not ultimately be collectable.

Within the trade receivables balance of £5,321,000 (2009: £6,462,000) there are balances totalling £1,495,000 (2009: £1,659,000) which, at 31 December 2010, were overdue for payment. Of this balance £1,478,000 (2009: £1,494,000) has been collected at 23 February 2011 (2009: 17 February 2010).

	Trade receivables	
The ageing of the trade receivables is as follows:	**2010 £000**	2009 £000
Not past due	**3,826**	4,803
Past due		
Less than one month overdue	**1,484**	1,137
One to two months overdue	**7**	482
Two to three months overdue	**1**	1
More than three months overdue	**3**	39
At 31 December	**5,321**	6,462

The Company had no trade receivables in either year.

Trade and other receivables are denominated in the following currencies:

	Group 31 Dec 2010 £000	Group 31 Dec 2009 £000	Company 31 Dec 2010 £000	Company 31 Dec 2009 £000
Sterling	**5,494**	7,075	**20,678**	26,989
SA Rand	**176**	250	**–**	–
US Dollars	**289**	269	**–**	–
Other	**12**	33	**–**	–
	5,971	7,627	**20,678**	26,989

Movements on the provision for impairment of trade receivables are as follows:

	Group 31 Dec 2010 £000	Group 31 Dec 2009 £000	Company 31 Dec 2010 £000	Company 31 Dec 2009 £000
At 1 January	**112**	255	**–**	–
Receivables written off as uncollectable	**(17)**	(44)	**–**	–
Unused provisions reversed	**(17)**	(99)	**–**	–
At 31 December	**78**	112	**–**	–

Creation and reversals of the provision for impaired trade receivables have been included in the income statement under other operating costs. Non-trade receivables do not contain any impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each receivable class mentioned above. No collateral is held as security against these assets.

15. Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	Group 31 Dec 2010 £000	Group 31 Dec 2009 £000	Company 31 Dec 2010 £000	Company 31 Dec 2009 £000
UK Pounds Sterling	**24,177**	22,247	**21,025**	19,718
South African Rand	**896**	809	**–**	–
United States Dollar	**85**	197	**–**	–
Polish Zloty	**253**	898	**–**	–
Other	**1**	27	**–**	–
Cash at bank and in hand	**25,412**	24,178	**21,025**	19,718

The effective interest rate on short term deposits was 0.35% (2009: 0.3%).

16. Financial liabilities – borrowings associated with property

	Group 31 Dec 2010 £000	Group 31 Dec 2009 £000
Bank loan	**1,852**	2,222
The borrowings are repayable as follows:		
Within one year	**370**	370
In the second year	**370**	370
In the third to fifth years inclusive	**1,112**	1,111
After five years	**–**	371
	1,852	2,222
Less: Amount due for settlement within 12 months (shown under current liabilities)	**370**	370
Amount due for settlement after 12 months	**1,482**	1,852

The bank loan is secured by a fixed charge over the Group's freehold property in Fleet. The loan was raised on 25 November 2005; capital repayments commenced on 25 February 2007 and will continue until 25 November 2015. The loan is denominated in Pound Sterling and carries interest at LIBOR plus 0.8%, this is also the effective interest rate. The Group entered into an interest swap on 6 February 2009, effectively fixing the interest rate at 3.3% plus 0.8%.

The Company has nil borrowings at 2010 (2009: nil).

17. Trade and other payables – current

	Group 31 Dec 2010 £000	Group 31 Dec 2009 £000	Company 31 Dec 2010 £000	Company 31 Dec 2009 £000
Trade payables	**132**	817	**50**	–
Amounts owed to group undertakings	**–**	–	**22,241**	19,624
Other tax and social security payable	**1,175**	618	**–**	
Other payables	**157**	405	**–**	–
Accruals	**2,622**	3,691	**–**	–
Deferred income	**14,119**	12,006	**–**	–
	18,205	17,537	**22,291**	19,624

The amounts owed to group undertakings are unsecured, interest free and repayable upon demand.

18. Provisions for other liabilities and charges

	Property provision	
	31 Dec 2010	31 Dec 2009
	£000	£000
Group		
At 1 January	**222**	391
Additions	**–**	93
Charged/(credited) to income statement	**66**	(42)
Reclassified to accruals	**(4)**	–
Foreign exchange	**5**	–
Disposal of Billing Services Division	**–**	(220)
At 31 December	**289**	222

Provisions have been analysed between current and non-current as follows:

	Property provision	
	31 Dec 2010	31 Dec 2009
	£000	£000
Current	**150**	43
Non-current	**139**	179
	289	222

Pursuant to the Group's exit from unoccupied leasehold properties, the provision at 31 December 2010 relates solely to the cost of dilapidations in respect of its occupied leasehold premises.

Of the non-current provision, £139,000 is expected to unwind within 2 to 5 years (2009: £179,000) with zero unwinding after more than 5 years (2009: zero).

The Company does not hold any provisions for other liabilities and charges.

19. Financial instruments

Numerical financial instruments disclosures are set out below. Additional disclosures are set out in the accounting policies relating to risk management.

	31 Dec 2010		31 Dec 2009	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Forward foreign exchange contracts – cash flow hedges	**56**	**43**	86	36
Currency options	**–**	**–**	1	–
Interest rate swaps – cash flow hedges	**–**	**72**	–	38
	56	**115**	87	74

The company has no derivative financial instruments.

All financial instruments disclosed are current.

19. Financial instruments (continued)

Currency derivatives

The forward foreign exchange contracts are used to hedge the Group's forecast Polish Zloty denominated costs over the next 12 months.

The notional principal amounts outstanding at the balance sheet date are as follows:

	31 Dec 2010 £000	31 Dec 2009 £000
Forward foreign exchange contracts – Polish Zloty	**2,505**	2,261

The forward exchange contracts mature evenly across the year on a monthly basis.

At 31 December 2010, the fair value of the Group's currency derivatives is estimated to be approximately £13,000 (2009: £51,000), comprising £56,000 assets (2009: £87,000) and £43,000 liabilities (2009: £36,000), based on quoted market values.

The forward contracts are designated and effective as cash flow hedges and the fair value thereof has been deferred in equity. These will be transferred to the income statement over the next 12 months (2009: 12 months).

A gain of £56,000 (2009: loss of £287,000) has been transferred to the income statement in respect of contracts which have matured during the period.

Interest rate swap

The Group uses an interest rate swap to manage its exposure to interest rate movements on its bank mortgage borrowings by swapping those borrowings from floating rate to fixed rate. The notional principal amount of the outstanding interest rate swap contracts at 31 December 2010 was £1,852,000 (2009: £2,222,000) and covers the interest rate exposure up to 27 November 2015. At 31 December 2010 the variable interest rate on the commercial mortgage was 1.51% (LIBOR plus 0.8%), which the fixed interest rate swap converted to a rate of 4.1% (3.3% plus 0.8%).

Amounts are due payable on a quarterly basis for the period of the contract.

The fair value of the swap entered into at 31 December 2010 is estimated at a liability of £72,000 (2009: £38,000).

This amount is based on discounted expected future cash flows. The movement of £34,000 (2009: £38,000) has been recognised in the income statement.

Fair values of non-derivative financial assets and financial liabilities

Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year-end exchange rates. The carrying amounts of short-term borrowings approximate to book value.

	Note	**31 Dec 2010 Book value £000**	**31 Dec 2010 Fair value £000**	31 Dec 2009 Book value £000	31 Dec 2009 Fair value £000
Group					
Cash at bank and in hand	15	**25,412**	**25,412**	24,178	24,178
Long-term borrowings	16	**(1,852)**	**(1,925)**	(2,222)	(2,261)

	Note	**31 Dec 2010 Book value £000**	**31 Dec 2010 Fair value £000**	31 Dec 2009 Book value £000	31 Dec 2009 Fair value £000
Company					
Cash at bank and in hand	15	21,025	21,025	19,718	19,718

The carrying amount of short term payables and receivables is equal to their fair value due to their short term nature.

Neither the Group or Company defaulted on any loans during the period. In addition the Group or Company did not breach the terms of any loan agreements during the year. The only external borrowings held relate to the loan in respect of the Fleet premises, against which a fixed charge is held.

Credit quality of financial assets

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to the customer type.

Group	**2010 £000**	2009 £000
Trade receivables		
Banks and financial institutions	**2,664**	4,253
Corporates	**1,162**	550
Total current trade receivables	**3,826**	4,803
Trade receivables past due	**1,495**	1,659
Total trade receivables	**5,321**	6,462

Of the total receivables past due at 31 December 2010 of £1,495,000 (2009: £1,659,000) a total of £1,478,000 (2009: £1,494,000) has been collected at 23 February 2011 (2009: 17 February 2010).

Cash at bank and short-term bank deposits

	2010 £000	2009 £000
Aa2	**2,008**	2,003
Aa3	**22,169**	20,293
A1	**338**	–
A2	**1**	1,882
A3	**896**	–
	25,412	24,178

None of the financial assets that are fully performing have been renegotiated in the last year.

20. Ordinary shares

Group and company	31 Dec 2010 Number	31 Dec 2010 £000	31 Dec 2009 Number	31 Dec 2009 £000
Authorised ordinary shares of 5p each	**145,000,000**	**7,250**	145,000,000	7,250
Issued and fully paid:				
At 1 January	**86,897,277**	**4,344**	86,830,192	4,341
Issued under share option schemes	**779,321**	**39**	67,085	3
Tender offer	**(6,837,339)**	**(342)**	–	–
At 31 December	**80,839,259**	**4,041**	86,897,277	4,344

Following a tender offer to all shareholders in 2010, the Company repurchased 6,837,339 ordinary shares for consideration of £6,154,000 in cash plus expenses of £134,000. These shares were then cancelled.

The number of ordinary shares for which Microgen employees hold options and the period to which the options are exercisable are as follows (note 27):

Period	Year of grant	Exercise price	2010 Number	2009 Number
Between 4 May 2003 and 4 May 2010	2000	397.5p	–	1,500
Between 27 February 2004 and 27 February 2011	2001	168p	500	2,500
Between 26 October 2004 and 26 October 2011	2001	87.5p	50,000	50,000
Between 8 March 2005 and 8 March 2012 *	2002	93p	60,000	60,000
Between 8 March 2005 and 8 March 2012	2002	93p	30,000	30,000
Between 22 July 2005 and 22 July 2012	2002	42.5p	55,000	87,500
Between 18 February 2006 and 18 February 2013	2003	20.33p	6,000	20,500
Between 24 February 2006 and 24 February 2013	2003	24.5p	50,000	50,000
Between 15 June 2006 and 15 June 2016	2006	59.33p	60,000	97,001
Between 28 July 2006 and 28 July 2013	2003	42.5p	25,000	25,000
Between 7 November 2006 and 7 November 2013	2003	42.5p	75,000	100,000
Between 25 February 2007 and 25 February 2014	2004	55.8p	10,000	20,000
Between 28 April 2007 and 28 April 2014	2004	60p	67,500	175,000
Between 1 March 2008 and 1 March 2015	2005	70.67p	20,000	20,000
Between 1 March 2008 and 1 March 2015	2005	70.67p	–	25,000
Between 22 September 2008 and 22 September 2015	2005	70.50p	345,000	520,500
Between 1 November 2008 and 30 April 2009	2003	49.75p	–	4,046
Between 24 May 2009 and 24 May 2016	2006	5p	397,991	397,991
Between 5 March 2010 and 5 March 2017	2007	5p	93,340	100,000
Between 5 March 2010 and 5 March 2017	2007	51.33p	–	25,000
Between 6 August 2010 and 6 August 2017	2007	5p	210,015	550,000
Between 6 August 2010 and 6 August 2017	2007	46.83p	104,007	340,000
Between 6 August 2010 and 6 August 2017	2007	46.83p	–	10,000
Between 28 February 2011 and 28 February 2018	2008	48.17p	145,000	145,000
Between 28 February 2011 and 28 February 2018	2008	5p	25,000	25,000
Between 2 May 2011 and 2 May 2018	2008	52.33p	1,000,000	1,000,000
Between 2 December 2011 and 2 December 2018	2008	43.50p	250,000	295,000
Between 2 December 2011 and 2 December 2018	2008	5p	351,780	351,780
Between 16 April 2013 and 16 April 2020	2010	76p	50,000	–
Between 13 December 2013 and 13 December 2020	2010	5p	130,000	–
			3,611,133	**4,528,318**

* Share options issued by the Microgen Employee Share Participation Trust.

21. Share premium account

	£000
Group and Company	
At 1 January 2009 and 31 December 2009	11,285
Premium on shares issued during the year under the share option schemes	246
At 31 December 2010	11,531

22. Capital Redemption Reserve and Other Reserves

Other reserves	Hedging reserve £000	Merger reserve £000	Other reserves £000	Total £000
Group				
At 1 January 2009	11	36,974	271	37,256
	–	–	–	–
Cash flow hedges				
– net fair value gains in the period net of tax	37	–	–	37
At 31 December 2009	48	36,974	271	37,293
Cash flow hedges				
– transfers to net income	–	–	–	–
– net fair value gains in the period net of tax	(36)	–	–	(36)
Shares issued under share option schemes	–	–	(191)	(191)
At 31 December 2010	**12**	**36,974**	**80**	**37,066**

	Hedging reserve £000	Merger reserve £000	Other reserves £000	Total £000
Company				
At 1 January 2009	–	20,177	271	20,448
At 31 December 2009	–	20,177	271	20,448
Shares issued under share option schemes	–	–	(191)	(191)
At 31 December 2010	**–**	**20,177**	**80**	**20,257**

Other reserves include interests of £27,540 (2009: £219,000) at cost in own shares held through ESOP trusts. The Microgen Employee Share Participation Trust ("the trust") was set up in March 1999 to facilitate the issue of replacement options to employees of Kaisha Technology Limited. As at 31 December 2010, the trust held 60,000 (2009: 64,213) ordinary shares of 5p each in Microgen plc, representing 0.07% (2009: 0.07%) of the issued share capital of the Company with a market value of £65,400 (2009: £56,828). 60,000 (2009: 64,213) ordinary shares are under option to employees. The options are first exercisable from the third anniversary of the original grant and for a further seven years thereafter.

Capital Redemption Reserve	Total £000
Group and Company	
At 1 January 2009 and 31 December 2009	804
Shares purchased and then cancelled	342
At 31 December 2010	**1,146**

6,837,339 shares were purchased and subsequently cancelled pursuant to the tender which completed in September 2010.

The nominal value of these shares was £342,000

23. Retained earnings

	Group £000	Company £000
At 1 January 2009	2,555	17,478
Profit for the year	8,542	7,359
Share options – value of employee service (note 27)	158	158
Deferred tax on financial instruments (note 13)	18	–
Corporation tax on share options	73	–
Reversal of impairment of investment (note 12)	354	354
Unrealised gain on Scisys shares disposal (note 12)	70	70
Exchange rate adjustments	79	40
Share options issued from Microgen Employee Share Participation Scheme Trust	160	160
Dividends paid (note 8)	(5,372)	(5,372)
Dividends received	–	10,494
At 31 December 2009	6,637	30,741
Profit for the year	6,511	78
Share options – value of employee service (note 27)	215	373
Shares issued under share option schemes	191	191
Deferred tax on financial instruments (note 13)	(18)	–
Corporation tax on share options	93	–
Shares repurchased and cancelled	(6,288)	(6,288)
Exchange rate adjustments	95	–
Share options issued from Microgen Employee Share Participation Scheme Trust	2	2
Dividends paid (note 8)	(2,084)	(2,084)
At 31 December 2010	**5,354**	**23,013**

The profit for the financial year dealt with in the financial statements of the Company was £78,000 (2009: £7,359,000). As permitted by Section 408 of the Companies Act 2006, no separate income statement is presented in respect of the Company.

The dividend received in 2009 of £10,494,000 by the Company was received from Microgen UK Limited by settlement of the intercompany account between the companies.

24. Cash flow from operating activities

Reconciliation of profit for the year to net cash generated from operations

	Group Year ended 31 Dec 2010 £000	Group Year ended 31 Dec 2009 £000	Company Year ended 31 Dec 2010 £000	Company Year ended 31 Dec 2009 £000
Profit for the year	**6,511**	8,542	**78**	7,359
Adjustments for:				
Taxation	**1,341**	1,381	**4**	–
Depreciation	**649**	841	**–**	–
Profit on disposal of subsidiary	**–**	(6,189)	**–**	(6,994)
Trading assets of Billing Services Division on disposal	**–**	(552)		
Profit on disposal of investment	**–**	(205)	**–**	(205)
Amortisation of intangible assets	**255**	391	**–**	–
Property impairment	**–**	896	**–**	–
Share-based payment expense	**215**	158	**–**	–
Change in value of goodwill (note 9)	**–**	560	**–**	–
Goodwill impairment (note 9)	**–**	2,000	**–**	–
Finance income	**(140)**	(162)	**(82)**	(162)
Finance costs	**126**	198	**–**	–
Changes in working capital:				
Decrease in inventories	**–**	46	**–**	–
Decrease/(increase) in receivables	**1,656**	179	**(181)**	7,398
Increase/(decrease) in payables	**668**	1,873	**45**	(6,780)
Increase/(decrease) in provisions	**67**	(169)	**–**	–
Cash generated from/(used in) operations	**11,348**	9,788	**(136)**	616

25. Commitments

	31 Dec 2010 £000	31 Dec 2009 £000
Group		
Contracts placed for future plant and equipment capital expenditure not provided in the financial statements	**93**	78

The Company has no unprovided financial commitments.

26. Operating leases – minimum lease payments

The Group leases various offices under non-cancellable operating lease agreements. The leases have various terms and renewal rights. The Group also leases plant and machines under non-cancellable operating lease agreements.

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 Dec 2010		31 Dec 2009	
	Properties £000	**Other £000**	Properties £000	Other £000
Within one year	**297**	**38**	351	37
In the second to fifth years inclusive	**229**	**3**	637	38
	526	**41**	988	75

The Company had no operating lease commitments during the year (2009: nil).

27. Share based payments

Performance Share Plan

Under the 2006 Performance Share Plan (PSP), the Remuneration Committee is allowed to grant conditional allocations of par value options in the Company to key executives. The contractual life of an option is 10 years.

At the year end there were 12 (2009: 12) employees currently participating in the scheme.

The PSP is considered an Long Term Incentive Plan (LTIP) award.

Awards granted under the PSP will become exercisable from the third anniversary of the date of grant, subject to specific criteria being met. The performance conditions are structured so that 50 per cent of an award will be subject to an adjusted earnings per share target and 50 per cent are subject to a total shareholder return target.

Exercise of an option is subject to continued employment.

Details of the share options outstanding under the PSP during the year are as follows:

	2010		2009	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 January	**1,424,771**	**5p**	2,010,000	5p
Granted	**130,000**	**5p**	–	5p
Lapsed	**(43,290)**	**5p**	(457,769)	5p
Exercised	**(303,355)**	**5p**	(127,460)	5p
Outstanding at 31 December	**1,208,126**	**5p**	1,424,771	5p
Exercisable at 31 December	**701,346**	**5p**	397,991	5p

The share options outstanding at the end of the year have a weighted average remaining contractual life of 6.93 years (2009: 7.57 years).

In 2010, 130,000 options were granted on 13 December 2010 (2009: no options were granted). The estimated fair value of the options granted on that date was 102.98p.

Share options

The Group has set up several Share Option Plans, under which the Remuneration Committee can grant options over shares in the Company to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. 60 employees (2009: 91) currently participate in these Plans.

Options granted under the Share Option Plans will become exercisable on the third anniversary of the date of grant, subject to specific criteria being met. The present criteria are based on a combination of factors including adjusted earnings per share and share price growth over a minimum period of three years. Exercise of an option is subject to continued employment.

Details of the share options outstanding under the Share Option Plans during the year are as follows:

	2010		2009	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 January	**3,099,501**	**55.33p**	4,352,374	52.40p
Granted	**50,000**	**78.00p**	–	–
Lapsed	**(266,315)**	**54.68p**	(900,373)	53.42p
Exercised	**(480,179)**	**56.67p**	(352,500)	31.82p
Outstanding at 31 December	**2,403,007**	**55.61p**	3,099,501	55.33p
Exercisable at 31 December	**817,507**	**57.14p**	399,001	63.59p

The weighted average share price at the date of exercise for share options exercised during the year under the Share Option Plans was 97.15p (2009: 91.46p).

The options outstanding at the end of the year have a weighted average remaining contractual life of 6.01 years (2009: 6.74 years). In 2010 50,000 options were granted (2009 nil).

Included within the outstanding share options at 31 December 2010 were outstanding share options of 1,417,991 (2009: 1,417,991) which whilst outside of the Association of British Insurers recommended limits have been approved by the Company's Shareholders.

In 2010, 50,000 options were granted on 16 April 2010 (2009: no options were granted). The estimated fair value of the options granted on that date was 30.94p.

27. Share based payments (continued)

Share Save Scheme

All eligible employees were able to contribute up to £250 per month over a 3, 5 or 7 year term to purchase Microgen shares at a discount. Exercise of an option is subject to continued employment. No share save invitation was issued in either 2010 or 2009. The scheme closed in May 2010.

Details of the share options outstanding under the share save scheme during the year are as follows:

	2010		2009	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 January	**4,046**	**49.75p**	26,982	68.08p
Lapsed	**(4,046)**	**49.75p**	(22,936)	71.31p
Outstanding at 31 December	**–**	**–**	4,046	49.75p
Exercisable at 31 December	**–**	**–**	4,046	49.75p

The options outstanding at the end of 2009 had a weighted average remaining life of 0.67 years.

The Group recognised total expenses of £215,000 (2009: £158,000) related to equity-settled share-based payment transactions during the year. The total credit in the income statement was £180,000 (2009: £30,000). There was no deferred tax credit taken directly to equity on these transactions (2009: £nil).

28. Retirement benefit schemes

The Group operates defined contribution retirement benefit plans for qualifying employees in the UK. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The Group also operates defined contribution retirement benefit plans for its overseas employees with contributions up to 9.76% of basic salary.

The total expense recognised in the income statement of £371,000 (2009: £377,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2010, contributions of £69,000 (2009: £92,000) due in respect of the 2010 reporting period had not been paid over to the plans and were included within accruals. The amounts were paid over subsequent to the balance sheet date.

29. Related party transactions

During the year, IT consultancy services of £1,100 (2009: £nil) were invoiced to Sagentia Group plc, a company which Mr Ratcliffe is chairman. Mr Ratcliffe is also the chairman of the Company. No balances were outstanding at the year end (2009: £nil).

The Company acts as the Group’s treasury vehicle and during the year borrowed a net £9,116,000 (2009: £10,387,000) from its subsidiary companies.

There were no further related party transactions in the year ended 31 December 2010 (2009: nil), as defined by International Accounting Standard No 24 “Related Party Disclosures” other than key management compensation as disclosed in note 4.

Shareholder Analysis Range	Number of Shareholders	Percentage of overall total	Number of shares	Percentage of overall total
1 – 1,000	705	55.8%	191,929	0.2%
1,001 – 5,000	343	27.1%	813,382	1.0%
5,001 – 50,000	145	11.5%	2,367,134	2.9%
50,001 – 500,000	50	3.9%	7,723,345	9.6%
500,001 and above	21	1.7%	69,743,469	86.3%
Totals	1,264	100%	**80,839,259**	100%

Investor type	Number of shares	Percentage of overall total
Nominee Companies	58,143,931	72.0%
Private individuals	13,451,190	16.6%
Banks and bank nominees	4,666,530	5.8%
Pension funds	4,206,692	5.2%
Limited companies	354,737	0.4%
Deceased accounts	15,176	0.0%
Investment trusts	1,001	0.0%
Other institutions	2	0.0%
Totals	**80,839,259**	**100.0%**

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Microgen plc ordinary shares are listed on the main market of the London Stock Exchange.

Shareholders' enquiries

Enquiries regarding shareholdings or dividends should in the first instance be addressed to Capita Registrars.

Please note that calls will cost 10p per minute plus network extras. Lines are open 8.30 am – 5.30 pm Monday to Friday.

Annual General Meeting

The forthcoming Annual General Meeting will be held at 9.00 a.m. on 19 April 2011 at Fleet House, 3 Fleetwood Park, Barley Way, Fleet, Hampshire, GU51 2QJ. Details are given in a separate notice to shareholders enclosed with this Annual Report. A copy of the Notice of Annual General Meeting together with this Annual Report is posted on the Company's website www.microgen.com.

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microgen plc annual report 2010

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