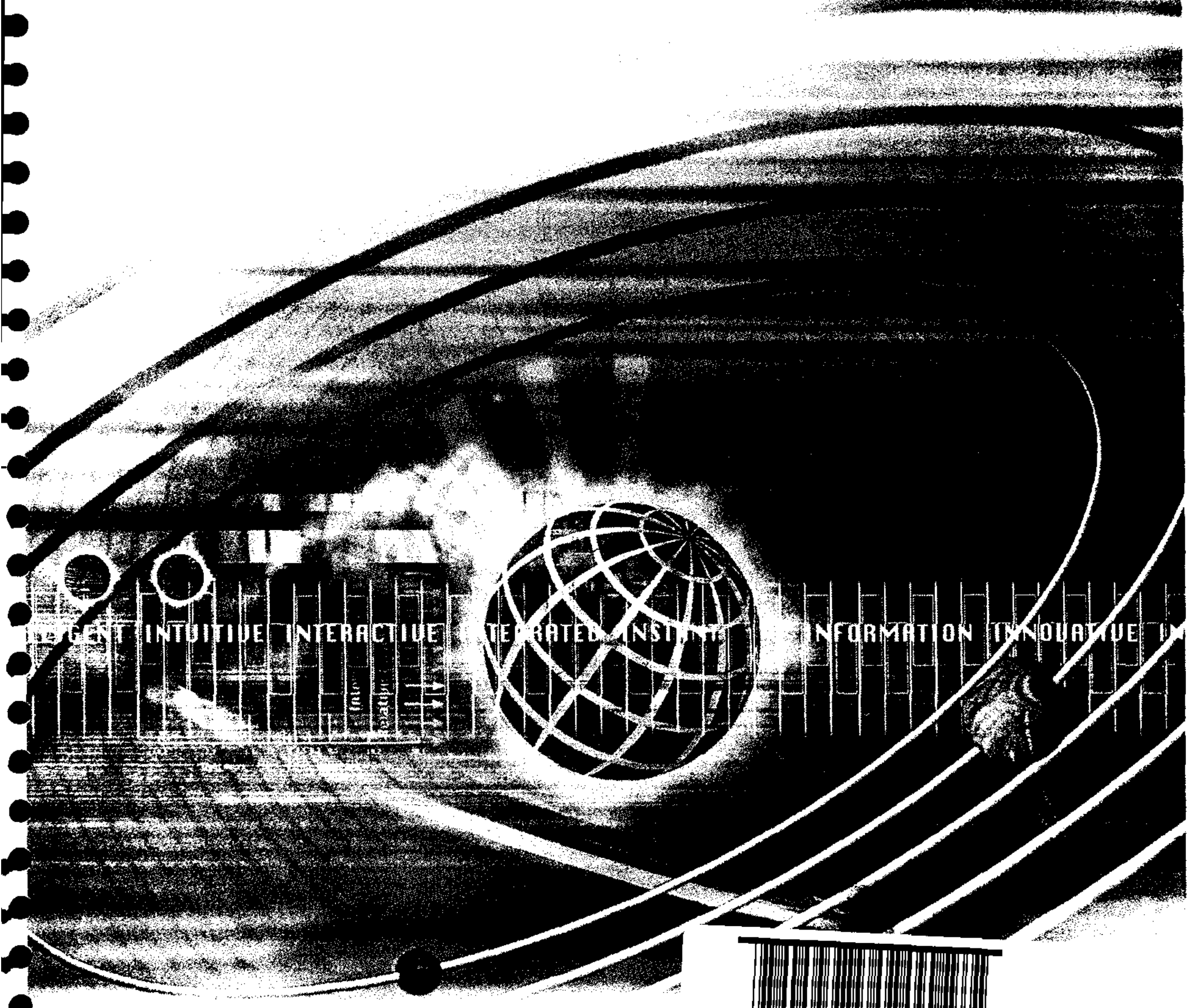
# iSOFT Group Limited

## annual report & financial statements






Company number: 3716736

...EXTENDING THE REACH OF HEALTHCARE INFORMATION...

# Contents

# About iSOFT

iSOFT is a fast-growing software products business focused on providing modern information systems and tightly coupled services to healthcare provider organisations. iSOFT's healthcare information products support all patient, clinical and business management processes in these organisations. iSOFT's supporting service portfolio complements its advanced technology products by concentrating on installation, system configuration, training and customer support.

The products are based on leading-edge technologies and combine traditional server-based healthcare transaction processing with information production and dissemination to desktop and mobile devices via public and private communications networks, including the Internet.

Customers of iSOFT are mainly hospitals, and end-users of its products include all types of employees, including managers, administrators and clinicians. Furthermore, the reach of its information systems products includes organisations and individuals that liaise with hospitals, such as General Practitioners, Community Care workers, Social Services staff and patients themselves.

In its marketing iSOFT has concentrated on those countries with a clear political and social awareness of the importance of accurate, timely and relevant healthcare information, in both managing the healthcare economy and delivering high quality patient care.

iSOFT's information systems products are relevant to both public and private sector healthcare provider organisations, and its solutions are currently installed in more than 400 customer sites in the UK, Ireland, Norway, Australia, Hong Kong and New Zealand.

iSOFT

# Financial Summary

The financial results of iSOFT Group Limited for the period ended 30 April 2000 can be summarised as follows:

| | ***2000*** | ***1999*** |
|---|---|---|
| | ***£'000*** | ***£'000*** |
| Turnover | 17,024 | 11,096 |
| Operating profit | 3,063 | 1,069 |
| EBITDA | 3,680 | 1,217 |
| Profit on ordinary activities before tax | 2,685 | 763 |
| Average monthly employees | 162 | 81 |

Comparative figures shown in the Financial Summary represent the equivalent results for iSOFT plc in the previous year.

# Chairman's Statement

**"...I am delighted to report significant increases in the Group's operating profits and margins and impressive growth through acquisition and organic development of our customer base..."**

*R J Dickens*
*Chairman*
*19 May 2000*

## A year of strategic development and strong growth

In a year when general levels of buying activity by healthcare provider organisations across the world were slowed due to Y2K preparations, iSOFT Group powered on to deliver yet another year of strong organic growth.

In May, we purchased the equity interest in the Group held by KPMG with the aid of venture capital investment and loans from the Lloyds TSB Group. This enabled us to increase our investment in product development and continue our growth through acquisition and the organic development of our customer base.

In October, we extended our operating base by acquiring a 50% share of CSC's Australian healthcare business to create iSOFT's Australian business operations. The balance of ownership was taken up by the former management of the CSC operation to give consistent leadership for iSOFT in Australia going forward.

Group turnover increased to £17.0m, a growth of 53% in comparison to the trading results of iSOFT plc for the previous year, with organic growth contributing an impressive 23%.

Operating profit also grew sharply to £3.1m, an increase of 187% compared to iSOFT plc for the previous year. All increased profitability was attributable to organic growth, with the Group's acquired Australian business delivering a loss in line with expectations of £0.2m in its first seven months of trading.

## The UK market

The UK, in common with most other countries, gave considerable attention to Y2K issues. As a result, non-millennium related activity was light until the due date passed, largely uneventfully for the healthcare industry.

Despite this factor however, Group business in the UK performed strongly, with three major NHS Trusts joining our customer community.

Following our first sale to a UK private sector hospital last year, this year saw our most significant success to date in this market segment, with the addition of Nuffield Hospitals to our customer base. Our contract to supply enterprise-wide systems to all 42 hospitals in this prestigious chain represents a major advance in our strategic objective to become the leading supplier of health systems to the UK's private healthcare sector.

## Overseas

Overseas developments were dominated by the integration of iSOFT's Australian operations into the Group, with over 300 new customer sites joining the fold. This acquisition creates the opportunity to transition a large customer base using legacy health systems products onto our modern and progressive product portfolio. During the last seven months of the year, our attention focused on establishing iSOFT Australia and repositioning the business to deliver the iSOFT product range to our newly acquired customers. The start has been promising and the management and staff of iSOFT Australia are motivated and confident.

## Our products

Maintaining leadership within the health systems market remains the central objective of our business strategy. To this end, we have continued an extensive R&D programme with £1.5m expended in the year. This represents 9% of turnover, which is significantly higher than the average invested by our competitors.

This year, our R&D programme delivered two new healthcare applications into our product portfolio. Firstly, iSOFT2000 was released as a completely integrated application for healthcare provider organisations, based on end-to-end Microsoft technologies. Secondly, we announced HEALTHeverything.com at Europe's largest healthcare informatics conference and exhibition, HC2000, in March. This product is a developing application portal that allows our systems to be run over the Internet by our customers.

The challenges facing our customers are considerable. The imperatives for change in the healthcare market include the Government's *Information* for Health strategy, an accelerating rate of technology change, Internet and e-commerce innovations, and the growing expectations of the citizen as a consumer of healthcare services.

Our customers therefore look to us to lead them through this changing information systems agenda, and we have made considerable progress this year in product and service development. This is an important continuous process and we are committed to sustaining the effort required.

## Our management and staff

Our continuing success is a direct result of the dedication and enthusiasm demonstrated by our management and staff. The challenges faced by our customers translate directly into demands on our people to find innovative information systems solutions to assist them in managing emerging healthcare issues.

To support our growth, we have strengthened our management team and extended our graduate recruitment programme. Despite the pressures involved in operating at the leading edge of health systems innovations, we maintain an enviable record in respect of management and key staff retention. The average length of service of the directors and senior management is over ten years. This is testimony to the quality of our management and staff and their commitment to the success of our business.

I should like to record my personal thanks to all our management and staff for their resourcefulness and their unstinting support to our customers over the year.

# Chief Executive's Report

**"...The rise of the Internet and the emergence of new device technologies... create real possibilities to extend the reach of healthcare information and provide new means of accessing healthcare for the citizen..."**

*P Cryne*
*Chief Executive*
*19 May 2000*

## A solid and permanent market presence

Our excellent performance enabled us to strengthen our market position amidst testing trading conditions in the run-up to Y2K. The challenge for us since establishing the iSOFT brand has been to justify our customers' confidence so that we can be a major force in the modernisation of healthcare information systems. The year has indeed demonstrated our ability to deliver new products, extend our customer base and achieve excellent results for our investors.

The growing requirement of healthcare provider organisations to have access to a new generation of information systems as a crucial aid in the delivery of high quality, co-ordinated healthcare was fluently articulated in the UK Government's Information for Health strategy. The pressures on health information system suppliers to invest in the development of innovative new products at least technologically equivalent to those deployed in the commercial sectors of the economy are intense. In this climate, we have thrived whilst some other suppliers have left the market or rationalised their operations. During the year, we have established ourselves as a permanent force in our chosen markets with major systems installations in 16% of hospitals in the UK, 26% in Australia, 7% in Ireland and 12% in Norway. In addition, our products are implemented in public and private hospitals in New Zealand and Hong Kong. We have ended the year with a significant customer base and an impressive commercial platform from which to continue our strong growth.

# An innovative product portfolio

iSOFT is unashamedly an information system product maker. The key to our success to date has been our compelling product portfolio. We seek to differentiate ourselves from our competitors by our rate of innovation, both in terms of our deployment of emerging technologies and our recognition of, and response to, the emerging patient, clinical and business management issues impacting on healthcare provider organisations.

The main challenge in R&D for us over the past year has been to create an information system response to the objectives set out in *Information* for Health. It continues to be our strong belief that the systems of the future cannot be based on the technology infrastructures of the past. For this reason, we continue to invest in moving our infrastructure Patient Information Management System (PiMS) through the evolutions that take place within the technology industry. To align PiMS with *Information* for Health, we have enhanced and increased the functionality of the application and ensured that it is fully Internet enabled to give increased information access opportunities to those with a right and a need to know. PiMS is now positioned to meet fully, the Level 3 Electronic Patient Record requirements of all types of hospital organisations as set out in Information for Health.

In addition to the further development of PiMS, there has been considerable focus on developing functionality to meet *Information* for Health's Level 6 Electronic Patient Record specification. The iSOFT Electronic Patient Record (iEPR) is being developed in conjunction with key customers to include care pathways, clinical decision support, knowledge bases and support for telemedicine. Selected iSOFT customers have piloted the functionality of iEPR during the past year, and its broad commercial release is planned for April 2001. This is considerably ahead of the target set for all hospitals to achieve Level 3 Electronic Patient Record capabilities.

Another significant product release during the year was iSOFT2000, targeted initially at private sector hospitals. This exciting new application integrates patient and clinical management functionality with full financial ledger capabilities. Already more than 40 licences for iSOFT2000 have been sold to new customers.

The ability to make major software product releases in line with accelerating market demands for new systems and information access opportunities is only possible through a major commitment to R&D. The proportion of our turnover committed to R&D leads not only the healthcare vendor market, but also is in the top quartile for application system vendors supplying all other sectors of UK economy. We are committed to innovation and the levels of investment that this requires. Total R&D expenditure over the last three years was £4.9m, representing 14% of aggregate turnover.

# Operating review

Our successful trading performance for the year was also accompanied by a number of other significant developments aimed at creating a platform for continuing successful development of the business.

In October, we completed our first major acquisition, 50% of the equity share capital of iSOFT Holdings Pty Limited, a business established to complete the purchase of CSC's health systems interests in Australia. This acquisition was significant in two respects. Firstly, it provided the Group with a leading position in the Australian health systems market with more than 300 customer sites. Secondly, the acquisition brought with it, a strong, resourceful and enthusiastic group of approximately 120 employees committed to the successful introduction of iSOFT products to their market. In the remaining seven months of the year, the performance of iSOFT Australia was in line with budget, and the transition of the business to be an effective distributor of the Group's information systems products is underway.

In November, we relocated our UK operations and Head Office to Bridgewater House in Whitworth Street, Manchester. The purpose of the move was to enable our continuing growth in terms of staff numbers and facilities to support an increasing customer base. Whilst still in the city centre, the new location is also close to Manchester's growing education community, with Manchester University, UMIST and the Metropolitan University as near neighbours. The benefits of the move are already having a positive effect on all aspects of our business, with the new premises being capable of hosting User Group meetings, training sessions and business partner events. Our new premises advance the image of iSOFT and have been welcomed by staff, customers and business partners alike.

The new millennium was a cause of much celebration across the world, but for iSOFT the Y2K issue was a non-event. Our portfolio of products is based on technologies that postdate those that lay at the heart of the millennium bug scare, and therefore our customers had few issues. The real impact of Y2K was a slowing of market activity in the last calendar quarter as customers undertook their contingency planning. However the tempo of new system investment returned quickly and contributed to a strong final result for the Group.

In March, we attended the major European healthcare conference HC2000 at Harrogate in the UK. With our business partners Microsoft and Compaq, we created the largest exhibition stand at the conference in order to promote awareness of our new product portfolio. For iSOFT, the main emphasis was our information system product response to the Government's *Information* for Health strategy. The centrepiece of our exhibit was the demonstration of our products operating via our developing Internet portal, HEALTHeverything.com. The success of the event for us, and our business partners, was remarkable with more than 1,447 customers visiting our stand, which more than doubled the attendance from the previous year. There is no doubt that the health systems market is in an innovative phase and healthcare provider organisations are looking earnestly to modernise their systems in support of the objective of more efficient, effective and higher quality care.

Overall, the year has been one of significant achievements. Our staff have grown in confidence as the success of our business is reinforced by our progress. Our customers have seen improvements in products and service levels, but they expect and require us to continue to deliver higher quality offerings in support of their objectives. We believe we are equal to the challenge and look forward to continuing our work with our customers.

# Future Trends

Politically and socially, the healthcare delivery systems are under stress in all modern economies. Everyone agrees that better information at the point of care is critical to meeting society's expectations from the healthcare service. In the UK, *Information* for Health is the Government's strategic response to the challenge of modernising NHS information systems in the Internet age. In each of our target markets there are similar governmental initiatives recognising the same issue. The focus of our strategy will be to follow government initiatives to reform healthcare and to support those efforts through making information available anytime and anywhere to healthcare practitioners and all those involved in managing and supporting patient care.

From a technology perspective, the rate of change is exciting and creating opportunities for the health systems vendor community. The rise of the Internet and the emergence of new device technologies, such as the new generation of mobile telephone devices and digital interactive television, create real possibilities to extend the reach of healthcare information and provide new means of accessing healthcare for the citizen. At iSOFT, we welcome these change forces and the opportunities they increasingly present to differentiate our business to current and prospective customers.

# Financial Review

**"...The Group's operating profit for the period grew 187% to £3.1 million. Profits before interest, taxation, depreciation and amortisation of goodwill grew 208% to £3.7 million..."**

*T A Whiston*
*Finance Director and Company Secretary*
*19 May 2000*

## Trading result

In the period ended 30 April 2000 the Group delivered an operating profit of £3.1m, an increase of 187% on 1999. Profits before interest, taxation, depreciation and amortisation of goodwill were £3.7m on turnover of £17.0m, a margin of 21.8%. This reflects an increase of 208% when compared to the 1999 profit result of iSOFT plc of £1.2m. Post-tax earnings before interest, depreciation and amortisation of goodwill were £2.8m, and represented 16.5% of turnover.

The increase in profitability was achieved through effective control of operating costs whilst maintaining strong growth in turnover and the continued investment in product development.

## Management buy-out

On 28 May 1999 iSOFT plc was acquired by the Group, funded by the raising of £3.0m debt finance, £2.0m of structured term loan and £5.7m from the issue of ordinary and preference share capital. The 75% KPMG holding in iSOFT plc was purchased for £4.5m cash, with 575,000 Ordinary shares issued in return for the 25% balance of equity from Patrick Cryne, Roger Dickens and Steve Graham.

## Acquisition

On 1 October 1999 iSOFT Overseas Holdings Limited was incorporated and immediately subscribed for 50% of the ordinary share capital of iSOFT Holdings Pty Limited on its incorporation. Total cash of £2.2m was invested by the Group, comprising £0.4m for share capital subscribed and a long-term loan of £1.8m. The loan was used to fund the working capital requirements of the new company and to enable the purchase of certain assets and liabilities of CSC's existing Australian healthcare business. The cash consideration paid for the purchase of the assets and liabilities acquired was equivalent to £1.1m

## Cash flow

Cash generation is a central objective of the Group. Underpinned by focused working capital management, the net cash inflow for the period totalled £0.8m.

Funding raised at the time of the management buy-out, after acquired debt of £2.7m had been repaid, exceeded costs by £3.5m.

A further £1.0m of term loan was drawn down against pre-arranged facilities in September, which together with the issue of a further £1.0m of preference share capital and £0.2m of cash from working capital, provided the funds for the £2.2m investment in the Australian business. The minority shareholders provided an additional £0.2m of loan funding to the Australian business.

In January, the Group restructured £1.0m of debt finance into term loan, and raised a further £0.5m of term loan to fund the capital fit-out costs associated with the office relocation to Bridgewater House.

The net cash flow from operating activities was an outflow of £1.2m. This outflow is largely due to the form of the acquisition of certain assets and liabilities from CSC on 1 October 1999, which excluded trade debtor balances. As a consequence, the Group funded the trade debtors' balance of the acquired business from operating cash flow with trade debtors increasing from a nil position to a normal trading level of £1.7m at the balance sheet date.

Net interest payments of £0.3m were made during the period.

## Treasury

At the balance sheet date the Group operated with a gross medium-term loan facility of £4.5m and an overdraft facility of £2.0m. The loan is repayable in quarterly instalments, and repayments totalling £0.3m were made during the period.

The £1.8m loan made to iSOFT Holdings Pty Limited on 1 October 1999 is denominated in Australian dollars and represents a long-term investment by the Group. The resultant foreign exchange loss of £0.1m on translation of the loan at the period end has been taken directly to reserves.

## Foreign exchange

Subsidiary net assets are translated into sterling at the rate ruling at the balance sheet date and results for the period are translated using the average rate for the period.

The Group does not hedge against foreign currency transactions. Specific protection from material exchange rate movements is provided within contracts where significant revenue entitlement is denominated in currency other than sterling.

## Effective tax rate

The effective tax rate as a percentage of profits on ordinary activities before tax was 33%, reflecting the disallowed expenditure incurred in respect of the acquisition transactions referred to above.

## Dividends

Preference share dividends of £0.1m were paid during the period and a further £0.1m dividend was payable to the preference shareholders at the balance sheet date. A participating dividend of £0.1m has been proposed by the Board for payment to the A Ordinary shareholders. Retained earnings of £1.5m were transferred to reserves.

# Report of the Directors

The directors present their report and the audited financial statements for the period ended 30 April 2000.

## Principal activities

The Group is a software products business focused on developing and marketing innovative information systems and tightly coupled services to healthcare provider organisations in selected economies of the world. We currently supply our products in the UK, Ireland, Scandinavia, Australia, Hong Kong and Australia.

Our innovative products are based on leading-edge technologies and support all patient, clinical and business management processes of public and private sector healthcare provider organisations, typically hospitals.

We also provide installation, system configuration, training and customer support in respect of our products.

## Incorporation and change of name

The Company was incorporated on 22 February 1999 as Pinco 1179 Limited. On 18 July 1999, the Company registered the change of name to iSOFT Group Limited.

## Acquisitions

On 28 May 1999 the Company acquired 100% of the equity share capital of iSOFT plc for a consideration of £4.5m in cash and the issue of 575,000 Ordinary shares. On 1 October 1999 the Company acquired 50% of the equity share capital of iSOFT Holdings Pty Limited for a consideration of £0.4m in cash.

## Business review and future developments

These topics are dealt with in the Chairman's statement, the Chief Executive's report and the Financial review set out on pages 4 to 11.

## Dividends

The directors propose that a dividend of £0.1m is paid to the holders of the A Ordinary shares. Preference share dividends of £0.1m were paid to the holders of the preference shares, with a further £0.1m dividend being proposed at the balance sheet date.

## Directors

The first Director and Company Secretary on incorporation of the Company was Pinsent Curtis Director Limited. Pinsent Curtis Director Limited resigned as Director on 28 April 1999 and resigned as Company Secretary on 28 May 1999.

The details of directors of the Company serving at the balance sheet date are as set out below:

**Roger Dickens. Executive Chairman.** Roger Dickens (52) was appointed to the board of iSOFT Group Limited on 28 April 1999 as Executive Chairman. He has been Chairman of iSOFT plc since its incorporation on 19 May 1998. He formerly held a number of senior positions within KPMG, most notably UK Deputy Senior Partner. Until 31 March 2000, he was a director of Tarmac plc and is currently non-executive Chairman of West Bromwich Building Society and a non-executive director of Carillion plc.

**Patrick Cryne. Chief Executive.** Patrick Cryne (49) was appointed to the board of iSOFT Group Limited on 28 April 1999 as Chief Executive and Company Secretary, resigning the latter post on 14 April 2000. He has been Chief Executive of iSOFT plc since its incorporation on 19 May 1998. Previously, he was a Partner of KPMG from 1989, until the creation of iSOFT plc in 1998. Throughout his career, he has specialised in information systems design, development and implementation.

**Steve Graham. Operations Director.** Steve Graham (36) was appointed to the board of iSOFT Group Limited on 28 April 1999 as Operations Director. He has been Operations Director of iSOFT plc since its incorporation on 19 May 1998. Formerly he was a Partner of KPMG from 1994 until taking up his appointment with iSOFT plc in 1998.

**Tim Whiston. Finance Director and Company Secretary.** Tim Whiston (32) was appointed to the board as Finance Director on 14 April 2000 and replaced Patrick Cryne as Company Secretary on that date. He joined the iSOFT business in August 1997. Prior to joining iSOFT, he had a diverse career with Price Waterhouse covering audit, accountancy and latterly financial management consultancy for a variety of international public companies.

**John Handley. Non-executive Director.** John Handley (37) was appointed to the board as a non-executive Director on 28 May 1999. He was a Senior Manager in Corporate Finance at BDO Stoy Hayward before leaving in 1990 to join Nat West Ventures in Birmingham where he led a large number of MBOs and development capital deals. He joined Lloyds Development Capital Limited in January 1999.

Details of directors of iSOFT Group Limited who were appointed after the balance sheet date are as follows:

**Digby Jones. Senior Non-executive Director*.** Digby Jones (45) was appointed as senior non-executive Director on 19 May 2000. He is Director-General of the Confederation of British Industry. He was previously Senior Partner at Edge and Ellison and subsequently Vice Chairman of Corporate Finance at KPMG. He has been a non-executive director and chairman of several companies, covering sectors as diverse as quarry aggregates, local radio and automotive component manufacture.

**Dr. Eurfyl ap Gwilym. Non-executive Director* Chairman of the Audit Committee.** Dr Eurfyl ap Gwilym (55) was appointed as a non-executive Director on 19 May 2000. Previously, he worked for Unilever PLC, the John Williams Group Limited and Philips Industries Limited, before joining General Electric (USA), where he undertook a variety of roles, including that of Managing Director of GE Information Services Limited. In 1992 he became Chief Executive of BIS Banking Systems Limited, before joining Terence Chapman Group PLC in 1994 as an executive director.

**Geoffrey White. Non-executive Director*. Chairman of the Appointments and Remuneration Committee.** Geoffrey White (47) was appointed as a non-executive Director on 19 May 2000. He is Chief Executive of Pressac plc, which he joined in 1986 as Finance Director. He was previously a director of a subsidiary company within the W. Canning Group.

** Member of the Group's Audit Committee and Member of the Group's Appointments and Remuneration Committee*

## Employees

During the period the Group continued to provide employees with relevant information and to seek their views on matters of common concern through their line managers. Priority is given to ensuring that employees are aware of all significant matters affecting the Group's trading position and of any significant organisational changes.

Employees are typically educated to degree standard and, as a Microsoft Certified Solution Provider Partner, iSOFT actively promotes Microsoft accreditation for staff engaged in the development and support of the software portfolio.

The directors are concerned to ensure appropriate employee involvement in improving the Group's performance. An employee share option scheme was introduced during the period to create appropriate incentives and rewards for staff.

It is the policy of the Group to support the employment of disabled persons where possible, in both the recruitment of employees and the retention of employees who become disabled whilst in the employment of the Group, as well as generally through training and career development.

The directors fully recognise the vital contribution made by employees and is proud of its record in respect of staff retention and development. Senior managers within the Group have on average over ten years service, with other key managers having on average over five years of service.

## Donations

Charitable donations of £22,300 were made during the period. No political donations were made during the period.

## Research and development

The Group has a continuing commitment to a significant level of research and development. During the period, expenditure on product development totalled £1.5m, all of which has been charged to profits. This expenditure ensured that the products benefit from the latest technologies and support the strategy to protect the market leading position of the products and their potential for revenue generation.

## Payment of creditors

Whilst the Group does not follow any external code or standard on payment practice, the policy for the period ended 30 April 2000 for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure that the supplier is aware of those terms, and to abide by the agreed terms of payment. At 30 April 2000, the number of days of trade creditors for the Group was 61.

## Share capital

The Company issued Ordinary share capital of £5,750 during the period, together with £4,250 of A Ordinary share capital. The Company also issued £6,500,000 of preference shares. The share capital was issued to provide funding for acquisitions and working capital.

## Year 2000

The directors and senior managers evaluated the potential effects of the Year 2000 issue on the Group's information and other systems, on the business more generally and on relationships with trading partners. Comprehensive preparations were made, and the turn of the millennium passed without event.

## Substantial share interests

Other than for directors and their venture capital partner, Lloyds TSB Development Capital Limited, which holds 425,000 A Ordinary shares representing 42.5% of the voting equity share capital, the Company has not been notified of any person being interested in more than 3% of the issued share capital of the Company at the date of this report.

## Auditors

The directors appointed RSM Robson Rhodes as the first auditors of the Company. RSM Robson Rhodes are willing to continue in office and a resolution to retain them will be proposed at the annual general meeting.

## Approval

The report of the directors was approved by the Board on 19 May 2000 and signed on its behalf by:

Timothy Whiston.

***Tim Whiston***
*Finance Director and Company Secretary*

# Corporate Governance

## The Combined Code

iSOFT is committed to high standards of corporate governance. This statement describes the Group's approach to Corporate Governance and, in particular, explains how the Group has applied the principles set out in Section 1 of the Combined Code as annexed to the Listing Rules of the UK Listing Authority.

The board fully supports the Combined Code and the directors are working to ensure that the Group will comply with all requirements of the code by 30 April 2001.

## Directors

The Group is controlled by the board of directors which, at 30 April 2000, comprised the Executive Chairman, three further executive directors and one non-executive director. Summary biographical details of the executive directors are set out on pages 12 and 13. On 19 May 2000 the board was further enhanced by the appointment of three additional, experienced, non-executive directors. No one individual or small group is in a position to dominate board decision making.

In addition to ongoing day to day operational dealings, the directors meet formally on a regular basis to review trading performance and prospects, to review strategy and policy and to consider a schedule of matters specifically reserved for board decision. The directors have implemented appropriate reporting procedures to ensure that they are supplied with timely, accurate and comprehensive information to enable the board to discharge its duties in full. The board is responsible for the Group's internal systems for Corporate Governance and control.

All directors have access to seek independent advice, at the Company's expense, if considered necessary for the proper performance of their duty. The directors also have access to the Company Secretary for his advice and services. The board includes individuals with many years' relevant experience, however, no formal training programme exists.

The board has delegated specific responsibilities to the committees described below, with the constitution of these committees now complete following the recent appointment of the additional non-executive directors.

## Audit Committee

The Audit Committee meets at least twice a year to make recommendations on the appointment of the external auditors and the level of audit fee, to review the annual report and financial statements of the Group prior to their gaining board approval, to consider the Group's internal controls and to review the Group's statement of going concern. The external auditors are entitled, and the Group's Finance Director is invited, to attend where appropriate. The Audit Committee has the discretionary power to invite others to attend a meeting.

## Appointments and Remuneration Committee

The Appointments and Remuneration Committee meets at least once a year. The Committee is responsible for recommendations to the board on the remuneration, benefits and terms of employment, including any performance related bonuses and share option schemes, for the executive directors. Further details of the executive remuneration policy are set out on page 18. The appointment of executive and non-executive directors is a formal process involving all members of the board.

## Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit of the Group for the period. In preparing these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that are reasonable and prudent
- followed applicable accounting standards
- prepared the financial statements on the going concern basis.

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

## Internal control and financial reporting

The board retains full responsibility for the Group's system of internal controls and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can therefore provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code introduced a requirement that directors review the effectiveness of the Group's system of internal controls. This extended the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management.

The board has reviewed the effectiveness of the system of internal financial control in the period ended 30 April 2000, and is committed to working toward full compliance with the Turnbull Committee guidance by 30 April 2001.

Key elements of the Group's financial controls are:

- annual planning and budgeting, with re-forecasting in light of actual trading performance performed on a monthly basis throughout the year
- comprehensive financial analysis and commentary for the board for formal review, including trading performance, cash and working capital reports with comparisons against budget and forecast
- maintenance of a small, experienced, finance function which monitors the financial performance of all operational areas of the Group on an ongoing basis
- procedures for ensuring that appropriate authority is given to commit the Group to both revenue and capital spend
- an appropriate organisational structure with well defined, and clearly understood, responsibilities and delegation of authority.

The Group does not operate an internal audit function. The board considers this to be appropriate given the size of the Group, and the close involvement of directors and senior management in day to day operations. Any future requirement for an internal audit function will, however, be reviewed on an ongoing basis as the Group develops.

## Going concern

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Consequently, they continue to adopt the going concern basis in preparing the financial statements.

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# Remuneration Report

## Remuneration policy

The board is responsible for determining the Group's remuneration policy. The Appointments and Remuneration Committee makes recommendations to the board to ensure that the remuneration offered is competitive and that it is effective in attracting, retaining and motivating directors and other senior management of the appropriate calibre. The package makes reference to a peer group of similar sized technology companies, and currently comprises basic annual salary and other benefits, performance related bonus payments and share options.

## Basic salary and other benefits

The basic salary and benefits of each director is reviewed annually taking into account the performance of the individual and comparative market salaries. Benefits include the provision of a company car or equivalent allowance, medical insurance and other life assurances.

## Performance related bonus

The Group provides for performance related bonuses for executive directors. Bonuses are payable, at the discretion of the Appointments and Remuneration Committee, based on the Group's profit before interest taxation, depreciation and amortisation and on the individual executive's performance.

## Share options

T Whiston participates in the iSOFT Group Limited No 1 Share Option Scheme. No other director received share options under this scheme. The Appointments and Remuneration Committee does, however, intend to issue share options under subsequent share option schemes to senior executives and staff. Such issues of share options will be subject to appropriate performance conditions. The schemes are designed to provide long-term incentives to executive directors and staff, thus assisting in the creation and sustaining of shareholder value.

## Service contracts

All executive directors have agreements that can be terminated by the Group on twelve months notice. There is no requirement for directors to retire by rotation.

## *Non-executive remuneration and service contracts*

The remuneration of non-executive directors is determined by the board with regard to market comparatives. The board has the power to pay additional remuneration for any services outside the scope of the ordinary duties of a non-executive director.

## Directors' remuneration

Directors' remuneration for the period ended 30 April 2000 was as follows:

| | Salary | Benefits | Bonus | Money purchase pension contributions | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Executives | | | | | |
| R J Dickens | 101 | 1 | 55 | - | 157 |
| P Cryne | 173 | 17 | 75 | - | 265 |
| S P Graham | 136 | 9 | 60 | - | 205 |
| T A Whiston | 65 | 9 | 13 | 2 | 89 |
| Non-executives | | | | | |
| J Handley | - | - | - | - | - |
| | 475 | 36 | 203 | 2 | 716 |

Tim Whiston was appointed as a director on 14 April 2000. Of the total annual remuneration shown above for Tim Whiston, £3,066 was in respect of the period from this date to the balance sheet date.

## Directors' share interests

The beneficial share interests in the Ordinary share capital of the Company of those persons who were directors at the period end, were as follows:

| | Ordinary Shares held | | Percentage Holding | |
|---|---|---|---|---|
| | At appointment | At 30 April 2000 | At appointment | At 30 April 2000 |
| P Cryne | - | 232,500 | - | 23.25 |
| S P Graham | - | 150,000 | - | 15.00 |
| R J Dickens | - | 150,000 | - | 15.00 |
| T A Whiston | 2,500 | 2,500 | 0.25 | 0.25 |

Beneficial holdings include the directors' personal holdings and those of their spouse and minor children as well as holdings in family trusts of which the directors' spouse or their minor children are beneficiaries or potential beneficiaries. At 30 April 2000 both R J Dickens and P Cryne had 15,000 of such holdings, which are included in the totals shown above.

In addition to the directors' share interests in Ordinary shares, share options over B Ordinary shares have been granted as follows:

| | Date granted | Share options | Exercise price | Expiry date |
|---|---|---|---|---|
| T A Whiston | 1 March 2000 | 159,000 | 10p | 28 February 2001 |
| T A Whiston | 30 April 2000 | 250,000 | 10p | 31 March 2001 |

In the event of a sale or listing of the Group, the total number of authorised B Ordinary shares of 3,000,000 convert into such number of Ordinary shares as would have represented 3% of the ordinary share capital after the conversion and after the A Ordinary shares were converted.

There have been no changes in the above interests between 30 April 2000 and 19 May 2000.

# Auditors' Report to the Shareholders of iSOFT Group Limited

We have audited the financial statements on pages 22 to 41, which have been prepared in accordance with the accounting policies set out on pages 27 and 28.

## Respective responsibilities of directors and auditors

As described on page 17 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

## Basis of opinion

We conducted our audit in accordance with Accounting 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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 April 2000 and of the Group's profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes

***RSM Robson Rhodes***
*Chartered Accountants and Registered Auditor*

*Manchester*
*19 May 2000*

# Consolidated Profit And Loss Account For The Period Ended 30 April 2000

| | Note | £'000 | £'000 |
|---|---|---|---|
| **Turnover:continuing activities** | 2 | | 17,024 |
| Operating costs excluding goodwill amortisation | | | (13,566) |
| **Operating profit before goodwill amortisation** | | | 3,458 |
| Goodwill amortisation | | | (395) |
| **Operating profit:continuing activities** | 3 | | 3,063 |
| Net interest payable and similar charges | 4 | | (378) |
| **Profit on ordinary activities before taxation** | 5 | | 2,685 |
| Tax on profit on ordinary activities | 7 | | (886) |
| **Profit on ordinary activities after taxation** | | | 1,799 |
| Minority interests-equity | | | 127 |
| **Profit for the financial period** | | | 1,926 |
| Dividends | | | |
| -Equity | | (67) | |
| -Non-equity | | (228) | |
| | 8 | | (295) |
| Non-equity appropriation | 18 | | (171) |
| **Retained profit for the period** | 19 | | 1,460 |

The trading result for the period ended 30 April 2000 is entirely in respect of continuing activities derived from the acquisition of iSOFT plc and iSOFT Scandinavia AS on 25 May 1999 and the start-up of iSOFT Holdings Pty Limited on 1 October 1999.

The accompanying accounting policies and notes form an integral part of these financial statements.

## Statement of Total Recognised Gains And Losses for the Period Ended 30 April 2000

| | £'000 |
|---|---|
| Profit for the financial period | 1,926 |
| Foreign exchange loss | (129) |
| **Total recognised gain for the financial period** | 1,797 |

## Reconciliation of Movements In Shareholders' Funds for the Period Ended 30 April 2000

| | Group £'000 | Company £'000 |
|---|---|---|
| Profit for the financial period | 1,926 | 508 |
| Dividends | (295) | (295) |
| | 1,631 | 213 |
| New share capital subscribed | 8,099 | 8,099 |
| Foreign exchange loss | (129) | - |
| **Net increase in shareholders' funds** | 9,601 | 8,312 |
| Opening shareholders' funds | - | - |
| **Closing shareholders' funds** | 9,601 | 8,312 |
| **Attributable to:** | | |
| Equity shareholders | 2,796 | 1,507 |
| Non-equity shareholders | 6,805 | 6,805 |
| | 9,601 | 8,312 |

*The accompanying accounting policies and notes form an integral part of these financial statements*

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# Consolidated Balance Sheet as at 30 April 2000

| | Note | £'000 |
|---|---|---|
| **Fixed assets** | | |
| Intangible assets-goodwill | 9 | 8,936 |
| Tangible assets | 11 | 866 |
| | | 9,802 |
| **Current assets** | | |
| Debtors due within one year | 13 | 10,767 |
| Cash at bank and in hand | | 803 |
| | | 11,570 |
| **Creditors: Amounts falling due within one year** | 14 | (8,281) |
| **Net current assets** | | 3,289 |
| **Total assets less current liabilities** | | 13,091 |
| **Creditors: Amounts falling due after one year** | 15 | (3,240) |
| Minority interests-equity | | (250) |
| **Net assets** | | 9,601 |
| **Capital and reserves** | | |
| Called up share capital | 18 | 6,510 |
| Share premium account | 19 | 1,589 |
| Profit and loss account | 19 | 1,502 |
| **Shareholders' funds (including non-equity)** | | 9,601 |

*The accompanying accounting policies and notes form an integral part of these financial statements*

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# Company Balance Sheet as at 30 April 2000

| | Note | £'000 |
|---|---|---|
| **Fixed assets** | | |
| Investments | 10 | 6,136 |
| **Current assets** | | |
| Debtors due within one year | 13 | 7,553 |
| **Creditors: Amounts falling due within one year** | 14 | (2,174) |
| **Net current assets** | | 5,379 |
| **Total assets less current liabilities** | | 11,515 |
| **Creditors: Amounts falling due after one year** | 15 | (3,203) |
| **Net assets** | | 8,312 |
| **Capital and reserves** | | |
| Called up share capital | 18 | 6,510 |
| Share premium account | 19 | 1,589 |
| Profit and loss account | 19 | 213 |
| **Shareholders' funds (including non-equity)** | | 8,312 |

The financial statements were approved by the board of directors on 19 May 2000, and signed on its behalf by:

P. Cryne

*Patrick Cryne*
*Chief Executive*

Timothy Whiston

*Tim Whiston*
*Finance Director*

*The accompanying accounting policies and notes form an integral part of these financial statements*

# Consolidated Cash Flow Statement for the Period Ended 30 April 2000

| | Note | £'000 |
|---|---|---|
| **Net cash outflow from operating activities** | 20 | (1,170) |
| **Returns on investments and servicing of finance** | | |
| Interest received | | 65 |
| Interest paid | | (411) |
| Finance lease interest paid | | (1) |
| Arrangement fees paid re new bank loans | | (75) |
| Non-equity dividends paid | | (94) |
| **Net cash outflow from returns on investments and servicing of finance** | | (516) |
| **Taxation** | | (287) |
| **Capital expenditure** | | |
| Payments for tangible fixed assets | | (698) |
| Receipts from sale of tangible fixed assets | | - |
| **Net cash outflow from capital expenditure** | | (698) |
| **Acquisitions and disposals** | | |
| Purchase of subsidiary undertaking | | (4,636) |
| Cash acquired with subsidiary undertaking | | 631 |
| Cash paid on acquisition of business assets | | (1,081) |
| Issue of shares to minority interests | | 400 |
| **Net cash outflow from acquisitions and disposals** | | (4,686) |
| **Equity dividends paid** | | - |
| **Net cash outflow before financing** | | (7,357) |
| **Financing** | | |
| Issue of preference shares | | 6,500 |
| Issue of ordinary shares | | 250 |
| Expenses paid in connection with ordinary share issue | | (152) |
| New bank and other loans | | 4,687 |
| Repayment of bank and other loans | | (3,080) |
| Capital element of finance lease payments made | | (45) |
| **Net cash inflow from financing** | | 8,160 |
| **Increase in cash** | 21 | 803 |

*The accompanying accounting policies and notes form an integral part of these financial statements.*

## Note 1
## Accounting Policies

The financial statements are prepared in accordance with applicable accounting standards under the historical cost convention. The particular accounting policies adopted by the directors are described below:

**i) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary undertakings using acquisition accounting. The results of subsidiary undertakings acquired or disposed of during a financial year are included from, or up to, the effective date of acquisition or disposal.

**ii) Goodwill**

Positive goodwill is the excess of the cost of an acquired entity over the aggregate of the fair values of that entity's identifiable assets and liabilities. Positive goodwill relating to acquisitions is shown in the balance sheet as an asset, and is amortised on a straight line basis over its estimated useful economic life which is up to 20 years. In addition to systematic amortisation, the book value is written down to the recoverable amount when any impairment is identified.

**iii) Profit for the financial period**

The parent Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements.

**iv) Turnover**

Turnover represents the amounts chargeable for software and all other goods and services provided.

All revenue is reported exclusive of value added tax and other sales tax.

**v) Recognition of profit**

Licence fee income is recognised at the time the licence is granted in accordance with agreed contractual triggers. Typical licence revenue triggers are contract signature and installation of the product on the customer site. Profit on contracts for the supply of maintenance and support services is taken at 60% on billing, and the remaining 40% over the duration of the contract. Profit recognition for all other revenue types is taken when work is billed in accordance with contractual terms, irrespective of the duration of the contract.

**vi) Research and development**

Research and development costs are fully written off in the year in which they are incurred.

**vii) Depreciation**

Depreciation is provided at rates calculated to write down the cost of tangible assets over their estimated useful life on a straight-line basis. The annual rates of depreciation, by category of fixed asset are as follows:

| | |
|---|---|
| Office equipment, fixtures and fittings | 12.5% to 20.0% |
| Computer equipment | 33.3% |
| Motor vehicles | 25.0% |

# Note 1 (Continued) Accounting Policies

**viii) Foreign exchange**

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These transaction differences are taken to the profit and loss account.

Results of overseas subsidiaries are translated using the average exchange rate for the period. The balance sheets of overseas subsidiaries are translated at the closing rate on the year-end date and any resulting exchange differences taken to reserves.

**ix) Taxation**

Corporation tax is provided on taxable profits at the current rate. Provision is made for deferred tax using the liability method on all timing differences only to the extent they are expected to reverse in the future without being replaced.

**x) Leased assets**

Assets held under finance leases are included in the balance sheet and depreciated in accordance with the Group's normal accounting policy for the class of asset concerned. The present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the balance of capital repayments outstanding.

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

**xi) Pensions**

All employees are eligible to join the iSOFT Group Personal Pension Scheme or other Group approved defined contribution pension scheme. The pension charge shown in the financial statements represents the total contributions payable by the Group for the year.

## Note 2
## Segmental Analysis

| **Turnover by geographical market** | **£'000** |
|---|---|
| United Kingdom and other EU states | 12,964 |
| Australasia | 3,313 |
| Rest of the World | 747 |
| | 17,024 |

**Geographical operations**

| | **United Kingdom and other EU states £'000** | **Australasia £'000** | **Rest of the World £'000** | **Total £'000** |
|---|---|---|---|---|
| Turnover | 13,315 | 3,366 | 343 | 17,024 |
| Operating profit/loss | 3,239 | (179) | 3 | 3,063 |
| Net assets | 9,344 | 250 | 7 | 9,601 |

The Group is a software products business focused on developing and marketing innovative information systems and tightly coupled services to healthcare provider organisations in selected economies of the world. The Group currently supplies its products in the UK, Ireland, Scandinavia, Australia, Hong Kong and Australia.

The Group's innovative products are based on leading-edge technologies and support all patient, clinical and business management processes of public and private sector hospitals and healthcare provider organisations.

The Group also provides installation, system configuration, training and customer support in respect of its products.

The directors consider the above activities to be a single class of business.

## Note 3
## Operating Profit

| | **Note** | **£'000** |
|---|---|---|
| **Turnover** | | 17,024 |
| Staff costs | 6 | (5,853) |
| Other external charges | | (4,745) |
| Depreciation of tangible fixed assets | 11 | (222) |
| Goodwill amortisation | 9 | (395) |
| Other operating charges | | (2,746) |
| **Total operating costs** | | (13,961) |
| **Operating profit** | | 3,063 |

## Note 4
## Net Interest Payable and Similar Charges

| | **£'000** |
|---|---|
| Interest receivable comprises: | |
| Bank interest | 79 |
| Interest payable comprises: | |
| Bank loans and overdrafts | (406) |
| Other loans | (37) |
| Amortisation of loan arrangement fees | (13) |
| Finance leases | (1) |
| | (457) |
| **Net interest payable and similar charges** | (378) |

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# Note 5
# Profit on Ordinary Activities Before Taxation

This is arrived at for the Group after charging:

| | £'000 |
|---|---|
| Research and development: | |
| - Current period expenditure | 1,453 |
| | |
| Auditors' remuneration in respect of: | |
| - Audit services | 25 |
| - Other services | 53 |
| | |
| Depreciation and amortisation: | |
| - Goodwill | 395 |
| - Tangible fixed assets, owned | 133 |
| - Tangible fixed assets, held under finance leases | 89 |
| | |
| Operating lease rentals: | |
| - Premises | 246 |
| - Vehicles and equipment | 186 |

# Note 6
# Directors and Employees

Staff costs during the period were as follows:

| | £'000 |
|---|---|
| Wages and salaries | 5,257 |
| Social security costs | 427 |
| Other pension costs | 169 |
| | 5,853 |

Before 25 May 1999 the Group did not trade and had no employees. The average monthly number of employees, including directors, from this date was as follows:

| | Number |
|---|---|
| Development | 46 |
| Sales and marketing | 13 |
| Installation and project management | 59 |
| Customer services | 26 |
| Administration | 18 |
| | 162 |

Total remuneration in respect of directors was as follows:

| | £'000 |
|---|---|
| Salary | 475 |
| Benefits | 36 |
| Bonus | 203 |
| Money purchase pension contributions | 2 |
| | 716 |

Details of individual director's remuneration and interests in share capital, together with a summary of the Group's remuneration policy, are contained within the Remuneration Report on pages 18 and 19.

## Note 7
## Tax on Profit on Ordinary Activities

| UK Corporation Tax | £'000 |
|---|---|
| Current tax on income for the period | 891 |
| Current period double tax relief | (5) |
| Current period corporation tax charge after double tax relief | 886 |

There is an unprovided deferred tax liability of £10,445 at the balance sheet date.

## Note 8
## Dividends

| **Equity dividends** | **£'000** |
|---|---|
| A Ordinary shares of £0.01 each -proposed final dividend of 15.77p per share payable on 2 June 2000. | 67 |
| | |
| **Non-equity dividends** | |
| Preference share dividend at 4% paid | 94 |
| Preference share dividend at 4% payable on 30 April 2000 | 134 |
| | 228 |
| | 295 |

## Note 9
## Intangible Fixed Assets

**Group**

| | Goodwill |
|---|---|
| **Cost** | **£'000** |
| At 22 February 1999 | - |
| Additions | 9,444 |
| Foreign exchange on translation differences | (115) |
| At 30 April 2000 | 9,329 |
| **Amortisation** | |
| At 22 February 1999 | - |
| Charged in period | 395 |
| Foreign exchange on translation differences | (2) |
| At 30 April 2000 | 393 |
| **Net book value at 30 April 2000** | 8,936 |
| **Net book value at 22 February 1999** | - |

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# Note 10
# Fixed Asset Investments

| **Company** | **Shares in subsidiary undertakings £'000** |
|---|---|
| **Cost** | |
| At 22 February 1999 | - |
| Additions | 6,136 |
| At 30 April 2000 | 6,136 |
| **Provisions** | |
| At 22 February 1999 and 30 April 2000 | - |
| **Net book value at 30 April 2000** | 6,136 |
| **Net book value at 22 February 1999** | - |

| **Principal trading subsidiaries** | **Class of share held** | **Proportion held by the parent Company** | **Proportion held by the Group** | **Country of incorporation** |
|---|---|---|---|---|
| iSOFT plc | Ordinary | 100% | | Great Britain |
| iSOFT Overseas Holdings Limited | Ordinary | 100% | | Great Britain |
| iSOFT Scandinavia AS | Ordinary | | 100% | Norway |
| iSOFT Holdings Pty Limited | Ordinary | 50% | | Australia |
| iSOFT Healthcare Systems Pty Limited | Ordinary | | 50% | Australia |
| iSOFT Australia Pty Limited | Ordinary | | 50% | Australia |

All the above subsidiaries have the same principal trading activity as set out in Note 2 and every subsidiary has been included within the consolidated financial statements.

iSOFT Holdings Pty Limited is a subsidiary undertaking of the Group by virtue of the dominant influence which the Group exercises over it . The dominant influence exercised is provided for in the Subscription Deed and Distribution Agreement with iSOFT Holdings Pty Limited dated 1 October 1999.

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# Note 11
# Tangible Fixed Assets

| Group | Fixtures and fittings £'000 | Office equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 22 February 1999 | - | - | - | - |
| Acquisition of subsidiary | 99 | 214 | 63 | 376 |
| Acquisition of business assets | 15 | 104 | - | 119 |
| Additions | 492 | 279 | - | 771 |
| Disposals | (60) | - | (63) | (123) |
| Foreign exchange translation differences | (1) | (6) | | (7) |
| At 30 April 2000 | 545 | 591 | - | 1,136 |
| **Depreciation** | | | | |
| At 22 February 1999 | - | - | - | - |
| Acquisition of subsidiary | 16 | 107 | 15 | 138 |
| Disposals | (60) | - | (27) | (87) |
| Foreign exchange translation differences | (1) | (2) | | (3) |
| Charged in year | 86 | 124 | 12 | 222 |
| At 30 April 2000 | 41 | 229 | - | 270 |
| **Net book value at 30 April 2000** | 504 | 362 | - | 866 |
| **Net book value at 22 February 1999** | - | - | - | - |

At the balance sheet date the net book value of tangible fixed assets includes £80,942 in respect of assets held under finance leases. Depreciation charged in the period on those assets amounted to £89,000

# Note 12
# Acquisition and Start Up of Subsidiary Undertakings

### i) Acquisition of iSOFT plc

On 25 May 1999 the Group acquired 100% of the issued share capital of iSOFT plc whose assets and liabilities were as follows:

| | Book value £'000 | Accounting policy adjustment £'000 | Fair value adjustment £'000 | Fair value £'000 |
|---|---|---|---|---|
| Development costs | 2,029 | (2,029) | - | - |
| Tangible fixed assets | 238 | - | - | 238 |
| Debtors | 4,291 | 365 | (80) | 4,576 |
| Cash at bank and in hand | 631 | - | - | 631 |
| Bank loans | (1,250) | - | - | (1,250) |
| Loan notes | (1,500) | - | - | (1,500) |
| Creditors | (4,105) | 244 | (48) | (3,909) |
| Net separable assets acquired | 334 | (1,420) | (128) | (1,214) |
| Goodwill | | | | 7,350 |
| | | | | 6,136 |

| | |
|---|---|
| Satisfied by: | |
| Cash consideration (including acquisition costs) | 4,636 |
| Share exchange | 1,500 |
| | 6,136 |

In the event of a sale or listing of the Group prior to 30 April 2003, further consideration will become payable in addition to that shown above. The value of any additional consideration will be calculated by reference to the valuation of the Group at that time.

The accounting policy adjustment is required to reflect the Group policy of expensing all research and development expenditure in the year in which it is incurred.

The fair value adjustment has been made to reflect the recoverable value of the debtors acquired and the associated costs.

Since acquisition, iSOFT plc has contributed £268,000 to the Group operating cash outflow, paid £370,000 in respect of net returns on investment and servicing of finance, paid £287,000 in respect of taxation, paid £423,000 for capital expenditure and financial investment and paid £2,786,000 in respect of financing.

Pre-acquisition performance of iSOFT plc:

| | 12 months to 30 April 1999 £'000 | Period to 25 May 1999 £'000 |
|---|---|---|
| Turnover | 11,096 | 745 |
| Operating costs | (10,027) | (906) |
| Operating profit/loss | 1,069 | (161) |
| Net interest paid | (306) | (26) |
| Profit/loss before taxation | 763 | (187) |
| Taxation | (250) | - |
| Profit/loss for the period | 513 | (187) |

# Note 12 (Continued)
# Acquisition and Start Up of Subsidiary Undertakings

**ii) Set up of iSOFT Holdings Pty Limited and acquisition of trade and assets**

On 1 October 1999 the Group subscribed for 50% of the £1 ordinary share capital on incorporation of iSOFT Holdings Pty Limited. The consideration at nominal value for these shares was £400,000 in cash.

On 1 October 1999 iSOFT Holdings Pty Limited acquired the business and assets of an existing entity as follows:

| | Book value | Accounting policy adjustment | Fair value adjustment | Fair value |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Intellectual property rights | 395 | (395) | - | - |
| Tangible fixed assets | 119 | - | - | 119 |
| Debtors | 291 | - | - | 291 |
| Deferred income | (654) | - | - | (654) |
| Accruals | (500) | - | (269) | (769) |
| Net separable assets acquired | (349) | (395) | (269) | (1,013) |
| Goodwill | | | | 2,094 |
| | | | | 1,081 |
| Satisfied by: | | | | |
| Cash consideration (including costs of acquisition) | | | | 1,081 |

The accounting policy adjustment is required to reflect the Group policy of not capitalising intellectual property intangible fixed assets.

The fair value adjustment has been made to reflect accurately the fair value of liabilities acquired by the Group on the date of acquisition of iSOFT Holdings Pty Limited.

Since start up, iSOFT Holdings Pty Limited has contributed £715,000 to the Group operating cash out flow, received £31,000 in respect of net returns on investment and servicing of finance, paid £NIL in respect of taxation, paid £245,000 for capital expenditure, paid £1,081,000 for acquisitions and received £583,000 in respect of financing.

## Note 13
## Debtors

| | Group £'000 | Company £'000 |
|---|---|---|
| Trade debtors | 3,734 | - |
| Amounts owed by Group undertakings | - | 7,529 |
| Prepayments | 206 | 24 |
| Earned income | 6,781 | - |
| Other debtors | 46 | - |
| | 10,767 | 7,553 |

Earned income represents amounts receivable under contracts for which no invoice had been raised at the balance sheet date. The earned income balances relate to amounts due under multi-year contracts where revenue is recognised in accordance with Note 1 v), with payments typically made to the Group via contract specific third party financing arrangements, which are therefore not subject to normal credit terms.

During the period the Group entered into financing arrangements with third party funders in respect of specific customer contracts. These transactions were entered into to provide PFI (private finance initiative) compliant finance for the capital cost of multi-year customer contracts. Where arrangements resulted in the sale of discounted receivables, the present value of the customer receivable is matched by the amount due to the funding provider. Given the directly related nature of the transactions the Group does not recognise the equal and opposite related balances. This treatment is in accordance with FRS5.

## Note 14
## Creditors: Amounts Falling Due Within One Year

| | Group £'000 | Company £'000 |
|---|---|---|
| Bank loans and overdrafts (Note 16) | 905 | 905 |
| Amounts due under finance leases (Note 16) | 38 | - |
| Other loans (Note 16) | 187 | - |
| Trade creditors | 1,332 | - |
| Amounts owed to Group undertakings | - | 1,068 |
| Corporation tax | 233 | - |
| Other taxation and social security | 197 | - |
| Proposed dividends | 201 | 201 |
| Other creditors | 40 | - |
| Accruals and deferred income | 5,148 | - |
| | 8,281 | 2,174 |

The bank loans and overdraft are secured by a floating charge over the assets of the Group. All are repayable within five years.

## Note 15
## Creditors: Amounts Falling Due After One Year

| | Group £'000 | Company £'000 |
|---|---|---|
| Bank loans (Note 16) | 3,203 | 3,203 |
| Amounts due under finance leases (Note 16) | 37 | - |
| | 3,240 | 3,203 |

## Note 16
## Borrowings

Borrowings are repayable as follows:

| | Group £'000 | Company £'000 |
|---|---|---|
| **Due within one year** | | |
| Bank loans (Note 17) | 905 | 905 |
| Other loans | 187 | - |
| Finance leases | 38 | - |
| | 1,130 | 905 |
| **After one and within two years** | | |
| Bank loans (Note 17) | 905 | 905 |
| Finance leases | 24 | - |
| | 929 | 905 |
| **After two and within five years** | | |
| Bank loans (Note 17) | 2,298 | 2,298 |
| Finance leases | 13 | - |
| | 2,311 | 2,298 |
| | 4,370 | 4,108 |

## Note 17
## Deferral of Bank Loan Arrangement Fees

During the period the Group entered into arrangements for a bank loan of £4.5m repayable over five years. The costs associated with the arrangement of this loan have been deferred and amortised over the life of the loan in accordance with FRS4.

Amortisation of the arrangement fees commenced on 30 June 1999, the date of the first loan draw down.

Within Note 16 the five year bank loan is stated net of the deferred arrangement costs as follows:

| | Group and Company £'000 |
|---|---|
| **Due within one year** | |
| Gross loan | 920 |
| Deferred arrangement costs | (15) |
| Net loan | 905 |
| **After one and within two years** | |
| Gross loan | 920 |
| Deferred arrangement costs | (15) |
| Net loan | 905 |
| **After two and within five years** | |
| Gross loan | 2,330 |
| Deferred arrangement costs | (32) |
| Net loan | 2,298 |
| | 4,108 |

The loan is repayable at £230,000 per quarter and interest was charged during the period at 2.0% over base rate.

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# Note 18
# Share Capital

| | £ |
|---|---|
| **Authorised** | |
| 6,500,000 Preference shares of £1.00 each | 6,500,000 |
| 425,000 A Ordinary shares of £0.01each | 4,250 |
| 3,000,000 B Ordinary shares of £0.10 each | 300,000 |
| 575,000 Ordinary shares of £0.01 each | 5,750 |
| | 6,810,000 |

| | £ |
|---|---|
| **Allotted and fully paid** | |
| 6,500,000 Preference shares of £1.00 each | 6,500,000 |
| 425,000 A Ordinary shares of £0.01each | 4,250 |
| 575,000 Ordinary shares of £0.01 each | 5,750 |
| | 6,510,000 |

Preference shares

The preference shares are non-equity shares which carry an entitlement to dividends at the following rates:

| | |
|---|---|
| 28 May 1999 to 30 April 2000 | 4.0% of Subscription Price |
| 1 May 2000 to 30 April 2001 | 6.0% of Subscription Price |
| Thereafter | 8.0% of Subscription Price |

The dividend is payable half yearly on 30 October and 30 April.

The effective rate of return of the preference shares is 7%. The difference between this rate and the Non-equity dividends payable is shown as a non-equity appropriation.

Preference shares rank before all other shares in the instance of the Group winding up and are entitled to receive £1.00 per share together with any arrears or accruals of the preference dividend and any interest thereon calculated down to the date of the return of capital.

Preference shares are redeemable as follows:

| Redemption date | Number of shares redeemable |
|---|---|
| 30 April 2002 | 1,250,000 |
| 30 April 2003 | 1,500,000 |
| 30 April 2004 | 1,750,000 |
| 30 April 2005 | 2,000,000 |

All preference shares are redeemable on either sale or listing and will be redeemed at par plus any arrears of dividend accruing.

Preference shares do not carry any voting rights.

A Ordinary shares

The A Ordinary shares are equity shares which rank below preference shares in the instance of the Company winding up.

A Ordinary shares have the right to a cumulative preferential cash dividend of a sum equal to the higher of 6% of the subscription price (including any premium paid) and the following percentage of Net Profit:

for financial period ending 30 April 2000 - 2.5%
for the financial period ending 30 April 2001 - 5%
for each financial period thereafter - 10%

The dividend is payable at the earlier date of three months after the year-end or 14 days after the audit report on the accounts of the Company for such period is signed by the Company's auditors, whichever is earlier.

On the date of a sale or listing of the Company, A Ordinary shares will convert into a like number of Ordinary shares.

A Ordinary shares carry voting rights at one vote per share held.

## Note 18 (Continued)
## Share Capital

B Ordinary shares
No dividends shall be paid on B Ordinary shares.

On the date of a sale or listing of the Company the B Ordinary shares will be converted into such number of Ordinary shares as would, if all of the B shares had been in issue immediately prior to the conversion, have represented 3% of the issued Ordinary shares after the conversion and after the A Ordinary shares were converted.

B Ordinary shares do not carry any voting rights.

Ordinary shares
The Ordinary shares do not carry the right to a dividend other than the exit dividend. On the date of any sale or listing the exit dividend becomes payable at an amount equal to the aggregate amount of dividend paid or payable to the A Ordinary shareholders for a net profit in excess of £4,000,000.

Ordinary shares carry voting rights at one vote per share held.

Allotments during the period
All allotted and fully paid up shares at the year-end were issued during the period. Preference shares were issued at nominal value. The A Ordinary shares were issued at a 58.83p per share for cash. The Ordinary shares were issued in a share for share exchange at a deemed market value of 260.87p per share. The resulting premium on issue of A Ordinary and Ordinary shares was credited, net of issue costs, to the share premium account.

Share options
Options were granted over 2,750,000 of the total authorised 3,000,000 B Ordinary during the period. Options must be exercised within one year from the grant date of 1 March 2000. All options will be exercisable at £0.10 per share.

## Note 19
## Share Premium Account and Reserves

| **Group** | **Share premium account £'000** | **Profit and loss account £'000** |
|---|---|---|
| At 22 February 1999 | - | - |
| Retained profit for the period | - | 1,460 |
| Non-equity appropriation reversal | - | 171 |
| Exchange differences | - | (129) |
| Premium on shares issued | 1,589 | - |
| | 1,589 | 1,502 |

| **Company** | **Share premium account £'000** | **Profit and loss account £'000** |
|---|---|---|
| At 22 February 1999 | - | - |
| Retained profit for the period | - | 42 |
| Non-equity appropriation reversal | - | 171 |
| Exchange differences | - | - |
| Premium on shares issued | 1,589 | - |
| | 1,589 | 213 |

## Note 20
## Reconciliation of Operating Profit to Net Operating Cash Flows

| | £'000 |
|---|---|
| **Operating profit** | 3,063 |
| Amortisation of intangible assets and goodwill | 395 |
| Depreciation of tangible fixed assets | 222 |
| Increase in debtors | (6,250) |
| Increase in creditors | 1,436 |
| Foreign exchange differences | (36) |
| | (1,170) |

The operating cash out flow has been affected by the accumulation of trade debtors in the Australian subsidiary, following the decision not to purchase these trade balances as part of the acquisition in Note 12 ii). Had this formed part of the acquisition the net cash flow from operations would have been an inflow of £1,048,000 and the amount paid in respect of the acquisition would have been £3,361,000.

## Note 21
## Analysis of Change in Net Debt

| | At 22 February 1999 £'000 | Cash flow £'000 | Acquisition (excl.cash) £'000 | Non cash movements £'000 | At 30 April 2000 £'000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | - | 803 | - | - | 803 |
| **Net cash** | - | 803 | - | - | 803 |
| Bank and other loans | - | (1,607) | (2,750) | 62 | (4,295) |
| Finance leases | - | 44 | (83) | (36) | (75) |
| **Borrowings** | - | (1,563) | (2,833) | 26 | (4,370) |
| **Net debt** | - | (760) | (2,833) | 26 | (3,567) |

## Note 22
## Reconciliation of Net Cash Flow to Movement in Net Debt

| | £'000 |
|---|---|
| Increase in cash | 803 |
| Cash inflow from increase in debt | (1,563) |
| **Increase in net debt from cash flows** | (760) |
| Debt acquired with subsidiary | (2,833) |
| New finance leases incepting in the period | (72) |
| Finance lease reduction by way of asset disposal | 36 |
| FRS4 loan arrangement costs deferred (Note 17) | 62 |
| **Increase in net debt in the period** | (3,567) |
| **Net debt at 22 February 1999** | - |
| **Net debt at 30 April 2000** | (3,567) |

# Note 23
# Operating Lease Commitments

**Annual property rentals on leases which expire:**

| | **£'000** |
|---|---|
| Within one year | 121 |
| Between one and five years | 321 |
| | 442 |

**Annual equipment rentals on leases which expire:**

| | **£'000** |
|---|---|
| Within one year | 45 |
| Between one and five years | 66 |
| | 111 |

**Annual motor vehicle rentals on leases which expire:**

| | **£'000** |
|---|---|
| Within one year | 1 |
| Between one and five years | 106 |
| | 107 |

# Note 24
# Capital Commitments

At the balance sheet date neither the Group or the Company had entered into any capital commitments.

# Note 25
# Contingent Liabilities

At the balance sheet date there were no contingent liabilities relating to either the Group or the Company.

# Note 26
# Related Party Related Transactions

Lloyds TSB Development Capital own 42.5% of the issued equity share capital of the Company. During the year the Company incurred charges of £13,750 from Lloyds TSB Development Capital. At the balance sheet date no charges were outstanding.

# Company Information

| | |
|---|---|
| **Directors and secretary** | Roger Joseph Dickens<br>*Executive Chairman*<br><br>Patrick Cryne<br>*Chief Executive*<br><br>Stephen Paul Graham<br>*Operations Director*<br><br>Timothy Andrew Whiston<br>*Finance Director and Company Secretary* |
| **Non-executive directors** | Digby Jones<br>Dr Eurfyl ap Gwilym<br>Geoffrey White |
| **Registered and head office** | Bridgewater House<br>58 – 60 Whitworth Street<br>Manchester M1 6LT |
| **Registered number** | 3716736 |
| **Websites** | www.isoftplc.com |
| **Financial adviser and broker** | Hoare Govett Limited<br>250 Bishopsgate<br>London EC2M 4AA |
| **Solicitors** | Pinsent Curtis<br>3 Colmore Circus<br>Birmingham B4 6BH<br><br>Turner Parkinson<br>Hollins Chambers<br>64a Bridge Street<br>Manchester M3 3BA |
| **Auditors** | RSM Robson Rhodes<br>Colwyn Chambers<br>19 York Street<br>Manchester M2 3BA |
| **Financial public relations** | Citigate Dewe Rogerson<br>3 London Wall Buildings<br>London Wall<br>London EC2M 5SY |
| **Bankers** | Lloyds TSB Bank plc<br>Birmingham City Centre<br>PO Box 908<br>1 Cornwall Street<br>Birmingham B3 2DS |

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