EMIS Group plc
Annual Report and
Accounts 2010

Healthcare without boundaries

A year of strengthening our foundations

EMIS Group plc is the UK's leading supplier of clinical software and related services to GPs and other healthcare practitioners, with approximately 39 million patient records in the UK held on EMIS' software.

Established in 1987, EMIS' core activities include software licensing and support, hosting, hardware sales and maintenance services, third party software sales and training services.

The EMIS 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.

EMIS was admitted to AIM on 29 March 2010.

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ar10.emis-online.com

Interactive content
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GP market share
53.8%

EMIS GP practices
5,576

Pharmacy market share
25%

Number of retail pharmacies
over
3,000

Total dividend for the year
11.2p

Revenue
+8%
£62.4m

Adjusted operating profit
+11%
£17.6m

Adjusted cash generated from operations[1]
+20%
£18.4m

Adjusted earnings per share
+10%
21.78p

(1) Cash generated from operations less internal development costs capitalised.

Search function
Use the search facility to find the information you need.

read more about how our business model works:
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Our highlights

Financial highlights

	2010	2009	Increase
Total revenue	£62.4m	£57.7m	8%
Core activities(1) (EMIS/RX Systems):			
– recurring revenue	£50.8m	£42.7m	19%
– operating profit	£19.6m	£17.0m	15%
Adjusted operating profit(2)	£17.6m	£15.8m	11%
Cash generated from operations	£22.2m	£19.9m	£2.3m
Net cash/(debt)	£1.7m	£(1.7m)	£3.4m
EPS	19.84p	19.88p	(0.2)%
EPS – adjusted(3)	21.78p	19.88p	10%
Dividends:			
– proposed final	5.6p	—	—
– total dividend for year	11.2p	—	—

(1) Excludes the Canadian operation discontinued post year end.

(2) Adjusted operating profit includes flotation and other transaction costs of £1.26m.

(3) Calculation of 2010 adjusted EPS excludes flotation and other transaction costs of £1.26m less related tax relief of £0.16m.

Operational highlights(1)

→ **UK GP software market leading position:**
- → growth in UK market share to 53.8% (2009: 52.5%)
- → 5,576 EMIS GP practices at year end (2009: 5,377 EMIS GP practices)
- → market share in Scotland increased from 12.7% to 51.5% by year end

→ **EMIS Web accredited September 2010 and controlled roll-out commenced. By the year end:**
- → 44 GP practices installed
- → 433 orders placed
- → 1,665 orders for the EMIS Web familiarisation service

→ **RX Systems:**
- → alignment on track
- → high street pharmacy market share increased from 20.5% to 25.0%

→ **Strategic review of Canadian operation concluded and managed exit underway.**

→ **Transformation of healthcare delivery in the UK opening up new markets for EMIS Web:**
- → in January 2011 EMIS won a five year contract, with an initial value of £1.8m, to deliver a shared patient healthcare record for primary healthcare teams across Cheshire
- → EMIS continues to pilot EMIS Web across a variety of healthcare sectors in Liverpool, London and Cumbria

→ **EMIS chosen to provide electronic healthcare records for the Australian Department of Defence under a five year contract.**

(1) EMIS and RX Systems data estimated based on subsidiary company records showing customers installed or ordered (by contract or letter of intent) as at 31 December 2010.

EMIS Group plc, through its subsidiaries Egton Medical Information Systems Limited and RX Systems Limited, is the UK's leading supplier of clinical software and related services to GPs and other healthcare practitioners. The Group's core activities include software licensing and support, hosting, hardware sales and maintenance services, third party software sales and training services.

Our business

Healthcare core products

- **EMIS Web** is the first new clinical system available to GPs in eleven years. Transforming patient care and NHS efficiency by allowing primary, secondary and community healthcare practitioners to view and contribute to a patient's cradle-to-grave healthcare record.
- **EMIS PCS** is a fully integrated, intuitive GP clinical system. The popular Windows-based system is used by general practices throughout the UK, helping to streamline practice efficiency and maximise QOF points.
- **EMIS LV** was originally launched in the late 1980s and has been the most widely used clinical system for over two decades.
- **QUTE** brings together primary and secondary care records which enables GPs to view a continuum of care, admin staff to easily reconcile cost information and PCTs and commissioners to carry out detailed searches and reports.
- **EMIS Dental** is designed to support the detailed care processes involved in the encounters between the patient and the dental professional, as well as the smooth day to day running of the dental practice.

Pharmacy

- **RX Systems Limited**
In August 2010, EMIS acquired 78.9% of RX Systems Limited (RX Systems), a supplier of integrated pharmacy and retail systems for community pharmacies. RX Systems has a significant customer base of over 3,000 pharmacies and a 25% share of this market.
- **Pharmacy2U** is one of the larger dedicated mail order and online NHS pharmacy companies of its type in the UK. EMIS has a 20% shareholding.

Ministry of Defence (MoD)

- In 1995 EMIS was selected to provide the MoD with their Primary Health Care Information System software which is now installed in over 200 sites worldwide.
- Awarded a five year contract in February 2011, as part of prime contractor, CSC's, bid to provide an e-health system to the Australian Government for use by its armed forces.

Sharing patient data

- **Healthcare Gateway**
A 50:50 joint venture company was established with INPS in June 2010 to facilitate the sharing of patient data via a medical interoperability gateway (MIG).

Read about how our business functions in the real world through our case studies:
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and on our website:
www.emis-online.com

Chief executive's overview

Sean Riddell
Chief Executive

"2010 has been a busy year for EMIS Group. In our core business we have achieved accreditation and started the controlled roll-out of EMIS Web, our transformational next generation healthcare IT system. Working with GPs and commissioning groups to fulfil the objectives described in the NHS White Paper, we are already seeing a high level of intent to upgrade. Of the first wave of 52 GP consortia announced to date, representing 22% of England's GP practices, 77% are already EMIS users. These pathfinder organisations will shape the way that GP consortia operate in the future.

We made the strategic acquisition of RX Systems, significantly increased our market share in Scotland, formed a joint venture to deliver wider interoperability through Healthcare Gateway, progressed existing and new extended primary care and community projects in Liverpool, London, Cumbria and Cheshire and extended our international reach into Australia.

We remain focussed on cross-organisational healthcare and are confident that we can help healthcare professionals to deliver clinical benefit and improved efficiency through our software and services."

EMIS Group, through its subsidiary companies EMIS and RX Systems, is a major provider of healthcare IT, software and services in the UK. EMIS is the UK GP software market leader with 53.8% (5,576) of UK GP practices and over 60% of the cradle-to-grave electronic healthcare records. RX Systems provides healthcare IT, software and services to 25% of UK high street pharmacies.

EMIS Group's objective is to improve patient healthcare via the provision of healthcare IT, software and services. To achieve this, the group's strategy is to join up the patient's electronic healthcare record across the many clinicians and organisations that assist in the patient journey. We maintain a "healthcare first" ethos in delivering this cross-organisational healthcare.

The NHS in England is undergoing a combination of political upheaval and austerity challenges and has moved its position away from the development of centralised national systems to a "connect all" strategy. This has been further defined in a Government White Paper, which confirms the ring fencing of the public health budget, the increase in real terms of NHS spending, sharing of information being the key to better care, outcomes and reduced cost, and devolved power for commissioning services passing to local consortia of GP practices. With over 60% of cradle-to-grave electronic healthcare

EMIS Group won IPO of the Year at the Quoted Company Awards 2011.

20+ years 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

records in the UK and the cross-organisational functionality of EMIS Web, EMIS is well positioned for future growth in the environment of the recently proposed NHS strategic changes.

The envisaged transformation of healthcare delivery opens up new markets for EMIS Web. In addition to the estimated 157,000 staff currently based in GP practices, 292,000 staff work in extended primary and community healthcare, representing additional potential markets for EMIS. EMIS Web is already live in these new markets with strategic healthcare partners including the NHS in Tower Hamlets, Cumbria and, latterly, Cheshire where EMIS Web will become the main clinical information system for the whole primary healthcare team of approximately 4,000 clinicians working across a diverse range of healthcare settings. In Liverpool, we have successfully linked primary, out of hours and secondary healthcare IT systems. This improves patient care and delivers significant efficiencies by providing vital patient information at the point of need. With the formal accreditation process for EMIS Web now complete, this is a model that we intend to replicate in other healthcare communities.

Sean Riddell
Chief Executive
17 March 2011

In Cheshire EMIS Web will allow primary and secondary care clinicians to access vital information about their patients' health and for the whole team to work together to provide joined-up care.

The Cheshire initiative will be a major implementation of the EMIS Web cross-organisational healthcare system outside GP surgeries, with 933 EMIS Web access points installed in acute trusts, mental health facilities, clinics and some community facilities.

Using EMIS Web, the whole primary healthcare team, approximately 4,000 health professionals including community nurses and physiotherapists, will be able to record their own patient interventions in the software. Clinicians across primary and secondary care will also be able to view relevant information from the GP patient record, subject to patient consent and locally agreed data-sharing protocols.

Business review

Thousands of patients in Cumbria are benefiting from care closer to home, thanks to seamless data sharing across a large rural area using EMIS Web.

Operational review

EMIS' core business remains stable and continues to perform well, responding to the ongoing change within the NHS. Our overall UK market share as a result of gaining 398 GP practices in Scotland has increased from 52.5% to 53.8%.

During 2010, core recurring income from licensing and software support increased by 8.9% to £31.7m compared with £29.1m in 2009, arising mainly from an increase in accredited hosting deployments. 608 practices were migrated to EMIS-hosted servers during the year.

Income from hardware sales, engineering services and training reduced to £21.7m (2009: £24.8m). Not surprisingly, discretionary spend on hardware, engineering services and training was affected by pressure on NHS budgets and political uncertainty. It also appears that some spending is being deferred in anticipation of the roll-out of EMIS Web. We expect that pressure on NHS budgets will continue to impact discretionary spend.

Scotland represents a significant area of new business growth for the future. NHS Scotland opted to replace the legacy GP System (GPASS) used by 683 practices and, in January 2010, selected EMIS as one of only two systems to which GPASS practices

Delivering joined-up care in Cumbria

GP practices in South Lakes are using EMIS Web, with patient permission, to securely share patient information with a range of community health teams.

14 out of 22 GP practices in the area – serving 75,000 patients – are now streaming patient information via EMIS Web, facilitating use by colleagues working in other areas of healthcare. More GP practices are expected to join the scheme, which would bring the total patient coverage to 110,000.

High visibility of earnings with recurring revenues

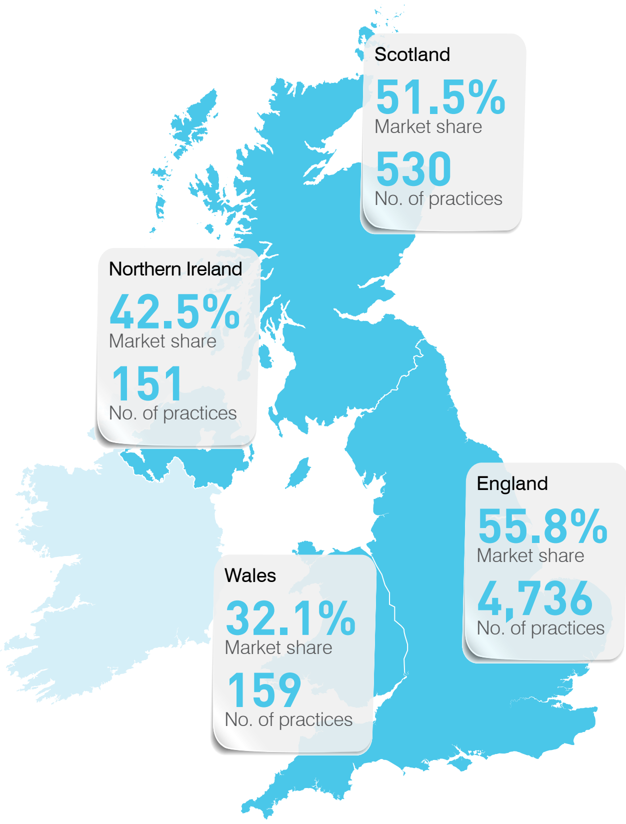
EMIS Group has high visibility of earnings with the majority of its income coming from annual licence fees and related support contracts.

could upgrade. Health Boards in Scotland that have already recommended EMIS software to replace the GPASS system include the largest, NHS Greater Glasgow and Clyde. EMIS' market share in Scotland grew from 12.7% (132 practices at 1 January 2010) to 51.5% (530 practices, installed or ordered at 31 December 2010). The additional revenue will largely fall into 2011 onwards.

During 2010, EMIS achieved its major objective for the year; the accreditation of EMIS Web, and then focussed on commencement of the controlled roll-out of EMIS Web to GP practices. At the same time, we began to put in place the significant internal resource which will be required to accelerate the roll-out of EMIS Web whilst continuing to meet customer expectations.

As at 31 December 2010, installation had been completed at 44 GP practices, 433 orders had been placed for EMIS Web systems and orders had been received from 1,665 GP practices for the familiarisation service, which allows GP practices to run EMIS Web alongside their existing system before upgrading. Since the year end, installation has been completed at a further 33 GP practices.

GP market share(1)



(1) EMIS data estimated based on company records showing customers installed or ordered (by contract or letter of intent) as at 31 December 2010.

"Using EMIS Web means patient care can become safer and more efficient."

Dr William Lumb
Sedbergh Health Centre

For further information on this story visit:
www.emis-online.com/casestudies

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Business review
continued

rx systems

The acquisition of RX Systems represents a unique strategic opportunity for EMIS to develop further its presence in this adjacent segment of the healthcare IT market.

Operational review continued

As part of the group's strategy to deliver cross-organisational healthcare, we are also in negotiation with a number of NHS Primary Care Trusts (PCTs) and GP consortia regarding the implementation of EMIS Web for use in extended primary and community healthcare. This has led to a number of successes with contracts signed with the NHS in Tower Hamlets, Liverpool, Cheshire and Cumbria.

Also in line with our strategy of joining up healthcare, in August 2010, the group acquired 78.9% of RX Systems, a supplier of pharmacy and integrated retail systems for a consideration of up to £10.1m (including a completion accounts net assets adjustment). The non-controlling shareholding has been retained by a strategic partner that itself runs over 500 high street pharmacies in the UK and provides invaluable domain knowledge and assistance. At acquisition, RX Systems had a significant UK-wide customer base of 2,500 pharmacies, representing a 20.5% share of this market. By the end of 2010, during a successful integration period, RX Systems' market share in the UK had risen from 20.5% to 25%. The group's alignment team had also begun work on a number of significant projects that can be exploited for the benefit of both businesses.

Delivering integrated pharmacy systems

Operating throughout the UK, RX Systems has developed a range of integrated pharmacy and retail systems and services for the community pharmacy, including its core product, ProScript®, a Windows-based dispensary management system. The company also provides information required under the NHS IT programme for pharmacist audit and remuneration purposes.

Targeted acquisitive growth

EMIS Group plc acquired 78.9% of the issued share capital of RX Systems Limited, a pharmacy software and services company.

Close interoperability between pharmacy and GP software systems will enable streamlining of the prescription process and links into the patient electronic healthcare record. Provision of EMIS' proprietary patient information leaflets and drugs information leaflets will also broaden the healthcare knowledge available to pharmacists and patients in the high street.

As stated at the half year, EMIS Inc., the group's Canadian subsidiary, had not made the progress previously anticipated. Action was taken, staff numbers reduced and a strategic review commenced. Since the year end, the strategic review has been concluded and a managed exit is now underway.

Healthcare Gateway Limited, a 50:50 joint venture company, was established with In Practice Systems Limited (INPS) to facilitate the sharing and transfer of patient data. This allows real time interoperability between GPs using EMIS Web, those using INPS software and other healthcare professionals within the NHS. It has the potential to significantly increase efficiency in the NHS as well as help practitioners to improve patient care. EMIS and INPS software users in the UK represent circa 75% of GP practices and together hold approximately 46 million electronic healthcare records.

The development of this healthcare gateway has been driven by demand from the NHS and other healthcare providers to move to a "connect all" ethos. The need for wider access to a critical mass of cradle-to-grave electronic healthcare records is increasingly important given the drive to deliver more NHS services in the community. It is expected that both the NHS and other software providers seeking to further connect computer systems in the NHS will buy services from Healthcare Gateway and product development and marketing are well underway.

In 2010, we have delivered on key promises we made at the time of our IPO, namely the successful accreditation and commencement of controlled roll-out of EMIS Web, the significant increase in our market share in Scotland, and progress in facilitating the delivery of cross-organisational healthcare through the acquisition of RX Systems and our joint venture with INPS.

"RX Systems software has a strong reputation and a loyal community pharmacy customer base. Joining forces enables both EMIS and RX Systems to identify the best way to provide GPs and pharmacists with appropriate levels of interoperability to further improve patient care and efficiencies in the prescribing environment. This means real benefits for patients, GPs and pharmacists alike."

Sean Riddell
Chief Executive
EMIS Group plc

For further information on this story visit: **www.emis-online.com/investors**

Business review
continued

"EMIS Group is in a period of transition from a locally hosted healthcare IT software company, with servers predominantly based at the user's premises, typically those of GPs, to a business that will primarily provide hosted software and services from its own data centres and with a variety of users across primary, extended primary and community care settings.

A key area of focus of the group during 2010 was to start to put in place the infrastructure that will facilitate this transition. This will continue during 2011."

Phillip Woodrow
Finance Director

Financial review

With this background of investment and at this early stage, it is pleasing to report increased pre-tax profits for the year amounting to £16.1m (2009: £14.5m).

Revenue

Total group revenue was £62.4m, an increase of £4.7m over 2009.

As indicated above, core business recurring revenue, which excludes Canada, increased by £8.1m (19%) to £50.8m (2009: £42.7m). This includes hosting to Connecting for Health standards, which commenced at the end of December 2009 and generated revenues of £4.5m in 2010.

The increased core recurring revenue was partly offset by a reduction in PCT spending on hardware and other services being generally lower margin revenue streams. As a result, recurring revenue was 82% of core revenue, up from 74% for 2009.

Selected financial extracts

Core business(1)	2010 EMIS £m	2010 RX Systems £m	2010 EMIS and RX Systems combined £m	2009 EMIS £m
Revenue	**56.9**	**5.0**	**61.9**	57.7
Including:				
Core recurring revenue	**46.6**	**4.2**	**50.8**	42.7
Core business operating profit:	**19.4**	**0.2**	**19.6**	17.0
– add amortisation	**2.1**	**0.3**	**2.4**	2.1
– deduct capitalised development costs	**(3.8)**	**—**	**(3.8)**	(4.6)
Adjusted core business operating profit	**17.7**	**0.5**	**18.2**	14.5

	Group 2010 £m	Group 2009 £m
Cash and receivables less current bank debt and payables	**5.0**	4.6

	Pence	Pence
EPS – basic and diluted(1)	**19.84**	19.88
EPS – adjusted(2)	**21.78**	19.88

(1) Excluding EMIS Inc.

(2) Calculation of 2010 adjusted EPS excludes flotation and other transaction costs of £1.26m less related tax relief of £0.16m.

Profitable and cash generative

The group is profitable, generating an operating profit of approximately £16.4m on turnover of approximately £62.4m for the financial year ended 31 December 2010.

Profitability

Operating profit, adjusted to add back flotation and other transaction costs of £1.26m, was £17.6m (2009: £15.8m), an increase of 11.4%. Excluding Canada, core business operating profit increased by £2.6m to £19.6m (2009: £17.0m).

Stripping out the capitalised internal development costs and amortisation of intangibles, the adjusted operating profit from our core business was £18.2m (2009: £14.5m).

The increase of £359,000 in the intangibles amortisation charge this year to £2.4m (2009: £2.1m) arises mainly on the RX Systems' acquisition.

Taxation

Our percentage tax charge is high as the losses of the group's Canadian subsidiary cannot be offset against UK profits for tax purposes. The overall rate reduced over the second half of 2010 as the benefit of the recent restructuring of the Canadian subsidiary took effect. It also reflects the reduction of the anticipated future corporation tax rate, from 28% to 27%, on the year end deferred taxation provision held to offset the future amortisation of intangible assets.

Earnings per share (EPS)

Basic and diluted EPS was 19.84p as against 19.88p for 2009. EPS, adjusted for flotation and other transaction costs, net of applicable tax relief, amounting to £1.1m was 21.78p (2009: 19.88p).

Since the flotation in March 2010, the group has been funded principally by equity, whereas previously it had a shareholder loan of £23m.

Cash

The flotation in March 2010 raised £50m gross, £25m for the group (£23.2m net of costs) and £25m less costs for existing shareholders. The group net proceeds were used principally to repay loans made available by the group's founder shareholders of £23m. Other principal cash movements are shown in the table below.

RX Systems acquisition

In August 2010 the group acquired 78.9% of RX Systems Limited, a supplier of integrated pharmacy and retail systems for high street pharmacies. RX Systems has performed in line with management expectations since acquisition, contributing revenue of £4.98m and operating profit (before deduction of intangibles amortisation) of £0.55m to the group's 2010 results. RX Systems' market share has now grown to 25% and the group's alignment team has identified a number of significant synergies to be exploited by both businesses in 2011 and beyond.

Dividend

The directors have adopted a progressive dividend policy. Subject to shareholder approval at the Annual General Meeting on 24 May 2011, the board proposes paying a final dividend of 5.6p per ordinary share on 30 May 2011 to shareholders on the register at the close of business on 26 April 2011. This would make a total dividend of 11.2p per ordinary share for 2010.

Cash movements in year

	2010 £m	2009 £m
Cash from operations:		
Generated	**22.2**	19.9
Less internal development costs capitalised	**(3.8)**	(4.6)
	18.4	15.3
Used for/other movements:		
Acquisition of 78.9% of RX Systems (net of RX own cash)	**(3.1)**	—
Net spending on computers, cars, etc.	**(5.3)**	(3.8)
Bank term loan repayments	**(1.2)**	(6.6)
Share issues	**24.0**	—
Repayment of shareholder loans	**(23.0)**	—
Bank and other interest	**(0.4)**	(2.6)
Tax paid	**(3.9)**	(3.1)
Interim dividend paid	**(3.3)**	—
	(16.2)	(16.1)
Cash increase/(decrease) in year	**2.2**	(0.8)

Business review
continued

Healthcare Gateway Limited, a joint venture company between leading GP software providers EMIS and INPS, has been awarded NHS Interoperability Toolkit (ITK) accreditation for its Medical Interoperability Gateway (MIG) product.

Our people and the board
EMIS Group remains at heart a people business with a "healthcare first" ethos and reputation built on the efforts of its employees. We would like to take this opportunity to thank all our employees for their commitment and hard work without which this year could not have been such a success.

In particular, we would like to thank founder Tony Jones who stepped down as chair of the board of directors on 17 March 2011 after making a 20 year contribution to the group. We would also like to welcome Mike O'Leary who was appointed in his place on the same day.

Current trading and outlook
Since the year end, trading has continued in line with management expectations.

As stated at the time of our IPO, EMIS supplies GP software and certain other services in England under a framework agreement extended in June 2009 until August 2011. It is expected that this will be further extended until August 2013 in accordance with provisions contained in the agreement.

Strong revenue visibility, subject to the anticipated extension of the GPSoC agreement, continues into 2011 with recurring revenues expected to rise.

Delivering efficiencies

The MIG – one of the first products to receive ITK accreditation – is a new secure gateway that will open up access to the patient records held by the 75% of GP practices using EMIS and INPS systems. It will provide two-way access to the records for relevant NHS professionals.

By sharing real-time patient information at the point of need, it has the potential to significantly increase NHS efficiency as well as to improve patient care.

History of successful product development

EMIS Web is evidence of the group's ongoing ability to innovate and lead the market with new product developments.

The controlled roll-out of EMIS Web is progressing as planned and the additional resources are being put in place in anticipation of a managed acceleration in the roll-out rate in the second half of the year. The intention remains to maximise deployment while minimising customer impact. 33 GP sites have been installed so far in 2011, with 247 further install dates given.

We believe that there will be further growth in revenues from the accelerated roll-out of EMIS Web, increasing hosting revenues and greater RX Systems' revenues, but that current pressure on customers' discretionary hardware and engineering services spend will continue during 2011. We therefore expect revenues in 2011 to be weighted towards the second half of the year.

As already indicated, EMIS Inc., having not made the progress previously anticipated, a managed exit is now underway. We expect that the 2011 Canadian loss, including the costs of the managed exit, will amount to £1.1m of which £0.9m will be a cash cost. There will also be an impairment charge of £1.4m.

Anticipating the recent White Paper on the NHS, EMIS' product strategy, coupled with its extensive and loyal GP user base and "healthcare first" ethos, places EMIS in a strong position to benefit from the transfer of PCT budgets to GP consortia and the focus on patients rather than administrative organisations.

In the case of extended primary and community healthcare systems, NHS organisations in Liverpool and Cumbria both signed pathfinder agreements in May 2010 from which revenues of £58k arose and this is expected to increase throughout 2011. Furthermore, in January 2011, we signed a five year contract with a minimum value of £1.8m to deliver a shared care record for primary healthcare teams across Cheshire. In March 2011, through Healthcare Gateway, we also began to pilot the transfer of discharge summaries and sharing of detailed electronic healthcare records in London and Cumbria.

EMIS continues to supply healthcare software to the MoD in the UK and has built on this success with a contract win, in February 2011, as part of prime contractor, CSC's, bid to provide an e-health system to the Australian Government for use by its armed forces. It is expected that development customisation work will take place in 2011, with implementation starting in 2012. This has been described by the Commander of Australia's Joint Health Command as "…a significant milestone in the delivery of an electronic health information system".

Finally, RX Systems brings the opportunity to link GP practices with high street pharmacists and so help pharmacists to expand their services, work more efficiently, and play a greater role in the wider healthcare team. The alignment of RX Systems is proceeding in accordance with management expectations and significant synergies have been identified which will offer opportunities during 2011 and beyond.

We are confident that we have put in place solid foundations for future growth. We will continue to build on these foundations and are pleased with progress and performance to date, of which our employees can rightfully be proud.

Sean Riddell
Chief Executive
17 March 2011

Phillip Woodrow
Finance Director
17 March 2011

"We are excited about the potential of the MIG to transform NHS efficiency and patient care by seamlessly connecting different healthcare professionals. Receiving ITK accreditation demonstrates the robustness of the technology and will provide extra reassurance for our customers."

Peter Anderson
Commercial Director
Healthcare Gateway Limited

For further information on this story visit: **www.emis-online.com/news**

Corporate social responsibility

Healthcare software is a business where relationships are key. Delivering better services for patients and reducing NHS costs underpins everything we do.

We have a clear strategy for further growth and this cannot be achieved without a commitment to retain, engage and develop our people as well as developing key relationships with customers, suppliers, shareholders and the communities in which we work and live.

Following admission to AIM, the company has taken the opportunity to review the many examples of good CSR practice already in place and the key aim in the coming year is to build the framework and implement a sound CSR strategy.

The EMIS Group Corporate Social Responsibility Policy was approved by the board during the year and is available on the group's website. The Policy covers the key areas of:

- Employees
- Health and Safety
- Engagement with the Wider Community
- Environment
- Ethical Business Practices

Employees

Employees are central to the sustained success of the business. It is essential we recruit and retain the right candidates to support the development of the business. To better equip managers who are recruiting new employees, a series of recruitment workshops have been delivered.

QResearch

QResearch® is a large consolidated database derived from the anonymised health records of over twelve million patients. This is a not-for-profit health research project.

The data currently comes from 602 general practices using the EMIS clinical computer system. The practices are spread throughout the UK and include data from patients who are

A framework for responsible business

The group is committed to working in collaboration with employees, customers, suppliers, shareholders and communities.

All employees attend a comprehensive induction programme shortly after joining the company to gain a wider understanding of the business. Sean Riddell, our Chief Executive, attends these courses and personally welcomes all new starters when available.

After twelve months' employment, all UK employees can participate in The EMIS Group plc Share Incentive Plan (the "SIP"). The SIP enables employees to buy shares out of pre-tax salary each month and receive one matching share for every four purchased. 172 employees currently participate which is 23% of the eligible workforce.

Employee development is a key factor in attracting and retaining the right people. In 2010 over 500 staff attended training courses. There are more than 60 on-line e-learning solutions and a number of face-to-face courses available to employees covering not only technical areas but also professional development.

Health and Safety

EMIS is committed to the promotion of a positive safety culture. A health and safety committee meets on a regular basis to discuss all relevant health and safety issues and the EMIS Group board receives quarterly health and safety reports. The committee has access to specialist external health and safety advice as required.

All accidents and incidents are monitored and reviewed so that action can be taken where necessary.

All employees attend a tailored health and safety induction which includes manual handling training and how to undertake display screen equipment assessments. The results of all risk assessments are recorded and any required actions followed up by the competent person.

Fleet drivers are issued with a safety pack and a comprehensive handbook covering the health and safety guidelines for employees driving company vehicles.

Community

Employees engage in a wide range of activities to raise money for local and national charities. These include sporting events, raffles and dress down days. The company makes a number of charitable donations each year and sponsors sports kit for local school football teams.

The company provides work experience for students, supports college apprenticeships, provides extended work placements and has attended a recruitment fair held at a local school.

The company facilitates the giving of blood by arranging for the National Blood Service to visit the head office once a quarter.

It is recognised that there is a desire amongst staff to engage with the wider community and that a community engagement programme can be a factor in the recruitment and retention of employees. A key focus in the coming year will be looking to what more the company can do to enable wider community engagement by developing key strategic partnerships and a structured approach.

Environment

As a responsible employer, the company is committed to the minimisation of waste and the reduction of the amount of energy consumed. Recycling, in particular of IT equipment, is encouraged wherever possible. Any disposal of IT waste is carried out in an appropriate manner in accordance with the Hazardous Waste Directive.

The company promotes a purchasing policy which gives preference, as far as practicable, to those products and services which cause the least harm to the environment. When conducting supplier reviews, the company ensures that all suppliers adhere wherever possible to recommended environmental policy regulations.

currently registered with the practices as well as patients who have died or left.

Historical records extend back to the early 1990s making it one of the largest and richest general practice databases in the world. The aim is to develop and maintain a high quality database of general practice derived data for use in ethical medical research.

For further information on corporate governance: **www.emis-online.com/investors**

Corporate social responsibility
continued

Environment continued

The environmental policy seeks to ensure compliance with environmental legislation and that waste production is minimised. A review of this activity to identify new opportunities for waste reduction will be undertaken. A paper-light policy is in force throughout the company to reduce deforestation.

A review of the car fleet led to the introduction of vehicles with low carbon emissions to reduce the environmental impact of business travel.

Ethical business practices

All the group's policies detail the standards expected throughout the group, including free and fair competition, the prohibition of bribery, the honest and fair dealing with suppliers, to ensure the welfare of workers and that employment conditions within the supply chain meet or exceed internationally recognised standards.

Objectives for 2011

- To work with Business in the Community to complete an audit of current CSR activity.
- To develop a tailored action plan for integrating responsible business practice throughout the business.
- To develop an employee engagement plan to help employees gain an understanding of their importance in the successful implementation of the CSR action plan.
- To increase employee awareness of environmental issues and their role in reducing environmental impacts.
- To ensure compliance with legal requirements and good practice by further reviewing the current processes in place for recording and monitoring accidents and risk assessments.
- To devise new processes to facilitate and support volunteering opportunities.
- To introduce a policy whereby EMIS commits, within defined parameters, to match charitable contributions raised by staff.

Accident record[1]

	2010	2009
RIDDOR reportable accidents	**0**	0
Minor recorded injuries	**68**	69
Accident rate per 100 employees	**9**	9

(1) Excluding RX Systems.

Directors

Anthony (Tony) Jones (63) A, R(c), N(c)
Non-executive Chairman

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. Tony was appointed Non-executive Chairman of EMIS Group in May 2008. Prior to establishing EMIS, Tony was a Northern Regional Director for Compass Group. Tony retired from the board on 17 March 2011.

Sean Riddell (46)
Chief Executive

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. Sean's initial role then developed into a broader sales and marketing role for the group.

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 and became Chief Executive on the group's admission to AIM. 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 Limited and Healthcare Gateway Limited.

Robin Taylor (59) A(c), R, N
Non-executive Director

Robin joined EMIS Group as an independent non-executive director on 1 March 2010. He was formerly Finance Director of Intec Telecom Systems plc (Intec), a main market publicly listed company which he joined on 1 March 2007 from YFD Ltd, a provider of financial director services. During 2005 and 2006, Robin worked as an independent consultant. From 2000 to 2005, Robin was Group Finance Director of ITNET plc 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.

From 18 March 2011, Robin will become the chair of the remuneration committee.

Phillip Woodrow (63)
Finance Director

Phillip 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 and 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 (52)
Director of Development Strategy

David has over 25 years' experience in healthcare IT. A co-founder of EMIS he developed an electronic medical record system to alert GPs to potential prescribing errors and to help with diagnosis and, in 1987, was instrumental in the development of the first EMIS system that managed patient records within a GP practice. David was appointed Medical Director of EMIS in the same year. In 2009, David was appointed Director of Development Strategy.

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.

Mike O'Leary (58)
Non-executive Chairman

Mike was appointed to the board of EMIS Group on 17 March 2011. He has 20 years of main board experience in a public company environment, including both FTSE100 and FTSE250. On appointment Mike became a member of the audit and remuneration committee and chair of the nomination committee.

Mike is currently a non-executive director of Headlam Group plc, Psion plc and he is also Chairman of Digital Healthcare Limited (a Cambridge based supplier of software to the UK Diabetic Retinopathy Screening Programme).

He was formerly Chief Executive of Marlborough Stirling plc, Chief Executive of Huon Corporation and an executive director of MISYS plc.

A – Audit committee member

R – Remuneration committee member

N – Nomination committee member

(c) – Chair

Advisers and shareholder information

Registered office
EMIS Group plc
Fulford Grange
Micklefield Lane
Rawdon
Leeds LS19 6BA
Tel: 0113 380 3000
www.emis-online.com

Company registration number
6553923

Nominated adviser and broker
Evolution Securities Limited
Kings House
1 King Street
Leeds LS1 2HH

Auditors
Baker Tilly UK Audit LLP
2 Whitehall Quay
Leeds LS1 4HG

Registrars
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham BR3 4TU

Financial PR
MHP Communications
60 Great Portland Street
London W1W 7RT

Legal advisers to the company as to English law
Cobbetts LLP
No. 1 Whitehall Riverside
Leeds LS1 4BN

Internet
The group operates a website which can be found at www.emis-online.com. This site is regularly updated to provide information about the group. In particular, the share price and all of the group's press releases and announcements can be found on the site.

Registrar
Any enquiries concerning your shareholding should be addressed to the company's registrar. The registrar should be notified promptly of any change in a shareholder's address or other details: Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham BR3 4TU, Tel: 0871 664 0300. The registrar's website is www.capitaregistrars.com. This will give you access to your personal shareholding by means of your investor code which is printed on your share certificate or statement of holding. A user ID and password will be sent to you once you have registered on site.

Shareholder security
Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the company. Details of any share dealing facilities that the company endorses will be included in company mailings or on our website. More detailed information can be found at www.moneymadeclear.fsa.gov.uk.

Payment of dividends
Shareholders may find it more convenient to make arrangements to have dividends paid directly to their bank account. The advantages of this are that the dividend is credited to a shareholder's bank account on the payment date, there is no need to present cheques for payment and there is no risk of cheques being lost in the post. To set up a dividend mandate or to change an existing mandate, please contact Capita Registrars, our registrar, whose contact details appear above.

Share dealing services
The sale or purchase of shares must be done through a stockbroker or share dealing service provider. The London Stock Exchange provides a "Locate a broker" facility on its website which gives details of a number of companies offering share dealing services. For more information, please visit the private investors section at www.londonstockexchange.com. Please note that the directors of the company are not seeking to encourage shareholders to either buy or to sell shares. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Share price information
The latest information on the share price is available at www.emis-online.com/investors.

Directors' report

The directors have pleasure in presenting their report and audited financial statements for the year ended 31 December 2010.

General information and principal activities

EMIS Group plc ("the company" or "the parent company") converted to public limited company status on 19 March 2010 and acquired a listing on AIM on 29 March 2010. The company was formerly called EMIS Group Limited. The company is the parent company of trading subsidiary companies (together "the group"), the principal trading subsidiaries being Egton Medical Information Systems Limited ("EMIS") and RX Systems Limited ("RX Systems").

The company is incorporated in England and Wales and domiciled in the UK. The address of its registered office is Fulford Grange, Micklefield Lane, Rawdon, Leeds LS19 6BA.

The principal activity of the group is the design of computer software for healthcare professions, mainly general practitioners and, following the acquisition of RX Systems during the year, pharmacists also, together with the supply and support of computer systems for the healthcare profession and other users.

A review of the development of the group's business during the year, including KPIs, the principal risks and uncertainties facing the group and its future prospects are included in the Chief Executive's operational review and the Financial review which should be read in conjunction with this report.

The directors have monitored the performance of the group by reference to certain financial and non-financial key performance indicators (KPIs). The financial indicators include profitability, revenues, cash generation and basic and diluted earnings per share. Non-financial KPIs include the number of deployments, customer satisfaction and staff turnover.

Acquisitions

The group acquired 78.9% of the issued capital of RX Systems, a pharmacy software and services company; further details of the acquisition are given in the Financial review.

Joint venture

The group established a 50:50 joint venture, Healthcare Gateway Limited with In Practice Systems Limited. Further details of the joint venture are given in the Operational review.

Dividends

The directors have adopted a progressive dividend policy. Subject to shareholder approval at the Annual General Meeting (AGM) on 24 May 2011, the board proposes paying a final dividend of 5.6p per ordinary share on 30 May 2011 to shareholders on the register at the close of business on 26 April 2011. This would make a total dividend of 11.2p per ordinary share for 2010.

Directors and their interests

The directors of the company who served during the year ended 31 December 2010 are as follows:

Anthony (Tony) Jones
Sean Riddell
Phillip Woodrow
Dr David Stables
Robin Taylor

Biographies of the directors can be found on page 17.

The board was pleased to announce the appointment, as Non-executive Chairman, on 17 March 2011, of Michael (Mike) O'Leary and his biography is on page 17. With the appointment of Mike O'Leary, Tony Jones retired from the board.

The company's Articles of Association require that any director appointed since the last AGM shall only hold office until the next AGM and shall then be subject to election. Therefore, Mike O'Leary will seek election at the AGM to be held on 24 May 2011.

Directors are subject to re-election at intervals of not more than three years and as each of the directors were re-elected at the AGM in 2010, no director will be required to retire at the 2011 AGM.

Details of directors' remuneration, service agreements and interests in the share capital of the company, are given in the Directors' remuneration report.

No director has had any material interest in any contract of significance with the company or any of its subsidiaries during the year under review.

Directors' report
continued

Research and development
Development work continued during the year on EMIS Web, a next generation clinical software system which enables GPs and other healthcare practitioners to connect with each other and securely share real time access to a patient's cradle-to-grave electronic health record.

Formal accreditation of EMIS Web, for use in primary care, was obtained on 7 September 2010. Development work continues both on EMIS Web for GPs and to further develop EMIS Web into extended primary care and community/cross-organisational settings.

Development expenditure in the year amounted to £5.1m (2009: £6.5m) of which £3.8m (2009: £4.5m) was capitalised.

Creditor payment policy and practice
It is the policy and normal practice of the group to make payments due to suppliers in accordance with agreed terms and conditions, generally within 30 days. This policy will also be applied for 2011.

Trade payables at 31 December 2010 represent an average of 40 days' goods and services supplied (2009: 58 days).

Share capital
As at 17 March 2011, the company had 58,550,017 ordinary shares of one penny each in issue. The shares are traded on AIM, a market operated by the London Stock Exchange plc. The rights and obligations attached to the shares are set out in the company's Articles of Association which are available on the company's website.

During the year the company established an Employee Benefit Trust (EBT) to hold shares in the company to facilitate share-based emolument payments. As at 31 December 2010 the EBT held 32,377 ordinary shares of one penny each, on which it has waived its right to dividends.

Substantial interests in shares
As at 17 March 2011, the company had been notified of the following substantial interests in 3% or more in its ordinary shares:

	Number of shares	% issued capital
Sean Riddell	8,292,605	14.16
Dr Peter Sowerby	7,189,623	12.28
Andrew Whitwam	5,508,580	9.41
Dr David Stables(1)	4,422,724	7.55
Phillip Woodrow	4,394,090	7.50
Standard Life Investments Limited	4,193,430	7.16
Tony Jones(2)	3,623,694	6.19
Gary Shuckford	2,728,961	4.66

(1) The shares indicated alongside Dr David Stables are held on trust and legally owned by the Dr P R Sowerby No. 2 Discretionary Settlement (as to 2,211,362) and by the trustees of the Dr P R Sowerby No. 4 Discretionary Settlement (as to 2,211,362). The trustees are Tony Jones, Dr David Stables and Rachel Stables.

(2) The shares indicated alongside Tony Jones are held on trust and legally owned by the trustees of the Dr P R Sowerby No. 1 Discretionary Settlement (as to 1,811,847) and by the trustees of the Dr P R Sowerby No. 3 Discretionary Settlement (as to 1,811,847). The trustees are Phillip Woodrow, Tony Jones, Dr David Stables and Victoria Jones.

Directors' indemnities
As permitted by the Articles of Association, the directors would be indemnified in respect of proceedings which might be brought by a third party.

Principal risks and uncertainties
The UK Government is undertaking a programme of major change within healthcare, and although this will provide significant growth opportunities for the company, due to the present uncertainties within the NHS, it could also introduce some future risk of delay to the roll-out of EMIS Web in the later stages. As stated at the time of the company's listing on AIM, EMIS supplies GP software and certain other services in England under a framework agreement extended in June 2009 until August 2011. The directors expect that this will be further extended until 2013 in accordance with provisions contained in the agreement. Whilst the directors consider that renegotiation may represent an opportunity to retain or improve the present position, they recognise that there is a risk that this will not be possible in the present climate of austerity.

The previous Government's policy of a single supplier, now in the course of being abandoned, has given competitors opportunity, within certain areas in England, to try to erode the company's market share in those areas. This risk is being mitigated by growth in other parts of the UK, the development of the interoperability agenda through Healthcare Gateway, and the development of EMIS Web.

Principal risks and uncertainties continued

The further development and roll-out of EMIS Web presents both opportunities and risks. Any major software development is inherently subject to risk. However, by using extensive internal and external testing procedures and controls, the company has mitigated the risk of delay or failure as far as is possible.

The principal financial risks are disclosed in note 4 to the accounts.

Employees

The group's policy is to ensure the adequate provision for the welfare, health and safety of its employees and of other people who may be affected by its activities.

The group encourages the involvement of its employees and employees are made aware of significant matters through informal briefings, team meetings and the company's website and intranet.

During the year the board established The EMIS Group plc Share Incentive Plan and further details are contained in the Directors' remuneration report and note 29 to the accounts.

The group treats applications for employment for disabled persons equally with those of other applicants having regard to their ability, experience and the requirements of the job. Where existing employees become disabled every effort is made to provide them with continuing suitable work within the group.

Charitable and political donations

The group made charitable donations amounting to £7,986 (2009: £12,803) during the year. No political donations were made in either year.

Post balance sheet events

During the year, EMIS Inc., the group's Canadian subsidiary, had not made the progress previously anticipated. Action was taken, staff numbers reduced and a strategic review commenced. Since the year end, the strategic review has been concluded and a managed exit is now underway.

Going concern

After careful enquiry and review of available financial information, including projections of profitability and cash flows for the two years to 31 December 2012, the directors have formed the conclusion that the company and the group have adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and company financial statements.

AGM notice

The notice convening the AGM to be held on 24 May 2011, together with an explanation of the resolutions to be proposed at the meeting, is contained in a separate circular to shareholders.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. The directors have elected under company law to prepare group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period.

Directors' report
continued

Statement of directors' responsibilities continued

In preparing the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRSs adopted by the EU; and

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors and statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

The auditors, Baker Tilly UK Audit LLP, have indicated their willingness to be re-appointed and a resolution that they be re-appointed will be proposed at the AGM.

Corporate governance

The company's statement on corporate governance can be found in the Corporate governance report on pages 25 to 27 of this annual report and accounts. The Corporate governance report forms part of this Directors' report and is incorporated into it by cross-reference.

By order of the board

Chris Spencer
Company Secretary
17 March 2011

Directors' remuneration report

This report sets out the remuneration policy of EMIS Group plc ("the company" or "the parent company") and its subsidiaries (together "the group"). As a company listed on AIM, the company is not required to comply with the Directors' Remuneration Regulations 2002 ("the Regulations"). The board has, however, adopted many of the best practice provisions set out in the Regulations and these are referred to in the report below.

Remuneration committee

After the appointment of Mike O'Leary, the remuneration committee will be chaired by Robin Taylor. It has been chaired to date by Tony Jones. The committee has clearly defined written terms of reference which are reviewed annually by the board. These are available on the website, www.emis-online.com/investors. The committee may invite anyone it deems appropriate to attend and advise at meetings and the committee chairman attends the AGM to answer any shareholder questions on the activities of the committee. The Company Secretary acts as secretary of the committee.

The committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and to set the remuneration of the 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 as it is designated to consider.

The overall policy of the board is to ensure that members of the board and executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their contribution to the success of the group, including where appropriate, bonuses, incentive payments and the award of share options. The committee annually considers the need to appoint external consultants to help define overall remuneration policy.

The principal elements of relevant executive remuneration packages are detailed below:

Basic salary – basic salaries are reviewed annually by the committee, taking into account changes in individual position and responsibility and individual and group performance. Salaries are compared against the market level for companies of a similar size and complexity.

Benefits – benefits principally include a car (or allowance).

Performance related bonus – bonus arrangements are determined by the committee. There is no unconditional right to receive a bonus. The committee can also make one off bonus payments to reflect exceptional performance or special circumstances.

Pensions – there are no obligatory group-wide pension arrangements. A director of one subsidiary company participates in a subsidiary company pension plan and contributions are made to the personal pension plans of other executives. The group makes contributions to the private pension schemes of the executive directors as identified in the remuneration table overleaf. The group provides access to a stakeholder pension scheme which all staff are eligible to join on commencing employment.

Share option schemes – during the year the group established The EMIS Group plc Share Incentive Plan ("the SIP") for UK employees employed by the group for at least twelve months. The SIP enables employees to buy shares out of pre-tax salary each month and receive one matching share for every four purchased. None of the company's executive directors participate in the SIP because they have been advised this would not be appropriate.

Further details on the SIP are contained in note 29 to the accounts.

The directors believe it is important to motivate and reward senior key employees and executives and to do so in a proper manner that aligns their interests with those of the shareholders. Accordingly the company is seeking approval at the AGM on 24 May 2011 for a Company Share Option Plan subject to HMRC approval and an unapproved share option scheme in which certain key executives and employees will be invited to participate at the discretion of the committee. It is anticipated that grants will be made under the new share schemes in 2011.

Shares subscribed or subscription options granted under any share incentive arrangements proposed by the group will be limited, in total, to no more than 10% of the company's issued share capital from time to time in any ten year period. Options under these arrangements will be subject to specified performance criteria, thereby linking remuneration to the performance of the group. Further details of the proposed schemes are contained in the Notice of Meeting and Guidance to Shareholders.

Directors' remuneration report
continued

Service contracts
The company entered into service agreements with the executive directors on 24 March 2010. In all cases these can be terminated by either party on twelve months' notice. No service contract provides for the payments of pre-determined amounts in the event of early termination. Copies of the executive directors' service contracts will be available for inspection prior to and during the AGM.

Non-executive directors
The Chairman and senior non-executive director do not have service agreements and were appointed by letter of appointment. The appointments commenced on 1 March 2010 and both are terminable by six months' notice on either side (with Tony Jones' contract also being terminable forthwith on the appointment of an independent non-executive chairman). The Chairman and senior non-executive director are not eligible for pensions, share incentives or bonus.

Mike O'Leary's appointment, on 17 March 2011, was also by letter of engagement, for an initial term of three years unless terminated earlier by either party giving not less than three months' written notice.

Directors' interests
The interests of the directors over the ordinary shares of the company are as follows:

	Number of shares at 17 March 2011	% issued capital
Sean Riddell	8,292,605	14.16
Dr David Stables	4,422,724(1)	7.55
Phillip Woodrow	4,394,090	7.50
Tony Jones	3,623,694(2)	6.19
Robin Taylor	—	—

(1) The shares indicated alongside Dr David Stables are held on trust and legally owned by the trustees of the Dr P R Sowerby No. 2 Discretionary Settlement (as to 2,211,362) and by the trustees of the Dr P R Sowerby No. 4 Discretionary Settlement (as to 2,211,362). The trustees are Tony Jones, Dr David Stables and Rachel Stables.

(2) The shares indicated alongside Tony Jones are held on trust and legally owned by the trustees of the Dr P R Sowerby No. 1 Discretionary Settlement (as to 1,811,847) and by the trustees of the Dr P R Sowerby No. 3 Discretionary Settlement (as to 1,811,847). The trustees are Phillip Woodrow, Tony Jones, Dr David Stables and Victoria Jones.

Directors' remuneration

	2010				2009
	Salary/ fees £	Bonus £	Benefits in kind/car allowance £	Total[1] £	Total[1] £
Executive directors					
Sean Riddell	**164,560**	**—**	**10,738**	**175,298**	302,320
Dr David Stables	**154,275**	**—**	**26,472**	**180,747**	255,087
Phillip Woodrow	**154,275**	**—**	**12,342**	**166,617**	290,759
Non-executive directors					
Tony Jones	**64,500**	**—**	**934**	**65,434**	154,901
Robin Taylor	**27,083**	**—**	**—**	**27,083**	—

(1) In addition to the above, in each year the company has made contributions to executive directors' pension arrangements of £15,000 for Sean Riddell and Phillip Woodrow respectively and £15,775 for David Stables.

On behalf of the remuneration committee

Tony Jones
Chairman
17 March 2011

Corporate governance report

EMIS Group plc ("the company" or "the parent company") and its subsidiaries (together "the group") is committed to high standards of corporate governance and the board acknowledges the importance of the principles set out in the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (formerly the Combined Code (2008) ("the Code")).

Although the Code is not mandatory for companies admitted to AIM, following admission in March 2010, the company has made significant progress by establishing a framework and adopting and implementing of policies and procedures designed to comply with the Code as far as reasonably practicable and appropriate for a company of this size and complexity. The report below sets out how the principles in the Code have been applied during the year under review.

The board

At the start of the year the board of EMIS Group ("the board") consisted of: Anthony (Tony) Jones, Non-executive Chairman; Sean Riddell, Chief Executive; Phillip Woodrow, Finance Director; and Dr David Stables, Director of Development Strategy. Robin Taylor was appointed as a non-executive director on 1 March 2010. He is the Senior Non-executive Director and the board considers him to be independent as defined in the Code.

Tony Jones served as Executive Chairman until April 2008 and following a brief sabbatical stepped back from day-to-day executive responsibility and became Non-executive Chairman. As referred to in the AIM admission document, the intention has been to appoint an experienced independent non-executive chairman. After a detailed and stringent recruitment process, the board is pleased to announce the appointment, as Non-executive Chairman, on 17 March 2011, of Michael (Mike) O'Leary, who, on appointment, met the Code requirements for independence. The Chairman's other significant commitments are disclosed in his biography on page 17.

With the appointment of Mike O'Leary, Tony Jones duly retired from the board. The board extends its thanks to Tony for his unique and outstanding contribution to the success of the group as a founder, CEO and, latterly, Chairman.

The board considers the current balance of skills and experience appropriate for the business following its admission to AIM.

The roles of the Chairman and Chief Executive are separate and defined in writing.

The Chairman is responsible for the leadership and effectiveness of the board.

The board is responsible to shareholders for the overall strategy and direction of the group. It has a schedule of matters reserved to it including but not limited to, decisions on strategy and risk management, approval of budgets, acquisitions and disposals, major capital expenditure, legal and insurance issues, board structure and the appointment of advisers. In some areas responsibility is delegated to committees of the board within clearly defined terms of reference. The terms of reference for the board can be found at www.emis-online.com/investors.

Once the strategic and financial objectives of the company have been set by the board it is the role of the Chief Executive to ensure that, through the day-to-day management of the group's business, they are achieved.

All directors are subject to election by the shareholders at the next general meeting following appointment to the board and to re-election at intervals of not more than three years.

Biographies of the directors are on page 17.

The directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that board procedures and applicable rules and regulations are complied with. There is a procedure for the directors to take independent professional advice at the company's expense if required in the performance of their duties and appropriate insurance cover is in place in respect of legal action against the directors. The company has adopted a share dealing code for directors and senior employees.

Corporate governance report
continued

The board continued

The number of board and committee meetings attended by each of the directors during the period from admission on 29 March 2010 to 31 December 2010 was as follows:

	Full board	Audit committee	Remuneration committee	Nomination committee
Number of meetings in period	9	2	2	2
Attendance:				
Executive directors				
Sean Riddell	9/9	—	—	—
Phillip Woodrow	9/9	2/2	—	—
Dr David Stables	9/9	—	—	—
Non-executive directors				
Tony Jones	9/9	2/2	2/2	2/2
Robin Taylor	9/9	2/2	2/2	2/2

Board effectiveness

The board has extensive operational experience and, of the directors, Sean Riddell and Dr David Stables have extensive knowledge of the healthcare IT sector. After the recent admission to AIM a succession matrix was produced and considered. Following the appointment of the new Non-executive Chairman, a formal appraisal of the effectiveness of the board and each board committee will be carried out in the next financial year. The Chairman will be responsible for the evaluation process which will consider any training or development needs of individual directors and the overall effectiveness of the board. The process will also give consideration to environmental, social and governance issues as appropriate. New directors receive a comprehensive pack of information, attend a tailored induction programme and meet senior managers and all directors are encouraged to attend other relevant training courses and events.

Investor relations

Meetings with analysts and institutional shareholders are held following the interim and preliminary results announcements and on an ad hoc basis. Feedback from these meetings and regular market updates prepared by the company's broker are presented to the board. The Chairman and the Senior Non-executive Director are available to shareholders to discuss strategy and governance issues. In accordance with AIM Rule 26, there is an investors section on the company's website, www.emis-online.com/investors, which is kept up to date.

Annual General Meeting (AGM)

At the AGM, separate resolutions will be proposed for each substantially different issue. Proxy votes are disclosed by means of an announcement on the London Stock Exchange and via the group's website.

Board committees

The board has formally established three committees during the year, with clearly defined written terms which are reviewed annually by the board. Membership is as shown in the table above. The terms of reference of the committees are available on the company's website. The role and work of the committees is outlined below.

Audit committee

The audit committee is chaired by Robin Taylor, who is considered to have relevant financial experience. Robin's biography is included on page 17. Other directors and representatives of the external auditor attend by invitation.

In discharging its responsibilities as outlined in the terms of reference, the role of the committee has included the reviewing and monitoring of:

- the annual report and accounts and preliminary and interim results statements of the company;
- the appropriateness of accounting policies and the critical accounting estimates and judgements;
- the relevance of developments in accounting and reporting requirements;
- the effectiveness of internal controls and risk management systems;
- the auditors' plan for the year-end audit;

Board committees continued

Audit committee continued

- the formal engagement terms, performance, objectivity and independence of the auditors, including the extent of non-audit work undertaken by the auditors; and
- the audit and non-audit fees of the auditors. These are set out in note 10 to the accounts.

The committee has recommended to the board that a resolution re-appointing Baker Tilly UK Audit LLP as external auditors be put to the shareholders at the AGM.

Remuneration committee

After the appointment of Mike O'Leary, the remuneration committee will be chaired by Robin Taylor. It has been chaired to date by Tony Jones and has met twice during the year. The committee is responsible for establishing a formal and transparent procedure for developing policy on executive remuneration and for setting the remuneration of individual directors. Full details of the work of the committee, the directors' remuneration and remuneration policy are set out in the Directors' remuneration report on pages 23 and 24.

Nomination committee

The nomination committee has been chaired to date by Tony Jones and has met twice in the year. The committee is responsible for leading the board appointments process and for considering the size, structure and composition of the board.

Robin Taylor, the other member of the committee, was recruited as an independent non-executive director as part of a formal recruitment process, from a list proposed by the company's advisers. Robin has many years' experience as a public company finance director and his biography is shown on page 17.

Non-executive directors are subject to re-election in the same way as executive directors. The former Chairman and the Senior Non-executive Director were appointed on 1 March 2010 by letters of engagement terminable by six months' notice on either side.

Mike O'Leary's appointment, on 17 March 2011, was also by letter of engagement, for an initial term of three years unless terminated earlier by either party giving not less than three months' written notice.

As previously stated, Tony Jones retired from the board and Mike O'Leary was appointed as Non-executive Chairman, with effect from 17 March 2011. The services of an independent external recruitment consultant were utilised to identify the most suitable candidates, using a detailed specification taking account of the current balance of skills, knowledge and experience of the board.

The committee has also considered succession planning for the board and senior managers within the group.

Internal control and risk management

The board is responsible for the group's system of internal controls, including reviewing the effectiveness of these controls and the processes in place for risk management. The processes and procedures in place are designed to manage rather than eliminate risk and can therefore only provide a reasonable and not an absolute assurance against material misstatements or losses.

Executive directors of each group company have a close involvement with all day-to-day operations and also meet with staff on a regular basis to identify and review business risks, the controls needed to minimise those risks and the effectiveness of controls in place. Business risks are monitored and updated on a regular basis. Insurance is in place where appropriate.

The group has extensive quality assurance processes by virtue of its internal quality assurance department which audits all non-financial processes and procedures. There are clearly defined roles, responsibilities and limits on authority in place. The group has five current ISO registrations including ISO27001 – Information Security.

During the year the board, independently and through the audit committee, has reviewed and is satisfied with the adequacy of the group's internal financial controls. These include an annual budgetary process which is reviewed and approved by the board. The actual results are monitored against budget at each board meeting and forecasts are revisited on a rolling basis. The committee has also considered the need for a whistle blowing policy and, in the light of the company's current training for the Bribery Act and operational framework, has deferred proposing such a policy until further review.

Financial policies and approval procedures are in place which cover a number of key areas such as credit control and expenditure authorisation. A comprehensive monthly financial reporting system is in place which covers, amongst other things, operating results, cash flow, assets and liabilities and comparisons against budgets.

There is currently no internal audit function and this will be reviewed on an annual basis as the group evolves.

Independent auditors' report
to the members of EMIS Group plc

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
As more fully explained in the Directors' Responsibilities Statement set out on pages 21 and 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at http://www.frc.org.uk/apb/scope/private.cfm.

Opinion on the financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Richard King (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP
Statutory Auditor
Chartered Accountants
2 Whitehall Quay
Leeds LS1 4HG
17 March 2011

Group statement of comprehensive income
for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Continuing operations			
Revenue	5	**62,393**	57,696
Costs:			
Changes in inventories		**(40)**	(498)
Cost of goods and services		**(9,174)**	(9,022)
Staff costs	11	**(23,390)**	(21,820)
Flotation and other transaction costs		**(1,258)**	—
Other operating expenses:			
– including contract asset depreciation	6	**(8,278)**	(6,209)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**20,253**	20,147
Depreciation of property, plant and equipment	17	**(1,448)**	(2,299)
Amortisation of intangible assets	16	**(2,433)**	(2,074)
Operating profit	7	**16,372**	15,774
Finance income	8	**51**	62
Finance costs	9	**(426)**	(1,572)
Share of profit of associate		**109**	198
Profit before taxation		**16,106**	14,462
Income tax expense	12	**(4,868)**	(4,521)
Total comprehensive income/profit for the year		**11,238**	9,941
Attributable to:			
– equity holders of the parent		**11,194**	9,941
– non-controlling interest in subsidiary company		**44**	—
Total comprehensive income for the year		**11,238**	9,941
Earnings per share			
Basic and diluted	13	**19.84p**	19.88p

The notes on pages 33 to 56 are an integral part of these consolidated financial statements.

Group and parent company balance sheets
as at 31 December 2010

	Notes	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
ASSETS					
Non-current assets					
Goodwill	15	**21,951**	15,853	**—**	—
Other intangible assets	16	**29,284**	21,055	**—**	—
Property, plant and equipment	17	**12,058**	9,506	**—**	—
Investments in subsidiaries	18	**—**	—	**48,165**	38,034
Investment in associates	19	**2,661**	2,552	**—**	—
		65,954	48,966	**48,165**	38,034
Current assets					
Inventories	20	**668**	674	**—**	—
Trade and other receivables	21	**9,082**	7,500	**399**	611
Amount owed by subsidiary company		**—**	—	**—**	239
Cash and cash equivalents	22	**7,442**	5,221	**14**	25
		17,192	13,395	**413**	875
Total assets		**83,146**	62,361	**48,578**	38,909
LIABILITIES					
Current liabilities					
Trade and other payables	24	**(5,169)**	(3,381)	**—**	(571)
Current tax liabilities	25	**(5,103)**	(3,516)	**—**	—
Bank loans	26	**(1,184)**	(1,184)	**(1,184)**	(1,184)
Amount owed to subsidiary company		**—**	—	**(9,100)**	—
Contingent consideration re acquisition	33	**(189)**	—	**(189)**	—
Deferred income		**(10,888)**	(7,613)	**—**	—
		(22,533)	(15,694)	**(10,473)**	(1,756)
Non-current liabilities					
Bank and other loans	26	**(4,580)**	(5,763)	**(4,580)**	(5,764)
Contingent consideration re acquisition	33	**(757)**	—	**(757)**	—
Other loans	26	**—**	(23,000)	**—**	(23,000)
Deferred tax liability	27	**(8,494)**	(6,524)	**—**	—
		(13,831)	(35,287)	**(5,337)**	(28,763)
Total liabilities		**(36,364)**	(50,981)	**(15,810)**	(30,519)
NET ASSETS		**46,782**	11,380	**32,768**	8,390
EQUITY					
Ordinary share capital	28	**586**	500	**586**	500
Share premium	28	**24,767**	—	**24,767**	—
Own shares held in trust	29	**(120)**	—	**(120)**	—
Retained earnings		**18,796**	10,880	**7,535**	7,890
Equity attributable to owners of the parent		**44,029**	11,380	**32,768**	8,390
Non-controlling interests		**2,753**	—	**—**	—
TOTAL EQUITY		**46,782**	11,380	**32,768**	8,390

The notes on pages 33 to 56 are an integral part of these consolidated financial statements.

The financial statements on pages 29 to 56 were approved by the board of directors and authorised for issue on 17 March 2011 and are signed on its behalf by:

Sean Riddell
Chief Executive

Phillip Woodrow
Finance Director

Group and parent company statements of changes in equity
for the year ended 31 December 2010

Group	Share capital £'000	Share premium £'000	Retained earnings £'000	Non-controlling interest £'000	Own shares held in trust £'000	Total equity £'000
Balance at 1 January 2009	500	—	939	—	—	1,439
Total comprehensive income						
– profit for the year	—	—	9,941	—	—	9,941
Balance at 1 January 2010	500	—	10,880	—	—	11,380
Arising on acquisition of RX Systems	—	—	—	2,709	—	2,709
Share acquisitions less sales in year	—	—	—	—	(120)	(120)
Transactions with owners						
– proceeds from shares issued	86	24,767	—	—	—	24,853
Total comprehensive income						
– profit for the year	—	—	11,194	44	—	11,238
Dividend (note 14)	—	—	(3,278)	—	—	(3,278)
Balance at 31 December 2010	**586**	**24,767**	**18,796**	**2,753**	**(120)**	**46,782**

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Own shares held in trust £'000	Total equity £'000
Balance at 1 January 2009	500	—	(1,872)	—	(1,372)
Total comprehensive income					
– profit for the year	—	—	9,762	—	9,762
Balance at 1 January 2010	500	—	7,890	—	8,390
Share acquisitions less sales in year	—	—	—	(120)	(120)
Transactions with owners					
– proceeds from shares issued	86	24,767	—	—	24,853
Total comprehensive income					
– profit for the year attributable to equity holders of the company	—	—	2,923	—	2,923
Dividend (note 14)	—	—	(3,278)	—	(3,278)
Balance at 31 December 2010	**586**	**24,767**	**7,535**	**(120)**	**32,768**

The notes on pages 33 to 56 are an integral part of these consolidated financial statements.

Group and parent company statements of cash flows
for the year ended 31 December 2010

		Group		Company	
	Notes	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Cash flows from operating activities					
Cash generated from operations	32	**22,181**	19,864	**(2,162)**	(31)
Interest paid		**(409)**	(2,161)	**(373)**	(2,132)
Settlement of financial derivative		**—**	(524)	**—**	(524)
Interest received		**51**	62	**—**	—
Tax (paid)/received		**(3,889)**	(3,127)	**611**	575
Net cash generated from/(used in) operating activities		**17,934**	14,114	**(1,924)**	(2,112)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(5,611)**	(4,113)	**—**	—
Proceeds from sale of property, plant and equipment		**291**	295	**—**	—
Internally developed software		**(3,801)**	(4,520)	**—**	—
Loans from subsidiary company – increase/(decrease)		**—**	—	**9,339**	(17,950)
Dividends received		**—**	—	**4,500**	26,700
Purchase of subsidiary (group – net of cash acquired)	33	**(3,144)**	—	**(8,478)**	—
Net cash (used in)/generated from investing activities		**(12,265)**	(8,338)	**5,361**	8,750
Cash flows from financing activities					
Proceeds from issue of ordinary shares		**24,146**	—	**24,146**	—
Transactions in own shares held in trust		**(116)**	—	**(116)**	—
Bank term loan repayments		**(1,200)**	(6,625)	**(1,200)**	(6,625)
Shareholder loans repaid		**(23,000)**	—	**(23,000)**	—
Dividend paid		**(3,278)**	—	**(3,278)**	—
Net cash used in financing activities		**(3,448)**	(6,625)	**(3,448)**	(6,625)
Net increase/(decrease) in cash and cash equivalents		**2,221**	(849)	**(11)**	13
Cash and cash equivalents at beginning of year		**5,221**	6,070	**25**	12
Cash and cash equivalents at end of year		**7,442**	5,221	**14**	25

The notes on pages 33 to 56 form an integral part of these consolidated financial statements.

Notes to the financial statements

1. General information

EMIS Group plc ("the company" or "the parent company") converted to plc status on 19 March 2010 and acquired a listing on AIM on 29 March 2010. The company was formerly called EMIS Group Limited.

The company is the parent company of subsidiary companies (together "the group") whose activities consist of the design of computer software for healthcare professions, principally general practitioners and pharmacists, together with the supply and support of computer systems for the healthcare profession and other users.

The company is incorporated in England and Wales and domiciled in the UK. The address of its registered office is Fulford Grange, Micklefield Lane, Rawdon, Leeds LS19 6BA.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all periods presented.

2.1 Basis of preparation

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

The preparation of financial statements 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 revenues 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 company or group financial statements are disclosed in note 3.

2.1.1 Going concern

After careful enquiry and review of available financial information, including projections of profitability and cash flows for the two years to 31 December 2012, the directors have formed the conclusion that the company and the group have adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the consolidated and company financial statements.

2.2 Parent company statement of comprehensive income

As permitted by Section 408 of the Companies Act 2006, the parent company has not presented its own statement of comprehensive income. The profit of the parent company for the year was £2,923,000 (2009: £9,762,000).

2.3 Changes in accounting policy and disclosure

(a) New and amended standards adopted by the group

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

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

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the entity acquired either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

The revised standard was applied to the acquisition of the controlling interest in RX Systems Limited ("RX Systems") during the year. Acquisition-related costs of £299,000 have been recognised in the consolidated statement of comprehensive income, which previously would have been included in the consideration for the business combination. The group has chosen to recognise the non-controlling interest at fair value of £2,709,000 for this acquisition rather than the proportionate share of net assets of £1,423,000, which is also allowed. Previously there was no choice, and the non-controlling interest would have been recognised at the proportionate share (21.1%) of the net assets of RX Systems of £1,423,000. See note 33 for further details of the RX Systems business combination.

Notes to the financial statements
continued

2. Summary of significant accounting policies continued
2.3 Changes in accounting policy and disclosure continued
(a) New and amended standards adopted by the group continued
IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. There have been no transactions with non-controlling interests and IAS 27 (revised) has had no impact on the current period.

IAS 38 (amendment) "Intangible assets", effective 1 January 2010, clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has a similar useful economic life.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

Standard/interpretation		Effective date: periods commencing on or after
IFRIC 17	"Distribution of non-cash assets to owners"	1 July 2009
IFRIC 18	"Transfers of assets from customers"	1 July 2009
IFRIC 9	"Re-assessment of embedded derivatives" and IAS 39 "Financial instruments: Recognition and measurement"	1 July 2009
IFRIC 16	"Hedges of a net investment in a foreign operation"	1 July 2009
IAS 36 (amendment)	"Impairment of assets"	1 January 2010
IFRS 2 (amendments)	"Group cash-settled share-based payment transactions"	1 January 2010
IAS 1 (amendment)	"Presentation of financial statements" – note of clarification	
IFRS 5 (amendment)	"Non-current assets held for sale and discontinued operations" – note of clarification	

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted
None of the following changes would have had any material impact on the group and the parent company financial statements had they been in force during the period under review and adopted:

Standard		Effective date: periods commencing on or after	Endorsed
IFRS 9	"Financial instruments" – issued November 2009	1 January 2013	Not yet endorsed
IAS 24 (revised)	"Related party disclosures" – issued November 2009	1 January 2011	Not yet endorsed
Amendment to IAS 32	"Classification of rights issues" – issued October 2009	1 February 2010	
IFRIC 19	"Extinguishing financial liabilities with equity instruments"	1 July 2010	Not yet endorsed
Amendments to IFRIC 14	"Prepayments of a minimum funding requirement"	1 January 2011	

2.4 Basis of consolidation
The consolidated financial statements of the group incorporate the financial statements of the parent company together with those of its trading subsidiary companies, Egton Medical Information Systems Limited (EMIS), EMIS Inc. (a company registered in Canada) and RX Systems Limited (acquired during the year), the two non-trading subsidiaries, EMIS Professional Publishing Limited and Pathway Trust Limited and the newly formed joint venture company, Healthcare Gateway Limited.

2. Summary of significant accounting policies continued

2.4 Basis of consolidation continued

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 group has used the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets on an acquisition-by-acquisition basis.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the separable identifiable net assets acquired and liabilities incurred or assumed at the acquisition date is recorded as purchased goodwill. Provision is made for any impairment.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated on consolidation. Accounting policies previously applied by acquired subsidiaries are changed as necessary to comply with accounting policies adopted by the group.

In the parent company balance sheet, investments in subsidiaries are recorded at the fair value cost and are tested for impairment when there is objective evidence of impairment. Any such impairment losses are recognised in the income statement in the period they occur.

Associates

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

Investments in associates are recognised in the group financial statements using the equity method of accounting and initially carried in the balance sheet at cost. The carrying value of investments (including any goodwill) is tested for impairment when there is objective evidence of impairment and is stated net of any impairment loss. 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. Unrealised gains and losses on group transactions with the associates 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.

Interest in joint venture

A joint venture is a contractual arrangement whereby the group and other parties undertake economic activities that are subject to "joint control", which requires that the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

The group reports its interest in the jointly controlled entity using proportionate consolidation, the group's share of the assets, liabilities, income, expenses and cash flows being combined with the equivalent items in the results on a line-by-line basis.

2.5 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 parent company board of directors.

Notes to the financial statements
continued

2. Summary of significant accounting policies continued

2.6 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 and when 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; and
- revenue from other hardware and consumables sales is recognised when ownership passes.

EMIS has a contract in relation to the provision of General Practitioner Systems of Choice (GPSoC), as extended to include the supply of data centre hosted services to National Health Service Connecting for Health (NHS CfH) standards. 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; and
- other services are recognised when delivered or over the period of supply as appropriate.

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

Where 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 balance sheet.

2.7 Operating profit

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

2.8 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 does not have a finite life, is not subject to amortisation and is reviewed annually for impairment and whenever there is an indication that there may be impairment.

Any impairment is recognised immediately in the income statement and is not subsequently reversed. For the purpose of impairment testing, goodwill is allocated to those cash generating units or groups of cash generating units that are expected to benefit from the business combination and which represent the lowest level within the entity at which the goodwill is monitored for internal management purposes.

(b) Computer software

The costs of maintaining computer software are recognised as expenses of the period in which 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 a project will be a success;
- the project or product is technically and commercially feasible;
- the development costs can be measured reliably; and
- sufficient resources are available to complete the development and use the asset.

Development costs that have previously been recognised as an expense are not recognised as an asset in a subsequent period.

2. Summary of significant accounting policies continued

2.8 Intangible assets continued

(b) Computer software continued

Software acquired by the group on the purchase of subsidiary undertakings that meets the above criteria is included initially in intangible assets at fair value at the acquisition date. In relation to EMIS, the multi-period excess earnings method was used, and as regards RX Systems the income (relief from royalty) basis was applied. The capitalised costs of internally developed software consist only of the directly attributable development employee costs.

All capitalised software has a finite useful life and is carried at the amount recognised initially less accumulated amortisation and any accumulated impairment losses.

Amortisation of software acquired on business combinations is calculated using the straight-line method over a six year estimated useful life in relation to EMIS and over a four year estimated useful life in relation to RX Systems.

Expenditure on internally developed software principally consists of the costs to date of EMIS Web, a "next generation" clinical software product, the costs of which have been capitalised to the extent of the criteria set out above. Accreditation for use within the GP market was obtained on 7 September 2010, allowing the product to become available over time for use by GPs and following which the group has commenced a controlled roll-out programme.

Amortisation of EMIS Web software will follow the roll-out programme so as to reflect the availability of the software to GPs and the pattern of the future economic benefits that are expected to flow from its use, using an amortisation period of eight years from installation.

(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.

EMIS customer relationships are being amortised over 15 years and those of RX Systems over ten years.

(d) Amortisation

Each of the amortisation provisions charged against the profits of the year is included in the "Amortisation of intangible assets" line item of the income statement.

2.9 Property, plant and equipment

Fixed assets acquired with subsidiary companies are recognised at the fair value cost at the date of acquisition. 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% straight-line
Leasehold property	20% straight-line
Computer equipment	33% straight-line
Fixtures, fittings and equipment	25% reducing balance
Fixtures, fittings and equipment – RX Systems	20% straight-line
Motor vehicles	20% 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.

Notes to the financial statements
continued

2. Summary of significant accounting policies continued

2.10 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 as an expense.

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.

2.11 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 balance sheet 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 balance sheet 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.

2.12 Leasing

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

2.13 Share incentive plan

The fair value of free shares allocated to members of the share incentive plan (see note 29) is accounted for within staff costs.

2.14 Retirement benefit costs

The costs charged in the financial statements represent contributions payable by the group during the period into publicly or privately administered defined contribution pension plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

2. Summary of significant accounting policies continued

2.15 Functional and presentational currency

The financial statements are presented in sterling, which is also the functional currency of the parent company.

2.16 Foreign currencies

Assets and liabilities denominated in currencies other than the functional currency of the parent company are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the consolidated 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 balance sheet date and the results have been translated at the average rate for the period. Material exchange differences arising are dealt with through reserves.

2.17 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.

2.18 Own shares held in trust

The shares in the company held by The EMIS Group plc Employee Benefits Trust are stated at fair value and presented as a reduction of shareholders' equity (see note 29). Gains and losses on transaction in the company's own shares are not recognised in the income statement.

2.19 Financial instruments

Financial assets and financial liabilities are recognised in the group balance sheet when the group becomes a party to the contractual provisions of the instrument.

(a) Financial assets

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.

Investments

Investments in subsidiaries, associates and joint ventures are recorded at cost in the company balance sheet. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in the income statement in the period they occur.

Cash and cash equivalents

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

(b) Financial liabilities

The group's financial liabilities, all of which are held for trading, are classed as level one financial instruments in the fair value hierarchy.

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.

Equity instruments

Equity instruments issued by the company are recorded at fair value on initial recognition net of transaction costs.

2.20 Dividends

Interim dividends are recognised as distributions in the accounts when paid. Final dividends are recognised in the accounts in the year in which they are approved by shareholders.

Notes to the financial statements
continued

3. 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:

3.1 Intangible assets acquired through business combinations
The company has made two significant acquisitions to date. On 4 April 2008 it acquired all of the share capital of EMIS together with its subsidiary, EMIS Inc. and on 1 August 2010 it acquired 78.9% of the share capital of RX Systems. As part of the fair value exercises in relation to those acquisitions, 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 as set out in the Summary of significant accounting policies (notes 2.8 and 2.9).

3.2 Development costs
As set out in the accounting policy note 2.8(b), software development costs are capitalised and are amortised over their estimated useful lives in accordance with the policies set out in that note. Useful lives are based on management estimates of the period that assets are expected to 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 consolidated statement of comprehensive income from period to period.

4. Financial risk management
4.1 Financial risk factors
The group's activities expose it to financial risks including credit risk, liquidity risk, interest rate risk, foreign currency risk and price risk. The group manages these risks through an effective risk management programme that seeks to minimise potential adverse effects on the group's performance.

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 group policy and that any new risks are appropriately managed.

Credit risk
The group's credit risk is primarily attributable to its trade receivables, balance sheet amounts for 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.

Credit risk also arises on cash and cash equivalents placed with the group's two main banks, both of which are within the UK.

Liquidity risk
Management controls and monitors the group's cash flow on a regular basis, including forecasting future cash flows, to ensure that it has sufficient financial resources to meet the obligations of the group as they fall due.

A detailed analysis of group debt together with the maturity profile is disclosed in note 26.

Interest rate risk
The company has exposure to interest rate risk in relation to its bank debt amounting to £5.8m. Details of the interest rates and repayment terms are disclosed in note 26.

The group current assets include cash and cash equivalents at the year end amounting to £7.4m, on which interest received is subject to fluctuations in market rates.

4. Financial risk management continued

4.1 Financial risk factors continued

Foreign currency risk

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

Price risk

As at the year end the group has only limited exposure to price risk. However, significant changes are being made within the NHS and at some time during the period 2011 to 2013 there will be price renegotiations.

4.2 Capital risk management

The group defines the capital that it manages as the group's total equity, including non-controlling interests.

The group's objectives when managing capital are:

- to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns to investors and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital;
- to provide an adequate return to shareholders based on the level of risk undertaken;
- to have financial resources available to allow the group to invest in areas that may deliver future benefits and returns to shareholders and other stakeholders; and
- to maintain financial resources sufficient to mitigate against risks and unforeseen events.

The group is profitable and has high cash conversion. As a result, capital risk is not significant for the group and measurement of capital management is not a tool used in the internal management reporting procedures of the group.

5. Operating segments

IFRS 8 "Operating segments" provides for segmental information disclosure on the basis of information reported internally to the chief operating decision-maker for decision-making purposes. The group considers that this role is performed by the main board of directors.

Following the acquisition of RX Systems during the year, the group now has two principal operating segments, both involved with the supply and support of software and related services, namely (a) the EMIS business principally relating to GP practices and (b) the RX Systems business, relating to community pharmacies.

Healthcare Gateway Limited (HGL) was formed during the year and is a joint venture with In Practice Systems Limited to enable the sharing of patient data via a medical interoperability gateway. Although the project is still in its development stage, it is a distinct activity from which significant revenue flows are anticipated, and the board has concluded that, although it does not meet the quantitative thresholds required by IFRS 8, it closely monitors this segment and should be reported.

The board also regards the Canadian operation (Emis Inc.) as a distinct geographical operating segment. EMIS Inc. is engaged in an economic environment that is subject to risks and returns that are different to those of the rest of the group and although it does not meet the quantitative thresholds required by IFRS 8, the board has concluded that, as it is closely monitoring this segment, it should also be reported.

Each operating segment is assessed by the board based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs and goodwill impairments. Interest income and expenditure, cash and cash equivalents and bank and other loans are not allocated to segments, as this type of activity is managed by the board.

Notes to the financial statements
continued

5. Operating segments continued
Segmental reporting

	2010 Revenue £'000	2010 Operating profit £'000	2009 Revenue £'000	2009 Operating profit £'000
Continuing operations				
EMIS	**56,922**	**19,433**	57,234	17,042
RX Systems (five month period)	**4,978**	**195**	—	—
EMIS Inc. – Canada	**493**	**(1,961)**	462	(1,268)
HGL – joint venture expenses	**—**	**(37)**	—	—
Total segments	**62,393**	**17,630**	57,696	15,774
Flotation and other transaction costs		**(1,258)**		—
Total operating profit		**16,372**		15,774
Finance costs less finance income		**(375)**		(1,510)
Share of profit of associate		**109**		198
Profit for the financial year before taxation		**16,106**		14,462
Depreciation and amortisation is charged in the above segmental analysis as follows:				
– EMIS		**4,869**		4,323
– RX Systems		**385**		—
– EMIS Inc. – Canada		**130**		135

Revenue excludes inter-group transactions.

Revenue within the EMIS segment of approximately £52.2m (2009: £51.5m) is derived from the NHS and related bodies.

	2010 EMIS £'000	2010 RX £'000	2010 EMIS Inc. £'000	2010 Total £'000	2009 EMIS £'000	2009 EMIS Inc. £'000	2009 Total £'000
Total segmental assets	**70,365**	**2,184**	**494**	**73,043**	53,935	653	54,588
Total segmental liabilities	**(24,652)**	**(4,915)**	**(87)**	**(29,654)**	(20,762)	(272)	(21,034)
	45,713	**(2,731)**	**407**	**43,389**	33,173	381	33,554
Unallocated assets:							
– investment in associate				**2,661**			2,552
– cash and equivalents				**7,442**			5,221
Unallocated liabilities:							
– bank and other loans				**(5,764)**			(29,947)
– contingent consideration				**(946)**			—
Shareholders' equity				**46,782**			11,380

The company's 50% share of the HGL current assets and current liabilities amount to £19,000 and £65,000 respectively.

6. Other operating expenses by function

	2010 £'000	2009 £'000
Administration costs	**3,505**	3,125
Establishment costs	**1,134**	1,098
Motor, travel and selling costs	**2,136**	1,901
Contract asset depreciation	**1,503**	85
Total other operating expenses	**8,278**	6,209

7. Operating profit

	2010 £'000	2009 £'000
The following have been included in arriving at operating profit:		
Research and development expenditure	**5,124**	6,521
Development expenditure capitalised	**(3,801)**	(4,520)
Depreciation of property, plant and equipment:		
– depreciation of owned assets	**2,951**	2,384
Amortisation of intangible assets:		
– arising on business combinations	**2,431**	2,074
– internally generated	**2**	—
Operating lease rentals:		
– land and buildings	**444**	372
– plant and equipment	**40**	12
Net foreign exchange losses	**16**	29

The total research and development cost shown above of £5,124,000 (2009: £6,521,000) consists of the direct salary and national insurance costs of relevant UK and Canadian staff and the costs of Australian based staff. Software development costs amounting to £3,801,000 (2009: £4,520,000) have, in accordance with the criteria set out in IAS 38, been capitalised.

8. Finance income

	2010 £'000	2009 £'000
Bank interest	**48**	62
Profit on sale of own shares	**3**	—
	51	62

9. Finance costs

	2010 £'000	2009 £'000
Bank loans	**159**	469
Other loans	**197**	1,081
Exchange loss	**54**	29
Amortisation of bank loan issue costs	**16**	16
Interest rate swap fair value gain	**—**	(23)
	426	1,572

Notes to the financial statements
continued

10. Auditors' remuneration

	2010 £'000	2009 £'000
Baker Tilly UK Audit LLP		
Audit services:		
– statutory audit of parent and consolidated accounts	22	10
– audit of accounts of subsidiary	42	30
– audit of associated pension scheme	—	2
Other services:		
– review of interim results	10	—
Baker Tilly Tax and Advisory Services LLP		
Taxation services:		
– compliance services	16	9
– advisory services	43	18
Other services:		
– accounting services	—	3
Baker Tilly Corporate Finance LLP		
Transaction services	190	—
	323	72

11. Employee costs

The average monthly number of persons (including directors) employed by the group during the year was as follows:

	2010 Number	2009 Number
Management and administration	107	139
Software support and development	344	304
Maintenance	299	283
Others	73	71
	823	797

	2010 £'000	2009 £'000
Staff costs for above persons:		
– wages and salaries	24,653	24,047
– social security costs	2,335	2,217
– pension costs – defined contribution plans	193	76
– share-based payments	10	—
	27,191	26,340

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

12. Income tax expense

	2010 £'000	2009 £'000
Income tax:		
– current tax charge	**4,841**	3,632
– prior year tax charge	**(14)**	(80)
Total current tax	**4,827**	3,552
Deferred taxation:		
– current period	**41**	969
Total deferred tax	**41**	969
Total tax charge in consolidated statement of comprehensive income	**4,868**	4,521
Factors affecting the tax charge for the year:		
– profit before tax	**16,106**	14,462
Profit before taxation multiplied by the domestic income tax rate in the UK of 28% (2009: 28%)	**4,510**	4,049
Tax effects of:		
– expenses not deductible for tax purposes	**174**	10
– future relief not provided for on Canadian loss	**549**	690
– exchange rate loss	**—**	(93)
– profit of associate company	**(31)**	(55)
– adjustments for the prior period	**(14)**	(80)
– deferred tax rate change	**(320)**	—
Tax charge for the year	**4,868**	4,521

13. Earnings per share

The basic earnings per share (EPS) has been calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of shares in issue during the relevant period as follows:

	2010			2009		
	Earnings £'000	**Number of shares**	**Amount per share**	Earnings £'000	Number of shares	Amount per per share
Basic EPS:						
– earnings attributable to ordinary shareholders	**11,194**	**56,426,582**	**19.84p**	9,941	50,000,000	19.88p

The issued ordinary share capital of the company was subdivided from £1 shares into one penny shares on 29 March 2010. However, for consistency, the number of shares shown above assumes that one penny shares were in issue throughout.

The number of shares stated for 2010 is a weighted average, taking into account the issue of 8,333,334 shares on 29 March 2010 and 216,683 shares on 19 August 2010.

There has been no dilution of shareholders interests during the year.

14. Dividends

	2010 £'000	2009 £'000
Interim dividend for the year to 31 December 2010 of 5.6p	**3,278**	—

A final dividend for the year ended 31 December 2010 of 5.6p amounting to £3,278,800 will be proposed at the 2011 Annual General Meeting. If approved, this dividend will be paid on 30 May 2011 to shareholders on the register on 26 April 2011. The dividend is not accounted for as a liability in these accounts and will be accounted for as an appropriation of revenue reserves in the year to 31 December 2011.

Notes to the financial statements
continued

15. Goodwill

Group	£'000
Cost and net book amount	
2009	
As at 1 January 2009	15,853
Movements in year	—
As at 31 December 2009	15,853
2010	
As at 1 January 2010	15,853
Arising on acquisition of RX Systems	6,098
	21,951
Allocated to the group's cash generating units as follows:	
– EMIS	15,853
– RX Systems	6,098

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.

Impairment tests for goodwill

Goodwill is allocated to the group's cash generating units (CGUs) identified according to operating segment.

An operating segment-level summary of the goodwill is presented below:

	2010 £'000	2009 £'000
EMIS	**15,853**	15,853
RX Systems	**6,098**	—
	21,951	15,853

Each allocation is tested annually for impairment and 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 for each allocation has been calculated using internal group budgets for the three years ending 31 December 2013 to forecast pre-tax cash flows from each CGU. These cash flows have then been extrapolated for a further two years assuming average annual growth rates of 3.5% for EMIS (2009: 10%) and 4.0% for RX Systems, until 31 December 2015 and then in perpetuity. The pre-tax cash flows for the five year period have been discounted back to 31 December 2010 using weighted average costs of capital of 9% in relation to EMIS (2009: 9%) and 13% for RX Systems. The exercise has confirmed that there has been no impairment. Sensitivity analysis has then been performed on the inputs, which continues to indicate that no impairment is required.

16. Other intangible assets

Group	Computer software £'000	Customer relationships £'000	Total £'000
Cost			
As at 1 January 2009	7,700	13,100	20,800
2009 additions – internally developed	4,520	—	4,520
As at 31 December 2009	12,220	13,100	25,320
2010 additions – internally developed	3,801	—	3,801
– acquisition of RX Systems	1,097	5,764	6,861
As at 31 December 2010	**17,118**	**18,864**	**35,982**
Amortisation and impairment			
As at 1 January 2009	(963)	(1,228)	(2,191)
In year to 31 December 2009	(1,283)	(791)	(2,074)
As at 31 December 2009	(2,246)	(2,019)	(4,265)
In year to 31 December 2010	(1,401)	(1,032)	(2,433)
As at 31 December 2010	**(3,647)**	**(3,051)**	**(6,698)**
Net book value			
As at 31 December 2010	**13,471**	**15,813**	**29,284**
As at 31 December 2009	9,974	11,081	21,055
As at 1 January 2009	6,737	11,872	18,609

Customer relationships have a remaining amortisation period of 13 years (2009: 14 years) for EMIS and 9.6 years for RX Systems.

The accounting policy for internally developed software is set out in note 2.8. The remaining amortisation period is approximately eight years (2009: eight years). The EMIS and RX Systems acquired software have remaining amortisation periods of 3.3 years (2009: 4.3 years) and 3.6 years respectively.

Notes to the financial statements
continued

17. Property, plant and equipment

Group	Land and buildings £'000	Computer equipment £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
As at 1 January 2009	3,432	2,658	830	2,736	9,656
Additions in 2009	108	2,957	294	754	4,113
Disposals in 2009	—	(215)	—	(478)	(693)
As at 31 December 2009	3,540	5,400	1,124	3,012	13,076
Additions in 2010	19	4,422	102	1,068	5,611
Acquisition of RX Systems	20	24	137	—	181
Disposals in 2010	—	(2)	—	(1,075)	(1,077)
As at 31 December 2010	**3,579**	**9,844**	**1,363**	**3,005**	**17,791**
Accumulated depreciation and impairment losses					
As at 1 January 2009	68	669	144	702	1,583
Charged in 2009	76	1,248	196	894	2,414
On disposals in 2009	—	(95)	—	(332)	(427)
As at 31 December 2009	144	1,822	340	1,264	3,570
Charged in 2010	78	2,144	153	574	2,949
On disposals in 2010	—	—	—	(786)	(786)
As at 31 December 2010	**222**	**3,966**	**493**	**1,052**	**5,733**
Net book value					
As at 31 December 2010	**3,357**	**5,878**	**870**	**1,953**	**12,058**
As at 31 December 2009	3,396	3,578	784	1,748	9,506
As at 1 January 2009	3,364	1,989	686	2,034	8,073

Included within property, plant and equipment are assets ("contract assets") allocated to the data centre hosting services contract (see note 2.6 – Revenue recognition for further details) with an original cost of £6,858,000 and accumulated depreciation of £2,171,000, including depreciation of £1,503,000 charged in the year. The net book value amounts to £4,687,000.

18. Investments in subsidiaries

Company	£'000
Cost and net book value	
As at 1 January 2009	53,871
Deduct intra-group dividend paid in 2009 out of pre-acquisition profits	(15,837)
As at 31 December 2009	38,034
Addition in 2010 – RX Systems (note 33)	10,131
As at 31 December 2010	**48,165**

The company's investments in its subsidiaries (and those investments of EMIS) are recorded at fair value cost, which is the fair value of the consideration paid and payable.

18. Investments in subsidiaries continued

Details of the subsidiary companies are as follows:

Name and nature of business	Country of registration and operation	Class of share	% of voting power held
Egton Medical Information Systems Limited (EMIS)			
– medical IT systems	England	£1 ordinary	100
RX Systems Limited			
– pharmacy IT systems	England	£1 ordinary	78.9
Subsidiary companies of EMIS:			
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.

19. Investment in associates

Group	2010 £'000	2009 £'000
As at 1 January	**2,552**	2,354
Acquisition in year	**—**	—
Share of profit for year	**109**	198
As at 31 December	**2,661**	2,552

The company has two associates, Pharmacy2U Limited (P2U) and Multepos Computer Systems Limited (Multepos). Both are unlisted companies incorporated in the UK.

The principal activity of P2U is the operation of an internet mail order pharmacy and the group has a 20% ownership and voting interest.

Multepos was acquired as part of the RX Systems transaction and is in the process of developing a pharmacy electronic point of sale system, which would enable RX to enhance the services it provides to its user base. The trading results for the period to date and the net assets of Multepos are not material and have not been recognised in the group accounts. The investment is owned by RX Systems and the group has a 20% ownership and 25% voting interest.

	2010 £'000	2009 £'000
Aggregate amounts relating to P2U are as follows:		
Assets	**6,114**	5,401
Liabilities	**(3,369)**	(3,201)
Revenues	**18,780**	16,869
Profit before taxation	**758**	973
Profit after taxation	**545**	989

20. Inventories

Group	2010 £'000	2009 £'000
Finished goods	**668**	674

No inventory write downs have been required.

Notes to the financial statements
continued

21. Trade and other receivables

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Current				
Trade and other receivables	**6,946**	5,764	**—**	—
Prepayments and accrued income	**2,136**	1,736	**48**	—
Income tax	**—**	—	**351**	611
	9,082	7,500	**399**	611

22. Cash and cash equivalents

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Cash at bank	**7,442**	5,221	**14**	25

23. Credit quality of financial assets

The group's financial assets, all of which are held for trading, are classed as level one financial instruments in the fair value hierarchy. The amounts of the maximum exposure to credit risk at the reporting date are as follows:

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Trade and other receivables	**6,946**	5,764	**—**	—
Cash at bank	**7,442**	5,221	**14**	25
	14,388	10,985	**14**	25

No collateral security is held.

Trade and other receivables

Reporting date balances fall within the following categories:

	Group	
	2010 £'000	2009 £'000
EMIS		
UK governmental health bodies:		
– agencies (e.g. Connecting for Health)	**3,220**	3,726
– others (e.g. Primary Care Trusts)	**818**	1,007
RX Systems		
– group and independent high street pharmacies	**1,282**	—
– distributors	**591**	—
Other third party debtors across the group	**1,035**	1,031
	6,946	5,764

Trade and other receivables are mainly due one month following the date of the invoice. At the reporting date the aged analysis of trade and other receivables is as follows:

	Group	
	2010 £'000	2009 £'000
December	**6,257**	4,023
November	**415**	941
October and earlier	**274**	800
	6,946	5,764

Other than trivial amounts, no provision for impairment of trade receivables has been required.

23. Credit quality of financial assets continued

Cash at bank

The Moody's long term credit ratings and balances are as follows:

	Group	
	2010 £'000	2009 £'000
A1	**2,402**	5,194
Aa3	**4,945**	—
Other balances	**95**	27
	7,442	5,221

24. Trade and other payables

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Current				
Trade payables	**3,531**	2,192	**—**	—
Accrued expenses	**1,638**	1,189	**—**	571
	5,169	3,381	**—**	571

25. Current tax liabilities

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Corporation tax	**2,572**	1,634	**—**	—
Other tax and social security	**2,531**	1,882	**—**	—
	5,103	3,516	**—**	—

26. Borrowings

Company and group	2010 £'000	2009 £'000
Non-current		
Bank loans – secured	**4,580**	5,763
Other loans	**—**	23,000
	4,580	28,763
Current		
Bank loans – secured	**1,184**	1,184
	5,764	29,947

Bank loans consist of a term loan to March 2013 amounting to £2,800,000 at 31 December 2010, 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% over LIBOR and the mortgage loan is at 1.75% over LIBOR.

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

Other loans, which were subordinated in favour of the bank and bore interest at 2% over LIBOR, were repaid in full on 29 March 2010.

The fair value of non-current borrowings carried at £4,580,000 (2009: £28,763,000) as shown above is estimated to have a fair value of £4,527,000 (2009: £28,292,000). The fair values are based on cash flows discounted using a rate based on the borrowing rate of 2.87% (2009: 2.78%).

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

Notes to the financial statements
continued

26. Borrowings continued

Analysis of debt maturity:

	2010 £'000	2009 £'000
Amounts payable:		
In one year or less	**1,200**	1,200
In more than one year but not more than two years	**1,200**	1,200
In more than two years but not more than five years	**3,400**	4,600
In five years or more	**—**	23,000
Debt issue costs to be amortised over outstanding term	**(36)**	(53)
	5,764	29,947

The company has an undrawn bank revolving credit facility, arranged at the time of the RX Systems acquisition, of £5,000,000 which expires on 19 August 2012.

27. Deferred tax

	Plant and equipment £'000	Intangible assets £'000	Property £'000	Derivative financial instruments £'000	Total £'000
As at 1 January 2009	286	(5,210)	(784)	153	(5,555)
Charge to income	(147)	—	—	—	(147)
Intangibles amortisation	—	581	—	—	581
Development costs	—	(1,266)	—	—	(1,266)
Settlement of derivative	—	—	—	(147)	(147)
Derivative fair value gain	—	—	—	(6)	(6)
Depreciation on building	—	—	16	—	16
As at 31 December 2009	139	(5,895)	(768)	—	(6,524)
Business combination:					
– acquired provision	(8)	—	—	—	(8)
– intangibles fair value	—	(1,921)	—	—	(1,921)
Charge to income	6	—	—	—	6
Intangibles amortisation	—	681	—	—	681
Development costs	—	(1,064)	—	—	(1,064)
Depreciation on building	—	—	16	—	16
Effect of rate change	—	293	27	—	320
As at 31 December 2010	**137**	**(7,906)**	**(725)**	**—**	**(8,494)**

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:

	2010 £'000	2009 £'000
Deferred tax liabilities	**(8,634)**	(6,663)
Deferred tax assets	**140**	139
	(8,494)	(6,524)

28. Share capital and premium

	Ordinary shares Number	Ordinary shares £'000	Share premium £'000	Total £'000
As at 1 January 2009 and 1 January 2010	500,000	500	—	500
29 March 2010:				
Conversion from £1 shares to shares of one penny	49,500,000	—	—	—
Proceeds from shares issued:				
– 29 March 2010	8,333,334	83	24,063	24,146
Acquisition of subsidiary (note 33)	216,683	3	704	707
	58,550,017	586	24,767	25,353

The company was admitted to the Alternative Investment Market (AIM) on 29 March 2010. As part of that process the existing ordinary shares of £1 each were converted into 50,000,000 ordinary shares of one penny each. A further 8,333,334 shares of one penny each (representing 14.29% of the enlarged equity) were issued at £3.00 a share, raising a gross amount of £25,000,000 less related costs charged to the share premium account of £854,359. The net proceeds were used to repay founders loans of £23,000,000 (note 26).

The company issued 216,683 ordinary shares of one penny each at 326.3p (representing 0.37% of the enlarged equity) on 19 August 2010 in connection with the acquisition of RX Systems (note 33).

All issued shares are fully paid. There were no movements in the share capital of the company during 2010.

29. Share-based payments

The company operates an Inland Revenue approved share incentive plan, which commenced October 2010 and is open to all UK employees. Those joining contribute a maximum of £1,500 a year, or 10% of salary, whichever is smaller, which is used to acquire shares in the company at market price from the EMIS Group plc Employee Benefits Trust, which was established during the year to hold shares in the company to facilitate share-based emolument payments.

For every four shares acquired by employees the company adds one free share. The free shares allocated to members of the scheme during the period October to December 2010 had a value of £10,000.

30. Operating lease commitments

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

Group	**2010 £'000**	2009 £'000
Land and buildings:		
– due within one year	**462**	281
– due between two and five years	**617**	456
– due in more than five years	**—**	501
Plant and machinery:		
– due within one year	**88**	10
– due between two and five years	**164**	14
– due in more than five years	**29**	—
	1,360	1,262

31. Capital commitments

At 31 December 2010 the group had capital commitments in respect of motor vehicles amounting to £50,000 (2009: £336,000).

Notes to the financial statements
continued

32. Cash generated from operations

	Group		Company	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Profit before tax	**16,106**	14,462	**2,573**	8,757
Amortisation of intangible assets	**2,433**	2,074	**—**	—
Depreciation of property, plant and equipment	**2,949**	2,384	**—**	—
Decrease in inventory	**40**	498	**—**	—
(Increase) in trade and other receivables	**(35)**	(1,959)	**(48)**	—
Decrease in trade and other payables	**(1,142)**	(2,235)	**(572)**	(14)
Increase in deferred income	**1,568**	3,328	**—**	—
Finance income	**(51)**	(62)	**(4,500)**	(10,864)
Finance costs	**426**	1,572	**389**	2,090
Share of profit of associate	**(109)**	(198)	**—**	—
Profit on transactions in own shares	**(4)**	—	**(4)**	—
Net cash flow from operating activities	**22,181**	19,864	**(2,162)**	(31)

33. Business combinations

During the year EMIS Group plc acquired 78.9% of the called up ordinary share capital of RX Systems Limited ("RX Systems"), an unlisted company. The transaction was finalised on 19 August 2010. The economic benefits passed with effect from 1 August 2010, which has been regarded as the acquisition date.

RX Systems is a pharmacy software and services company and the acquisition of RX represents a strategic opportunity for EMIS to develop into this adjacent segment of the healthcare IT market to further its objective of joining up healthcare IT.

The goodwill of £6,098,000 arising from the acquisition principally relates to the inherent workforce and market share. None of the goodwill recognised is expected to be deductible for income tax purposes.

The table below summarises the consideration paid for RX Systems and the fair value amounts as at the acquisition date of the assets acquired and liabilities assumed, as well as the fair value at that date of the non-controlling interest in RX.

Consideration	£'000
Cash	8,478
Equity instruments (216,683 ordinary shares)	707
Contingent consideration:	
– current	189
– non-current	757
Total consideration	10,131
Recognised amounts of identifiable assets acquired and liabilities assumed	
Customer contracts and relationships (included in intangibles) (note 16)	5,764
ProScript Technology (included in intangibles) (note 16)	1,097
Property, fixtures, fittings and equipment (note 17)	181
Investment in associates (note 19)	—
Inventories	34
Trade and other receivables	1,547
Trade and other payables	(3,579)
Deferred income	(1,707)
Deferred tax liabilities (note 27)	(1,929)
Cash and cash equivalents	5,334
Total identifiable net assets	6,742
Non-controlling interest	(2,709)
Goodwill	6,098
	10,131
Acquisition-related costs	299

33. Business combinations continued

Acquisition-related costs are included in flotation, acquisition and other transaction costs in the consolidated statement of comprehensive income for the year ended 31 December 2010.

The fair value attributed to the 216,683 ordinary shares in the company issued as equity consideration was based on the average closing price for the 30 day period prior to the transaction. There were no material identifiable issuance costs.

The contingent consideration arrangement requires the company to pay the RX Systems vendor shareholders a maximum of £0.95m. The contingent consideration is based on a formula and accrues on achievement of annualised operating profits within the range of between £1,680,000 and £2,400,000 for the five month period and the succeeding twelve month period following completion. It is fully expected that the maximum amount will become payable and this has accordingly been regarded as the fair value as at 1 August 2010.

RX Systems has an associated company investment which has a cost and book value of £150,000 (note 19), the fair value of which is nil.

The trade and other receivables amounting to £1,547,000 consist principally of trade debtors. The only fair value adjustment required is with regard to a loan of £38,000 to the associated company, which has been included at a fair value of nil.

The fair value of the acquired identifiable intangible assets of £6,861,000 is provisional pending receipt of the final valuations for those assets.

RX Systems has a non-controlling interest (NCI). The amount recognised, amounting to £2,709,000, uses the "fair value method" of measurement. This method recognises the amount of the proportionate share of the whole of the goodwill of RX within that figure as well as the proportion of the identifiable net assets attributable to the NCI.

The total consideration payable for RX Systems amounting to £10,131,000 was based on the proportion of RX acquired in relation to the value of RX as a whole and accordingly did not include any control premium.

It is considered that no difference exists between the per share value of the company's controlling interest and that of the NCI.

A deferred taxation provision of £1,921,000 arises on the intangible assets acquired and this amount also forms part of the goodwill recognised on this acquisition. No other fair value adjustments have been required.

The revenue included in the consolidated statement of comprehensive income is for the period 1 August to 31 December 2010, amounting to £4,978,000, with a profit contribution (after deduction of amortisation of intangibles) of £215,000.

Had RX Systems been part of the EMIS Group throughout 2010, unaudited pro forma figures for the year to 31 December 2010 would have shown revenue of £11,648,000, profit after amortisation of intangibles and before taxation of £954,000, a tax charge of £140,000 and a post tax profit of £814,000.

With regard to the EMIS acquisition on 4 April 2008, the fair values of acquired assets and liabilities, including goodwill, previously disclosed as provisional, have been finalised in the current year with no material changes to the fair values disclosed in the 2008 Directors' report and accounts.

34. Pension commitments

The group defined contribution pension scheme was wound up during 2009, no contributions to that scheme having been made during that year.

The total costs charged to income consist of £98,000 (2009: £56,000) representing EMIS contributions payable to individual personal pension plans, £34,000 in relation to RX Systems group and personal pension arrangements and £53,000 (2009: £63,000) in relation to employees of the group's subsidiary in Canada.

Canadian employees are members of a federally-managed retirement benefit plan operated by the Government of Canada, known as the Canada Pension Plan (CPP). EMIS Inc. is required to contribute 4.95% of gross pensionable earnings to the retirement benefit plan to fund the benefits. The only obligation of the group with respect to the retirement benefit plan is to make the specified contributions.

Notes to the financial statements
continued

35. Related party transactions
Key management compensation
Key management includes directors (executive and non-executive) of the parent and UK subsidiary companies, the Company Secretary and certain departmental heads. The compensation paid or payable to key management for employee services is shown below:

	2010 £'000	2009 £'000
Salaries and other short-term employee benefits	**1,638**	2,376
Post retirement benefits	**76**	76

Directors' emoluments

	2010 £'000	2009 £'000
Aggregate emoluments	**770**	1,754
Pension costs – defined contribution plans	**53**	76
	823	1,830

Retirement benefits are accruing to three (2009: five) directors under defined contribution personal pension schemes.

Highest paid director:		
– aggregate emoluments	**199**	347
– pension costs – defined contribution plans	**15**	15
	214	362

Transactions between the group and its associate – Pharmacy2U Limited:

	2010 £'000	2009 £'000
Sales of goods in period	**32**	47
Amounts owed by/to related party at period end	**—**	—

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

	31 December 2010 £'000	Maximum in period £'000	1 January 2010 £'000
W A Jones	**—**	2	2

36. Post balance sheet event
Discontinued operation
EMIS has caused to be developed, and configured, software specifically for the Canadian healthcare market. However, EMIS Inc. the group's Canadian subsidiary, through which this activity has been conducted, has not made the progress that had been hoped for. This resulted in a reduction of staff numbers during the year and a strategic options review going through into 2011. That process has now been concluded and EMIS has commenced a managed exit.

It is anticipated at the present time that the 2011 Canadian fair value losses will be in the region of £1.1m. There will also be an impairment charge of £1.4m.

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