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This document comprises an AIM admission document drawn up in accordance with the AIM Rules for the purpose of the application for admission to trading of the entire issued share capital of the Company on AIM. This document does not constitute a prospectus for the purposes of the Prospectus Rules and FSMA, and it has not been, and will not be, approved by or filed with the FSA under the Prospectus Rules. This document does not constitute and the Company is not making an offer of transferable securities to the public within the meaning of section 102B of FSMA, the Companies Acts 1985 or 2006 of England and Wales or otherwise.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.

Application has been made for the whole of the ordinary share capital of the Company, in issue and to be issued, to be admitted to trading on AIM. The Ordinary Shares are not dealt with on any other recognised investment exchange and no application is being made for admission of the Ordinary Shares to the Official List and no application has been or is being made for any such shares to be listed on any other recognised investment exchange. It is expected that Admission will become effective and dealings in the Ordinary Shares will commence on AIM at 8.00 a.m. (London time) on 29 March 2010.

This document includes particulars given in compliance with the AIM Rules for the purpose of giving information with regard to the Company. The Directors, whose names appear on page 6 of this document, accept responsibility, both individually and collectively, for the information contained in this document and confirm that to the best of their knowledge and belief, having 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. Under no circumstances should the information contained in this document be relied upon as being accurate at any time after Admission.

Prospective investors should read the entire document and should be aware that an investment in the Company involves a high degree of risk. The attention of prospective investors is drawn in particular to Part III of this document which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Company's business, financial position and prospects should be viewed in light of these risk factors.

The Placing Shares 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 declared, paid or made in respect of the Ordinary Shares after Admission.

EMIS Group plc

(Incorporated in England and Wales under the Companies Act 1985 with registration number 6553923)

Placing of 16,666,667 Placing Shares of 1p each at 300p per share and Admission to trading on AIM

Nominated Adviser and Broker Evolution Securities Limited

Evolution Securities is authorised and regulated in the United Kingdom by the FSA. Evolution Securities is acting as nominated adviser and broker to the Company in connection with the Placing and Admission. Evolution Securities' responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. Evolution Securities is acting for the Company in relation to the Placing and Admission and no one else and will not be responsible to anyone other than the Company for providing the protections afforded to their clients, nor for providing advice in relation to the Placing and Admission, the contents of this document or any transaction or arrangement referred to herein.

Prospective investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company or Evolution Securities. Without prejudice to the Company's obligations under the AIM Rules, neither the delivery of this document nor any subscription or purchase of shares made pursuant to this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since, or that the information contained herein is correct at any time subsequent to, the date of this document.

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Notice in connection with Member States of the European Economic Area

In any European Economic Area ("EEA") Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the "Prospectus Directive"), this communication is only addressed to and is only directed at: (a) qualified investors in that Member State within the meaning of the Prospectus Directive; and (b) other persons who are permitted to purchase the Ordinary Shares pursuant to an exemption from the Prospectus Directive and other applicable regulations. This document has been prepared on the basis that all offers of Ordinary Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of Shares. Accordingly, any person making or intending to make any offer within the EEA of the Shares which are the subject of the Offer contemplated in this document should only do so in circumstances in which no obligation arises for the Company or Evolution Securities to produce a prospectus for such offer. Neither the Company nor Evolution Securities has authorised, nor do they authorise, the making of any offer of Ordinary Shares through any financial intermediary, other than offers made by Evolution Securities which constitute the final placement of Shares contemplated in this document.

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FORWARD-LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company and the Directors, concerning, amongst other things, the business strategy, financing strategy, performance, results of operations, financial condition, liquidity, prospects and dividend policy of the Company and the markets in which it will operate. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company’s actual investment performance, results of operations, financial condition, liquidity, dividend policy and the development of its financing strategy may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the investment performance, results of operations, financial condition, liquidity and dividend policy of the Company and the development of its financing strategy are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that may cause these differences include, but are not limited to, changes in general market conditions and in the UK clinical healthcare software systems market specifically, legislative or regulatory changes, changes in taxation regimes or regulatory and legislative regimes and the availability and cost of capital for future investments.

Potential investors are advised to read this document in its entirety and, in particular, Part III entitled “Risk Factors” for a further discussion of the factors that could affect the Company’s future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

These forward-looking statements speak only as at the date of this document. Subject to its legal and regulatory obligations (including under the AIM Rules), the Company expressly disclaims any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

PLACING STATISTICS

Placing Price per Placing Share	300p
Number of Ordinary Shares in issue at the date of this document	50,000,000
Number of New Ordinary Shares being placed on behalf of the Company	8,333,334
Number of Ordinary Shares in issue immediately following the Placing	58,333,334
Number of Ordinary Shares being placed on behalf of the Selling Shareholders	8,333,333
Number of Placing Shares	16,666,667
Number of Placing Shares as a percentage of the Enlarged Issued Share Capital	28.57 per cent
Expenses of the Placing borne by the Company	£1.7 million
Estimated net proceeds of the Placing receivable by the Company	£23.3 million
Market capitalisation of the Company at the Placing Price immediately following the Placing	£175 million

The Company's SEDOL code is B61D1Y0 and ISIN code is GB00B61D1Y04.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Date of publication of this document	24 March 2010
Admission effective and commencement of dealings in the Ordinary Shares on AIM	8.00 a.m. on 29 March 2010
CREST accounts to be credited for the Placing Shares ¹ (where appropriate)	29 March 2010
Date for despatch of definitive share certificates for the Placing Shares (where applicable)	By 14 April 2010

¹ Or as soon as practicable thereafter. No temporary documents of title will be issued.

DIRECTORS, SECRETARY AND ADVISERS

Directors	William Anthony Jones (<i>Non-executive Chairman</i>) Sean Douglas Riddell (<i>Chief Executive Officer</i>) Phillip Andrew Woodrow (<i>Finance Director</i>) Dr David Lindsay Stables (<i>Director of Development Strategy</i>) Robin Francis Taylor (<i>Non-executive Director</i>)
Company Secretary	Christopher Michael Kennedy Spencer
Registered office	Fulford Grange Micklefield Lane Rawdon Leeds West Yorkshire LS19 6BA
Nominated Adviser and Broker	Evolution Securities Limited 100 Wood Street London EC2V 7AN
Reporting Accountant	Baker Tilly Corporate Finance LLP 2 Bloomsbury Street London WC1B 3ST
Auditors	Baker Tilly UK Audit LLP 2 Whitehall Quay Leeds LS1 4HG
Legal Advisers to the Company as to English Law	Cobbetts LLP No. 1 Whitehall Riverside Leeds LS1 4BN
Legal Advisers to the Company as to Canadian Law	Fraser Milner Casgrain LLP 2900 Manulife Place 10180-101 Street Edmonton Alberta Canada T5J 3V5
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DEFINITIONS AND GLOSSARY OF KEY TERMS

“Act”	the Companies Act 2006 (as amended)
“Admission”	admission of the Enlarged Issued Share Capital to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	the AIM market operated by the London Stock Exchange
“AIM Rules”	the AIM Rules for Companies and/or, where applicable, the AIM Rules for Nominated Advisers
“AIM Rules for Companies”	the AIM Rules for Companies published by the London Stock Exchange (including, without limitation, any guidance notes or statements of practice) which govern the obligations and responsibilities of companies whose securities are admitted to trading on AIM, as amended from time to time
“AIM Rules for Nominated Advisers”	the AIM Rules for Nominated Advisers published by the London Stock Exchange from time to time
“Articles” or “Articles of Association”	the articles of association of the Company, to be adopted on Admission, further details of which are set out in paragraph 10 of Part V of this document
“ASCC”	a range of framework contracts for the Additional Supply, Capacity and Capabilities of IT Services to the NHS
“Authorised Person”	a person who is an authorised person under Part IV of FSMA
“Budget Report 2009”	HM Treasury, Budget 2009: Building Britain’s future. Economic and Fiscal Strategy Report and Financial Statement and Budget Report: London 2009
“Business Day”	any day, other than a Saturday or Sunday, on which clearing banks in the City of London are open for the conduct of ordinary non-automated business
“Capita Registrars” or “Registrar”	Capita Registrars Limited
“Certificated”	in relation to an Ordinary Share, recorded on the Company’s register as being held in certificated form (that is not in CREST)
“CfH”	Connecting for Health, the body established in 2005 to oversee the implementation of NPfIT
“City Code”	the UK’s City Code on Takeovers and Mergers
“Combined Code”	the Combined Code on Corporate Governance published by the Financial Reporting Council, as amended from time to time
“Company” or “EMIS Group”	EMIS Group plc, a company incorporated in England and Wales with registered number 6553923
“CREST”	the system of paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the Regulations

“CREST Regulations” or “Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time
“Directors” or “Board”	the directors of EMIS Group at the date of this document whose names are set out on page 6 of this document
“Disclosure and Transparency Rules”	the disclosure and transparency rules made by the FSA under Part VI of FSMA
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EHR”	electronic healthcare record
“EMIS”	Egton Medical Information Systems Limited, a company incorporated in England and Wales with company number 2117205
“EMIS Access”	the Group’s internet portal for patient access to medical records and transactional services
“EMIS Inc”	a company incorporated in Alberta, Canada with corporate access number 2011844053
“EMIS Web”	the Group’s new proprietary software product which allows primary, community and secondary healthcare practitioners to view and contribute to a patient’s cradle to grave healthcare record
“Enlarged Issued Share Capital”	the issued share capital of the Company immediately following Admission as enlarged by the issue of the New Ordinary Shares
“EU” or “Europe”	European Union
“Euroclear”	Euroclear UK & Ireland Limited, the operator of the CREST system
“Evolution Securities”	Evolution Securities Limited
“Existing Ordinary Shares” or “Issued Ordinary Share Capital”	the Ordinary Shares in issue as at the date of this document which, for the avoidance of doubt, includes the Sale Shares
“Founder Shareholders”	Dr Peter Redmore Sowerby, William Anthony Jones and Dr David Lindsay Stables
“FSA”	the Financial Services Authority, acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“FSMA”	the Financial Services and Markets Act 2000, as amended
“FY07”	EMIS’ financial year ended 31 December 2007
“FY08”	the Group’s financial year ended 31 December 2008
“FY09”	the Group’s financial year ended 31 December 2009
“GP”	General Practitioner
“GPASS”	General Practice Administration System for Scotland
“GPSoC”	GP Systems of Choice, the framework agreement of NHS England for the supply of healthcare software and systems to GP practices

“GP2GP”	the NHS England CfH system which allows patients’ electronic healthcare records to be transferred from one GP practice to another
“Gross Placing Proceeds”	the Placing Price multiplied by the aggregate number of Placing Shares
“Group”	the Company and its Subsidiary Undertakings from time to time
“HMRC”	Her Majesty’s Revenue & Customs
“HM Treasury”	Her Majesty’s Treasury, a department of the UK government
“IFRS”	International Financial Reporting Standards, as adopted by the European Union
“InPS”	In Practice Systems Limited, a provider of healthcare software
“ISIN”	International Security Identification Number
“ISO/IEC20000-1:2005”	an international standard specifically aimed at IT service management, describing an integrated set of management processes for the effective delivery of services to the business and its customers
“ISO/IEC27001:2005”	an international standard which defines the requirements for information security, offering an accepted set of guides and a comprehensive set of controls comprising best practices in information security
“ISO 9001:2008”	a generic international standard that defines the requirements for a quality management system that can be used for internal applications by organisations or for certificates or for contractual purposes. It focuses on the effectiveness of quality management systems in meeting customer requirements
“ISO 9001:2008 TickIT”	a generic international standard that defines the requirements for a quality management system that can be used for internal applications by organisations or for certificates or for contractual purposes. It focuses on the effectiveness of quality management systems in meeting customer requirements. The TickIT version of this registration is a quality management system designed specifically for the information technology and software industries
“iSoft”	iSoft Group Limited, a provider of healthcare software solutions
“LAN”	Local Area Network
“Locked-in Persons”	the shareholders of the Company as at the date of this document
“London Stock Exchange”	London Stock Exchange plc
“LV”	EMIS Launch Version, the Group’s proprietary clinical software healthcare record and practice management system for GPs
“MoD”	UK Ministry of Defence

“New Ordinary Shares”	the 8,333,334 new Ordinary Shares to be issued by the Company pursuant to the Placing
“NHS”	National Health Service
“NPfIT”	the National Programme for IT
“Official List”	the official list of the UK Listing Authority
“Ordinary Shares”	the ordinary shares of one pence each in the share capital of the Company in issue at the date of this document
“Panel”	the UK Panel on Takeovers and Mergers, which operates the City Code
“PCS”	Primary Care System, the Group’s proprietary software product incorporating a graphical user interface capable of being hosted across a LAN
“PCS Enterprise”	PCS hosted across a WAN
“PCT”	Primary Care Trust, a body responsible for healthcare commissioning within NHS England
“Pharmacy2U”	Pharmacy 2U Limited, a company providing on-line prescription services in which EMIS holds 20 per cent of the issued share capital
“Placees”	those persons who have agreed to subscribe for or purchase Placing Shares
“Placing”	the conditional placing of the Placing Shares at the Placing Price by Evolution Securities as broker to the Company, pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 24 March 2010 and made between the Company, the Directors, the Selling Shareholders and Evolution Securities in connection with the Placing, further details of which are set out in paragraph 13.2 of Part V of this document
“Placing Price”	300 pence per Placing Share
“Placing Shares”	the New Ordinary Shares and the Sale Shares which will be placed by Evolution Securities on and subject to the terms and conditions set out in the Placing Agreement
“Prospectus Rules”	the FSA Prospectus Rules made by the FSA pursuant to section 73A of the FSMA
“Qute”	Query Utility Tool for Enterprises, the Group’s proprietary software product for the display and analysis of secondary care patient data
“Sale Shares”	the 8,333,333 existing Ordinary Shares to be sold by the Selling Shareholders pursuant to the Placing
“SDRT”	Stamp Duty Reserve Tax
“Securities Act”	the United States Securities Act 1933 (as amended) and the applicable regulations thereunder
“SEDOL”	Stock Exchange Daily Official List
“Selling Shareholders”	means those persons selling Ordinary Shares in the Placing pursuant to the Placing Agreement

“Shareholders”	holders of Ordinary Shares
“Subsidiary Undertaking”	has the meaning given to it pursuant to section 1162 of the Act
“TPP”	The Phoenix Partnership, a limited partnership and provider of software solutions to the UK healthcare industry
“UK Listing Authority”	the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA
“uncertificated” or “in uncertificated form”	in relation to an Ordinary Share, recorded on the Company’s register as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“US”, “USA” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“VAT”	UK Value Added Tax
“WAN”	Wide Area Network

In this document, words denoting any gender include all genders (unless the context otherwise requires).

PART I

KEY INFORMATION

The following is a summary of certain information appearing in more detail elsewhere in this document. This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this document. This summary is not complete and does not contain all the information that is important to investors or that potential investors should consider before subscribing for or purchasing Ordinary Shares. In particular, prospective investors should read the whole of this document, paying particular attention to Part III of this document entitled "Risk Factors" and not rely on the following summarised information.

1. Introduction

EMIS Group is the UK's leading supplier of software and related services to GP practices, with approximately 39 million patient records in the UK held on EMIS' software. Established in 1987, EMIS' core activities include software licensing and support, hardware support and maintenance services, hardware sales, third party software sales and training services.

The Group's software includes all of the functionality as specified in NHS accreditation standards for GPs, including holding the patient's cradle to grave healthcare record, practice appointment booking systems and consultation and intelligent prescribing modules.

The Group employed 774 people as at 31 December 2009 and its head office is based in Leeds, West Yorkshire.

2. Markets and strategy

EMIS' current core market is represented by 5,377 UK GP practices. EMIS is the leading provider of clinical software systems to GP practices in the UK, with its systems used in 52.4 per cent of GP practices as at December 2009. This is more than double the percentage market share of InPS, the Group's nearest competitor.

In England, the Group's largest geographic market, 4,936 GP practices use the Group's software, a market share of 59.0 per cent. The Group also has a significant presence in Wales and Northern Ireland, as well as a growing market share in Scotland.

Within the Group's core UK GP practice market, the Directors believe there are the following opportunities for organic growth:

- supplying new systems to the 650 Scottish GP practices needing to replace their GPASS systems currently being phased out;
- providing upgrades to existing EMIS GP systems;
- providing new products to existing EMIS GP practices, such as flat screen patient call systems, enabling greater waiting room automation; and
- supplying EMIS systems to GP practices wishing to replace their existing non-EMIS software.

Overlaying the above, is the new EMIS Web opportunity, including:

- supplying EMIS Web to non-GP healthcare practitioners in the extended primary care and community care sectors.
- rolling out EMIS Web across the Group's existing GP practice user base, scheduled to take place over the next two to four years.
- supplying EMIS Web to GP practices not currently using an EMIS system.

The Directors also believe the Group's hosting of the patient's cradle to grave healthcare record gives it a significant opportunity to extend the reach of its software to other healthcare groups within the primary, community or secondary care sectors, whether through in-house development or via acquisition.

3. Key strengths

The Directors believe that the Group's key strengths include the following:

- Trusted, market-leading healthcare software business;
- Profitable and highly cash generative;
- 20+ year track record of organic growth;
- High visibility of earnings with substantial recurring revenues;
- History of successful product development;
- Experienced management team; and
- Clear growth strategy.

4. Financial information

The summary financial record of the Group for the three years ended 31 December 2009 as set out in Part IV Section B (Historical Financial Information on the Group) and reported on in Part IV Section A (Accountant's Report on the Group) of this document, is summarised below:

	Audited 2009 £'000	Audited 2008 £'000	Audited 2007 £'000
Turnover	57,696	55,398	48,467
EBITDA	20,147	10,087	6,969
Operating profit	15,774	5,870	5,069
Profit before taxation	14,462	3,970	6,831
Profit for the year	9,941	2,406	4,490
Net assets	11,380	1,439	29,383
	<hr/>	<hr/>	<hr/>
Cash generated from operations	19,864	10,867	1,203
Cash	5,221	6,070	25,073
Bank and other loans	(29,947)	(36,556)	–
	<hr/>	<hr/>	<hr/>

Turnover has increased during the three years ended 31 December 2009, primarily because of the entry into the GPSoC contract in August 2007, which had the effect of increasing base prices of the Group's annual software licences.

Given little or no incremental cost associated with annual software licences, this growth in turnover has significantly increased the Group's EBITDA. In FY09, £4.5 million of research and development costs were capitalised under IFRS and savings of approximately £3 million in aggregate were also made in a number of areas, which also contributed to an increase in EBITDA for that year.

The Group is highly cash generative at operating level with over 100 per cent of operating profit being converted into cash in FY08 and FY09.

5. New product development – EMIS Web

EMIS Web represents the next generation of clinical software systems and the Directors believe it has the potential to transform the delivery of healthcare. The benefits of EMIS Web include:

- enabling GPs and other healthcare practitioners across extended primary care and community care environments, as well as some elements of secondary care, to connect with each other and securely share access to a patient's cradle to grave electronic health record;
- eliminating the need to re-input or duplicate information thereby reducing the risk of prescribing and treatment errors; and
- saving the time and cost associated with the administration of patient appointments.

EMIS Web is already being trialled by non-GP users across a variety of healthcare teams in 14 PCTs and feedback has been positive. EMIS Web requires formal CfH accreditation before it can be made available to users in GP practices on a "live" basis. The "informal witness testing" has already been successfully completed and, subject to formal accreditation, the Group is planning for the commercial roll-out of EMIS Web to GP practices to commence towards the end of 2010.

6. The healthcare IT environment

NPfIT

NPfIT was established in 2002 with the objective of modernising the NHS in England by replacing all existing systems with new centralised IT systems. The overriding aim of NPfIT was the creation of a single electronic health record for each patient to be made available across both primary and secondary care settings. This "replace all" policy involved the replacement of the systems of any IT supplier regarded as legacy and not part of NPfIT.

Since NPfIT's establishment, there have been many issues with the Local Service Providers selected to deliver a new Care Record Service and EMIS has continued to supply and provide support services to its GP practice user group. NPfIT's focus has now moved towards a "connect all" approach in favour of IT systems that facilitate interoperability between different platforms and mobilise patient data.

The Directors believe that, following a period of uncertainty, EMIS has emerged in a position of strength which is, in particular, due to its software being centred around a patient's cradle to grave medical record and providing a strong platform for interoperability.

Public healthcare spending – overview

There has been a significant increase in the provision of healthcare funding in recent years, prompted by an ageing population and a growing incidence of long-term conditions. The Directors believe that these factors will impose further significant strains on the UK's healthcare system, particularly within primary care. There are, however, significant constraints imposed by the size of the public sector budgetary deficit and the expectation of imminent spending cuts to address this.

The Directors believe that improvements in the productivity of public sector healthcare services will be key to (i) bridging funding gaps and (ii) addressing the increasing incidence of long-term conditions and that this, as explained below, will place the Group in a strong position to benefit from expected targeted NHS IT spend.

Healthcare IT spending

For the reasons cited above, the level of healthcare IT spending is likely to come under pressure. However, clinical software systems in the primary care sector will in the future need to cope with the increased demand for healthcare services and help deliver the efficiency savings required by healthcare organisations.

The Directors believe that EMIS' current software products facilitate the realisation of efficiency savings and that EMIS Web will deliver additional efficiency savings as well as speed up service delivery, mobilise patient data and connect healthcare practitioners in different disciplines. The Directors therefore believe that the Group will be well placed to benefit from the expected prioritisation of IT spending towards targeted areas.

7. Competitive strengths and barriers to entry

The Directors consider that the Group's competitive strengths and barriers to entry for new participants include the following:

- customer loyalty;
- competitive pricing;
- PCTs' rationalisation around single suppliers, putting EMIS in a strong position given its 59.0 per cent market share in England;
- necessary accreditations in place;
- EMIS' core development spend on EMIS Web now largely complete; and
- data mobilisation benefits, expected to create further loyalty as other healthcare practitioners start using the patient's cradle to grave record.

8. Current trading and prospects

Since 31 December 2009, the Group has traded in line with the Board's expectations. Based on (i) the recurring nature of revenues generated by the Group's existing GP practice user base providing strong visibility over future earnings and (ii) the growth potential of EMIS Web, the Directors are confident of the Group's future prospects.

9. Reasons for Admission and use of Placing Proceeds

The Directors believe that the enhanced disclosure and corporate governance regime that will apply to the Group following Admission will give it greater credibility in its discussions with government and organisations within the public sector. Admission will also provide a mechanism by which the Group's shareholder base can be broadened and key members of the Group's management can be motivated and retained, as well as greater flexibility for funding both further organic growth and growth by acquisition, if appropriate.

The expected net cash proceeds of the Placing for the Company will be approximately £23.3 million. These proceeds will be used to repay the £23.0 million loans to the Company from the Founder Shareholders.

10. Dividend policy

The Directors intend to adopt a progressive dividend policy and the first dividend is intended to be an interim dividend of £3.25 million payable in October 2010 in respect of the financial year ending 31 December 2010.

11. The Placing

16,666,667 Placing Shares will be placed with institutional investors pursuant to the Placing, comprising (i) 8,333,334 new Ordinary Shares, representing approximately 14.29 per cent of the Enlarged Issued Share Capital and raising net proceeds for the Company of £23.3 million and (ii) 8,333,333 existing Ordinary Shares, raising gross proceeds of £25.0 million for the Selling Shareholders, in each case, before their expenses. The placing of the Sale Shares is being undertaken to assist with post-Admission liquidity in the trading of the Company's Enlarged Issued Share Capital. The estimated expenses of the Placing to be paid by the Company are £1.7 million.

PART II

INFORMATION ON EMIS GROUP

1. Introduction

EMIS Group is the UK's leading supplier of software and related services to GP practices, with approximately 39 million patient records in the UK held on EMIS' software.

The Group's software has all of the functionality as specified in NHS accreditation standards for GPs, including holding the patient's cradle to grave healthcare record, practice appointment booking systems and consultation and intelligent prescribing modules.

EMIS Group's head office is based in Leeds, West Yorkshire. The Group also has six satellite UK offices, as well as an overseas office in Alberta, Canada.

2. History and background

EMIS, the Group's main trading company, was established in March 1987 as Egton Medical Information Systems by Dr Peter Sowerby and Dr David Stables, both GPs in Egton, North Yorkshire, and Tony Jones. They identified an opportunity to develop and supply practice management software to GP practices at a time when GPs' systems and records were largely paper based.

The Group's first GP clinical software, named 'EMIS', had a character based user interface and was developed from 1987, with full commercial roll-out taking place in 1990. In 1995, EMIS signed its first contract to supply the MoD with clinical software for GPs. In 1998, following the increased adoption of MS Windows, a graphical user interface was overlaid and the system was renamed LV and made available to EMIS' growing GP user base. By July 1999, EMIS was supplying its software to 3,030 GP practices across the UK, equal to a market share of approximately 28 per cent. That year, EMIS also established Egton as a separate division, concentrating on the provision of support services to GPs. In October 1999, it started the development of a new product, PCS, with a full Windows interface.

EMIS' next upgrade to its clinical software system was PCS Enterprise, developed between 2001 and 2002 and capable of being hosted in a WAN environment. PCS Enterprise also provided the platform for implementation of EMIS data centres, an important development by which electronic health records may be hosted by EMIS as well as being held on local servers at GP practices.

In March 2005, the Group established EMIS Inc in Alberta, Canada, to provide it with a foothold in the North American market.

In 2006, EMIS commenced development of its EMIS Web software, recognising the need for a healthcare system which can give healthcare practitioners working in primary, community and secondary care access to the patient's cradle to grave healthcare record. In the same year, the MoD awarded a new contract for the provision of both GP and dental software.

In August 2007, EMIS signed the GPSoC framework agreement with the Secretary of State for Health, enabling it to continue supplying its clinical software to English GP practices. In the same month, EMIS signed a framework agreement with Bro Morgannwg NHS Trust in Wales under the Primary Care IMT programme, the framework established by the Health and Social Care division of the Welsh Assembly Government to fund the purchase of GP practice software in Wales.

In April 2008, as part of a management buyout, the whole of EMIS' issued share capital was acquired by EMIS Group, a company specifically incorporated for the purposes of this transaction. The then executive management team all became shareholders in EMIS Group at completion, with the remainder of the Ordinary Shares being issued to other members of the Group's management team and a number of other key employees. Of the Founder Shareholders, Dr David Stables remained as EMIS' Medical Director, subsequently becoming Director of Development Strategy. Dr Peter Sowerby and Tony Jones became non-executive directors and shareholders in EMIS Group in May 2008. Dr Peter Sowerby retired in March 2010 and Tony Jones remains as the Group's Non-executive Chairman.

In March 2009, the Group signed the GMS Systems and Services Framework Agreement with the Health and Social Services Board in Northern Ireland to continue supplying its clinical software to GP practices in that country. As at December 2009, the number of GP practices using the Group's LV or PCS clinical software systems stood at 5,377, equal to a market share of 52.4 per cent of the total number of GP practices in the UK. In January 2010, EMIS, along with one other company, received notification of its preferred bidder status for the replacement of 650 GPASS software systems, the clinical software currently used by most GP practices across Scotland. Prior to the formal notification of EMIS' preferred bidder status, 51 GP practices within the Ayrshire and Arran Health Board had already chosen EMIS to replace their existing GPASS software.

Following two years of extensive trialling, the Group expects in 2010 to commence the full commercial roll-out of its EMIS Web software which will form a core part of the Group's future growth strategy.

3. Key strengths

The Directors believe that the Group's key strengths include the following:

Trusted, market-leading healthcare software business

EMIS is a well-established business with a loyal user base which has been serving GP practices in the UK for over 20 years. The Group has a market share of over 50 per cent, more than twice its nearest competitor, and 64 per cent of its GP practices have been using EMIS software for over 10 years.

Profitable and highly cash generative

The Group is profitable, generating an operating profit of approximately £15.8 million on turnover of approximately £58 million for the financial year ended 31 December 2009. EMIS has also consistently delivered excellent cash conversion; in excess of 100 per cent in five out of the last six years.

20+ year track record of organic growth

EMIS was established in 1987 and has since grown organically, reinvesting its earnings to fund further growth, for over 20 years.

High visibility of earnings with substantial recurring revenues

EMIS Group has high visibility of earnings with the majority of its income coming from annual licence fees and related support contracts and approximately 75 per cent of its earnings being recurring in nature.

History of successful product development

EMIS Group has continued to respond to GP practice requirements and its market share demonstrates the strength of its product offering. The planned EMIS Web roll out in 2010 is evidence of the Group's ongoing ability to innovate and lead the market with new product developments.

Experienced management team

The directors of EMIS Group and EMIS together have 104 years' operational experience within the business and have extensive knowledge of the healthcare IT sector. The Directors consider that the Group also has a strong, committed and experienced management team within each area of the business. The executive directors of EMIS Group and EMIS and other key employees hold Ordinary Shares in the Group, which acts as a further means of motivating and retaining key staff.

Clear growth strategy

EMIS Group has a clear strategy for further organic growth. This is based around (i) targeting potential new GP practice users, (ii) providing additional products and services to its existing GP practice users, (iii) rolling out EMIS Web across other extended primary community and secondary care sectors and (iv) rolling out EMIS Web to EMIS' existing GP practice user base and other GP practices. The Directors will also consider the acquisition of other software providers where this is felt to be more appropriate than developing the Group's own version of a software product.

4. Financial information

The following is extracted from the financial information of the Group for the three years ended 31 December 2009, set out in Part IV of this document:

	Audited 2009 £'000	Audited 2008 £'000	Audited 2007 £'000
Turnover	57,696	55,398	48,467
EBITDA	20,147	10,087	6,969
Operating profit	15,774	5,870	5,069
Profit before taxation	14,462	3,970	6,831
Profit for the year	9,941	2,406	4,490
Net assets	11,380	1,439	29,383
	<hr/>	<hr/>	<hr/>
Cash generated from operations	19,864	10,867	1,203
Cash	5,221	6,070	25,073
Bank and other loans	(29,947)	(36,556)	–
	<hr/>	<hr/>	<hr/>

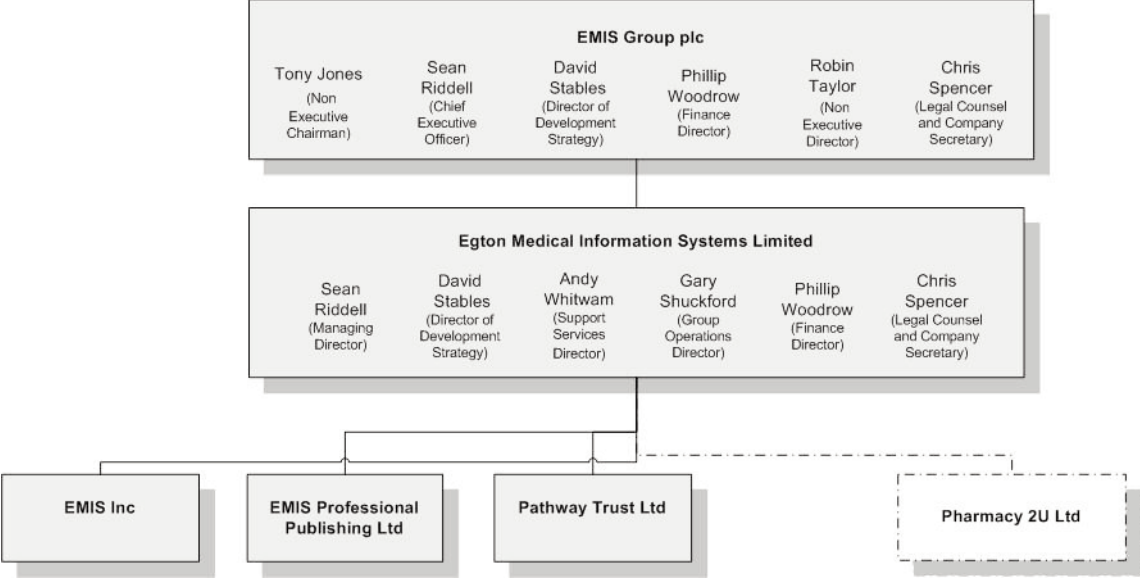
Turnover has increased during the three years ended 31 December 2009, primarily because of the entry into the GPSoC contract in August 2007, which had the effect of increasing base prices of the Group's annual software licences. Given little or no incremental cost associated with annual software licences, this growth in turnover has significantly increased the Group's EBITDA during the period under review. In FY09, £4.5 million of research and development costs were capitalised under IFRS and savings were also made in a number of areas, including staff costs, which also contributed to an increase in EBITDA for that year.

The Group is highly cash generative at operating level with over 100 per cent of operating profit being converted into cash in FY08 and FY09. FY07 was significantly affected by the change under GPSoC from annual to quarterly invoicing. A substantial proportion of the Group's customers pay for services in advance and this reduces the Group's overall working capital requirement. The bank and other loans appearing in 2008 relate to the management buy-out in April of that year and include a £23.0 million loan (described in further detail in paragraph 13.6 of Part V) from the Founder Shareholders in connection with the management buyout. The reduction in bank and other loans in 2009 was due to scheduled repayments, and a £5 million early repayment, of bank borrowings. The £23 million founders' loan will be repaid out of the net cash proceeds of the Placing receivable by the Company.

Further details of the Group's financial performance during the period under review are set out in Part IV of this document.

5. Group Overview

The table below shows the Group’s corporate structure including board members:



EMIS Group is the holding company of the Group. Further details of EMIS Group’s share capital and its current shareholders, the majority of whom are either directors or their connected parties, members of the operational management team or other key employees of the Group, have been provided in paragraphs 3 and 6 of Part V.

EMIS is the Group’s main trading company. EMIS Group holds 100 per cent of EMIS’ issued share capital. EMIS’ core activities are as follows:

- **Software licensing and support:** the development and licensing of the Group’s clinical healthcare software systems for use by healthcare practitioners and administrators in primary, community and extended primary care services, as well as software support.
- **Hardware support and maintenance services:** hardware maintenance and support services primarily to software licensees.
- **Hardware sales and training:** the sale of hardware, third party software and training.

EMIS holds 100 per cent of the issued share capital of each of its subsidiary companies, EMIS Inc, EMIS Professional Publishing Ltd and Pathway Trust Ltd. Of these companies, EMIS Inc is the only one which trades. All of the companies in the Group were incorporated in the UK with the exception of EMIS Inc, which is incorporated in Alberta, Canada.

EMIS also holds 20 per cent of the issued share capital of Pharmacy2U, one of the UK’s larger dedicated mail order and online NHS pharmacy and chemists. Pharmacy2U is accounted for by EMIS Group as an associated company.

Further commentary on EMIS Inc and Pharmacy2U has been provided under ‘Other activities’ in paragraph 6 of this Part II. A short biography for each of the directors of the Group is provided in paragraph 10 of this Part II.

6. Product and services overview

Current core product portfolio

EMIS' GP practice user base currently operates the Group's LV, PCS or PCS Enterprise clinical healthcare software system.

LV

LV is the name of the GP clinical healthcare software system most commonly installed across the Group's GP practice user base. LV was developed by the Group under the principle "written by doctors for doctors" and is used by 3,788 GP practices. It provides all of the functionality as specified in NHS accreditation standards for GPs in the management of their practices, including:

- holding the patient's cradle to grave healthcare record;
- the practice appointment booking system, including on-line appointment booking through EMIS Access;
- consultation and intelligent prescribing modes, allowing access to safety warnings and allergy information when prescribing drugs to the patient;
- a drug database containing information on 54,000 pharmaceutical products and packs;
- administrative practice management tools including recall and integrated word processing; and
- auditing tools for the provision of quality of care data which is the principal determinant of a GP's remuneration.

The benefits of LV to GP practices include allowing statistical analysis of trends in healthcare in a GP practice's catchment area and the provision of up-to-date medical knowledge. LV also supports patients' information requirements.

LV facilitates the data entry process, such that data is only required to be entered once and is then populated automatically throughout the system. This ensures that data can be easily retrieved to assist GPs in demonstrating their performance against the NHS's Quality and Outcomes Framework (an annual payment and incentive program for all GP practices in England, documenting practice achievement results).

PCS

PCS has broadly the same functionality as LV but has a pure Microsoft Windows interface.

LV and PCS can both be accessed remotely whilst away from the practice via a laptop or other accredited portable device. Both products incorporate encryption technology to ensure patient data confidentiality and are GPSoC compliant.

PCS Enterprise

PCS Enterprise was launched in 2002 at the same time as PCS and allows PCS software to run in a secure hosted WAN environment via EMIS' data centres. Therefore, GP practices using this service no longer have to spend time on local server management or data back-up tapes, nor do they bear the costs of the associated overheads or the risk to data posed by fire, flood or theft. PCS Enterprise's functionality also allows data sharing between GPs.

EMIS' data centres currently hold approximately 13 million active registered patient records and are currently scalable to host up to 40 million patient records. They are accredited to ISO/IEC 20000-1:2005 standards.

PCS Enterprise, as a fully hosted solution, is GPSoC compliant and accredited to the NHS's CfH hosting standards. This means that all hosting costs are paid for by CfH under a central contract and individual PCTs do not have to pay for this service out of local budgets. Moving GPs to PCS Enterprise can therefore also generate savings for individual PCTs. EMIS provides PCS Enterprise under contract to 62 PCTs comprising 664 GP practices.

Ancillary products

Other products supplied by EMIS to GP practices include:

- Automated Arrivals, a touch-screen system enabling patient self check-in and freeing up the time of reception staff;
- Envisage, a flat screen patient call system, which may also be used as a medium for the communication of health awareness information, practice messages or advertising of, for example, local pharmacies; and
- Health Information Portals, a touch screen kiosk where patients can view their own medical records in a secure environment within the practice waiting room, accessed via biometric fingerprint authentication.

The Group also resells third party hardware and software (primarily Microsoft) into its GP practice user base, as well as providing associated training. This enables the Group to provide one stop IT solutions to GP practices, encompassing all of their clinical software and hardware requirements.

EMIS Dental

EMIS Dental software features all of the key elements of the Group's clinical healthcare management system but with additional functionality for dental practices and using dental clinical terms. EMIS Dental software has, to date, been installed in 146 dental practices across both the MoD and the NHS.

Services

Since 2000, EMIS has provided IT services and support to its GP practice user base via managed IT service contracts. Services include helpdesk support to deal with incidents and deliver software and system updates. All support queries are logged and given a customer reference number for follow-up and resolution. EMIS' UK support desk receives in excess of 300,000 support calls per annum from its user base, with 100 per cent of calls answered by its UK helpdesk during 2009 in compliance with NHS service level requirements.

Other services provided to GP practices include:

- on-site training, training courses, seminars and e-learning;
- business continuity services, providing LV and PCS users with access to practice and patient clinical data when servers are unavailable;
- confidential IT waste disposal;
- tape validation services, providing independent verification that back-up tapes made by practices are valid; and
- installation, call centre support and maintenance of third party software and hardware.

The Group also provides a medical knowledge website branded Mentor and targeted at the professional user, providing clinicians with an on-line medical knowledge resource, including a drug database.

New product development

Overview

All of EMIS' clinical software products undergo a formalised and documented development process prior to commercialisation. This process covers all stages from initial evaluation of projects through planning, development and rigorous testing, to ultimate deployment of the software.

Following the initial evaluation stage, all projects must be approved first by a development board and then the EMIS board before they can be progressed. Deployment is completed in four stages comprising internal deployment, field and then beta release, controlled roll out and finally full roll-out. Following this methodology enables the Group to develop software which takes into account the requirements of end-users and complies with the relevant criteria for accreditation.

During 2009, the Group's expenditure on research and development activities was approximately £6.5 million, or approximately 11 per cent of turnover.

EMIS Web

EMIS Web fulfils the NHS' requirement for real-time patient data to be shared, and contributed to, by different healthcare practitioners, with the aim of "connecting healthcare". The product has been developed specifically to take account of the needs of large, multi-disciplinary healthcare organisations, working across multiple locations. The benefits of EMIS Web include:

- enabling GPs and other healthcare practitioners across extended primary care and community care environments, as well as some elements of secondary care, to connect with each other and securely share access to a patient's cradle to grave electronic health record;
- eliminating the need to re-input or duplicate information thereby reducing the risk of prescribing and treatment errors; and
- saving the time and cost associated with the administration of patient appointments.

EMIS Web represents the next generation of clinical software systems and the Directors believe it has the potential to transform the delivery of healthcare. In addition to upgrading EMIS' current GP user base, EMIS Web also provides the Group with scope to penetrate new non-GP user groups within the NHS.

EMIS Web's core functionality, which is interoperable in accordance with CfH standards, includes the following modules:

- Care record: which documents the patient's electronic cradle to grave healthcare record and provides the practitioner with access to the information required for clinical management of the patient. Due to healthcare practitioners in different disciplines being able to contribute to the healthcare record, improvement in the quality of patients' medical records can be delivered through EMIS Web;
- Care planner: which supports the planning and delivery of care for individual patients, providing a single point of access to view and action, for instance, appointments, outstanding tasks and diary entries for a patient;
- Consultations: which enables the user to record and review all aspects of contact with a patient and includes links to professional and organisational resources to aid decision support;
- Medication: which displays safety warnings and allergy information when adding a medication to a patient's records including current and past medication prescribed, thereby reducing the risk of prescribing errors;
- Appointments: which is a fully integrated appointment booking system designed to meet the needs of multi-disciplinary healthcare teams and support the management of care by different healthcare practitioners;
- Document management system: which allows patient recall letters to be generated automatically and includes the ability to store and attach scanned documents to a patient record;
- Workflow manager: which improves the management of key clinical and administrative tasks, for instance, the management of electronic repeat prescription requests and the processing of laboratory results, inbound documents (including discharge summaries) and electronic medical record transfers (GP2GP). This function aims to simplify the management of key tasks;
- Dispensing: which includes a full electronic stock management system and ordering system that incorporates bar code scanning, saving time spent manually inputting and checking data;
- Patient administration: which provides a waiting list management capability for the management of patients by different healthcare teams and includes information such as individual patient waiting times and treatment; and
- Search and population reporting: which helps to identify target patients for call and recall and monitor the quality of healthcare delivery.

EMIS Web incorporates role based access controls to ensure that healthcare practitioners using the system, only have access to the data and functionality appropriate to their role and organisation, as well as their legitimate relationship with the patient, and subject to individual patient consent. EMIS Web can be accessed remotely from anywhere with a secure internet connection or via N3, the NHS' intranet.

Further EMIS Web modules which are available at additional cost include Qute. Within Qute, users in both primary and secondary care are able to view a patient's primary and secondary care records side-by-side. Practice managers and administration teams within PCTs may also retrieve costs associated with a patient's secondary care and GPs are able to make secondary care patient appointments directly.

EMIS Web in broader healthcare settings

EMIS Web does not require CfH accreditation in order to be used in non-GP healthcare settings. Potential users include district nurses, health visitors, school nurses, epidemiology staff, accident and emergency staff, therapy staff, out of hours staff, psychologists, podiatrists, staff involved in the treatment of long term conditions, minor surgery units, polyclinics, joint injection clinics, anti-coagulation clinics, end of life units, urgent care centres, diabetic management centres and community matrons.

EMIS Web is already in use by 49 speciality healthcare teams across 14 PCTs, covering 13 million patient records and feedback has been positive.

Examples of the findings of PCTs that are already trialling EMIS Web with non-GP users across a variety of healthcare teams include:

- Gateshead PCT: the primary care records of 206,000 patients are now accessible by out-of-hours clinicians should the patient require unscheduled care.
- Liverpool PCT: waiting times for minor surgery patients have been cut significantly, in some instances from nine months to one day, due to the availability of data at the clinic, helping to reduce patient backlog.
- Tower Hamlets PCT: the physiotherapy team is saving, on average, seven hours of administration time each week, due to no longer having to input duplicate information. The time saved can be redirected towards patient care.

EMIS Web in GP practices

EMIS Web requires formal CfH accreditation before it can be made available to users in GP practices on a "live" basis. To achieve this, EMIS Web has already undergone "informal witness testing", comprising in excess of 18,000 separate tests, which was successfully completed on 20 January 2010. "Formal witness testing" for the accreditation process commenced on 15 February 2010 and the Directors estimate that this process will take approximately two months to complete. Once this process has been successfully completed, EMIS Web will be deployed in a limited number of GP practices and allowed to run live for 45 days. Provided this is completed without a major issue arising, the software will be granted approval for full commercial roll-out to GP users.

EMIS Web is already being used on a read-only basis in 1,752 GP practices, with patient data being streamed real time in the Group's data centres.

The Group is planning, subject to CfH accreditation, for the commercial roll out of EMIS Web to GP practices to commence towards the end of 2010. The GPSoc framework agreement has already been varied to provide for the roll-out of EMIS Web and the provision of associated implementation, hosting and training services.

Pro bono activities

The Group places emphasis on using the analysis of data within its database of patient medical records for the advancement of ethical medical research and to assist public bodies such as the NHS with improving the allocation of scarce resources. Such activities are conducted on a not-for-profit or pro bono basis, as set out below.

QResearch and associated projects

In November 2003, EMIS and the University of Nottingham entered into a not-for-profit collaboration agreement to build QResearch, a consolidated database containing the anonymised records of 12 million

patients from over 602 GP practices using EMIS software. The data analysis has been used in a number of research articles into topics as varied as drug safety, the effects of aspirin on the stomach and risk factors for pneumonia.

QResearch has also been used as the platform for a number of other projects, such as:

- QRisk2, which analyses a patient's medical history over a period of 15 years and determines the likelihood of cardiovascular disease development;
- QSurveillance, which tracks the healthcare records of patients exposed to major incidents such as the Buncefield fire in 2005 and monitors the subsequent incidence of respiratory-related illness; and
- QFlu, which monitors the incidence of swine flu for the Health Protection Agency.

The above activities are undertaken on a not-for-profit or pro bono basis. The Group is also intending to make data reports, a data reporting portal and associated services, available to other organisations on an individual fee paying basis.

Other pro bono services

The Group's medical knowledge website, www.patient.co.uk, provides patients with health-related information. Patients can log in to EMIS Access via the [patient.co.uk](http://www.patient.co.uk) website or via digital television, enabling them to complete actions such as viewing, booking or cancelling GP appointments, viewing their Summary Care Record on-line, requesting repeat prescriptions, or organising delivery of medication via Pharmacy2U, with no manual intervention from practice staff. This service has helped to reduce the incidence of patients failing to attend appointments, as well as reducing the time spent by staff in GP practices on appointment administration. Patient.co.uk typically attracts approximately four million visitors per month.

The Group currently provides this service free of charge to patients but is in negotiations with NHS England and NHS Wales to provide it on a paid for basis, with these organisations bearing the cost under the proposals put forward.

Other activities

EMIS Inc

EMIS Inc was established in 2005 as a platform for the development of the Group's activities in Canada. EMIS Inc has developed software which conforms to the applicable standards in Alberta and British Columbia and is aiming to penetrate the family physician market in Canada; the equivalent of the GP market in the UK. The software is commercially available and notable contract wins to date include the medicine department of Calgary University Hospital, worth CAD\$ 2 million over four years. This contract was recently extended to also include data hosting services. EMIS Inc is based in Edmonton, Alberta but also has field staff in British Columbia and employs 46 people in total.

Pharmacy2U

Established in 1999, Pharmacy2U was one of the UK's first on-line and mail order pharmacies. It has grown to become one of the larger dedicated mail order and on-line NHS pharmacy companies of its type in the UK, catering for customers who are either unwilling or unable to visit high street outlets and providing them with an option for over-the-counter medicines, prescriptions and personal care products to be delivered to the home. Pharmacy2U does not incur the overheads associated with high street retail outlets.

The Group acquired its shareholding in Pharmacy2U in August 2005 when electronic transfer of prescriptions was being trialled by EMIS. The strategic rationale for the investment in Pharmacy2U was the belief that an on-line pharmacy combined with electronic linkages between GP practices and pharmacists represented an attractive commercial opportunity. It was also seen as important for the Group to build on the functionality of EMIS Access, its on-line offering extended to patients, by including web-enabled pharmacy access.

Pharmacy2U's investment in technology also enables it to provide services such as electronic repeat prescriptions and prescription reminder services. Pharmacy2U is registered as a mail order pharmacy with the Royal Pharmaceutical Society of Great Britain and holds an NHS mail order pharmacy contract.

Intellectual property protection

The Group has taken steps to protect its main brands. EMIS and EMIS Web are both registered as trademarks in the UK, with registration pending in Canada. QResearch and QSurveillance are also registered trademarks in the UK, jointly owned by EMIS and the University of Nottingham. Trademark registration of Qute is pending in the UK.

The Directors have not pursued a policy of software patenting due to statutory limits to the effectiveness of protection, as well as the requirement to publish highly confidential material as part of the patent process. The Group instead relies on copyright protection, non-disclosure agreements and confidentiality clauses in its employment agreements and consultancy contracts, as well as the standard terms and conditions contained in its software licence agreements.

ISO accreditations

EMIS holds ISO/IEC27001:2005 for information security in respect of the Group and ISO/IEC20000-1:2005 for IT service management relating to its general and hosted software products. It also maintains ISO9001:2000 accreditation for helpdesk, maintenance and support services and associated processes for its general operations as well as for services provided to the MoD and overseas.

Awards

EMIS was the winner in the "Best Technology Supplier of the Year" category at the UK IT industry awards in 2009, sponsored by the Chartered Institute for IT and the British Computing Society. EMIS has also been a finalist in a number of other industry awards, including the 2009 public sector health awards for Microsoft Gold Certified Partners.

7. Revenue model

Overview

The Group has established an annual licensing model with invoicing of customers generally taking place on a quarterly basis, in most cases, in advance. A key benefit of the Group's business model is therefore its substantial visibility over forward revenues and operating cash generation. In FY09, the Group generated revenues which the Directors regard as recurring in nature of £42.7 million, being approximately 75 per cent of total revenues.

The Group has an installed base of 5,377 GP practices in the UK. On average, each GP practice generates revenues of approximately £10,000 per annum. The contracts with most of the GP practices include a three month notice period for termination but customer attrition tends to be very low. Approximately 64 per cent of customers have been with EMIS for over 10 years.

Summary revenue streams

The table below provides a breakdown of revenues between the various categories used by EMIS for the purposes of this document for the three years ended 31 December 2009.

(all in £ millions)

Year ended 31 December	2009	2008	2007
GP Practice Revenues			
Software licences and support <i>Proportion of EMIS revenues</i>	25.8 45.1%	24.2 44.2%	19.8 41.0%
Hardware support and maintenance services <i>Proportion of EMIS revenues</i>	15.4 26.9%	17.6 32.1%	12.9 26.8%
Hardware sales and training <i>Proportion of EMIS revenues</i>	9.4 16.4%	8.9 16.2%	9.3 19.3%
Hosting <i>Proportion of EMIS revenues</i>	3.3 5.7%	1.7 3.1%	2.6 5.4%
GP Practice Revenues	53.9	52.4	44.6
<i>Proportion of EMIS revenues</i>	<i>94.1%</i>	<i>95.6%</i>	<i>92.5%</i>
Other (non-GP) sales <i>Proportion of EMIS revenues</i>	3.4 5.9%	2.4 4.4%	3.6 7.5%
EMIS revenues	57.3	54.8	48.2
EMIS Inc revenues	1.2	1.0	0.3
Total	58.5	55.8	48.5
Less: elimination of intercompany trading	(0.8)	(0.4)	–
Group consolidated revenues	57.7	55.4	48.5

Further commentary on each of these revenue streams is provided below.

Software licences and support

Annual fees for the licence of EMIS LV and PCS comprise the majority of the Group's core recurring revenue stream and include annual licence charges for software supplied under the GPSoC contract, which are invoiced to and paid for by CfH on behalf of individual GP practices. Software licence fees are invoiced on a quarterly or annual basis.

Other constituents of this revenue stream include a basic licence support fee levied by EMIS on CfH for each practice supplied under the GPSoC contract and annual software licence fees levied for individual modules such as the Electronic Prescribing System, Choose and Book and GP2GP.

Growth in software licence and support revenues has been strong between FY07 and FY09, primarily because of the significant increase in pricing resulting from the switch to the GPSoC contract, which covers approximately 88 per cent of the Group's GP practice user base. The Directors regard the level of revenues within software licence and support fees as almost 100 per cent recurring in nature, given the repeat annual basis of the charges and stable customer base.

Hardware support and maintenance services

The largest constituent of this revenue stream is annual system maintenance fees, charged for supporting those GP practices which hold patient records via EMIS' software on local servers, rather than via central hosting. Other major constituents of this revenue stream include:

- tape validation services, charges for verifying back-up tapes under contract as part of disaster recovery procedures for practices with local servers;
- engineer sales, relating to charges made for engineering time spent on new practice installations, server upgrades and GP practices moving to new premises;
- sale of automated arrivals consoles for use in GP practice reception areas; and

- managed service contract income from PCTs for secondment of EMIS software engineers.

The Directors estimate that approximately two thirds of revenues in this category are recurring in nature.

Hardware sales and training

This revenue stream comprises:

- generic hardware sales, including PCs, printers, servers, laptops, scanners and consumables;
- training, relating to charges associated with providing training to enable GP users to maximise their efficiency under the government's Quality and Outcomes Framework, training following new installations, software upgrades and the deployment of new CfH modules, such as GP2GP;
- revenue from third parties who pay an annual fee to EMIS for supplying their own supplementary modules which provide additional integrated functionality under EMIS' partner programme; and
- the sale of third party software licences, mainly Microsoft SQL Server.

Hosting fees

Revenues in this category, considered recurring in nature, are generated by the Group's data hosting services provided to customers. The £1.6 million increase in hosting revenues in 2009 is primarily as a result of customers migrating to the Group's central hosting solution, away from local hosting, which is included within support services revenues.

Other sales

The majority of other sales is accounted for by EMIS' 10 year contract with the MoD as part of a consortium headed by Logica plc. This contract began in 2006, with the associated revenues being regarded as recurring in nature. Services provided include tailoring EMIS software modules to the requirements of GPs and other healthcare professionals within the MoD, as well as implementation and training services.

Average annual revenue per GP practice

The average annual revenue per GP practice of approximately £10,000 can be broken down as follows:

- average annual software licence fee per practice of approximately £4,700;
- average annual support services fees per GP practice of approximately £1,100;
- average annual other recurring income per GP practice (mainly hosting fees) of approximately £1,700;
- average annual hardware sale and training revenues per GP practice of approximately £1,600; and
- other sales of a diverse nature averaging approximately £900 per GP practice per annum.

On the basis that EMIS Web is commercialised in line with the Group's plans, the Directors estimate that by the end of 2012 the average annual revenue per GP practice could be approximately £13,000, broken down as follows:

- average annual software licence fee per practice of approximately £5,000;
- average annual support services fees per GP practice of approximately £300;
- average annual other recurring income per GP practice of approximately £1,400;
- average annual hardware sale and training revenues per GP practice of approximately £2,000;
- other sales of a diverse nature averaging approximately £800 per GP practice per annum; and
- annual average hosting and other EMIS Web revenues per GP practice of approximately £3,500.

8. The healthcare IT environment

EMIS' core activity is the supply of its clinical healthcare systems to GP practices and PCTs in the UK, which in turn receive funding from central government.

NPfIT

NPfIT was established in October 2002 with the objective of modernising the NHS in England by replacing all existing systems with new centralised IT systems. The overriding aim of NPfIT was the creation of a single electronic health record for each patient to be made available across both primary and secondary care settings. This "replace all" policy involved the replacement of the systems of any IT supplier regarded as legacy and not part of NPfIT.

CfH was established in 2005 to oversee the implementation of NPfIT. The programme comprised the following key elements:

- National Data Spine, its core functionality being as follows:
 - Summary Care Record, holding key data, such as date of birth and allergies for each patient, to be securely shared by authorised healthcare professionals;
 - Electronic Prescription Service, enabling the transfer of prescriptions from GPs to pharmacies;
 - Choose and Book, providing patients with choice of appointments in secondary care upon referral from their GP;
 - Quality and Outcomes Framework, a rewards and incentives scheme and analysis tool for GPs and PCTs to gather feedback on quality of care, as well as a key determinant in the level of central funding allocated to a GP practice; and
 - GP2GP, enabling the transfer of patient data from one GP practice to another, for instance when a patient moves from one practice to another.
- "N3" network, a secure intranet linking users of the National Data Spine across primary, community and secondary care; and
- Local Service Providers, established in each of the five regional clusters to deliver a new Care Record Service within primary and secondary care. By the final stage of NPfIT, CfH's aim was for the Local Service Providers' software to have replaced the systems previously in place.

The Local Service Providers sub-contracted the delivery of software for the new Care Record Service to companies which were predominantly focussed on delivering software solutions for secondary care, including iSoft and Cerner, rather than to companies providing software for the primary care market centred around the patient's cradle to grave record. The Directors believed this strategy, based around software from the secondary care sector, was flawed and EMIS therefore opted out of working with the Local Service Providers but continued to work alongside CfH to deliver the modules providing the core functionality of the National Data Spine, as set out above.

The proposed Local Service Provider solutions met with considerable opposition from EMIS' core GP practice user base at the prospect of being forced to migrate away from the Group's software. Grounds for objection included the lower functionality and higher costs of the Local Service Provider software. As a result, EMIS has continued to supply and provide support services to its GP practice user group since the establishment of NPfIT.

In 2007, EMIS was one of a small number of suppliers to be included within the GPSoC contract, which gives GP practices the choice of systems from an approved supplier list. With effect from October 2007, CfH, via the GPSoC contract, provided GP practices with one-off funding of £80 million for the purchase of approved hardware and further ongoing funding for the licence of approved software and related support.

Approximately 90 per cent of English GP practices have now opted into the GPSoC scheme, given the continuing issues with the Local Service Providers. A more recent development, prompted by the withdrawal of Fujitsu as the Local Service Provider for NPfIT's Southern cluster, has been the establishment of the ASCC framework. This enables organisations within the NHS to make centrally funded purchases of software and IT systems from a selection of chosen suppliers, including EMIS.

Policy refocus

NPfIT's focus has now moved away from its centralised "replace all" policy to a "connect all" approach. Policy is now in favour of building on "best of breed" IT systems that facilitate interoperability between different platforms and mobilising patient data, such that it can be accessed and contributed to by a much wider range of healthcare professionals.

This shift in policy is demonstrated by the following quotes from recent NHS publications:

"To support the empowering of patients and staff to drive improvements in their health services and to increase productivity, we will focus on identifying and making use of familiar technologies which will enable people to use their preferred communication channels to access health services and to connect people."

"Effective use of technology can make a significant impact on reducing costs, by removing geography and time constraints, delivering transactions online, increasing convenience, enabling disintermediation ('cutting out the middle person'), and shortening the supply chain."

(Source: "Informatics Planning 2010/11", the NHS, December 2009)

The following quote by Andy Burnham, Secretary of State to the Department of Health, on 7 December 2009, demonstrates the change in political direction away from a "replace all" towards a "connect all" philosophy:

"GP systems are working well across the country and have high levels of satisfaction...It is working well, and technology makes it possible for those parts of the system to talk to other parts."

These policy developments also appear to be broadly supported by the Conservative Party:

"By the start of NPfIT, sophisticated systems, driven by a set of standards, had infiltrated the GP market extensively...Their durability and relevance were not understood by those producing NPfIT...There was a significant revolt by GPs who were mandated to change their software to new, centrally controlled systems with limited functionality which would have damaged the care of their patients."

(Source: "Independent Review of NHS and Social Care IT", commissioned by Stephen O'Brien MP, Conservative Shadow Minister for Health, August 2009)

Summary

The Directors believe that, following a period of uncertainty, EMIS has emerged in a position of strength which is, in particular, due to its software being centred around a patient's cradle to grave healthcare record and providing a strong platform for interoperability. The Directors also believe that the Group benefits from not having been associated with the well documented issues surrounding delivery under the Local Service Provider contracts.

Public healthcare spending – overview

There has been a significant increase in the provision of healthcare funding in recent years, having grown from £68.5 billion in the year ended 5 April 2004 to £102.3 billion in the year ended 5 April 2009 (*Source: Department of Health Departmental Annual Report 2008*).

Its split of healthcare funding and public sector healthcare employees between the four countries in the UK is as follows:

- England

NHS England was allocated a budget of £90.9 billion by central government for the year to 5 April 2009. In December 2009, the British Medical Association's briefing note on the Chancellor of the Exchequer's Pre-Budget Report stated that PCT funding allocations will rise by 5.5 per cent in cash terms in the year ending 5 April 2011, equivalent to 2.7 per cent in real terms. NHS England has approximately 1.3 million employees.

- Scotland

Healthcare is delivered via NHS Scotland, which had an annual budget for the year ended 5 April 2009 of £11.2 billion. Under the Scottish Government's draft budget for the year ending 5 April 2011, this budget is expected to rise to £11.4 billion. According to NHS Scotland Chief Executive's most recent Annual Report, NHS Scotland has approximately 165,000 employees.

- Wales

NHS Wales' budget for the year ended 5 April 2008 totalled £5.1 billion. NHS Wales has approximately 90,000 employees.

- Northern Ireland

The health service in Northern Ireland is provided by the country's Health and Social Care Service, covering approximately 1,900 organisations with a total annual budget for the year ended 5 April 2009 of £3.9 billion. The Health and Social Care Service has approximately 40,000 employees.

Two factors in particular have driven the increase in public sector expenditure on healthcare in recent years:

- An ageing population: the average age of the UK population is rising due to reducing fertility and mortality rates. According to the Office for National Statistics, the median age in the UK rose from 34.1 years in 1971 to 38.6 years in 2004 and is projected by them to rise to 42.9 years in 2031.
- A growing incidence of long-term conditions: according to the Department of Health, in January 2010, almost one in three of the population have a long-term condition and this is set to rise by 23 per cent over the next 25 years.

England's population is expected to grow by 6.3 per cent between 2009 and 2017, with those aged 45 or over accounting for 50 per cent of this growth (*Source: Government Actuaries Department 2009*). By 2030, the incidence of long-term disease in those aged 65 or over is estimated to double from current levels (*Source: Dartford/Gravesend and Swanley PCT Paper on baseline measurements for monitoring demand management project objectives to manage patients with certain chronic diseases*) and, by 2033, it is further estimated that 23 per cent of the population will be aged 65 or over (*Source: Office for National Statistics*).

The Directors believe that these factors will impose further significant strains on the UK's healthcare system, particularly within primary care. For instance, chronic disease patients already account for approximately 80 per cent of GP practice consultations. Other statistics which highlight the demands being placed on primary care providers include the following:

- approximately 250 million consultations take place annually in GP practices, with 15 per cent of the UK's population making an appointment with a GP in any two week period;
- the average patient will visit their GP approximately four times per annum, with 78 per cent of the UK's population visiting their GP at least once per annum;
- each GP is responsible for approximately 2,000 patients and will conduct approximately 7,000 consultations per annum; and
- 86 per cent of the UK population's health requirements are managed within the primary care setting.

(*Source: Royal College of General Practitioners http://www.rcgp.org.uk/patientinformation/what_is_general_practice.aspx*)

The Directors believe that these demographic pressures will require additional funding in order to maintain the current level of healthcare service provision.

Set against these demographic pressures are the significant constraints imposed by the size of the public sector budgetary deficit and the expectation of imminent spending cuts to address this. The pressures on spending are highlighted by the Chancellor of the Exchequer's commitment to grow NHS frontline spending only in line with inflation during the years ending 5 April 2012 and 5 April 2013.

Summary

The Directors believe that improvements in the productivity of public sector healthcare services will be key to (i) bridging funding gaps and (ii) addressing the increasing incidence of long-term conditions and that this, as explained below, will place the Group in a strong position to benefit from expected targeted NHS IT spend.

Healthcare IT spending

Public expenditure on healthcare IT in the UK totalled £2.6 billion for the year ended 5 April 2009, an increase of 11.1 per cent from the previous year's level of £2.3 billion.

As for general public healthcare expenditure, the level of healthcare IT spending is also likely to come under pressure:

- The Operational Efficiency Programme published by HM Treasury in May 2009 recommended that public sector bodies make 20 per cent savings in IT and back office functions over the following three years;
- In December 2009, in his "Smarter Government" report, UK Prime Minister, Gordon Brown, set out a number of targets for NHS organisations including reductions in consultancy spend by 50 per cent, communications spend by 25 per cent and IT project spend by 10 per cent;
- In a debate concerning NPfIT on 7 December 2009, Andy Burnham, the Secretary of State for Health, said the UK Government was "working towards achieving a reduction of £600 million in the lifetime costs of the programme"; and
- David Nicholson CBE, Chief Executive of NHS England, has also recently restated his commitment to identify £15 billion to £20 billion of efficiency savings by 5 April 2014 that can be reinvested within the service to aid the delivery of year-on-year improvements in service quality (*Source: "the operating framework for the NHS in England 2010/11"*).

Against these pressures, is the need for clinical software systems in the primary care sector that can cope with the increased demand for healthcare services and help deliver the efficiency savings required by healthcare organisations. This is reflected in the strategic priorities of healthcare organisations in their allocation of IT spend, which in the view of the Directors are as follows:

- clearing patient backlogs;
- shortening the patient pathway (the time it takes from a patient's initial GP consultation to completion of treatment);
- realising cost-savings; and
- enabling of remote and mobile working.

Summary

The Directors believe that EMIS' current software products facilitate the realisation of efficiency savings, for example, the increasing uptake of EMIS Access allowing patients to book their appointments directly, request medication and view their results over the internet.

Similarly, EMIS Web is expected to deliver additional efficiency savings from the reduction in administration and paperwork through the direct booking of specialist services, as evidenced by the trials of the software currently taking place in Liverpool and Tower Hamlets PCTs. Benefits of EMIS Web also include speeding up service delivery, mobilising patient data and connecting healthcare professionals in different disciplines. Efficiency savings are expected to improve a GP's performance against benchmarks set under the NHS' Quality and Outcomes Framework which determines the level of a GP's remuneration.

In summary, the Directors believe that EMIS' software products, in particular EMIS Web, will play a key role in helping healthcare organisations achieve their strategic objectives and that the Group will be well placed to benefit from the expected prioritisation of IT spending in targeted areas.

9. Markets and strategy

As at December 2009, EMIS software was being used at 6,356 separate locations.

GP market overview

EMIS' current core market is represented by 5,377 UK GP practices. The table below summarises EMIS' actual share of this market as at December 2009, together with its estimates for that of its main competitors:

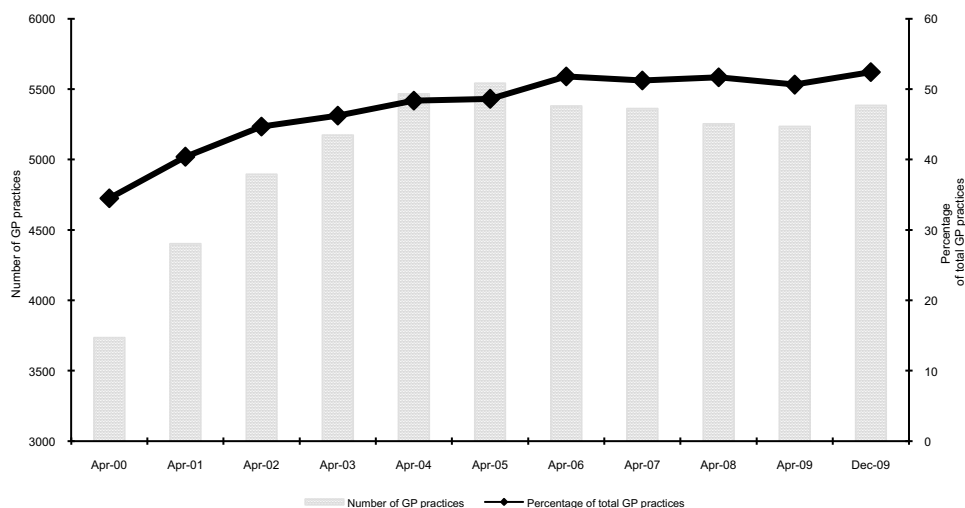
Country	EMIS estate	EMIS %	InPS estate	InPS %	iSoft estate	iSoft %	TPP estate	TPP %	Other	Other %	Total
England	4,936	59.0%	1,545	18.5%	832	9.9%	731	8.7%	321	3.9%	8,365
Scotland	132	12.8%	203	19.7%	25	2.4%	–	–	673	65.1%	1,033
Wales	160	31.6%	242	47.8%	99	19.6%	2	0.4%	3	0.6%	506
Northern Ireland	149	40.8%	82	22.5%	72	19.7%	–	–	62	17.0%	365
UK TOTAL	5,377	52.4%	2,072	20.2%	1,028	10.0%	733	7.1%	1,059	10.3%	10,269

Source: EMIS - based on EMIS records for its own systems and its estimates for competitors based on feedback from GP practices and PCTs and publicly available information. At 22 September 2009, TPP reported a UK market estate of 1,000 sites.

The table above shows that EMIS is the leading provider of clinical software systems to GP practices in the UK, with its systems used in 52.4 per cent of GP practices as at December 2009. In England, the Group's largest geographic market, 4,936 GP practices use the Group's software, a market share of 59.0 per cent. The Group also has a significant presence in Wales and Northern Ireland, as well as a growing market share in Scotland.

As demonstrated by the following chart, which shows the historical number and percentage of GP practices in the UK using EMIS' systems over the last nine years, EMIS has held a significant share in the market over this period. This includes the period between 2004 and 2008, when the Group was effectively regarded as a legacy supplier whose systems would be replaced by Local Service Provider systems.

Number and percentage of GP practices in the UK using EMIS' clinical software systems, from April 2000 to 2009 and at December 2009



Source: EMIS

Routes to market – GP practices

As stated above, the Group operates primarily in the UK and is the major provider in England with a significant presence in Wales and Northern Ireland and a growing market share in Scotland.

England

In England, as at December 2009, EMIS supplied 4,936 GP practices, a 59.0 per cent market share, including 4,837 GP practices, under the GPSoC contract, which was extended in June 2009 until 27 August 2011. Supply is via NHS England's 152 PCTs comprising primary care practitioners such as GPs, dentists, opticians and pharmacies. PCTs are responsible for management of 80 per cent of the total budget of the NHS.

Scotland

In Scotland, as at December 2009, EMIS supplied 132 GP practices, a 12.8 per cent market share.

The country is split into 14 regions, each with its own health board responsible for administering local healthcare organisations and holding overall responsibility for the delivery of primary and secondary care services. Primary care is delivered principally by independent contractors such as GPs, dentists, opticians and pharmacists working under a framework agreement with the health boards.

Until 2009, most GPs in Scotland used GPASS clinical healthcare software developed by NHS Scotland. Since then, the market in Scotland has been opened up to competition. EMIS has achieved Scottish Enhanced Functionality accreditation for the supply of its systems and is one of only two companies to have been invited to tender for the replacement of 650 GPASS software systems by April 2012.

Prior to the formal notification of EMIS' preferred bidder status, 51 GP practices within the Ayrshire and Arran Health Board had already chosen EMIS to replace their existing GPASS software.

Wales

In Wales, as at December 2009, EMIS supplied 160 GP practices, a 31.6 per cent market share.

NHS Wales oversees the delivery of healthcare in Wales and its budget is administered by the Health and Social Care Department of the Welsh Assembly Government. 22 local health boards are responsible for the delivery of primary care and their role includes monitoring and supporting GP practices, dentists, optometrists and pharmacists, most of whom are independent contractors.

The Group supplies its products and services in Wales under a four year contract agreed in August 2007 with the Informing Healthcare programme, a Welsh Assembly Government initiative established to improve healthcare services in Wales. The contract was initially agreed for a two year term and was then subsequently extended to July 2011. The Group's products are accredited to the programme's Minimum Software Specifications standard.

EMIS is in the process of agreeing a contract to increase its service provision to include central hosting of patients' electronic healthcare records as well as the option of implementing EMIS Access.

Northern Ireland

In Northern Ireland, as at December 2009, EMIS supplied 149 GP practices, a 40.8 per cent market share.

EMIS supplies its software under the GMS Systems and Services Framework Agreement signed with the Health and Social Services Board of Northern Ireland in March 2009.

Other customers

The MoD is a major customer (634 licences) to whom EMIS provides clinical GP healthcare and dental management software under a ten year contract effective to 2016. The integration of GP practice and dental practice management systems makes the software particularly suitable to other organisations requiring this functionality, such as immigration centres and polyclinics.

Other customers include HM Prison Service (36 licences), Canadian healthcare organisations (26 licences) and GP practices in the Channel Islands and the Isle of Man (16 licences and 13 licences respectively).

Competitors

EMIS' main competitors in the GP practice market are:

- InPS: Vision is InPS's core GP product. InPS is owned by Cegedim S.A. and has a 20 per cent* share of the UK GP practice market;
- iSoft: Premiere and Synergy are iSoft's core products for the GP practice market, both having been added to the company's portfolio as a result of its acquisition of Torex in 2004. iSoft is also a supplier to the Local Service Provider, Computer Sciences Corporation, under NPfIT. iSoft has a 10 per cent* share of the UK GP practice market; and
- TPP: SystmOne is TPP's GP product. TPP's route to market is also via Computer Sciences Corporation with whom TPP has a subcontractor relationship. TPP has an estimated seven per cent* share of the UK GP practice market.

* EMIS figures: estimates for competitors based on feedback from GP practices and PCTs and publicly available information. At 22 September 2009, TPP reported a UK market estate of 1,000 sites.

The rest of the UK market (1,059 GP practices, representing 10.4 per cent) is supplied by a variety of providers. The majority of these (650) are Scottish practices with GPASS systems which will now be replaced by EMIS or one other bidder.

Competitive strengths and barriers to entry

The Directors consider that the Group's competitive strengths and barriers to entry for new participants, which reinforce EMIS' position in its core GP practice market, include the following:

- *EMIS customer loyalty:* EMIS has generated significant customer loyalty over the years, with approximately 64 per cent of GP practices having used the Group's software products for 10 years or more. This loyalty is reinforced by the particularly high service levels provided by the Group. Statistics independently produced by CfH for all accredited suppliers consistently show EMIS' service levels at or towards the top of the rankings of GPSoC accredited suppliers. The view of the Directors is that after-sales support and reliability are key criteria in supplier selection.
- *Competitive pricing:* EMIS' software systems are generally much less expensive to install and maintain compared with its competitors and therefore the Group is able to compete very effectively on price as well as on service quality.
- *PCTs' rationalisation:* Recent trends in England are towards PCTs reducing the number of system suppliers. Given EMIS' 59.0 per cent market share amongst GP practices, it is in a strong position in cases where a PCT is seeking to award a contract to a sole provider.
- *Necessary accreditations:* EMIS has undertaken lengthy and rigorous processes in order to obtain the necessary accreditations required to supply its software to users in the healthcare sector, including the contractual right to supply under GPSoC, ASCC, Scottish Enhanced Functionality and the Minimum Software Specification in Wales. EMIS is the only supplier with all of these accreditations. Any new entrant to the market would be required to obtain these accreditations prior to supplying its products.
- *EMIS Web:* EMIS' core development spend on EMIS Web is now largely complete. Any new entrant to the market would need to make significant investment and spend considerable time in developing its software prior to commercialisation.
- *Data mobilisation benefits:* The EMIS Web system facilitates the sharing of patient data with other healthcare practitioners. This functionality is expected to create further loyalty as other healthcare practitioners start using the patient's cradle to grave record.

Growth strategy

Historically, EMIS has had a strong track record of organic growth which the Directors expect to continue.

Within the Group's core UK GP practice market, the Directors believe there are the following opportunities for organic growth:

- supplying new systems to the 650 Scottish GP practices needing to replace their GPASS systems. EMIS is one of only two companies holding preferred bidder status for this;
- providing upgrades to existing EMIS GP systems, including the installation of additional modules such as Summary Care Record, Electronic Prescription Service, Choose and Book and GP2GP;
- providing new products to existing EMIS GP practices, such as Automated Arrivals and flat screen patient call systems, enabling greater waiting room automation; and
- supplying EMIS systems to GP practices wishing to replace their existing software. The Directors believe that EMIS' high service levels, published by CfH, will be a strong selling point in this regard.

Overlaying the above, is the new EMIS Web opportunity, including:

- supplying EMIS Web to non-GP healthcare practitioners in the extended primary care and community care sectors. This provides EMIS with access to new potential user groups, including physiotherapists, minor injury clinics and health visitors.
- roll out of EMIS Web across the Group's existing GP practice user base, scheduled to take place over the next two to four years. The Directors expect that this will both increase the loyalty and extend the longevity of the existing user base.
- supplying EMIS Web to GP practices not currently using an EMIS system. The Directors believe that the functionality provided by EMIS Web, together with the Group's high service levels, will provide a significant incentive for GP practices that are not currently users of the Group's software to consider a change of system to EMIS Web.

The Directors also believe the Group's hosting of the patient's cradle to grave healthcare record gives it a significant opportunity to extend the reach of its software. This is expected to be achieved by adding new software functionality designed for other healthcare groups within primary, community or secondary care sectors, whether through in-house development or via acquisition.

The Group plans to build on its initial contract wins in Canada as well as use its accredited software status in Alberta and British Columbia to increase its share of these largely nascent markets. The Directors believe this will then provide the platform to roll out EMIS Web in a similar manner to the Group's plans in the UK, with the ultimate aim of providing healthcare professionals with secure shared access to patients' medical records.

10. Directors and employees

EMIS Group Directors

The Board comprises the Non-executive Chairman, three executive directors and an independent non-executive director. A short biography of each director is set out below.

Anthony (Tony) Jones, Non-executive Chairman (age 62)

A co-founder of EMIS, Tony headed up the commercial and strategic direction of EMIS from its inception until 2006 and remained as Executive Chairman until April 2008. After a brief sabbatical, Tony was appointed Non-executive Chairman of EMIS Group in May 2008. Whilst stepping back from day to day responsibility, he has nonetheless remained involved in the strategic development of EMIS Group and his continued input has been valued by the Board.

Prior to establishing EMIS, Tony was a Northern Regional Director for Compass Group.

It is intended that the Board will appoint an experienced independent Non-executive Chairman as soon as practicable following Admission. Once this appointment has been made, Tony will step down from the Board.

Sean Riddell, Chief Executive Officer (age 45)

Sean has 20 years' experience of IT within the healthcare sector, all gained with the Group. Sean joined EMIS in 1989 as a Field Support Manager responsible for software demonstration and installation, as well as on-site training of EMIS software users within GP practices. Sean's initial role then developed into a broader sales and marketing role for the Group.

Sean has had significant involvement in the Group's pioneering initiatives, such as enabling GP appointments to be booked via the internet, digital television or mobile phone, the secure viewing of a patient's medical records over the internet and the growth of www.patient.co.uk into one of the most frequently visited health portals in the UK. Sean is also one of the contributing authors to Patient Confidentiality, a medico-legal publication.

Sean was initially appointed to the EMIS board in 1999 and became Managing Director of EMIS in September 2006. He was then appointed Managing Director of EMIS Group upon its incorporation in April 2008.

Sean worked for Provident Financial Group as a Business Information Analyst prior to joining EMIS and has a degree in Psychology.

Sean is also a Non-executive director of Pharmacy2U and the Spa Retreat Limited, a charitable organisation providing spa and complementary treatments to women and children with life limiting conditions.

Phillip Woodrow, Finance Director (age 62)

Phillip has overall responsibility for financial aspects of the Group's strategy and operations. He joined EMIS Group as Finance Director in April 2008 on completion of the management buy-out.

Prior to joining EMIS, Phillip was a partner in Baker Tilly advising corporate clients in relation to business planning and acting on company acquisitions, sales and reorganisations. From 1988 to 1993, Phillip acted as Secretary to the Inspectors in relation to a major DTI investigation.

Phillip joined Smith & Hayward, a predecessor firm of Baker Tilly, in 1965 qualifying as a Chartered Accountant in 1970 and becoming a partner of that firm in 1972.

Phillip is also a non-executive director of Bradford City Challenge Foundation Limited, a charitable organisation providing funding to local charities in the Bradford area.

Phillip is a Fellow of the Institute of Chartered Accountants in England and Wales.

Dr David Stables, Director of Development Strategy (age 52)

David is responsible for the Group's future product strategy, including specification of software functionality, software design and architecture. Other responsibilities include clinical research using EMIS IT and technical research for next generation technologies relevant to healthcare.

David has over 25 years' experience in healthcare IT. His involvement in software development started in 1984 when David and fellow EMIS founder, Dr Peter Sowerby, developed an electronic medical record system to alert GPs to potential prescribing errors and to help with diagnosis. In 1987, they developed the first EMIS system that managed patient records within a GP practice and David was appointed Medical Director of EMIS in the same year. He went on to lead the EMIS software development team, with responsibility for software requirements, design, technology and clinical assurance, including the current EMIS Web system. In 2009, David was appointed Director of Strategic Development.

David qualified in Medicine at Dundee University in 1981, entered general practice in 1984 at Egton Surgery and was a partner in that practice from 1987 to 1991.

Robin Taylor, Non-executive Director (age 58)

Robin joined EMIS Group as an independent Non-executive Director on 1 March 2010 as part of the preparations for flotation, and brings many years' experience as a plc director. He is currently also Finance Director of Intec Telecom Systems plc ("Intec"), a main market publicly listed company. Robin joined Intec as Finance Director on 1 March 2007 from YFD Ltd, a provider of financial director services. During 2005 and 2006, Robin worked as an independent consultant on a number of projects. From 2000 to 2005, Robin was Group Finance Director of ITNET plc, a publicly listed IT managed services business sold to Serco in 2005, and previously he was Chief Financial Officer and Director of Business Development of JBA Holdings plc. Prior to that, Robin held a variety of financial and general management roles in both Europe and North America.

Robin is a member of the Institute of Chartered Accountants of Scotland and a Non-Executive Director of Covalent Software Ltd.

EMIS Directors

David Stables, Sean Riddell and Phillip Woodrow are also directors of EMIS, the Group's main trading company. A short biography for Gary Shuckford and Andy Whitwam, EMIS' other directors, is set out below.

Gary Shuckford, Group Operations Director (age 44)

Gary is EMIS' Group Operations Director and holds overall responsibility for the Group's central and field-based operations and achievement of associated sales and operational targets. This role focuses on account management of individual GP practices and PCTs, Strategic Health Authorities and other organisations within the NHS. Gary has a significant involvement in the Group's business development initiatives with these organisations.

Gary has worked in IT within the healthcare sector for 20 years, having joined the Group in 1990 as a Field Support Manager responsible for software demonstration and installation, as well as on-site training of EMIS software users within GP practices. Other positions that Gary has held with the Group include regional director and divisional director. In April 2008 Gary was appointed to the Board of EMIS as its National Operations Director. Gary also served as a director of EMIS Group until 1 March 2010, having been appointed to the Board as Group Operations Director, also in April 2008, on completion of the management buy-out.

Gary has a degree in Psychology and Psychopharmacology.

Andrew (Andy) Whitwam, Support Services Director (age 39)

Andy is EMIS' Support Services Director and holds overall responsibility for the operations of the Group's support, hosting and data transfer departments as well as providing input to the board on technical aspects of software and data management-related matters.

Andy joined EMIS in 1992 as a Support Consultant, having previously worked as an analyst programmer for a company providing integrated accounting systems. He has since held a number of software-related technical roles and managerial positions including Deputy Support Manager, Beta Unit Manager and General Manager of Support Services. Throughout his time with the Group, Andy has played a key role in the development of many of the software technologies and methodologies deployed by EMIS to support its GP practice user base.

In February 2002, Andy was appointed to the board of EMIS as its Support Service Director. Andy also served as a Director of EMIS Group until 1 March 2010, having been appointed to the Board as its Support Services Director on completion of the management buy-out in April 2008.

Employees

The Directors believe that EMIS' employees are fundamental to the success of the Group. As at 31 December 2009, the Group had 774 employees across the following areas:

	Number of employees
Software development	164
Software maintenance and support	403
Management and administration	207
	<hr/>
	774
	<hr/> <hr/>

11. Current trading and prospects

Since 31 December 2009, the Group has traded in line with the Board's expectations. Based on (i) the recurring nature of revenues generated by the Group's existing GP practice user base providing strong visibility over future earnings and (ii) the growth potential of EMIS Web, the Directors are confident of the Group's future prospects.

12. Management incentives

In order to motivate and reward key senior and other employees in a manner that aligns their interests with those of Shareholders in the long-term growth in value of the Company, the Company intends to establish, following Admission, three share-based incentive plans:

- An unapproved share option scheme (“Unapproved Scheme”);
- An HMRC-approved Company Share Ownership Plan (“CSOP”); and
- An all-employee Share Incentive Plan to allow all permanent employees in the UK to buy shares with, if they retain them for as long as the HMRC rules require, certain tax advantages.

Under the Unapproved Scheme and the CSOP, certain key executives and employees will be invited to participate at the discretion of the remuneration committee.

Shares acquired or options granted under any share incentive arrangements operated by the Company will be limited in total to 10 per cent of the Company’s issued share capital from time to time in any 10 year period. Options will also be subject to specified performance criteria, thereby linking remuneration to the performance of the Company.

It is also intended to establish an Employee Benefit Trust to assist in the operation and administration of the share incentive arrangements.

Paragraph 4 of Part V summarises the new share incentive arrangements intended to be established by the Company.

13. Reasons for Admission and use of Placing Proceeds

The Directors are seeking Admission for the following key reasons:

- The Directors believe that the enhanced disclosure and corporate governance regime that will apply to the Group following Admission will give the Group greater credibility in its discussions with government and organisations within the public sector;
- Admission will provide a mechanism by which:
 - the Group’s shareholder base can be broadened; and
 - key members of the Group’s management can be motivated and retained with reference to participation in employee equity incentive schemes; and
- Admission will provide the Group with greater flexibility for funding both further organic growth as well as growth by acquisition, if considered appropriate.

The expected net cash proceeds of the Placing for the Company will be approximately £23.3 million. These proceeds will be used to repay the £23.0 million loan to the Company from the Founder Shareholders.

14. Dividend policy

Historically, the Group has either re-invested earnings to fund its organic growth or has grown its cash balances, paying a dividend to the Founder Shareholders shortly before the management buy-out.

Subject to the Company’s lawful ability to pay dividends and any unforeseen circumstances, the Directors intend to pay an interim dividend in October and a final dividend in April of each year, with approximately half of the total dividend for any single year being paid in October and half in April. The Directors have adopted a progressive dividend policy and the first dividend is intended to be an interim dividend of £3.25 million payable in October 2010 in respect of the financial year ending 31 December 2010.

15. Corporate governance

Combined Code

The Directors acknowledge the importance of the principles set out in the Combined Code. Although compliance with the Combined Code is not compulsory for AIM companies, the Directors intend to apply the principles as far as practicable and appropriate for a public company of this nature and size. The Board also proposes to follow, as far as practicable, the recommendations on corporate governance of the Quoted Companies Alliance for companies with shares traded on AIM. Details of certain of the main features of the Company's corporate governance procedures which will be effective from Admission are set out in paragraph 12.3 of Part V of this document (which, as noted in such paragraph, will not at Admission be fully compliant with the provisions of the Combined Code).

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. Following Admission, the Directors intend to hold Board meetings 12 times in each year.

Board Committees

The Board has established an audit committee, remuneration committee and nomination committee, with formally delegated duties and responsibilities and with written terms of reference, as further described in paragraph 12 of Part V of this document. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises.

Audit committee

The audit committee assists the Board in discharging its responsibilities with regard to corporate governance, financial reporting and external and internal audits and controls, including, amongst other things, reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non audit services undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the Company's internal controls and risk management systems. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board.

The membership of the Company's audit committee will comprise Tony Jones, Robin Taylor and Phillip Woodrow and will be chaired by Robin Taylor, who is considered by the Directors to have recent and relevant financial experience. The Audit Committee will meet formally at least twice every year and otherwise as required. The Audit Committee will meet with the Company's external auditors at least once each year.

Remuneration committee

The remuneration committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration packages of individual Directors. This includes agreeing with the Board the framework for remuneration of the Chief Executive, all other executive directors, the company secretary and such other members of the executive management of the Group as it is designated to consider. It is furthermore responsible for determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options. The remuneration of non-executive directors will be a matter for the executive members of the board. No Director may be involved in any decision as to their own remuneration.

The membership of the Company's remuneration committee will comprise Tony Jones and Robin Taylor and will be chaired by Tony Jones. The remuneration committee will meet at least twice a year and at such other times as the chairman of the committee shall require.

Nomination committee

The nomination committee is responsible for leading the process for board appointments and making recommendations to the Board to implement a formal and transparent procedure for the appointment of new directors to the Board

The nomination committee will comprise Tony Jones and Robin Taylor and will be chaired by Tony Jones. The nomination committee will meet at least twice a year and at such other times as the Chairman of the committee shall require.

Share dealing code

The Company has adopted and will operate a share dealing code for Directors and applicable employees in order to ensure compliance with Rule 21 of the AIM Rules and will take proper steps to ensure compliance by the Directors and those employees.

16. Details of the Placing

Evolution Securities has, as agent for the Company and the Selling Shareholders pursuant to the Placing Agreement, conditionally agreed to use its reasonable endeavours to procure places for the Placing Shares at the Placing Price. The Placing Shares will be placed with institutional investors introduced by Evolution Securities.

The New Ordinary Shares will be issued by the Company pursuant to the Placing, representing approximately 14.29 per cent of the Enlarged Issued Share Capital and raising approximately £23.3 million for the Company net of estimated expenses of £1.7 million to the Company. Commentary on the use of the net proceeds of the Placing has been provided in paragraph 13 of this Part II.

The New Ordinary Shares will be issued credited as fully paid and will, on issue, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends and other distributions thereafter declared, made or paid on the Enlarged Issued Share Capital.

The Selling Shareholders have, pursuant to the Placing, agreed to sell the Sale Shares, raising gross proceeds for the Selling Shareholders of £25.0 million before their expenses. The placing of the Sale Shares is being undertaken to assist with post-Admission liquidity in the trading of the Company's Enlarged Issued Share Capital.

4,166,683 of the Sale Shares will be placed on behalf of Peter Sowerby and Tony Jones or their connected persons. A further 4,166,650 of the Sale Shares are being placed on behalf of the remainder of EMIS Group's shareholders, the majority of whom are either Directors, members of the Group's management team or are other key employees.

The Placing is conditional, inter alia, on Admission becoming effective and the Placing Agreement becoming unconditional in all other respects by no later than 8.30 a.m. on 29 March 2010 or such later date (being no later than 30 April 2010) as the Company and Evolution Securities may determine. The Placing Agreement contains provisions entitling Evolution Securities to terminate the Placing prior to Admission becoming effective. If this right is exercised, the Placing will lapse. The Placing has not been underwritten by Evolution Securities.

Application will be made to the London Stock Exchange for the Existing Ordinary Shares and the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Enlarged Issued Share Capital will commence on 29 March 2010.

17. Lock-in arrangements

Each of the Locked-in Persons, who will together hold approximately 71.43 per cent of the Enlarged Issued Share Capital, have undertaken to the Company and Evolution Securities that, except in certain limited circumstances, they will not dispose of any interest in the Ordinary Shares in which they or their connected person are interested as at Admission for a period of 12 months from the date of Admission. The Locked-in Persons have also undertaken that, for each of the next two successive periods of 12 months and unless the Company consents otherwise, they will only dispose in each such period up to a maximum of one third of the Ordinary Shares in which they and their connected persons are interested immediately following Admission and will only make a disposal during such period through the Company's broker from time to time and in accordance with orderly market principles.

Further details of this agreement are set out in paragraph 13.3 of Part V of this document.

18. Taxation information for investors

The attention of investors is drawn to the information regarding taxation which is set out in paragraph 9 of Part V of this document. These details are, however, intended only as a general guide to the current taxation law position in the UK. **Investors who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their professional advisers.**

19. Admission, settlement and dealings

Application has been made to the London Stock Exchange for the Group's Enlarged Issued Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence on 29 March 2010.

No temporary documents of title will be issued. All documents sent by or to a Placee who elects to hold Ordinary Shares in certificated form, or at his direction, will be sent through the post at the Placee's risk. Pending the despatch of definitive share certificates, instruments of transfer will be certified against the register of members of the Company.

20. CREST

CREST is a paperless settlement system enabling title to securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument, in accordance with the CREST Regulations. The Articles permit the holding of Ordinary Shares to be evidenced in uncertificated form in accordance with the CREST Regulations. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission and Euroclear has agreed to such admission.

Accordingly, Placees may elect to receive their Ordinary Shares in uncertificated form and settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if Shareholders so wish.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

All the Ordinary Shares will be in registered form and no temporary documents of title will be issued.

21. Risk factors

Prospective investors should consider carefully the risk factors described in the section headed "Risk Factors" and set out in Part III of this document in addition to the other information set out in this document and their own circumstances, before deciding to invest in Ordinary Shares.

22. Further information

Your attention is drawn to the additional information set out in Part V of this document.

PART III

RISK FACTORS

Prospective investors should consider carefully the risk factors described below, together with all of the other information set out in this document and their own circumstances, before deciding to invest in the Ordinary Shares. Should any of the following events or circumstances occur, the Group's results of operations, financial condition and business prospects could be materially adversely affected. In such circumstances, the market price of the Ordinary Shares could decline and investors could lose all or part of the value of their investment. The risks and uncertainties described below are not the only ones faced by the Group. Additional risks and uncertainties not presently known or currently deemed immaterial may also have a material adverse effect on the Group's results of operations, financial condition and business prospects.

General

The risks are not intended to be presented in any assumed order of priority. Reference should also be made to the notes to the Historical Financial Information set out in Section B of Part IV of this document.

Operating risks

Customer relationships

A large proportion of the Group's business is derived from supplying ongoing services to customers based on formal contracts. Despite historically low levels of customer attrition and the longevity of many of the Group's relationships with its core GP practice user base, it is possible that customer attrition rates may increase in the future in response to, for instance, declining service levels. Whilst the Group has procedures in place to minimise the risk of events of this nature occurring, such events could materially adversely affect the Group's performance, financial condition or business prospects.

Similarly, it is possible that framework agreements in England, Wales, Scotland or Northern Ireland may not be further extended or replaced. However, the Directors believe that the need for the provision of continuing IT and software services to the UK GP and wider healthcare market will remain and, given its strong market position, the Group is well placed. The termination of a material framework agreement could materially adversely affect the Group's performance, financial condition or business prospects.

Dependence on GP practices

The bulk of users of the Group's clinical software comprise GP practices. If the funding of GP practices' IT becomes subject to material change, this may have a material adverse effect on the Group's performance, financial condition or business prospects.

Dependence on EMIS partners

The Group has a number of partnership arrangements with various third parties who have developed add-on software modules that extend the functionality of the Group's core products. If these partners were to cease to support the Group or these modules, this could have an adverse effect on the Group's performance, financial condition or business prospects. However, the Directors are of the view that, if required, many of these products could be designed by the Group's software development teams.

Dependence on key personnel

The Group's future success is substantially dependent on the continued services and performance of its senior management including the Company's Directors, each of whom has significant relevant experience, however, there can be no assurance as to their continued service. The departure of key personnel from the Company without adequate replacement may have a material adverse effect on the Group's performance, financial condition or business prospects. However, the Group retains keyman insurance for Sean Riddell, Gary Shuckford and Andy Whitwam.

Intellectual property

The Group has registered certain trademarks or has applications pending over product and service names and also owns certain domain names used in its operations but has not otherwise registered any other intellectual property rights in its favour. It relies on the law of copyright and confidentiality, neither of which permit registration. Accordingly, the Group may not have the benefit of adequate intellectual property protection of its assets.

Any unprotected intellectual property rights used by the Group in the course of its business may be open to challenge by third parties, which could require the Group to become involved in litigation to protect its intellectual property rights and have a material adverse effect on the Group's performance, financial condition or business prospects.

Clinical safety risk

Approximately 39 million patient medical records are currently held on EMIS' software and it is possible that a software defect could result in an inaccuracy in a patient record which could then lead to a clinical safety incident. The Group has robust internal quality procedures in place and external accreditations of its software in order to minimise this risk.

Risk of negative publicity

The risks of holding sensitive patient data include negative publicity associated with, for instance, a breach of patient confidentiality. Whilst the Directors believe that the Group has established appropriate procedures to minimise the occurrence of such events, any associated negative publicity or threat of litigation against the Group could have a material adverse effect on the Group's performance, financial condition or business prospects.

Failure of information systems

The Group's internal computer systems are vulnerable to damage or interruption from floods, fires, power loss, telecommunications failures and similar events. These systems may also be subject to sabotage, vandalism, viruses and similar misconduct. Whilst the Group has taken steps to ensure that its systems are robust and adequately protected, any damage to or failure of the systems could result in interruptions to the Group's financial controls and client service. Such interruptions could have a material adverse effect on the Group's performance, financial condition or business prospects.

Environmental regulation

The Group is subject to extensive and changing environmental protection and health and safety laws and regulations. Ongoing compliance with environmental, health and safety laws and regulations could require the Group to incur significant expense, limit its ability to modify or expand its premises or require expenditure on capital improvements.

Future risks

Ability to win or maintain market share

Whilst the Directors believe that the Group has developed a strong position in its chosen markets and has a proven track record of software innovation, there are no assurances that the strength of the Group's competitors will not improve or that the Group will win any additional market share from its competitors or maintain its existing market share. The Group's competitors may be able to respond more quickly to new or emerging technologies, changes in client requirements and/or demands or devote greater resources to the development, promotion and sales of their products and services than the Group can. The Group's current and potential competitors may develop and introduce new products and services that could be priced lower, provide superior performance or achieve greater market acceptance than the Group's products and services. The Group's current and potential competitors have established, or may establish, financial and strategic relationships amongst themselves or with existing or potential clients or other third parties to increase the ability of their products to address client needs. Accordingly, it is possible that new competitors or alliances amongst competitors could emerge and acquire significant market share. Existing and/or increased competition could, therefore, adversely affect the Group's market share and/or force the Group to reduce the price of its products, which could have a material adverse effect on the Group's performance, financial condition or business prospects.

Ability of the Group to expand into new markets

A key aspect of the Group's growth strategy envisages the Group selling new or existing products and services into new markets, in particular potential non-GP users in the primary care sector as well as secondary care users. Whilst the Directors believe that these are viable areas for growth over the medium to longer term, there can be no guarantee that the Group will successfully execute this strategy for growth which may have a material adverse effect on the Group's future performance, financial condition or business prospects.

Continued market acceptance of the Group's product and services

If the Group's products and services do not sustain their competitive advantage, the Group's performance, financial condition or business prospects may be materially 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 services and to develop and market new products and services 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 and services.

Public sector healthcare spending

A key driver of the Group's business is the level of UK government spending on IT relating to healthcare delivery. In light of recent pronouncements from both major political parties in the UK in advance of the next general election, focusing on reducing the public sector budgetary deficit, the rate of growth in expenditure on healthcare-related IT may reduce significantly. This may have a material adverse effect on the Group's future performance, financial condition or business prospects. However, the Directors believe the Group is well placed to benefit from targeted IT healthcare spend due to the potential for the NHS to generate efficiency savings through the use of its products.

Technological change

Should the Group not be able to maintain or enhance the competitive value of its products or develop and introduce new products successfully or if new products fail to generate sufficient revenues to offset research and development costs, the Group's performance, financial condition or business prospects could be materially adversely affected. The Group has made a substantial investment in its software development team but cannot guarantee that it will continue to successfully develop these types of products.

Growth management and acquisitions

The Directors believe that further expansion, either organic or via acquisition, will be required to capitalise on the anticipated increase in demand for the Group's software systems. The Group's future success will depend, in part, on its ability to manage this anticipated expansion. Such expansion is expected to place demands on management, support functions, accounting, sales and marketing and other resources. If the Group is unable to manage its expansion effectively, its business and financial results could suffer.

Supply of licences to the Group's core GP practice user base

The rate of growth in the supply of new software licences and new hardware to the Group's current core GP practice user base has slowed in recent years, as the Group has achieved a market leading position. Whilst this provides a broad installed base from or into which the Group can derive ongoing recurring revenues and sell new products, the Group may be constrained in growing further its supply of new licences to GP practices which are not currently users of the Group's clinical software.

The need to raise additional capital in the future

If the Company were to make any material acquisitions in future, it may require further financing. Any additional equity financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on financing and operating activities.

Current operating results as an indication of future results

The Company's operating results may fluctuate significantly in the future due to a variety of factors, many of which are outside its control. Accordingly, investors should not rely on comparisons with the Company's results to date as an indication of future performance. Factors that may affect the Company's operating results include increased competition, an increased level of expenses, technological change necessitating additional capital expenditure, slower than expected sales and changes to the statutory and regulatory regime in which it operates. It is possible that, in the future, the Company's operating results may fall below the expectations of market analysts or investors. If this occurs, the trading price of the Company's Ordinary Shares may decline significantly.

Future uncertainty

This document contains certain forward looking statements that are subject to certain risks and uncertainties, in particular statements regarding the Group's plans, goals and prospects. These statements and the assumptions that underlie them are based on the current expectations of the Directors and are subject to a number of factors, many of which are beyond their control. As a result, there can be no assurance that actual performance of the Company will not differ materially from matters described in this document.

Commercialisation of EMIS Web

The commercial roll-out of EMIS Web planned for 2010 is key to the Group's future growth strategy. EMIS Web has already been successfully trialled by a number of non-GP users in the extended primary care sector. EMIS Web is also being run on a 'read-only' basis in 1,752 GP practices in the UK. Prior to EMIS Web going live across the Group's current core GP practice user base, it needs to complete successfully the NHS accreditation process currently underway. Whilst the Group has received positive feedback on the informal witness testing completed thus far, there can be no guarantee that EMIS Web will ultimately receive accreditation for use by GP practices or that the timing of accreditation will be in line with the Directors' current expectations. Failure to receive accreditation or delays in the accreditation process could have a material adverse effect on the Group's future performance, financial condition or business prospects.

Reputation

The Group's reputation, in terms of the service it provides, the way in which it conducts its business and the financial results which it achieves, are central to the Group's future success. Failure to meet the expectations of its clients, suppliers, employees, shareholders and other business partners may have a material adverse effect on the Group's reputation.

Risks relating to taxation

There can be no certainty that the current taxation regime in the UK or overseas jurisdictions within which the Group currently operates or may operate in the future will remain in force or that the current levels of corporation taxation will remain unchanged. There can be no assurance that there will be no amendment to the existing taxation laws applicable to the Group, which may have a material adverse effect on the Group's financial position.

Risks relating to the Ordinary Shares

The market price of the Ordinary Shares may fluctuate widely in response to different factors

The market price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, including: variations in the Company's operating results; additional issuances or future sales of the Company's shares or other securities exchangeable for or convertible into its shares in the future; the addition or departure of members of the Board or other members of the senior management team; divergence in financial results from stock market expectations; changes in stock market analyst recommendations regarding the software sector as a whole; the Company or any of its assets; a perception that other market sectors may have higher growth prospects; general economic conditions; legislative changes and other events and factors within or outside the Company's control.

Stock markets have from time to time experienced extreme price and volume volatility, which, in addition to general economic, political and other conditions, economic and diplomatic sanctions or events such as terrorist attacks, could adversely affect the market price for the Ordinary Shares. The Ordinary Shares may not be suitable for short term investment.

Admission should not be taken as implying that there will be a liquid market for the Ordinary Shares. Prior to Admission, there has been no public market for the Ordinary Shares and there is no guarantee that an active trading market will develop or be sustained after Admission. If an active trading market is not developed or maintained the liquidity and trading price of the Ordinary Shares could be adversely affected. Even if an active trading market develops, the market price of the Ordinary Shares may not reflect the value of the underlying investments of the Company. The value of the Ordinary Shares may go down as well as up and the Placing Price may bear no relation to the price at which the Ordinary Shares will trade following Admission.

The Company may in the future issue new ordinary shares, which may dilute Shareholders' equity

The Group's capital requirements depend on a number of factors. If its capital requirements vary materially from its current estimates, the Group may require further equity financing. The Act sets out pre-emption rights for Shareholders in relation to issues of shares in consideration for cash. These rights can be disapplied in certain circumstances in accordance with the provisions of the Act. If pre-emption rights are disapplied, any additional equity financing may be dilutive to those Shareholders who cannot, or choose not to, participate in such financing.

Sales of Ordinary Shares by Directors or other members of senior management or the possibility of such sales, may affect the market price of the Ordinary Shares

Sales of Ordinary Shares or interests in the Ordinary Shares by Directors or other members of senior management could depress the market price of the Ordinary Shares. The Locked-in Persons have agreed for a 12 month period after Admission, subject to certain exceptions, not to, among other things, offer, sell, contract to sell, grant options over or otherwise dispose of, directly or indirectly, any of the Ordinary Shares in which he or it is interested as at Admission, without the prior written consent of Evolution Securities. Following the end of the 12 month period, as documented in paragraph 13.3 of Part V the Locked-in Persons are bound by further measures restricting their ability to dispose of Ordinary Shares. A substantial amount of Ordinary Shares being sold, or the perception that sales of this type could occur, could also depress the market price of the Ordinary Shares. Both scenarios, occurring either individually or collectively, may make it more difficult for investors to sell the Ordinary Shares at a time and price that they deem appropriate.

The interest of existing Shareholders or any significant new investor may conflict with those of other Shareholders and future sales of the Ordinary Shares by any significant investor in the public market could cause the share price to fall

Upon Admission, existing Shareholders will, together, hold in aggregate approximately 71.43 per cent of the Enlarged Issued Share Capital. Accordingly upon Admission and at any time thereafter either one or more existing Shareholders, or new investors who may acquire significant holdings of Ordinary Shares, may from time to time potentially possess sufficient voting power to either have a significant influence on matters requiring shareholder approval or be in a position (alone or jointly with others) to determine the success of any potential takeover offer for the Company. The interests of any existing Shareholders or significant new investor may, accordingly, conflict with those of other holders of Ordinary Shares. In addition, subject to any restrictions to which any employee of the Group may be subject under his contract of employment, any existing Shareholder or significant new investor may make investments in other businesses in the UK software market that may be, or may become, competitors of the Company.

The Company's ability to pay dividends will depend upon its ability to generate sufficient earnings and certain legal and regulatory restrictions

All dividends and other distributions paid by the Company will be made at the discretion of the Board. The payment of any such dividend or other distributions will depend upon a number of factors, including the Company's operating results, financial condition, current and anticipated cash needs, any interest costs and legal and regulatory restrictions and such other factors as the Board may deem relevant from time to time. The Company's ability to pay dividends will largely depend on the Group's ability to generate realised profits and cash flow and its ability to pass such profits and cash flows to the Company on a timely basis. It is the Directors' present intention to pursue a progressive dividend policy.

The liquidity of the Ordinary Shares may be limited

Investment in shares traded on AIM is perceived to involve a higher degree of risk and can be less liquid than investment in companies whose shares are listed on the Official List. AIM has been in existence since June 1995 but the future success and liquidity in the market of the Company's securities cannot be guaranteed. A significant limit on liquidity of the Ordinary Shares could result in Shareholders realising, on a disposition of Ordinary Shares, an amount which is less than the amount of their initial investments.

PART IV

FINANCIAL INFORMATION ON THE GROUP

SECTION A – ACCOUNTANT’S REPORT ON THE GROUP

The following is the full text of a report on EMIS Group plc from Baker Tilly Corporate Finance LLP, the Reporting Accountants, to the Directors.



2 Bloomsbury Street
London
WC1B 3ST

The Directors
EMIS Group plc
Fulford Grange
Micklefield Lane
Rawdon
Leeds
West Yorkshire
LS19 6BA
United Kingdom

24 March 2010

Dear Sirs

EMIS GROUP plc (“the Company”)

We report on the financial information set out in Section B of Part IV. This financial information has been prepared for inclusion in the Admission Document dated 24 March 2010 (“Admission Document”) of EMIS Group plc on the basis of the accounting policies set out in note 1.

This report is made solely for the purposes of paragraph 20.1 of Annex I of the Prospectus Rules as if they had been applied by part (a) of Schedule Two of the AIM Rules. Our audit work has been undertaken so that we might state those matters we are required to state in an accountants’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than a person as and to the extent provided by paragraph 20.1 of Annex I of the Prospectus Rules as if it had been applied by part (a) of Schedule Two of the AIM Rules, for our audit work, for this report, or for the opinions we have formed or consenting to its inclusion in the Admission Document.

Responsibilities

As described in note 1 the Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1 to the Historical Financial Information and in accordance with International Financial Reporting Standards as adopted by the European Union except, as described at note 1 to the Historical Financial Information, that certain accounting conventions, commonly used for the preparation of historical financial information for inclusion in investment circulars, as described in the Annexure to Standard For Investment Reporting 2000 issued by the Auditing Practices Board in the United Kingdom, have been applied.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. 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 judgments made by those responsible for the preparation of the financial information 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 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

Year ended 31 December 2007

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the consolidated state of affairs of Egton Medical Information Systems Limited as at 31 December 2007 and of its consolidated profits, cash flows and changes in equity for the year ended 31 December 2007 in accordance with the basis of preparation set out in note 1.

Year ended 31 December 2008

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the consolidated state of affairs of EMIS Group plc as at 31 December 2008 and of its consolidated profits and cash flows and changes in equity for the period since incorporation (3 April 2008) to 31 December 2008 as combined with the consolidated results of Egton Medical Information Systems Limited for the period 1 January 2008 to 3 April 2008 in accordance with the basis of preparation set out in note 1.

Year ended 31 December 2009

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the consolidated state of affairs of EMIS Group plc as at 31 December 2009 and of its consolidated profits, cash flows and changes in equity for the year ended 31 December 2009 in accordance with the basis of preparation set out in note 1.

Declaration

For the purposes of part (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

Yours faithfully

Baker Tilly Corporate Finance LLP

Regulated by the Institute of Chartered Accountants in England and Wales

Baker Tilly Corporate Finance LLP is a limited liability partnership registered in England and Wales, registered no. OC325347. A list of the names of members is open to inspection at the registered office 2 Bloomsbury Street London WC1B 3ST.

SECTION B – HISTORICAL FINANCIAL INFORMATION ON THE GROUP

EMIS Group plc

Consolidated statement of comprehensive income for the three years ended 31 December 2009

The financial information set out below in respect of the underlying business of EMIS and the Company, that acquired EMIS on 4 April 2008, has been prepared by the directors of the Company on the basis set out in note 1.

	Notes	2007 £'000	2008 £'000	2009 £'000
Continuing Operations				
Revenue	4	48,467	55,398	57,696
Changes in inventories	29	(151)	390	(498)
Cost of goods purchased		(8,121)	(9,449)	(9,022)
Employee benefit expense	10	(27,397)	(28,588)	(21,820)
Other operating expenses – (including contract asset depreciation)	5	(5,829)	(7,664)	(6,209)
Earnings before interest, tax, depreciation and amortisation		6,969	10,087	20,147
Depreciation of property, plant and equipment	15	(1,900)	(2,026)	(2,299)
Amortisation of intangible assets	14	–	(2,191)	(2,074)
Operating profit	8	5,069	5,870	15,774
Finance income	6	1,762	547	62
Finance costs	7	–	(2,664)	(1,572)
Share of profit of associate	17	–	217	198
Profit before taxation	4	6,831	3,970	14,462
Income tax expense	11	(2,341)	(1,564)	(4,521)
Total comprehensive income for the year				
– attributable to equity holders of the Company	26	–	939	9,941
– attributable to pre-acquisition equity holders of EMIS	26	4,490	1,467	–

EMIS Group plc**Consolidated statement of financial position as at 31 December 2007, 31 December 2008 and 31 December 2009**

	Notes	2007 £'000	2008 £'000	2009 £'000
ASSETS				
Non-current assets				
Goodwill	13	–	15,853	15,853
Other intangible assets	14	–	18,609	21,055
Property, plant and equipment	15	8,496	8,072	9,506
Investment in associate	17	2,137	2,354	2,552
Deferred tax asset	18	143	–	–
		<u>10,776</u>	<u>44,888</u>	<u>48,966</u>
Current assets				
Inventories	19	810	1,172	674
Trade and other receivables	20	5,913	5,541	7,500
Cash and cash equivalents	21	25,073	6,070	5,221
		<u>31,796</u>	<u>12,783</u>	<u>13,395</u>
Total assets		<u><u>42,572</u></u>	<u><u>57,671</u></u>	<u><u>62,361</u></u>
LIABILITIES				
Current liabilities				
Trade payables		(4,728)	(5,577)	(3,381)
Current tax liabilities	22	(2,396)	(3,712)	(3,516)
Other financial liabilities	24	–	(547)	–
Bank loans	23	–	(2,484)	(1,184)
Deferred income		(6,065)	(4,285)	(7,613)
		<u>(13,189)</u>	<u>(16,605)</u>	<u>(15,694)</u>
Non-current liabilities				
Bank loans	23	–	(11,072)	(5,763)
Other loans		–	(23,000)	(23,000)
Deferred tax liability	18	–	(5,555)	(6,524)
		<u>–</u>	<u>(39,627)</u>	<u>(35,287)</u>
Total liabilities		<u>(13,189)</u>	<u>(56,232)</u>	<u>(50,981)</u>
NET ASSETS		<u><u>29,383</u></u>	<u><u>1,439</u></u>	<u><u>11,380</u></u>
EQUITY				
Ordinary share capital	25	1	500	500
Retained earnings	26	29,382	939	10,880
TOTAL EQUITY		<u><u>29,383</u></u>	<u><u>1,439</u></u>	<u><u>11,380</u></u>

EMIS Group plc**Consolidated statement of changes in equity for the three years ended 31 December 2009**

	Notes	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2007	25,26	1	25,067	25,068
Total comprehensive income for the year	26	–	4,490	4,490
Translation difference		–	(175)	(175)
		<hr/>	<hr/>	<hr/>
Balance at 1 January 2008	25,26	1	29,382	29,383
Total comprehensive income for the period to 3 April 2008		–	1,467	1,467
Dividends paid	13	–	(7,000)	(7,000)
		<hr/>	<hr/>	<hr/>
Balance at 3 April 2008		1	23,849	23,850
		<hr/>	<hr/>	<hr/>
Balance at 4 April 2008		1	23,849	23,850
Reversal of pre-acquisition reserves to 3 April 2008		(1)	(23,849)	(23,850)
Proceeds from shares issued	25	500	–	500
Total comprehensive income for the period to 31 December 2008		–	939	939
		<hr/>	<hr/>	<hr/>
Balance at 1 January 2009	25,26	500	939	1,439
Total comprehensive income for the year	26	–	9,941	9,941
		<hr/>	<hr/>	<hr/>
Balance at 31 December 2009		<u>500</u>	<u>10,880</u>	<u>11,380</u>

EMIS Group plc**Consolidated statement of cash flows for the three years ended 31 December 2009**

		2007	2008	2009
	Notes	£'000	£'000	£'000
Cash flows from operating activities				
Cash generated from operations	28	1,203	10,867	19,864
Interest paid		(7)	(2,609)	(2,161)
Settlement of financial derivative		–	–	(524)
Interest received	6	1,586	547	62
Tax paid		(1,233)	(2,760)	(3,127)
		<hr/>	<hr/>	<hr/>
Net cash generated from operating activities		1,549	6,045	14,114
Cash flows from investing activities				
Purchase of property, plant and equipment	15	(2,748)	(1,592)	(4,113)
Proceeds from sale of property, plant and equipment		422	371	295
Internally developed software	14	–	–	(4,520)
Purchase of subsidiary companies	30	–	(30,871)	–
		<hr/>	<hr/>	<hr/>
Net cash from investing activities		(2,326)	(32,092)	(8,338)
Cash flows from financing activities				
Proceeds from issue of ordinary shares	25	–	500	–
Bank term loan		–	10,625	(6,625)
Bank mortgage		–	3,000	–
Debt issue costs		–	(81)	–
Dividends paid	12	–	(7,000)	–
		<hr/>	<hr/>	<hr/>
Net cash used in financing activities		–	7,044	(6,625)
		<hr/>	<hr/>	<hr/>
Net decrease in cash and cash equivalents		(777)	(19,003)	(849)
Cash and cash equivalents at 1 January		25,850	25,073	6,070
		<hr/>	<hr/>	<hr/>
Cash and cash equivalents at 31 December		25,073	6,070	5,221
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

EMIS Group plc

Notes to the Historical Financial Information for the three years ended 31 December 2009

1. Accounting policies

The Company is incorporated in the UK whose activities consist of the design of computer software for the healthcare professions, principally general practitioners, together with the supply and support of computer systems for the healthcare profession and other users.

The historical financial information includes EMIS Group plc and its subsidiaries (together referred to as "Group").

The Company is incorporated and domiciled in the UK. The address of its registered office is Fulford Grange, Micklefield Lane, Rawdon, Leeds.

The historical financial information has been prepared and approved by the Directors in accordance with International Financial Reporting Standards as Endorsed by the EU ("Endorsed IFRSs").

Basis of preparation

The historical financial information has been prepared under the historical cost convention, except for certain financial instruments, and in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union, International Financial Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS except as described below.

The Historical Financial Information (HFI) has been prepared and presented on the following basis:

- The consolidated financial information for EMIS for the year ended 31 December 2007;
- The consolidated financial information for the Group for the period from 4 April 2008 to 31 December 2008 as combined with the consolidated financial information for EMIS for the period from 1 January 2008 to 3 April 2008 to reflect a full 12 month period of results. The statement of financial position is that of the Group as at 31 December 2008, the statement of comprehensive income shows the combined result for the year and the statement of cash flows shows the combined cash flows for the year; and
- The consolidated financial information for the Group for the year ended 31 December 2009.

IFRSs as adopted by the EU do not provide for the preparation of combined financial information and accordingly in preparing the historical financial information for the year ended 31 December 2008, certain accounting conventions commonly used for the preparation of combined historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board have been applied. The rationale for the combined preparation and presentation of the results for the year ended 31 December 2008 is by virtue of the common management throughout the accounting periods included in the HFI. This combined presentation of the financial information for the year ended 31 December 2008 in the HFI is a material departure from the requirements of IFRS 3; Business Combinations. In other respects IFRSs as adopted by the EU have been applied.

The preparation of historical financial information in conformity with generally accepted accounting principles requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses. It also requires management to exercise its judgement in the application of accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in note 2.

EMIS Group plc

Notes to the Historical Financial Information for the three years ended 31 December 2009

1. Accounting policies (continued)

The Group has adopted the following amended IFRS:

- IAS 1 (revised). "Presentation of financial statements" – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been presented so that it also is in conformity with the revised standard.

The following standards and amendments to existing standards have been published and are not yet effective:

Standard	Issued	Effective date: Periods commencing on or after
IFRS3 Business Combinations – Comprehensive revision on applying the acquisition method	10 Jan 08	1 Jul 09
IAS27 Consolidated and Separate Financial Statements – Amendments arising from IFRS 3	10 Jan 08	1 Jul 09
IAS 28 Investments in Associates – Consequential amendments arising from IFRS 3	10 Jan 08	1 Jul 09
IAS 31 Investments in Joint Ventures – Consequential amendments arising from IFRS 3	10 Jan 08	1 Jul 09
IAS 32 Financial Instruments: Presentation – Amendment; Classification of Rights Issues	8 Oct 09	1 Feb 10
IAS39 Financial Instruments: Recognition and Measurement – Amendment; Eligible hedged items	31 Jul 08	1 Jul 09

Basis of consolidation

Subject to the Basis of Preparation above the historical financial information consolidates the financial information of the Company together with those of its two trading subsidiary companies, EMIS and EMIS Inc (a company registered in Canada), and the two non-trading subsidiaries, EMIS Professional Publishing Limited and Pathway Trust Limited.

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain economic benefits from their activities.

The subsidiaries have been accounted for by the Group using the acquisition method of accounting, their results being incorporated from the date that control passed. Identifiable assets acquired and liabilities assumed are measured initially at their fair values at the acquisition date. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the separable identifiable net assets acquired and liabilities incurred or assumed at the date of exchange, plus directly attributable acquisition costs, is capitalised as purchased goodwill. Provision is made for any impairment.

Inter-company transactions, balances and unrealised gains and losses on transactions between the Group companies are eliminated on consolidation.

1. Accounting policies (continued)*Associates*

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through participation in financial and operating policy decisions.

The investment in the associate has been recognised in the Group's historical financial information using the equity method of accounting from 4 April 2008 and is initially carried in the statement of financial position at cost. The Group's share of post acquisition profits or losses is recognised in the consolidated statement of comprehensive income and its share of post acquisition movements in reserves is recognised in reserves. The carrying value of the investment (including any goodwill) is tested for impairment when there is objective evidence of impairment. Unrealised gains and losses on the Group's transactions with the associate are eliminated to the extent of the Group's interest in the associate. Where necessary, adjustments are made to bring the accounting policies used into line with those used by the Group.

Operating and geographical segments

Operating and geographical segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating and geographical segments, has been identified as the Company's board of directors.

Revenue recognition

Revenue is recognised at the fair value of the right to the consideration received or receivable for goods sold and services provided in the normal course of business during the year. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount can be reliably measured; it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities, as described below:

- Revenue from licences, maintenance, support and similar services is credited to deferred income and released on a straight line basis over the period of supply.
- Revenue from training and other similar services is recognised when the service is delivered.
- Revenue from system installations and upgrades is recognised when delivery to a customer has occurred with no significant vendor obligations remaining and where the collection of the resulting receivable is considered probable. In instances where a significant vendor obligation exists, revenue recognition is delayed until the obligation has been satisfied.
- Revenue from other hardware and consumables sales is recognised when ownership passes.

The Group has a contract in relation to the provision of General Practitioner Systems of Choice (GPSoC), under which, during 2009, it has finalised the terms of an extension to this contract to supply hosted services to National Health Service Connecting for Health (NHS CFH) standards. Full implementation of this contract, involving certain pre-determined milestones, will take place in the future over a two to four year period. Revenue flows have however commenced in the latter part of 2009 in relation to the provision of data centre infrastructure and hardware and other related services. The Group recognises revenue from this contract as follows:

- Provision of infrastructure and hardware – in line with and approximates to the anticipated life of the related assets as capitalised within property, plant and equipment.
- Other services are recognised when delivered or over the period of supply as appropriate.

1. Accounting policies (continued)

Invoices raised in advance of the provision of services to customers are recorded in the statement of financial position as deferred income and included within current liabilities.

Where the Group recognition criteria exists but no invoice to the customer has been raised at the period end, revenue is recognised as normal and included as accrued income within trade and other receivables on the statement of financial position.

Operating profit

Operating profit relates to profit before finance income, finance costs, share of profit of associate and income tax expense.

Intangible assets*(a) Goodwill*

Goodwill represents the excess of the cost of an acquisition of a subsidiary compared with the fair value at the date of acquisition of the net identifiable assets acquired. Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the statement of comprehensive income and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to cash generating units of the acquirer which represent the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(b) Computer software

Software relates to the fair value of software acquired by the Group on purchase of subsidiary undertakings and the cost of internally developed software.

Software acquired with subsidiary companies is recognised at fair value at the acquisition date using the multi-period excess earnings method. Such software is then carried at fair value less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method over the expected life of the software from the date that it becomes available for use.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design, development and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets from the point in time that:

- it becomes probable the project will be a success,
- the project or product is technically and commercially feasible,
- the development costs can be measured reliably,
- sufficient resources are available to complete the development and use the asset.

Costs capitalised as internally generated software consist only of the directly attributable development employee costs.

Internally generated software is amortised once products are available for use on a straight-line basis over their useful life of six years.

Where the above criteria have not been achieved, development expenditure is recognised as an expense in the period in which it is incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1. Accounting policies (continued)*(c) Customer relationships*

Customer relationships acquired with subsidiary companies are recognised at fair value at the acquisition date using the multi-period excess earnings method. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship. Customer relationship assets are impaired if the relationship with the customer ceases.

In view of the significant progress made by the Group during 2009 and in particular in relation to the GPSoC extension and arrangements to supply hosted services to NHS Connecting for Health standards referred to above in the revenue recognition policy, as at 31 December 2009 customer relationships are being amortised over a 15 year period. For the period to 31 December 2008 an eight year amortisation period was being used.

Property, plant and equipment

Fixed assets acquired with EMIS and EMIS Inc. on 4 April 2008 are stated at the fair value cost at that date. Subsequent acquisitions are stated at historical cost. Depreciation is provided on all tangible fixed assets other than freehold land to write assets down to their estimated residual value over their estimated useful lives at the following annual rates:

Freehold property	2 per cent straight line
Computer equipment	33 per cent straight line
Fixtures, fittings and equipment	25 per cent reducing balance
Motor vehicles	20 per cent straight line

Those fixed assets acquired with EMIS and EMIS Inc. on 4 April 2008 and depreciated using the straight line basis have the above annual rates applied using each asset's original cost and original date of acquisition.

Fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable or as otherwise required by relevant accounting standards.

Impairment of property, plant and equipment and intangible assets excluding goodwill

At each year end, the Group reviews the carrying amounts of its property, plant and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

An impairment loss is recognised whenever the carrying amount of an asset, or its cash-generating unit, exceeds the asset's recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of assets is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items.

1. Accounting policies (continued)

Financial instruments

Classification of financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the arrangement entered into.

Financial instruments issued by the Group are classified as financial liabilities if they:

- Include a contractual obligation to deliver cash or other financial assets; or
- A contractual obligation to exchange financial assets or liabilities under conditions that are potentially unfavourable; or
- Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative where the Company may be obliged to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled other than by the Company exchanging a fixed amount of a financial asset (including cash) for a fixed number of its own equity instruments.

An equity instrument does not meet the above criteria and represents an interest in the residual value of the Group once all liabilities are deducted.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Bank and other borrowings

Bank and other loans are recorded initially at their fair value, net of issue costs. Issue costs are charged to the statement of comprehensive income over the term of the instrument at a constant rate on the carrying amount. Such instruments are subsequently carried at their amortised cost.

Derivative financial instruments

Derivatives are initially recorded at fair value. The Group has chosen not to adopt hedge accounting, therefore derivatives are classified as held for trading with changes in the fair value being recognised as finance income or expense.

Financial assets

A financial asset is any asset that is either cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity, or a contractual obligation to exchange financial assets or liabilities under conditions that are potentially favourable.

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand and at bank. There are no bank deposits with maturity dates of more than three months.

1. Accounting policies (continued)***Trade receivables***

Trade receivables are amounts due from customers for goods sold and services provided in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate.

Taxation

The taxation expense charged in the consolidated statement of comprehensive income represents the sum of the current tax expense and the deferred tax expense.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from accounting profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group liability for current tax is measured using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is charged or credited in the comprehensive income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax relates to income tax levied by the same tax authorities on either:

- the same taxable entity; or
- different taxable entities which intend to settle current tax assets and liabilities on a net basis or to realise and settle them simultaneously in each future period when the significant deferred tax assets and liabilities are expected to be realised or settled.

Leasing

Operating lease annual rentals are charged in the statement of comprehensive income on a straight-line basis over the term of each lease.

1. Accounting policies (continued)**Retirement benefit costs**

The costs charged in the historical financial information represent the contributions payable by EMIS Group during the period into defined contribution schemes. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Functional and presentational currency

The historical financial information is presented in sterling, which is also the functional currency of the Company.

Foreign currencies

Assets and liabilities denominated in currencies other than the functional currency of the Company are translated at the rate of exchange ruling at the statement of financial position date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the statement of comprehensive income.

As regards EMIS Inc, on consolidation the assets and liabilities have been translated into the Group's presentational currency at the rate ruling at the statement of financial position date and the results have been translated at the average rate for the period. Material exchange differences arising are dealt with through reserves.

2. Critical accounting estimates and judgements

Accounting estimates and judgements are based on past experience together with expectations relating to and evaluation of future events that are believed to be reasonable at the present time. Due to the inherent uncertainty involved in making these estimates and judgements, actual outcomes could be different. The critical estimates, assumptions and judgements made in arriving at the amounts recognised in the Group financial statements that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are as follows:

Intangible assets acquired through business combinations

On 4 April 2008 the Company acquired all of the share capital of EMIS together with its subsidiary, EMIS Inc. As part of the fair value exercise, intangible assets not separately recognised in the accounts of the acquiree were identified and measured at fair value. The valuation of these assets relies on various assumptions, including future revenues and costs derived from those assets and the selection of appropriate discount rates in order to calculate acquisition values. Amortisation rates are set out in the Summary of Significant Accounting Policies on pages 55 to 62.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the fair value of the cash-generating unit to which the goodwill is allocated. Estimating a fair value less cost to sell amount requires management to make an estimate of the realisable value of the cash generating unit.

Development costs

Software development costs are capitalised when the criteria set out in the appropriate accounting policy above has been met and amortised over their estimated useful lives. Useful lives are based on management estimates of the period that assets are expected generate revenue. These estimates are reviewed periodically for continued appropriateness. Changes to estimates can result in variations in carrying values and amounts charged to the statement of comprehensive income from period to period.

EMIS Group plc

Notes to the Historical Financial Information for the three years ended 31 December 2009

3. Financial risk management

The Group's activities expose it to financial risks including credit risk, liquidity risk, interest rate risk and foreign currency risk. The Group manages these risks through an effective risk management programme that seeks to minimise potential adverse effects on the Group's performance. The Group has only limited exposure to price risk.

Exposure to financial risks is monitored by the finance/administration department under policies approved by the board. An assessment of the risks is provided to the board at regular intervals and is discussed to ensure that the risk mitigation procedures are compliant with the Group's policy and that any new risks are appropriately managed.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables, which are stated net of allowances for any estimated irrecoverable amounts.

There is some concentration of risk, as EMIS has significant dealings with Connecting for Health (an agency of The National Health Service) and with Primary Care Trusts. However, EMIS has long standing relationships with its large number of end users and in addition to the normal credit management processes, the nature of these relationships assist management in controlling its credit risk.

Liquidity risk

Management control and monitor the Group's cash flow on a regular basis, including forecasting future cash flows, to ensure that it has sufficient funds to meet the obligations of EMIS Group as they fall due.

A detailed analysis of the Group debt together with the maturity profile is disclosed in note 23 to the historical financial information.

Interest rate risk

By arrangement with its bankers, the Company's commercial hedging arrangements in place at 1 January 2009 were unwound during 2009. Accordingly, as at 31 December 2009 the Company has exposure to interest rate risk in relation to its remaining bank debt amounting to £7 million. Details of the interest rates and repayment terms are disclosed in note 23 to the historical financial information.

The Group also has exposure to interest rate risk in relation to other loans amounting to £23 million issued in 2008 on the acquisition of EMIS and EMIS Inc and due for repayment in 2018. Interest payable throughout the term is at 2 per cent over annual LIBOR.

The Group current assets include cash and cash equivalents at 31 December 2009 amounting to £5.2 million on which interest received is subject to fluctuations in market rates.

Foreign currency risk

The foreign currency risk arises in relation to the funding of EMIS Inc, which operates in Canadian dollars. The Group is developing software for the Canadian market and EMIS Inc was formed in 2005 to take this forward. EMIS Inc is not yet profitable and in the meantime is funded by periodic transfers of sterling from the UK.

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****4. Operating segments (continued)**

	2007			2008		
	EMIS £'000	EMIS Inc £'000	Total £'000	EMIS £'000	EMIS Inc £'000	Total £'000
Total segmental assets	40,229	206	40,435	54,743	574	55,317
Total segmental liabilities	(13,125)	(64)	(13,189)	(18,949)	(180)	(19,129)
	<u>27,104</u>	<u>142</u>	<u>27,246</u>	<u>35,794</u>	<u>394</u>	<u>36,188</u>
Unallocated assets:						
– investment in associate			2,137			2,354
Unallocated liabilities:						
– bank and other loans			–			(36,556)
– financial derivative			–			(547)
Shareholders' equity			<u>29,383</u>			<u>1,439</u>
				EMIS £'000	EMIS Inc £'000	Total £'000
Total segmental assets				59,156	653	59,809
Total segmental liabilities				(20,760)	(272)	(21,032)
				<u>38,396</u>	<u>381</u>	<u>38,777</u>
Unallocated assets:						
– investment in associate						2,552
Unallocated liabilities:						
– bank and other loans						(29,947)
– financial derivative						–
Shareholders' equity						<u>11,382</u>

5. Other operating expenses by function

	2007 £'000	2008 £'000	2009 £'000
Administration costs	2,466	4,307	3,125
Establishment costs	828	1,165	1,098
Motor, travel and selling costs	2,535	2,192	1,901
Contract asset depreciation	–	–	85
Total other operating expenses	<u>5,829</u>	<u>7,664</u>	<u>6,209</u>

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****6. Finance income**

	2007	2008	2009
	£'000	£'000	£'000
Bank interest	1,586	547	62
Exchange gain	169	–	–
Interest on overpayment of corporation tax	7	–	–
	<u>1,762</u>	<u>547</u>	<u>62</u>

7. Finance cost

	2007	2008	2009
	£'000	£'000	£'000
Bank loans	–	880	469
Other loans	–	1,154	1,081
Exchange loss	–	55	29
Interest on underpayment of corporation tax	–	16	–
Amortisation of bank loans issue costs	–	12	16
Loss/(gain) on remeasurement of financial derivative	–	547	(23)
	<u>–</u>	<u>2,664</u>	<u>1,572</u>

8. Operating profit

	2007	2008	2009
	£'000	£'000	£'000
The following have been included in arriving at operating profit:			
Research and development expenditure	4,654	6,624	6,521
Research and development expenditure capitalised	–	–	(4,520)
Depreciation of property, plant and equipment			
– depreciation of owned assets	1,900	1,621	2,414
– surplus on disposals	(199)	(115)	(30)
Amortisation of intangible assets			
– arising on business combinations	–	2,191	2,074
– internally generated	–	–	–
Operating lease rentals			
– land and buildings	334	273	372
– plant and equipment	15	10	12
Foreign exchange losses	–	204	29

In addition to the research and development expenditure disclosed above, software development costs amounting to £4,520,000 (2008: nil, 2007: nil) was capitalised in accordance with IAS 38.

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****9. Auditors' remuneration 2007**

	2007	2008	2009
	£'000	£'000	£'000
Baker Tilly UK Audit LLP:			
Audit services			
– statutory audit of parent and consolidated accounts	10	10	10
– audit of accounts of subsidiary	28	30	30
– audit of associated pension scheme	2	2	2
Baker Tilly Tax and Advisory Services LLP:			
Taxation services			
– compliance services	13	12	9
– advisory services	79	85	18
Information technology services	–	17	–
Other services			
– secondment of staff	–	42	–
– accounting services	35	–	3
Baker Tilly Corporate Finance LLP:			
Transaction services	9	90	–
	<u>176</u>	<u>288</u>	<u>72</u>

10. Employee and director costs

	2007	2008	2009
	No.	No.	No.
The average monthly number of persons (including directors) employed by the Group during the year was as follows:			
– management and administration	122	170	139
– software support and development	290	317	304
– maintenance	298	312	283
– others	102	66	71
	<u>812</u>	<u>865</u>	<u>797</u>
	2007	2008	2009
	£'000	£'000	£'000
Staff costs for above persons:			
– wages and salaries	24,924	26,091	23,861
– social security costs	2,473	2,440	2,248
– pension costs – defined contribution plans	–	57	56
	<u>27,397</u>	<u>28,588</u>	<u>26,165</u>

Staff costs includes amounts charged to income statement and amounts capitalised as part of development costs.

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****11. Taxation**

	2007	2008	2009
	£'000	£'000	£'000
Corporation tax:			
Current tax charge	2,291	2,510	3,632
Prior year	(62)	(24)	(80)
Total current tax	<u>2,229</u>	<u>2,486</u>	<u>3,552</u>
Deferred taxation:			
Current year	110	(859)	969
Prior year	2	(63)	–
Total deferred tax	<u>112</u>	<u>(922)</u>	<u>969</u>
Total tax charge in statement of comprehensive income	<u>2,341</u>	<u>1,564</u>	<u>4,521</u>
Factors affecting the tax charge for the year:			
Profit before tax	<u>6,831</u>	<u>3,970</u>	<u>14,462</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008: 28%, 2007: 30%)	2,049	1,112	4,049
Tax effects of:			
– expenses not deductible for tax purposes	25	24	10
– deferred tax not provided	327	539	690
– share of associate	–	(61)	(55)
– effect of change in tax rate	–	37	–
– exchange rate loss on intercompany	–	–	(93)
– adjustment recognised in the period for current tax of prior periods	(62)	(24)	(80)
– adjustment recognised in the period for deferred tax in prior periods	2	(63)	–
Tax charge for the year	<u>2,341</u>	<u>1,564</u>	<u>4,521</u>

12. Dividends

On 3 April 2008, a dividend of £7,000,000 (£7,000 per share) was paid to ordinary shareholders. No dividends were paid in 2007 and 2009.

13. Goodwill

	2007	2008	2009
	£'000	£'000	£'000
Cost on acquisition of subsidiaries	<u>–</u>	<u>15,853</u>	<u>15,853</u>

The carrying value of goodwill represents the excess of the acquisition cost over the fair value of the net identifiable assets of the acquired subsidiaries at the date of acquisition.

Goodwill has been allocated wholly to EMIS, based on its future prospects and being the only cash generating unit (“CGU”) at present within the Group.

Impairment tests for goodwill

Goodwill is tested annually for impairment. An impairment review of the goodwill above has not identified any impairment.

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****13. Goodwill (continued)**

To confirm that no impairment of the goodwill is necessary, management has compared the carrying value to the value in use.

The value in use has been calculated using internal company budgets for the three years ending 31 December 2012 to forecast pre-tax cash flows from the CGU. These cash flows have then been extrapolated for a further two years assuming a growth rate of 10 per cent year on year until 31 December 2014. The pre-tax cash flows for the five year period have been discounted back to 31 December 2009 using the Company's weighted average cost of capital of nine per cent. The exercise has confirmed that there has been no impairment.

14. Other intangible assets

	Computer software £'000	Customer relationships £'000	Total £'000
Cost			
Acquired 1 January 2007	–	–	–
Additions – internally developed	–	–	–
	<hr/>	<hr/>	<hr/>
At 31 December 2007	–	–	–
Additions	7,700	13,100	20,800
	<hr/>	<hr/>	<hr/>
At 31 December 2008	7,700	13,100	20,800
Additions – internally developed	4,520	–	4,520
	<hr/>	<hr/>	<hr/>
As at 31 December 2009	<u>12,220</u>	<u>13,100</u>	<u>25,320</u>
Amortisation and impairment			
At 1 January 2007	–	–	–
In year to 31 December 2007	–	–	–
	<hr/>	<hr/>	<hr/>
As at 31 December 2007	–	–	–
In year to 31 December 2008	(963)	(1,228)	(2,191)
	<hr/>	<hr/>	<hr/>
As at 31 December 2008	(963)	(1,228)	(2,191)
In year to 31 December 2009	(1,283)	(791)	(2,074)
	<hr/>	<hr/>	<hr/>
As at 31 December 2009	<u>(2,246)</u>	<u>(2,019)</u>	<u>(4,265)</u>
Net book value			
At 31 December 2009	9,974	11,081	21,055
At 31 December 2008	6,737	11,872	18,609
At 31 December 2007	–	–	–

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****15. Property, plant and equipment**

	Land and buildings £'000	Computer equipment £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Totl £'000
Cost					
At 1 January 2007	3,636	7,021	2,260	4,425	17,342
Additions in 2007	158	1,420	38	1,132	2,748
Disposals in 2007	–	(1)	–	(1,349)	(1,350)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	3,794	8,440	2,298	4,208	18,740
Rebasing on acquisition	(362)	(6,498)	(1,537)	(1,928)	(10,325)
Additions in 2008	–	716	69	653	1,438
Disposals in 2008	–	–	–	(198)	(198)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	3,432	2,658	830	2,735	9,655
Additions in 2009	108	2,957	294	754	4,113
Disposals in 2009	–	(215)	–	(930)	(1,145)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	<u>3,540</u>	<u>5,400</u>	<u>1,124</u>	<u>2,559</u>	<u>12,623</u>
Accumulated depreciation and impairment losses					
At 1 January 2007	279	5,891	1,245	2,056	9,471
Charge in 2007	76	561	258	1,005	1,900
On disposals in 2007	–	(1)	–	(1,126)	(1,127)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2007	355	6,451	1,503	1,935	10,244
Rebasing on acquisition	(355)	(6,451)	(1,503)	(1,935)	(10,244)
Charge in 2008	68	669	144	740	1,621
On disposals in 2008	–	–	–	(38)	(38)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2008	68	669	144	702	1,583
Charge in 2009	76	1,248	196	894	2,414
On disposals in 2009	–	(95)	–	(785)	(880)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	<u>144</u>	<u>1,822</u>	<u>340</u>	<u>811</u>	<u>3,117</u>
Net book value:					
At 31 December 2009	3,396	3,578	784	1,748	9,506
At 31 December 2008	3,364	1,989	686	2,033	8,072
At 31 December 2007	3,439	1,989	795	2,273	8,496

The cost of land and buildings represents the fair value on the acquisition of EMIS on 4 April 2008.

Included within Property, plant and equipment for 2009 are assets allocated to the data centre hosting services contract (“contract assets”) with a cost of £2,952,000 and accumulated depreciation of £85,000. Further details are included in the accounting policy note for revenue recognition (pages 57 to 58).

EMIS Group plc

Notes to the Historical Financial Information for the three years ended 31 December 2009

16. Investments in subsidiaries

Details of the subsidiary companies are as follows:

Name and nature of business	County of registration	Class of share	% held
EMIS – medical systems	England	£1 ordinary	100
<i>Subsidiary companies of EMIS:</i>			
EMIS Inc. – medical systems	Canada	\$1 Class A	100
EMIS Professional Publishing Limited – dormant	England	£1 ordinary	100
Pathway Trust Limited – dormant	England	£1 ordinary	100

All subsidiary undertakings are included in the consolidation.

17. Investment in associate

	2007	2008	2009
	£'000	£'000	£'000
Fair value cost at 1 January	2,137	2,137	2,354
Share of post acquisition profits for the year	–	217	198
As at 31 December	<u>2,137</u>	<u>2,354</u>	<u>2,552</u>

The investment is in Pharmacy 2U Limited (“P2U”), an unlisted company whose principal activity is the operation of an internet mail order pharmacy. P2U is incorporated in the UK and the Group has a 20 per cent ownership and voting interest.

Aggregate amounts relating to P2U are as follows:

Assets	2,044	3,916	5,401
Liabilities	1,917	2,706	3,201
Revenues	11,670	10,228	16,869
Profit before taxation	95	436	973
Profit after taxation	29	1,083	989

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****18. Deferred tax**

	Plant and equipment £'000	Intangible assets £'000	Property instruments £'000	Derivative financial instruments £'000	Total £'000
At 1 January 2007	255	–	–	–	255
Charge to income	(110)	–	–	–	(110)
Adjustment recognised for current tax of prior periods	(2)	–	–	–	(2)
At 1 January 2008	143	–	–	–	143
Charge to income	143	–	–	–	143
Amortisation	–	614	–	–	614
Derivative	–	–	–	153	153
Other intangibles	–	(5,824)	–	–	(5,824)
Depreciation on building	–	–	12	–	12
Deferred tax on building	–	–	(796)	–	(796)
At 1 January 2009	286	(5,210)	(784)	153	(5,555)
Charge to income	(147)	–	–	–	(147)
Amortisation	–	581	–	–	581
Development costs	–	(1,266)	–	–	(1,266)
Settlement of derivative	–	–	–	(147)	(147)
Fair value gain on derivative	–	–	–	(6)	(6)
Depreciation on building	–	–	16	–	16
At 31 December 2009	139	(5,895)	(768)	–	(6,524)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2007 £'000	2008 £'000	2009 £'000
Deferred tax liabilities	–	(5,994)	(6,663)
Deferred tax assets	143	439	139
	143	(5,555)	(6,524)

Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****19. Inventories**

	2007	2008	2009
	£'000	£'000	£'000
Finished goods	810	1,172	674

No inventory write downs have been required.

20. Trade and other receivables

	2007	2008	2009
	£'000	£'000	£'000
Trade receivables	4,812	4,637	5,594
Other receivables	263	67	170
Prepayments and accrued income	826	837	1,736
Current tax asset	12	–	–
	<u>5,913</u>	<u>5,541</u>	<u>7,500</u>

21. Cash and cash equivalents

	2007	2008	2009
	£'000	£'000	£'000
Cash at bank	25,037	6,070	5,221

22. Current tax liabilities

	2007	2008	2009
	£'000	£'000	£'000
Corporation tax	2,396	1,210	1,634
Other tax and social security	–	2,502	1,882
	<u>2,396</u>	<u>3,712</u>	<u>3,516</u>

23. Borrowings

	2007	2008	2009
	£'000	£'000	£'000
<i>Non-current</i>			
Bank loans – secured	–	11,072	5,763
Other loans	–	23,000	23,000
	<u>–</u>	<u>34,072</u>	<u>28,763</u>
<i>Current</i>			
Bank loans – secured	–	2,484	1,184
	<u>–</u>	<u>36,556</u>	<u>29,947</u>

EMIS Group plc

Notes to the Historical Financial Information for the three years ended 31 December 2009

23. Borrowings (continued)

Bank loans consist of a term loan to March 2013 amounting to £4,000,000 at 31 December 2009, repayable by equal monthly instalments of £100,000, and a mortgage loan of £3,000,000 repayable on 31 March 2014. The term loan bears interest at 2 per cent over Libor and the mortgage loan is at 1.75 per cent over Libor.

The bank loans are secured by mortgage debentures providing fixed and floating charges over the Group's assets and undertaking.

Other loans were issued on 4 April 2008 and are repayable in 2018. As to repayment, the loans are subordinated in favour of the bank and bear interest at 2 per cent over Libor.

The fair value of non-current borrowings carried at £28,763,000 (2008: £34,072,000) as shown above is estimated to have a fair value of £28,292,000 (2008: £34,175,000). The fair values are based on cash flows discounted using a rate based on the borrowing rate of 2.78 per cent (2008: 4.96 per cent).

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

Analysis of debt maturity:

	2007 £'000	2008 £'000	2009 £'000
Amounts payable:			
In one year or less	–	2,500	1,200
In more than one year but not more than two years	–	2,500	1,200
In more than two years but not more than five years	–	5,625	4,600
In five years or more	–	26,000	23,000
Debt issue costs to be amortised over outstanding term	–	(69)	(53)
	–	36,556	29,947

During 2009 the directors decided that the Group's undrawn committed borrowing facility amounting to £2.5 million that was in place at 31 December 2008 was not required and so the facility has not been renewed.

24. Other financial liabilities

Interest rate swaps – cash flow hedge

During 2008, the Group hedged a proportion of its bank loan interest rate risk with a 2 year interest rate swap arrangement.

	2007 £'000	2008 £'000	2009 £'000
Balance at 1 January	–	–	547
Increase/(decrease) in the fair value at hedging instruments	–	547	(23)
Settlement	–	–	(524)
	–	547	–

During the year ended 31 December 2009 the derivative was settled at a cost of £524,000.

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****27. Operating lease commitments**

The future aggregate minimum lease commitments under non-cancellable operating leases are as follows:

	2007	2008	2009
	£'000	£'000	£'000
Land and buildings:			
Expiring within one year	299	300	281
Expiring between two and five years	571	478	456
Expiring in more than five years	49	11	501
Plant and machinery:			
Expiring within one year	15	13	10
Expiring between two and five years	32	28	14
	<u>966</u>	<u>830</u>	<u>1,262</u>

28. Capital commitments

At 31 December 2009 the Group had capital commitments relating to motor vehicles of £336,241 (2008: £nil, 2007: £62,285).

29. Cash generated from operations

	2007	2008	2009
	£'000	£'000	£'000
Operating profit	5,069	5,870	15,774
Amortisation of intangible assets	–	2,191	2,074
Depreciation of tangible fixed assets	1,900	2,026	2,384
Profit on disposal of tangible fixed assets	(199)	–	–
(Increase)/decrease in stocks	151	(362)	498
(Increase)/decrease in debtors	(652)	372	(1,959)
Increase/(decrease) in creditors	(5,066)	770	1,093
Net cash flow from operating activities	<u>1,203</u>	<u>10,867</u>	<u>19,864</u>

EMIS Group plc

Notes to the Historical Financial Information for the three years ended 31 December 2009

30. Acquisition

The Company acquired 100 per cent of the called up ordinary share capital of EMIS and its subsidiaries on 4 April 2008, for a cash consideration of £53,000,000 plus costs of acquisition. The purchase was financed as set out below. The transaction has been accounted for using the acquisition method of accounting. The assets and liabilities of EMIS have been consolidated at their fair values to the Group, as set out below. The excess of the consideration compared with the fair value of the net assets acquired has been recorded by the Group as purchased goodwill. Other than in relation to the intangible assets and deferred tax, no revaluations or accounting policy alignments were necessary and the fair values of the assets and liabilities acquired were equal to the book values.

	Book Value 2008 £'000	Fair Value Adjustment £'000	Fair Value 2008 £'000
Fair value at date of acquisition:			
Computer software	–	7,700	7,700
Customer relationships	–	13,100	13,100
Property, plant and equipment	8,416	–	8,416
Trade investment	2,137	–	2,137
Inventories	782	–	782
Trade and other receivables	5,449	–	5,449
Cash and cash equivalents	18,884	–	18,884
Total assets	35,668	20,800	56,468
Trade and other payables	(3,565)	–	(3,565)
Current tax liabilities	(2,812)	–	(2,812)
Deferred income	(5,453)	–	(5,453)
Deferred tax	–	(6,620)	(6,620)
Total liabilities	(11,830)	(6,620)	(18,450)
Net assets acquired	23,838	14,180	38,018
Goodwill			15,853
Satisfied by:			53,871
Cash			15,371
Bank loans			15,500
Vendor loans			23,000
			53,871

Goodwill of £15,853,000, being the difference between the provisional fair value of the net assets acquired and the consideration paid (including acquisition costs of £871,000) arises from this transaction and principally relates to the inherent workforce and market share.

The Freehold Land and Buildings were valued at £4.0 million shortly before the transaction. The valuation compares with the book values of land, buildings and all fixtures and fittings of £4.15 million, in view of which no fair value adjustment is considered necessary.

EMIS Group plc

Notes to the Historical Financial Information for the three years ended 31 December 2009

30. Acquisition (continued)

The profit after tax of the acquired companies for the period 1 January 2008 to 4 April 2008 amounted to £1,466,000. The corresponding figure for the calendar year 2007 was £4,490,000. There were no minority interests.

The summarised profit and loss account of EMIS and its subsidiary companies for the period up to acquisition and for the year to 31 December 2007 are as follows:

	2007	1 January to 4 April 2008
	£'000	£'000
Revenue	48,467	13,955
Cost of sales and operating expenses	(43,397)	(12,048)
Operating profit	5,070	1,907
Interest receivable and similar income	1,761	369
Interest payable and similar costs	–	(1)
Profit on ordinary activities before taxation	6,831	2,275
Taxation	(2,341)	(808)
Profit for the period/year	4,490	1,467

No separate statement of total recognised gains and losses was required for either period.

31. Pension commitments

The Group defined contribution pension scheme was wound up during 2009. No contributions to that scheme have been made either in 2009 or in the prior period 3 April to 31 December 2008.

The total costs charged to income consist of £56,000 (2008: £57,000) representing company contributions payable to individual personal pension plans, and £63,000 (2008: £39,000) in relation to employees of the Group's subsidiary in Canada.

Canadian employees are members of a state-managed retirement benefit scheme operated by the government of Canada. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****32. Related party transactions**

Transactions between the Group and its associate Pharmacy 2U Limited:

	2007	2008	2009
	£'000	£'000	£'000
Sales of goods	26	46	47
Purchases of goods	25	–	–
Amounts owed by related party at period end	2	–	–

Remuneration of key management personnel

Key management includes directors (executive and non-executive), the Company Secretary and certain departmental heads. The compensation paid or payable to key management for salaries and other short term employee benefits amounts to:

	2007	2008	2009
	£'000	£'000	£'000
Salaries and other short-term employee benefits	2,306	1,648	2,376
Post retirement benefits	–	57	76
	<u>2,306</u>	<u>1,705</u>	<u>2,452</u>

Directors

	2007	2008	2009
	£'000	£'000	£'000
Aggregate emoluments	1,679	1,077	1,754
Company contributions to money purchase pension scheme	–	57	76
	<u>1,679</u>	<u>1,134</u>	<u>1,830</u>

The number of directors for whom the Group makes contributions to individual personal pension plans was:

–	5	5
<u>–</u>	<u>5</u>	<u>5</u>

The remuneration in respect of the highest paid director was:

– emoluments	341	205	347
– money purchase pension contributions (as above)	–	11	15
	<u>341</u>	<u>216</u>	<u>362</u>

Transactions with directors

During the period certain directors had transactions with the Group resulting in the following outstanding debtors:

	1 January	Maximum 31 December	2007
	2007	in period	2007
	£'000	£'000	£'000
W A Jones	42	42	5
P R Sowerby	17	25	18
	<u>59</u>		<u>23</u>

EMIS Group plc**Notes to the Historical Financial Information for the three years ended 31 December 2009****32. Related party transactions (continued)**

	1 January 2008 £'000	Maximum 31 December in period £'000	2008 £'000
W A Jones	5	7	7
P R Sowerby	18	35	28
	<u>23</u>		<u>35</u>

	1 January 2009 £'000	Maximum 31 December in period £'000	2009 £'000
W A Jones	7	7	2
P R Sowerby	28	28	–
	<u>35</u>		<u>2</u>

There is no interest accruing on these loans and all amounts outstanding at 31 December 2009 were repaid in full after that date.

33. Events after the reporting period

On 19 March 2010 the Company re-registered as a Plc.

The Company entered into a new facility agreement on 23 March 2010 with Clydesdale Bank PLC (trading as Yorkshire Bank) as summarised in paragraph 13.9 of Part V of this document.

PART V

ADDITIONAL INFORMATION

1 Responsibility

- 1.1 The Directors, whose names appear on page 6 of this document accept responsibility, both individually and collectively, for the information contained in this document. To the best of the knowledge 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.
- 1.2 Baker Tilly Corporate Finance LLP accepts responsibility for its report set out in Part IV of this Document. To the best of the knowledge of Baker Tilly Corporate Finance LLP (which has taken all reasonable care to ensure that such is the case), the information contained in such report is in accordance with the facts and does not omit anything likely to affect the import of such information.

2 The Company

- 2.1 The Company was incorporated on 3 April 2008 in England and Wales under the Companies Act 1985 with registration number 6553923 under the name EMIS Group Limited. The Company re-registered as a public limited company on 19 March 2010.
- 2.2 The liability of the members of the Company is limited.
- 2.3 The principal legislation under which the Company operates is the Act and the regulations made thereunder.
- 2.4 The registered office, head office and principal place of business of the Company is Fulford Grange, Micklefield Lane, Rawdon, Leeds LS19 6BA, West Yorkshire, United Kingdom. The telephone number of the Company is 0113 259 1122.
- 2.5 The Company's main activity is the design and supply of computer software for healthcare practitioners in the UK.
- 2.6 The Company is the holding company of the Group and has four wholly owned, either directly or indirectly, subsidiaries. The details of the relevant companies are set out below:

<i>Name</i>	<i>Country of Incorporation</i>	<i>Principal activity</i>	<i>Percentage owned by the Company</i>
Egton Medical Information Systems Limited	England and Wales	Design and supply of computer software	100%
EMIS Inc	Canada	Design and supply of computer software	100% ¹
EMIS Professional Publishing Limited	England and Wales	Dormant	100% ²
Pathway Trust Limited	England and Wales	Dormant	100% ³

¹ EMIS Inc is a wholly owned subsidiary of EMIS.

² EMIS Professional Publishing Limited is a wholly owned subsidiary of EMIS.

³ Pathway Trust Limited is a wholly owned subsidiary of EMIS.

3 Share Capital

3.1 The capital history of the Company from the date of the Company's incorporation to the date of this document is as follows:

- (a) At the date of incorporation, the authorised share capital of the Company was £500,000, divided into 437,500 ordinary shares of £1.00 each and 62,500 A ordinary shares of £1.00 each, of which 237,500 ordinary shares of £1.00 each were in issue fully paid or credited as fully paid to the subscribers of the Company's memorandum.
- (b) On 29 April 2008, 62,500 new A ordinary shares of the Company of £1.00 each were issued credited as fully paid. The new total issued share capital of the Company was £300,000 consisting of 237,500 ordinary shares of £1.00 each and 62,500 A ordinary shares of £1.00 each.
- (c) On 29 May 2008, 200,000 new ordinary shares of the Company of £1.00 each were issued credited as fully paid. The new total issued share capital of the Company was £500,000 consisting of 437,500 ordinary shares of £1.00 each and 62,500 A ordinary shares of £1.00 each.
- (d) On 18 March 2010, resolutions were passed in writing by all the Shareholders of the Company to do the following:
 - (i) re-register the Company as a public limited company; and
 - (ii) subdivide the 437,500 ordinary shares in the capital of the Company into 43,750,000 ordinary shares of 1 pence each and subdivide the 62,500 A ordinary shares of £1.00 each in the capital of the Company into 6,250,000 A ordinary shares of 1 pence each.
- (e) On 23 March 2010, resolutions of the Company and of the holders of A ordinary shares of 1 pence each in the Company were passed to do the following, conditional on Admission:
 - (i) re-designate the 6,250,000 A ordinary shares of 1 pence each in the capital of the Company as 6,250,000 Ordinary Shares;
 - (ii) authorise the Company's Directors pursuant to section 551 of the Act to exercise all the powers of the Company to allot equity securities (within the meaning of that section):
 - (a) specifically in connection with the Placing, up to a maximum nominal amount of £85,000; and
 - (b) generally, up to a maximum nominal amount of £194,444;such authority to be for a period expiring (unless previously renewed, varied or revoked) at the conclusion of the next annual general meeting of the Company following the passing of the resolution but so that the Company may make an offer or agreement before such expiry which would or might require equity securities to be allotted after the expiry of this authority and the Directors may allot equity securities pursuant to such offer or agreement as if the authority or power hereby conferred had not expired;
 - (iii) empower the Directors of the Company pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560(1) of the Act):
 - (a) pursuant to the authority referred to in paragraph 3.1(e)(ii)(a) above, up to a maximum nominal amount of £85,000; and
 - (b) pursuant to the authority referred to in paragraph 3.1(e)(ii)(b) above, up to a maximum nominal amount of £29,166;

in each case, as if section 561(1) of the Act did not apply to all such allotment. The authority expires at the conclusion of the next annual general meeting of the Company following the date of the resolution save that the Company may make an offer or agreement before such expiry which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any offer or agreement as if the power conferred by such resolution had not expired;

- (iv) disapply the pre-emption provisions set out in Article 6.3 of the Company's existing articles of association in relation to any equity securities to be allotted and issued by the Company in connection with the Placing and pursuant to the authority referred to in paragraph 3.1(e)(ii)(a) above such that those equity securities do not have to be offered first to the existing holders of Ordinary Shares; and
- (v) amend the existing articles of association of the Company by deleting all the provisions of the Company's memorandum of association, which by virtue of section 28 of the Act, are to be treated as provisions of the existing articles of association and adopt new articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association.

3.2 Save as referred to in paragraph 4 below of this Part V, no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option, and there are in issue no convertible securities.

3.3 There are no shares which do not represent share capital and there are no Ordinary Shares (nor will there be Ordinary Shares at Admission) held by or on behalf of the Company or by any of the Subsidiary Undertakings.

3.4 The Placing will result in the issue of 8,333,334 Placing Shares. The Company's authorised and issued share capital is, at the date of this document, and is expected to be immediately following Admission, as follows:

	<i>As at the date of this document</i>		<i>As at Admission</i>	
	<i>Amount (£)</i>	<i>Number of Ordinary Shares in issue</i>	<i>Amount (£)</i>	<i>Number of Ordinary Shares in issue</i>
Authorised	500,000	50,000,000	– ⁴	–
Issued	500,000	50,000,000	583,333.33	58,333,334

3.5 On Admission, there will be no class of shares in the Company in issue other than Ordinary Shares.

3.6 There will, on Admission, be no Ordinary Shares in issue which are not fully paid.

3.7 The Ordinary Shares will be in registered form and may be held either in certificated or uncertificated form.

3.8 The share capital reconciliation as required to be disclosed in accordance with the AIM Rules is as follows:

	<i>As at start of financial year 1 January 2009</i>	<i>As at end of financial year 31 December 2009</i>
Issued Ordinary Shares	437,500 ordinary shares of £1.00 each and 62,500 A ordinary shares of £1.00 each	437,500 ordinary shares of £1.00 each and 62,500 A ordinary shares of £1.00 each

4 Share Options

Share Incentive Arrangements

The Directors believe that it is important to properly motivate and reward key senior employees and executives and to do so in a manner that aligns their interests with that of the Shareholders. The Directors also recognise the importance of ensuring that all employees are well motivated and identify closely with the profitability of the Company.

Accordingly the Company intends to establish, following Admission, an unapproved share option scheme (the "Unapproved Scheme") and an HMRC approved Company Share Option Plan ("CSOP") in which certain key executives and employees will be invited to participate at the discretion of the remuneration committee. The Company also intends to establish an HMRC approved all-employee Share Incentive Plan ("SIP") in which all permanent employees will be eligible to participate.

⁴ New Articles will be adopted with effect from Admission so that authorised share capital is no longer required.

These share incentive arrangements are designed to support the strategy of generating significant sustainable value for Shareholders by linking the rewards to executives with the value created for Shareholders and thereby aligning the interests of key executives with those of Shareholders.

Shares subscribed or subscription options granted under any share incentive arrangements operated by the Company will be limited in total to 10 per cent of the Company's issued share capital from time to time in any 10 year period and options under the share incentive arrangements will also be subject to specified performance criteria, thereby linking remuneration to the performance of the Company.

It is also intended to establish an Employee Benefit Trust (the "Employee Trust") to assist in the operation and administration of the share incentive arrangements.

The paragraphs below summarise the new share incentive arrangements intended to be established by the Company. It is intended that the terms of the share incentive arrangements will be substantially in the form set out below but this is subject to, *inter alia*, any amendments required to comply with the relevant legislation or as required by HMRC.

Share limits

The following share limits and arrangements in relation to the allotment and transfer of shares are applicable to all the proposed share incentive arrangements.

There will be an overall limit on the number of new Ordinary Shares which may be subscribed under any of the schemes: in any 10 year period not more than 10 per cent of the issued share capital of the Company from time to time may be issued or issuable pursuant to options acquired under the Unapproved Scheme, CSOP, SIP and any other employees' share scheme adopted by the Company.

Allotment and transfer of Shares

Options granted under the Unapproved Scheme and CSOP and awards under the SIP may be satisfied by a new issue of Ordinary Shares, the transfer of Ordinary Shares from treasury or by buying Ordinary Shares in the market.

Shares allotted or transferred under the Unapproved Scheme, CSOP or SIP will rank equally with all other Ordinary Shares of the Company for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the date of such allotment or transfer).

The Company will apply for any new Ordinary Shares allotted under the Unapproved Scheme, CSOP or SIP to be admitted to trading on AIM.

Proposed Share Schemes

4.1 *The Unapproved Scheme*

(a) Operation of the Unapproved Scheme

The remuneration committee of the Board of Directors of the Company (the "Committee") will be responsible for the operation of the Unapproved Scheme.

(b) Eligibility

The Committee will use its discretion in nominating participants for the Unapproved Scheme, who will generally be restricted to key senior employees of the Company.

(c) Grant of Options

Options may be granted within the period of 42 days following the date of adoption of the Unapproved Scheme. Thereafter, options may normally only be acquired in the 42 days following the announcement by the Company of its results for any period, in the 14 days immediately after the person to whom the option is granted first becomes an employee or director of any group company or where there are circumstances considered by the remuneration committee to be exceptional.

No options may be granted in close periods or more than 10 years after the adoption of the Unapproved Scheme by the Company.

Options are not transferable or assignable (other than to the personal representatives of the option holder on death).

No consideration will be payable for the grant of options under the Unapproved Scheme.

(d) Exercise Price

The Committee may determine the exercise price of the options subject to the exercise price not being less than the market value at the date of grant, or, if greater, the nominal value.

(e) Exercise of options and performance conditions

Options will not generally be exercisable earlier than the third anniversary of the date of grant (or such other time as the Committee may specify).

Exercise of options granted under the Unapproved Scheme will also generally be subject to achievement of performance conditions and, subject as described below, to remaining in employment with the Company.

The Committee has not yet determined the performance conditions to be applied. These will be set by the Committee once the Unapproved Scheme has been adopted.

The performance conditions applying to any option may be varied in certain circumstances so as to achieve their original purpose but not so as to make their achievement materially more or less difficult to satisfy.

Option holders will normally have up to seven years (or such shorter period as may be specified) to exercise options after they have vested after which they will lapse and cease to be exercisable (ie options shall be exercisable after, and shall lapse on, the tenth anniversary of the date of grant).

(f) Leaving employment

If an option holder leaves because of death, illness, injury, disability, redundancy, retirement, the sale of the Company or any business unit of the Company or in any other circumstances determined and approved by the Committee he will be classed as a "Good Leaver".

Where an option holder is a Good Leaver, the option holder's options may vest at the date of cessation of employment or the normal vesting date, to the extent the Committee permits in its absolute discretion taking into account any performance conditions that have been met at the time employment ceases and other factors such as the option holder's conduct.

If an option holder ceases employment for reasons other than as a Good Leaver, the option holder's options will immediately lapse.

(g) Change of control

In the event of a takeover, reconstruction or winding up of the Company it is intended that the options will normally vest taking into account any performance conditions that have been met at the time and lapse to the extent not exercised.

(h) Variation of capital

On a variation of the capital of the Company, or in the event of a demerger, payment of a special dividend, reorganisation, reconstruction of the Company or similar event, the Committee may make such adjustment to the options as it considers reasonable.

(i) Alterations to the Unapproved Scheme

The Committee may, at any time, amend the Unapproved Scheme in any respect provided that the prior approval of the Company in general meeting is obtained for amendments to the provisions of the Unapproved Scheme relating to the overall limits on the issue of new shares

and eligibility. Shareholder approval is not, however, required for minor amendments to benefit the administration of the Unapproved Scheme, to take account of changes in legislation or to obtain or maintain favourable taxation or regulatory treatment for option holders or group companies.

4.2 *The CSOP*

(a) Operation of the CSOP

The Committee will be responsible for the operation of the CSOP.

(b) Eligibility

The Committee will use its discretion in nominating participants for the CSOP. All employees (including full time executive Directors) of the Company and its subsidiaries may be granted options over Ordinary Shares under the CSOP provided that they are not prohibited under the relevant legislation by virtue of having (or having had) a material interest in the Company.

(c) Grant of Options

Options may be granted within the period of 42 days following the date of adoption of the CSOP. Thereafter, options may normally only be acquired in the 42 days following the announcement by the Company of its results for any period, in the 14 days immediately after the person to whom the option is granted first becomes an employee or director of any group company or where there are circumstances considered by the Committee to be exceptional.

No options may be granted in close periods or more than 10 years after the adoption of the CSOP by the Company.

Options are not transferable (other than to the personal representatives of the option holder on death).

No consideration will be payable for the grant of options under the CSOP.

(d) Exercise Price

The Committee may determine the exercise price of the options subject to the exercise price not being less than the market value at the date of grant, or if greater, the nominal value. The exercise price may be adjusted by the Committee in the event of any capitalisation issue or rights issue or rights offer or any other variation in the share capital of the Company including (without limitation) any consolidation, subdivision or reduction of capital. Any such adjustment will require the prior approval of HMRC.

(e) Performance conditions

Exercise of options granted under the CSOP will generally be subject to achievement of performance conditions set at the time of grant.

The performance target that the Committee intends to set in respect of the initial grant of options under the CSOP has yet to be determined and will be set by the Committee once the CSOP has been adopted.

The performance conditions applying to any option may be varied in certain circumstances so as to achieve their original purpose but not so as to make their achievement more difficult to satisfy.

It should also be noted that the performance target may be measured over an abbreviated performance period of less than three years in circumstances where an employee ceases to be a group employee before the end of the relevant performance period or certain corporate events occur (such as a change of control of the Company) before the end of the relevant performance period.

(f) Exercise of Options

Options may, subject to any applicable performance conditions having been satisfied or waived, normally only be exercised between the third and tenth anniversaries of the date of grant.

Options may, in certain circumstances, be exercised earlier than the third anniversary of grant. In particular, options may be exercised for a period of six months after the option holder ceases to be employed within the group in certain specified circumstances, such as, injury, redundancy and early retirement (with the agreement of his employer) of the option holder or upon the sale or transfer out of the group of the company or undertaking employing him. In the event of cessation of employment of the option holder by reason of his death, his personal representatives will be entitled to exercise the option within 12 months following the date of his death. Where an option holder ceases to be employed within the group for any other reason, options may also become exercisable at the discretion of the Committee.

Early exercise of options is also possible in the event of a takeover, an amalgamation or reconstruction sanctioned by the court or the voluntary winding up of the Company.

If in any of the circumstances set out above, early exercise of an option is permitted, the option may not be exercised unless any performance condition to which it is subject has been satisfied.

No options shall be capable of exercise after, and shall lapse on, the tenth anniversary of the date of grant.

(g) Alterations to the CSOP

The Committee may, at any time, amend the CSOP but no amendment may be made to a key feature of the CSOP unless and until HMRC has approved such amendment.

4.3 *The SIP*

(a) Operation of the SIP

The Committee will be responsible for overseeing the operation and implementation of the SIP.

The SIP is intended to operate through a UK trust, which will acquire ordinary shares by purchase or by subscription and will hold Ordinary Shares on behalf of the employees.

The trustees shall waive any voting and dividend rights that may be attached to shares they hold but which have not yet been awarded to employees.

(b) Eligibility

All UK resident employees of the Company and participating companies within the Group who have been employed for a minimum period (which will be determined by the Committee and will not be a period longer than 18 months) will be eligible to participate in the SIP. Any non-UK resident employees may be invited to participate at the discretion of the Committee.

(c) Grant of Awards

From time to time, the Committee may invite applications from, or determine to make grants to, eligible employees in accordance with the rules of the SIP.

Eligible employees may use money from their gross salary to acquire Ordinary Shares ("Partnership Shares"). It is intended that Partnership Shares will be acquired monthly.

Alternatively, or in addition to the above, the Committee may, in its discretion, and in accordance with the rules of the SIP, award a number of shares to each employee being:

- if an employee agrees to buy a certain number of Partnership Shares, an award of shares ("Matching Shares"), on such basis as is determined by the Committee; and/or
- an outright award of ordinary shares ("Free Shares"), on such basis as is determined by the Committee.

All Ordinary Shares acquired in accordance with the SIP shall be held in a trust and may be subject to a retention period to be determined by the Committee.

Any share purchases by employees and any awards made by the Company may be subject to such additional requirements as the Committee shall determine and/or as may be necessary to comply with legislation.

(d) Restrictions and Share Limits

The Committee shall determine the number of Partnership Shares that an eligible employee may acquire from his or her salary under the SIP in any year from time to time. The aggregate market value of those Partnership Shares shall not exceed the statutory maximum for HMRC approved share incentive plans (currently the lesser of £1,500 per annum or 10 per cent of taxable earnings).

The number of Matching Shares that the Company may award if an eligible employee has acquired Partnership Shares under the SIP in any year shall be determined from time to time by the Committee and shall not exceed two Matching Shares for every one Partnership Share acquired or such other statutory maximum for HMRC approved share incentive plans as may be introduced.

The number of Free Shares over which awards may be granted to an eligible employee under the SIP in any year shall be determined from time to time by the Committee and may be dependent upon performance of the Company or Group.

The aggregate market value per employee of those Free Shares, subject to such awards, may not exceed the statutory maximum for HMRC approved share incentive plans (currently £3,000 per annum).

(e) Leaving employment and change of control

Partnership Shares may be withdrawn from the SIP at any time.

Awards of Free Shares and Matching Shares shall normally be subject to a statutory period of retention of three years. If an employee leaves the Group, other than for a good leaver reason, prior to the end of the three year retention period for Free Shares or Matching Shares then those shares may be forfeited.

Forfeiture of shares may not be linked to an employee's performance in any way.

Awards of Ordinary Shares may also be released, withdrawn or exchanged for shares in a new company in the event of a sale, takeover, merger, reconstruction, or winding-up of the Company.

(f) Alterations to the SIP

Amendments to the rules relating to the SIP may be made at the discretion of the Committee.

However, certain alterations to key features cannot be made unless HMRC approval is obtained and other amendments which are to the advantage of the participants cannot be made without prior shareholder approval, except for minor amendments to benefit the administration of the SIP, to take account of a change in legislation or to maintain HMRC approval, or maintain favourable tax, exchange control or regulatory treatment for participants or any participating companies.

4.4 *The Employee Trust*

(a) General

The Employee Trust is a discretionary trust which is intended to be constituted by a Declaration of Trust made between the Company and Osiris Trustees Ltd, 13 Castle Street, St Helier, Jersey JE4 0ZE, who are independent offshore professional trustees ("the Trustees"). The Employee Trust would be formed to provide benefits to the bona fide employees and former employees of the Company and its subsidiaries (and certain of their relatives). The Employee Trust, when formed, is intended to be constituted as an Employees' Share Scheme within the meaning in Section 1166 of the Act.

(b) Power and Funding

It is intended that the Trustees will have full discretion with regard to the application of the trust fund. The Employee Trust may be funded by way of a loan or a gift from the Company.

(c) Limits to holdings of shares and dividend waiver

Any shares issued to the Employee Trust in order to satisfy awards under an Employees' Share Scheme granted by the Company or the Trustees shall count towards the dilution limits that apply to the share incentive plans. For the avoidance of doubt, any shares acquired by the Employee Trust in the market in order to satisfy options or awards it has granted will not count towards these limits. In addition, without prior shareholder approval, the Employee Trust will not, at any one time, hold more than five per cent of the ordinary share capital of the Company (other than for the purposes of satisfying awards that it has granted). Unless directed otherwise, prior to vesting, the Trustees will waive any dividends otherwise payable on shares settled in the Employee Trust.

5 Directors

5.1 Other than their directorships of the Company, the current directorships and partnerships of the Directors and directorships and partnerships held by them over the previous five years are as follows:

<i>Director</i>	<i>Current Directorships/Partnerships</i>	<i>Previous Directorships/Partnerships</i>
William Anthony Jones	Freeman Jones Developments LLP	Egton Medical Information Systems Limited
Sean Douglas Riddell	Egton Medical Information Systems Limited Pharmacy 2U Limited Pathway Trust Limited EMIS Professional Publishing Limited The Spa Retreat	None
Dr David Lindsay Stables	Egton Medical Information Systems Limited	None
Phillip Andrew Woodrow	Egton Medical Information Systems Limited Bradford City Challenge Foundation Limited	Abbeyfield Court Limited
Robin Francis Taylor	YFD Limited Independent Technology Systems Limited INTEC Telecom Systems plc Dataphone (Holdings) Limited INTEC Telecom Systems (Revenue Assurance Division) Limited	Network Managers (UK) Limited Borland (UK) Limited Infor Global Solutions EMEA Holding Limited ITNET Limited Serco Solutions Limited The French Thornton Partnership Limited Technosys Limited Digiquant UK Limited Covalent Software Limited

5.2 The business address of each of the Directors is Fulford Grange, Micklefield Lane, Rawdon, Leeds LS19 6BA, West Yorkshire, United Kingdom.

- 5.3 As at the date of this Document, none of the Directors has:
- (a) any unspent convictions in relation to indictable offences; or
 - (b) been declared bankrupt or made any individual voluntary arrangement; or
 - (c) been a director of a company at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors; or
 - (d) been a partner or in a partnership at the time of or within the twelve months preceding the partnership being subject to a compulsory liquidation, administration or partnership voluntary arrangement; or
 - (e) had any asset subject to receivership or been a partner of any partnership at the time of or within the twelve months preceding any asset of such partnership being subject to a receivership; or
 - (f) been subject to any public criticism by statutory or regulatory authorities (including recognised professional bodies), nor disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6 Directors' and other interests

- 6.1 The interests of the Directors (all of which are beneficial, unless otherwise stated), and (so far as is known to the Directors, or could with reasonable diligence be ascertained by them) the interests of persons connected with the Directors (within the meaning of section 252 of the Act), in the Issued Ordinary Share Capital of the Company as at 23 March 2010 (being the latest practicable date prior to publication of this Document) and in the Enlarged Issued Share Capital as at Admission will be as follows:

	<i>As at the date of this document</i>		<i>As at Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Ordinary Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Issued Share Capital</i>
William Anthony Jones	5,020,000 ⁵	10.04	3,623,694	6.22
Sean Douglas Riddell	9,412,500	18.83	8,292,605	14.22
Dr David Lindsay Stables	5,020,000 ⁶	10.04	4,422,724	7.58
Robin Francis Taylor	–	–	–	–
Phillip Andrew Woodrow	4,987,500	9.98	4,394,090	7.53

- 6.2 Save as disclosed above, the Directors are not aware of any interests of persons connected with them.
- 6.3 The Directors are not required to hold any Ordinary Shares under the Articles.
- 6.4 Other than as set out below and other than the interests of the Directors, their immediate families and other persons connected with the Directors (within the meaning of section 252 of the Act) which are set out in paragraph 6.1 above, the Company is not aware of any person who as at 23 March 2010 (being the latest practicable date prior to publication of this document) is and immediately following Admission will, directly or indirectly, be interested in 3 per cent or more of the voting rights of the Company or who, directly or indirectly, jointly or severally exercise or could exercise control over the Company, or whose interest is notifiable under the Disclosure and Transparency Rules or otherwise in the UK:

⁵ The shares beneficially owned by William Anthony Jones are held on trust and legally owned by the Trustees of the Dr P R Sowerby No.1 Discretionary Settlement (as to 2,510,000) and by the Trustees of the Dr P R Sowerby No.3 Discretionary Settlement (as to 2,510,000).

⁶ The shares beneficially owned by Dr David Lindsay Stables are held on trust and legally owned by Dr P R Sowerby No.2 Discretionary Settlement (as to 2,510,000) and by Dr P R Sowerby No.4 Discretionary Settlement (as to 2,510,000).

	<i>As at the date of this document</i>		<i>As at Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Issued Ordinary Share Capital</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Issued Share Capital</i>
Dr Peter Sowerby	9,960,000	19.92	7,189,623	12.33
Gary Shuckford	3,097,500	6.20	2,728,961	4.68
Andrew Whitwam	6,252,500	12.51	5,508,580	9.44
Standard Life Investments	–	–	2,666,667	4.57

- 6.5 Other than the protections afforded to Shareholders under the City Code, there are no controls in place to ensure that any Shareholder having a controlling interest in the Company does not abuse that interest.
- 6.6 Save for the Placing, neither the Directors nor the Company are aware of any arrangements in place which may result in a change in control of the Company.
- 6.7 Save as disclosed in this document, none of the Directors has any interest, beneficial or non-beneficial, in the share or loan capital of the Company.
- 6.8 Save as disclosed in this document, no Director has any interest, direct or indirect, in any assets which have been or are proposed to be acquired or disposed of by, or leased to, the Group and no contract or arrangement exists in which any Director is materially interested and which is significant in relation to the business of the Group.
- 6.9 There are no outstanding loans granted by the Company to any Director, nor are there any guarantees provided by the Company for their benefit.
- 6.10 No Director or any member of his family has a related financial product referenced to the Ordinary Shares.

7 Directors' Service Contracts and Letters of Appointment

- 7.1 The Company has entered into a service agreement with Sean Riddell on 23 March 2010 setting out the terms of his appointment as Chief Executive Officer. The service agreement is conditional on Admission. Under the agreement Sean Riddell is entitled to a salary of £163,200 per annum and a bonus, at the discretion of the remuneration committee. Sean Riddell is entitled to a company car or car allowance up to a value of £40,000 and pension contributions up to the value of £15,300 per annum. Either party may terminate the agreement on 12 months' notice. The service agreement restricts Sean Riddell from having any interest in a competitor. There are also provisions, which, in the event of the termination of his employment, restrict Sean Riddell from having an interest in a competitor and restrict him from soliciting clients and employees of the Group or from inducing any clients of the Group to reduce their business with it, for a period of 12 months from the date of termination of his employment. The service agreement also contains provisions which, inter alia, restrict the disclosure of trade secrets or confidential information and protect the Group's intellectual property rights.
- 7.2 The Company has entered into a service agreement with Dr David Stables on 23 March 2010 setting out the terms of his appointment as Director of Development Strategy. The service agreement is conditional on Admission. Under the agreement Dr David Stables is entitled to a salary of £153,000 per annum. Dr David Stables is entitled to a company car or car allowance up to a value of £40,000 and pension contributions up to the value of £15,300 per annum. Either party may terminate the agreement on 12 months' notice. The service agreement restricts Dr David Stables from having any interest in a competitor. There are also provisions, which, in the event of the termination of his employment, restrict Dr David Stables from having an interest in a competitor and restrict him from soliciting clients and employees of the Group or from inducing any clients of the Group to reduce their business with it, for a period of 12 months from the date of termination of his employment. The service agreement also contains provisions which, inter alia, restrict the disclosure of trade secrets or confidential information and protect the Group's intellectual property rights.

- 7.3 The Company has entered into a service agreement with Phillip Woodrow on 23 March 2010 setting out the terms of his appointment as Finance Director. The service agreement is conditional on Admission. Under the agreement Phillip Woodrow is entitled to a salary of £153,000 per annum. Phillip Woodrow is entitled to a company car or car allowance up to a value of £40,000 and pension contributions up to the value of £15,300 per annum. Either party may terminate the agreement on 12 months' notice. The service agreement restricts Phillip Woodrow from having any interest in a competitor. There are also provisions, which, in the event of the termination of his employment, restrict Phillip Woodrow from having an interest in a competitor and restrict him from soliciting clients and employees of the Group or from inducing any clients of the Group to reduce their business with it, for a period of 12 months from the date of termination of his employment. The service agreement also contains provisions which, inter alia, restrict the disclosure of trade secrets or confidential information and protect the Group's intellectual property rights.
- 7.4 The Company has entered into a letter of appointment with William Anthony Jones on 23 March 2010 setting out the terms of his appointment as non-executive Chairman. The terms of his appointment are conditional on Admission and may be terminated at any time by six months' written notice by either party (or earlier on the appointment of a suitable independent Non-executive Chairman). Under the letter of appointment, William Anthony Jones is entitled to an annual fee of £35,000 and reimbursement of reasonable expenses but no other remuneration. There are also provisions which restrict the disclosure of trade secrets or confidential information and protect the Group's intellectual property rights.
- 7.5 The Company has entered into a letter of appointment with Robin Taylor on 23 March 2010 setting out the terms of his appointment as a non-executive director. The terms of his appointment are conditional on Admission and may be terminated at any time by six months' written notice by either party. Under the letter of appointment, Robin Taylor is entitled to an annual fee of £32,500 and reimbursement of reasonable expenses but no other remuneration. There are also provisions which restrict the disclosure of trade secrets or confidential information and protect the Group's intellectual property rights.
- 7.6 Other than as disclosed above, there are no Directors' service contracts, or contracts in the nature of services, with the Company, other than those which expire or are terminable without payment of compensation on no more than 12 months' notice.
- 7.7 The aggregate remuneration payable and benefits in kind to be granted to the Directors in the last financial period ending 31 December 2009 was £1.83 million and the aggregate remuneration payable and benefits in kind to be granted to the Directors in the current financial period ending 31 December 2010 under the arrangements in force at the date of this document is estimated to be £0.8 million.

8 Accounting

- 8.1 The Company's accounting reference date is 31 December in each year. The Company's next accounting reference period will end on 31 December 2010.

9 Taxation

9.1 General

The comments in this section are intended as a general guide for the benefit of holders of shares as to their tax position under United Kingdom law and HMRC practice as at the date of this document. The comments apply to shareholders who are resident and ordinarily resident for tax purposes in the UK (except in so far as express reference is made to the treatments of non-UK residents) who will hold Ordinary Shares as an investment and will be the absolute beneficial owners of them. The tax position of certain shareholders who are subject to special rules, such as dealers in securities, broker-dealers, insurance companies and collective investment schemes is not considered. Any shareholder who has any doubt as to his or her tax position or who is subject to tax in a jurisdiction other than the United Kingdom should consult a professional adviser without delay.

9.2 *Taxation of chargeable gains made by shareholders*

The following paragraphs apply to non-employee shareholders. Employee shareholders may be subject to an alternative tax regime and should consult their own professional adviser.

For the purpose of UK tax on chargeable gains, the purchase of Ordinary Shares on a placing will be regarded as an acquisition of a new holding in the share capital of the Company.

To the extent that a shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so acquired will, for the purpose of tax on chargeable gains, be treated as acquired on the date of the purchase becoming unconditional.

The amount paid for the Ordinary Shares will constitute the base cost of a shareholder's holding.

A disposal of all or any of the Ordinary Shares may, depending on the individual circumstances of the relevant shareholder give rise to a liability to UK taxation on chargeable gains. The rate of personal capital gains tax is currently 18 per cent, whilst gains realised by corporate shareholders will generally be taxed at the relevant rate of corporation tax for the accounting period in which the disposal occurs. Shareholders will normally be subject to UK taxation of chargeable gains, unless such holders are neither resident nor, in the case of individuals, ordinarily resident in the UK.

9.3 *Taxation of dividends*

Under current United Kingdom legislation, no tax is required to be withheld from dividend payments by the Company. Shareholders (other than a company) receiving a dividend from the Company also receive a tax credit in respect of the dividend of an amount equal to one-ninth of the amount of the dividend which is 10 per cent of the sum of the dividend and the tax credit. Generally, the liability to United Kingdom income tax is calculated on the sum of the dividend and the tax credit ("the dividend income"). Individual shareholders whose income is within the starting rate or basic rate tax bands will be subject to income tax at the rate of 10 per cent on their dividend income, so that such shareholders will have no further liability to income tax on that dividend income. The higher rate of income tax is currently 32.5 per cent in respect of dividend income. After allowing for the 10 per cent deemed tax credit, a higher rate taxpayer suffers an effective rate of 25 per cent on the cash dividend received. In the case of trusts where beneficiaries do not have a right to income (e.g. discretionary and accumulation trusts) trustees may be liable to the dividend trust rate, currently 32.5 per cent.

From 6 April 2010 the income tax rate on dividends will be 42.5 per cent for individuals whose taxable income is more than £150,000. A higher rate tax payer may set the tax credit against his liability to income tax on the dividend income and will have further tax to pay of 22.5 or 32.5 per cent of the gross dividend income (equivalent to an effective rate of 25 per cent or 36.11 per cent on the cash received). The dividend trust rate will also be 42.5 per cent from the same date. Shareholders who are not liable to income tax on the dividend income (or any part of it) may not claim payment of the tax credit (or part of it) from HMRC.

United Kingdom resident corporate shareholders are not normally liable to United Kingdom taxation on any dividend received. United Kingdom resident shareholders (including authorised unit trusts and open ended investment companies) and pension funds are not entitled to payment in cash of the tax credit.

Whether shareholders who are resident for tax purposes in countries other than the United Kingdom are entitled to a payment from HMRC of a proportion of the tax credit in respect of dividends on their Ordinary Shares depends in general upon the provisions of any double taxation convention or agreement which exists between such countries and the United Kingdom. In addition, individual shareholders who are resident in countries other than the United Kingdom but who are Commonwealth citizens, nationals of member states of the European Economic Area or fall within certain other categories of person within Section 56 of the Income Tax Act 2007 are entitled to the entire tax credit which they may set against their total UK income tax liability or, in appropriate cases, reclaim in cash. Non-UK resident shareholders should consult their own tax advisers on the possible application of such provisions and the procedure for claiming any relief or credit in respect of such tax credit in their own jurisdictions. However, in general, no cash payment will be recoverable from HMRC in respect of the tax credit.

9.4 *Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

A transfer or sale of shares will generally be subject to ad valorem stamp duty at the rate of 0.5 per cent rounded up to the nearest multiple of £5 on the amount or value of the consideration paid by the purchaser. If an unconditional agreement for the transfer of such Ordinary Shares is not completed by a duly stamped transfer to the transferee by the seventh day of the month following the month in which the agreement becomes unconditional, SDRT will be payable on the agreement at the rate of 0.5 per cent of the amount or value of consideration paid. Liability to SDRT is generally that of the transferee. Where a purchase or transfer is effected through a member of the London Stock Exchange or a qualified dealer, the said member or dealer will normally account for the SDRT.

When Ordinary Shares are transferred to a CREST member who holds those shares in uncertificated form as a nominee for the transferor, no stamp duty or SDRT will generally be payable.

When Ordinary Shares are transferred by a CREST member to the beneficial owner (on whose behalf it has held them as nominee) no stamp duty or SDRT will generally be payable.

Where a change in beneficial ownership of Ordinary Shares held in uncertificated form occurs and such change is for consideration in money or money's worth (whether the transferee will hold those shares in certificated or uncertificated form) a liability to SDRT at the rate of 0.5 per cent of the amount or value of the consideration will arise. This will generally be met by the new beneficial owner.

In respect of the Placing, the Selling Shareholders have agreed to bear the cost of the stamp duty that would otherwise be borne by the Placees.

9.5 *Income Tax*

The following paragraphs apply to non-employee shareholders. Employee shareholders may be subject to an alternative tax regime and should consult their own professional adviser.

There will be no charge to income tax on the purchase or sale of the Ordinary Shares. The tax treatment of dividends received on the Ordinary Shares is dealt with in section 9.3 above

9.6 *Inheritance Tax*

Individual and trustee investors domiciled or deemed to be domiciled in any part of the UK may be liable on occasions to inheritance tax ("IHT") on the value of any Ordinary Shares held by them. IHT may also apply to individual shareholders who are not domiciled in the UK although relief under a double tax convention may apply to those in this position.

Under current law, the chief occasions on which IHT is charged are on the death of the shareholder, on any gifts made during the seven years prior to the death of the shareholder, and on certain lifetime transfers, notably when shares are settled on discretionary (non-interest in possession) trusts or appointed out of such trusts to beneficiaries.

However, a relief from IHT known as business property relief ("BPR") may apply to Ordinary Shares in trading companies once these have been held for two years. This relief applies notwithstanding that the Company's shares will be admitted to trading on AIM (although it does not apply to companies whose shares are listed on the Official List). BPR operates by reducing the value of shares by 100 per cent for IHT purposes.

9.7 *General*

The above is a summary of certain aspects of current law and practice in the UK. A shareholder who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

10 Articles

The Articles contain, amongst other things, provisions to the following effect:

10.1 *Voting Rights*

- (i) Subject to the provisions of the Act and to any rights or restrictions as to voting attached to any share or class of share in the Articles, at any general meeting on a show of hands every member who (being an individual) is present in person or by proxy (not being himself a member) or (being a corporation) is present by a duly authorised representative or by proxy (not being himself a member) has one vote, and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each Ordinary Share of which he is the holder.
- (ii) No Shareholder shall, unless the Board otherwise determines, be entitled to vote at any general meeting, or, at any separate meeting of the holders of any class of shares, unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.
- (iii) Nothing in the Articles confers on major shareholders in the Company any voting rights, which are different to those conferred on the holders of Ordinary Shares as described in paragraph 10.1(i) above.

10.2 *Transfer of Shares*

- (i) Transfer of shares may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer, if any, shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered on the register of members in respect thereof.
- (ii) The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares unless:
 - (a) the instrument of transfer is in respect of a share in respect of which all sums presently payable to the Company have been paid in respect of a share which is fully paid up;
 - (b) it is in respect of a share on which the Company has no lien;
 - (c) it is in respect of only one class of share;
 - (d) it is in favour of a single transferee or not more than four joint transferees;
 - (e) it is duly stamped (if required); and
 - (f) the instrument of transfer duly stamped is deposited at the office or such other place as the directors may appoint, 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, provided that, in the case of a transfer by a nominee of a recognised clearing house or of a recognised investment exchange, the lodgment of a share certificate will only be necessary if a certificate has been issued in respect of the share in question.
- (iii) The Directors shall not refuse to register any transfer or renunciation of partly paid shares which are admitted to trading on the London Stock Exchange on the grounds that they are partly paid shares in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.
- (iv) If the Board refuses to register a transfer it must, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferor and the transferee.

10.3 *Requirement to disclose interests in shares*

- (i) Pursuant to Rule 5 of the Disclosure and Transparency Rules, holders of three per cent or more of the voting rights of the Company's share capital are required to notify their interest in writing to the Company.
- (ii) Pursuant to section 793 of the Act, the Company may by notice in writing require a person whom the Company knows or has reasonable cause to believe to be or, at any time during the three years immediately preceding the date on which the notice is issued, to have been interested in shares comprised in the Company's issued share capital, to confirm that fact or (as the case may be) to indicate whether or not it is the case, and where that person holds, or has during that time held an interest in shares to comprised, to give such further information as may be required in accordance with sections 793(3), (4) and/or (6) of the Act.
- (iii) If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 793 of the Act and has failed in relation to any shares (the "default shares") to give the Company the information thereby required within the prescribed period from the date of notice, the following sanctions shall apply:
 - (a) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and
 - (b) where the default shares represent at least 0.25 per cent in nominal value of their class the defaulting member shall not be entitled to:
 - i receive dividends any dividend or other money payable in respect of the shares shall be withheld by the Company, which shall not have any obligation to pay interest on it and the member shall not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend; and
 - ii to transfer or agree to transfer any of such shares, or any rights therein.
- (iv) The above restrictions shall continue until either the default is remedied or the shares are registered in the name of the purchaser or offeror (or that of his nominee) pursuant to an arm's length transfer. Any dividends withheld pursuant to shall be paid to the member as soon as practicable after the above restrictions lapse.

10.4 *Dividends*

- (i) Subject to the provisions of the Act and of the Articles and to any special rights attaching to any shares, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. All dividends shall be apportioned and paid pro rata according to the amounts paid up or credited as paid up (otherwise than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. Interim dividends may be paid provided that they appear to the Board to be justified by the profits available for distribution and the position of the Company. Unless otherwise provided by the rights attached to any share, no dividends in respect of a share shall bear interest. The Board may, with the prior authority of an ordinary resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive Ordinary Shares credited as fully paid instead of cash in respect of all or part of any dividend.
- (ii) Any dividend unclaimed after a period of 12 years from its due date of payment shall be forfeited and cease to remain owing by the Company and shall thereafter belong to the Company absolutely.
- (iii) Where, in respect of any shares, any registered holder or any other person appearing to be interested in shares of the Company fails to comply with any notice given by the Company under section 793 of Act, then, provided that the shares concerned represent at least 0.25 per cent in nominal amount of the issued shares of the relevant class, the Company may withhold dividends on such shares.

10.5 *Distribution of assets on liquidation*

On a winding up of the Company, the liquidator may, with the authority of an extraordinary resolution and any other sanction required by the Act, divide among the members in specie the whole or any part of the assets of the Company, and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds, and may for such purposes set such value as he deems fair upon any one or more class or classes of property, and may determine how such divisions shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no member shall be compelled to accept any shares in respect of which there is a liability.

10.6 *General meetings*

- (i) An annual general meeting shall, in addition to any other general meetings held) be held in each period of six months beginning with the day following its accounting reference date. Subject to a member's right to requisition a general meeting pursuant to section 303 of the Act, general meetings of the Company are convened at the discretion of the board.
- (ii) The directors may whenever they think fit, and shall on requisition in accordance with the Acts, proceed to convene a general meeting for a date not later than seven weeks after receipt of the requisition.
- (iii) Subject to the provisions of the Act, an annual general meeting shall be called on at least 21 clear days' notice and a general meeting shall be called on at least 14 clear days notice at the least, and all other general meetings shall be called by 14 days' notice. Every notice shall be in writing (or shall be given by electronic communication to an address being notified for that purpose to the Company) and shall specify the place, the day and the time of meeting, and in the case of special business the general nature of such business, and in the case of an annual general meeting shall specify the meeting as such. Notices shall be given in manner hereinafter mentioned to all the members, other than those who under the provisions of the Articles or the conditions of issue of the shares held by them are not entitled to receive the notice, to the directors (including the alternate directors) and to the auditors for the time being.
- (iv) In every notice calling a meeting of the Company there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a member.

10.7 *Redemption*

The Ordinary Shares are not redeemable.

10.8 *Changes in share capital*

The Company may alter its share capital as follows:

- (i) it may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amounts, cancel any shares which have not been taken or agreed to be taken by any person and sub-divide its shares or any of them into shares of smaller amounts;
- (ii) subject to any consent required by law and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account or other undistributable reserve in any manner; and
- (iii) subject to the provisions of the Act and to any rights for the time being attached to any shares it may with the sanction of a special resolution enter into any contract for the purchase of its own shares.

10.9 *Variation of rights*

Subject to the provisions of the Act and of the Articles, the special rights attached to any class of share in the Company may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated whilst the Company is a going concern or while the Company is or is about to be in liquidation. The quorum for such separate general meeting of the holders of the shares of the class shall be at least two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the relevant class.

10.10 *Constitution of board of directors*

Subject to the Articles, the directors shall be three not less than two in number but the Company may by ordinary resolution from time to time vary the minimum number and may also fix and from time to time vary a maximum number of directors. As at the date of this document the maximum number of directors is 10.

10.11 *Permitted interests of directors*

- (i) Subject to the provisions of the Act and provided that he discloses to the directors the extent and nature of any interest of his, a director is not disqualified by his office from contracting with the Company in any manner, nor is any contract in which he is interested liable to be avoided, and any director who is so interested is not liable to account to the Company for any profit realised by the contract, by reason of the director holding that office or of the fiduciary relationship thereby established.
- (ii) Subject to the provisions of the Act and provided that he discloses to the directors the extent and nature of any interest of his, a director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of director and may act in a professional capacity for the Company (other than as auditor) on such terms as to tenure of office, remuneration or otherwise as the directors may determine. A director may also hold office as a director or other officer or be otherwise interested in any other company of which the Company is a member or in which the Company is otherwise interested and shall not be liable to account to the Company for any remuneration or other benefits received by him from that company.

10.12 *Restrictions on voting by directors*

- (i) A director who is in any way, whether directly or indirectly, interested or deemed by the Act to be interested in a contract, transaction or arrangement or a proposed contract, transaction or arrangement with the Company shall declare the nature of his interest at a meeting of the directors in accordance with section 182 of the Act.
- (ii) Save as provided below, a director (including an alternate director) shall not vote in respect of any contract or arrangement or any other proposal in which he has any material interest otherwise than by virtue of his interests in shares or debentures or other securities or rights of the Company. However a director shall be entitled to vote in respect of any contract or arrangement or any other proposal in which he has any interest which is not material. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting. A director of the Company shall be entitled to vote (and be counted in the quorum) in respect of any resolution at such meeting if his duty or interest arises only because the resolution relates to one of the following matters:
 - (a) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company;
 - (b) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company for which he himself has assumed responsibility in whole or in part, under a guarantee or indemnity or by the giving of security;

- (c) any proposal concerning an offer for subscription or purchase of shares or debentures or other securities or rights of or by the Company or any of its subsidiaries or of any Company which the Company may promote or in which it may be interested in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;
 - (d) any proposal concerning any other Company in which he is interested directly or indirectly and whether in any one or more of the capacities of officer, creditor, employee or holder of shares, debentures, securities or rights of that other Company, but where he is not the holder (otherwise than as a nominee for the Company or any of its subsidiaries) of or beneficially interested in one per cent or more of the issued shares of any class of such Company or of any third Company through which his interest is derived or of the voting rights available to members of the relevant Company (any such interest being deemed for the purpose of this Article to be a material interest in all circumstances);
 - (e) any proposal concerning the adoption, modification or operation of a superannuation fund, retirement benefits scheme, share option scheme or share incentive scheme under which he may benefit; or
 - (f) any arrangement concerning the purchase and/or maintenance of any insurance under which he may benefit.
- (iii) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more directors to offices or employments with the Company or any Company in which the Company is interested, such proposals may be divided and considered in relation to each director separately and in such case each of the directors concerned (if not otherwise debarred from voting) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.
 - (iv) The Company may by ordinary resolution suspend or relax the provisions relating to directors' interests either generally or in respect of any particular matter or ratify any transaction not duly authorised by reason of the contravention thereof.

10.13 *Appointment and retirement of directors*

- (i) The directors shall have power at any time, and from time to time, to appoint any person who is willing to act to be a director, either to fill a vacancy or as an additional director, but so that the total number of directors shall not at any time exceed the maximum number (if any) fixed by or in accordance with the Articles. Subject to the provisions of the Act and of the Articles, any director so appointed shall hold office only until the conclusion of the next following annual general meeting, and shall be eligible for reappointment at that meeting. Any director who retires shall not be taken into account in determining the directors who are to retire by rotation at such meeting and if not re-appointed at such annual general meeting, he shall vacate office at the conclusion thereof.
- (ii) No person other than a director retiring at the meeting shall, unless recommended by the directors for appointment, be eligible for appointment to the office of director at any general meeting unless, not less than seven nor more than twenty eight days before the day appointed for the meeting, there shall have been given to the Company notice in writing by some member duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for appointment stating the particulars which would, if he were so appointed, be required to be included in the Company's register of directors, and also notice in writing signed by the person to be proposed of his willingness to be appointed.
- (iii) At each annual general meeting, one-third of the directors who are subject to retirement by rotation and in office at the opening of business on the date of the notice calling the relevant annual general meeting or, if their number is not three or a multiple of three, then the number nearest to but not exceeding one-third, or if their number is less than three then one of them, shall retire from office. A director retiring at a meeting shall retain office until the dissolution of such meeting.

- (iv) The directors to retire at such annual general meeting shall include such of the directors referred to above who wish to retire and not offer themselves for re-election (if any) together with, to the extent that the number of such Directors is insufficient to meet the number required to retire, such of the Directors who have been longest in office as are necessary to meet such number. As between two or more who have been in office an equal length of time, the director(s) to retire shall (in default of agreement between them) be determined by lot. The length of time a director has been in office shall be computed from his last election, re-election or appointment when he has previously vacated office. A retiring director shall be eligible for re-election.
- (v) The Company may from time to time by ordinary resolution increase or reduce the number of directors, and may also determine in what rotation such increased or reduced number is to retire from office.

10.14 *Remuneration of directors*

- (vi) The maximum aggregate annual fees payable to each director for his/her services in holding office of director of the company shall be the sum of £150,000 or such larger sum as the company in general meeting by ordinary resolution shall from time to time determine, but this limit shall not apply in respect of the salaries, bonuses or other remuneration payable by the company or any subsidiary of the company or expenses reimbursed to any director.
- (vii) Any director who serves on any committee or who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid such remuneration by way of salary, lump sum, percentage of profits or otherwise as the Directors may determine. The directors shall also be entitled to be paid all traveling, hotel and other expenses properly incurred by them in connection with the business of the Company, or in attending and returning from meetings of the Directors or of committees of the Directors or general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

10.15 *Borrowing powers*

- (i) Subject as hereinafter provided the directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital, and (subject to the Act) to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.
- (ii) The aggregate principal amount for the time being outstanding in respect of monies borrowed or secured by the Company and its subsidiaries excluding money used by any member of the Group to any other member of the Group shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to two times the adjusted capital and reserves. The "adjusted capital reserves" means the aggregate from time to time of:
 - (a) the amount of the share capital of the Company issued and paid up; and
 - (b) the amounts shown as standing to the credit of capital and revenue reserves, including share premium account, capital redemption reserve, revaluation reserve, merger reserve and credit balance on profit and loss account (but deducting there from the amount, if any, standing to the debit of profit and loss account) in either a consolidation of the audited balance sheets of all the companies in the Group last laid before the members thereof respectively in general meeting or (at the directors' discretion) in the audited consolidated balance sheet of the Group last laid before the Company in general meeting; but
 - (i) adjusted in respect of any variations in the issued and paid up share capital, share premium account, capital redemption reserve, revaluation reserve or merger reserve effected or any distributions made (otherwise than within the Group) since the date of such balance sheets except insofar as provided therein;

- (ii) excluding therefrom any amounts set aside for taxation (including deferred tax) and, to the extent included, any amounts attributable to outside shareholdings in subsidiaries;
- (iii) after making appropriate adjustment for any company which has become or ceased to be a Subsidiary Undertaking since the date of such balance sheets and any variation in the interests of the Company in its Subsidiary Undertakings since the date of such balance sheets; and
- (iv) where the calculation is required for the purposes of or in connection with a transaction under or in connection with which any company is to become or cease to be a Subsidiary Undertaking, after making such adjustments as would be appropriate if such transaction had been carried into effect.

11 Mandatory Bids, Squeeze-Out and Sell-Out Rules relating to the Ordinary Shares

11.1 Mandatory Bid

The City Code applies to the Company. Under the City Code, where:

- (i) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which he is already interested, and in which persons acting in concert with him are interested) carry 30 per cent or more of the voting rights of a company; or
- (ii) any person who, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent of the voting rights of a company but does not hold shares carrying more than 50 per cent of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested;

such person shall, except in limited circumstances, be obliged to extend offers, on the basis set out in Rules 9.3, 9.4 and 9.5 of the City Code, to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights. Offers for different classes of equity share capital must be comparable; the Panel should be consulted in advance in such cases.

11.2 Squeeze-out

Under sections 979 to 982 of the Act, if an offeror were to acquire 90 per cent of the Ordinary Shares it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their shares, provided that no such notice may be served after the end of (a) the period of three months beginning with the day after the last day on which the offer can be accepted, or (b) if earlier, and the offer is not one to which section 943(1) of the Act applies, the period of six months beginning with the date of the offer.

Six weeks following service of the notice, the offeror must send a copy of it to the Company together with the consideration for the Ordinary Shares to which the notice relates, and an instrument of transfer executed on behalf of the outstanding Shareholder(s) by a person appointed by the offeror.

The Company will hold the consideration on trust for the outstanding Shareholders.

11.3 Sell-out

Sections 983 to 985 of the Act also give minority Shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent of the Ordinary Shares, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror is required to give any

Shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period, or, if longer a period of three months from the date of the notice.

If a Shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

- 11.4 There have been no takeover bids by third parties in respect of the Company's equity, which have occurred during the last financial year or the current financial year.

12 Corporate Governance

12.1 The Directors intend that the Company will comply with the main provisions of the Combined Code in so far as they are practicable for a company of its size. The Company has appointed two non-executive directors with relevant sector experience to complement the executive directors. Of the Company's two non-executive directors, Robin Taylor provides an independent view to the Board and it is intended that the other non-executive director shall be replaced by an independent non-executive director as soon as practicable.

12.2 The Board has also considered the guidance issued by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull Report) concerning the internal requirements of the Combined Code. The Board intends regularly to review key business as well as financial risks facing the Group in the operation of its business.

12.3 The main features of the Company's corporate governance procedures (which procedures do not constitute full compliance with the Combined Code) are as follows:

- (a) the Board has a non-executive Chairman who takes an active role in Board matters;
- (b) the Company has established an audit committee to operate from Admission, comprising both non-executive Directors and the executive finance director. The audit committee will be chaired by Robin Taylor and will meet at least twice each year. The audit committee will be responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported on and for meeting with the Group's auditors and reviewing their reports on the accounts and the Group's internal controls;
- (c) the Company has established a remuneration committee, comprising non-executive Directors, to operate from Admission. The remuneration committee will be chaired by William Anthony Jones. The Remuneration Committee will be responsible for reviewing the performance of the executive Directors, setting their remuneration, determining the payment of bonuses, considering the grant of options under any share option scheme and, in particular, the price per share and the application of performance standards which may apply to any such grant;
- (d) the Company has established a nomination committee, comprising non-executive Directors, to operate from Admission. The nomination committee will be chaired by William Anthony Jones. The nomination committee will be responsible for leading the process for board appointments and making recommendations to the Board in this regard;
- (e) the Board has put in place an AIM Rules Compliance Code in order to ensure the compliance by the Company and its directors with the AIM Rules and in particular AIM Rule 31; and
- (f) there is in place a share dealing code applicable to the Directors and their connected persons.

13 Material Contracts

Other than as set out below, there are no contracts (not being in the ordinary course of business) entered into by the Company or any Subsidiary Undertaking of the Company in the two years immediately preceding the date of this document which are or may be material or which have not been entered into in the two years immediately preceding the date of this document but which contain a provision under which the Company or any Subsidiary Undertaking of the Company has an obligation or entitlement which is material to the Group as at the date of this document, save for Directors' service contracts (as described in paragraph 7 of this Part V).

13.1 *Nominated Adviser and Broker Agreement*

The Company entered into an agreement with Evolution Securities on 24 March 2010, pursuant to which the Company appointed Evolution Securities and Evolution Securities agreed to act as sole nominated adviser and broker to the Company with effect from Admission.

13.2 *Placing Agreement*

The Placing Agreement was entered into between (1) the Company, (2) the Directors, (3) the Selling Shareholders and (4) Evolution Securities on 24 March 2010 pursuant to which Evolution Securities has agreed, subject to certain conditions, as agent for the Selling Shareholders and the Company to use reasonable endeavours to procure purchasers for the Sale Shares and subscribers for the New Ordinary Shares at the Placing Price.

The Placing Agreement is conditional, amongst other things, upon Admission becoming effective by not later than 8:30 a.m. on 29 March 2010 or such later time and/or date as Evolution Securities and the Company may otherwise agree (being not later than 30 April 2010).

The Placing Agreement provides for payment of a corporate finance fee of £250,000 by the Company and a commission of three per cent of the Gross Placing Proceeds payable to Evolution Securities by the Company in respect of the placing of the New Ordinary Shares and the Selling Shareholders in respect of the Placing of the Sale Shares.

The Placing Agreement contains certain warranties by the Company and the Directors in favour of Evolution Securities, including as to the accuracy of the information contained in this document and certain financial information and other matters relating to the Group and its businesses. The Placing Agreement also contains warranties from the Selling Shareholders and the Directors in favour of Evolution Securities relating to the ownership of the Sale Shares held by each Selling Shareholder and each Selling Shareholder's capacity to sell Sale Shares pursuant to the Placing Agreement. In addition, the Company has agreed to indemnify Evolution Securities in respect of any losses, damages and liabilities incurred by Evolution Securities resulting from the carrying out by Evolution Securities of its obligations or services under, or in connection with, the Placing Agreement.

Evolution Securities may terminate the Placing Agreement prior to Admission in certain specific circumstances customary for a transaction of this nature.

13.3 *Lock-in Agreement*

The Locked-in Persons have also entered into an agreement on 24 March 2010 pursuant to which they have each agreed, except in certain limited cases, not to dispose of any shares in which they or their connected persons are interested as at Admission for a period of 12 months following Admission and thereafter they have agreed (subject to certain exceptions and unless the Company consents otherwise) that, for each of the next two successive periods of 12 months, they are subject to a staggered lock-in whereby, in each of such periods of 12 months, they may only dispose up to a maximum of one third of the Ordinary Shares in which they and their connected persons are interested immediately following Admission. Any disposals of shares during this period shall be through the Company's broker from time to time in accordance with such broker's reasonable requests so as to ensure an orderly market for the issued share capital for the Company during each year of such period.

13.4 *Shareholders' Agreement*

- (a) EMIS holds 1,257,024 preferred ordinary shares in the share capital of Pharmacy2U, a mail order on-line pharmacy and chemist. This shareholding represents a minority interest of 20 per cent.
- (b) The shareholders' agreement dated 17 October 2000 between (1) Pharmacy2U, (2) Daniel Lee and others, (3) Andrea Lee and others, (4) Onmedica Group Plc and (5) Credit Agricole Indosuez (as amended by deeds of adherence and variation dated 30 October 2002 and 29 September 2005, to which EMIS was a party) provide, inter alia, that: (i) EMIS has a right to appoint and remove a director to the board of Pharmacy2U. Sean Riddell has been appointed a director in this regard; (ii) there is a drag along right where an offer is made to purchase shares in Pharmacy2U which is accepted by holders of at least 65 per cent of all the issued shares of any class and is made on terms satisfactory to Credit Agricole Indosuez; there are pre-emption

rights with regard to the allotment and the transfer of shares in Pharmacy2U; (iv) EMIS provides several negative undertakings, including in respect of corporate and constitutional matters, finance and operational matters; and (v) confidentiality provisions whereby EMIS undertakes to treat as confidential and not to disclose all intellectual property rights and company secrets of Pharmacy2U, except that any such information may be disclosed to EMIS' other Group companies and its professional advisers and bankers and where any such information is required to be disclosed by law, any securities exchange, governmental body.

- (c) EMIS also collaborates with Pharmacy2U in various ways to offer electronic prescription services to users of EMIS software and/or the Pharmacy2U website. In particular, EMIS grants to Pharmacy2U a non-exclusive licence to integrate its Mentor Drug database with the Pharmacy2U website and the parties collaborate to maximise the opportunities for exploitation of software known as Medicine Manager in which intellectual property is owned jointly by the parties.

13.5 Acquisition Agreement

- (a) Under the terms of an acquisition agreement ("Acquisition Agreement") dated 4 April 2008 and made between Dr Peter Sowerby and others (the "Sellers") (1) and the Company (2), the Company purchased the entire issued share capital of EMIS for an aggregate consideration of £53,000,000, to be satisfied as to £30,000,000 in cash on completion of the Acquisition Agreement and £23,000,000 to be left outstanding by way of a loan on the terms of the loan agreement between the Sellers and the Company.
- (b) The Acquisition Agreement contains warranties and a tax covenant given by Dr Peter Sowerby, Dr David Stables and William Jones ("Warrantors") to the Company in relation to EMIS and its business and assets.
- (c) The Acquisition Agreement contains certain provisions that limit the liability of the Warrantors including that:
 - (aa) the aggregate liability of the Warrantors for all claims for a breach of warranty and breach of the tax covenant shall not exceed £10,000,000 and the maximum individual liability of each Warrantor is as follows: David Stables £2,510,000, Peter Sowerby £4,980,000 and William Jones £2,510,000;
 - (bb) no warranty claim can be made after 4 October 2009 and no claim can be brought under the tax covenant after the seventh anniversary of the Acquisition Agreement; and
 - (cc) claims may only be brought once the aggregate of all claims exceeds £500,000.
- (d) The Warrantors entered into a deed of contribution with the other Sellers on 4 April 2008 whereby the liability for the warranties was apportioned between all of them.
- (e) The Company has confirmed that no claims have been made in accordance with the same.

13.6 Loan Agreement

- (a) Part of the cash consideration payable under the Acquisition Agreement (£23,000,000) was not paid to the Sellers and was left outstanding as a loan (the "Sellers' Loan"), the terms of which were set out on a loan agreement (the "Sellers' Loan Agreement") dated 4 April 2008 between (1) the Company (as borrower) and (2) Dr P Sowerby and others (as lenders), which provides that:
 - (aa) interest shall accrue daily on the basis of a 365-day year at the annual rate of 2 per cent plus LIBOR and shall be paid annually in arrears, or on such other terms as the parties agree;
 - (bb) the Sellers' Loan, together with all accrued but unpaid interest, shall be repaid on 4 April 2018; and
 - (cc) the Company may prepay the Sellers' Loan in full or in part at any time upon giving the lenders 20 business days' notice.
- (b) The Company has confirmed that, as at 31 December 2009, the aggregate amount net of interest owing to the lenders under the Sellers' Loan Agreement was £23,000,000.
- (c) The Sellers' Loan Agreement is subject to the terms of a subordination deed with (among others) Clydesdale Bank plc trading as Yorkshire Bank (the "Bank").

13.7 *Unsecured Inter Company Loan Agreement*

- (a) The Company entered into an unsecured inter company loan agreement (the “Inter-Company Loan Agreement”) dated 4 April 2008 between (1) the Company (as borrower) and (2) EMIS (as lender) for the provision of a loan facility of up to £14,500,000, which provides that:
- (aa) the loan shall only be utilised by the Company to make payments incurred by the Company directly or indirectly in connection with the Acquisition Agreement;
 - (bb) interest shall accrue daily on the sums advanced at a rate of 2 per cent plus LIBOR and shall be paid annually in arrears, or as otherwise may be agreed between the parties; and
 - (cc) the Company shall repay the loan, in part or in full, on demand made at any time by the lender.

13.8 *Intercompany Funding Agreement*

- (a) The Company entered into an unsecured inter company funding agreement (the “Inter-Company Funding Agreement”) dated 4 April 2008 between (1) the Company (as borrower) and (2) EMIS (as lender) for the provision of a loan facility of up to £100,000,000, which provides that:
- (aa) the loan shall only be utilised by the Company to make payments when due under the term loan facility agreement entered into with the Bank, the Sellers’ Loan Agreement or that are incurred by the Company directly or indirectly in connection with the Acquisition Agreement;
 - (bb) interest shall accrue daily on the sums advanced at a rate of 2 per cent plus LIBOR and shall be paid annually in arrears, or as otherwise may be agreed between the parties; and
 - (cc) the Company shall repay the loan, in part or in full, on demand made at any time by the lender.

13.9 *Facility Agreement*

The Company entered into a new conditional facility agreement on 23 March 2010 with Clydesdale Bank PLC (trading as Yorkshire Bank) (the “Bank”), its incumbent bank, to refinance the existing term loan facilities. The new facilities (in aggregate up to £6,800,000) are available to drawdown and will replace the Company’s existing facility agreement conditionally upon the Placing having raised at least £22.5 million for the Company net of expenses. The new facility agreement contains general covenants, financial covenants and representations and warranties given in relation to the Group.

The facilities being provided under the new facility agreement are term loans, split between Facility A (£3,800,000), and Facility B (£3,000,000). Facility A is an amortising loan, the final repayment falling due on 31 March 2013. Facility B is to be repaid by way of a bullet repayment on 31 March 2014. Interest is charged on Facility A at 2.00 per cent above LIBOR plus mandatory costs, and on Facility B at 1.75 per cent above LIBOR plus mandatory costs.

There is no new security being granted for the facilities and the existing security granted to the Bank, which includes a legal charge over the Company’s head office premises at Fulford Grange, a debenture over the Company and a cross-guarantee between the Company and EMIS, will remain in place.

14 Litigation

- 14.1 Mr Anthony Walsh is claiming compensation for back injuries that were allegedly suffered by lifting heavy equipment whilst he was on secondment to a PCT. The matter is at disclosure stage with the claim in the sum of £50,000 plus costs. The claim is covered by the insurance policies that the Group has in place and the insurers have been informed of the claim.
- 14.2 Save as disclosed in paragraph 14.1 above, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) in which the Company or any Subsidiary Undertaking is involved which may have or have had in the twelve months preceding the date of this document a significant effect on the Group's financial position or profitability.

15 Intellectual Property Rights

- 15.1 The Group owns rights in the following material software: EMIS Web; PCS; (Generic product); PCS (with modifications for MOD, Dental, Emirates Airlines and Canada); PCS Enterprise; LV (Generic Product); LV (with modifications for MOD and King Edward IIV Hospital Falkland Islands); EMIS Access; Seneca; Mentor; Patient UK; and QUTE.
- 15.2 The Group has the following registered trade marks and applications:
- (a) Canadian trade mark applications for EMIS; EMIS Web & Design; and EMIS WEB;
 - (b) UK trade mark applications: QUTE (series of 3);
 - (c) UK registered trade marks: MIG; mig & design; EMIS; EMIS & Design (series of 2); Egton (series of 8); EMIS Web & design (series of 2); EMIS & design (series of 2); Pathwayone/PathwayOne & design (series of 2); PathwayOne & design (series of 2); QRISK; QSURVEILLANCE, QRESEARCH, and EBIT/ebit (series of 2).
- 15.3 The Group has the following material database: Mentor Drug database.
- 15.4 The Group owns rights in Patient Information Leaflets published on its www.patient.co.uk website.
- 15.5 The Group has the following domain names: e-mis.co.uk; e-mis.com; e-mis.net; e-mis.org; e-mis.org.uk; e-mis.plc.uk; emis.plc.uk; emis-group.plc.uk; emisaccess.co.uk; emisaccess.org.uk; emis-group.plc.uk; emishealth.co.uk; emishealth.com; emishealth.net; emishealth.org; emishealth.org.uk; emisit.com; emisit.eu; emislegal.co.uk; emislegal.com; emis-online.com; emis-online.com; emisweb.co.uk; disposeit.co.uk; egton.com; egton.eu; egton.net; egtoneducation.co.uk; egton-education.co.uk; egtoneducation.com; egton-education.com; egton-education.net; egtonprofessional.co.uk; egtonprofessional.com; egtonsoft.co.uk; egtonsoft.com; egtonsoft.net; egtonsoftware.co.uk; egtonsoftware.com; egtonsoftware.net; egtonsoftware.org; essweb.net; gpwebsolutions.co.uk; itdisposal.net; lastminuteengineer.co.uk; lastminuteengineer.com; lastminuteengineer.net; mentor-online.co.uk; mentor-online.com; mypatientrecord.co.uk; pathway1.co.uk; pathwayone.co.uk; pathwaytrust.org; pctsupport.co.uk; pct-support.co.uk; pctsupport.com; pctsupport.net; pct-support.net; practiceconsumables.co.uk; practiceconsumables.com; securedisposal.net; secureitdisposal.co.uk; secureitdisposal.com; senecacm.eu; senecasecure.com; wedisposeofit.co.uk; wedisposeofit.com; weedisposeit.co.uk; weedisposeit.com; weedisposeofit.com; yourcpd.co.uk;
- 15.6 The Group has licences to incorporate certain data, codes, text, terminology and/or software into EMIS products and to sub-license to end users including: OPCS-4, Read Codes, ICD-10 codes terms and text, Snomed CT, RX and EPOS datasets; Statement of Fees and Allowances (Red Book); Purchaser and Provider Organisation Codes; Concise Oxford Textbook of Medicine (in electronic form); Oxford Handbook of Clinical Medicine and Oxford Handbook of Clinical Specialties; BNF Data, and Dermis.
- 15.7 Save as disclosed in paragraphs 15.1 to 15.6 above, there are no patents or intellectual property rights, or licences which are of fundamental importance to the Group's business.

16 Investments

16.1 Pharmacy2U

EMIS holds 1,257,024 preferred ordinary shares in the share capital of Pharmacy2U, representing a minority interest of 20 per cent.

The articles of association of Pharmacy2U ("Pharmacy2U Articles") provide, *inter alia*, pursuant to Article 17.3 of the Pharmacy2U Articles, that an indirect disposal in relation to any shareholder, which is a change of control of that shareholder (with control being defined as where a person holds or is entitled to acquire the majority of the issued share capital or the voting rights of that shareholder), will be deemed to be a trigger event requiring the compulsory transfer of the shares held by that shareholder.

16.2 Save as set out in this Document, there are no:

- (a) investments in progress which are significant to the Group; or
- (b) future investments upon which the Company or Group or its management have already made firm commitments.

17 Working Capital

The Directors are of the opinion that, having made due and careful enquiry and taking into account the net proceeds of the Placing and the existing facilities available to the Company, the working capital available to the Group will, from the time of Admission, be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

18 Related Party Transactions

18.1 Save as set out in paragraph 13.6 above, there are no related party transactions that the Company or any subsidiary undertaking has entered into during the period covered by the historical financial information set out in Part IV and up to the date of this document.

19 General Information

- 19.1 The total gross proceeds of the Placing are expected to be £50.0 million including £25.0 million receivable by the Company and £25.0 million receivable by the Selling Shareholders. The estimated amount of the expenses of the Placing and Admission which are payable by the Company, is approximately £1.7 million (including VAT). The net proceeds of the Placing receivable by the Company will be approximately £23.3 million.
- 19.2 Baker Tilly Corporate Finance LLP of 2 Bloomsbury Street, London WC1B 3ST has given and not withdrawn its written consent to (a) the inclusion of its report set out in Part IV of this document in the form and context in which they appear and has authorised the contents of the report referred to above for the purposes of the AIM Rules and (b) the inclusion in this document of references to its name in the form and context in which they appear.
- 19.3 Evolution Securities Limited whose registered office is at 100 Wood Street, London EC2V 7AN has given and not withdrawn its written consent to the inclusion in this document of references to its name in the form and context in which they appear.
- 19.4 The financial information contained in this document does not constitute full statutory accounts as referred to in section 434 of the Act.
- 19.5 There have not been, either in respect of the Company or any company in the Group, any significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last financial year to the date of this document.
- 19.6 There are not, either in respect of the Company or any of the Subsidiary Undertakings of the Company, any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for at least the current financial year of the Company or the Group.

- 19.7 Save as disclosed in this document, there has been no significant change in the financial or trading position of the Group since 31 December 2009, being the date to which the last published audited accounts of the Company were prepared.
- 19.8 The ordinary shares are, and the Placing Shares will be, in registered form. No temporary documents of title will be issued.
- 19.9 No person, either directly or indirectly, has in the last twelve months received or is contractually entitled to receive either directly or indirectly, from the Company on or after Admission (excluding in either case persons who are professional advisers otherwise disclosed in this Document and trade suppliers): (i) fees totalling £10,000 or more; (ii) its securities, where these have a value of £10,000 or more calculated by reference to the Placing Price; or (iii) any payment or benefit from the Company to the value of £10,000 as at the date of Admission.
- 19.10 Of the Placing Price, 1p represents the nominal value of each Placing Share and 299p the premium.
- 19.11 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the placing letters to be issued by Evolution Securities to Placees in connection with the Placing until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects, application monies will be refunded to applicants at their risk and without interest.
- 19.12 Baker Tilly UK Audit LLP, Chartered Accountants of 2 Whitehall Quay, Leeds LS1 4HG, were auditors of the Company for the period ended 31 December 2008 and the year ended 31 December 2009. Baker Tilly UK Audit LLP are a member of the Institute of Chartered Accountants in England and Wales.
- 19.13 To the extent information has been sourced from a third party, this information has been accurately reproduced and, as far as the Directors and the Company are aware and able to ascertain from information published by that third party, no facts have been omitted which may render the reproduced information inaccurate or misleading.

20 Publication of this Document

Copies of this Document shall be available free of charge during normal business hours on any day (except Saturdays, Sundays and public holidays) from Evolution Securities Limited at 100 Wood Street, London EC2V 7AN for a period of one month from the date of Admission.

21 Documents Available for Inspection

Copies of the following documents may be inspected at the registered office of the Company and at the offices of Cobbetts LLP, 70 Gray's Inn Road, London WC1X 8BT during the usual business hours on any week day (weekends and public holidays excepted) for the period of fourteen days following the date of this Document:

- a. the Memorandum and Articles of the Company;
- b. the accountants' reports by Baker Tilly Corporate Finance LLP on the Company in Part IV of this Document;
- c. the Directors' service agreements and letters of appointment, referred to in paragraph 7 above; and
- d. the written consents referred to in paragraph 19 above.

Date: 24 March 2010