

3716736

A copy of this document, which comprises listing particulars relating to iSOFT Group plc ("the Company") prepared in accordance with Part IV of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of that Act. ✓

The Directors of iSOFT Group plc, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application has been made to the UK Listing Authority for the whole of the ordinary share capital of iSOFT Group plc, issued and to be issued pursuant to the Placing, to be admitted to the Official List of the UK Listing Authority and to trading in accordance with the London Stock Exchange Admission and Disclosure Standards for Listed Companies. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on 19 July 2000. The New Ordinary Shares to be issued pursuant to the Placing will, on Admission, rank *pari passu* in all respects with the Ordinary Shares then in issue and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company.

No person is authorised, in connection with the Placing, to give any information or make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by the Company or Hoare Govett Limited or their respective directors.

Your attention is drawn to Part IV of this document which sets out certain risk factors.

This document does not constitute an offer to sell or to subscribe for, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction where such an offer or solicitation is unlawful and is not for distribution in or into the United States, Canada, Japan or Australia. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or under the applicable securities laws of Canada, Japan or Australia and, subject to certain exceptions, may not be offered for sale or subscription, or sold or subscribed, directly or indirectly within the United States, Canada, Japan or Australia or to or by any national, resident or citizen of such countries.

## iSOFT GROUP PLC

(Incorporated and registered in England and Wales No. 3716736)



**iSOFT**

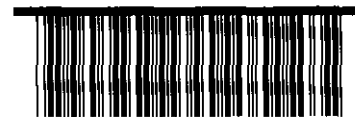
Placing

of 35,708,400 ordinary shares of 10p each

at 110p per share

by

**HOARE GOVETT LIMITED**



LD1  
COMPANIES HOUSE

\*L720184T\*

0048  
12/07/00

### Share capital immediately following the Placing

Authorised		Issued and fully paid	
Number	Nominal amount	Number	Nominal amount
200,000,000	£20,000,000.00	112,064,492	£11,206,449.20
	Ordinary shares of 10p each		

Hoare Govett Limited, which is regulated by The Securities and Futures Authority Limited, is acting for the Company in respect of the Placing and no one else, and will not be responsible to anyone other than the Company for providing the protections afforded to customers of Hoare Govett Limited or for providing advice in relation to the Placing.

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## **DIRECTORS, SECRETARY AND ADVISERS**

<b>Directors and secretary</b>	Roger Joseph Dickens <i>Executive Chairman</i> Patrick Cryne <i>Chief Executive</i> Stephen Paul Graham <i>Operations Director</i> Timothy Andrew Whiston <i>Finance Director and Company Secretary</i> Dr Eurfyl ap Gwilym <i>Non-executive Director</i> Digby Marritt Jones <i>Non-executive Director</i> Geoffrey Charles White <i>Non-executive Director</i>
<b>Registered and head office</b>	Bridgewater House 58-60 Whitworth Street Manchester M1 6LT
<b>Websites</b>	<a href="http://www.isoftware.com">www.isoftware.com</a> <a href="http://www.HEALTHeverything.com">www.HEALTHeverything.com</a>
<b>Financial adviser, sponsor and stockbroker</b>	Hoare Govett Limited 250 Bishopsgate London EC2M 4AA
<b>Solicitors to the Company</b>	Pinsent Curtis 3 Colmore Circus Birmingham B4 6BH
<b>Solicitors to Hoare Govett</b>	Ashurst Morris Crisp Broadwalk House 5 Appold Street London EC2A 2HA
<b>Reporting accountants</b>	RSM Robson Rhodes St George House 40 Great George Street Leeds LS1 3DQ
<b>Auditors</b>	RSM Robson Rhodes Colwyn Chambers 19 York Street Manchester M2 3BA
<b>Financial public relations</b>	Citigate Dewe Rogerson 3 London Wall Buildings London Wall London EC2M 5SY
<b>Principal bankers</b>	Lloyds TSB Bank plc Colmore Row Branch 114/116 Colmore Row Birmingham B3 3BD
<b>Registrars</b>	Lloyds TSB Registrars The Causeway Worthing West Sussex BN99 6DA

## DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

"Act"	the Companies Act 1985 (as amended)
"Admission"	admission of the ordinary share capital of the Company, issued and to be issued pursuant to the Placing, to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for <i>listed securities</i>
"Company" or "iSOFT"	iSOFT Group plc
"CREST"	the computerised system for settling the sales and purchases of UK and Irish registered equities, corporate loan stocks and traditional options in uncertificated form operated by CRESTCo Limited
"Directors" or "Board"	the directors of the Company whose names are set out on page 3 of this document
"HealthNet"	HealthNet Investments Pty Limited, a company incorporated in Australia which holds interests in the equity of the Company and which is owned by certain managers of iSOFT Holdings Pty and their associates
"Hoare Govett"	Hoare Govett Limited
"iSOFT Business"	the business of the iSOFT Group, including, where the context requires, such business as previously carried on by KPMG Management Consulting
"iSOFT Group" or "Group"	iSOFT and its subsidiary undertakings (as defined in the Act)
"iSOFT Holdings Pty"	iSOFT Holdings Pty Limited, a wholly owned subsidiary company within the Group, incorporated in Australia
"KPMG"	KPMG and its predecessor organisations as the context so requires
"KPMG Management Consulting"	the consulting practice of KPMG and its predecessor organisations as the context so requires
"London Stock Exchange"	London Stock Exchange plc
"Lloyds TSB Development Capital"	Lloyds TSB Development Capital Limited
"New Ordinary Shares"	the 15,909,090 new Ordinary Shares to be issued for cash pursuant to the Placing
"No. 1 Share Scheme"	the iSOFT Group (No. 1) Share Option Scheme
"No. 2 Share Scheme"	the iSOFT Group (No. 2) (Approved) Executive Share Option Scheme
"No. 3 Share Scheme"	the iSOFT Group (No. 3) (Unapproved) Executive Share Option Scheme
"Official List"	the Official List of the UK Listing Authority
"Ordinary Shares"	ordinary shares of 10p each in the capital of the Company
"Placing"	the conditional placing by Hoare Govett of the Placing Shares at the Placing Price, as described in this document
"Placing Agreement"	the placing agreement described in paragraph 6 of Part V of this document
"Placing Price"	110p per Ordinary Share payable in cash
"Placing Shares"	the 35,708,400 Ordinary Shares the subject of the Placing
"Preference Shares"	cumulative redeemable preference shares of £1 each in the capital of the Company
"Registrars"	Lloyds TSB Registrars
"Share Option Schemes"	together the No. 1 Share Scheme, the No. 2 Share Scheme and the No. 3 Share Scheme
"UK Listing Authority"	the Financial Services Authority in its capacity as the competent authority for the purposes of Part IV of the Financial Services Act 1986
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland
"United States" or "US"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia

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## GLOSSARY OF TERMS

<b>ANSI SQL standards</b>	a programming language to query databases conforming to the recommendations of the American National Standards Institute
<b>Citrix ICA technologies</b>	an acronym for Citrix's Independent Computing Architecture, a three part application server technology that separates an <i>application's logic from its user interface and allows full application execution on the server</i>
<b>client/server</b>	a computer system configuration in which processing is divided between clients (personal computers or workstations) and a server hosting a database. In a two-tier configuration, requests for information are generated by the client for database processing by the server. In a multi-tier architecture, the processing may be distributed across multiple servers
<b>COM</b>	Component Object Model, a specification developed by Microsoft for building software components that can be assembled into programs running on Microsoft Windows operating systems
<b>DCOM</b>	Distributed Component Object Model, the version of COM that stipulates how components communicate over Microsoft Windows based networks
<b>IEPR</b>	iSOFT Electronic Patient Record, the Group's electronic patient record module, described in Part I of this document
<b>iSOFT2000</b>	the Group's fully integrated patient information management system implemented using Microsoft technologies throughout, described in Part I of this document
<b>LAN</b>	Local Area Network, a group of computers and other devices dispersed over a relatively limited area and connected by a communications link that enables any device to interact with any other on the network
<b>legacy software</b>	application and/or operating systems software, usually proprietary to a single software company and using outdated technologies
<b>OLAP</b>	On-Line Analytical Processing, decision support software that allows users to analyse information that has been summarised into multi dimensional views and hierarchies
<b>open system</b>	a system developed with the goal of achieving interoperability between hardware and software by the use of standards accepted by the computer industry at large and not one or two vendors
<b>PACS</b>	Picture Archiving and Communication System, a system for storing <i>diagnostic images such as x-rays in digitised form rather than on conventional film</i> , it also provides rapid on request access to such images on screen

<b>PiMS</b>	Patient Information Management System, the Group's fully integrated information system, described in Part I of this document
<b>relational database technology</b>	a database management system that stores data in tables, rows and columns, and conducts searches by using data in specified columns of one table to find data in another table
<b>SQL</b>	Structured Query Language, the <i>de facto</i> standard language for database access and update for relational database management systems
<b>SQL parsing</b>	a method that allows the syntactic structure of a query, expressed using SQL, to be checked and formatted prior to processing
<b>thin client</b>	a low specification personal computer used as a client device in a client/server configuration. The implications of using a thin client are that the device will be capable only of requesting information and that the processing burden will be borne entirely by the server
<b>thick client</b>	a high specification personal computer used as a client device in a client/server configuration. The implication of using a thick client is that the device will be capable of sharing the processing burden with the server
<b>XML</b>	eXtensible Mark-up Language, a language defined by the World Wide Web Consortium to allow developers and designers to create flexible formats for organising and presenting information on the web

The brand names or product names mentioned or referred to in this document are fully recognised as the trademark or registered trademark (as appropriate) of their respective holders. In particular:

- (i) PiMS and iSOFT are registered trademarks of the Group in the UK;
- (ii) Microsoft Windows, Microsoft Windows NT, Microsoft Office, Microsoft SQL Server, Microsoft Visual Studio, Microsoft CE and Microsoft Internet Explorer are registered trademarks of Microsoft Corporation in the United States and/or other countries;
- (iii) Oracle is a registered trademark of the Oracle Corporation in the United States and/or other countries;
- (iv) Sybase is a registered trademark of Sybase Inc. in the United States and/or other countries; and
- (v) Citrix is a registered trademark of Citrix Systems Inc. in the United States and/or other countries.

## PLACING STATISTICS AND EXPECTED TIMETABLE

### PLACING STATISTICS

Placing Price	110p
Number of Ordinary Shares in issue following the Placing	112,064,492
Market capitalisation at the Placing Price	£123.27 million
Number of Ordinary Shares being placed pursuant to the Placing on behalf of:	
– the Company	15,909,090
– existing shareholders	19,799,310
Percentage of enlarged issued ordinary share capital being placed	31.86 per cent
Net proceeds of the Placing receivable by the Company (1)	£15.34 million
Notional net dividend per Ordinary Share for the year ended 30 April 2000 (2)	0.5p
Notional net dividend yield at the Placing Price (2)	0.45 per cent

#### Notes:

1. Net proceeds are stated after the deduction of estimated total flotation expenses of approximately £2.16 million.
2. The notional net dividend per Ordinary Share and notional net dividend yield at the Placing Price are based on the net dividend per Ordinary Share which the Directors would have expected to recommend in respect of the year ended 30 April 2000 had the Ordinary Shares been listed for the whole of the year.

Further information concerning the notional net dividend per Ordinary Share is set out in the section entitled "Dividend policy" in Part I of this document.

### EXPECTED TIMETABLE

Ordinary Shares admitted to the Official List and to trading on the London Stock Exchange's market for listed securities and dealings to commence	19 July 2000
Ordinary Shares credited to CREST accounts	19 July 2000
Where applicable, definitive share certificates despatched	by 26 July 2000

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## KEY INFORMATION ON THE GROUP

The following information should be read in conjunction with the full text of this document, from which it is derived and which must be read in its entirety in order to obtain a full appreciation of the Group.

## INTRODUCTION

The iSOFT Group develops and markets innovative information system products, which support patient, clinical and business management processes, to public and private hospitals and other healthcare provider organisations. It also provides product installation, system configuration, training and customer support in respect of its products.

The Group's information system products, which are based on leading-edge market technologies, combine traditional server-based healthcare transaction processing with information production and dissemination to desk-top and mobile devices via public and private communications networks, including the Internet.

The Group's products are currently installed in the UK, Australia, Ireland, Scandinavia, Hong Kong and New Zealand.

## HISTORY

The iSOFT Business was founded in 1994 when Patrick Cryne (Chief Executive of the Company) established a separate partnership, including also Roger Dickens and Steve Graham (respectively Chairman and Operations Director of the Company), within KPMG Management Consulting, to operate the latter's healthcare information systems business.

In January 1995, the iSOFT Business announced the first version of its new, enterprise-wide, patient information management system, PiMS. The first implementation took place at Bedford Hospitals NHS Trust in the UK in April 1995.

In May 1999, the Company, supported by Lloyds TSB Development Capital, acquired the iSOFT Business.

Since the launch of PiMS in 1995, the iSOFT Business has positioned its products to exploit leading-edge technologies in the marketplace. Its progress from a new entrant to one of the UK market leaders is evidenced by its growth in revenue and profitability.

In the year ended 30 April 2000, the Group made an operating profit before depreciation and amortisation of approximately £3.5 million on turnover of approximately £17.8 million, representing compound annual growth over the two years since 30 April 1998 of approximately 180 per cent and 70 per cent, respectively.

## THE HEALTHCARE INFORMATION SYSTEMS MARKET

The healthcare information systems market is experiencing high growth which the Directors attribute to the increasing importance attached to healthcare. Healthcare provision is a key social, economic and political issue in modern economies and managing the healthcare economy is a key theme of government strategy in each of the Group's markets.

In the UK, the Directors estimate that all NHS expenditure on information systems, which amounted to approximately £800 million in the 1999/2000 fiscal year, will grow at an average of 13 per cent per annum until the 2002/2003 fiscal year.

In addition to the UK, the Directors believe that the economies of the Group's other markets are likely to experience real growth in both healthcare provision and IT investment to improve the quality of, and access to, healthcare services.



## **CORPORATE OBJECTIVE AND STRATEGY**

The iSOFT Group's corporate objective is to achieve sustained growth in revenue, profit and cash flow, through being, in its chosen markets, a leading vendor of enterprise-wide healthcare information systems, which are continuously updated to exploit both leading-edge market technologies and emerging health issues.

The Directors' strategy to achieve this objective includes the following key elements:

- the Group will continue to focus on advancing its technological expertise;
- it will seek to enhance its product offering to its existing customers;
- it will target potential new customers;
- it intends to pursue growth through further acquisitions;
- it intends to expand into new international markets;
- it will seek to enter into partnerships with suppliers with particular emphasis on suppliers of new access device technologies; and
- it will endeavour to ensure that its employees are incentivised through sharing in the Group's success.

## **PRODUCTS AND SERVICES**

The Group's principal product offerings are its enterprise-wide information systems PiMS and iSOFT2000.

PiMS is an enterprise-wide information system designed for healthcare provider organisations which, although suitable for a wide range of hospital types, is targeted principally at larger public sector hospitals. First released in 1995, PiMS has been substantially further developed to meet evolving patient, business and clinical management information system requirements of hospitals. PiMS has been designed to be portable across database platforms, including Oracle and Sybase. The flexibility of PiMS, which has comprehensive functionality, is demonstrated by its penetration into different types of hospital, such as teaching hospitals, general hospitals, community hospitals, mental health hospitals, learning disability centres, dental hospitals, children's hospitals and super clinics.

iSOFT2000 is a new highly refined product, first installed in 1999, which shares a common development programme with PiMS and is therefore equivalent with PiMS in terms of patient and clinical management functions. It is based throughout on the latest Microsoft technologies, including the Microsoft Windows 2000 operating system and Microsoft SQL Server 7.0 relational database. It is intended for healthcare organisations which have few technical staff and wish to run the product as a virtual turnkey application. It has already been supplied to hospitals both in the public and private sectors, where some customers have procured a comprehensive managed service from the Group, including remote operation of the application and the provision of help desk and on-line training services.

In addition to the comprehensive functionality of PiMS, iSOFT2000 also has a fully integrated financials application within its scope, including nominal ledger, debtors ledger, creditors ledger, asset register, stock ledger and OLAP reporting.

The services provided by the Group are tightly coupled with the product portfolio in that the Group only provides those implementation and post implementation customer services which are required for the operation of the product. The Group is increasingly refining and standardising PiMS and iSOFT2000 to minimise the necessary level of support service and thereby enable staff resource to be focused on product development.

## **SALES AND MARKETING**

The healthcare provider organisations in all of the Group's markets, whether in the public or private sectors, can generally be identified from published sources.

Accordingly, the Group's approach to winning new contracts includes creating a strong marketing image for iSOFT and its product and service offerings with these organisations.

It is also a key element of the Group's approach to operate strong after sales account management with the objective of achieving sell on business, in respect of new product developments or enhancements, within the terms of the original contract.

## **COMPETITION**

The Directors believe that the iSOFT Group is strongly positioned in its market to achieve continuing growth. The Group's competitors include a limited number of both multinational and national vendors of information systems. However, the Directors believe that the particular strengths that individually and collectively differentiate the Group from its competitors include:

- strong commitment to, and management control of, in-house product development;
- innovative health information systems which are continuously updated to exploit both leading-edge market technologies and emerging health issues;
- the ability of PiMS to operate on a number of leading operating system platforms and relational database management systems;
- the Group's strong relationship with Microsoft;
- the ability of its products to be easily exported to foreign markets in the national language;
- an experienced and strong management team with broad experience of the healthcare market and information technologies;
- an expanding customer base in both the public and private sectors; and
- a successful track record.

## FINANCIAL INFORMATION

The summary financial record of the Group set out below has been extracted from the Accountants' report contained in Part II of this document. Investors should read the whole of this document and not just rely on this summarised information.

	1998	Year ended 30 April	
	£'000	1999	2000
		£'000	£'000
Turnover	6,088	11,096	17,769
Operating profit before depreciation and amortisation	444	1,217	3,519
(Loss)/profit on ordinary activities before taxation	(20)	763	2,131

## PROSPECTS

The Directors believe that demand for the Group's products and services will continue to grow for the foreseeable future as a result, in particular, of:

- the increasing political importance of healthcare;
- increasing global demand for more advanced healthcare information system products;
- the functional relevance of the Group's products in addressing the current and emerging issues in its markets; and
- the innovative nature of the Group's products relative to its competitors.

## REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that the new capital raised for the Group in the Placing will assist in the financing of the Group's future development, which the Directors intend to pursue both through organic growth and acquisition. The Directors intend that the Group will participate actively in the ongoing consolidation of healthcare information system vendors when suitable acquisition opportunities arise.

The Directors also believe that the listing, by providing liquidity and a market valuation for the Group's equity, in conjunction with the Share Option Schemes, will help the Group to continue to attract and retain high quality staff.

They also believe that the Placing and the listing of the Ordinary Shares will raise the status and market profile of the Group and will promote further awareness of the Group's business in its markets.

## **PART I**

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### **INFORMATION ON THE GROUP**

#### **INTRODUCTION**

The iSOFT Group develops and markets innovative information system products, which support patient, clinical and business management processes, to public and private hospitals and other healthcare provider organisations. It also provides product installation, system configuration, training and customer support in respect of its products.

The Group's information system products, which are based on leading-edge market technologies, combine traditional server-based healthcare transaction processing with information production and dissemination to desk-top and mobile devices via public and private communications networks, including the Internet.

The principal users of the Group's products are managers, administrators and clinicians. Other users of its products include organisations and individuals which liaise with hospitals, including general practitioners, community care staff and social services employees.

The Board focuses the Group's marketing on countries which, in its opinion, have a relatively developed healthcare information systems market and have 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.

The Group's products are currently installed in the UK, Australia, Ireland, Scandinavia, Hong Kong and New Zealand. iSOFT's customers include the Birmingham City Hospital NHS Trust, the Great Ormond Street Hospital for Children, the Salisbury Health Care NHS Trust and the chain of private Nuffield Hospitals.

The Group, whose head office is located in Manchester, employs approximately 200 staff in the UK and Australia.

#### **HISTORY**

The iSOFT Business was founded in 1994 when Patrick Cryne (Chief Executive of the Company) established a separate partnership, including also Roger Dickens and Steve Graham (respectively, Chairman and Operations Director of the Company), within KPMG Management Consulting, to operate the latter's healthcare information systems development business. The business, which was then involved in both the development of general healthcare management information systems and the provision of a broad range of management consulting services, was at the same time refocused by Patrick Cryne towards building hospital enterprise-wide software products.

In January 1995, the iSOFT Business announced the first version of its new, enterprise-wide, patient information management system, PiMS, a fully-integrated, transaction processing system based on relational database technology, open system standards and two-tier, client/server architectures, using Microsoft technologies on desk-top PC devices. The first implementation took place at Bedford Hospitals NHS Trust in the UK in April 1995.

Since 1995, development effort has been focused by management on refining and standardising the software product offering. Multi-tier, client/server architectures have been introduced into the PiMS product, and database independence established, with deployments based on either Oracle or Sybase relational database technologies. In addition, desk-top customer software has been and continues to be upgraded through the various releases of the Microsoft Windows operating systems, development languages and associated Microsoft Office products.

In May 1998, iSOFT plc, the issued share capital of which was owned as to 75 per cent on behalf of KPMG and as to 25 per cent by Patrick Cryne, Roger Dickens and Steve Graham, acquired the iSOFT Business. iSOFT plc thereupon commenced selling systems under the "iSOFT" brand as a Microsoft Certified Solution Provider Partner. In November 1998, it was selected as a Microsoft SQL Server 7.0 Launch Partner, the only health systems vendor to achieve this status in the UK.

In May 1999, the Company, supported by Lloyds TSB Development Capital, acquired iSOFT plc. Following the acquisition, the majority of the Company's share capital was owned by management, led by Patrick Cryne, Roger Dickens and Steve Graham. Details of the terms of the acquisition are set out in paragraphs 7(b) and 7(c) of Part V of this document. The acquisition enabled management to increase investment in further developing the product and service portfolio and in expanding the iSOFT Business in selected overseas markets. Further products were added to the iSOFT range in 1999, including iSOFT2000, a patient information management system incorporating a financial application suite and implemented using Microsoft technologies throughout.

In 1998, the Group's PiMS product was designated by the State of New South Wales in Australia as one of two approved patient information management systems for the state's hospitals, following which, in 1999, the Group entered into a contract to provide its PiMS product to the Western Sydney Area Health Service.

Subsequently, in October 1999, the Group acquired a 50 per cent interest in the issued share capital of a health systems business in Australia, which was renamed iSOFT Holdings Pty; the remaining 50 per cent was acquired by the management of iSOFT Holdings Pty. On 11 July 2000, the Group acquired this 50 per cent interest of the management. iSOFT Holdings Pty supports over 250 customer sites, all except the Western Sydney Area Health Service using legacy based information systems products. The purpose of the acquisition was to enable the Group to market the iSOFT product range to customers of iSOFT Holdings Pty. Further details of both acquisitions are set out in paragraphs 7(e), (f) and (g) of Part V of this document.

Since the launch of PiMS in 1995, the iSOFT Business has positioned its products to exploit leading-edge technologies in the marketplace. Its progress from a new entrant to one of the UK market leaders is evidenced by its growth in terms of customer base, revenue and profitability.

Since it commenced trading under the iSOFT name in May 1998, the Group has gained 18 new customer accounts (excluding new customers resulting from the acquisition of iSOFT Holdings Pty). These include major acute and non acute NHS hospital trusts, and the chain of 42 Nuffield private hospitals.

In the year ended 30 April 2000, the Group made an operating profit before depreciation and amortisation of approximately £3.5 million on turnover of approximately £17.8 million, representing compound annual growth over the two years since 30 April 1998 of approximately 180 per cent and 70 per cent, respectively.

## THE HEALTHCARE INFORMATION SYSTEMS MARKET

The healthcare information systems market is experiencing high growth which the Directors attribute to the increasing importance attached to healthcare. Healthcare provision is a key social, economic and political issue in modern economies and managing the healthcare economy is a key theme of government strategy in each of the Group's markets. Furthermore, governments in each of these markets recognise the importance of new information systems as part of the process of modernising healthcare services.

In the UK, in his budget on 21 March 2000, the Chancellor of the Exchequer announced an increase in NHS funding of 35 per cent, in real terms, over five years. It is estimated by the Government that this will result in NHS spending (excluding the private sector) rising to 7.6 per cent of GDP by the 2003/2004 fiscal year.

Further, the NHS Executive had previously announced in September 1998 in its Strategy Document "Information for Health", the provision of £1 billion of additional modernisation funding to be spent over the period 1998 to 2005 specifically on new IT systems. This Strategy Document set a target of 35 per cent of NHS acute hospital trusts to have achieved a defined level ("Level 3") of electronic patient record by 31 March 2002, and of all acute trusts to have achieved it by 31 March 2005; the Group's PIMS and iSOFT2000 products already satisfy the Level 3 standard.

In light of the above, the Directors estimate that all NHS expenditure on information systems, which amounted to approximately £800 million in the 1999/2000 fiscal year, will grow at an average of 13 per cent per annum until the 2002/2003 fiscal year.

In addition to the UK, the Directors believe that the economies of the Group's other markets are likely to experience real growth in both healthcare provision and IT investment to improve the quality of, and access to, healthcare services. This belief is based on the following drivers:

- the increasing political importance of healthcare, as a result of public demand for accessible healthcare and the electoral impact of failing to meet society's healthcare requirements;
- better informed consumers seeking more healthcare related information which is increasing the need for further healthcare related IT;
- the rate of change in IT creating major opportunities to improve the efficiency and effectiveness of healthcare delivery through innovative use of new and emerging technologies;
- advances in patient treatment requiring new forms of information to be stored in an integrated manner with other sources of information in a comprehensive electronic patient record which can be shared across the healthcare delivery system; and
- the increasing importance in society of the Internet, necessitating the development of IT systems able to maximise the benefits available to healthcare from exploiting the Internet.

## **CORPORATE OBJECTIVE AND STRATEGY**

The iSOFT Group's corporate objective is to achieve sustained growth in revenue, profit and cash flow, through being, in its chosen markets, a leading vendor of enterprise-wide healthcare information systems, which are continuously updated to exploit both leading-edge market technologies and emerging health issues.

The Directors intend that the Group will continue to focus on relatively developed healthcare information systems markets which deploy modern technologies to support the provision of high quality healthcare services.

The Directors' strategy to achieve this objective includes the following key elements:

#### Technological expertise

The Group will continue to focus on advancing its technological expertise. It already has both substantial experience in the information systems requirements of the healthcare industry and significant expertise in advanced software technologies. The Directors will continue to invest in the identification, development and exploitation of leading-edge market technologies in order to enhance the Group's competitive position so that the Group's products retain their competitive advantage in the rapidly evolving IT environment.

#### Enhanced product offering

The Group will seek to enhance its product offering by both introducing upgraded versions of existing functionality and also introducing new functionality. In particular, the Group is committed to supplying the leading, enterprise-wide information systems for healthcare provider organisations which would enable such organisations, healthcare practitioners and patients to access appropriate information.

The Group has announced that it is developing, and is currently testing with selected customers, a new software module, iEPR. iEPR enables customers using either PIMS or iSOFT2000 to achieve the complete Level 6 electronic patient record system capability defined in the "*Information for Health*" Strategy Document. The Board expects that iEPR will be launched in April 2001.

#### New customers

The Group will target potential new customers to exploit the opportunity created by government initiatives to modernise healthcare IT systems. In addition, the Directors anticipate that further opportunities to gain new customers will arise as other information systems vendors competing with the Group rationalise as a result, in part, of being unable to retain technological competitiveness.

#### Acquisitions

The Group also intends to pursue growth through further acquisitions of selected healthcare systems vendors with significant customer bases using legacy product sets. The acquisition of iSOFT Holdings Pty represents the first implementation of this element of the Group's strategy. The Directors believe that this type of acquisition, in a period of rationalisation among healthcare system vendors, can create excellent value for the Group through securing relationships with additional potential customers for the Group's software products.

#### New international markets

The Group intends to expand into new international markets where it identifies demand for new information systems technologies within the health sector, a relatively developed marketplace for such technologies, and pressure, whether social, economic or political, for change in the healthcare delivery system.

#### Strategic partnerships

The Group already has strategic partnerships with Microsoft and Oracle and will seek to enter into further such partnerships with suppliers with particular emphasis on suppliers of new access device technologies. Such technologies include the latest mobile phones, digital interactive television and increasingly powerful computer devices, which will enhance the information dissemination capability of the Group's software products. The Directors believe that such partnerships represent a significant potential growth opportunity for the Group.

### Employee incentivisation

The Directors will endeavour to ensure that the Group's employees are incentivised through sharing in the Group's success. The Directors consider it critical for the Group's prospects to attract and retain the best personnel and accordingly, in addition to attractive terms of employment, the Group has established the Share Option Schemes.

## PRODUCTS AND SERVICES

### Introduction

The iSOFT Group develops and markets innovative information system products, which support patient, clinical and business management processes, to public and private hospitals and other healthcare provider organisations. It also provides product implementation services.

The Group's information system products, which exploit leading-edge market technologies, combine traditional server-based healthcare transaction processing with information production and dissemination to desk-top and mobile devices via public and private communications networks, including the Internet.

The typical contract between the Group and its customers has an initial term of five to seven years and is inclusive of software products and implementation and post implementation customer services. The Group can also provide hardware where customers so require. However, given the low margins attainable in the provision of hardware, this is not a key element of the Group's strategy.

### Products

The Group's principal product offerings, which are largely dependent upon Microsoft's innovative IT technologies, are its enterprise-wide information systems PiMS and iSOFT2000.

#### *PiMS*

PiMS is an enterprise-wide information system designed for healthcare provider organisations which, although suitable for a wide range of hospital types, is targeted principally at larger public sector hospitals. First released in 1995, PiMS has been substantially further developed to meet evolving patient, business and clinical management information system requirements of hospitals. It is based entirely upon modern technologies and has the following combination of characteristics:

- a choice of UNIX or Microsoft Windows NT operating systems;
- a fully integrated and fully interactive architecture at the database, programming and user interface levels;
- an open systems architecture based on ANSI SQL standards;
- a multi-tier, client/server architecture to support distributed data, remote hosting and thin or thick client options;
- portability across the latest versions of Oracle and Sybase database platforms;
- a fully configurable user interface, including the opportunity for users to create their own screens;
- a user interface based on the latest Microsoft Visual Studio programming languages and standards;



- full integration with Microsoft Office 2000;
- full language and translation support to allow implementation in different national languages; and
- full Internet enablement to allow integration within an Application Service Provider portal.

The Directors believe that database portability is a distinct marketing advantage, particularly where a customer has already invested in a relational database from one of the leading vendors, or where the number of users of PiMS is extremely large. The choice of relational database has no cost implication for the Group as it has developed its own software utilities to modify SQL parsing automatically to meet the proprietary requirements of different database product vendors.

The flexibility of PiMS is demonstrated by its penetration into different types of hospital, such as teaching hospitals, general hospitals, community hospitals, mental health hospitals, learning disability centres, dental hospitals, children's hospitals and super clinics.

Its functionality is comprehensive, and includes management of the following functions:

- |  |  |
|--|--|
| • master patient index;                | • learning disabilities;   |
| • inpatient;                           | • child health;  |
| • outpatient;                          | • infection control;   |
| • day case;                            | • patient document tracking;   |
| • clinic;                              | • care pathway and clinical audit reporting;   |
| • community healthcare;                | • electronic patient record;   |
| • accident & emergency;                | • contract and billing;  |
| • radiology;                           | • patient, business and clinical management information and statutory reporting; and       |
| • pathology;                           | • integration with third-party hospital departmental systems including PACS and analysers. |
| • theatre;                             |  |
| • equipment;                           |  |
| • mental health and Mental Health Act; |  |

PiMS functionality exceeds the Level 3 electronic patient record standard defined in the *"Information for Health"* Strategy Document.

#### *iSOFT2000*

First installed in 1999, iSOFT2000 is a new, highly refined product which shares a common development programme with PiMS. It is therefore equivalent with PiMS in terms of patient and clinical management functions and also exceeds the Level 3 electronic patient record standard defined in the *"Information for Health"* Strategy Document.

iSOFT2000 is based throughout on the latest Microsoft technologies, including the Microsoft Windows 2000 operating system and Microsoft SQL Server 7.0 relational database. It is intended for healthcare organisations which have few technical staff and wish to run the product as a virtual turnkey application. It has already been supplied to hospitals both in the public and private sectors, and some customers have procured a comprehensive managed service from the Group, including remote operation of the application and the provision of help desk and on-line training services.

iSOFT2000 has the following characteristics:

- it is self-tuning in terms of performance management;
- the total application, and the PCs and printers attached thereto, can be managed from a single console;
- it supports "plug and play" attachment devices and automatically reconfigures as devices are attached;
- it is self-reporting to iSOFT customer services over the Internet in the event of system faults or performance deterioration; and
- it is fully Internet enabled and can be run over the Internet via Citrix ICA technologies.

In addition to the PiMS functionality set out above, iSOFT2000 also has a fully integrated financials application within its scope, including nominal ledger, debtors ledger, creditors ledger, asset register, stock ledger and OLAP reporting.

#### *iEPR*

iEPR is an additional software module being developed by the Group to meet the strategic Level 6 electronic patient record standard defined in the "Information for Health" Strategy Document. As such, iEPR will provide clinical support in the form of clinical guidelines, links to knowledge bases, specific clinical data capture capabilities, document imaging, communication links for telemedicine and integration with PACS.

Specific functional components of iEPR are currently being tested at iSOFT customer sites and the full release of iEPR is planned for April 2001.

iEPR is being developed using Microsoft technologies and will be capable of being fully integrated with PiMS and iSOFT2000 or operated on a stand alone basis.

#### *HEALTHeverything.com*

HEALTHeverything.com is an application service portal, which is being developed by the Group on an ongoing basis, to allow iSOFT applications, including PiMS and iSOFT2000, to be accessed and used over the Internet. It also allows information to be exchanged with PiMS, iSOFT2000 and other application systems by completing request forms in order to simplify and de-skill the process of exchanging information. For example, iSOFT's customers are increasingly using early released elements of the portal as an alternative to the logging, by telephone, of user queries. It is intended that iEPR functionality will also be accessible through the HEALTHeverything.com portal.

HEALTHeverything.com uses XML to exchange data with remote systems across the web and create flexible and attractive presentations of information to users. The Directors expect that the full portal will be released in June 2001.

#### *Device-specific applications*

PiMS, iSOFT2000 and iEPR have been developed as a set of components using Microsoft's COM and DCOM component technologies. This allows software components written for PiMS, iSOFT2000 or iEPR to be abstracted and run on all types of device technology running a Microsoft operating system.

Examples of device-specific applications are the iSOFT PalmStation and iSOFT TaskStation:

- the iSOFT PalmStation, a hand held computer running the Microsoft CE 2.0 operating system, is typically used by District Nurses and other mobile healthcare practitioners. It holds patient information, such as caseloads, care plans and other patient treatment information, and supports the recording of patient contact details; and
- the iSOFT TaskStation is typically used by nurses within a hospital setting and may be used off-line or on-line via a wireless LAN. It holds patient information such as care plans, nursing notes and other treatment information. The functionality can be used with a pen-and-pad interface or touch-screen to allow easy access to information and rapid data-entry from pick-lists.

PiMS and iSOFT2000 have also been designed to run on a range of emerging devices such as the latest mobile phones and digital interactive television.

#### *Technical edge*

It is the view of the Directors that the Group has a significant competitive advantage in the use of technology to create highly functional healthcare information system products and that the technical positioning of its products gives the Group a technical edge that its customers recognise as an important differentiating factor. The differentiating technical positioning includes:

- use of the latest Microsoft Visual Studio products for programming and user interface design;
- use of COM and DCOM to structure the software in components to allow re-use for high productivity system development and ease of maintenance;
- use of ANSI SQL standards to express the processing requirements of healthcare provider organisations;
- flexibility of PiMS to support the latest versions of Microsoft SQL Server, Oracle and Sybase, including Internet enabled versions; and
- use of XML at the application and transaction levels to allow easy integration of iSOFT applications with web applications and to allow transactions to be published and processed across the Internet.

#### *Services*

The services provided by the Group are tightly coupled with the product portfolio in that the Group only provides those implementation and post implementation customer services which are required for the operation of the product.

The Group is increasingly refining and standardising PiMS and iSOFT2000 to minimise the necessary level of support service and thereby enable staff resource to be focused on product development. The Directors believe that this approach has enabled, and will continue to enable, the Group to achieve increases in revenue without corresponding increases in underlying cost. Accordingly, the Directors anticipate staff time related service revenues representing a reducing proportion of software system revenues over time.

Services offered by the Group, which are being increasingly delivered over the Internet, include:

- system installation;
- system configuration to reflect local processes and user interface requirements;
- product training; and
- customer services.

## **SALES AND MARKETING**

### **Approach**

The healthcare provider organisations in all of the Group's markets, whether in the public or private sectors, can generally be identified from published sources. In the public sector, all of these markets adopt formal procurement processes; for example, in the European Community, all major procurements by healthcare provider organisations are published in the EC Journal. In the private sector, the importance of healthcare systems to the cost and quality of healthcare services, in the experience of the Directors, results in open procurement processes.

Accordingly, the Group's approach to winning new contracts includes creating a strong marketing image for iSOFT and its product and service offerings with healthcare provider organisations. This is achieved through presence at major healthcare exhibitions, active PR, strong relationships with the trade press, active participation in the activities of the Computer Services and Suppliers Association and the creation of reference sites with customers and business partners.

It is also a key element of the Group's approach to operate strong after sales account management. Effective account management can deliver sell on business, in respect of new product developments or enhancements, within the terms of the original contract. This can usually be achieved without recourse to open competition and can lead to new software revenues under renewed contract periods within the contractual process defined at the time of original procurement.

### **Sales resources**

Selling is process driven and supported by dedicated salesmen with contract negotiation experience. The Group's salesmen are given regional territories in order to provide continuous support to procurement processes. In total there are 14 salesmen supported by system demonstrators and other support staff necessary to create customer awareness of iSOFT product and service capabilities.

## **COMMERCIALISATION**

When selling an information system to a customer, the Group assembles a package of products and services including the licence to the appropriate information system product, PiMS or iSOFT2000, and third party software. The package may also include third party hardware.

The typical contract will involve an up front capital cost and periodic payments through its term in respect of ongoing support services.

Where requested, the Group may, however, assist the customer in financing the up front capital cost of the package by entering into either a lease arrangement or a discounted receivables programme with a financing institution.

Under a lease arrangement, the Group licenses the software and, in some cases, sells hardware to the financing institution for an up front capital payment. It then contracts with the institution for the right to use such software and hardware, in return for a series of payments over the term of the contract, and contracts on similar terms with the end customer. The result of these arrangements is that rights to use the software and, where applicable, hardware are sub-licensed to the customer in return for a series of payments by the customer over the term of the contract.

Under a discounted receivables programme, the Group licenses the software and, where applicable, hardware to the end customer in return for a series of payments over the term of the contract. It then transfers the right to the non service related element of this stream of future receivable payments to the financing institution in return for a discounted up front payment.

Under both arrangements, payments for ongoing services are made over the life of the contract by the customer to the Group.

## COMPETITION

The Directors believe that the iSOFT Group is strongly positioned in its market to achieve continuing growth. The Group's competitors include a limited number of vendors of information systems, both multinational, including McKesson HBOC Inc. and Siemens Healthcare Services GmbH & Co. KG, and national, including Torex PLC and Hyder plc/IBA Technologies Limited. However, the Directors believe that the particular strengths that individually and collectively differentiate the Group from its competitors include:

- \* strong commitment to, and management control of, in-house product development;
- \* innovative health information systems which are continuously updated to exploit both leading-edge market technologies and emerging health issues;
- \* the ability of PiMS to operate on a number of leading operating system platforms and relational database management systems;
- \* the Group's strong relationship with Microsoft;
- \* the ability of its products to be easily exported to foreign markets in the national language;
- \* an experienced and strong management team with broad experience of the healthcare market and information technologies;
- \* an expanding customer base in both the public and private sectors; and
- \* a successful track record.

## FINANCIAL INFORMATION

The summary financial record of the Group set out below has been extracted from the Accountants' report contained in Part II of this document. Investors should read the whole of this document and not just rely on this summarised information.

	1998	Year ended 30 April	
	£'000	1999	2000
		£'000	£'000
Turnover	6,088	11,096	17,769
Operating profit before depreciation and amortisation ("EBITDA")	444	1,217	3,519
(Loss)/profit on ordinary activities before taxation	(20)	763	2,131
Net cash (outflow)/inflow from operating activities	(471)	1,657	(2,131)

Note: EBITDA is calculated after charging partners' remuneration in respect of the year ended 30 April 1998 and Directors' remuneration in respect of the two years ended 30 April 2000 as explained in note 4.6 in Part II of this document.

Throughout the three years ended 30 April 2000, turnover, EBITDA and profit before taxation each showed year on year growth. The figures for the year ended 30 April 2000 include with effect from 1 October 1999, in respect of iSOFT Holdings Pty, turnover of approximately £3.4 million and a loss before interest of approximately £0.2 million, which were in accordance with the Board's expectations.

The three year record reflects the strong performance of the Group in securing increased levels of business in each respective year. The 192 per cent increase in turnover from the year ended 30 April 1998 to the year ended 30 April 2000 enabled the Group to increase its margin of EBITDA to turnover for the respective years from approximately 7.3 per cent to 19.8 per cent as a result of its predominantly fixed operating cost base.

In the year ended 30 April 1999, the Group achieved sufficient critical mass to become cash generative. In the year ended 30 April 2000, net cash inflow from operating activities was reversed by the increase of approximately £6.4 million in debtors due within one year. The majority of this increase was caused by the acquisition of the 50 per cent equity interest in iSOFT Holdings Pty (which was acquired free from trade debtors, and subsequently restored such debtors to its customary trading levels), together with two significant receivable balances which were settled shortly following the year end. Notwithstanding the year ended 30 April 2000, the Directors anticipate the Group becoming increasingly cash generative as it continues its growth.

## CURRENT TRADING AND PROSPECTS

Since the year end, the Group has continued to experience strong interest in, and demand for, its software products. In particular it has entered into initial enterprise-wide system licences in the UK with hospitals in the Community Health South London NHS Trust and the Hull and East Riding Community NHS Trust, and in Australia with the Mater Hospital in Brisbane and the Adelaide Community Healthcare Alliance Inc. In addition, in the UK it has been designated as a single source supplier to, and is currently negotiating enterprise-wide system licences with, both the Forth Valley Primary Care Trust and the Lanarkshire Primary Care Trust.

In addition, on 11 July 2000 the Group completed the acquisition of the whole of the issued share capital of iSOFT Holdings Pty when it acquired the 50 per cent management interest therein.

The Directors believe that demand for the Group's products and services will continue to grow for the foreseeable future as a result, in particular, of:

- the increasing political importance of healthcare;
- increasing global demand for more advanced healthcare information system products;
- the functional relevance of the Group's products in addressing the current and emerging issues in its markets; and
- the innovative nature of the Group's products relative to those of its competitors.

### **DIVIDEND POLICY**

Following Admission, the Directors intend to adopt a progressive dividend policy comprising an interim dividend payable in or about January and a final dividend payable in or about July each year, in the proportion of approximately one to three, respectively. The Directors consider that, were the Company's share capital to have been quoted throughout the year ended 30 April 2000, they would have recommended a total dividend of 0.5p per Ordinary Share in respect of that year. This would have represented a dividend yield of 0.45 per cent relative to the Placing Price.

The first dividend following Admission will be the interim dividend in respect of the six months ending 31 October 2000, payable in or about January 2001.

### **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

#### **iSOFT Directors**

Roger Dickens CBE DL FCA (52). Executive Chairman since the incorporation of iSOFT plc in May 1998 and previously involved in the management of the iSOFT Business since it was founded in 1994. 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 he is currently Non-executive Chairman of West Bromwich Building Society and a Non-executive Director of Carillion PLC. He is responsible for business strategy and investor relations.

Patrick Cryne ACMA (49). Chief Executive since the incorporation of iSOFT plc in May 1998. He founded the healthcare information systems business within KPMG in February 1986 and was made a partner of KPMG in July 1989. In October 1994 he became Managing Partner of the separate partnership formed to develop the iSOFT Business based upon KPMG's healthcare information systems business. Throughout his career, he has specialised in IT design, development and implementation. He is responsible for management of the business, product strategy and commercial relations.

Steve Graham BSc MBCS (36). Operations Director since the incorporation of iSOFT plc in May 1998. He joined KPMG in 1987 in the healthcare information systems business. He was made a partner within the iSOFT Business when it was founded in 1994. Academically a computer scientist, throughout his career he has specialised in systems implementation, project and customer management. He is responsible for commercial activities and customer relationship management.

Tim Whiston ACA BSc (32). Finance Director who joined the iSOFT Business in August 1997 and was appointed to the Board in April 2000. Prior to joining the iSOFT Business he had a diverse career with Price Waterhouse covering audit, accountancy and latterly financial management consultancy for a variety of international public companies. He is responsible for all aspects of financial reporting, planning, control and external reporting, and also acts as Company Secretary.

Dr. Eurfyl ap Gwilym BSc PhD (55). Non-executive Director since 19 May 2000. Initially employed as a management trainee at Unilever PLC, he subsequently worked for 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 The Terence Chapman Group PLC in 1994 as an Executive Director.

Digby Jones LLB (44). Non-executive Director since 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 also been Chairman of, or a Non-executive Director of, several companies, covering sectors as diverse as quarry aggregates, local radio and automotive component manufacture.

Geoffrey White FCA FCCA (47). Non-executive Director since 19 May 2000. He is Chief Executive of Pressac plc, the company which he joined in 1986 as Finance Director. Previously a Director of a subsidiary company within the W. Canning Group, he was also a Non-executive Director of Derby City General Hospital NHS Trust from April 1994 until March 1998.

#### *iSOFT senior management*

The senior management of the Group comprises:

Ravi Kumar BSc (31). Head of Software Development. He is a specialist in relational database design and development and joined KPMG's healthcare information systems business in September 1992. His role is to formulate technology strategies for the Group and provide overall management of the software design and development processes.

Roger Wallhouse (58). Director of Marketing & Sales for the UK and Europe. He has more than 30 years experience in the health information systems industry and was Managing Director of SMS United Kingdom Limited from 1988 to 1993 and Business Area Director of SMS Northern Europe Operations from 1993 to 1998, before leaving to run his own management consultancy. He joined the Group in May 2000 to support the expansion of the iSOFT Business, with particular reference to developing marketing and sales strategies.

Charles Lilley (45). Director of Operations for the UK and Europe. He was previously a Director of KPMG Management Consulting with responsibility for developing relationships with Government, specifically the Cabinet Office and Departments of Health and Social Security. He has over 20 years experience in health and previous experience of working with the iSOFT Business in customer implementations. He joined the Group in April 2000 to develop implementation methodologies in line with the Group's strategy of increased refinement of the service portfolio in support of IT system products and to manage the performance of implementation specialists.

Paul Ellis CIPFA (42). Director of Customer Services. He joined KPMG's healthcare information systems business as a project manager and systems implementation specialist in January 1987. He took over the role of Head of Customer Services in May 1998 and is responsible for leading developments in the after sales service portfolio, including remote management services for customers and Internet-based help desk services.



Ann Harding Ch.LIB MIHSM (61). Associate Director. Since joining the Group in January 2000 she has been responsible for research on health informatics development and international technology standards. She had a long and distinguished career in the NHS from 1984 until 1999 and completed it as Acting Head of the NHS Executive's Information Management Group, which involved responsibility for initial implementation of the Government's "*Information for Health*" strategy. As a representative of the NHS she sat on many health EC and ISO health informatics standards bodies. She represents iSOFT on a number of informatics standards bodies, including the ActiveX for Healthcare Committee in Europe and on the HL7 UK Group.

Anne Irving (35). Head of Corporate Communications. She is responsible for public relations and image management throughout the Group. She joined KPMG's healthcare information systems business in November 1993 and has worked on all aspects of communications, including press relations, image design, web site development and the packaging and presentation of the Group's healthcare information system products.

#### Employees

The average number of employees in the Group, excluding employees of iSOFT Holdings Pty, in each of the three years ended 30 April 2000 was 72, 81 and 86, respectively.

The level of turnover of junior development staff is managed by the Directors to ensure that the Group has access to newly qualified staff with knowledge of the latest technology. The Directors believe that the Group is well positioned to attract new staff through its graduate recruitment scheme because of its use of leading-edge market technologies, and its geographic location proximate to Manchester's leading academic institutions, including Manchester University, UMIST and the Metropolitan University. All of these institutions have centres of learning involved in computing and IT.

Save as mentioned above, staff departures have been low within the Group in an industry where high staff turnover levels are common. The Directors believe that the Group will continue to enjoy low staff turnover as a result of its policy of remunerating staff competitively in the local market place, offering participation in the Share Option Schemes and recruitment of staff from local universities.

#### Employee share participation

The Group currently operates the No. 1 Share Scheme under which employees have been granted options over 2,652,618 Ordinary Shares, representing 2.75 per cent of the fully diluted ordinary share capital immediately prior to the issue of New Ordinary Shares by the Company under the Placing, of which options over 62,216 Ordinary Shares will remain exercisable following the Placing. No further options will be granted under the No. 1 Share Scheme and the options granted thereunder will continue to be exercisable in accordance with the terms of the scheme.

The Directors have established a provision of £0.3 million, referred to in note 4.15 of Part II of this document, in respect of the Company's liability to national insurance contributions arising as a result of options granted under the No. 1 Share Scheme, the cost of which will be incurred in the year ending 30 April 2001.

The Company has adopted the No. 2 Share Scheme and the No. 3 Share Scheme (together the "Ongoing Schemes"). Eligible employees of the Group will be able to participate in the Ongoing Schemes at the discretion of the Directors. In any period of ten years following Admission, the maximum number of Ordinary Shares over which options to subscribe shall be granted under the Ongoing Schemes and any future share option schemes shall represent, in aggregate, no more than 15 per cent of the issued ordinary share capital from time to time. The Directors will place a resolution before shareholders within five years of the Placing to seek their approval of the continuation of this policy.

The No. 2 Share Scheme is an Inland Revenue approved scheme. The No. 3 Share Scheme is not approved. Under the Ongoing Schemes any national insurance contributions will be paid by optionholders.

There is a limit of £30,000 on the initial market value of shares over which options may be held at any time by an individual under the No. 2 Share Scheme. Subject to this limit, the maximum aggregate allocation of options following Admission to any individual under the Ongoing Schemes in a given year will generally not exceed two times an individual's basic annual salary and bonus ("Basic Options"). This limit may be exceeded only in the case of options on which a stricter performance condition is imposed by the Appointments and Remuneration Committee than the Basic Options performance target summarised below, or where development options, also referred to below, are granted.

The performance target for Basic Options to be granted in 2000 provides that Basic Options will lapse in the event that the percentage increase in total shareholder return ("TSR") over the period commencing the day before an option is granted and ending on the date of the first announcement by the Company of its annual or interim results in 2003, does not exceed the growth in the Retail Prices Index ("RPI") by at least 20 per cent. Basic Options may be exercised to the extent set out below:

Excess of growth in TSR over RPI	Percentage of shares over which options will vest
50 per cent and over	100 per cent
35 per cent	50 per cent
20 per cent	25 per cent

In the event that performance falls between the levels referred to above, the percentage of shares over which Basic Options will vest will be determined on a straight line basis between the relevant levels.

Development options are options which are granted, at the discretion of the Appointments and Remuneration Committee, to eligible employees who are employed in product development. The exercise of development options will be subject to a specific performance condition to be imposed by the Appointments and Remuneration Committee, which will relate, *inter alia*, to the role performed by the relevant optionholder in product development.

Options, exercisable at the Placing Price, have been granted under the No. 3 Share Scheme over 2,500,000 Ordinary Shares, representing 2.23 per cent of the issued share capital of iSOFT immediately following the Placing.

Further details of the Share Option Schemes are set out in paragraph 9 of Part V of this document.

## CORPORATE GOVERNANCE

The Board has formally reviewed the compliance of the Group with the provisions of the Combined Code, Principles of Good Governance and Code of Best Practice, which was published in June 1998, including published guidance on internal financial controls.

The Board comprises four executive Directors and three independent non-executive Directors, one of whom, Digby Jones, is designated senior non-executive Director. The Directors intend that the Board will meet at least six times each year. The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure, corporate transactions and senior personnel appointments.

An Appointments and Remuneration Committee and an Audit Committee, both comprising the non-executive Directors, have been established with formally delegated duties and responsibilities. Whilst these committees consist of non-executive Directors, other Directors may attend either committee by invitation.

The Appointments and Remuneration Committee determines the scale and structure of the executive Directors' remuneration and the terms of their service contracts. The remuneration and terms and conditions of the non-executive Directors' appointments are set by the Board. The Appointments and Remuneration Committee also administers the Share Option Schemes.

The Audit Committee receives and reviews reports from management and the Group's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The Audit Committee has unrestricted access to the Group's auditors.

The Board therefore believes that the Group complies with the Combined Code.

## **INTELLECTUAL PROPERTY**

A significant part of the Group's revenue is derived from licensing its software products to customers. The intellectual property rights in these products are therefore of significant importance to the Group. The Group owns the intellectual property rights in, or in the case of one particular product originally developed for a specific customer is the exclusive licensee for, the products that have been developed by it. The Company relies primarily on a combination of trade secret and copyright laws, non-disclosure and other contractual provisions and technical measures to protect its proprietary rights.

The Directors believe that all of the Group's future developments will be protected due to their requirement that all employees and sub-contractors engaged by the Group sign contracts which state that the ownership of all intellectual property created by them in respect of their employment is retained by the Group. In addition, the Group has non-disclosure and confidentiality procedures designed to protect confidential information.

The Group has an internal security policy which covers such areas as general security, the use of e-mail, software licensing and virus protection.

## **REASONS FOR THE PLACING AND USE OF PROCEEDS**

The Directors believe that the new capital raised for the Group in the Placing will assist in the financing of the Group's future development, which the Directors intend to pursue both through organic growth and acquisition. The Directors intend that the Group will participate actively in the ongoing consolidation of healthcare information system vendors when suitable acquisition opportunities arise. The Company's strategy concerning acquisitions is summarised in the section entitled "Corporate objectives and strategy" above.

The Directors also believe that the listing, by providing liquidity and a market valuation for the Group's equity, in conjunction with the Share Option Schemes, will help the Group to continue to attract and retain high quality staff.

They also believe that the Placing and the listing of the Ordinary Shares will raise the status and market profile of the Group and will promote further awareness of the Group's business in its markets. The Directors consider that this increased awareness will help the Group in developing the business and attracting new customers, both in the UK and overseas.

The Group will raise net proceeds of £15.34 million from the Placing, which the Directors intend will be used as to approximately £6.5 million to repay the Preference Shares and accrued dividends thereon, with the balance placed on deposit until it is used for further expansion of the business by acquisition.

#### DETAILS OF THE PLACING

35,708,400 Ordinary Shares are being made available in the Placing at the Placing Price, of which 19,799,310 Ordinary Shares, representing approximately 55.4 per cent of the Placing Shares, are being sold by existing shareholders and 15,909,090 New Ordinary Shares, representing approximately 44.6 per cent of the Placing Shares, are being issued by the Company. Roger Dickens, Patrick Cryne, Steve Graham and Tim Whiston, together with their respective connected parties, are respectively selling approximately 6.7 per cent, 17.2 per cent, 20.0 per cent and 46.6 per cent, and Lloyds TSB Development Capital is selling approximately 35.0 per cent, of their respective interests in the enlarged issued ordinary share capital of the Company in the Placing.

The Ordinary Shares being issued by the Company pursuant to the Placing will represent approximately 14.2 per cent of the enlarged issued share capital following the Placing.

Eurfyl ap Gwilym, Digby Jones and Geoffrey White each intends to acquire 45,454 Ordinary Shares in the Placing at the Placing Price.

The Directors, together with certain connected parties, and HealthNet (which is wholly owned by managers of iSOFT Holdings Pty and their associates), who together are expected to hold 52,288,850 Ordinary Shares following the Placing (representing approximately 46.7 per cent of the enlarged issued ordinary share capital of the Company), have agreed with Hoare Govett not to dispose of any of their Ordinary Shares during the period from Admission until the announcement of the preliminary results of the Company for the year ending 30 April 2001, save in limited circumstances, and have further undertaken that, until the announcement of the preliminary results for the year ending 30 April 2002 they will only dispose of such shares with Hoare Govett's consent (not to be unreasonably withheld or delayed). In addition, Lloyds TSB Development Capital, which is expected to hold 18,225,350 Ordinary Shares following the Placing (representing 16.3 per cent of the enlarged issued ordinary share capital of the Company), has undertaken that, during the period from Admission until the announcement of the preliminary results for the year ending 30 April 2001, it will not dispose of any such shares, save in limited circumstances.

The Placing has been fully underwritten by Hoare Govett and is conditional, *inter alia*, upon Admission becoming effective and the Placing Agreement becoming unconditional in all respects. Details of the Placing Agreement are contained in paragraph 6 of Part V of this document.

The Company's shareholder profile immediately following the Placing is expected to be as follows:

	Number of Ordinary Shares	Percentage of issued share capital
Roger Dickens and connected persons	14,000,000	12.5
Patrick Cryne and connected persons	19,250,000	17.2
Other Directors	12,488,850	11.1
Other employees (including HealthNet)	11,197,935	10.0
Other shareholders	55,127,707	49.2

## CREST

CREST, which was introduced in July 1996, is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. By a resolution of the Board, the Ordinary Shares have been made eligible for settlement by CREST and the new articles of association of the Company, to be adopted with effect from Admission, will permit the holding of Ordinary Shares under the CREST system. The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish.

CREST is a voluntary system and shareholders who wish to receive and retain share certificates will be able to do so. Persons acquiring shares as part of the Placing may elect to receive Ordinary Shares in uncertificated form if, but only if, that person is a "system-member" (as defined in the Uncertificated Securities Regulations 1995) in relation to CREST. It is intended that placees who are system-members will pay for their Placing Shares through the CREST payment system. Further information is set out in the placing letters used in connection with the Placing.

## PART II

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### ACCOUNTANTS' REPORT ON THE GROUP

The following is the text of the report on the iSOFT Business by RSM Robson Rhodes, the reporting accountants:

**" RSM Robson Rhodes**

St. George House  
40 Great George Street  
Leeds LS1 3DQ

The Directors  
iSOFT Group plc  
58-60 Whitworth Street  
Manchester M1 6LT

The Directors  
Hoare Govett Limited  
250 Bishopsgate  
London EC2M 4AA

12 July 2000

Dear Sirs

### THE iSOFT BUSINESS

#### INTRODUCTION

We report on the financial information set out on pages 32 to 56 below. This financial information has been prepared for inclusion in the listing particulars dated 12 July 2000 of the iSOFT Group plc ("the Company").

On 1 May 1998 the business of KPMG Health Systems was incorporated as iSOFT plc. On 28 May 1999 the entire issued share capital of iSOFT plc was acquired by iSOFT Group Limited. The Company re-registered as a public limited company on 13 June 2000.

We are reporting on the iSOFT Business which was carried out by KPMG Health Systems and then iSOFT plc until 28 May 1999, and thereafter was carried out by iSOFT Group Limited and its subsidiaries. The financial information in this report represents the consolidated profits and losses, cash flows, and assets and liabilities of the iSOFT Business for the three year period ended 30 April 2000. During the period from 1 May 1997 to the present date the trading activities and business affairs of the iSOFT Business were controlled by the same executive management team in a consistent and uninterrupted manner.

#### BASIS OF PREPARATION

The financial information set out in this report is based on the audited consolidated financial information of the unincorporated business of KPMG Health Systems for the year ended 30 April 1998, the audited consolidated financial statements of iSOFT plc for the year ended 30 April 1999 (as restated) and the audited consolidated financial statements of iSOFT Group Limited for the year ended 30 April 2000. The financial information has been prepared on the basis set out in this report, after making such adjustments as we consider necessary.

## **RESPONSIBILITY**

The financial information and statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the listing particulars in which the report is included.

It is our responsibility to compile the financial information and to report our opinion to you.

## **BASIS OF OPINION**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and statements underlying the financial information set out in this report and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

## **OPINION**

In our opinion, the financial information set out below gives, for the purposes of the listing particulars, a true and fair view of the state of affairs of the iSOFT Business as at the dates stated and of its profits and losses, cash flows and recognised gains and losses for the periods then ended.

## 1. CONSOLIDATED PROFIT AND LOSS ACCOUNT

			Year ended 30 April	
	Note	1998	1999	2000
		£'000	£'000	£'000
Turnover – continuing activities	4.2	6,088	11,096	17,769
Net operating costs excluding depreciation, amortisation and partners'/directors' remuneration		(5,308)	(9,476)	(13,534)
Operating profit before depreciation, amortisation and partners'/directors' remuneration		780	1,620	4,235
Partners'/directors' remuneration		(336)	(403)	(716)
Operating profit before depreciation and amortisation		444	1,217	3,519
Depreciation and amortisation		(138)	(148)	(984)
Operating profit – continuing activities	4.3	306	1,069	2,535
Net interest payable and similar charges	4.4	(326)	(306)	(404)
(Loss)/profit on ordinary activities before taxation		(20)	763	2,131
Tax on profit on ordinary activities	4.8	—	(250)	(886)
(Loss)/profit on ordinary activities after taxation		(20)	513	1,245
Minority interests		—	—	127
(Loss)/profit for the financial year		(20)	513	1,372
Dividends (including non-equity)	4.9	—	—	(295)
Non-equity appropriation	4.18/4.19	—	—	(171)
Retained (loss)/profit for the year		(20)	513	906
Pro forma earnings per ordinary share (pence)	4.10	(0.02)p	0.51p	0.97p

In the year ended 30 April 1998 the iSOFT Business operated as an unincorporated partnership and as such had no directors. The partners'/directors' remuneration for that year, represents their share of profits as partners for that year. The partners' remuneration in 1998 has been assumed to be deductible for taxation purposes in calculating the estimated taxation charge.

The financial loss for the year ended 30 April 1998 arises due to an adjustment for £53,000 being charged for the change in the accounting policy in respect of development costs as set out in note 4.20.

All operations are continuing. There were no material recognised gains or losses for the three years ended 30 April 2000 other than as stated above.



## 2. CONSOLIDATED BALANCE SHEET

			As at 30 April	
	Note	1998 £'000	1999 £'000	2000 £'000
<b>Fixed assets</b>				
Intangible fixed assets	4.11	—	—	16,513
Tangible fixed assets	4.12	454	238	866
		<u>454</u>	<u>238</u>	<u>17,379</u>
<b>Current assets</b>				
Debtors due within one year	4.14	4,398	4,793	11,067
Cash at bank and in hand		—	1,650	803
		<u>4,398</u>	<u>6,443</u>	<u>11,870</u>
Creditors: Amounts falling due within one year	4.15	(6,187)	(5,416)	(8,581)
<b>Net current (liabilities)/ assets</b>		<u>(1,789)</u>	<u>1,027</u>	<u>3,289</u>
<b>Total assets less current liabilities</b>		<u>(1,335)</u>	<u>1,265</u>	<u>20,668</u>
Creditors: Amounts falling due after more than one year	4.16	(406)	(2,161)	(11,240)
Minority interests		—	—	(250)
<b>Net (liabilities)/ assets</b>		<u>(1,741)</u>	<u>(896)</u>	<u>9,178</u>
<b>Capital and reserves</b>				
Called up share capital	4.18	—	50	6,510
Share premium account	4.19	—	—	1,589
Profit and loss account	4.19	—	(946)	1,079
Partners' capital accounts		36	—	—
Undistributable earnings		<u>(1,777)</u>	<u>—</u>	<u>—</u>
<b>Shareholders' funds (including non-equity)</b>	4.21	<u>(1,741)</u>	<u>(896)</u>	<u>9,178</u>

## 3. CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 30 April		
		1998 £'000	1999 £'000	2000 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	4.22	(471)	1,657	(2,131)
<b>Returns on investment and servicing of finance</b>				
Interest received		—	—	65
Interest paid		(224)	(284)	(419)
Interest element of finance leases		(13)	(22)	(1)
Arrangement fees paid re: new bank loans		—	—	(75)
Non-equity dividends paid		—	—	(94)
		(237)	(306)	(524)
<b>Taxation</b>		—	—	(287)
<b>Capital expenditure and financial investment</b>				
Payment for tangible fixed assets		(249)	(4)	(698)
Receipts from sale of fixed assets		10	86	—
		(239)	82	(698)
<b>Acquisitions and disposals</b>				
Cash paid on acquisition of business assets	4.13	—	(2,521)	(1,081)
Purchase of subsidiary undertaking	4.13	—	—	(4,636)
Issue of shares to minority interests		—	—	400
		—	(2,521)	(5,317)
<b>Net cash outflow before financing</b>		(947)	(1,088)	(8,957)
<b>Financing</b>				
New bank loans		—	1,500	4,687
Loan notes issued		—	1,500	—
Repayment of loans		(75)	(250)	(3,130)
Issue of ordinary shares		—	50	250
Expenses paid in connection with ordinary share issue		—	—	(152)
Issue of preference shares		—	—	6,500
Capital element of finance lease payments		(75)	(62)	(45)
		(150)	2,738	8,110
<b>Net (decrease)/increase in cash</b>		(1,097)	1,650	(847)

#### 4. NOTES TO THE FINANCIAL INFORMATION

##### 4.1 *Accounting policies*

###### (i) *Accounting convention*

The iSOFT Business' financial information has been prepared in accordance with applicable accounting standards under the historical cost convention.

###### (ii) *Basis of consolidation*

The consolidated financial information incorporates the financial information of the iSOFT Business, including 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.

###### (iii) *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.

###### (iv) *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 product on the customer site.

Profit on contracts for the supply of maintenance and support services is taken at 60 per cent on billing and the remaining 40 per cent over the duration of the contract.

Profit recognition for all other revenue types is taken as and when work is billed in accordance with contractual terms, irrespective of the duration of the contract.

###### (v) *Research and development*

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

###### (vi) *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 per cent to 20.0 per cent
Computer equipment	33.3 per cent
Motor vehicles	25.0 per cent

###### (vii) *Taxation*

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

*(viii) Goodwill*

Positive goodwill is the excess of the cost of an acquired entity over the aggregate of the fair value 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.

*(ix) Foreign exchange*

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the 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 in the profit and loss account.

The 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 are taken to reserves.

*(x) Leased assets*

Assets held under finance leases are included in the balance sheet and depreciated in accordance with the iSOFT Business' 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 lease.

*(xi) Pension costs*

In the two years ended 30 April 1999 the iSOFT Business did not operate a pension scheme. However, a number of employees participated in either the KPMG Staff Pension Fund or the KPMG Group Personal Pension Plan scheme. With effect from 1 January 2000 the iSOFT Business introduced the iSOFT plc Group Personal Pension Scheme. All employees are eligible to join the iSOFT Group Personal Pension Scheme or other Group approved defined contribution pension schemes.

The pension charge shown in the financial information represents the total contributions payable by the Group for the year.

## 4.2 Segmental analysis

	Year ended 30 April		
	1998	1999	2000
	£'000	£'000	£'000
<b>Turnover by geographical market</b>			
United Kingdom and other EU states	5,023	9,128	13,706
Australasia	—	1,019	3,313
Rest of the World	1,065	949	750
	<u>6,088</u>	<u>11,096</u>	<u>17,769</u>
	Year ended 30 April		
	1998	1999	2000
	£'000	£'000	£'000
<b>Geographical operations</b>			
<b>Turnover</b>			
United Kingdom and other EU states	6,088	10,691	14,060
Australasia	—	—	3,366
Rest of the World	—	405	343
	<u>6,088</u>	<u>11,096</u>	<u>17,769</u>
<b>Profit before interest</b>			
United Kingdom and other EU states	306	1,069	2,711
Australasia	—	—	(179)
Rest of the World	—	—	3
	<u>306</u>	<u>1,069</u>	<u>2,535</u>
<b>Net (liabilities)/assets</b>			
United Kingdom and other EU states	(1,741)	(900)	8,921
Australasia	—	—	250
Rest of the World	—	4	7
	<u>(1,741)</u>	<u>(896)</u>	<u>9,178</u>
	Year ended 30 April		
	1998	1999	2000
	£'000	£'000	£'000
<b>Analysis by system software and hardware</b>			
<b>Turnover</b>			
System software	4,768	7,868	13,352
Hardware	1,320	3,228	4,417
	<u>6,088</u>	<u>11,096</u>	<u>17,769</u>
<b>Profit before interest</b>			
System software	225	899	2,382
Hardware	81	170	153
	<u>306</u>	<u>1,069</u>	<u>2,535</u>

## 4.3 Operating profit

		Year ended 30 April	
	1998	1999	2000
	£'000	£'000	£'000
<i>Operating profit derived from continuing operations</i>			
Turnover	6,088	11,096	17,769
Staff costs, including partners'/directors' remuneration	(2,534)	(3,287)	(6,110)
Third party costs	(1,424)	(4,044)	(5,192)
Depreciation and amortisation	(138)	(148)	(984)
Other operating charges	(1,686)	(2,548)	(2,948)
	<u>306</u>	<u>1,069</u>	<u>2,535</u>

		Year ended 30 April	
	1998	1999	2000
	£'000	£'000	£'000
<i>Operating profit is arrived at after charging</i>			
Research and development	1,297	2,094	1,453
Depreciation of tangible assets	138	148	222
Amortisation of goodwill	—	—	762
Operating lease rentals			
– Motor vehicles and office equipment	109	179	186
– Premises	86	94	246
Auditors' remuneration in respect of audit services	10	12	25
Auditors' remuneration in respect of other services	—	—	53
	<u>—</u>	<u>—</u>	<u>53</u>

## 4.4 Net interest payable and similar charges

		Year ended 30 April	
	1998	1999	2000
	£'000	£'000	£'000
Bank interest receivable	—	—	79
Finance leases	(13)	(22)	(1)
Bank loans and overdrafts	(313)	(214)	(432)
Other loans	—	(70)	(37)
Amortisation of loan arrangement fees	—	—	(13)
	<u>(326)</u>	<u>(306)</u>	<u>(404)</u>

#### 4.5 Staff particulars

	Year ended 30 April		
	1998	1999	2000
<i>Staff costs, including partners/directors:</i>	£'000	£'000	£'000
Wages and salaries	2,287	2,981	5,486
Social security costs	216	272	452
Other pension costs	31	34	172
	<u>2,534</u>	<u>3,287</u>	<u>6,110</u>

#### *Average monthly number of employees, including partners/directors:*

	No.	No.	No.
Development	32	35	46
Operations	21	25	72
Customer services	12	10	26
Administration	7	11	18
	<u>72</u>	<u>81</u>	<u>162</u>

#### 4.6 Partners'/directors' remuneration

	Year ended 30 April		
	1998	1999	2000
<i>Total partners'/directors' remuneration</i>	£'000	£'000	£'000
Profit share, salaries, bonuses and other benefits	<u>336</u>	<u>403</u>	<u>716</u>

Directors' remuneration during the two years ended 30 April 2000 was as follows:

	Year ended 30 April 1999			
	Salary and fees	Benefits in kind	Annual bonus	Total
<i>Directors' remuneration</i>	£'000	£'000	£'000	£'000
Roger Dickens	3	1	—	4
Patrick Cryne	152	10	65	227
Stephen Graham	115	7	50	172
	<u>270</u>	<u>18</u>	<u>115</u>	<u>403</u>

	Year ended 30 April 2000			
	Salary and fees	Benefits in kind	Annual bonus	Total
<i>Directors' remuneration</i>	£'000	£'000	£'000	£'000
Roger Dickens	101	1	55	157
Patrick Cryne	173	17	75	265
Stephen Graham	136	9	60	205
Tim Whiston	65	11	13	89
	<u>475</u>	<u>38</u>	<u>203</u>	<u>716</u>

in the year ended 30 April 1998 the iSOFT Business operated as an unincorporated partnership and as such had no directors. The remuneration of the directors for that year represents their share of profits as partners for that year.

In the year ended 30 April 2000 the remuneration of Tim Whiston includes £3,100 in respect of the period from his appointment as a director on 14 April 2000 to the balance sheet date.

#### 4.7 Related party transactions

The related party transactions of the Group, as defined by Financial Reporting Standard 8, during the period under review may be summarised as follows:

##### *Year ended 30 April 2000*

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

##### *Year ended 30 April 1999*

Patrick Cryne and Stephen Graham are both partners of KPMG Seventh Region. Roger Dickens was a partner of KPMG Seventh Region and KPMG until 30 September 1998. The net charge to iSOFT plc during the year for services provided by KPMG was £813,000 and this amount was held within creditors at 30 April 1999.

In addition the Company had £1.5 million of loan notes due to KPMG at 30 April 1999. The related interest charged in the year was £70,000.

##### *Year ended 30 April 1998*

There were no related party transactions.

#### 4.8 Tax on profit on ordinary activities

	1998	Year ended 30 April	
	£'000	1999	2000
		£'000	£'000
Corporation tax	—	250	886
Deferred tax	—	—	—
	<u>—</u>	<u>250</u>	<u>886</u>

Prior to 1 May 1998 the iSOFT Business operated as an unincorporated partnership and as such profits were distributed to the partners and were subject to income tax on an individual partner basis. An estimated corporation tax charge for the year ended 30 April 1998 of £15,000 would have been charged if the profits of the business were taxable under the Income & Corporation Taxes Act 1988. The partners' remuneration in 1998 has been assumed to be deductible for taxation purposes in calculating the estimated taxation charge.

There is an unprovided deferred tax liability of £10,000 at 30 April 2000 (1999: £nil) (1998: £nil).



#### 4.9 Dividends

	1998	Year ended 30 April	
	£'000	1999	2000
		£'000	£'000
<b>Preference shares</b>			
Paid in the year	—	—	94
Proposed, but not yet paid	—	—	134
	—	—	228
<b>A ordinary shares</b>			
Paid in the year	—	—	—
Proposed but not yet paid	—	—	67
<b>Ordinary shares</b>			
Paid in the year	—	—	—
Proposed but not yet paid	—	—	—
	—	—	295

#### 4.10 Pro forma earnings per ordinary share

As set out in note 4.18 the capital structure of the iSOFT Business was different at the balance sheet date in each year covered by this report. Accordingly, for illustrative purposes, the earnings per ordinary share for each of the three years ending 30 April 2000 have been calculated on a pro forma basis as set out below.

	1998	Year ended 30 April	
	£'000	1999	2000
		£'000	£'000
(Loss)/profit attributable to shareholders after minority interests	(20)	513	1,372
Non-equity dividends	—	—	(228)
Non-equity appropriation	—	—	(171)
(Loss)/profit after tax and non-equity dividends and appropriation	(20)	513	973
Weighted average number of shares ('000)	100,000	100,000	100,000
Pro forma earnings per share (pence)	(0.02)p	0.51p	0.97p

The weighted average number of shares for the pro forma calculation is based on the year ended 30 April 2000 and is arrived at after the conversion of the existing ordinary share capital into one class of equity shares, and its subsequent re-organisation on listing, but prior to redemption, as set out in note 4.29.

The dividend declared on the A ordinary shares in issue at 30 April 2000 has been treated as an equity distribution for the purposes of this pro forma calculation as these shares were amongst those converted as noted above. A pro forma calculation of a diluted earnings per share is impractical due to the absence of a readily ascertainable market value for the then unlisted shares of the Company.

## 4.11 Intangible fixed assets

	As at 30 April		
	1998	1999	2000
<i>Goodwill</i>	£'000	£'000	£'000
<b>Cost</b>			
At 1 May	—	—	—
Additions	—	—	17,388
Foreign exchange difference	—	—	(115)
At 30 April	—	—	17,273
<b>Amortisation</b>			
At 1 May	—	—	—
Charged in year	—	—	762
Foreign exchange difference	—	—	(2)
At 30 April	—	—	760
<b>Net book value at 30 April</b>	—	—	16,513

#### 4.12 Tangible fixed assets

	Fixtures and fittings £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>				
At 1 May 1998	—	—	—	—
Acquisitions of business assets	99	254	100	453
Additions	—	4	—	4
Disposals	—	(44)	(37)	(81)
At 30 April 1999	99	214	63	376
<b>Depreciation</b>				
At 1 May 1998	—	—	—	—
Charged in year	16	107	25	148
Disposals	—	—	(10)	(10)
At 30 April 1999	16	107	15	138
<i>Net book value at 30 April 1999</i>	83	107	48	238
<b>Cost</b>				
At 1 May 1999	—	—	—	—
Acquisition of subsidiary and business assets	114	318	63	495
Additions	492	279	—	771
Disposals	(60)	—	(63)	(123)
Foreign exchange differences	(1)	(6)	—	(7)
At 30 April 2000	545	591	—	1,136
<b>Depreciation</b>				
At 1 May 1999	—	—	—	—
Acquisition of subsidiary and business assets	16	107	15	138
Charged in year	86	124	12	222
Disposals	(60)	—	(27)	(87)
Foreign exchange differences	(1)	(2)	—	(3)
At 30 April 2000	41	229	—	270
<i>Net book value at 30 April 2000</i>	504	362	—	866

At 30 April 2000 the net book value of tangible fixed assets includes £81,000 (1999: £135,000) in respect of assets held under finance leases. Depreciation charged in the year on those assets amounted to £89,000 (1999: £61,000).

#### 4.13 Acquisition and start up of subsidiary undertakings

##### (i) Acquisition of KPMG Health Systems

On 1 May 1998 the following assets of KPMG Health Systems were acquired by iSOFT plc with a view to incorporating that business:

	Net book value £'000
Development costs	2,068
Tangible fixed assets	453
Net separable assets acquired for cash (including acquisition costs)	<u>2,521</u>

The assets were acquired at a net book value deemed to be equivalent to their fair value and therefore no goodwill arose in respect of this acquisition.

##### (ii) Acquisition of iSOFT plc

On 25 May 1999 the Company acquired 100 per cent 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 and prepayments	4,347	365	(80)	4,632
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	390	(1,420)	(128)	(1,158)
Goodwill				<u>15,294</u>
				14,136
Satisfied by:				
Cash consideration (including acquisition costs)				4,636
Share exchange				1,500
Deferred consideration				<u>8,000</u>
				14,136

In the event of a listing of the iSOFT Business prior to 30 April 2003, further deferred consideration will be determined in addition to the £6.1 million paid to date. The value of any additional consideration will be calculated by reference to the valuation of the business at that time. At the date of this report the directors estimate that any such further consideration will not exceed £8 million.

The accounting policy adjustment was made to reflect the Company's accounting policy of expensing all research and development expenditure in the year in which it is incurred.

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

Since acquisition, iSOFT plc has contributed £268,000 to the 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.

	Restated 12 months to 30 April 1999 £'000	Period to 25 May 1999 £'000
<i>Pre-acquisition performance of iSOFT plc</i>		
Turnover	11,096	745
Net operating costs	(10,027)	(906)
Operating profit/(loss)	1,069	(161)
Net interest payable	(306)	(26)
Profit/(loss) before taxation	763	(187)
Taxation	(250)	56
Retained profit/(loss) for the period	513	(131)

(iii) *Start up of iSOFT Holdings Pty Limited ("iSOFT Holdings Pty") and acquisition of trade and assets*

On 1 October 1999 the Group subscribed for 50 per cent of the ordinary share capital on incorporation of iSOFT Holdings Pty. The consideration paid for these shares was £400,000 in cash.

Since start up, iSOFT Holdings Pty has contributed £715,000 to the Group operating cash 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.

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

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

The accounting policy adjustment was made to reflect the Company's accounting policy of not capitalising intellectual property as an intangible fixed asset.

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

#### 4.14 Debtors due within one year

	As at 30 April	
	1999	2000
	£'000	£'000
Trade debtors	4,266	3,734
Earned income	—	6,781
Prepayments and accrued income	162	552
Corporation tax	365	—
	<u>4,793</u>	<u>11,067</u>

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 4.1(iv), with payment 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 Financial Reporting Standard 5.

#### 4.15 Creditors: Amounts falling due within one year

	As at 30 April	
	1999	2000
	£'000	£'000
Debt (note 4.17)	672	1,130
Trade creditors	2,182	1,332
Corporation tax	—	233
Other taxation and social security	704	197
Accruals and deferred income	1,858	5,148
Provision for national insurance contributions on share options	—	300
Proposed dividends	—	201
Other creditors	—	40
	<u>5,416</u>	<u>8,581</u>

The debt is secured by a floating charge over the assets of the Group and is all repayable within five years.

#### 4.16 Creditors: Amounts falling due after more than one year

	As at 30 April	
	1999	2000
	£'000	£'000
Debt (note 4.17)	2,161	3,240
Deferred consideration (note 4.13(ii))	—	8,000
	<u>2,161</u>	<u>11,240</u>

## 4.17 Debt

	As at 30 April	
	1999	2000
	£'000	£'000
<b>Due within one year</b>		
Bank overdraft	—	—
Bank loans	600	905
Obligations under finance leases	72	38
Other loans	—	187
	<u>672</u>	<u>1,130</u>
<b>Due after more than one year</b>		
Bank loans	650	3,203
Obligations under finance leases	11	37
Loan notes	1,500	—
	<u>2,161</u>	<u>3,240</u>
<b>Repayable</b>		
Within one year	672	1,130
Between one and two years	611	929
Between two and five years	1,550	2,311
	<u>2,833</u>	<u>4,370</u>

*Deferral of bank loan arrangement fees*

During the period the Group entered into arrangements for a bank loan of £4.5 million 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 Financial Reporting Standard 4. Amortisation of the arrangement fees commenced on 30 June 1999, the date of the first loan drawdown.

The five year bank loan is stated net of the deferred arrangement costs as follows:

	£'000
<b>Due within one year</b>	
Gross loan	920
Deferred arrangement costs	(15)
Net loan	<u>905</u>
<b>After one and within two years</b>	
Gross loan	920
Deferred arrangement costs	(15)
Net loan	<u>905</u>
<b>After two and within five years</b>	
Gross loan	2,330
Deferred arrangement costs	(32)
Net loan	<u>2,298</u>
	<u>4,108</u>

The loan is repayable at £230,000 per quarter and interest is charged at 1.0 per cent over base rate.



#### 4.18 Called up share capital

	As at 30 April	
	1999 £'000	2000 £'000
<i>Authorised</i>		
1,250,000 A ordinary shares of 1p	12	—
3,749,999 B ordinary shares of 1p	38	—
1 C ordinary share of 1p	—	—
1,250,000 E ordinary shares of 0.01p	—	—
1,250,000 deferred ordinary shares of 0.01p	—	—
6,500,000 preference shares of £1.00 ("Preference Shares")	—	6,500
425,000 A ordinary shares of 1p	—	4
3,000,000 B ordinary shares of 1p	—	300
575,000 ordinary shares of 1p	—	6
	<u>50</u>	<u>6,810</u>
<i>Allotted and fully paid</i>		
1,250,000 A ordinary shares of 1p	12	—
3,749,999 B ordinary shares of 1p	38	—
1 C ordinary share of 1p	—	—
1,250,000 E ordinary shares of 0.01p	—	—
1,250,000 deferred ordinary shares of 0.01p	—	—
6,500,000 Preference Shares	—	6,500
425,000 A ordinary shares of 1p	—	4
3,000,000 B ordinary shares of 1p	—	—
575,000 ordinary shares of 1p	—	6
	<u>50</u>	<u>6,510</u>

No share capital existed as at 30 April 1998 as at this date the iSOFT Business was an unincorporated partnership. The share capital as at 30 April 1999 is the authorised, allotted, issued and fully paid up share capital of iSOFT plc. The share capital as at 30 April 2000 is the authorised, allotted, issued and fully paid up share capital of iSOFT Group Limited.

The called-up share capital of iSOFT Group Limited at 30 April 2000 comprised the following:

##### *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 per cent of subscription price
1 May 2000 to 30 April 2001	6.0 per cent of subscription price
Thereafter	8.0 per cent 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 7.0 per cent. 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 except in certain limited circumstances.

#### *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 per cent of the subscription price (including any premium paid) and the following percentage of net profit:

for the financial period ending 30 April 2000	2.5 per cent
for the financial period ending 30 April 2001	5.0 per cent
for each financial period thereafter	10.0 per cent

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 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.

#### *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 ordinary shares had been in issue immediately prior to the conversion, have represented 3 per cent 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 holders of A ordinary shares for a net profit in excess of £4,000,000.

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

### *Share options*

Options were granted over 2,750,000 of the total authorised 3,000,000 B ordinary shares during the period ended 30 April 2000. Options must be exercised by no later than 28 February 2001. All options will be exercisable at £0.10 per share.

The called-up share capital of iSOFT plc at 30 April 1999 comprised the following:

#### *A ordinary shares*

The rights attached to the A ordinary shares are as follows:

- (a) Dividends ranking *pari passu* with B ordinary, C ordinary and E ordinary shares.
- (b) One vote per share on a poll.

#### *B ordinary shares*

The rights attached to the B ordinary shares are as follows:

- (a) Dividends ranking *pari passu* with A ordinary, C ordinary and E ordinary shares.
- (b) No voting rights.
- (c) In the event that an application is made for a listing or an offer is made and accepted which will result in a sale, then immediately prior to either of these events all of the B ordinary shares then in issue will convert on a one for one basis into A ordinary shares.

#### *C ordinary shares*

The rights attached to the C ordinary shares are as follows:

- (a) Dividends ranking *pari passu* with A ordinary, B ordinary and E ordinary shares.
- (b) Voting rights representing the percentage that the B ordinary shares in issue bore to the total number of shares in issue.
- (c) Consent or sanction of the holder of the C ordinary shares is required for:
  - (i) creation or issue of any mortgage, charge, lien or other encumbrance
  - (ii) alteration, increase or reduction of the Company's authorised or issued share capital, or any other variation of the Company's capital structure
  - (iii) alteration of the Company's Memorandum or Articles of Association
  - (iv) appointment of any committee of the Board, or the appointment or removal of any director.

#### *E ordinary shares*

The rights attached to the E ordinary shares are as follows:

- (a) Dividends ranking *pari passu* with A ordinary, B ordinary and C ordinary shares.
- (b) One vote per share on a poll.

*Deferred ordinary shares*

The rights attached to the deferred shares are as follows:

- (a) No rights to receive dividends.
- (b) No voting rights.
- (c) In the event of a listing or the sale of the Company the deferred shares will be converted into E ordinary shares on a basis pro rated to the proportions in which they are held by the holders of the A ordinary shares, and the percentage that the A ordinary shares in issue bears to the aggregate number of shares in issue.

In the period ended 30 April 2000 the Company issued 6,500,000 Preference Shares at par value for cash, 425,000 A ordinary shares at 58.82 pence each for cash and 575,000 ordinary shares of which 437,500 were issued in exchange for shares in iSOFT plc at a value of 342.86 pence each and the remaining ordinary shares were issued at par value for cash.

In the period ended 30 April 1999 iSOFT plc issued 1,250,000 A ordinary shares at par value for cash and 3,749,999 B ordinary shares at par value for cash.

4.19 *Reserves*

	As at 30 April	
	1999	2000
	£'000	£'000
<i>Share premium account</i>		
At 1 May	—	—
Premium on shares issued	—	1,741
Expenses incurred on the issue of shares	—	(152)
At 30 April	—	1,589
<i>Profit and loss account</i>		
At 1 May	—	—
Adjustment for pre-acquisition reserves	—	131
Prior year adjustment (note 4.20)	(1,459)	—
Retained profit for the year	513	906
Non-equity appropriation reversal	—	171
Foreign exchange loss	—	(129)
At 30 April	(946)	1,079

4.20 *Prior year adjustment*

In the year ended 30 April 2000 iSOFT plc changed its accounting policy in respect of development costs so that such costs are written off to the profit and loss account as incurred. The carrying value of capitalised development costs at 1 May 1998 of £2,068,000 plus the associated tax credit of £609,000 has been taken to the profit and loss account reserve as a prior year adjustment.

#### 4.21 Reconciliation of movements in shareholders' funds

	As at 30 April		
	1998	1999	2000
	£'000	£'000	£'000
Recognised (losses)/gains in the year	(20)	513	906
Adjustment for pre-acquisition reserves	—	—	131
Prior year adjustment (note 4.20)	—	(1,459)	—
New capital introduced	4	50	8,099
Foreign exchange loss	—	—	(129)
Non-equity appropriation reversal	—	—	171
	(16)	(896)	9,178
Opening shareholders' funds	(1,725)	—	—
Closing shareholders' funds	(1,741)	(896)	9,178

	As at 30 April		
	1998	1999	2000
	£'000	£'000	£'000
<i>Shareholders' funds</i>			
Non-equity	—	—	6,671
Equity	(1,741)	(896)	2,507
	(1,741)	(896)	9,178

#### 4.22 Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	Year ended 30 April		
	1998	1999	2000
	£'000	£'000	£'000
Operating profit	306	1,069	2,535
Depreciation of fixed assets	138	148	222
Amortisation of goodwill	—	—	762
Loss/(profit) on disposal of fixed assets	11	(15)	—
Increase in debtors	(1,472)	(4,428)	(6,410)
Increase in creditors	546	4,883	796
Foreign exchange differences	—	—	(36)
Net cash (outflow)/inflow from operating activities	(471)	1,657	(2,131)

The operating cash outflow in the year ended 30 April 2000 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 set out in Note 4.13(iii). Had these balances formed part of the acquisition, the net cash flow from operations would have been an inflow of £87,000 and the amount paid in respect of the acquisition would have been £3,361,000.

## 4.23 Reconciliation of net cash flow to movement in net debt

		Year ended 30 April	
	1998	1999	2000
	£'000	£'000	£'000
Increase/(decrease) in cash	—	1,650	(847)
Cash outflow from decrease in debt and lease finance	(947)	(2,688)	(1,563)
Finance lease reduction by asset disposal	—	—	36
Inception of finance leases	(93)	(145)	(72)
Other non-cash flow items	225	—	62
Decrease in net debt	(815)	(1,183)	(2,384)
Opening net debt	(2,429)	—	(1,183)
Closing net debt	(3,244)	(1,183)	(3,567)

Other non-cash flow items in the year ended 30 April 1998 represent loan repayments made by KPMG. The corresponding liability was included in amounts owed to parent at the balance sheet date. Other non-cash flow items in the year ended 30 April 2000 represent loan arrangement costs.

## 4.24 Analysis of net debt

	1 May 1999	Cash flow	Inception of	Non	30 April
	£'000	£'000	new finance	cash flow	2000
			leases	£'000	£'000
Cash at bank and in hand	1,650	(847)	—	—	803
Net cash	1,650	(847)	—	—	803
Loans	(2,750)	(1,607)	—	62	(4,295)
Finance leases	(83)	44	(72)	36	(75)
Borrowings	(2,833)	(1,563)	(72)	98	(4,370)
Net debt	(1,183)	(2,410)	(72)	98	(3,567)

	1 May 1998	Cash flow	Inception of	Non	30 April
	£'000	£'000	new finance	cash flow	1999
			leases	£'000	£'000
Cash at bank and in hand	—	1,650	—	—	1,650
Net cash	—	1,650	—	—	1,650
Loans	—	(2,750)	—	—	(2,750)
Finance leases	—	62	(145)	—	(83)
Borrowings	—	(2,688)	(145)	—	(2,833)
Net debt	—	(1,038)	(145)	—	(1,183)

	1 May 1997 £'000	Cash flow £'000	Inception of new finance leases £'000	Non cash flow £'000	30 April 1998 £'000
Overdraft	(1,742)	(1,097)	—	—	(2,839)
Net overdraft	(1,742)	(1,097)	—	—	(2,839)
Loans	(525)	75	—	—	(450)
Other non-cash flows	—	—	—	225	225
Finance leases	(162)	75	(93)	—	(180)
Borrowings	(687)	150	(93)	225	(405)
Net debt	(2,429)	(947)	(93)	225	(3,244)

#### 4.25 Financial commitments

	1999 £'000	2000 £'000
<i>Office equipment, leases expiring:</i>		
Within one year	24	45
Between one to five years	61	66
	<u>85</u>	<u>111</u>
<i>Motor vehicles, leases expiring:</i>		
Within one year	—	1
Between one to five years	107	106
	<u>107</u>	<u>107</u>
<i>Premises, leases expiring:</i>		
Within one year	—	121
Between one and five years	76	321
	<u>76</u>	<u>442</u>

#### 4.26 Pensions

Prior to 31 December 1999 the iSOFT Business did not operate a pension scheme. However, with effect from 1 January 2000, the iSOFT Business has operated the iSOFT plc Group Personal Pension Scheme, being a money purchase scheme with Norwich Union.

#### 4.27 Capital commitments

At the year end the Group had not entered into any capital commitments.

#### 4.28 Contingent liabilities

At the year end there were no contingent liabilities relating to the Group.

#### 4.29 Post balance sheet events

On 22 May 2000 the Group signed an agreement with HealthNet Investments Pty Limited to acquire the 50 per cent of the issued share capital of iSOFT Holdings Pty Limited that it did not already own. The acquisition was completed on 11 July 2000. The consideration was the issue of 75,269 convertible C shares of £0.01 each. The convertible C shares of £0.01 each issued on completion were, conditional on admission of the ordinary share capital of the Company, issued and to be issued pursuant to the Placing (as defined below), to the Official List of the UK Listing Authority and to trading ("Admission"), converted into 6,550,000 ordinary shares of £0.10 each as described below. At the placing price, referred to below, such ordinary shares of £0.10 each would be valued at £7,205,000.

On 11 July 2000 the authorised share capital of the Company was increased from £6,810,000 to £6,810,752.69 by the creation of 75,269 convertible C shares of £0.01 each.

On 11 July 2000 the directors resolved, conditional on Admission, to redeem 129,850 A ordinary shares of £0.01 each at 58.82 pence per share, 9,769 deferred shares of £0.01 each at par and 6,500,000 Preference Shares at par; and to allot 15,909,090 ordinary shares of £0.10 each pursuant to a placing ("the Placing") of shares by Hoare Govett Limited for cash at the placing price of 110p per share, 934,714,350 ordinary shares of £0.01 each pursuant to the capitalisation issue, referred to in paragraph (iii) below, credited as fully paid at par, and 2,590,402 ordinary shares of £0.10 each for cash at 11p per share pursuant to options exercised under the Company's share option scheme referred to in note 4.18 above.

On 11 July 2000 conditional on Admission the share capital of the Company was reorganised as follows:

- (i) the authorised share capital of the Company was increased from £6,810,752.69 to £20,000,000 by the creation of 1,118,924,731 new ordinary shares of £0.01 each and 20,000,000 new ordinary shares of £0.10 each;
- (ii) 295,150 A ordinary shares of £0.01 each and 65,500 convertible C shares of £0.01 each were converted into ordinary shares of £0.01 each; the remaining 9,769 issued convertible C shares of £0.01 each were converted into deferred shares of £0.01 each; and the unissued A ordinary shares of £0.01 each and deferred shares of £0.01 each, existing after the redemption referred to above, were converted into ordinary shares of £0.01 each;
- (iii) the directors were authorised to capitalise such amount standing to the credit of the Company's share premium account, arising on the issue of shares pursuant to the Placing and the directors were authorised to appropriate such sum to the holders of the ordinary shares of £0.01 each of the Company who would be on the Register of Members immediately following the redemption of shares and the conversion of shares referred to above (excluding ordinary shares allotted pursuant to the Placing and the No. 1 Share Scheme) and to apply such sum on their behalf in paying up in full at par 999 unissued ordinary shares of £0.01 each in the capital of the Company for every one ordinary share of £0.01 each in the capital of the Company held at such time;
- (iv) all of the issued and unissued ordinary shares of £0.01 each were consolidated into ordinary shares of £0.10 each;
- (v) 3,000,000 unissued B ordinary shares of £0.10 each were converted into 3,000,000 unissued ordinary shares of £0.10 each and 6,500,000 unissued Preference Shares existing following their redemption were converted and subdivided into 65,000,000 ordinary shares of £0.10 each.

Yours faithfully

**RSM ROBSON RHODES"**



## PART III

### PRO FORMA STATEMENT OF NET ASSETS

#### BASIS OF PREPARATION

The following is a pro forma statement of net assets of the Group which has been prepared for illustrative purposes only to provide information about the impact of the Placing and Admission had it been undertaken at 30 April 2000 and which, because of its nature, may not give a true picture of the financial position of the Group. This statement is based on the audited balance sheet of the Group as at 30 April 2000, set out in the Accountants' report which forms Part II of this document, and has been adjusted for the matters referred to in the notes below.

	Group (See note 1) £'000	Adjustments (See notes 2 and 3) £'000	Pro forma £'000
<b>Fixed assets</b>			
Goodwill	16,513	6,955	23,468
Tangible fixed assets	866	—	866
	<u>17,379</u>	<u>6,955</u>	<u>24,334</u>
<b>Current assets</b>			
Debtors due within one year	11,067	—	11,067
Cash at bank and in hand	803	8,966	9,769
	<u>11,870</u>	<u>8,966</u>	<u>20,836</u>
Creditors: Amounts falling due within one year	(8,581)	—	(8,581)
<b>Net current assets</b>	<u>3,289</u>	<u>8,966</u>	<u>12,255</u>
<b>Total asset less current liabilities</b>	<u>20,668</u>	<u>15,921</u>	<u>36,589</u>
<b>Creditors: Amounts falling due after more than one year</b>	(11,240)	—	(11,240)
Minority interests	(250)	250	—
<b>Net assets</b>	<u>9,178</u>	<u>16,171</u>	<u>25,349</u>

#### Notes:

- The net assets of the Group as at 30 April 2000 have been extracted, without material adjustment, from the Accountants' report on the Group contained in Part II of this document. The financial information in the Accountants' report has been prepared in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP").
- The following adjustments have been made to cash at bank and in hand:
  - the receipt of estimated proceeds of £15.34 million from the Placing, net of estimated expenses of £2.16 million
  - the payment of £6.5 million in respect of the redemption of the Preference Shares
  - the payment of £76,000 in respect of the redemption of the A ordinary shares
  - the payment of £98 in respect of the redemption of the deferred shares
  - the payment of £83,000 in respect of accrued dividends payable on the Preference Shares and the A ordinary shares
  - the receipt of proceeds of £285,000 in respect of exercise of share options under the No. 1 Share Scheme.
- Goodwill and minority interests have been adjusted to take account of the acquisition of the 50 per cent of the issued share capital of iSOFT Holdings Pty not already owned by the Group as described in paragraph 7(g) of Part V of this document. The goodwill is based upon the net assets acquired of iSOFT Holdings Pty of £250,000 at 30 April 2000 and aggregate consideration of £7.205 million. No account has been taken of any fair value adjustments to the net assets acquired since it is not possible to quantify such amounts at this stage. A fair value review of net assets, as at the completion date of the acquisition, will be undertaken.
- No account has been taken of changes either in the financial position or the results of the Group since 30 April 2000.
- The pro forma statement of net assets does not constitute financial statements within the meaning of section 240 of the Act.

Set out below is the text of a report on the pro forma statement of net assets by RSM Robson Rhodes, the reporting accountants:

**" RSM Robson Rhodes**

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40 Great George Street  
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iSOFT Group plc  
Bridgewater House  
58-60 Whitworth Street  
Manchester M1 6LT

The Directors  
Hoare Govett Limited  
250 Bishopsgate  
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12 July 2000

Dear Sirs

### **iSOFT GROUP PLC ("THE COMPANY" OR "iSOFT")**

We report on the pro forma statement of net assets ("the Pro Forma Financial Information") set out in Part III of the Company's listing particulars dated 12 July 2000, which has been prepared for illustrative purposes only, to provide information about how the Placing of Ordinary Shares of the Company might have affected the financial information presented.

### **RESPONSIBILITIES**

The preparation of the Pro Forma Financial Information, in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority, is the sole responsibility of the Directors of iSOFT.

It is our responsibility to form an opinion, as required by the Listing Rules of the UK Listing Authority, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed by us to those to whom the reports were addressed by us at the dates of their issue.

### **BASIS OF OPINION**

We conducted our work in accordance with Statements of Investments Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to The Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the Directors of iSOFT.

**OPINION**

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of iSOFT; and
- (c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the UK Listing Authority.

Yours faithfully

**RSM ROBSON RHODES"**

## **PART IV**

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### **COMMERCIAL RISK FACTORS**

The Directors believe that due to the high technology nature of the Company's business it is appropriate that prior to investing in Ordinary Shares, potential investors should carefully consider, together with all other information contained in this document, the factors and risks described below. Additional risks and uncertainties not presently known to the Group or that the Directors currently deem immaterial may also have an adverse effect on its business.

### **UNPREDICTABLE FUTURE REVENUES AND OPERATING RESULTS**

The Group's future revenues are inherently difficult to forecast because the Group relies on the ability to secure new contracts to generate much of its revenue and the majority of profit relating to contracts is accounted for at the time of billing. As such, investors should not rely on period-to-period comparisons of revenue as an indication of future performance.

However, the typical contract entered into by the Group includes an element of service charges over the term of the contract, usually five to seven years, and the Group strives to secure sell on business in respect of new product developments or enhancements within the terms of the original contract, subject only to a renewed period. The success of this policy is reflected by the fact that 70 per cent of software revenues in the year ended 30 April 2000 were derived from contracts with an expired term of less than one year.

### **FLUCTUATION OF REVENUES, EXPENSES AND OPERATING RESULTS**

The Group's revenues, expenses and operating results could vary significantly from period to period as a result of a variety of factors, some of which are outside the Group's control. These factors include general economic conditions, conditions specific to the healthcare industry and Government expenditure on healthcare. In response to a changing competitive environment, the Group may elect from time to time to make certain pricing, service or marketing decisions that could have a material adverse effect on the Group's revenues, results of operations and financial condition. Due to all the foregoing factors, it is possible that in some future period, the Group's operating results may be below the expectations of public market analysts and investors. In such event, the price of the Group's Ordinary Shares would be likely to be materially adversely affected.

However, increasing importance, in the Directors' opinion, is being attached to healthcare in each of the Group's markets which is resulting in governments increasing expenditure on healthcare. In the United Kingdom, for example, an increase of 35 per cent in NHS funding, in real terms, over five years, announced on 21 March 2000, is supplemented by an additional commitment by the NHS Executive to £1bn of IT expenditure over the period 1998 to 2005.

Furthermore, the early publication in the EC Journal of all major procurements by European Community public healthcare provider organisations and the open procurement processes in the private sector provide good visibility of future levels of demand.

### **CONTINUED MARKET ACCEPTANCE OF THE GROUP'S PRODUCTS**

If the Group's products and services do not sustain their competitive advantage, the Group's business, results of operations and financial condition will be adversely affected. The market for healthcare software products is characterised by rapidly changing technology. The Group will need to continue to improve its products and to develop and market new products that keep pace with technological developments.

However, it is a fundamental element of the Group's strategy to invest in the identification, development and utilisation of leading industry technologies in order to retain the competitive advantage of the Group's products.

#### **FAILURE OF PRODUCTS TO PERFORM PROPERLY**

The Group's products are used in a complex operating environment which requires their integration with computer networks and other business software applications. Furthermore, the hardware, software and network systems generally used in conjunction with the Group's products change rapidly. The evolution of these technologies may cause the Group's products to function slowly or improperly if they are not updated appropriately.

However, the Group is committed to ensuring that its products are based on leading-edge technologies and it manages any risk of product failure arising from the use of such technologies through emphasis on high quality product development and through strict adherence to a formal software development product lifecycle methodology.

#### **RELIANCE UPON MICROSOFT**

The Group's products are heavily based upon applications and products supplied by Microsoft. Although the review of Microsoft by the US Department of Justice might be thought to present a risk to the Group, the Directors believe that the review, whatever the eventual outcome, will lead to closer regulation of Microsoft's business activities, to the benefit of its customers.

#### **DEPENDENCE ON KEY PERSONNEL**

The Group's future success is substantially dependent on the continued services and continuing contributions of its senior management personnel. The Group maintains keyman insurance in respect of a number of its senior executives, although the loss of the services of any of the Group's executive officers or other key employees could have a material adverse effect on its business. Nevertheless, in the opinion of the Directors, the Group has adequate succession plans in place.

The Group is also heavily dependent upon its ability to attract, retain and motivate skilled technical personnel. The Group's future success also depends on its continuing ability to identify, hire, train and retain other highly qualified technical and managerial personnel. Competition for such personnel is intense, and there can be no assurance that the Group will be able to attract, assimilate or retain other highly qualified technical and managerial personnel in the future. The inability to attract, hire or retain the necessary technical and managerial personnel could have a material adverse affect upon the Group's business, results of operations or financial condition.

However, in the opinion of the Directors, the Group's focus on leading-edge technologies enhances its attractions as an employer of junior technical staff with knowledge of the latest developments. The Group endeavours to retain staff through a competitive remuneration structure, complemented by the Share Option Schemes.

#### **FUTURE ACQUISITIONS**

The Group intends to acquire complementary businesses in the UK and in selected foreign markets if appropriate opportunities arise. Integrating any acquired business into the Group's business and operations involves business risk and may consume significant management resources. Some of the Group's competitors may already have expanded into such areas and, as a result, may possess significantly more relevant experience than the Group.

However, the Group has recently complemented its management resources through the recruitment of three new senior managers with experience of managing change, both organically and by acquisition, in healthcare organisations. Furthermore, it is the Group's strategy to select any acquisition targets carefully based on the quality of each target's in situ management and the number of its customers who would benefit from switching to either PiMS or iSOFT2000.

## INTELLECTUAL PROPERTY

Third parties may attempt to copy or otherwise obtain, develop and use the Group's intellectual property independently. However, the Group relies on copyright, trade secret and trade mark laws, as well as confidentiality and licence agreements to protect its technology, proprietary information, trade marks and goodwill.

In the event that the Group or a distributor were challenged by a third party, the Group might be forced, in order to continue offering its products, to obtain or to seek a licence to use the third party rights. There is no guarantee that such licences would be available or granted on commercially acceptable terms. This would have a material adverse impact on the Group's financial condition. The Group owns the intellectual property rights in, or in the case of one particular product is the exclusive licensee for, the products that have been developed by it.

Some of the Group's proprietary information is protected as confidential information. Whilst the Group endeavours to maintain the confidentiality of such information, there can be no guarantee that it will not be disclosed by employees or third parties and thereby become available for use by competitors or that competitors will not independently develop similar technology. However, the Directors believe that all of the Group's developments are protected due to their requirement that all employees and sub-contractors engaged by the Group sign contracts which state that the ownership of all intellectual property created by them in respect of their employment is retained by the Group. Furthermore, the Group has non-disclosure and confidentiality procedures designed to protect confidential information.

## **PART V**

### **ADDITIONAL INFORMATION**

#### **1. RESPONSIBILITY FOR INFORMATION**

The Directors, whose names appear on page 3, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### **2. INCORPORATION AND SHARE CAPITAL OF THE COMPANY**

- (a) (i) The Company was incorporated and registered in England on 22 February 1999 under the Act with registered number 3716736 as a private limited company with the name Pinco 1179 Limited.
- (ii) The Company changed its name to iSOFT Group Limited on 19 July 1999.
- (iii) The Company was re-registered as a public company pursuant to the Act on 13 June 2000 with its present name.
- (iv) The principal legislation under which the Company operates is the Act and the regulations made thereunder.
- (b) (i) The Company was incorporated with an authorised share capital of £1,000 divided into 1,000 ordinary shares of £1.00 each of which 1 ordinary share was issued and fully paid or credited as fully paid on 22 February 1999.
- (ii) By ordinary resolutions of the Company passed on 28 April 1999:
  - (1) each issued and unissued ordinary share of £1.00 each in the capital of the Company was sub-divided into 100 ordinary shares of £0.01 each; and
  - (2) the authorised share capital of the Company was increased from £1,000 to £5,510,000 by the creation of 5,500,000 Preference Shares, 425,000 A ordinary shares of £0.01 each and 475,000 ordinary shares of £0.01 each.
- (iii) On 28 April 1999, the Company issued 62,400 ordinary shares of £0.01 each for cash at par.
- (iv) On 25 May 1999, the Company issued 30,000 ordinary shares of £0.01 each for cash at par.
- (v) On 28 May 1999, the Company issued :
  - (1) 437,500 ordinary shares of £0.01 each in consideration of the transfer to the Company of 1,250,000 ordinary shares of £1.00 each and 1,250,000 deferred shares of £0.01 each in the capital of iSOFT plc;
  - (2) 5,500,000 Preference Shares for cash at par; and
  - (3) 425,000 A ordinary shares of £0.01 each for cash at a price of £0.5882 per share.
- (vi) On 1 October 1999 the authorised share capital of the Company was increased from £5,510,000 to £6,510,000 by the creation of 1,000,000 Preference Shares, all of which shares were issued for cash at par on that date.
- (vii) On 6 December 1999, the Company issued 45,000 ordinary shares of £0.01 each for cash at par.

- (viii) On 29 February 2000 the authorised share capital of the Company was increased from £6,510,000 to £6,810,000 by the creation of 3,000,000 B ordinary shares of £0.10 each.
- (ix) On 11 July 2000 the authorised share capital of the Company was increased from £6,810,000 to £6,810,752.69 by the creation of 75,269 convertible C shares of £0.01 each all of which were issued on that date in consideration of the transfer to the Company of 1,000,000 shares of A\$1 each in ISOFT Holdings Pty as referred to in paragraph 7(g) below.
- (x) Accordingly, as at the date of this document, the Company has an authorised share capital of £6,810,752.69 divided into 6,500,000 Preference Shares, 575,000 Ordinary Shares of £0.01 each, 425,000 A ordinary shares of £0.01 each, 3,000,000 B ordinary shares of £0.10 each and 75,269 convertible C shares of £0.01 each. All of such shares are in issue except for the B ordinary shares of £0.10 each, none of which have been issued.
- (xi) On 11 July 2000 the Directors resolved, conditional on Admission, to redeem 129,850 A ordinary shares of £0.01 each at 58.82p per share, 9,769 deferred shares of £0.01 each at par and 6,500,000 Preference Shares at par; and to allot 15,909,090 Ordinary Shares pursuant to the Placing for cash at the Placing Price, 934,714,350 ordinary shares of £0.01 each pursuant to the capitalisation issue referred to in paragraph (xii)(3) below credited as fully paid at par, and 2,590,402 Ordinary Shares for cash at 11p per share pursuant to options exercised under the No.1 Share Scheme.
- (xii) On 11 July 2000, conditional upon Admission, the share capital of the Company was reorganised as follows:
  - (1) the authorised share capital of the Company was increased from £6,810,752.69 to £20,000,000 by the creation of 1,118,924,731 new ordinary shares of £0.01 each and 20,000,000 Ordinary Shares;
  - (2) 295,150 A ordinary shares of £0.01 each and 65,500 convertible C shares of £0.01 each were converted into ordinary shares of £0.01 each; the remaining 9,769 issued convertible C shares of £0.01 each were converted into deferred shares of £0.01 each; and the unissued A ordinary shares of £0.01 each and deferred shares of £0.01 each existing after the redemption referred to in paragraph (xi) above were converted into ordinary shares of £0.01 each;
  - (3) the Directors were authorised to capitalise such amount standing to the credit of the Company's share premium account arising on the issue of shares pursuant to the Placing and the Directors were authorised to appropriate such sum to the holders of ordinary shares of £0.01 each of the Company who would be on the register of members immediately following the redemption of shares referred to in paragraph (xi) above and the conversion referred to in paragraph (xii)(2) above (and for the avoidance of doubt excluding any Ordinary Shares allotted pursuant to the Placing and the No.1 Share Scheme) and to apply such sum on their behalf in paying up in full at par 999 unissued ordinary shares of £0.01 each in the capital of the Company for every one ordinary share of £0.01 each in the capital of the Company held at such time; and the Directors were further authorised pursuant to section 80 of the Act to allot such shares;
  - (4) all of the issued and unissued ordinary shares of £0.01 each were consolidated into Ordinary Shares;



- (5) 3,000,000 unissued B ordinary shares of £0.10 each were converted into 3,000,000 unissued Ordinary Shares and 6,500,000 unissued Preference Shares existing following their redemption were converted and subdivided into 65,000,000 Ordinary Shares.
- (6) in addition to the authority referred to in paragraph (xii)(3) above the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £5,326,392 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) five years after the date of the passing of the resolution but the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement;
- (7) the Directors were generally empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority conferred by the preceding resolution as if section 89(1) of the Act did not apply to the allotment. This power expires five years after the date of the passing of the resolution but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the Directors may allot equity securities in pursuance of that offer or agreement. The power is limited to:
  - (a) the allotment for cash of up to 15,909,090 Ordinary Shares in connection with the Placing; and
  - (b) allotments otherwise than pursuant to paragraph (xii)(7)(a) of the resolution of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company and, if in accordance with their rights the Directors so determine, holders of other equity securities of any class made in proportion (as nearly as may be) to their existing holdings of ordinary shares or (as the case may be) other equity securities of the class concerned (so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such offer and, failing which, shall be on the basis that their holdings had been converted into or that they had subscribed for ordinary shares on the basis then applicable) but subject to the Directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient to deal with equity securities representing fractional entitlements, and to deal with record dates and with legal or practical problems under the laws of any territory, or the requirements of a regulatory body or any stock exchange; and
  - (c) allotments of equity securities for cash otherwise than pursuant to paragraphs (xii)(7)(a) and (xii)(7)(b) of the resolution up to an aggregate nominal amount of £560,322; and
- (8) new Articles of Association were adopted.
- (xiii) Immediately following the Placing the authorised share capital of the Company will be £20,000,000, divided into 200,000,000 Ordinary Shares of which 112,064,492 Ordinary Shares will be issued and fully paid.

- (xiv) The authorised but unissued share capital following the Placing will be £8,793,550.80, representing approximately 43.97 per cent of the authorised share capital of which the Directors will be authorised to allot £3,735,483.07 pursuant to the authority referred to in paragraph 2(b)(xii)(6) above.
- (xv) The provisions of section 89(1) of the Act confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 89(2) of the Act) which are, or are to be, paid up in cash apply to the authorised but unissued share capital except to the extent disapplied by the resolution referred to in paragraph 2(b)(xii)(7) above.
- (xvi) Save as disclosed in notes 4.7 and 4.18 of the Accountants' report in Part II of this document, this paragraph 2 and in paragraphs 7(f), 9(c) and 9(d) below:
  - (1) during the three years immediately preceding the date of this document there have been no changes in the amount of the issued share capital of the Company and no material change in the amount of the issued share or loan capital of any of its subsidiaries (other than intra-group issues by wholly owned subsidiaries, *pro rata* issues by partly owned subsidiaries and changes in the capital structure of subsidiaries which have remained wholly owned throughout the period);
  - (2) no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries in the three years preceding the date of this document; and
  - (3) no share or loan capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.
- (c) The Articles of Association of the Company are, in all respects, consistent with (a) the holding of the Ordinary Shares in uncertificated form, (b) the transfer of title to Ordinary Shares by means of a relevant system and (c) The Uncertificated Securities Regulations 1995 (SI 1995 No. 3272). Accordingly, the Directors have resolved to permit the holding of Ordinary Shares in uncertificated form and the transfer of title to Ordinary Shares by means of a relevant system. For these purposes CREST is a relevant system.

### **3. DIRECTORS' INTERESTS AND SERVICE CONTRACTS**

- (a) The interests of each of the Directors (all of which are beneficial other than as indicated below) in the issued share capital of the Company, which (1) have been notified to the Company by a Director pursuant to section 324 or section 328 of the Act, or (2) are required pursuant to section 325 of the Act to be entered in the register referred to therein, or (3) are interests of a connected person (within the meaning of section 346 of the Act) which would, if the connected person were a Director, be required to be disclosed under (1) or (2) above and the existence of which is known to or could with reasonable diligence be ascertained by that Director, will be, following Admission, as follows:

Director	Number of Ordinary Shares	Percentage of enlarged issued share capital
R J Dickens <sup>(1)(6)</sup>	12,500,000	11.2
P Cryne <sup>(2)(6)</sup>	17,750,000	15.8
S P Graham <sup>(3)</sup>	12,000,000	10.7
T A Whiston <sup>(4)</sup>	352,488	0.3
E ap Gwilym <sup>(5)</sup>	45,454	—
D M Jones <sup>(5)</sup>	45,454	—
G C White <sup>(5)</sup>	45,454	—

**Notes**

1. After taking into account the intended sale of 1,000,000 Ordinary Shares in the Placing by R J Dickens.
2. After taking into account the intended sale of 4,000,000 Ordinary Shares in the Placing by P Cryne.
3. After taking into account the intended sale of 3,000,000 Ordinary Shares in the Placing by S P Graham.
4. After taking into account the exercise of options referred to in paragraph 3(b) below and intended sale of 307,462 Ordinary Shares in the Placing by T A Whiston.
5. After taking into account the intended acquisitions under the Placing.
6. In addition to the beneficial interests in shares noted above, R J Dickens will in his capacity as a trustee of the James Dickens Trust on Admission be the legal owner of, and members of his family will have beneficial interests in, 1,500,000 Ordinary Shares and P Cryne will in his capacity as a trustee of the James Cryne Trust on Admission be the legal owner of, and members of his family will have beneficial interests in, 1,500,000 Ordinary Shares.

- (b) The following options over ordinary shares have been, or will prior to Admission be, granted to certain of the Directors under the No. 1 Share Scheme and the No. 3 Share Scheme described in paragraph 9 below, such options being exercisable at the price and between the dates shown below. In the case of the options granted under the No. 1 Share Scheme, the number of Ordinary Shares under option and the exercise price have been adjusted to reflect the expected effect of the re-organisation of the Company's share capital referred to in paragraph 2(b)(xii) above:

- (i) Options under the No. 1 Share Scheme:

Director	Number of Ordinary Shares under Option	Exercise Price	Expiry Date of Exercise Period
T A Whiston	409,950	11p	28 February 2001

All such options are intended to be exercised at Admission.

- (ii) Options under the No. 3 Share Scheme:

Director	Number of Ordinary Shares under Option	Exercise Price	Expiry Date of Exercise Period
T A Whiston	101,000	110p	10 July 2010

No consideration was paid for the grant of these options.

- (c) R J Dickens is engaged as Executive Chairman on the terms of a service agreement with the Company dated 19 May 2000. Mr Dickens' current basic salary is £165,000 per annum. He is eligible for a bonus of 25 per cent of gross salary subject to the iSOFT Group meeting its budgeted earnings figure before interest, taxation, depreciation and amortisation ("EBITDA"), as agreed by the Appointments and Remuneration Committee. Should the actual EBITDA of the iSOFT Group be greater than the budgeted EBITDA, Mr Dickens' bonus entitlement is proportionally increased on a straight line basis with a maximum bonus equal to 100 per cent of salary payable should actual EBITDA exceed the budgeted EBITDA by one quarter. Mr Dickens is eligible for a company car, life assurance, permanent health insurance and medical expenses insurance. Mr Dickens' appointment is terminable on 12 months notice from either party.
- (d) P Cryne is engaged as Chief Executive on the terms of a service agreement with the Company dated 19 May 2000. Mr Cryne's current basic salary is £180,000 per annum. He is eligible for a bonus of 25 per cent of gross salary subject to the iSOFT Group meeting its budgeted EBITDA as agreed by the Appointments and Remuneration Committee. Should the actual EBITDA of the iSOFT Group be greater than the budgeted EBITDA, Mr Cryne's bonus entitlement is proportionally increased on a straight line basis with a maximum bonus equal to 100 per cent of salary payable should actual EBITDA exceed the budgeted EBITDA by one quarter. Mr Cryne is eligible for a company car, life assurance, permanent health insurance and medical expenses insurance. Mr Cryne's appointment is terminable on 12 months notice from either party.
- (e) S P Graham is engaged as Operations Director on the terms of a service agreement with the Company dated 19 May 2000. Mr Graham's current basic salary is £150,000 per annum. He is eligible for a bonus of 25 per cent of gross salary subject to the iSOFT Group meeting its budgeted EBITDA as agreed by the Appointments and Remuneration Committee. Should the actual EBITDA of the iSOFT Group be greater than the budgeted EBITDA, Mr Graham's bonus entitlement is proportionally increased on a straight line basis with a maximum bonus equal to 100 per cent of salary payable should actual EBITDA exceed the budgeted EBITDA by one quarter. Mr Graham is eligible for a company car, life assurance, permanent health insurance and medical expenses insurance. Mr Graham's appointment is terminable on 12 months notice from either party.
- (f) T A Whiston is engaged as Finance Director and Company Secretary on the terms of a service agreement with the Company dated 19 May 2000. Mr Whiston's current basic salary is £100,000 per annum. He is eligible for a bonus of 25 per cent of gross salary subject to the iSOFT Group meeting its budgeted EBITDA as agreed by the Appointments and Remuneration Committee. Should the actual EBITDA of the iSOFT Group be greater than the budgeted EBITDA, Mr Whiston's bonus entitlement is proportionally increased on a straight line basis with a maximum bonus equal to 100 per cent of salary payable should actual EBITDA exceed the budgeted EBITDA by one quarter. Mr Whiston is eligible for a company car (or, at his option, a cash allowance for the value of such car), life assurance, permanent health insurance and medical expenses insurance. Mr Whiston's appointment is terminable on 12 months notice from either party.
- (g) Each of E ap Gwilym, D M Jones and G C White has a letter of appointment with the Company dated 19 May 2000 setting out the terms of his appointment as a Non-executive Director. Each appointment is terminable at the will of the parties but it is envisaged that the appointment will initially be for three years. Under their respective letters of appointment, each of the Non-executive Directors is currently entitled to receive an annual fee of £25,000 and the Company is obliged to reimburse them for any expenses that they may incur properly and reasonably in performing their duties.
- (h) Copies of the executive Directors' service agreements and letters of appointment of the Non-executive Directors will be available for inspection as specified in paragraph 17 below.

- (i) Save as mentioned in paragraphs 3(c) to (g) above, there are no existing or proposed service contracts between the Company and any of the Directors.
- (j) Save as disclosed in paragraph 7 below, no Director has or has had any interest in any transaction effected by the Company or by any of its subsidiaries during the current or immediately preceding financial year, or during any earlier financial year which remains in any respect outstanding or unperformed, which was or is unusual in its nature or conditions or significant to the business of the iSOFT Group.
- (k) In the year ended 30 April 2000, the total aggregate remuneration including pension contributions and other benefits, paid or granted to the Directors by the iSOFT Group was £716,000. The aggregate remuneration and benefits in kind of the Directors in respect of the current financial year ending 30 April 2001 under arrangements in force at the date of this document is expected to be £855,000.
- (l) There are no outstanding loans granted by any member of the iSOFT Group to the Directors or any guarantees provided by any member of the iSOFT Group for the benefit of the Directors.
- (m) There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- (n) Save as disclosed in paragraph 7 below, no amount or benefit has been paid or given within the two years immediately preceding the date of this document and no amount or benefit is proposed to be paid or given to any promoter of any member of the Group in its capacity as promoter.

#### 4. DISCLOSURE OF INTERESTS

In addition to the interests of the Directors as set out in paragraph 3 above, immediately following the issue of the New Ordinary Shares, the following persons are expected to be directly or indirectly interested in three per cent or more of the enlarged issued share capital of the Company:

Name	Number of Ordinary Shares following Admission	Percentage of enlarged issued share capital
Lloyds TSB Development Capital	18,225,350	16.3
HealthNet	6,550,000	5.8

Save as set out above, the Company is not aware of any person who will, immediately following the Placing, be interested (within the meaning of the Act) directly or indirectly in three per cent or more of the then issued share capital of the Company or who exercises, or could exercise, directly or indirectly, jointly or severally, control over the Company.

#### 5. INFORMATION ON DIRECTORS

- (a) The Directors currently hold and, during the five years immediately prior to the date of this document, have held the directorships set out below in companies outside the iSOFT Group or were partners in the following firms within the five years prior to the date of this document. Save for directorships of subsidiaries of the Company, or of companies listed below, none of the Directors has any other disclosable interests.

Director	Directorships	Partnerships
R J Dickens	<b>Current Directorships</b>	<b>Current Partnerships</b>
	Birmingham Chamber of Commerce and Industry Limited	Dix Associations
	The National Exhibition Centre Limited	
	Birmingham Economic Development Partnership Limited	
	Carillion PLC	
	West Bromwich Building Society	
	<b>Past Directorships</b>	<b>Past Partnerships</b>
	Technology Innovation Centre	KPMG General Partnership
	Tarmac PLC	KPMG Midlands Partnership
	KPMG Pension Trustees Limited	KPMG Seventh Region Partnership
	KPMG Audit plc	
	KPMG (CBA) Limited	
	KPMG Midlands Region Limited	
	KPMG Seventh Region Limited	
	Millennium Point Property Limited	
	Millennium Point Trust	
	MPT Environmental	
P Cryne	<b>Current Directorships</b>	<b>Current Partnerships</b>
	KPMG Seventh Region Limited	KPMG Seventh Region Partnership
	Chapel-en-le-frith Golf Club Limited	
	<b>Past Directorships</b>	<b>Past Partnerships</b>
S P Graham	None	KPMG North West Partnership
	<b>Current Directorships</b>	<b>Current Partnerships</b>
	None	KPMG Seventh Region Partnership
	<b>Past Directorships</b>	<b>Past Partnerships</b>
T A Whiston	None	None
	<b>Current Directorships</b>	<b>Current Partnerships</b>
	None	None
	<b>Past Directorships</b>	<b>Past Partnerships</b>
Dr E ap Gwilym	None	None
	<b>Current Directorships</b>	<b>Current Partnerships</b>
	The Terence Chapman Group PLC	None
	The Principality Building Society	
	<b>Past Directorships</b>	<b>Past Partnerships</b>
	None	None

PART V ADDITIONAL INFORMATION

Director	Directorships	Partnerships
D M Jones	<b>Current Directorships</b>	<b>Current Partnerships</b>
	Business In The Community	None
	Enterprise Insight Limited	
	<b>Past Directorships</b>	<b>Past Partnerships</b>
	Rutland Secretaries Limited	Edge & Ellison
	Edge Ellison Trustees Limited	KPMG Midlands Partnership
	Millennium Point Trust	
	Woodcote Industries Limited	
	Edge Ellison Services	
	Flexdart Limited	
	Douglas Concrete Holdings Limited	
	Chrysalis Radio Midlands Limited	
	CBSO Society Limited	
	Zoneburn Limited	
G C White	<b>Current Directorships</b>	<b>Current Partnerships</b>
	Pressac plc	White & Co
	<b>Past Directorships</b>	<b>Past Partnerships</b>
	Derby City Hospital NHS Trust	None
	Long Eaton West End Mill Company Limited	

- (b) None of the Directors has any unspent convictions in relation to indictable offences or been disqualified by a court from acting as a director of, or in the management or conduct of the affairs of, any company.

In March 1983, R J Dickens (then a partner in KPMG) was the subject of criticism by the Institute of Chartered Accountants in England and Wales in connection with his acceptance of a receivership appointment in 1980 in circumstances where KPMG had been appointed as auditors of the relevant company in the preceding financial year. Save as aforesaid, none of the Directors has been publicly criticised by any statutory or regulatory authority (including recognised professional bodies).

- (c) None of the Directors was a partner of any partnership at the time of or within the 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement. None of the Directors has owned an asset over which a receiver has been appointed nor has any of the Directors been a partner of any partnership at the time or within the 12 months preceding receivership of any assets of the partnership. None of the Directors was a director with an executive function of any company at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangements or any composition or arrangement with its creditors generally or any class of its creditors. None of the Directors is, or has been, bankrupt or entered into individual voluntary arrangements with his creditors.
- (d) The business address of each of the Directors is ISOFT Group plc, Bridgewater House, 58-60 Whitworth Street, Manchester, M1 6LT.

## 6. PLACING AGREEMENT

Under the Placing Agreement dated 12 July 2000 and made between the Company, the Executive Directors, the Non-executive Directors, Lloyds TSB Development Capital, certain other existing shareholders, HealthNet and Hoare Govett, Hoare Govett has agreed (conditionally, *inter alia*, on Admission), as agent for the Company, to use reasonable endeavours to procure placees to subscribe for 15,909,090 New Ordinary Shares (the "Subscription Shares") and, as agent for certain existing shareholders (including certain Directors) who wish to sell Ordinary Shares in the Placing (the "Vendors"), to use reasonable endeavours to procure placees to purchase 19,799,310 Ordinary Shares (the "Sale Shares"), in each case at the Placing Price, or failing that, itself to subscribe for the Subscription Shares and purchase the Sale Shares at the Placing Price.

Under the Placing Agreement and subject to it becoming unconditional: (i) the Company has agreed to pay Hoare Govett a commission of 2.5 per cent of the value of the Subscription Shares at the Placing Price together with corporate finance advisory fees; and (ii) each of the Vendors has agreed to pay Hoare Govett a commission of 2.5 per cent of the aggregate value of the Sale Shares sold by them at the Placing Price, together in each case with any applicable VAT.

The Company will pay certain other costs and expenses (including any applicable VAT) of, or incidental to, the Placing and Admission including all fees and expenses payable in connection with Admission, the fees and expenses of the registrars, printing and advertising expenses, postage and all other legal, accounting and other professional fees and expenses, save for stamp duty or stamp duty reserve tax arising in respect of the Sale Shares sold by the Vendors which will be payable by them.

The Placing Agreement contains warranties and indemnities given by the Company, the Directors and HealthNet to Hoare Govett as to the accuracy of the information contained in this document and other matters relating to the Group and its business. Certain of the Directors have also given a tax indemnity in favour of the Company. Hoare Govett is entitled to terminate its obligations under the Placing Agreement in certain specified circumstances prior to Admission.

The Directors and certain persons connected with them ("Connected Persons") have undertaken to Hoare Govett that they will not, save in limited circumstances specified in the Placing Agreement, dispose of any Ordinary Shares at any time prior to the announcement of the preliminary results of the Group for the year ending 30 April 2001. Additionally the Directors and their Connected Persons have also undertaken not to make any such disposal following expiry of the aforementioned period until announcement of the preliminary results of the Company for the year ending 30 April 2002, without the prior written consent of Hoare Govett, such consent not to be unreasonably withheld or delayed.

Lloyds TSB Development Capital has undertaken that it will not, save in limited circumstances, dispose of any Ordinary Shares at any time prior to the announcement of the preliminary results of the Group for the 12 months ending 30 April 2001.

In addition, HealthNet has agreed by way of a separate agreement dated 12 July 2000 and made between HealthNet, Hoare Govett and certain shareholders of HealthNet, to be subject to the same restrictions as the Directors in respect of the Ordinary Shares it will hold in the Company. Certain shareholders of HealthNet have agreed to similar restrictions in respect of their shares in HealthNet (except for disposals to one another).



## 7. MATERIAL CONTRACTS

In addition to the Placing Agreement referred to at paragraph 6 above, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the iSOFT Group within the period of two years immediately preceding the date of this document and are or may be material or have been entered into at any time and contain any provision under which any member of the iSOFT Group has any obligation or entitlement which is material to the iSOFT Group as at the date of this document:

- (a) An acquisition agreement dated 1 May 1998 between KPMG and the KPMG Seventh Region Partnership (the “Vendors”) (1), KPMG Seventh Region Limited (2), iSOFT plc (3) and Philip Alan Reid (4) by virtue of which iSOFT plc agreed to acquire from the Vendors certain of their assets used in the healthcare systems business in consideration of £2,521,000. The acquisition agreement included an indemnity from iSOFT plc in favour of the Vendors and certain restrictive covenants from each of the Vendors.
- (b) An acquisition agreement dated 28 May 1999 between Philip Alan Reid (as trustee for the UK partners of KPMG at the time) (1) and the Company (2) (“the Acquisition Agreement”) by virtue of which the Company agreed to acquire 3,749,999 B ordinary shares of £0.01 each and one C ordinary share of £0.01 each in the capital of iSOFT plc in consideration of:
  - (i) the payment of £4,500,000; and
  - (ii) the payment of additional consideration (“Deferred Consideration”) in the event of, *inter alia*, a flotation of the Company on or before 30 April 2003.

The amount of the Deferred Consideration is calculated as a proportion of the market capitalisation of the Company at the date of Admission after making certain deductions, including the net proceeds of the Placing receivable by the Company. The proportion to be applied is 15 per cent but this proportion is to be reduced to reflect the effect of certain share issues and financing arrangements made by the Company between the date of the Acquisition Agreement and the date of Admission.

The amount of Deferred Consideration is to be agreed between the parties or (in default of agreement) to be determined by an expert accountant in accordance with the procedures set out in the Acquisition Agreement. Agreement has not been reached on the amount of the Deferred Consideration and therefore, unless agreement is reached following the Placing, the matter will fall to be determined in accordance with such procedures.

The Deferred Consideration only becomes payable under the terms of the Acquisition Agreement when those people who were equity shareholders in the Company immediately prior to Admission realise the whole or substantially the whole of their equity shares into cash.

Such equity shareholders are not realising the whole or substantially the whole of their equity shares into cash in the Placing.

An amount of £8 million has been included by the Company (as described in note 4.16 of the Accountants’ report set out in Part II of this document) as Deferred Consideration. The Directors are of the opinion that, taking into account advice received, the liability of the Company for Deferred Consideration will not exceed this amount.

- (c) An acquisition agreement dated 28 May 1999 between R J Dickens, P Cryne, S P Graham, the trustees of The James Dickens Trust and the trustees of The James Cryne Trust (together the "Managers") (1) and the Company (2) ("the Managers' Acquisition Agreement") by virtue of which the Company agreed to acquire 1,250,000 A ordinary shares of £0.01 each and 1,250,000 deferred shares of £0.01 each in the capital of iSOFT plc in consideration of the allotment to the Managers of 437,500 ordinary shares of £0.01 each in the capital of the Company credited as fully paid. The Managers' Acquisition Agreement included certain warranties given by the Managers. The Managers' liability under the warranties is unlimited as to time and amount.
- (d) An investment agreement dated 28 May 1999 between the Company (1), R J Dickens, P Cryne and S P Graham (2) and Lloyds TSB Development Capital (3) by virtue of which Lloyds TSB Development Capital agreed to subscribe for 425,000 A ordinary shares of £0.01 each in the capital of the Company at a total subscription price of £250,000 and for 5,500,500 Preference Shares at par.
- (e) An acquisition agreement dated 10 September 1999 between CSC Australia Pty Limited ("CSC Australia") (1), CSC Information Systems Pty Limited ("CSC Information") (2) and iSOFT Healthcare Systems Pty Limited ("Healthcare") (a wholly owned subsidiary of iSOFT Holdings Pty) (3) ("the CSC Agreement") by virtue of which Healthcare agreed to acquire the health products business and certain assets of CSC Australia and CSC Information in consideration of:
  - (i) the payment of A\$1,492,000; and
  - (ii) the assumption by Healthcare of liabilities totalling A\$2,808,000.

The CSC Agreement included a number of warranties given by CSC Australia and CSC Information.

- (f) A subscription deed dated 1 October 1999 between HealthNet (1), iSOFT Overseas Holdings plc (2), iSOFT plc (3), Graeme Wilson and others (4), iSOFT Holdings Pty (5), Healthcare (6), iSOFT Australia Pty Limited (7) and the Company (8) (the "Subscription Deed") by virtue of which each of HealthNet and iSOFT Overseas Holdings plc agreed to subscribe for 1,000,000 ordinary shares of A\$1 each in the capital of iSOFT Holdings Pty for cash at par. The Subscription Deed contained certain controls on the operation of iSOFT Holdings Pty. Such provisions were terminated on completion of the Australian Acquisition Agreement referred to in paragraph (g) below.
- (g) An acquisition agreement dated 22 May 2000 between HealthNet (1), iSOFT Overseas Holdings plc (2), iSOFT plc (3), Graeme Wilson and others (4), iSOFT Holdings Pty (5), Healthcare (6), iSOFT Australia Pty Limited (7) and the Company (8) ("the Australian Acquisition Agreement") by virtue of which the Company agreed, subject to the satisfaction of certain conditions, to acquire all of the shares in iSOFT Holdings Pty held in the name of HealthNet in consideration of the allotment and issue to HealthNet of 75,269 convertible C shares of £0.01 each in the capital of the Company. The acquisition was completed on 11 July 2000. The convertible C shares of £0.01 each issued on completion were, conditional on Admission, converted into 6,550,000 Ordinary Shares as described in paragraph 2(b)(xii). At the Placing Price such 6,550,000 Ordinary Shares would be valued at £7,205,000.

## 8. SUMMARY OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION

- (a) The principal objects of the Company as set out in clause 4 of its Memorandum of Association are *inter alia* to carry on the business of a holding company.
- (b) The Articles of Association of the Company contain, among others, provisions to the following effect:

### (i) Voting rights

Subject to disenfranchisement as provided in 8(b)(iv) below and subject to any special terms as to voting on which any shares may be issued, on a show of hands every member present in person (or, being a corporation, present by a duly authorised representative) shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

### (ii) Transfer of shares

The Ordinary Shares are in registered form and are capable of being held in uncertificated form.

A member may transfer all or any of his uncertificated shares by means of a relevant system, as defined in the Uncertificated Securities Regulations 1995, which includes CREST. The Directors may refuse to register any transfer of an uncertificated share where permitted by the Uncertificated Securities Regulations 1995. If the Directors refuse to register a transfer of an uncertificated share they shall, within two months of the date on which the transfer instruction relating to such a transfer was received by the Company, send to the transferee notice of the refusal.

All transfers of certificated shares must be effected by a transfer in writing in any usual form or any other form approved by the Directors. The instrument of transfer shall be executed by or on behalf of the transferor and, in the case of a partly paid share, by or on behalf of the transferee. The Directors may refuse to register any transfer of a partly paid share held in certificated form and may also refuse to register any transfer of a certificated share unless the instrument of transfer is:

- (1) duly stamped (if so required), is lodged with the Company's registrars or at such other place as the Directors may appoint and is accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (2) in respect of only one class of shares; and
- (3) in favour of not more than four transferees.

### (iii) Dividends

The Company in general meeting may declare dividends in accordance with the respective rights of the members, provided that no dividend shall be payable in excess of the amount recommended by the Directors. The Directors may pay such interim dividends as appear to them to be justified. No dividend or other moneys payable in respect of a share shall bear interest as against the Company.

There are no fixed dates on which entitlement to dividends arises.

All dividends unclaimed for a period of twelve years after becoming due for payment shall be forfeited and shall revert to the Company.

*(iv) Disclosure of interests in shares*

If any member or other person appearing to be interested in shares of the Company is in default in supplying within 14 days after the date of service of a notice requiring such member or other person to supply to the Company in writing all or any such information as is referred to in section 212 of the Act (essentially details of shareholdings), the Directors may, for such period as the default shall continue, impose sanctions upon the relevant shares.

The sanctions available are the suspension of voting or other rights conferred by membership in relation to meetings of the Company in respect of the relevant shares and, additionally, in the case of a shareholding representing at least 0.25 per cent by nominal value of any class of shares of the Company then in issue, the withholding of payment of any dividends on, and the restriction of transfers of, the relevant shares.

*(v) Distribution of assets on liquidation*

On a winding-up any surplus assets will be divided amongst the holders of the Ordinary Shares according to the respective numbers of shares held by them and in accordance with the provisions of the Act, subject to the rights of any shares which may be issued with special rights or privileges. The Articles provide that the liquidator may, with the sanction of an extraordinary resolution and any other sanction required by the Act, divide amongst the members *in specie* the whole or any part of the assets of the Company in such manner as he may determine.

*(vi) Changes in share capital*

- (1) Without prejudice to any rights attached to any existing shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine, or in the absence of such determination, as the Directors may determine. Subject to the Act, the Company may issue shares which are, or at the option of the Company or the holder are liable, to be redeemed.
- (2) The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount, subdivide its shares or any of them into shares of smaller amount or cancel or reduce the nominal value of any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amounts so cancelled or the amount of the reduction.

Subject to the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account, and may also, subject to the Act, purchase its own shares.

*(vii) Variation of rights*

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class may (unless otherwise provided by the terms of issue of that class) be varied or abrogated either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of such holders.

*(viii) Directors' interests*

- (1) A Director who is in any way, directly or indirectly, interested in a transaction or arrangement with the Company shall, at a meeting of the Directors, declare in accordance with the Act the nature of his interest.

- (2) Provided that he has declared his interest in accordance with paragraph (1) above, a Director may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested and may be a Director or other officer or otherwise interested in any body corporate promoted by the Company or in which the Company is otherwise interested. No Director so interested shall be accountable to the Company, by reason of his being a Director of the Company, for any benefit which he derives from such office or interest or any such transaction or arrangement.
- (3) Any Director may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
- (4) A Director shall not vote at a meeting of the Directors in respect of a matter in which he has any material interest otherwise than by virtue of his interest in shares, debentures or other securities of, or otherwise in or through, the Company unless his interest arises only because the case falls within one or more of the following paragraphs:
  - (a) the giving to him of any guarantee, security or indemnity in respect of money lent or an obligation incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;
  - (b) the giving to a third party of any guarantee, security or indemnity in respect of any obligation of the Company or any of its subsidiary undertakings for which he has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
  - (c) the subscription by him for shares, debentures or other securities of the Company or any of its subsidiary undertakings or by virtue of his participation in the underwriting or sub-underwriting of an offer of such shares, debentures or other securities for subscription, purchase or exchange;
  - (d) any proposal concerning any other company in which he is interested, directly or indirectly, whether as an officer or shareholder or otherwise, provided that the shares in which he is interested do not represent one per cent or more of any class of the equity share capital of such company or of the voting rights available to members of the relevant company;
  - (e) any proposal relating to an arrangement in whole or in part for the benefit of the employees of the Group which does not award to him as such any privilege or advantage not awarded to the employees to whom such arrangement relates;
  - (f) any proposal concerning the purchase or maintenance of insurance against any liability which would otherwise attach to all or any of the Directors.
- (5) Where proposals are under consideration concerning the appointment of two or more Directors to offices or employments with the Company or any company in which the Company is interested the proposals may be divided and considered in relation to each Director separately and (if not otherwise precluded from voting) each of the Directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

- (6) The Company may by ordinary resolution suspend or relax these provisions to any extent or ratify any transaction not duly authorised by reason of a contravention of these provisions.

(ix) *Remuneration of Directors*

- (1) The ordinary remuneration of the Directors (other than an executive Director) shall be such amount as the Directors shall from time to time determine (provided that unless otherwise approved by the Company in general meeting the aggregate of the ordinary remuneration of such Directors shall not exceed £250,000) to be divided among them in such proportion and manner as the Directors may determine. The Directors shall also be paid by the Company all travelling, hotel and other expenses as they may incur in attending meetings of the Directors or general meetings or otherwise in connection with the discharge of their duties.
- (2) Any Director who, by request of the Directors, performs special services or goes or resides abroad for any purposes of the Company may be paid such extra remuneration as the Directors may determine.
- (3) The emoluments and benefits of any executive Director for his services as such shall be determined by the Directors and may be of any description, including membership of any pension or life assurance scheme for employees or their dependants, or apart from membership of any such scheme, the payment of a pension or other benefits to him or his dependants on or after retirement or death.

(x) *Retirement of Directors*

A Director shall be capable of being appointed or reappointed a Director despite having attained the age of 70 or any other age and shall not be required to retire by reason of his having attained any particular age and section 293 of the Act (relating to the appointment and retirement as Directors of persons who are aged 70 or over) shall not apply.

(xi) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital.

The Directors shall restrict the borrowings of the Company and by the exercise of the Company's voting and other rights or powers of control over its subsidiary undertakings secure that they restrict their borrowings so that the aggregate amount at any time outstanding in respect of money borrowed by the Group (excluding intra-Group borrowings) shall not without the previous sanction of an ordinary resolution of the Company exceed a sum equal to four times the aggregate of the amount paid up or credited as paid up on the allotted or issued share capital of the Company and the amount standing to the credit of the consolidated capital and revenue reserves of the Company as shown by the latest audited consolidated balance sheet of the Group adjusted as specified in the Articles.

## 9. SHARE OPTION SCHEMES

(a) *The No.1 Share Scheme*

The No. 1 Share Scheme is an unapproved discretionary share option scheme which was established on 29 February 2000. The No. 1 Share Scheme provides for the grant of rights to subscribe for B ordinary shares in the Company to eligible employees of the Group. Such options are not transferable and are not pensionable benefits. No options may be granted under the No. 1 Share Scheme following

Admission. Pursuant to the resolution referred to in paragraph 2(b)(xii), the B ordinary shares in respect of which rights to subscribe were granted under the No. 1 Share Scheme were converted into Ordinary Shares.

#### *Eligibility*

Eligibility to participate in the No. 1 Share Scheme is open to any person who is a bona fide employee of any member of the Group. As a discretionary scheme, the Directors have an absolute discretion as to which employees may be granted options.

#### *Grant of options*

Options may be granted at any time provided that no options shall be granted following the occurrence of a sale or listing of the Company ("an Event"), whichever shall first occur.

#### *Exercise price*

The price per B ordinary share at which B ordinary shares may be acquired upon the exercise of an option ("the Exercise Price") is at the discretion of the Directors but shall not be less than the nominal value of a B ordinary share.

#### *Limits under the No. 1 Share Scheme*

The No. 1 Share Scheme allows only for the grant of options to subscribe for B ordinary shares. There is a limit of 3,000,000 B ordinary shares over which options may be granted under the No. 1 Share Scheme.

#### *Performance-related conditions of exercise*

The exercise of options granted under the No. 1 Share Scheme are subject to the satisfaction of performance conditions imposed by the Directors at the time of grant.

#### *Exercise of options*

Options are normally exercisable only following the occurrence of an Event. Options are exercisable where an optionholder dies following the occurrence of an Event but not where death occurs prior to such time. If an optionholder leaves the Company before the occurrence of an Event, his or her options will generally lapse. This is subject to the exercise by the Directors of their discretion, within the period of 28 days following the individual's leaving the Company, to notify such individual that the options may be exercised, subject to such terms as the Directors determine.

#### *Reconstruction, winding-up and takeover of the Company*

In the case of a demerger, reconstruction or winding-up of the Company, the Directors have discretion to allow the exercise of options within specified periods. If, following a listing, a takeover occurs, options may be exercised within a specified period, following which they will lapse.

#### *Rights attaching to shares*

Ordinary Shares issued upon the exercise of options will rank equally in all respects with all other Ordinary Shares for the time being in issue save as regards any rights attaching to Ordinary Shares by reference to a record date prior to the allotment of such Ordinary Shares.

*Variation of share capital*

In the event of a variation in the ordinary share capital of the Company, the Directors may adjust the number of shares subject to any option and/or the exercise price provided that except in the case of a sub-division, consolidation or capitalisation issue, any such adjustment must be confirmed in writing by the auditors of the Company to be in their opinion fair and reasonable.

*Amendment of the No. 1 Share Scheme*

The Directors may amend the No. 1 Share Scheme in any respect but no alteration shall be made to the material advantage of existing or new optionholders without the prior approval of shareholders in general meeting.

## (b) The No. 2 Share Scheme and the No. 3 Share Scheme ("the Ongoing Schemes")

The No. 2 Share Scheme is an Inland Revenue approved company share option plan for which approval has been sought from the Inland Revenue. The No. 3 Share Scheme is an unapproved discretionary share option scheme. The Ongoing Schemes each provide for the grant of rights to acquire Ordinary Shares by way of purchase and, subject to the limitations set out below, by subscription to eligible employees of the Group. Such options are not transferable and are not pensionable benefits.

*Eligibility*

Employees of the Group who devote substantially the whole of their working time to their duties under their contracts of employment with the Group and directors who work for a minimum of 25 hours per week are eligible to participate in the No. 2 Share Scheme. Employees and directors who devote a substantial part of their working time to the Group are eligible to participate in the No. 3 Share Scheme. Decisions concerning the grant of an option to any director must be approved by the Appointments and Remuneration committee of the Board ("the Committee"). Options may not be granted to any employee or director who is within two years of his or her contractual retirement date.

*Grant of options*

Options may be granted under the No. 2 Share Scheme within 42 days after the date on which the Inland Revenue formally approves the No. 2 Share Scheme and under the No. 3 Share Scheme within 42 days after the date on which the No. 3 Share Scheme is approved by shareholders. Thereafter options may be granted under the Ongoing Schemes within the period of 42 days beginning with the fourth dealing day following an announcement of the Company's annual or half-yearly results and within the period of 14 days after a new employee first joins the Group, but otherwise only in circumstances judged by the Committee to be exceptional. No option may be granted more than ten years following the date on which the Ongoing Schemes are approved by shareholders.

*Exercise price*

The exercise price of an option granted under the No. 2 Share Scheme shall be determined by the Directors at the time of grant but shall not be less than the higher of:

- the market value of an Ordinary Share on the day immediately preceding the date of grant as agreed in advance between the Company and the Shares Valuation Division of the Inland Revenue ("SVD") or, subject to the agreement of the SVD, for options granted on the date of Admission, the Placing Price, and if on the date of grant (except where options are granted on the date of Admission) Ordinary Shares have been admitted to the Official List, the average of the middle market quotations of an Ordinary Share for the three dealing days immediately preceding the date of grant as derived from the London Stock Exchange Daily Official List ("the Daily Official List"); and



- in the case of options to subscribe for Ordinary Shares, the nominal value of an Ordinary Share.

The exercise price of an option granted under the No. 3 Share Scheme shall be determined by the Directors at the time of grant and, in the case of an option granted on or after the date of Admission, shall not be less than the average of the middle market quotations of an Ordinary Share for the three dealing days immediately preceding the date of grant as derived from the Daily Official List. In the case of options to subscribe for Ordinary Shares, the exercise price shall not be less than the nominal value of an Ordinary Share.

*Limits on the issue of ordinary share capital under the Ongoing Schemes*

In any period of ten years following Admission, the maximum number of Ordinary Shares over which options to subscribe shall be granted under the Ongoing Schemes (and any other employee share schemes established in the future by the Company) shall represent in aggregate 15 per cent of the Company's issued ordinary share capital from time to time.

*Individual limitations*

It is intended that options will normally be granted annually. The aggregate market value of Ordinary Shares as at the date of grant over which unexercised options may be held under the No. 2 Share Scheme by an individual at any time is limited to £30,000 or such other statutory limit on the grant of options under an Inland Revenue approved company share option plan as may apply from time to time ("the Revenue Limit"). Subject to the Revenue Limit, the aggregate market value of Ordinary Shares (as at the date(s) of grant) over which options (other than Development Options, as described below) may be granted following Admission under the Ongoing Schemes to an eligible employee in any year shall not exceed the greater of twice the gross rate of basic annual salary and bonus payable to that eligible employee by members of the Group in the financial year which includes the date of grant of the option; and twice the gross rate of basic annual salary and bonus payable to that eligible employee by members of the Group in the financial year which precedes that in which the date of grant of the option falls ("the Individual Limit"). Options may be granted in excess of the Individual Limit where the stringency of the performance condition attaching to the particular option is proportionately increased.

*Performance-related conditions of exercise*

The exercise of options granted under the Ongoing Schemes will normally be subject to the satisfaction of performance conditions imposed by the Committee at the time of grant which relate to the performance of the Company over a fixed period ("the Measurement Period"). The Committee may from time to time vary any such performance-related conditions as they apply to outstanding options if, in their opinion, to do so would more effectively achieve the objective of affording realistic incentives to optionholders or produce a fairer measure of performance. The performance condition initially proposed to be attached to options granted within the Individual Limit provides that:

- to enable exercise of 25 per cent of the shares over which an option was originally granted ("Option Shares"), growth in total shareholder return ("TSR Growth") over the Measurement Period must exceed the growth in the Retail Prices Index over such a period ("RPI Growth") by at least 20 per cent;
- to enable exercise of 50 per cent of the Option Shares, TSR Growth over the Measurement Period must exceed RPI Growth by at least 35 per cent;

- to enable exercise of 100 per cent of the Option Shares, TSR Growth over the Measurement Period must exceed RPI Growth by at least 50 per cent;
- TSR Growth over the Measurement Period relative to RPI Growth of below 20 per cent will result in the option lapsing and ceasing to be exercisable in respect of any Option Shares; and
- where TSR Growth relative to RPI Growth over the Measurement Period falls between any of the percentage levels specified above, the percentage of the Option Shares over which the option will vest will be calculated on a straight-line basis between the relevant levels.

#### *Development options*

The No. 3 Share Scheme permits the grant of an additional category of options to be known as "Development Options". Development Options will normally be granted annually at the discretion of the Committee to eligible employees employed in product development, in recognition of the special value such employees create for the Group. In any year the aggregate market value of Ordinary Shares (as at the date(s) of grant) over which Development Options may be granted shall not exceed the greater of four times the gross rate of basic annual salary and bonus payable to that eligible employee by members of the Group in the financial year which includes the date of grant of the Development Option; and four times the gross rate of basic annual salary and bonus payable to that eligible employee by members of the Group in the financial year which precedes that in which the date of grant of the Development Option falls. The number of Development Options that may be granted to any individual in any year shall take account of and be proportionately reduced by the grant of options, other than Development Options, to that individual in that year.

The exercise of Development Options will be subject to the achievement of a specific performance-related condition imposed by the Committee at the time of grant. The performance condition initially proposed to be attached to Development Options provides that:

- Development Options can only be exercised if TSR Growth over the Measurement Period shall have exceeded RPI Growth by at least 20 per cent; and
- a specific technical performance condition which relates to product development, imposed by the Committee at the date of grant, has been satisfied.

#### *Exercise of options*

Options will normally be exercisable only following the end of the third anniversary of the date of grant of an option, or such later date or dates specified by the Directors at the time of grant. The No. 3 Share Scheme contains provisions which enable the Company to enter into any agreement or make a joint election with an optionholder that the employer's national insurance contributions arising on the exercise of options will be transferred (in whole or in part) to the optionholder. Options will lapse on the tenth anniversary of the date of grant or such earlier date or dates as specified when the option is granted. If an optionholder leaves the Company as a result of death, injury, disability, redundancy, retirement or sale or transfer of the company by which he is employed, the option will be exercisable early; in the case of the No. 2 Share Scheme over a time apportioned amount of the Option Shares and, in the case of the No. 3 Share Scheme, over such number or proportion of the Option Shares as determined by the Committee which may, but is not required to be, a time apportioned amount of the Option Shares. If an optionholder leaves the Group for any other reason, his option may only be exercised to the extent, and within such periods, as the Committee may determine.

*Reconstruction, winding-up and takeover of the Company*

Early exercise of options within specified periods is permitted in the event of a demerger or statutory reconstruction of the Company. If notice is given to shareholders of a resolution for the voluntary winding-up of the Company, options may be exercised at any time before the winding-up of the Company, or within such other period as notified to optionholders. All unexercised options will lapse upon the commencing of a winding-up. If the Company is the subject of a takeover, options granted under the No. 2 Share Scheme will be exercisable over a time apportioned amount of the Option Shares and the Committee shall determine whether, and to what extent, options granted under the No. 3 Share Scheme can be exercised.

*Rights attaching to shares*

Ordinary Shares issued or transferred upon the exercise of options will rank equally in all respects with all other Ordinary Shares for the time being in issue save as regards any rights attaching to Ordinary Shares by reference to a record date prior to the allotment or transfer of such Ordinary Shares.

*Variation of share capital*

In the event of a variation in the ordinary share capital of the Company, the Directors may adjust the number of Ordinary Shares subject to any option and/or the exercise price provided that:

- no such adjustment to options granted under the No. 2 Share Scheme may be made without the prior approval of the Inland Revenue; and
- except in the case of a sub-division, consolidation or capitalisation issue, any such adjustment must be confirmed in writing by the auditors of the Company to be in their opinion fair and reasonable.

*Amendment of the Ongoing Schemes*

The Directors may amend the Ongoing Schemes in any respect but may not make any alteration or addition to the advantage of existing or new optionholders to the provisions relating to eligibility, the overall and individual limits in the Ongoing Schemes, the basis for determining optionholders' entitlements to Ordinary Shares or the adjustment of such entitlements on a variation of share capital without the prior approval of ordinary shareholders in general meeting, except for minor amendments to benefit the administration of the Ongoing Schemes, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for existing or new optionholders or any member of the Group. Any amendment to the No. 2 Share Scheme will not take effect until the Inland Revenue has confirmed that it will not affect the approved status of that Scheme.

## (c) Options Granted

The following options to subscribe for Ordinary Shares have been granted to employees (including Directors) under the No. 1 Share Scheme and will remain outstanding following Admission (the number of Ordinary Shares under option and the exercise price having been adjusted to reflect the expected effect of the reorganisation referred to in paragraph 2(b)(xii) above):

Date of grant	Number of Ordinary Shares	Exercise price (p)	Expiry date of exercise period	Number of Options expected to be exercised at Admission
1 March 2000-31 May 2000	62,216	11	28 February 2001	2,590,402

No consideration was paid for the grant of such options.

The following options to subscribe for Ordinary Shares have been granted to employees (including Directors) under the No. 3 Share Scheme:

Date of grant	Number of Ordinary Shares	Exercise price (p)	Exercise period
11 July 2000	2,500,000	110	11 July 2003 – 10 July 2010

## 10. SUBSIDIARIES

The Company acts as the holding company of the iSOFT Group and has the following subsidiaries. The iSOFT Group's head office and principal place of business is at Bridgewater House, 58-60 Whitworth Street, Manchester, England, M1 6LT.

Name	Registered Office	Country of incorporation	Activity
iSOFT plc	Bridgewater House, 58-60 Whitworth Street, Manchester M1 6LT	England	Software development, sales and support
iSOFT Overseas Holdings plc	Bridgewater House, 58-60 Whitworth Street, Manchester M1 6LT	England	Holding company
iSOFT (Scandinavia) AS	Pilestradt 32, 00 27 Oslo	Norway	Software development, sales and support
iSOFT Holdings Pty Limited	Level 3, 31 Market Street, Sydney, NSW 2000	Australia	Holding company
iSOFT Australia Pty Limited	Level 3, 31 Market Street, Sydney, NSW 2000	Australia	Software development, sales and support

PART V ADDITIONAL INFORMATION

Name	Registered Office	Country of incorporation	Activity
iSOFT Healthcare Systems Pty Limited	Level 3, 31 Market Street, Sydney, NSW 2000	Australia	Software development, sales and support
iSOFT Limited	1 Stokes Place, St. Stephen's Green, Dublin 2	Ireland	Software development, sales and support
iSOFT Solutions plc	Bridgewater House, 58-60 Whitworth Street, Manchester M1 6LT	England	Dormant
iEPR.com Limited	Bridgewater House, 58-60 Whitworth Street, Manchester M1 6LT	England	Dormant
iEHR.com Limited	Bridgewater House, 58-60 Whitworth Street, Manchester M1 6LT	England	Dormant
iXML.com Limited	Bridgewater House, 58-60 Whitworth Street, Manchester M1 6LT	England	Dormant
iSOFT.com Limited	Bridgewater House, 58-60 Whitworth Street, Manchester M1 6LT	England	Dormant

Each of the companies referred to above is owned (directly or indirectly) by the Company.

## 11. PRINCIPAL ESTABLISHMENT

The following is a summary of the principal establishment occupied by the iSOFT Group:

Location	Approximate area	Tenure	Rent	Rent review dates	Lease expiry dates
Bridgewater House 58-60 Whitworth Street Manchester M1 6LT	14,000 sq ft	Leasehold	£121,057 p.a. until 30 June 2000; £146,057 p.a. thereafter subject to review	3 June 2004	30 June 2009

## 12. WORKING CAPITAL

The Directors are of the opinion that, taking into account existing cash, bank and other facilities and the net proceeds of the Placing receivable by the Company, the Group has sufficient working capital for its present requirements, that is, for at least the next twelve months following the date of this document.

### 13. UK TAXATION

The following statements are intended only as a general guide to the current United Kingdom tax legislation and to what is understood to be the current practice of the United Kingdom Inland Revenue (the "Inland Revenue") and may not apply to certain classes of shareholder. The rates used are the current rates for tax and may vary. Any person who is in any doubt as to his tax position is strongly recommended to consult his professional advisers immediately.

(a) Taxation of Dividends

(i) *Tax treatment of the Company*

Under current United Kingdom legislation the Company is not required to withhold tax at source from dividend payments.

(ii) *Tax treatment of United Kingdom resident individual shareholders*

Individual shareholders who are resident for tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividend received equal to one-ninth of the amount of the dividend. Such an individual shareholder's liability to UK income tax is calculated on the sum of the dividend and the tax credit (the "gross dividend") which, together with other investment income, will be regarded as the top slice of the individual's income. The rates of income tax to which such income will be subject are set out below.

The tax credit equals ten per cent of the gross dividend. It will be available to offset such a shareholder's liability (if any) to income tax on the gross dividend.

Individual shareholders whose total income is such that they are liable to income tax only at the basic rate or at a rate which is lower than the basic rate will be liable to tax on the gross dividend at the rate of ten per cent. This means that the tax credit will satisfy the income tax liability of such a shareholder and no further tax will be payable on the dividend received.

Individual shareholders who are liable to income tax at the higher rate will be liable to income tax on the gross dividend at the rate of 32.5 per cent. After taking into account the 10 per cent tax credit, this means that a higher rate taxpayer will be liable to additional income tax of 22.5 per cent of the gross dividend, equal to 25 per cent of the net dividend received. For example, a higher rate shareholder receiving a dividend of £90 will be treated as having gross income of £100 (the net dividend of £90 plus a tax credit of £10) and, after allowing for the tax credit of £10, will have a further income tax liability of £22.50 on the dividend.

The same procedure applies for UK resident trustees who are liable to income tax at the rate applicable to trusts (currently 34 per cent) save that the trust rate of 25 per cent (as opposed to 32.5 per cent) applies. To the extent the tax credit exceeds the trustees' liability to account for income tax the trustees will have no right to claim repayment of the tax credit. UK resident trustees who are not subject to the rate applicable to trusts will have no further income tax liability on a dividend they receive as the tax credit attaching to the dividend will discharge their liability to tax on the dividend. Trustees who are in doubt as to their tax position should consult their own professional advisers immediately.

With limited exceptions (relating to shares held in individual savings accounts or personal equity plans prior to 6 April 2004), individual shareholders who are resident in the United Kingdom cannot claim repayment of the tax credit from the Inland Revenue should their liability to income tax not exceed the amount of the tax credit.

(iii) *Tax treatment of United Kingdom resident corporate shareholders*

A corporate shareholder resident for tax purposes in the United Kingdom will not normally be liable to corporation tax on any dividend received.

(iv) *Tax treatment of United Kingdom resident pension funds and charities*

UK pension funds and charities are generally exempt from tax on dividends they receive but they cannot reclaim from the Inland Revenue tax credits attached to dividend payments made to them by the Company. Charities will receive some compensation for the loss of the tax credit.

(v) *Non-United Kingdom resident shareholders*

Individual shareholders who are resident for tax purposes outside the United Kingdom, but who are Commonwealth citizens, European Economic Area nationals, residents of the Isle of Man or the Channel Islands or certain other persons will normally be entitled to a tax credit, as if they were resident for tax purposes in the United Kingdom, which they may set off against their total United Kingdom income tax liability. Such shareholders will generally not be able to claim repayment of the tax credit from the Inland Revenue.

Other shareholders who are resident for tax purposes in countries other than the United Kingdom should consult their own tax advisers concerning their tax liabilities on dividends received. They should note that, following the reduction in the rate of the United Kingdom tax credit to one-ninth of the dividend received with effect from 6 April 1999, the entitlement to any payment from the Inland Revenue under any double tax treaty agreement will be reduced or eliminated.

(b) *Taxation of capital gains*

United Kingdom resident shareholders may, depending on their circumstances, be liable to United Kingdom taxation on chargeable gains arising from a sale or other disposal of Ordinary Shares.

(c) *Stamp duty and stamp duty reserve tax*

No stamp duty or stamp duty reserve tax will generally be payable in respect of the allotment of New Ordinary Shares pursuant to the Placing.

A liability to stamp duty or stamp duty reserve tax will arise in relation to the sale of Ordinary Shares under the Placing. However, under the Placing Agreement the vendors have agreed to meet any such liability and the stamp duty or tax will be discharged by Hoare Govett on behalf of the vendors.

Subsequent sales of Ordinary Shares within CREST will generally be liable to SDRT at a rate of 0.5 per cent of the amount or value of the consideration.

Subsequent sales of Ordinary Shares outside CREST will generally be liable to *ad valorem* duty and SDRT at the rate of 0.5 per cent of the amount or value of the consideration (rounded up to the nearest £5 in the case of the stamp duty liability). However, where an instrument of transfer which completes an unconditional agreement to transfer shares is duly stamped within six years after the agreement was entered into (or it became unconditional) the stamp duty paid will cancel the SDRT liability and any SDRT paid can be recovered.

Any person who is in any doubt as to his or her taxation position, who requires more detailed information than the general outline above or who is subject to tax in a jurisdiction other than the United Kingdom, should consult his or her professional advisers.

#### 14. LITIGATION

There are no, and have not been any, legal or arbitration proceedings by, or against, the Company (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had, during the 12 months preceding the date of this document, a significant effect on the financial position of the iSOFT Group.

#### 15. GENERAL

- (a) Save for the acquisition of 50 per cent of the issued share capital of iSOFT Holdings Pty, which is referred to in paragraph 7(g) of this Part V, there has been no significant change in the financial or trading position of the iSOFT Group since 30 April 2000, the date to which the last audited accounts of the iSOFT Group were made up.
- (b) The New Ordinary Shares have been or are being offered on a restricted basis and are accordingly not available, in whole or in part, to the public in connection with the application for Admission.
- (c) RSM Robson Rhodes have given and have not withdrawn their written consent to the inclusion of their reports in Parts II and III of this document in the form and context in which they appear and have authorised the contents of their reports for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- (d) The financial information set out in this document relating to the Group does not constitute statutory accounts of the Group within the meaning of section 240 of the Act. RSM Robson Rhodes have made a report under section 235 of the Act upon statutory accounts of the Group in respect of each financial year to which the financial information relates for which statutory accounts were required to be prepared. Each such report was unqualified within the meaning of section 262(1) of the Act and did not contain a statement under section 237(2) or (3) of the Act. The statutory accounts for the Group for each such financial period have been delivered to the Registrar of Companies in England and Wales in accordance with section 242 of the Act.
- (e) The Company's Registrars and paying agent for the payment of dividends are Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA.
- (f) The Placing Price represents a premium of 100p over the nominal value of 10p per Ordinary Share.
- (g) The costs, charges and expenses of and incidental to the Placing, including those fees and commissions referred to in paragraph 6 above, payable by the Company, are estimated to amount to approximately £2.16 million, including commission of approximately £0.44 million payable to Hoare Govett.
- (h) Admission to listing of the New Ordinary Shares is not being and will not be sought on any stock exchange other than the London Stock Exchange.
- (i) Definitive share certificates in respect of the New Ordinary Shares are expected to be sent by post not later than 26 July 2000. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers will be certified against the register. New Ordinary Shares to be issued in uncertificated form are to be expected to be credited to appropriate CREST accounts on the date of Admission.



- (j) The New Ordinary Shares will, when allotted, be fully paid, form one class ranking *pari passu* in all respects with the then existing Ordinary Shares and will be issued free from all liens, charges and encumbrances.

## 16. FURTHER INFORMATION CONCERNING OVERSEAS JURISDICTIONS

- (a) France

The Placing, which is limited in France to qualified investors or a restricted group of investors as defined by Article 6 of Ordinance No. 67-833 of 28 September 1967 (hereinafter the "Ordinance"), does not give rise to any requirement to provide informative documentation to be submitted for approval by the Commission des Opérations de Bourse (the French stock exchange authority). Such investors can only participate in the Placing for their own account as provided for in the decree No. 98-880 of 1 October 1998. The direct or indirect distribution to the public of the acquired securities may only be made under the conditions provided for by articles 6 and 7 of the Ordinance.

- (b) Netherlands

In the Netherlands, the Ordinary Shares may not be offered, sold, transferred or delivered, whether directly or indirectly, as part of their initial distribution or at any time thereafter, other than to individuals who, or legal entities which, trade or invest in securities in the conduct of their profession or business (which includes banks, brokers, securities institutions, insurance companies, pension funds, investment institutions, other institutional investors and other parties, including treasury departments of commercial enterprises which regularly trade or invest in securities in a professional manner).

- (c) Denmark

This document has not been filed with the Danish Securities Council in accordance with Section 43, sub-section 3, of the Danish Securities Trading Act, since distribution in Denmark will only be made to sophisticated institutional and professional investors.

- (d) Sweden

This document has not been filed with the Stockholm Stock Exchange in accordance with the Swedish Stock Exchange and Clearing Act and may not be distributed to the general public in Sweden.

- (e) Italy

The offer contained in this document is addressed, insofar as Italian residents are concerned, solely to professional investors pursuant to Article 100 of Decreto Legislativo No. 58 of 24 February 1998.

- (f) Norway

This document has not been filed with the Oslo Stock Exchange in accordance with the Norwegian Securities Trading Act, Section 9, since the invitation to subscribe will not be made to more than 50 investors in Norway.

(g) Spain

The Ordinary Shares may not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law but may be offered or sold in Spain in compliance with the requirements of Law 24/1998, of 28 July 1988, on the Spanish Securities Market and the Royal Decree 191/1992, of 27 March 1992, on issues and public offers for the sale of securities, as amended by Royal Decree 2590/1998 of 7 December 1998.

## 17. DOCUMENTS FOR INSPECTION

Copies of the following documents may be inspected at the offices of Pinsent Curtis, Dashwood House, 69 Old Broad Street, London EC2M 1NR during normal business hours on any weekday (Saturdays, Sundays and bank holidays excepted) for the period of 14 days from the date of this document:

- (i) the Memorandum and Articles of Association of the Company;
- (ii) the audited consolidated accounts of the iSOFT Group for the financial year ended 30 April 2000 and of iSOFT plc for the financial year ended 30 April 1999;
- (iii) the Placing Agreement referred to in paragraph 6 above and the other material contracts referred to in paragraph 7 above;
- (iv) the written consent referred to in paragraph 15(c) above;
- (v) the Directors' service contracts and letters of appointment referred to in paragraph 3 above;
- (vi) the rules of the Share Option Schemes referred to in paragraph 9 above;
- (vii) the RSM Robson Rhodes reports set out in Parts II and III above and the statement of adjustments (and reasons therefor) made in arriving at the figures set out in their Accountants' report; and
- (viii) this document.

Dated: 12 July 2000