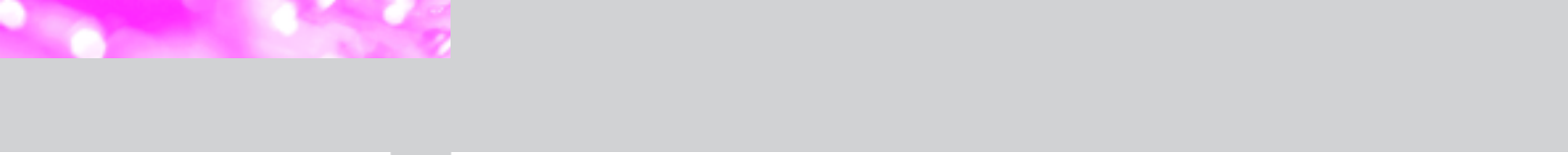


REPORT AND ACCOUNTS 1999





REPORT AND ACCOUNTS 1999

99

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DIRECTORS AND ADVISERS

DIRECTORS

CHAIRMAN AND CHIEF EXECUTIVE

Otto Schmid

DEPUTY CHIEF EXECUTIVE

Walter Greifeneder

EXECUTIVE DIRECTORS

Arnold von Büren, Christoph Löslein, Urs Niederberger

NON-EXECUTIVE DIRECTORS

Bruce Powell FCA, Paul Gerny, John Incedon

COMPANY SECRETARY

Urs Niederberger

REGISTERED OFFICE

Andromeda House, Calleva Park, Aldermaston

Berkshire RG7 8AR

COMPANY REGISTRATION NO

3119779

ADVISERS

AUDITORS

BDO Stoy Hayward, 8 Baker Street, London W1M 1DA

REGISTRAR

Connaught St. Michaels Ltd., PO Box 30

Victoria Street, Luton, Bedfordshire LU1 2PZ

SOLICITORS

Garretts, 180 Strand, London WC2R 2NN

STOCKBROKER

Investec Henderson Crosthwaite, a division of Investec Bank (UK) Ltd.

2 Gresham Street, London EC2V 7QP

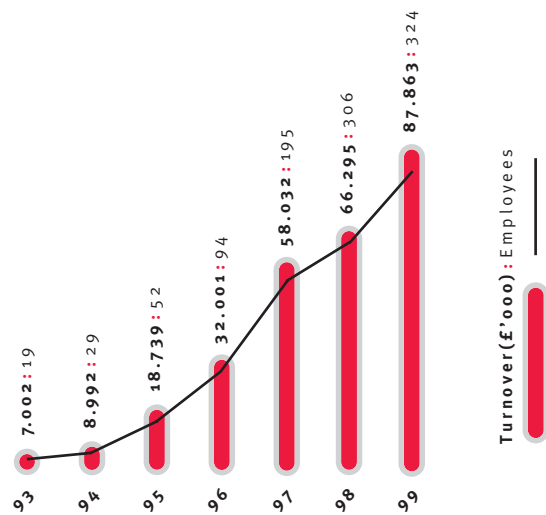
CORPORATE CALENDAR

ANNUAL GENERAL MEETING	29 October 1999
PAYMENT OF 1998/99 FINAL DIVIDEND	1 December 1999
ANNOUNCEMENT OF 1999/00 INTERIM RESULTS	March 2000
PAYMENT OF 1999/00 INTERIM DIVIDEND	4 May 2000
PRELIMINARY ANNOUNCEMENT OF 1999/00 FINAL RESULTS	September 2000
PAYMENT OF 1999/00 FINAL DIVIDEND	1 December 2000

FINANCIAL HIGHLIGHTS

Consolidated profit and loss account for the year ended 30 June 1999

	1999 £ '000	1998 £ '000
Turnover	87,863	66,295
Operating profit/(loss)	2,773	(478)
Net interest payable and similar charges	(202)	(116)
Profit/(Loss) before tax	3,133	(639)
Taxation	(689)	(183)
Profit/(Loss) after tax and after minorities	2,505	(670)
Earnings/(Losses) per Ordinary Shares		
basic	19.1p	(5.2p)
diluted	19.1p	(5.1p)
Net dividend	2.76p	2.4p



COMPANY DEVELOPMENT

CHAIRMAN'S STATEMENT

RESULTS

The Group reports sales for the year to 30 June 1999 up 33% at **£87.9m** (1998: £66.3m) with operating profits of **£2,773,000** (1998: loss after exceptional item £478,000). With the profit on the sale of the Quadratic investment **£541,000** shown as an exceptional item and after the charge for net interest payable **£202,000** (1998: £116,000), profit before tax is reported at **£3,133,000** (1998: loss £639,000). After tax and minority interests earnings per share is calculated at **19.1p** (1998: loss 5.2p).

Sales growth in local currency terms is 30%. The principal business unit EDMS saw good growth across Europe, while Display Systems benefited from the move to the new flat screen technology in both Switzerland and Austria. PSAS reported a small loss during the period.

The Group performed in line with its working capital model and ended the period with net cash balances of **£1.0m** (£1.0m at 30 June 1998) after financing organic sales growth in excess of 30% and spending **£1.2m** in cash on investments and minor acquisitions during the period.

OPERATING REVIEW

Electronic Document & Data Storage Management (EDMS)

is the Group's largest business unit providing a broad range of products, related services and know how in electronic document and data storage management, including its role as Europe's largest focused distributor of document imaging and storage products. EDMS saw solid growth across Europe with improved performance in all major countries, other than Germany where margins came under pressure. It is pleasing to report that the continuing emphasis on the provision of consulting and other services is improving significantly the quality and quantity of its service revenues. The increased level of end-user project involvement, sometimes cross-border, is raising the Group's profile and bringing a range of larger project opportunities.

Display Systems is the business unit, which includes the sole distribution of Samsung displays in Switzerland and Austria. The introduction of the new flat screen display (TFT) technology, which is rapidly displacing the older cathode ray tube, has brought significant growth and the Group has successfully positioned the Samsung TFT brand as a market leader in the key 14" to 17" sector in both Switzerland and Austria. Demand outstrips supply and TFT prices have recently firmed. Production capacity continues to hold back growth.

Public Sector Administration Solutions (PSAS) is the business unit which develops and markets public administration solutions targeted at the administrative requirements of local Swiss municipalities. After the significant problems of the previous year, the business unit reported a small loss during the year. New management has been appointed and the development team strengthened by the acquisition from EDS of a small team of tax software specialists.

A new business unit Digital Security has been formed following the strategic alliance with GTE CyberTrust Solutions, which was announced on 11 February. The rationale for this development is founded on the rapidly growing demand for IT products and services that provide security for Internet solutions. The new business unit will address the IT needs of professional users, software developers and system integrators seeking security support for applications such as e-commerce, e-mail, Web based document management, access control and video surveillance.

INVESTMENT IN KOFAX AND LISTING ON THE NEUER MARKT

On 28 July 1999, the Group announced it had committed an equity investment of US\$ 4m to acquire an 18.8% stake in Imaging Components Corporation ("ICC"). ICC is a new US based private equity vehicle formed to make a tender offer for 100% of Kofax Image Products ("Kofax") at a cost of US\$ 70.5m. On 9 September 1999 the Group was pleased to announce that the tender offer by ICC expired with a total of approximately 4.4 million shares, or 84% of all outstanding common stock of Kofax, validly tendered. These shares have been purchased by ICC in accordance with the terms of the tender offer. Procedures have now been commenced to enable ICC to acquire the remaining 16% of Kofax. The Group has a call option over the balance of the equity in ICC at a cost of up to US\$ 20.2m in cash and warrants/options over up to 1.2m DICOM shares. Exercise of the option would be conditional on a successful placing of not less than US\$ 20m on a recognised exchange and a DICOM share price of not less than US\$ 4.94.

Kofax, which is based in California and listed on NASDAQ, is a leading supplier of both application software and image processing products for the imaging, workflow and document management market with emphasis on the document and data capture and document storage product segments. DICOM has been a customer of Kofax since 1992 and is now a leading distributor of its products in Europe and South East Asia.

The Group announced in May that, in order to broaden the shareholder base, it intends to seek a listing on Frankfurt's Neuer Markt, subject to market conditions, after the publication of its Final Results for the year to 30 June 1999. The Group now plans to raise funds at the time of the prospective Neuer Markt listing to enable it to exercise its call option and to acquire the balance of the ICC equity. It is intended to submit relevant proposals to shareholders for approval in due course.

The combination with Kofax is intended to create a major international force in the imaging, workflow and document management market. DICOM and Kofax together will be one of the few true global suppliers of products and services to the document technologies market, with special focus as the leading provider of document and data capture products and related systems integration.





INVESTMENTS AND ACQUISITIONS

In November 1998, the Group invested a further £324,000 in Quadratec SA., increasing its holding to 7.9%. Quadratec, which is based in France, develops and markets data storage software products. The Quadratec investment was sold in June 1999 at a profit of £541,000.

In December 1998, the Group acquired from EDS a small Swiss software development business specialising in tax application products for local Swiss municipalities. Initial consideration was £176,000 in cash with further deferred consideration of up to £374,000 dependent on results.

During the year the Group bought out a number of minority interests in Group companies. The 20% minority in DICOM France SA was acquired for £187,000 by the issue of 84,450 shares. The 20% minority in Xenstone Storage Systems Ltd was acquired by payment of £10,000 in cash and the Group increased its stake in DICOM Italia SpA from 40% to 80% by payment of £69,000 in cash.

DIRECTORS

Dr. Heike von Benda resigned as a non-executive director in March 1999. We thank her for her contribution to the Board's deliberations.

STAFF

Staff numbers grew during the year to 340. DICOM's future prosperity is in large measure dependent on the ability, energy and loyalty of its staff, whose specialist knowledge, training and experience is key to the successful provision of the Group's value-added services. We are fortunate that staff turnover remains low and that we continue to attract high calibre recruits. I would like to record my personal appreciation to all staff for their commitment and contribution.

We are pleased to confirm that the Group has established an Employee Share Ownership Plan in order to reward and motivate staff at all levels. An initial allocation of shares has been made to all permanent staff.

DIVIDEND

The Directors propose a final dividend of **1.84p** per Ordinary Share, which when added to the interim dividend of **0.92p** per Ordinary Share, makes a total dividend for the year of **2.76p** per Ordinary Share (1998: 2.4p).

PROSPECTS

We are continuing to see good levels of growth in the market and we are on plan for the first two months of the new financial year. However, the short-term impact of Year 2000 issues remains difficult to assess.

The proposed listing on the Neuer Markt and the associated fundraising to finance the acquisition of Kofax represent key strategic opportunities for the Group to improve significantly the underlying quality of the core business, increase critical mass and raise market visibility with both customers and suppliers. The directors view the prospects for the Group with optimism.

OTTO SCHMID
CHAIRMAN AND CHIEF EXECUTIVE
5 OCTOBER 1999

BUSINESS REVIEW

A YEAR OF PROGRESS

After the disappointments of 1997/98, mainly due to problems in the PSAS business unit, DICOM is now back on a profitable growth track.

DICOM operates three business units providing components, solutions and services to the following markets:

- Electronic Document and Data Storage Management
- Display Systems
- Public Sector Administration

During the year a fourth business unit Digital Security has been formed following the strategic alliance with GTE CyberTrust Solutions. This business unit will address the needs of users, software developers and system integrators seeking professional security solutions for document management and in general to secure Internet based applications.

TECHNOLOGY: ELECTRONIC DOCUMENT MANAGEMENT (EDM) AND DATA STORAGE MANAGEMENT

EDM technology supports some of the most successful applications for the improvement of data and document management within the office environment. A typical EDM solution enables the user to capture documents (which can include film and photographs), recognise their contents (optical character recognition), index, route, retrieve, display, print and store them in digital format. Faxes and computer generated files, such as spreadsheets and text documents, can all be handled in the same way as the paper-based data, allowing the seamless interchange of data independently of its origin. Recent developments with the use of the Internet (Intranets, Extranets) add a new class of documents which have to be comprehensively managed for the content's entire life cycle, from development through review, approval, distribution, and archiving. Modern EDM technologies offer sets of software and hardware components which can deliver an inherently scalable, reliable, and manageable architecture – the foundation for cost effective, enterprise-wide deployment. This open, modular, expandable architecture supports and is capable of integration with a number of key business processes (e.g. ERP systems).

Business data handled in digital format creates ever-increasing demand for electronic data storage. EDM installations frequently replace existing paper storage and microfilm archives. Storage technologies are needed to provide data protection, data access, data management and data integration. Data protection, using back up/restore techniques, is needed to insure against the risk of data loss caused by system or hardware failure, accidents and sabotage. Data access and data management technologies enable the correct data to be delivered where and when it is needed, in its most useful form and as economically as possible. Data integration ensures the success of the networked storage solution.

MARKETS: ELECTRONIC DOCUMENT MANAGEMENT (EDM) AND DATA STORAGE MANAGEMENT

The EDM and storage market is growing rapidly as large end users, such as governments, financial institutions and major corporations recognise the economic benefits to be gained by the improvement of data and document management. Today, the great majority of business data continues to be stored on paper. The growth potential for the adoption of this technology remains enormous. Key benefits to be achieved by the implementation of an EDM system are improved customer service, increased productivity, lower total cost of ownership and a better competitive position in the market.

For example, an insurance company can dramatically improve the efficiency of its claim form processing with an EDM installation which scans all incoming documents and automatically reads, indexes, routes and stores those documents on an electronic archive. Pharmaceutical companies can use EDM to assist in fulfilling regulatory requirements, thus reducing their time to market for new products. Call center applications can benefit greatly from timely on-line access to all customer information. Governments are increasingly turning to the Internet in combination with an electronic archive to enhance public access to documents. And organizations of all kinds are using EDM to support their quality standard efforts, such as ISO 9000.

EDM installations can be quite complex, including individual components which address specific tasks within the whole. A document capture subsystem is responsible for all document input issues, such as scanning, indexing, and the automated processing of forms data. An archival storage backend handles all long-term storage issues of image data, including management of optical jukeboxes and media, data caching, and disaster recovery. And document management and workflow components then integrate with the business applications (ERP, loan processing, etc.) to provide EDM functionality to the system.

DICOM focuses on the document capture and archival storage pieces within EDM, providing a wide range of component products and associated services within these areas. In document capture DICOM relies on Fujitsu, Kodak, and Bell+Howell for production scanner hardware, and on Kofax for document and data capture software. The primary partners in archival storage are Hewlett Packard and Plasmon for optical storage hardware, and Kofax again for storage management software.

DICOM – ELECTRONIC DOCUMENT AND DATA STORAGE MANAGEMENT SOLUTIONS (EDMS)

This DICOM division is Europe's leading provider of EDM and related storage components and services with sales offices in most European countries. The business model consists of two key elements: focus on a selected range of specific technologies and related services, and emphasis on working with business partners to provide effective solutions for the document and data management markets. The product

range includes hardware peripherals and software components, supported by a comprehensive range of services. DICOM's success is based on an independent and experienced input at every stage of a project from the definition of a requirement to the long-term support of the installation.

DICOM's close contact with the industry's leading manufacturers and input to the product development process ensures that the best comprehensive range of products is offered at competitive prices. Manufacturers, in turn, rely on DICOM's marketing and service expertise to develop and maintain a professional sales channel for their products. DICOM works with major business partners, often as partner of choice in large international projects, to provide total solutions to end-users. DICOM offers a complete range of services for the products sold, including demonstration and training facilities, consultancy and seminars, equipment hire, installation and integration services, and product maintenance and support. Its international presence is an important factor in the cost-effective delivery of service levels to suppliers, business partners and end users alike.

Furthermore, DICOM increasingly seeks to develop its own software components to facilitate its ability, working with business partners, to pursue opportunities in specific vertical market segments. For example DICOM owns a software package targeted at the Swiss banking industry, which handles the credit application and decision process and is capable of integration into workflow and document management systems.

DICOM – DISPLAY SYSTEMS (DS)

This business unit dates back to the origins of DICOM in the early 1990's. Its principal focus is the exclusive representation of Samsung high quality display systems in Switzerland and Austria. In both countries the Samsung brand has been successfully positioned as a market leader with a significant market share. The introduction of the new flat screen (TFT) technology, which is rapidly displacing the traditional cathode ray tube (CRT) monitor range, has brought significant growth and gained significant early design wins in the financial services sector. Samsung is the leading monitor manufacturer world-wide with a long-standing reputation for technological innovation and price competitiveness.

DICOM – PUBLIC SECTOR ADMINISTRATION SOLUTIONS (PSAS)

This DICOM business unit is centred on the activities of the Swiss Dialog subsidiary, which develops, sells and supports a comprehensive software package "GemoWin" that is especially tailored to meet all the administrative needs of German speaking local public authorities in Switzerland. There are approximately 2000 such public authorities, the majority of which face the challenge of upgrading the quality, cost and efficiency of their administrative processes. Dialog has developed a

fast, well-integrated, user-friendly, compliant and secure solution, which is written in modular fashion and allows seamless integration with EDM technologies.

DICOM – DIGITAL SECURITY

DICOM management commenced development of a new Digital Security business as it sees a significant potential in specific areas for solutions that address security needs of professional users, software developers and system integrators. The decision was made primarily based on the following market observations:

- The market for Internet/Browser based applications is growing at a very fast rate
- Business processes and relations are increasingly replicated on Extra- and Intranets
- Document Management solutions are using web browser and server technology more and more
- New media such as Video data is another source of formatted information, which requires technology and services to be captured and interpreted so it can easily be imported into IT systems

The products offered are based on PKI (Public Key Infrastructure). The product line includes applications to secure E-mail, Access Control, secured Extranets, Video server and data storage technology.

The first step to becoming a European provider of security technology and services has been taken with the creation of DICOM Security in Switzerland, which is already working on various projects internationally. The outlook for this division, which currently employs 12 people, is very promising.

DICOM – EMPLOYEES

Senior management in DICOM has extensive experience in the European Information Technology environment. There is an awareness of the need to create a truly international group, with an integrated communication infrastructure supporting an open and flexible organisation. Significant investment has been made to provide shared information systems, both marketing and financial.

But, most important are DICOM's people. Technology service businesses are largely dependent on the quality, loyalty and motivation of staff at all levels. DICOM has well trained, well educated staff, with many years of experience in their specialist fields. Staff numbers grew from 320 to 340 by the end of the year. Staff turnover remains low and DICOM continues to attract high calibre people to join its ranks.

Fair reward systems are in place together with employee share ownership and option schemes. All are designed to remunerate success and loyalty.

REPORT OF THE DIRECTORS

The directors present their fourth Annual Report together with the audited financial statements of the Company for the year ended 30 June 1999.

PRINCIPAL ACTIVITIES

The Company is the UK holding company for a group of businesses providing products, solutions and services in data and document management.

A review of the Group's performance, development and an indication of future prospects are contained in the Chairman's Statement and the Business Review on pages 6 to 9.

RESULTS

The Group's profit after taxation and minority interests for the year 1 July 1998 to 30 June 1999 amounted to **£2,505,000** (1998: loss £670,000).

The directors recommend payment of a final dividend of **1.84p** per Ordinary Share of 10p. This will result in a total dividend of **2.76p** (1998: 2.4p) per Ordinary Share of 10p and will absorb **£370,000** (1998: £312,000) of the results of the year.

DIRECTORS AND DIRECTORS' INTERESTS

Heike von Benda resigned as a Director on 31 March 1999.

The directors of the Company during the year and their interests in the issued share capital of the Company were as follows:

	Interests at		
	5 October 1999	30 June 1999	30 June 1998
Otto Schmid	1,108,619	1,103,619	859,229
Walter Greifeneder	800,390	800,390	800,390
Arnold von Büren	700,132	700,132	648,002
Christoph Löslein	264,258	264,258	264,258
Urs Niederberger	143,900	138,900	123,900
Bruce Powell	30,000	30,000	10,000
Paul Gerny	369,362	369,362	369,362
John Incedon	14,188	14,188	12,475
Heike von Benda	–	–	–

Details of share options granted to the directors are given in the Remuneration report on page 14.

EXECUTIVE DIRECTORS

Otto Schmid, aged 61, Chairman and Chief Executive, is a Swiss citizen with degrees in mathematics and in economics from the University of Zurich, where he completed a doctoral thesis in business forecasting in 1970. In 1969 he co-founded and was managing director at Wirtschafts Mathematik AG, a Swiss service company for mathematical statistics and applied mathematics. In 1978, he joined ACU Informatik AG, a Swiss distribution company for computer peripherals, and

became a director, with responsibility for corporate development. In 1991, he co-founded DICOM. Since that time, he has led the development of the DICOM business in countries outside Switzerland and has taken specific responsibility for planning and corporate development at Board level.

Walter Greifeneder, aged 42, is Deputy Chief Executive. He is an Austrian citizen and has worked since 1977 in the computer industry. He joined 1980 Elbatex, an electronic components distributor, establishing their computer peripheral department. In 1988 he formed ELSAT with Felix Klementschtz, with Elbatex as the controlling shareholder. In 1991 he led the management buyout of ELSAT. In November 1996 ELSAT was acquired by DICOM.

Arnold von Bueren, aged 47, is Deputy Chief Executive. A Swiss citizen, Arnold von Bueren obtained a degree in Economics and Business Administration. He has worked in the computer industry since 1978, including three years in the USA. He joined ACU Informatik AG in Switzerland in 1983, working in sales and administration, and he co-founded and became general manager of Computerway in 1989. He joined DICOM in 1994.

Christoph Loeslein, aged 32, is Executive Director. A German citizen, he worked for Pyramid Computer GmbH, a computer systems company, in Germany from 1986 to 1993, initially as purchasing manager, then as marketing manager and latterly as sales manager and an executive director. In 1993 he joined DICOM to start its German operations and was given Group responsibility in November 1996.

Urs Niederberger, aged 33, is Finance Director. A Swiss citizen, he obtained a degree in Economics and Business Administration at the Lucerne Business School and is a Swiss qualified Financial Management Consultant ("Dipl. Treuhandexperte"). He worked as an accountant for a number of companies between 1987 and 1990. Since then he has worked for DICOM, from 1993 to 1996 as a consultant with Visura Consulting, part of BDO International. He became Chief Financial Officer in October 1997.

NON-EXECUTIVE DIRECTORS

Bruce Powell, FCA, MA (Cantab.), aged 50, is a British citizen. He has been involved in a group executive role with the flotation on the London Stock Exchange and subsequent operational management of Acal Group plc and VideoLogic Group plc. He is non-executive chairman of Dataform Group Ltd and a director of ChemMediCa Pharmaceuticals Ltd.

Paul Gerny, aged 57, a Swiss citizen, is Strategic Advisor of the European Managing Board of SEI, a leading European distributor of electronic components, and a non-executive director of a major Australian document management company amongst other interests. He is Chairman and Chief Executive of Aspro Technology Ltd, a leading power supply company, based in Switzerland and The Peoples Republic of China.

John Incedon, aged 61, is a British citizen. He has served as a director of listed and privately held companies in the United States and in Europe for over 20 years and has extensive experience as a director of IT businesses.

EMPLOYEES

The Group's employment policy is designed to attract, retain and motivate high calibre people, recognising that this can be achieved only through offering equal opportunities regardless of sex, race, religion or disability. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

The success of the Group depends on the quality and performance of its employees and the Group continues to ensure this by communicating with its employees about both local and Group-wide matters; this communication is conducted through notices, newsletters and staff meetings and briefings on a regular basis. The Company encourages all of its employees to participate in the growth of the Group and welcomes staff input at all levels.

Employees involvement in the Group's profitability is encouraged through locally based bonus and profit related pay schemes, executive bonus scheme and share option schemes.

YEAR 2000

The Group has continued with its exercise to ensure all relevant systems are Year 2000 compliant. It is believed that no significant costs will arise in relation to this.

TREASURY MANAGEMENT

Borrowings are negotiated locally after consultation with Group directors. Any funds in excess of local working capital requirements are managed centrally in order to maximise the return. The Group's policy is to borrow principally at floating rates of interest in the local operating currency. At 30 June 1999 the Group's fixed rate borrowings amounted to 15% (1998-7%) of total borrowings. Short term flexibility is achieved by overdraft facilities.

The group has significant overseas subsidiaries which operate principally in their local currency.

PAYMENT OF SUPPLIERS

The Group agrees payment terms with suppliers when it enters into purchase contracts, taking into account local good practice, and seeks to abide by these payment terms whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. As at 30 June 1999 trade creditors represented 43 days (56 days) purchases.

POST BALANCE SHEET EVENT

On 28 July 1999, the Group announced it had committed an equity investment of US\$ 4m to acquire an 18.8% stake in Imaging Components Corporation ("ICC"). ICC is a new US based private equity vehicle formed to make a tender offer for 100% of Kofax Image Products ("Kofax") at a cost of US\$ 70.5m. On 9 September 1999, the Group was pleased to announce that the tender offer by ICC expired with a total of approximately 4.4 million shares, or 84% of all outstanding common stock of Kofax, validly tendered. These shares have been purchased by ICC in accordance with the terms of the tender offer. Procedures have now been commenced to enable ICC to acquire the remaining 16% of Kofax. The Group has a call option over the balance of the equity in ICC at a cost of up to US\$ 20.2m in cash and warrants/options over up to 1.2m DICOM shares. Exercise of the option would be conditional on a successful placing of not less than US\$ 20m on a recognised exchange and a DICOM share price of not less than US\$ 4.94.

SUBSTANTIAL SHAREHOLDERS

The Board has been notified of the following holders (other than directors) of 3 % or more of the issued share capital of the Company as at 5 October 1999:

	Number of Ordinary Shares of 10p held	% of issued Share Capital
Felix Klementschtz	800,389	6.0%
Martin Schmid	759,798	5.7%
René Müller	533,398	4.0%
Henderson Smaller Companies Investment Trust Plc	534,100	4.0%

ANNUAL GENERAL MEETING

Notice of the Company's Annual General Meeting is given on page 33 at the end of this document.

AUDITORS

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

URS NIEDERBERGER, COMPANY SECRETARY

5 OCTOBER 1999

CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT

DICOM believes in and is committed to high standards of corporate governance. The Board considers that the Company has, throughout the year, complied with the Code provisions set out in Section 1 of the Combined Code issued by the Committee on Corporate Governance, except for the matters referred to below. The Board has decided to restrict its reporting on internal control to internal financial controls until guidance for directors on the scope, nature and review of all controls including financial, operational and compliance controls and risk management is finalised.

The Board is accountable to the Company's shareholders for good governance. The statement set out below describes how the principles identified in the Combined Code are applied.

DIRECTORS

The Board currently comprises the Chairman and Chief Executive, four other Executive directors and three Non-Executive Directors. All the Non-Executive Directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. Their interests in the shares of the Company are set out on page 10 and they receive a fixed fee for their services.

Biographies of the Board members appear on page 10 to 11 of this report. These indicate the high levels and range of business experience which enables the Group to be managed effectively.

The Board meets at least six times each year, with additional meetings and contact between the meetings as necessary. The Board has a schedule of matters reserved to it for decision. These include the Group's strategic plans and annual operating budgets, business acquisitions and disposals of companies, major litigation and employee share schemes.

All directors have access to the Company Secretary and may take independent professional advice if necessary at the Company's expense.

When new members are appointed to the Board, they are provided with advice from the Company's solicitors in respect of their role and duties as a public company director.

The role of Chairman and Chief Executive is acknowledged and approved by the Board. The key functions are to conduct Board meetings, meetings of shareholders and to ensure that all directors are properly briefed in order to take a full and constructive part in Board discussions. Also, he develops and leads business strategies and processes to enable the Group to meet shareholders requirements. Due to the relatively small size of the Group, the role of Chairman and Chief Executive is combined; however all of the Non-Executive Directors are independent of management.

The senior Non-Executive Director is Bruce Powell and concerns relating to the executive management of the Company or the performance of the other Non-Executive Directors may be raised with him.

To enable the Board to function effectively and directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussions documents regarding specific matters.

Appointments to the Board of both Executive and Non-Executive Directors are considered by the full Board. The Board considers that there is no current requirement for a Nomination Committee in view of the size of the Board. The Remuneration Committee considers any remuneration package before it is offered to a potential Board appointee.

The provisions of the Company's Articles of Association require that the number of directors nearest to, but not greater than, one third retire by rotation each year and seek re-election at the Annual General Meeting. The directors required to retire are those in office longest since their previous re-election and this usually means that each director retires at least every three years, although there is no absolute requirement to this effect.

COMMITTEES

The principal committee, appointed by the Board and with specific responsibilities, are the Audit and Remuneration committee. Both committees comprise of all the Non-Executive directors and are chaired by the senior independent Non-Executive director, Bruce Powell.

The Audit Committee meets at least twice a year to review the Group's financial statements, internal financial control, financial reporting and accounting policies. Its meetings are normally attended by the Group Finance Director and the external auditors.

The Remuneration Committee meets at least twice a year to review the remuneration of the Executive directors.

Full details of directors' remuneration and a statement of the Company's remuneration policy is set out on page 14. The Chairman and Chief Executive attends meetings of the Committee to discuss the performance of the other executive directors and make proposals as necessary, but takes no part in deliberations when his own position is being discussed.

Each Executive director abstains from any discussion or voting at full Board meetings on Remuneration Committee recommendations where the recommendations have a direct bearing on his own remuneration package. The details of each Executive director's individual package are fixed by the Committee in line with the policy adopted by the full Board.

COMMUNICATIONS

The Company is committed to ongoing communication with its shareholders through the regular interim and annual report and other trading statements, as well as through the AGM. The Company's website at <http://www.dicomgroup.com> contains both corporate and customer information. Regular dialogue and presentations take place with institutional and private shareholders through the Company's investor relations programme.

INTERNAL CONTROL

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on page 15.

The directors are responsible for the Company's system of internal financial control which is designed to provide reasonable but not absolute assurance against material misstatement or loss. The key procedures that the directors have established to provide effective internal financial controls are as follows:

- the Board approves the medium term strategy and budget plans for each operating company
- the Board has established an organisational structure with clear lines of responsibility and rigorous reporting requirements for each operating company
- the manager of each operating company is clearly accountable for establishing and maintaining internal financial controls within that company
- executive members of the Board have day to day involvement in all aspects of the business and attend regular management meetings of the operating companies at which performance against plan and business prospects are reviewed
- having approved the annual group budget, the Board receives management reports monthly and reviews business re-forecasts quarterly

GOING CONCERN

The directors believe, after making inquiries which they consider to be appropriate, that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

REMUNERATION REPORT

The Remuneration Committee considers that the Company has complied with the principles of the best practice provisions of the London Stock Exchange, concerning the Committee's composition and operation, with the exception of Otto Schmid's role as a member of the Remuneration Committee, as noted below. The Remuneration Committee also confirms that full consideration has been given in determining the remuneration policy, service contracts and compensation for directors.

The Remuneration Committee of the Board presently consists of three Non-Executive directors, Bruce Powell, Paul Gerny and John Incedon, together with Otto Schmid, Chairman and Chief Executive. Otto Schmid does not take part in discussions relating to his own remuneration. Heike von Benda, a Non-Executive director, served as a member of the Committee until her resignation on 31 March 1999. Arrangements for the Non-Executive directors are approved at meetings of the full Board.

The Remuneration Committee considers that, in order to motivate, attract and retain Executive directors and senior management of sufficient calibre, it is necessary for the Group to provide a remuneration package, which is competitive, reflects individual experience and performance, and takes account of local market practice.

The remuneration package for Executive directors presently consists of a fixed salary, benefits comprising car and other personal expense allowances and payments to defined contribution personal pension schemes. There is also a performance-related bonus scheme. Each Executive director has a service agreement, which specifies a 12 months notice period.

Details of the directors' remuneration for the year to 30 June 1999 are as follows:

	Salary/Fees	Consultancy	Benefits	Total 1999	Total 1998	Directors Pension	
	£	£	£	£	£	1999 £	1998 £
Executive Directors							
Otto Schmid	72,680	–	12,680	85,360	83,420	16,012	17,133
Martin Schmid	–	–	–	–	31,323	–	5,273
Arnold von Büren	64,243	–	12,680	76,923	75,176	12,946	12,837
Walter Greifeneder	66,913	–	–	66,913	65,354	11,416	9,136
Christoph Löslein	57,662	–	11,412	69,074	41,872	1,831	713
Urs Niederberger	64,243	–	12,680	76,923	43,853	9,775	5,291
Non-executive Directors							
John Incedon	15,000	–	–	15,000	15,000	–	–
Paul Gerny	15,000	–	–	15,000	15,000	–	–
Bruce Powell	15,000	12,000	–	27,000	47,500	–	–
Heike von Benda	11,250	–	–	11,250	8,750	–	–
Total	381,991	12,000	49,452	443,443	–	51,980	–
Total 1998	355,096	32,500	39,652	–	427,248	–	50,383

No performance-related bonus was paid. During the year Bruce Powell provided general financial and strategic advice under separate consultancy arrangements.

The Remuneration Committee also considers that share ownership and the award of options are key components in the overall remuneration package for Executive directors and senior managers. It is the Remuneration Committee's objective that all Executive directors and senior managers should by direct share ownership and/or by grant of options or super options have a material interest in the success of the DICOM

Group. The group has no formal share option policy but options are awarded on the basis of performance.

Executive directors have by virtue of direct ownership material shareholdings in DICOM GROUP plc. Additionally, directors' holdings of options during the year to 30 June 1999 were as follows:

	Options at 30 June 1998	Exercised during the year	Options at 30 June 1999	Exercise Price
Otto Schmid	144,390	144,390	–	50p
Arnold von Büren	48,130	48,130	–	50p

The market price of the shares at 30 June 1999 was 325p and the range during the year ended on that date was 77p to 381p.

OTTO SCHMID

BRUCE POWELL

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

REPORT OF THE AUDITORS TO THE MEMBERS OF DICOM GROUP PLC

We have audited the financial statements on pages 16 to 31 which have been prepared under the accounting policies set out on page 19. We have also examined the amounts disclosed relating to the emoluments and share options which form part of the Remuneration report on page 14.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 16 to 31 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 12 to 13 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 30 June 1999 and of the result of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

B D O S T O Y H A Y W A R D
C H A R T E R E D A C C O U N T A N T S A N D R E G I S T E R E D
A U D I T O R S
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CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	YEAR TO 30 JUNE 1999 £ '000	YEAR TO 30 JUNE 1998 £ '000
TURNOVER	1	87,863	66,295
Cost of sales		(65,514)	(49,848)
GROSS PROFIT		22,349	16,447
Operating expenses		(19,576)	(16,702)
Exceptional item	3	-	(223)
OPERATING PROFIT/(LOSS)	2	2,773	(478)
Share of results of associated undertakings	11	21	(45)
Exceptional item	3	541	-
Net interest payable and similar charges	4	(202)	(116)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		3,133	(639)
Taxation	6	(689)	(183)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		2,444	(822)
Minority interests		61	152
PROFIT/(LOSS) ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		2,505	(670)
Dividends – equity	7	(370)	(312)
RETAINED PROFIT/(LOSS)		2,135	(982)
EARNINGS/(LOSSES) PER ORDINARY SHARE	8		
basic		19.1p	(5.2p)
diluted		19.1p	(5.1p)

The results for this and the preceding year relate wholly to continuing activities. The results of the acquisitions were not material to the Group.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Profit/(Loss) for the financial year	2,505	(670)
Gain/(Loss) on currency translation	95	(404)
Total recognised gains and losses relating to the year	2,600	(1,074)

THE NOTES ON PAGES 20 TO 31 FORM PART OF THESE FINANCIAL STATEMENTS.

BALANCE SHEETS

AT 30 JUNE 1999

	NOTE	GROUP AT 30 JUNE 1999 £ '000	GROUP AT 30 JUNE 1998 £ '000	COMPANY AT 30 JUNE 1999 £ '000	COMPANY AT 30 JUNE 1998 £ '000
FIXED ASSETS					
Intangible assets	9	1,291	–	–	–
Tangible assets	10	2,382	2,169	–	–
Investments	11/12	84	493	1,973	1,963
		3,757	2,662	1,973	1,963
CURRENT ASSETS					
Stocks	13	5,632	4,978	–	–
Debtors	14	14,810	12,625	6,517	6,489
Investments	15	159	128	–	–
Cash at bank and in hand		2,938	5,031	3	–
		23,539	22,762	6,520	6,489
CREDITORS:					
Amounts falling due within one year	16	(15,565)	(16,345)	(327)	(750)
NET CURRENT ASSETS		7,974	6,417	6,193	5,739
TOTAL ASSETS LESS CURRENT LIABILITIES		11,731	9,079	8,166	7,702
CREDITORS:					
Amounts falling due after more than one year	17	(367)	(304)	–	–
Provisions for liabilities and charges	20	(236)	(284)	–	–
NET ASSETS		11,128	8,491	8,166	7,702
CAPITAL AND RESERVES					
Called up share capital	21	1,336	1,299	1,336	1,299
Share premium account	22	6,687	6,382	6,687	6,382
Merger reserve	22	527	527	–	–
Profit and loss account	22	2,611	381	143	21
SHAREHOLDERS' FUNDS – EQUITY	23	11,161	8,589	8,166	7,702
MINORITY INTERESTS – EQUITY		(33)	(98)	–	–
		11,128	8,491	8,166	7,702

These financial statements were approved by the Board of directors on 5 October 1999 and were signed on its behalf by

OTTO SCHMID

URS NIEDERBERGER

THE NOTES ON PAGES 20 TO 31 FORM PART OF THESE FINANCIAL STATEMENTS.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 1999

	YEAR TO 30 JUNE 1999 £ '000	YEAR TO 30 JUNE 1998 £ '000
CASH INFLOW FROM OPERATING ACTIVITIES	1,988	922
Returns on investments and servicing of finance	(201)	(119)
Taxation paid	(582)	(882)
Capital expenditure and financial investment	(530)	(1,764)
Acquisitions and disposals	(645)	(310)
Equity dividends paid	(316)	(326)
CASH OUTFLOW BEFORE		
USE OF LIQUID RESOURCES AND FINANCING	(286)	(2,479)
Management of liquid resources	2,680	1,466
Financing		
Issue of Ordinary Shares	342	–
(Decrease)/Increase in debt	(1,241)	1,171
	(899)	1,171
INCREASE IN CASH IN THE YEAR	1,495	158
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS		
Increase in cash in the year	1,495	158
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	1,241	(1,171)
Cash inflow from decrease in liquid resources	(2,680)	(1,466)
Change in net funds resulting from cash flows	56	(2,479)
New finance leases	(115)	(157)
Exchange difference	56	18
MOVEMENTS IN NET FUNDS IN THE YEAR	(3)	(2,618)
Net funds at 1 July 1998	972	3,590
NET FUNDS AT 30 JUNE 1999	969	972

Further information in respect of the consolidated cash flow statement can be found in notes 12 and 26.

THE NOTES ON PAGES 20 TO 31 FORM PART OF THESE FINANCIAL STATEMENTS.

ACCOUNTING POLICIES

ACCOUNTING POLICIES

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the Group's financial statements:

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

BASIS OF CONSOLIDATION

The consolidated financial statements includes the financial results of DICOM GROUP plc and all subsidiary undertakings. Inter-company balances and transactions have been eliminated on consolidation.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired during the relevant period are included in the consolidated profit and loss account from the date of acquisition.

SUBSIDIARY UNDERTAKINGS

The investment in subsidiary undertakings is stated in the parent company balance sheet at cost, less provision where appropriate for permanent diminution in value. Cost comprises any cash consideration, the par value of shares issued as consideration and any expenses of these acquisitions.

ASSOCIATED UNDERTAKINGS

Those undertakings, not being subsidiary undertakings in which the Group owns not less than 20% of either the allotted share capital or the total capital and over which it exercises significant influence, are treated as associated undertakings.

The Group includes its share of associated undertakings' profits or losses in the consolidated profit and loss account. The investments in associated undertakings are stated in the consolidated balance sheet at the Group's share of the underlying net asset value.

GOODWILL AND INTANGIBLE ASSETS

The net assets of subsidiaries acquired are accounted for on a fair value basis and from this year the resulting goodwill is capitalised and amortised. Under the transitional arrangements for Financial Reporting Standard Number 10, the group has not reinstated goodwill previously eliminated against reserves. Goodwill is amortised over its useful economic lives which are deemed to be twenty years unless the directors consider a shorter period to be appropriate.

FOREIGN CURRENCY

Assets and liabilities expressed in foreign currencies are translated into Sterling at the rates of exchange ruling at the end of the financial year. Results of foreign subsidiary undertakings are translated at the average rate of exchange for the relevant period. Differences on exchange arising from the translation of the net assets and results of those subsidiary undertakings are taken to reserves.

DEPRECIATION

Depreciation of tangible fixed assets is provided on a straight line basis to write off the cost of the assets over their expected useful lives. The principal annual rates used for this purpose are:

Leasehold improvements	10 %
Machines and equipment	20 %
Motor vehicles	20 %
Furniture and fixtures	20 %

STOCKS

Stocks and work in progress are stated at the lower of average cost and net realisable value.

TURNOVER

Turnover represents the value of goods supplied, commission and other services provided to third parties, excluding VAT and similar taxes. Long term projects are assessed on a project by project basis and are reflected in the profit and loss account by recording turnover according to the degree of completion.

TAXATION

The charge for taxation is based on the profit for the relevant period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation only to the extent that it is probable that an actual liability will crystallise.

LEASED ASSETS

Assets acquired under hire purchase contracts and finance leases are capitalised in the balance sheet. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the lease period.

RESEARCH AND DEVELOPMENT

Development costs are charged to the profit and loss account in the period in which the expenditure is incurred.

FINANCIAL INSTRUMENTS

In relation of the disclosures made in note 18, short-term debtors and creditors are not treated as financial assets or financial liabilities. The Group does not trade in derivative financial instruments. Forward exchange contracts are used to fix the value of the related asset or liability in the contract currency and at the contract rate and any gains or losses on these instruments are offset. Where the instrument is used to hedge a committed or probable future transaction, gains and losses are deferred until the transaction occurs.

EMPLOYEE SHARE OWNERSHIP PLAN

Shares in the Company held by the Trustees of the Employee Share Ownership Trust are stated at cost less provisions for any permanent diminution in value.

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

1 ANALYSIS OF TURNOVER, PROFIT AND NET ASSETS

Only one class of business, the provision of products, solutions and services in data and document management is undertaken within the Group.

	YEAR TO 30 JUNE 1999 £ '000	YEAR TO 30 JUNE 1998 £ '000
SALES WERE MADE TO THE FOLLOWING MARKETS:		
Western Europe	84,044	60,993
Eastern Europe	3,547	3,890
Rest of the World	272	1,412
	87,863	66,295

PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION ARE ANALYSED AS FOLLOWS:

Western Europe	2,856	(603)
Eastern Europe	277	33
Rest of the World	-	(69)
	3,133	(639)

TOTAL NET ASSETS ARE ANALYSED AS FOLLOWS:

Western Europe	10,882	8,519
Eastern Europe	279	92
Rest of the World	-	(22)
	11,161	8,589

2 OPERATING PROFIT/(LOSS)

	£ '000	£ '000
Operating profit/(loss) is stated after charging/(crediting):		
Depreciation		
– owned assets	755	591
– assets held under finance leases	91	53
– amortisation of goodwill	42	-
Loss/(Profit) on disposal of tangible fixed assets	8	(6)
Auditors' remuneration		
– audit	128	124
– non audit	46	71
Operating lease rentals		
– hire of plant and machinery	153	96
– other operating lease charges	699	747
Development expenditure	1,054	607

3 EXCEPTIONAL ITEM

	YEAR TO 30 JUNE 1999 £ '000	YEAR TO 30 JUNE 1998 £ '000
Exceptional item comprises:		
Capital gain on disposal of investment	541	-
Professional fees related to the introduction to the Official List	-	(177)
Costs related to an abortive acquisition	-	(46)
	541	(223)

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

4 NET INTEREST PAYABLE AND SIMILAR CHARGES

	YEAR TO 30 JUNE 1999 £ '000	YEAR TO 30 JUNE 1998 £ '000
Interest receivable	151	242
Less: interest payable on Bank loans, overdrafts, and other loans	(331)	(340)
Less: other interest payable	(22)	(18)
	(353)	(358)
	(202)	(116)

5 STAFF NUMBERS AND COSTS

	NUMBER	NUMBER
The average number of employees of the Group (including directors) during the year was as follows:		
Sales and marketing	106	102
Service	73	66
Support	145	138
Total	324	306
	£ '000	£ '000

Group employment costs for all employees (including directors) were as follows:

Wages and salaries	10,225	7,861
Social security costs	1,542	1,271
Pension costs	345	315
	12,112	9,447

Staff costs include remuneration in respect of directors as follows:

Fees (including consultancy) to non-executive directors	68	86
Salary and benefits in kind	375	341
Pension contributions	52	51
	495	478

All pension contributions relate to defined contributions made to personal pension schemes. All of the executive directors are members of a defined contribution pension scheme.

The emoluments of the highest paid director were as follows:

Salary, fees, and benefits	85	83
Pension contributions	16	17

A full analysis of directors' emoluments is contained in the Remuneration report on page 14.

6 TAXATION

	£ '000	£ '000
The tax charge represents:		
UK corporation tax	4	2
Overseas tax	745	269
Transfer to/(from) deferred tax	(60)	(88)
	689	183

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

7 DIVIDENDS – EQUITY

	YEAR TO 30 JUNE 1999 £ '000	YEAR TO 30 JUNE 1998 £ '000
These comprise:		
Ordinary Shares of 10p		
Interim dividend	124	120
Proposed final dividend	246	192
	370	312

The total dividend payable on Ordinary Shares for the year represents an amount of **2.76p** (1998: 2.4p) per Ordinary Share of 10p.

8 EARNINGS/(LOSSES) PER SHARE

The Earnings per share calculation is based upon Financial Reporting Standard 14 and the comparative figures have been re-stated accordingly. Basic Earnings per share **19.1p** (losses 5.2p) for the year to 30 June 1999 has been calculated based on the profit attributable to shareholders of **£2,505,000** (loss £670,000) using the weighted average number of Ordinary Shares in issue **13,104,125** (12,962,262) during the period. Diluted Earnings per share **19.1p** (losses 5.1p) is based on **13,116,672** (13,193,286), the difference to the basic calculation representing the additional shares that would be issued on the conversion of all the dilutive potential Ordinary shares. There is no material difference to earnings if all the dilutive potential Ordinary shares were converted.

9 INTANGIBLE ASSETS

	GOODWILL £ '000
COST	
Additions	1,362
Exchange adjustments	(29)
At 30 June 1999	1,333
DEPRECIATION	
Charge for the year	(42)
At 30 June 1999	(42)
NET BOOK VALUE AT 30 JUNE 1999	1,291

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

10 TANGIBLE ASSETS

	LEASEHOLD IMPROVEMENTS £ '000	MACHINES AND EQUIPMENT £ '000	FURNITURE AND FIXTURES £ '000	MOTOR VEHICLES £ '000	TOTAL £ '000
COST					
At 1 July 1998	349	2,446	968	244	4,007
Acquisitions	-	68	9	19	96
Additions	68	813	151	68	1,100
Disposals	(1)	(118)	(15)	(50)	(184)
Exchange adjustments	9	(3)	(22)	2	(14)
At 30 June 1999	425	3,206	1,091	283	5,005
DEPRECIATION					
At 1 July 1998	139	1,095	512	92	1,838
Acquisitions	-	15	7	7	29
Charge for the year	48	563	164	71	846
Disposals	-	(45)	(5)	(28)	(78)
Exchange adjustments	1	(13)	2	(2)	(12)
At 30 June 1999	188	1,615	680	140	2,623
NET BOOK VALUE AT 30 JUNE 1999	237	1,591	411	143	2,382
NET BOOK VALUE AT 30 JUNE 1998	210	1,351	456	152	2,169

The amounts stated above include assets held under finance leases and similar hire purchase contracts as follows:

	AT 30 JUNE 1999 £ '000	AT 30 JUNE 1998 £ '000
Net book value	202	177

The depreciation charge for the year on these assets was **£91,000** (1998: £53,000).

11 INVESTMENTS

	ASSOCIATED UNDERTAKINGS £ '000	UNLISTED INVESTMENTS £ '000	INVESTMENTS IN OWN SHARES £ '000	GROUP COMPANY £ '000	PARENT £ '000
COST					
At 1 July 1998	28	465	-	493	1,963
Transfer to subsidiary undertakings	(28)	-	-	(28)	-
Transfer to associated undertakings	43	-	-	43	-
Additions	(90)	334	155	399	10
Disposal	-	(777)	(52)	(829)	-
Share of profit in associated undertakings	21	-	-	21	-
Exchange adjustments	(7)	(5)	(3)	(15)	-
At 30 June 1999	(33)	17	100	84	1,973

Parent company investments relate to investments in subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

11 INVESTMENTS (CONTINUED)

During the course of the year DICOM has adopted an Employee Share Ownership Plan (ESOP). The purpose of the ESOP is to enable employees to participate directly or indirectly in the Company. All employees (fulltime and part-time working at least 50% of full time hours), having passed the notice period, are offered the opportunity to participate in the Plan on the same terms. Allocated shares or benefits can only be distributed to the participants after a waiting period of 3 years since the time of allocation. At the time of distribution of benefits, the participant must still be in service for DICOM. If the participant leaves DICOM before the end of the waiting period, there is no claim for distribution of any benefits.

A first allocation was made after the release of the interim result. 100 shares in the Company were allocated to the qualifying people.

The difference between book value and residual value is charged as an operating cost over the three year period. Any financing and administrative costs are charged as they accrue. The trustees are permitted to acquire shares in the market. The Employee Share Ownership Plan may be financed by loans or contributions from the Company or by the Company guaranteeing external loans.

The investment in own shares is held by the trustees of the Employee Share Ownership Plan. The holding comprises 101,000 shares (1998: nil) with a market value at 30 June 99 of £328,000 (1998: nil).

PRINCIPAL GROUP AND ASSOCIATED UNDERTAKINGS

NAME OF UNDERTAKING	COUNTRY OF INCORPORATION AND OPERATION	PERCENTAGE OF ISSUED SHARE CAPITAL HELD BY PARENT COMPANY	BY SUBSIDIARY UNDERTAKINGS
Subsidiary undertakings:			
DICOM Europe Ltd.	England	99%	–
DIALOG Imaging Ltd.	England	100%	–
Xenstone Storage Systems Ltd.	England	100%	–
DICOM Holding AG	Switzerland	–	100%
DICOM AG	Switzerland	–	100%
DICOM Deutschland GmbH	Germany	–	100%
NorDICOM AB	Sweden	–	100%
DICOM Norge A/S	Norway	–	100%
DICOM Edb-distribution A/S	Denmark	–	100%
DICOM Finland Oy	Finland	–	80%
DICOM France SA	France	–	100%
Sistemas DICOM Ibérica, S.A.	Spain	–	80%
DIALOG Verwaltungs-Data AG	Switzerland	–	100%
DIALOG Imaging France SA	France	–	80%
Datascan AG	Switzerland	–	100%
Xenstone Storage Systems AG	Switzerland	–	100%
Opersys AG	Switzerland	–	100%
ELSAT International Computervertriebsges.mbH	Austria	–	100%
DICOM Data Management CZ, spol. s r. o.	Czech Republic	–	100%
ELSAT International Magyarország Kft.	Hungary	–	100%
DICOM Polska Sp. z o.o.	Poland	–	100%
DICOM Benelux NV/SA	Belgium	–	100%
Computerei Isaak AG	Switzerland	–	100%
Clearvision AG	Switzerland	–	100%
DICOM Italia S.p.A.	Italy	–	80%
Associated undertakings:			
DICOM Asia Holdings Pte Ltd	Singapore	–	40%
Base-Net Informatik AG	Switzerland	–	35%
Base-Net Research AG	Switzerland	–	47.5%
Intelligo AB	Sweden	–	30%
Dialog BEO AG	Switzerland	–	20%

The activities of the associated undertaking are those of the Group.

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

12 ACQUISITIONS

During the course of the year, the Group acquired a small software development business in Switzerland, a Belgium maintenance business and increased its stake in DICOM France SA, Xenstone Storage Systems Ltd. and DICOM Italia S.p.A. Acquisition accounting has been applied to these acquisitions. Goodwill arising on these acquisitions has been capitalised in accordance with Financial Reporting Standard 10.

	TOTAL BOOK/FAIR VALUE TO THE GROUP £ '000
Fixed assets	
Tangible fixed assets	44
Current assets	
Stocks	83
Debtors	322
Cash at bank and in hand	17
Total assets	466
Creditors	(523)
Net liabilities	(57)
Costs of acquisitions	12
Fair value of consideration	729
Goodwill arising from the acquisitions	798

In December 1998, the Group acquired a small software development business that operated as a department of EDS Information Business GmbH ("EDS"), Swiss subsidiary of Electronic Data Systems based in the United States. Consideration was satisfied by £176,000 in cash on completion and a maximum £374,000 in cash subject to the meeting of certain conditions. In the opinion of the Directors the amount of deferred consideration will not exceed £209,000.

In January 1999, the Group acquired a small maintenance business from Sercu Microdata NV for a total consideration of £78,000, to be satisfied in cash, payable on completion.

In May 1999, the Group increased its stake in DICOM France SA from 80% to 100%. Consideration was satisfied by the issue of 84,450 Ordinary Shares of 10p. The fair value of the consideration amounted to £187,000.

In May 1999, the Company increased its stake in Xenstone Storage Systems Ltd. from 80% to 100%. Consideration was satisfied by £10,000 in cash on completion.

In June 1999, the Group increased its stake in DICOM Italia S.p.A. from 40% to 80%. The fair value of the net assets acquired amounted to £18,000. Consideration was satisfied by £69,000 in cash on completion.

The results for the pre-acquisition period of DICOM Italia S.p.A. from 1 July 1998 to 30 June 1999 are set out below:

	TOTAL £ '000
Turnover	859
Operating profit	26
Profit on ordinary activities before taxation	8
Profit on ordinary activities after taxation	8

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

13 STOCKS

	GROUP AT 30 JUNE 1999 £ '000	GROUP AT 30 JUNE 1998 £ '000	PARENT COMPANY AT 30 JUNE 1999 £ '000	PARENT COMPANY AT 30 JUNE 1998 £ '000
Finished goods and goods for resale	5,632	4,978	–	–

The replacement cost of stocks is not considered to be materially different from the amounts shown above.

14 DEBTORS

	GROUP AT 30 JUNE 1999 £ '000	GROUP AT 30 JUNE 1998 £ '000	PARENT COMPANY AT 30 JUNE 1999 £ '000	PARENT COMPANY AT 30 JUNE 1998 £ '000
Trade debtors	9,972	9,480	–	–
Amounts owed by subsidiary undertakings	–	–	6,331	6,281
Other debtors	1,360	791	–	10
Amounts recoverable under contracts	868	841	–	–
Prepayments	2,435	1,338	11	23
Advance corporation tax	175	175	175	175
	14,810	12,625	6,517	6,489

All debtors are due within one year, except advance corporation tax.

15 INVESTMENTS

	£ '000	£ '000	£ '000	£ '000
Unlisted investments	159	128	–	–

The unlisted investments relate to Austrian Government securities held by one of the subsidiaries.

16 CREDITORS

	£ '000	£ '000	£ '000	£ '000
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Bank loans and overdrafts	1,600	3,688	2	389
Trade creditors	7,812	7,784	–	–
Other creditors	635	1,164	21	15
Creditors for taxation and social security	1,338	1,023	–	–
Advance corporation tax	–	78	–	78
Proposed dividend	246	192	246	192
Accruals and deferred income	3,273	1,950	58	76
Corporation tax	566	399	–	–
Obligations under hire purchase contracts and finance leases	95	67	–	–
	15,565	16,345	327	750

Bank loans and overdrafts to certain subsidiary undertakings amounting to **£1,041,000** (1998: £562,000) were secured on the assets of those subsidiary undertakings.

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

17 CREDITORS

	GROUP AT 30 JUNE 1999 £ '000	GROUP AT 30 JUNE 1998 £ '000	PARENT COMPANY AT 30 JUNE 1999 £ '000	PARENT COMPANY AT 30 JUNE 1998 £ '000
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
Long term loan, repayable by monthly/half yearly instalments, secured on the assets of certain subsidiary undertakings, at fixed rate of 4.65% – 5.5%				
Repayable 1 to 2 years	77	57	–	–
Repayable 2 to 5 years	101	151	–	–
Accruals	93	–	–	–
Obligations under hire purchase contracts and finance leases	96	96	–	–
	367	304	–	–

18 FINANCIAL INSTRUMENTS

The currency and interest rate exposure of the group's borrowings is shown below:

AS AT 30 JUNE 1999

	TOTAL £ '000	FLOATING BORROWINGS £ '000	FIXED BORROWINGS £ '000	WEIGHTED AVERAGE INTEREST RATE %	WEIGHTED AVERAGE TIME FOR WHICH RATE IS FIXED YEARS
CURRENCY					
Sterling	4	4	–		
Euro	1,675	1,411	264	5.4	1.9
Other	99	99	–		
As at 30 June 1999	1,778	1,514	264	5.4	1.9

AS AT 30 JUNE 1998

	TOTAL £ '000	FLOATING BORROWINGS £ '000	FIXED BORROWINGS £ '000	WEIGHTED AVERAGE INTEREST RATE %	WEIGHTED AVERAGE TIME FOR WHICH RATE IS FIXED YEARS
CURRENCY					
Sterling	635	635	–		
Euro	1,381	1,122	259	5.4	2.9
Other	1,880	1,880	–		
As at 30 June 1998	3,896	3,637	259	5.4	2.9

The Group has the following undrawn committed bank borrowing facilities available to it:

	GROUP AT 30 JUNE 1999 £ '000	GROUP AT 30 JUNE 1998 £ '000
Expiring within one year	8,183	3,858

These facilities are for the purpose of providing additional working capital. Further details of the Group's Treasury Management policies can be found in the Report of the Directors on page 11.

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

19 OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	GROUP AT 30 JUNE 1999 £ '000	GROUP AT 30 JUNE 1998 £ '000	PARENT COMPANY AT 30 JUNE 1999 £ '000	PARENT COMPANY AT 30 JUNE 1998 £ '000
Repayable: within 1 year	95	67	–	–
Repayable: 1 to 2 years	73	83	–	–
Repayable: 2 to 5 years	23	13	–	–
	191	163	–	–

20 PROVISIONS

	GROUP £ '000	PARENT COMPANY £ '000
DEFERRED TAX		
At 1 July 1998	284	–
Transfer to the profit and loss account	(60)	–
Exchange movements	12	–
At 30 June 1999	236	–

All deferred taxation provided is in respect of timing differences attributable to depreciation rates and profit recognition rules. There is no unprovided deferred taxation.

21 SHARE CAPITAL

	NUMBER	AUTHORISED £ '000	ISSUED, CALLED UP AND FULLY PAID NUMBER	£ '000
EQUITY SHARE CAPITAL:				
ORDINARY SHARES OF 10P				
At 1 July 1998	16,500,000	1,650	12,987,927	1,299
Issued for acquisitions	–	–	84,450	8
Issued under option scheme	–	–	288,780	29
At 30 June 1999	16,500,000	1,650	13,361,157	1,336

On 17 May 1999, the Group acquired the remaining 20 % in DICOM France SA in exchange for an issue of 84,450 Ordinary Shares of 10p.

In addition to the options granted to directors, which are shown in the Remuneration report on page 14, the following options over Ordinary Shares have been granted to certain employees of the Group under various Option Schemes and remain outstanding at 30 June 1999:

OUTSTANDING AT 1 JULY 1998	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	LAPSED DURING THE YEAR	OUTSTANDING AT 30 JUNE 1999	EXERCISE PRICE	EXERCISE DATE
96,260	–	96,260	–	–	62p	1996-1998
–	67,500	–	–	67,500	90p	2001-2008
–	67,500	–	–	67,500	90p	2003-2008
98,000	–	–	7,500	90,500	310p	2000-2007
98,000	–	–	7,500	90,500	310p	2002-2007
52,500	–	–	7,500	45,000	355p	1999-2006
16,500	–	–	–	16,500	369p	1999-2006
69,000	–	–	7,500	61,500	369p	2001-2006
3,000	–	–	–	3,000	382.5p	1999-2006
3,000	–	–	–	3,000	382.5p	2001-2006

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

22 RESERVES

GROUP	SHARE PREMIUM £ '000	MERGER RESERVE £ '000	PROFIT & LOSS £ '000	TOTAL £ '000
At 1 July 1998	6,382	527	381	7,290
Retained profit for the year	–	–	2,135	2,135
Exchange adjustments	–	–	95	95
Premium arising from share issues	305	–	–	305
At 30 June 1999	6,687	527	2,611	9,825

The cumulative amount of goodwill resulting from acquisitions to date which have been eliminated against reserves is £8,912,000 (1998: £8,912,000).

PARENT COMPANY	SHARE PREMIUM £ '000	PROFIT & LOSS £ '000	TOTAL £ '000
At 1 July 1998	6,382	21	6,403
Retained profit for the year	–	122	122
Premium arising from share issues	305	–	305
At 30 June 1999	6,687	143	6,830

Under the exemption given in the Companies Act 1985 Section 230 the Parent Company does not present its own profit and loss account. The profit attributable to the Parent Company was £492,000.

23 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	GROUP YEAR TO 30 JUNE 1999 £ '000	GROUP YEAR TO 30 JUNE 1998 £ '000	PARENT COMPANY YEAR TO 30 JUNE 1999 £ '000	PARENT COMPANY YEAR TO 30 JUNE 1998 £ '000
Shareholders' funds at 1 July 1998	8,589	10,405	7,702	7,636
Profit/(Loss) for the financial year	2,505	(670)	492	312
Dividends	(370)	(312)	(370)	(312)
Profit/(Loss) on currency translation	95	(404)	–	–
New share capital issued	342	66	342	66
Goodwill arising on acquisitions	–	(653)	–	–
Merger reserve arising on acquisitions	–	157	–	–
Shareholders' funds at 30 June 1999	11,161	8,589	8,166	7,702

All of the shareholders' funds are equity.

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

24 COMMITMENTS UNDER OPERATING LEASES

The commitments for annual operating leases expire as follows:

	GROUP AT 30 JUNE 1999 £ '000	GROUP AT 30 JUNE 1998 £ '000	PARENT COMPANY AT 30 JUNE 1999 £ '000	PARENT COMPANY AT 30 JUNE 1998 £ '000
Lease of land and buildings:				
Within 1 year	255	165	—	—
In 2 to 5 years inclusive	428	478	—	—
After 5 years	—	17	—	—
Other leases				
Within 1 year	32	18	—	—
In 2 to 5 years inclusive	141	123	—	—

25 RELATED PARTY TRANSACTION

	YEAR TO 30 JUNE 1999 £ '000	YEAR TO 30 JUNE 1998 £ '000
Sales to Associated Undertakings	794	284

At 30 June 1999 the Associated Undertakings owed **£873,000** (1998: £100,000) to the Group.

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS:

	£ '000	£ '000
Operating profit/(loss)	2,773	(478)
Depreciation	846	644
Share of profit of associated undertakings	(21)	—
Profit on sale of investment	(541)	—
Loss on sale of investment	31	—
Loss/(Profit) on sale of tangible fixed assets	8	(6)
Increase in stock	(600)	(1,178)
Increase in debtors	(1,799)	(913)
Increase in creditors	870	3,019
Exchange differences	421	(166)
Net cash inflow from operating activities	1,988	922
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:		
Interest paid	(351)	(354)
Interest received	150	235
Net cash (outflow)/inflow for returns on investments and servicing of finance	(201)	(119)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS:		
Purchase of fixed assets	(1,088)	(1,261)
Purchase of fixed asset investments	(809)	(483)
Purchase of current asset investments	(31)	(56)
Sale of tangible fixed assets	98	36
Sale of fixed assets investment	1,300	—
Net cash outflow for capital expenditure and financial investment	(530)	(1,764)

NOTES TO THE FINANCIAL STATEMENTS

YEAR FROM 1 JULY 1998 TO 30 JUNE 1999

2.6 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

ACQUISITIONS:

	YEAR TO 30 JUNE 1999 £ '000	YEAR TO 30 JUNE 1998 £ '000
Purchase of subsidiary undertakings	(85)	(321)
Purchase of business	(475)	–
Net overdraft/cash acquired with subsidiary	(85)	11
Net cash (outflow)/inflow for acquisitions	(645)	(310)

MANAGEMENT OF LIQUID RESOURCES:

Divestment in short term deposits	2,680	1,466
Net cash inflow from management of liquid resources	2,680	1,466

FINANCING:

Issue of Ordinary Shares	342	–
Debt due within a year:		
(Decrease)/Increase in short-term borrowings	(1,118)	1,273
Debt due beyond a year:		
Decrease in long-term borrowings	(32)	(49)
Capital element of finance lease rental payments	(91)	(53)
Net cash inflow from financing	(899)	1,171

ANALYSIS OF NET FUNDS:

	AT 30 JUNE 1998 £ '000	CASH FLOW £ '000	OTHER NON-CASH CHANGES £ '000	EXCHANGE MOVEMENTS £ '000	AT 30 JUNE 1999 £ '000
Cash in hand, at bank	2,236	448	–	38	2,722
Overdrafts	(1,585)	1,047	–	(21)	(559)
Debt due within 1 year	(2,103)	1,118	–	(56)	(1,041)
Debt due after 1 year	(208)	32	–	(2)	(178)
Finance leases	(163)	91	(115)	(4)	(191)
Current asset investment	2,795	(2,680)	–	101	216
Total	972	56	(115)	56	969

FIVE YEAR RECORD

FOR THE YEARS ENDED 30 JUNE

UNAUDITED RESULTS

	AUDITED 1999 £ '000	AUDITED 1998 £ '000	AUDITED 1997 £ '000	PRO FORMA UNAUDITED 1996 £ '000	PRO FORMA RESULTS 1995 £ '000
Turnover	87,863	66,295	58,032	32,001	18,739
Operating profit	2,773	(478)	3,530	2,535	583
Share of results of associated undertakings	21	(45)	–	–	–
Exceptional item	541	–	–	–	–
Net interest (payable)/receivable	(202)	(116)	52	(143)	(95)
Profit on ordinary activities before taxation	3,133	(639)	3,582	2,392	488
Taxation	(689)	(183)	(823)	(489)	(122)
Profit on ordinary activities after taxation	2,444	(822)	2,759	1,903	366
Minority interests	61	152	116	10	(25)
Profit attributable to Ordinary Shareholders	2,505	(670)	2,875	1,913	341
Earnings per share					
basic	19.1p	(5.2p)	24.0p	22.3p	4.3p
diluted	19.1p	(5.1p)			
Dividends per share	2.76p	2.4p	2.4p	0.75p	–
Assets employed					
Fixed assets	3,757	2,662	1,610	980	715
Current assets	23,539	22,762	20,712	13,839	5,498
Current liabilities	(15,565)	(16,345)	(11,269)	(6,388)	(5,045)
Net current assets	7,974	6,417	9,443	7,451	453
Total assets less current liabilities	11,731	9,079	11,053	8,431	1,168
Creditors due after more than one year	(603)	(588)	(686)	(230)	(58)
Net assets	11,128	8,491	10,367	8,201	1,110
represented by:					
Shareholders' funds	11,161	8,589	10,405	8,208	
Minority interests	(33)	(98)	(38)	(7)	
	11,128	8,491	10,367	8,201	

- 1) The Group was not constituted as a legal entity and did not commence trading until 18 March 1996. The pro forma unaudited financial information for the year ended 30 June 1996 set out above is based on a combination of the financial statements of the companies comprising the Group, after appropriate adjustments to eliminate intra group trading, costs of acquisition by DICOM GROUP plc and costs of admission to AIM and to bring the accounting policies of the acquired businesses into line with those of the Group.
- 2) Pro forma comparative numbers for the previous year have been extracted from the Accountants Report in the AIM Prospectus dated 29 March 1996, using Swiss Francs/Sterling average exchange rates for the relevant year.
- 3) Pro forma Earnings per Ordinary Share for the years ended 30 June 1995 and 1996 are calculated using profit after tax and minorities and a pro forma weighted average number of Ordinary Shares in issue during the year, calculated as if 8,010,370 Ordinary Shares were in existence since 1 July 1993, 625,000 Ordinary Shares were issued on 18 March 1996 and 1,632,056 Ordinary Shares were issued on 3 April 1996. There would be no material dilution on the exercise of outstanding share options.

NOTICE OF MEETING

NOTICE OF ANNUAL GENERAL MEETING OF DICOM GROUP PLC (THE 'COMPANY')

NOTICE IS HEREBY GIVEN that the fourth Annual General Meeting of the Company will be held at 20 Fenchurch Street, London EC3P 3DB on 29 October 1999 at 10 a.m. for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Directors' report and accounts for the year ended 30 June 1999 and the Auditors' report thereon.
2. To declare a final dividend of 1.84p per Ordinary Share, to be paid on 1 December 1999 to all Ordinary Shareholders on the Register on 5 November 1999.
3. To re-elect as a director Bruce Powell who retires by rotation.
4. To re-elect as a director Paul Gerny who retires by rotation.
5. To re-elect as a director John Inledon who retires by rotation.
6. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

THAT BDO Stoy Hayward be and are hereby re-appointed as Auditors to the Company from the conclusion of this meeting until the conclusion of the next Annual General Meeting and that the Directors be and are hereby authorised to fix the remuneration of BDO Stoy Hayward as Auditors.

SPECIAL BUSINESS:

7. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:
 - a) THAT the directors, pursuant to and in accordance with Section 80 of the Companies Act 1985 ("the Act"), be generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount equal to the authorised but unissued share capital of the Company until the conclusion of the Annual General Meeting of the Company which takes place in 2000 or the period of 15 months from the passing of this resolution, whichever is the earlier;
 - b) pursuant to such authority, the directors may make an offer or agreement which would or might require relevant securities to be allotted after the expiry of such period;
 - c) words and expressions defined in or for the purposes of Section 80 of the Act shall have the same meaning in this resolution; and
 - d) the authority conferred by this resolution be in substitution for all existing authorities granted to the directors pursuant to the said Section 80.
8. To consider and, if thought fit, pass the following resolution as a Special Resolution:

THAT in substitution for all previous authorities and powers granted to the directors under Section 95 ("the Section") of the Act, the directors be and they are hereby authorised and empowered pursuant to the Section to allot equity securities (within the meaning

of Section 94(2) of the Act) of the Company pursuant to the authority conferred by Resolution 7 above as if Section 89(1) of the Act did not apply to such allotment provided that the authority and power contained in this paragraph shall be limited as follows:

- a) to the allotment of equity securities in connection with a rights issue or any other pre-emptive offer in favour of holders of equity securities where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be) to the respective amounts of equity securities held by them subject only to such exclusions or other arrangements as the directors may consider appropriate to deal with fractional entitlements or legal or practical difficulties under the laws or the rules or regulations of any jurisdiction, stock exchange or other regulatory body whatsoever;
- b) to the allotment (otherwise than pursuant to sub-paragraph a) above) of equity securities which are or are to be wholly paid up in cash to an aggregate nominal amount of £66,805; and provided further that the authority and power conferred by this Resolution shall expire at the conclusion of the Annual General Meeting of the Company which takes place in 2000 or the period of 15 months from the passing of this Resolution, whichever is the earlier, unless such authority is renewed or extended at or prior to such time, save that the Company may before such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted otherwise than in accordance with Section 89 of the Act after the expiry of this authority.

BY ORDER OF THE BOARD
URS NIEDERBERGER, COMPANY SECRETARY
5 OCTOBER 1999

Registered Office:
Andromeda House, Calleva Park,
Aldermaston, Berkshire RG7 8AR

NOTES:

1. Any member entitled to attend and vote at the meeting convened by the above notice may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company. Completion of a form of proxy does not preclude a member from attending and voting at the meeting in person.
2. To be valid a duly executed form of proxy for use at the meeting, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's Registrars, Connaught St. Michael's Limited, P.O. Box 30, Victoria Street, Luton, Bedfordshire LU1 2PZ by no later than 48 hours before the time for the holding of the meeting or any adjournment thereof.

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