

Healthcare
without boundaries

emis
group plc

Annual report and accounts 2011

EMIS Group plc is transforming the face of healthcare delivery for GPs and healthcare practitioners. Over 50% of UK GP patient records are currently held on EMIS' software. That's a lot of faces.

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

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Find out more about our business at a glance



"We're providing a far more convenient service for patients and saving administrative and travel time for our staff."

James Blacklock
eHealth Programme Lead, NHS Cumbria



"I'm spending more time with patients, which is a massive plus."

Dayna Hadwen
Community Nurse, NHS Cumbria



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Financial

Total revenue	Recurring revenue	Net cash	Cash from continuing operations ⁽³⁾
£73.2m	£61.1m	£8.0m	£27.1m
+18%	+20%	+£6.3m	+34%
Adjusted operating profit ^(1, 2)	Earnings per share from continuing operations	Proposed dividend	Total dividend for the year
£20.8m	28.71p	6.2p	12.4p
+14%	+23%	+11%	+11%

(1) The calculation excludes capitalised development costs and adds back all amortisation charged in the year.

(2) 2010 also adjusted to exclude flotation and other transaction costs of £1.26m.

(3) Stated after deduction of capitalised development costs of £3.8m (2010: £3.8m).

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Full financial statements

Operational⁽¹⁾

- UK GP software market leading position maintained:
 - UK market share 53.1% (5,397 GP practices) (2010: 53.8% (5,576 GP practices))
- EMIS Web GP controlled roll-out continued and by the year end:
 - 360 GP practices installed (2010: 44)
 - 1,565 orders placed in total (2010: 433)
 - 2,359 practices in the EMIS Web GP familiarisation service (2010: 1,665)
- RX Systems:
 - High street pharmacy market share increased to over 34% (4,338 pharmacies) (2010: 25% (3,184 pharmacies))
 - Group synergies being realised
- Transformation of healthcare delivery in the UK opening up new markets for EMIS Web:
 - EMIS Web Integrated Care pathfinder projects progressing well
 - EMIS IQ new up to six year contract with the NHS Information Centre to develop a secure data extraction service covering all EMIS GP practices in England
 - Healthcare Gateway delivering pilots in Liverpool and Westminster and NHS Cumbria entered phase 2 of roll-out of Out of Hours integrated access

(1) EMIS and RX Systems data estimated based on subsidiary company records showing customers installed and ordered (by contract or letter of intent) as at 31 December 2011. RX Systems data is based on company records to 31 December 2011 and latest available data from The National Pharmaceutical Association as at March 2010.

The UK's leading supplier of healthcare software to GPs and a major software supplier to high street pharmacies.

Our businesses

EMIS Group has an interlocking, innovative portfolio of established and emerging healthcare IT products and services:

"In terms of administration, EMIS Web is overwhelmingly superior."

Joy Baker
GP Practice Manager, Shropshire



EMIS GP

We have an overall UK market share of 53.1% (5,397 GP practices).

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

We are presently accelerating the roll-out to GPs of EMIS Web GP, our transformational healthcare IT system.

Egton & Healthcare Gateway

Egton specialises in the supply of ICT infrastructure, application software and value added services to healthcare and other public and private sector organisations

Healthcare Gateway is our 50:50 joint venture company with INPS established in 2010 to facilitate the sharing of patient data via a medical interoperability gateway. As well as ongoing pilots relating to electronic clinical correspondence to GPs and portal access to GP detailed care records it is also being used in the provision of Out of Hours integrated access.

RX Systems

We are a major supplier of software to pharmacists with an overall UK market share of over 34% (4,338 High Street Pharmacies).

Our pharmacy software efficiently manages the dispensary process, labelling and endorsing patient records, ordering and stock control. In 2012 we launched an integrated EPoS solution that manages the pharmacy retail environment with product promotion support, stock control and easy access to the patient record through PMR integration.

EMIS IQ

We have only recently created a division to meet the growing demand among healthcare organisations for high-quality clinical and management information and have already been awarded an up to six-year contract with the NHS Information Centre to provide a secure data extraction service to support the new national General Practice Extraction Service (GPES) that will obtain information from GP practices across England for specific, approved purposes, using robust information governance principles to ensure patient confidentiality and privacy.

EMIS Web Integrated Care

We are engaged in a number of pathfinder projects to integrate other healthcare services with our GP systems and deliver our vision of Integrated Care with both clinical benefits and financial savings.

By the year end 147 healthcare services had started to use EMIS Web for the delivery of integrated care.

Patient.co.uk

Patient.co.uk is our patient information website. It helps patients play a key part in their own care and, ultimately, become users of EMIS Group's integrated healthcare systems. We have recently refined the content and relaunched the site which now gets over 4 million unique visitors monthly.



Perry Anderson
GP Practice Manager, Crawley



UK market share

General Practitioners
5,397 practices

53.1%

Retail Pharmacies
4,338 locations

over **34%**

GP market share breakdown⁽¹⁾

England

4,558
practices
54.8%
market share

Scotland

528
practices
51.7%
market share

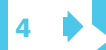
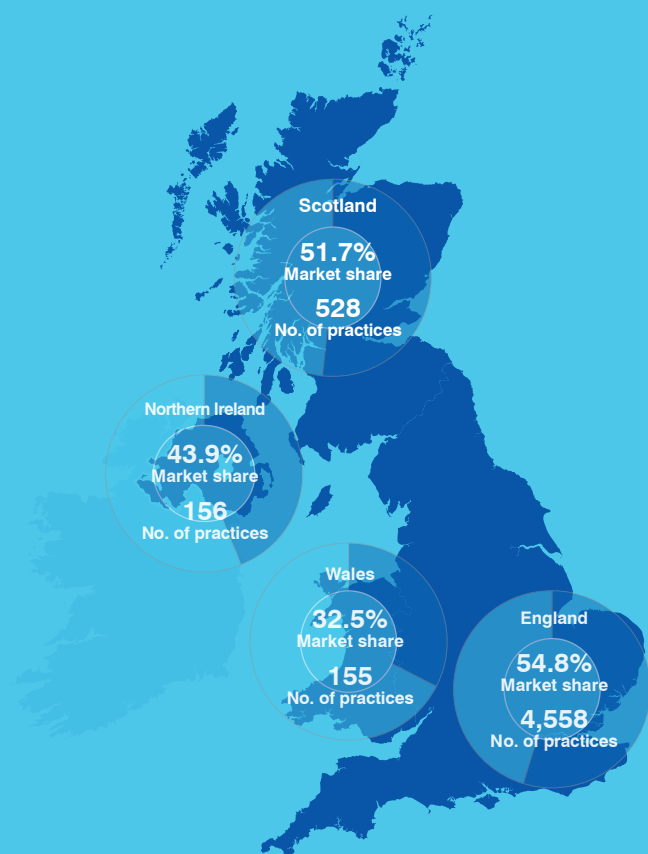
Northern Ireland

156
practices
43.9%
market share

Wales

155
practices
32.5%
market share

(*EMIS data estimated based on company records showing customers installed or ordered (by contract or letter of intent) as at 31 December 2011, RX Systems data is based on company records to 31 December 2011 and latest available data from The National Pharmaceutical Association as at March 2010).



Read more in our business and financial review

EMIS Group's core objective is to improve patient care by helping clinicians to create and mobilise each patient's electronic healthcare record.



Mike O'Leary Non-Executive Chairman
Sean Riddell Chief Executive

Introduction

EMIS Group, through its subsidiary companies EMIS and RX Systems, is a major provider of healthcare software, information technology and services in the UK. EMIS is the UK GP software market leader with 53.1% (2010: 53.8%) of UK GP practices. RX Systems provides healthcare IT, software and services to 34.4% of UK high street pharmacies.

EMIS Group's core objective is to improve patient care by developing systems to help clinicians and others involved in patient care to create and mobilise each patient's electronic healthcare record. Through EMIS Web, the Group is making significant progress towards delivery of cross organisational, integrated healthcare systems; an objective aligned with NHS strategy.

The NHS in England continues to be subject to both political upheaval and austerity challenges. Despite the detail not yet being

clear, EMIS Group remains well positioned to benefit from the "connect all" strategies throughout the UK. This is especially the case given the central position of the GP in the planned devolution of power to Clinical Commissioning Groups, ring fencing of the public health budget and with information sharing being the key to better care outcomes and reduced cost.

The roll-out of EMIS Web to GPs and our other projects and initiatives together represent substantial medium and long term growth opportunities for the Group.

EMIS GP Systems

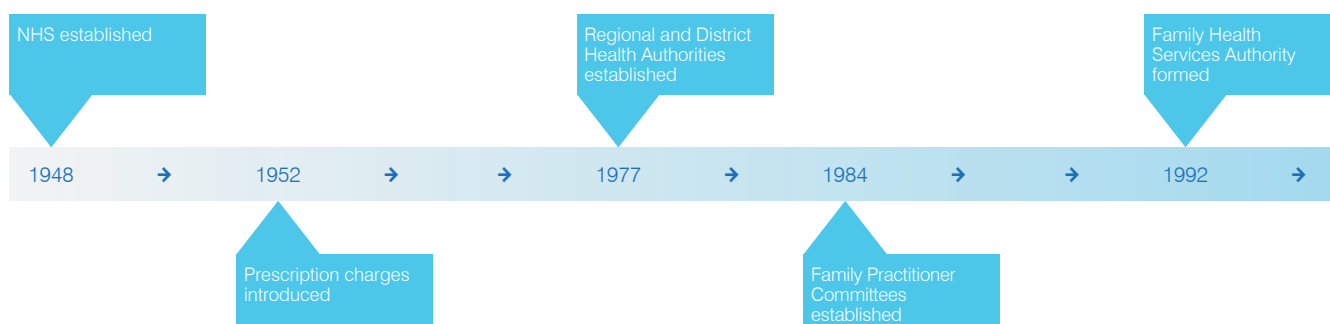
EMIS' GP Systems business continues to perform well, responding to the ongoing changes within the NHS. Our overall UK market share, despite practice consolidation and competitor activity, remained little changed at 53.1% (5,397 GP practices) (2010: 53.8% (5,576 GP Practices)).

Over 70% of our UK GP practices have used an EMIS system for over ten years, reflecting the importance and embedded nature of the software. As anticipated in our annual report and accounts for 2010, the GP Systems of Choice framework agreement was extended on 28 March 2011 until 31 March 2013.

In 2011 EMIS successfully installed almost all of its GP system orders in Scotland following the sales wins in 2010. EMIS' system is one of only two available to GPs in Scotland, and the total deployed 505 systems are generating a recurring revenue stream of over £2m per annum.

On 30 November 2011 EMIS was shortlisted (with others) in relation to the NHS Wales Framework Agreement to include the delivery of a managed service, including the provision of GP clinical system software solutions via a central hosting arrangement, and support services and is now engaged in negotiations to take this forward to contract.

NHS timeline of events





Discover more online:
www.emis-online.com

“2011 has been another busy year for EMIS Group. We have continued the controlled roll-out to GPs of EMIS Web, our transformational healthcare system, whilst RX Systems substantially grew its market share and we are seeing additional benefits as a result of Group synergies.”

EMIS Web GP

Throughout 2011, we continued the controlled roll-out to GPs of EMIS Web, our transformational healthcare IT system, which we began in 2010. There were 360 GP practices using EMIS Web by the end of the year (2010: 44). EMIS provides a Familiarisation Service for those practices planning to upgrade to EMIS Web and, at the year end, this was installed in 2,359 practices (2010: 1,665). In total 1,565 orders for EMIS Web had been placed by the end of 2011 (2010: 433); this total figure now stands at 1,851.

We have also been investing in preparation for the significant acceleration in the rate of roll-out of EMIS Web during 2012. This has involved a major expansion of internal resources for product stabilisation, development of additional functionality, and the additional training and field capacity needed to prepare for an acceleration of the roll-out. EMIS employee numbers rose from 782 to 900 including a strengthening of the

management team to address EMIS Web and other growth opportunities. In December 2011, the Group also acquired an additional freehold property in North Leeds, at a cost of £1.8 million, providing the extra capacity to continue the Group's growth and support its investment plans.

We are building up our delivery capability to enable us to install in the order of 200 EMIS Web practices per month during the fourth quarter of 2012. We expect to have deployed the substantial majority of our outstanding EMIS Web GP order book (presently 1,401 practices) by the end of the current year.

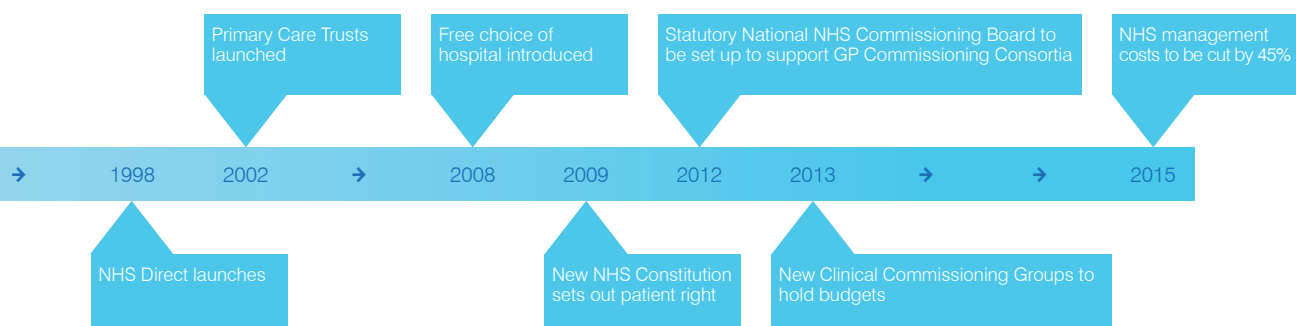
EMIS Web Integrated Care

EMIS Web pathfinder projects that integrate other healthcare services with our GP systems are progressing well; projects in Liverpool, London, Cumbria, Cheshire and elsewhere are beginning to deliver our vision of Integrated Care with both clinical benefits and financial savings.

Initial successes included a five year £1.8m contract in January 2011 to provide an electronic patient record across Cheshire in acute trust and community settings. By the year end 147 other healthcare services were starting to use EMIS Web for the delivery of integrated care. The majority of these were in pathfinder projects, however, in Tower Hamlets, Liverpool, Cheshire, Cumbria and elsewhere, 57 unique community and extended care services were beginning to run live services with EMIS Web. These include, for example, child services, anticoagulation, community matrons, cystic fibrosis, diabetes, A&E, flu' pandemic service, MacMillan Nurses, minor surgery, nursing home, occupational therapy, neurology, physiotherapy, polyclinics, smoking cessation and weight management services.

RX Systems

RX Systems has grown its market share to over 34% (4,338 pharmacies) (2010: 25% (3,184 pharmacies)). We are seeing additional



EMIS' GP systems business continues to perform well, responding to the ongoing changes within the NHS.

"I love EMIS Web because of the easy QOF data completion."

Rachel Richardson
Garland House Surgery, Barnsley



"RX Systems, our supplier of pharmacy and integrated retail systems, has grown its market share to over 34% (2010: 25%)."

RX Systems *continued*

benefits as a result of Group synergies, principally the hardware supply and related services for the majority of RX Systems' customers migrated to Egton (EMIS' hardware and engineering division) in September 2011.

RX Systems has also commenced the first "Medicines Manager" pilot, where the GP and pharmacy electronically interoperate to support the ordering and dispensing of repeat prescriptions, helping pharmacists expand their services, work more efficiently and play a greater role in the wider healthcare team. RX Systems has also deployed new electronic point of sale software with selected pharmacy users.

RX Systems represents a key strategic opportunity for EMIS Group to further develop its presence in the healthcare IT market and to progress its objective of joining up healthcare IT.

Healthcare Gateway

Healthcare Gateway is our 50:50 joint venture company established with INPS in 2010 to facilitate the sharing of patient data via a medical interoperability gateway. It is delivering pilots in Liverpool (electronic clinical correspondence to GPs) and Westminster (portal access to GP detailed care records) and, following a successful pilot, NHS Cumbria has entered phase two of their roll-out to provide Out of Hours integrated access to approximately 500,000 GP detailed care records across the region.

EMIS IQ

As announced on 20 December 2011, EMIS IQ, our division created to meet the growing demand among healthcare organisations

for high-quality clinical and management information, has been awarded an up to six-year contract with the NHS Information Centre.

Under the contract, EMIS will provide a secure data extraction service to support the new national General Practice Extraction Service (GPES) – a centrally managed system that will obtain information from GP practices across England for specific, approved purposes, using robust information governance principles to ensure patient confidentiality and privacy.

Patient.co.uk

The first step on our roadmap for Patient.co.uk, our patient information website to help patients play a key part in their own care and, ultimately, become users of EMIS Group's integrated healthcare systems, was to refine the content and relaunch the site. This was done on 2 February 2012, when we also launched a related iPhone app. The site is now receiving 4 million unique visitors monthly compared with 2.6 million in January 2011.

EMIS Canada ceased trading

As previously announced, EMIS Inc, the Canadian operation, ceased trading and all costs relating to the closure have been expensed in the year ending 31 December 2011.

Our Ethos and People

EMIS Group maintains its "healthcare first" ethos and reputation built on the efforts of its employees. We will continue to build on our strong foundations and are pleased with progress and performance to date, of which our employees can rightfully be proud. We would like to take this opportunity to thank all our employees for their innovation,

commitment and hard work without which this year could not have been such a success.

Summary and Outlook

EMIS Group continues to trade in line with management expectations, with continuing strong revenue visibility.

Increasing the acceleration through 2012 of the roll-out of EMIS Web GP remains our primary focus whilst continuing to invest in our deployment resources. This acceleration underpins expected strong growth in recurring revenues during 2012 and beyond.

The current number of GP practices installed stands at 450 with orders placed for a further 1,401 practices.

We are building up the delivery capability to install in the order of 200 EMIS Web GP practices per month, and are accelerating the roll-out to reach this level during the fourth quarter of 2012.

We are equally excited by the prospects for RX and for EMIS Web Integrated Care and, in the medium term, for our other growth opportunities and will continue to invest in further development resource in these areas through 2012.

Overall, we believe the Group is making significant progress towards delivery of our strategic vision of cross-organisational healthcare systems.

Mike O'Leary
Chairman
15 March 2012

Sean Riddell
Chief Executive

A quicker physiotherapy service with EMIS Web

“Working with EMIS Web has allowed us to stay ahead of the competition as an independent NHS provider. EMIS Web has made patient management much more efficient and speeded up onward referrals, which has ensured a much more positive experience for patients.”

Mark Philpott, Head of Operations (Community Services)
Connect Physical Health



The Challenge

Connect Physical Health (CPH), an independent provider to the NHS, needed an integrated record system to support its community physiotherapy service that helps one million NHS patients across England. The Northumberland-based company provides a full range of physiotherapy services including a telephone advice line and triage service to Primary Care Trusts (PCTs) in the North East and London. The service aims to treat patients within 48 hours in the community and avoid unnecessary referrals to secondary care.

The Result

With shared access to patients' records via EMIS Web for the entire team, physiotherapists, specialist GPs and consultants in sports and exercise medicine have dramatically reduced administration and speeded up onward referrals. Using EMIS Web-consultants can send letters to GPs in 24 hours compared with the previous up to ten days. Instead of spending 20 minutes after every clinic dictating and checking letters, consultants spend five minutes on electronic discharges.



More time with patients

Thanks to reduced administration, physiotherapy professionals can spend more time with patients. Improved communication with their GP means patients benefit from joined-up care and they benefit from accurate records being maintained and managed throughout the patient journey.



Paperless working

Using a paperless record system, CPH staff can see patients' records, securely, wherever they are. Misfiling, lost records and hours of administration are a thing of the past.

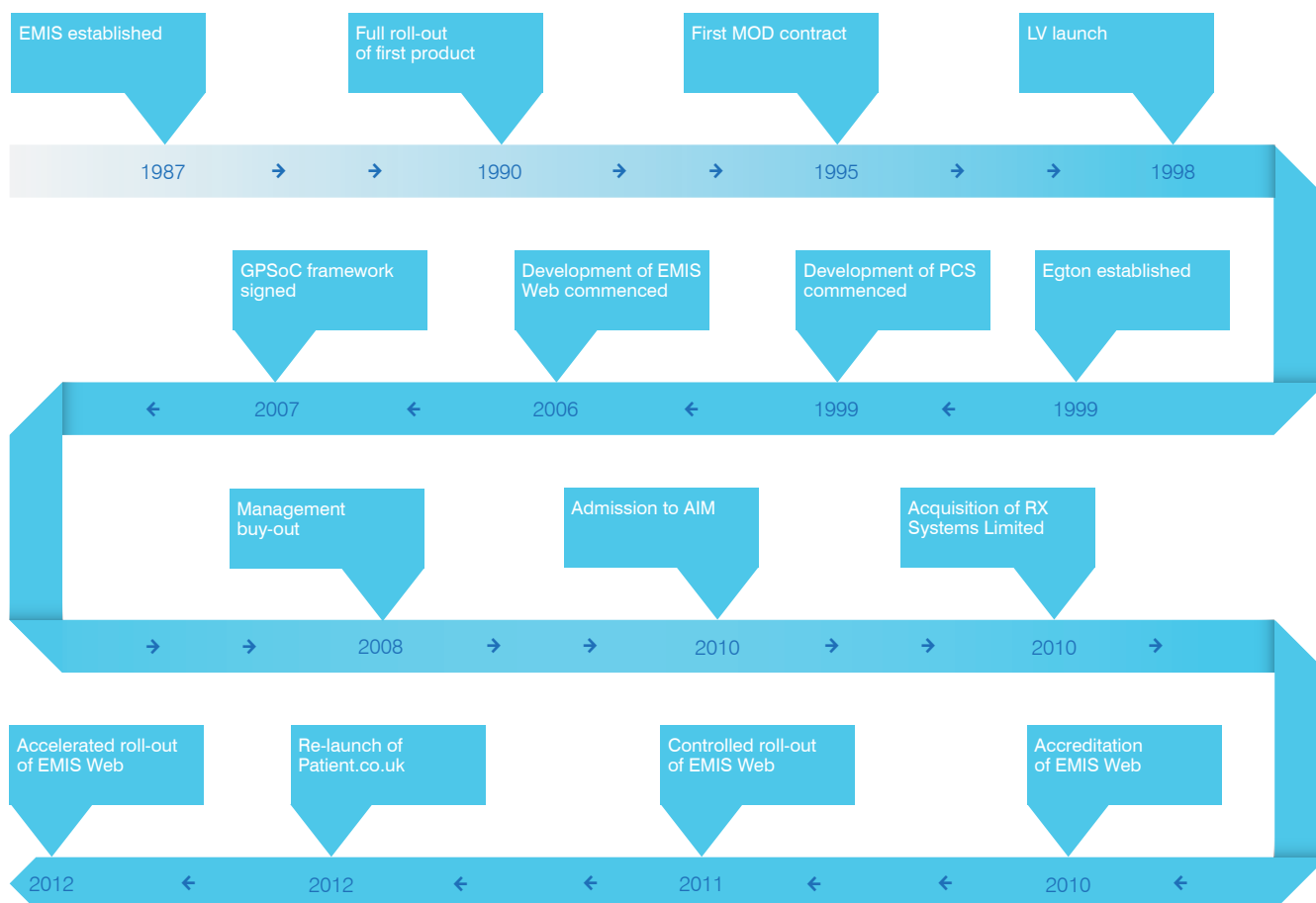


Administration reduced

EMIS Web has enabled CPH to reduce patient administration from 1.5 hrs per patient to below 40 minutes. Administration on discharge letters has been cut from 20 minutes per clinic to five. The time taken to issue referral letters has been dramatically reduced from 10 days to less than 24 hours and clinical audits can be carried out in hours instead of days.

Increasing the acceleration through 2012 of the roll-out of EMIS Web remains our primary focus whilst continuing to invest in our deployment resources. This acceleration underpins expected strong growth in recurring revenues during 2012 and beyond.

EMIS timeline of events



Selected key performance indicators (KPIs)*

The KPIs are used to measure the success of the group. Our KPIs have been chosen as the best measurement of the group's performance.

1. Revenue

£73.2m +18%

2. Adjusted operating profit ⁽¹⁾⁽²⁾

£20.8m +14%

3. Cash generated from continuing operations⁽³⁾

£27.1m +34%

4. EMIS GP practices

5,397 (2010: 5,576)

5. Number of retail pharmacies

4,338 (2010: 3,184)

6. Earnings per share

28.71p +23%

(1) The calculation excludes capitalised development costs and adds back all amortisation charged in the year.

(2) 2010 also adjusted to exclude flotation and other transaction costs of £1.26m.

(3) Stated after deduction of capitalised development costs of £3.8m (2010: £3.8m).

* EMIS data estimated based on company records showing customers installed or ordered (by contract or letter of intent) as at 31 December 2011, RX Systems data is based on company records to 31 December 2011 and latest available data from The National Pharmaceutical Association as at March 2010.

More efficient repeat prescribing

“There are so many advantages to Medicines Manager. Each is worth its weight in gold in terms of accuracy of prescriptions and time and cost savings.”

Dr Barry Sullman
East London GP



“It has vastly improved communication between GP, pharmacist and patient. We can review the patient’s medication and provide feedback to the GP or contact the patient with concerns.”

Jignesh Patel, Pharmacist
RoPharm Limited

The Challenge

GPs and pharmacists both have key roles to play in patient care but communication between them is often hampered by reliance on “old” technology like paper, phones and faxes. An innovative pilot project in East London set out to change that – by helping GP and pharmacy clinical systems to talk to each other. The trial project has seen GPs at the Al-Mudallal G & Partner surgery in Plaistow, East London and local pharmacy RoPharm Limited link up electronically to better meet their patients’ repeat medication needs, including out-of-hours emergency prescriptions.

The Result

EMIS Group developers worked on a year-long project to create new links between EMIS’ and Rx Systems’ software to join up the two systems and use Medicines Manager, a service that enables the electronic transfer of prescription information between the GP and pharmacist. Medicines Manager software has:

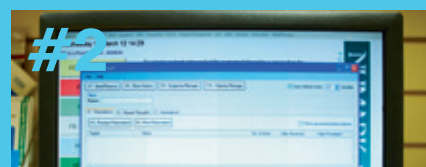
- improved safety and patient compliance;
- cut down on administration and medication wastage; and
- improved the out-of-hours emergency prescription service.

These were vital outcomes for the GP practice and pharmacy in Plaistow, who serve an ethnically diverse population with serious health problems, including the highest incidence of tuberculosis in Europe.



Patient benefits

Patients benefit from faster, more accurate, repeat prescriptions. The pharmacist reminds them when repeat prescriptions are due, checks their medication is up to date and alerts them to any health checks proposed by their GP.



Time and cost benefits

Medicines Manager saves on phone calls and visits to the surgery, and frees up reception staff for other tasks. Electronic prescriptions are processed in seconds rather than minutes. GPs no longer have to fax or phone out-of-hours emergency prescription requests through to the pharmacist. After just three months, they saw savings on drug costs because inappropriate repeat prescriptions were not being issued.



Better professional communication

For the first time, GPs and pharmacists can communicate directly with each other through their clinical systems to manage patients’ medication needs.



“The trading results are particularly pleasing considering the EMIS additional staff intake during the year, largely for future benefit.”

Philip Woodrow Finance Director

Highlights

- Total revenue increased by 18%
- Adjusted operating profit increased by 14%
- Total dividend for the year increased by 11%

Pre-tax profit for the year from continuing operations, which includes the first full year contribution from RX, amounted to £21.4m (2010: £18.1m, including RX for a 5 month period).

The trading results are particularly pleasing considering the EMIS additional staff intake during the year, largely for future benefit.

Revenue

Total group revenue from continuing operations was £73.2m, an increase of 18% over 2010.

Group recurring revenue from continuing operations, principally being licensing and software support, amounted to £61.1m, an increase of £10.3m over the previous year and representing 83% of total Group revenue from continuing operations (2010: EMIS and RX: 82%).

Recurring revenue includes hosting to Connecting for Health standards (including incremental EMIS Web recurring revenues), which amounted to £5.8m (2010: £4.5m).

Within EMIS, income from hardware sales, engineering services and training reduced slightly to £21.4m (2010: £21.7m). Discretionary spending within the NHS on hardware, engineering services and training continued to be at lower levels, affected by pressure on budgets, political uncertainty and some holding back in anticipation of EMIS Web.

Profitability

The operating profit from continuing activities was £21.5m (2010: £19.6m, adjusted to add back flotation and other transaction costs of £1.3m) an increase of 9.7%.

Stripping out the capitalised internal development costs and amortisation of intangible assets, the adjusted operating profit from continuing

activities was £20.8m (2010: £18.2m, further adjusted), an increase of 14%.

Taxation

The tax charge for the year of £4.4m is after taking into account a reduction, due to the release of deferred tax provisions, amounting to £0.3m arising from a lowering of the rate of corporation tax from 27% to 26%, and also from research and development tax credits relating to prior periods of £0.7m.

Earnings per share (“EPS”)

Basic and diluted EPS from continuing operations was 28.71p as against 23.31p for 2010 (2010 adjusted for flotation and other transaction costs, net of applicable tax relief was 25.27p).

Balance sheet

The Group retains a strong balance sheet with net assets of £54.1m (2010: £46.8m) including cash of £12.6m (2010: £7.4m) and bank term loans reduced to £4.5m (2010: £5.7m).

Dividend

The Directors have adopted a progressive dividend policy. Subject to shareholder approval at the Annual General Meeting on 24 April 2012, the board proposes paying a final dividend of 6.2p (2010: 5.6p) per ordinary share on 30 April 2012 to shareholders on the register at the close of business on 13 April 2012. This would make a total dividend of 12.4p (2010: 11.2p) per ordinary share for 2011, an increase of 11%, reflecting the growth in earnings and the Board's confidence in the Group's future prospects.

Phillip Woodrow
Finance Director
15 March 2012

Trusted health information online

“One of the best ways to empower patients is to give them quality, jargon-free information to support consultations and help them to better understand their conditions. We wouldn't be without Patient.co.uk at my practice.”

Dr Sarah Jarvis
London GP



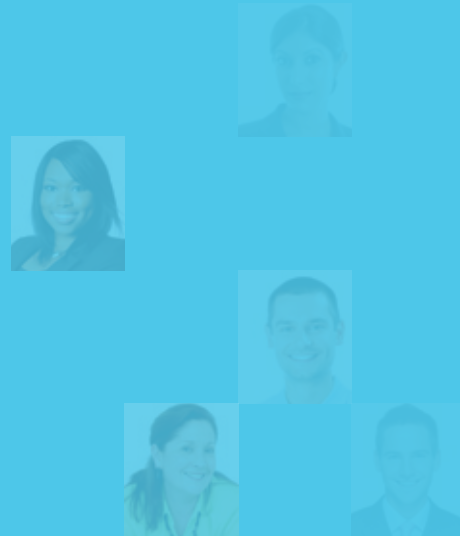
The Challenge

Patients want to be better informed about their health and GPs want to help that process but the internet can be a confusing place to look: 71% of people say they feel overwhelmed by the amount of health information online.

GP Dr Tim Kenny has worked in partnership with EMIS to solve the problem. His forward-thinking initiative to write evidence-based health information leaflets for his patients developed into a partnership with EMIS that saw the information embedded into its GP software and, later, being made available online through the health information website Patient.co.uk.

The Result

Re-launched in 2012 with a new look and feel, Patient.co.uk attracts around four million unique visitors a month (20% being health professionals). Its vast library of information includes 3,752 patient information leaflets and professional reference articles. Newer features, such as free health apps, are making information easier to access in the digital age. The site also offers secure online services, such as GP appointment booking and repeat prescription ordering, which make patients' lives easier.



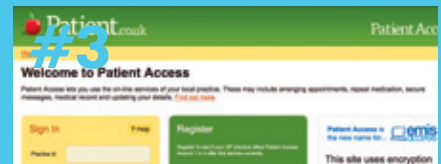
Health information for all

Patient.co.uk is unique in providing the same authoritative information to GPs and patients, but in a format that is right for them.



The personal touch

Features such as the patient forum and new additions including a personal blog on health conditions and issues from Dr Sarah Jarvis make the site engaging and accessible.



Patient power

The 'Patient Access' online portal makes it quick and easy for patients to book and cancel GP appointments and manage their repeat medication.

Pre-tax profit for the year from continuing operations amounted to £24.1m (2010: £18.1m).

Selected financial extracts

	2011			2010		
	EMIS £m	RX £m	Total £m	EMIS £m	RX £m	Total £m
Revenue	59.6	13.6	73.2	56.9	5.0	61.9
including:						
Recurring revenue	49.7	11.4	61.1	46.6	4.2	50.8
Segmental operating profit:	20.7	1.6	22.3	19.7	0.2	19.9
– Add amortisation	2.2	0.9	3.1	2.1	0.3	2.4
– Deduct capitalised development costs	(3.8)	—	(3.8)	(3.8)	—	(3.8)
Adjusted segmental operating profit	19.1	2.5	21.6	18.0	0.5	18.5
Group operating expenses			(0.8)			(0.3)
Adjusted Group operating profit⁽¹⁾			20.8			18.2

	2011	2010
Cash and receivables less current bank debt and payables	£12.2m	£4.9m

	Pence	Pence
Continuing operations:		
EPS – reported	28.71	23.31
EPS – 2010 adjusted ⁽²⁾		25.27

(1) 2010 is adjusted to exclude flotation and other transaction costs of £1.26m.

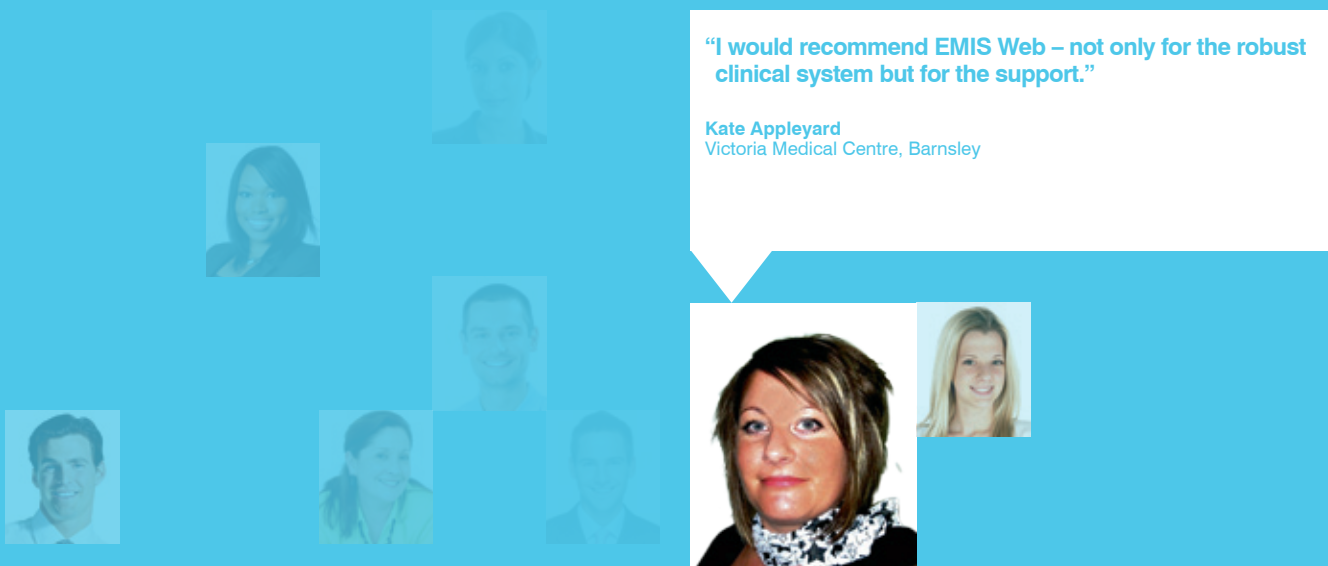
(2) 2010 adjusted EPS excludes flotation and other transaction costs of £1.26m less related tax relief of £0.16m.

Cash

Principal cash movements were as follows:

	2011 £m	2010 £m
Cash from operations:		
Generated from continuing operations	30.9	24.0
Less internal development costs capitalised	(3.8)	(3.8)
	27.1	20.2
Used for/other movements:		
Discontinued operation	(0.8)	(1.8)
Acquisition of 78.9% of RX Systems (net of RX cash)	(0.2)	(3.1)
Acquisition of freehold property	(1.8)	—
Net spending on computers, cars, etc.	(4.4)	(5.3)
Bank term loan repayments	(1.2)	(1.2)
Share issues	—	24.0
Repayment of shareholder loans	—	(23.0)
Bank and other interest	(0.1)	(0.3)
Transactions in own shares	(0.9)	(0.1)
Tax paid	(5.6)	(3.9)
Dividends paid	(6.9)	(3.3)
	(21.9)	(18.0)
Cash increase in year	5.2	2.2

EMIS LV to EMIS Web journey



Demonstration

Familiarisation

Preparation

Installation

Phase 1

- EMIS Web Demo (-16 weeks)
- Order placed (-12 weeks)

Phase 2

- Stream Practice Clinical Data
- Activate Familiarisation Service (-8 weeks)

Phase 3

- Preparation
 - Planning Day
 - Learning Plan
 - Business Continuity
- Pre-Upgrade Training Day (-2 weeks)
 - Data Validation

Phase 4

- Overnight Non-clinical Data Transfer (-1 day)
- Installation
- Practice Training (+3 days)
- Online Support Centre and Telephone Support

We have become a member of Business in the Community (BiTc), a business led charity focussed on promoting responsible business practice.

We have worked with BiTc to develop an action plan to integrate CSR throughout the business and improve our performance.

A member of



Highlights

- First employee free share offer where 87% of eligible employees took up the offer
- NEBOSH qualified health and safety manager appointed
- Participation in Give and Gain Day 2011

The company continues to be committed to building a sound Corporate Social Responsibility (CSR) framework. During the year we became a member of Business in the Community (BiTc), a business led charity focussed on promoting responsible business practice. We have worked with BiTc to assess and evaluate what we do and to start developing an action plan to integrate CSR throughout the business and improve our performance.

The EMIS Group Corporate Social Responsibility Policy covers the key areas of:

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

Employees

Attracting and retaining the right people is key to the success of our business. During the year, work commenced on further improving our recruitment and selection processes and developing a strategy to ensure all our managers are equipped with the skills to manage and develop their teams. This development plan will continue to be implemented in the coming year.

Over 185 employees have attended comprehensive induction courses shortly after joining the company to gain a wider understanding of the business. This initial

knowledge is further developed by regular monthly communications from the Chief Executive on the performance of the business and market and product updates.

In addition over 800 staff took advantage of the training courses we have available. There continued to be a wide variety of on-line e-learning solutions available to staff to allow them to develop technically and professionally.

After 12 months' employment, all UK employees can participate in The EMIS Group plc Share Incentive Plan (the "SIP"). During the year the company improved the matching share ratio from one matching share for every four purchased to one matching share for every three purchased. In November 2011, through the SIP, the company also made an offer of free shares to all employees who had been employed by the group for twelve months on 31 August 2011. The number of free shares per employee was determined with reference to length of service and salary. 87% of those eligible took up the offer of the free shares.

During 2012 the company will, in consultation with employees, explore how to deliver more choice in the range of benefits available.

Health and safety

The company is committed to the promotion of a positive safety culture. The continuing improvement of our health and safety management systems have been a priority during the period under review. A health and safety committee meets on a frequent basis and the EMIS Group board receives regular health and safety reports. The company appointed a NEBOSH qualified Health



and Safety Manager and training was provided to all employees, starting on the induction course and then targeted as appropriate.

All accidents and incidents are monitored and reviewed so that action can be taken where necessary. The reporting systems were reviewed and improved and, as expected, this led to an increase in the number of reported incidents. This has allowed analysis of the most common types of incident and the identification of any training requirements. The company is working towards an overall reduction of reportable incidents. The fleet drivers' safety pack has already been improved.

The results of risk assessments are now being reported electronically and this will enable managers to be more proactive and to intervene earlier. This work has been supported by an external occupational health specialist.

Community engagement

Employees engage in a wide range of activities to raise money for local and national charities. Some examples of this work are:

- In May 2011, a number of staff walked the entire length of Hadrian's Wall for three nominated charities.
- Dress down days have raised nearly £2,000 for 14 different charities, each charity nominated by staff.

- For the first time a team of 16 employees took part in Give and Gain Day 2011, the UK's only national day of employee volunteering. The project selected was to assist in the improvement of a community farm to allow local people to grow and sell their own produce and to provide an educational space to promote healthy eating.
- The company supported the national Poppy Party for the 90th anniversary of the Royal British Legion.
- A quiz night and a number of events were held in support of local charity Chrissy's Quest.

The company also makes a number of charitable donations each year.

The company continues to provide work experience, attends graduate recruitment fairs and is looking to introduce a new apprenticeship scheme in the coming year.

The company has worked with BiTc to review the range of current activities and will focus in the coming year on developing community engagement around opportunities that seek to improve IT skills and support health and well-being initiatives.

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 that 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.

The environmental policy seeks to ensure compliance with environmental legislation and that waste production is minimised.

The company continues to review the impact on the environmental of business travel and, following the purchase of an additional site in Rawdon, will be producing a travel plan for the locations from which it operates in North Leeds in the coming year.

Ethical business practices

All the group's policies detail the standards expected throughout the group, including free and fair competition, the prohibition of bribery, honest and fair dealing with suppliers and ensuring the welfare of workers and employment conditions within the supply chain meet or exceed internationally recognised standards. A new group Statement of Ethics and Whistleblowing Policy was produced and put into effect during the year.

An experienced board



Anthony (Tony) Jones (63) A, R(c), N(c)
Non-executive Chairman until 17 March 2011

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.

A – Audit committee member
R – Remuneration committee member
N – Nomination committee member
(c) – Chair



Mike O'Leary (59) A, R, N(c)
Non-executive Chairman from 17 March 2011

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, and 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.

Sean Riddell (47)
Chief Executive

Sean has over 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.



Phillip Woodrow (64)
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 a non-executive director of Healthcare Gateway Limited and 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 (53)
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.



Robin Taylor (60) A(c), R(c), N
Non-executive Director

Robin joined EMIS Group as an independent non-executive director and chair of the audit committee on 1 March 2010. He was formerly Chief Financial Officer of Intec Telecom Systems plc, a main market publicly listed company, a non-executive director of Covalent Software Ltd, Group Finance Director of ITNET plc and Chief Financial Officer and Director of Business Development of JBA Holdings plc. Robin has also 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. Robin became the chair of the remuneration committee on 18 March 2011.

Internet

The group operates a website which can be found at www.emis-online.com/investors. 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. The annual report and accounts will be published on www.emis-online.com/investors. The maintenance and integrity of the website is the responsibility of the directors. The auditors do not consider these matters.

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.org.uk.

Payment of dividends

Shareholders may find it more convenient to make arrangements to have dividends paid direct into 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 on this page.

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

Executive

S D Riddell – Chief Executive
P A Woodrow – Finance Director
D L Stables – Director of Development Strategy

Non-executive

M K O'Leary – Chairman (from 17 March 2011)
W A Jones – Chairman (until 17 March 2011)
R F Taylor – Senior Non-Executive Director

Company Secretary

C M K Spencer

Company number

06553923 (England and Wales)

Registered office

Fulford Grange
Micklefield Lane
Rawdon
Leeds LS19 6BA

Auditors

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

Nominated adviser and broker

Numis Securities Limited
(from 4 January 2012)
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Evolution Securities Limited (until 4 January 2012)

Kings House
1 King Street
Leeds LS1 2HH

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

Cobbetts LLP
No. 1 Whitehall Riverside
Leeds LS1 4BN

EMIS Web is a transformational clinical software system which enables GPs and other healthcare practitioners to connect with each other.

The directors have pleasure in presenting their report and audited financial statements for the year ended 31 December 2011.

General information and principal activities

EMIS Group plc ("the company" or "the parent company") is an AIM listed company. 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, Mickfield Lane, Rawdon, Leeds LS19 6BA.

The principal activity of the group is the design of computer software for healthcare professionals, mainly general practitioners and pharmacists, together with the hosting, 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 Chairman and Chief Executive's 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 numbers deployed, customer satisfaction and staff turnover.

Dividends

The directors have adopted a progressive dividend policy. Subject to shareholder approval at the Annual General Meeting (AGM) on 24 April 2012, the board proposes paying a final dividend of 6.2p per ordinary share (2010: 5.6p) on 30 April 2012 to shareholders on the register at the close of business on 13 April 2012. This would make a total dividend of 12.4p per ordinary share for 2011 (2010: 11.2p).

Directors and their interests

The directors of the company who served during the year ended 31 December 2011 are as follows:

- Michael (Mike) O'Leary (appointed 17 March 2011)
- Anthony (Tony) Jones (retired 17 March 2011)
- Sean Riddell
- Phillip Woodrow
- Dr David Stables
- Robin Taylor

Biographies of the directors can be found on pages 16 to 17.

Directors are subject to re-election at intervals of not more than three years and, as each director was elected or re-elected at the AGM held in 2010 or 2011, no director will be required to retire at the forthcoming AGM to be held on 24 April 2012. Nevertheless, Robin Taylor will seek re-election at that meeting.

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.

Research and development

Development work continued during the year on EMIS Web for GPs and, more recently, also for integrated care. EMIS Web is a transformational 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. EMIS Web became the first GP system to achieve full roll-out approval for EPSR2 from NHS Connecting for Health.

Development expenditure in the year amounted to £5.6m (2010: £5.1m) of which £3.8m (2010: £3.8m) 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 2012.

Trade payables at 31 December 2011 represent an average of 37 days' goods and services supplied (2010: 40 days).

Share capital

As at 15 March 2012, 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.

The company has previously established an Employee Benefit Trust (EBT) to hold shares in the company to facilitate share-based emolument payments. During the year the EBT purchased 253,674 shares in the company at a cost of £1,305,900. As at 31 December 2011 the EBT held 207,345 ordinary shares of one penny each. The EBT has waived its right to dividends.

Details of ordinary shares under option in respect of the 2011 Share Option Plan ("CSOP"), an HMRC approved share option scheme, and the Unapproved Share Option Scheme ("USOS") are shown in note 29 to the financial statements.

The rules of the CSOP and USOS set out the consequences of a change of control. In relation to the CSOP, generally such rights will vest and become exercisable subject to satisfaction of any performance-related conditions. As regards the USOS, generally such rights will vest and become exercisable as the board determines in its absolute discretion.

Directors' indemnities

As permitted by the Articles of Association, the officers of the company and its subsidiaries would be indemnified in respect of proceedings which might be brought by a third party. No cover is provided for directors in respect of any fraudulent or dishonest actions.

Development work continued during the year on EMIS Web for GPs and, more recently, also for integrated care.

Principal risks and uncertainties

The UK Government is continuing a programme of major change within healthcare. 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. EMIS supplies GP software and certain other services in England under a framework agreement extended in June 2009 until August 2011 and further extended on 28 March 2011 until 31 March 2013. The directors expect that this will again be fed in or replaced with a similar framework. 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. The roll-out of EMIS Web addresses this risk by migrating GPs to the latest software and, along with the familiarisation service, aligning with government policy to join up healthcare by mobilising patient data. This

risk is also being mitigated by marketing and sales activity, growth in other parts of the UK and further supporting the interoperability agenda through Healthcare Gateway.

The further development, hosting and roll-out of EMIS Web presents both opportunities and risks. Any development of major software and its hosting is inherently subject to risk. However, by using extensive internal and external testing procedures, controls, disaster recovery and avoiding a single point of failure, 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 financial statements.

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 monthly updates from the Chief Executive, informal briefings, team meetings and the company's website and intranet.

During the year the The EMIS Group plc Share Incentive Plan, in addition to the matching shares offered to employees, made an offer of free shares to all employees that had been employed by the company for one year on 31 August 2011. The offer was taken up by 87% of eligible employees. Further details are contained in the Directors' remuneration report and note 29 to the financial statements.

The group treats applications for employment from 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 £5,302 (2010: £7,986) during the year. No political donations were made in either year.

Going concern

The company's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the Chairman and Chief

Risks

Risk	Impact	Mitigation
Government healthcare policy changes	Pro: significant growth opportunities. Con: could introduce future risk.	Increased engagement with NHS at both strategic and tactical levels. NHS England GP Framework discussions already commenced.
Competitor activity	Previous governmental policy of a single supplier, now in the course of being abandoned, gave competitors the opportunity, in certain areas in England, to try to erode the company's market share.	Marketing and sales activity, growth in other parts of the UK. The development of the interoperability agenda through Healthcare Gateway. Roll-out of EMIS Web.
Software development and hosting	The development, hosting and roll-out of EMIS Web presents both opportunities and risks.	Internal testing procedures and controls. External testing.

Going concern *continued*

Executive's Review on pages 4 to 6. The revenue, trading results and cash flows are explained in the Financial Review on pages 10 to 12.

Note 4 to the Financial Statements sets out the company's financial risks and the management of capital risks.

The company has structured bank debt of £4.6m repayable by March 2014. However, it is profitable and expects to continue to be so. It has significant cash resources to more than cover its bank borrowings, a high and continuing level of recurring revenue and also expects to continue to have high cash conversion for the foreseeable future.

Accordingly, after careful enquiry and review of available financial information, including projections of profitability and cash flows for the two years to 31 December 2013, the directors believe that the company has 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 April 2012, together with an explanation of the resolutions to be proposed at the meeting, is contained in a separate circular to shareholders and on the company's website at www.emis-online.com.

Substantial interests in shares

As at 15 March 2012, 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
Andrew Whitwam	5,167,076	8.83
Dr Peter Sowerby	4,793,082	8.19
Standard Life Investments Limited	4,683,420	7.999
Dr David Stables ⁽¹⁾	4,422,724	7.55
Phillip Woodrow	3,938,751	6.73
Tony Jones ⁽²⁾	2,998,555	5.12
Gary Shuckford	2,724,457	4.65
The Peter Sowerby Charitable Foundation	1,941,202	3.32

(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 1,499,377) and by the trustees of the Dr P R Sowerby No. 3 Discretionary Settlement (as to 1,499,178). The trustees are Phillip Woodrow, Tony Jones, Dr David Stables and Victoria Jones.

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 are required under AIM rules 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.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- 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 24 to 26 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
15 March 2012

Free share offer to all eligible employees and SIP matching share ratio improved.

Highlights

- New Chairman appointed on 17 March 2011
- Formal appraisal of the effectiveness of the board and each of the board committees
- Quarterly strategy forum established
- Succession plan review completed

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

The remuneration committee is chaired by Robin Taylor. The other member of the committee is Mike O'Leary. 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 carries out a self review and also 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.

The company's executive directors chose not to receive any basic salary increase in 2011.

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. The company's executive directors did not receive any bonus payments in 2011.

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 some executive managers of that subsidiary. 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 schemes

The EMIS Group plc Share Incentive Plan ("the SIP")

This is in place 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 matching shares. None of the company's executive directors participate in the SIP having been advised that this would not be appropriate. In October 2011, through the SIP, the company made an offer of free shares to all employees who had been employed by the group for twelve months on 31 August 2011. The number of free shares per employee was determined with reference to length of service and salary. The company's executive directors did not receive any free share awards.

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

Share options

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 received approval at the 2011 AGM for an HMRC approved Company Share Option Plan (CSOP) and an unapproved share option scheme (USOS).

Share schemes *continued***Share options** *continued*

The first grants under the CSOP and USOS were made on 11 October 2011 over 78,524 shares at £5.28 per share. These options were granted at the discretion of the committee to certain key executives and employees. No performance criteria were attached to these awards. The company's executive directors did not receive any grants under the CSOP and USOS.

Further details on the CSOP and USOS are contained in note 29 to the financial statements.

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, where appropriate having regard to the level of options granted, be subject to specified performance criteria thereby linking remuneration to the performance of the group.

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 non-executive director do not have service agreements. Mike O'Leary's appointment, on 17 March 2011, was 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. Robin Taylor, the senior non-executive director, was appointed by letter of engagement on 1 March 2010 and his engagement is terminable by six months' notice on either side. The Chairman and senior non-executive director are not eligible for pensions, share incentives or bonus.

On behalf of the remuneration committee

Robin Taylor
Chairman

15 March 2012

Directors' interests

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

	Number of shares at 31 December 2011	Number of shares at 1 January 2011
Sean Riddell	8,292,605	8,292,605
Dr David Stables ⁽¹⁾	4,422,724	4,422,724
Phillip Woodrow	3,938,751	4,394,090
Tony Jones ⁽²⁾	2,998,555	3,623,694
Mike O'Leary	1,000	—
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. 51 Discretionary Settlement (as to 1,499,377) and by the trustees of the Dr P R Sowerby No. 3 Discretionary Settlement (as to 1,499,178). The trustees are Phillip Woodrow, Tony Jones, Dr David Stables and Victoria Jones.

There has been no change in the interests set out above between 31 December 2011 and 15 March 2012.

Directors' remuneration

	2011				2010 Total ¹ £
	Salary/ fees £	Bonus £	Benefits in kind/car allowance £	Total ¹ £	
Executive directors					
Sean Riddell	167,280	—	9,539	176,819	175,298
Dr David Stables	156,825	—	26,472	183,297	180,747
Phillip Woodrow	156,825	—	12,546	169,371	166,617
Non-executive directors					
Mike O'Leary	49,790	—	—	49,790	—
Tony Jones	7,619	—	—	7,619	65,434
Robin Taylor	34,578	—	—	34,578	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.

The board has extensive operational experience and, of the directors, Sean Riddell and Dr David Stables have detailed knowledge of the healthcare IT sector.

EMIS Group plc and its subsidiaries are committed to high standards of corporate governance.

EMIS Group plc ("the company" or "the parent company") and its subsidiaries (together "the group") are 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 continues to establish a framework by adopting and implementing 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; Dr David Stables, Director of Development Strategy; and Robin Taylor, Senior Non-executive Director, whom the board considers to be independent as defined in the Code.

Michael (Mike) O'Leary was appointed as Non-executive Chairman on 17 March 2011. On appointment he met the Code requirements for independence. The Chairman's other significant commitments are disclosed in his biography on page 16. On the appointment of Mike O'Leary, Tony Jones duly retired from the board. The board considers the current balance of skills and experience appropriate for the business following its admission to AIM but is monitoring the balance closely on an ongoing basis.

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. The board undertakes a formal strategic review once a year.

During the year a quarterly strategy forum was established attended by the executive directors and senior representatives from all the key area of the business. This will be attended by the non-executive directors twice a year.

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 pages 16 and 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.

The number of board and committee meetings attended by each of the directors during the year are shown in Fig 1.

Board effectiveness

The board has extensive operational experience and, of the directors, Sean Riddell and Dr David Stables have detailed knowledge of the healthcare IT sector.

Following the appointment of the new Non-executive Chairman an internal assessment of the performance of the Board and its individual Directors was conducted by the Chairman. The board's effectiveness was assessed by means of a detailed questionnaire completed by each director.

Board effectiveness *continued*

The questionnaire covered ten areas: including board membership, processes for setting the strategy of the company, monitoring business performance, corporate governance and the effectiveness of the executive directors, non-executive directors (including the Chairman) and the board's committees. The results were fed back to the Chairman in individual meetings and any individual concerns were addressed. The Chairman produced a report on the board as a whole and on the other members of the board. The Senior Non-executive Director, after review of the questionnaire findings and discussions with the board, other than the Chairman, produced a report on the Chairman's performance. The process also gave 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. These are usually attended by the Chief Executive and Finance Director. 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 three formally established committees, with clearly defined written terms which are reviewed annually by the board. Membership is as shown in the table below. 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, as well as an annual self-review, the role of the committee has included the reviewing and monitoring of:

- 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 auditor's plan for the year-end audit;
 - 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 financial statements.
- 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

Robin Taylor is chairman of the remuneration committee, which has met twice during the year. Up to 17 March 2011 it was chaired by Tony Jones. 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 22 and 23.

Fig 1 Board and committee meetings

	Full board	Audit committee	Remuneration committee	Nomination committee
Number of meetings in period	12	2	2	2
Attendance:				
Executive directors				
Sean Riddell	12/12	—	—	—
Phillip Woodrow	12/12	—	—	—
Dr David Stables	12/12	—	—	—
Non-executive directors				
Mike O'Leary (from 17 March 2011)	10/10	1/1	2	2
Tony Jones (to 17 March 2011)	2/2	1/1	—	—
Robin Taylor	12/12	2	2	2

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.

Board committees *continued*
Nomination committee

The nomination committee was chaired by Tony Jones until his retirement. Mike O'Leary, who was recruited as part of a formal process from a list proposed by the company's recruitment advisers, became chairman on his appointment.

The committee is responsible for leading the board appointments process and for considering the size, structure and composition of the board and has met twice in the year.

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 well as conducting an annual self-review, 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 also considered the need for a whistle blowing policy and, in the light of the company's training for the Bribery Act and operational framework, an updated Anti-Corruption and Bribery Policy together with a group Statement of Ethics and Whistleblowing Policy were produced and put into effect.

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 as this is not considered necessary at this stage of the company's development but this will be reviewed on an annual basis as the group evolves.

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Financial statements

Independent auditor's 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 Flows, 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 auditor's 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 auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 21, 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 2011 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.

Andrew Allchin FCA (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP

Statutory Auditor

Chartered Accountants

2 Whitehall Quay

Leeds LS1 4HG

15 March 2012

Financial statements

Group statement of comprehensive income for the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Continuing operations			
Revenue	5	73,238	61,900
Costs:			
Changes in inventories		854	(29)
Cost of goods and services		(11,713)	(8,817)
Staff costs	11	(26,022)	(21,965)
Flotation and other transaction costs		—	(1,258)
Other operating expenses			
– (including contract asset depreciation)	6	(10,272)	(7,748)
Earnings before interest, taxes, depreciation and amortisation (“EBITDA”)		26,085	22,083
Depreciation of property, plant and equipment	17	(1,486)	(1,317)
Amortisation of intangible assets	16	(3,081)	(2,433)
Operating profit	7	21,518	18,333
Finance income	8	100	51
Finance costs	9	(148)	(426)
Share of profit of associate	19	81	109
Share of joint venture loss	19	(116)	—
Profit before taxation		21,435	18,067
Income tax expense	12	(4,391)	(4,868)
Profit for the year from continuing operations		17,044	13,199
Discontinued operations			
– Loss from discontinued operations	34	(1,894)	(1,961)
Total comprehensive income/profit for the year		15,150	11,238
Attributable to:			
– equity holders of the parent		14,892	11,194
– non-controlling interest in subsidiary company		258	44
Total comprehensive income for the year		15,150	11,238
Earnings per share attributable to equity holders of the parent			
		Pence per share	Pence per share
– basic and diluted earnings per share:			
– from continuing operations	13	28.71	23.31
– from discontinued operations		(3.24)	(3.47)
		25.47	19.84

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

Financial statements

Group and parent company balance sheets

as at 31 December 2011

Company Registration No: 06553923

		Group		Company	
	Notes	2011 £'000	2010 £'000	2011 £'000	2010 £'000
ASSETS					
Non-current assets					
Goodwill	15	21,951	21,951	—	—
Other intangible assets	16	28,591	29,284	—	—
Property, plant and equipment	17	14,836	12,058	—	—
Investments in subsidiaries	18	—	—	48,165	48,165
Investment in joint venture	19	—	—	—	—
Investment in associates	19	2,742	2,661	—	—
		68,120	65,954	48,165	48,165
Current assets					
Inventories	20	1,422	668	—	—
Trade and other receivables	21	11,971	9,082	1,495	399
Cash and cash equivalents	22	12,606	7,442	97	14
		25,999	17,192	1,592	413
Total assets		94,119	83,146	49,757	48,578
LIABILITIES					
Current liabilities					
Trade and other payables	24	(6,324)	(5,169)	(67)	—
Current tax liabilities	25	(4,141)	(5,103)	—	—
Bank loans	26	(1,184)	(1,184)	(1,184)	(1,184)
Amount owed to subsidiary company		—	—	(9,110)	(9,100)
Contingent consideration re acquisition	33	(757)	(189)	(757)	(189)
Deferred income		(16,138)	(10,888)	—	—
		(28,544)	(22,533)	(11,118)	(10,473)
Non-current liabilities					
Bank loans	26	(3,396)	(4,580)	(3,396)	(4,580)
Contingent consideration re acquisition	33	—	(757)	—	(757)
Deferred tax liability	27	(8,087)	(8,494)	—	—
		(11,483)	(13,831)	(3,396)	(5,337)
Total liabilities		(40,027)	(36,364)	(14,514)	(15,810)
NET ASSETS		54,092	46,782	35,243	32,768
EQUITY					
Ordinary share capital	28	586	586	586	586
Share premium	28	24,767	24,767	24,767	24,767
Own shares held in trust	29	(1,061)	(120)	—	(120)
Retained earnings		26,789	18,796	9,890	7,535
Equity attributable to owners of the parent		51,081	44,029	35,243	32,768
Non-controlling interests		3,011	2,753	—	—
TOTAL EQUITY		54,092	46,782	35,243	32,768

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 15 March 2012 and are signed on its behalf by:

Sean D Riddell
Chief Executive Officer

Phillip A Woodrow
Finance Director

Financial statements

Group and parent company statements of changes in equity for the year ended 31 December 2011

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 2010	500	—	10,880	—	—	11,380
Acquisition of RX Systems	—	—	—	2,709	—	2,709
Transactions with owners						
– proceeds from shares issued	86	24,767	—	—	—	24,853
– share acquisitions less sales	—	—	—	—	(120)	(120)
– value of employee services	—	—	—	—	—	—
Total comprehensive income						
– profit for the year	—	—	11,194	44	—	11,238
Dividend (note 14)	—	—	(3,278)	—	—	(3,278)
Balance at 1 January 2011	586	24,767	18,796	2,753	(120)	46,782
Transactions with owners						
– share acquisitions less sales	—	—	—	—	(941)	(941)
– value of employee services	—	—	7	—	—	7
Total comprehensive income						
– profit for the year	—	—	14,892	258	—	15,150
Dividends (note 14)	—	—	(6,906)	—	—	(6,906)
Balance at 31 December 2011	586	24,767	26,789	3,011	(1,061)	54,092

Company	Share capital £'000	Share premium £'000	Retained earnings £'000	Own shares held in trust £'000	Total equity £'000
Balance at 1 January 2010	500	—	7,890	—	8,390
Transactions with owners					
– proceeds from shares issued	86	24,767	—	—	24,853
– share acquisitions less sales	—	—	—	(120)	(120)
– value of employee services	—	—	—	—	—
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 1 January 2011	586	24,767	7,535	(120)	32,768
Transactions with owners					
– re-allocation to current assets	—	—	—	120	120
– value of employee services	—	—	7	—	7
Total comprehensive income					
– profit for the year attributable to equity holders of the company	—	—	9,254	—	9,254
Dividends	—	—	(6,906)	—	(6,906)
Balance at 31 December 2011	586	24,767	9,890	—	35,243

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

Financial statements

Group and parent company statements of cash flows for the year ended 31 December 2011

	Notes	Group		Company	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cash flows from operating activities					
– Continuing operations		30,913	24,013	(658)	(2,162)
– Discontinued operations		(766)	(1,832)	—	—
Cash flows from all operating activities	32	30,147	22,181	(658)	(2,162)
Finance costs		(132)	(409)	(132)	(373)
Finance income		100	51	—	—
Tax (paid)/received		(5,674)	(3,889)	351	611
Net cash generated from operating activities		24,441	17,934	(439)	(1,924)
Cash flows from investing activities					
Purchase of property, plant and equipment		(6,699)	(5,611)	—	—
Proceeds from sale of property, plant and equipment		465	291	—	—
Internally developed software		(3,830)	(3,801)	—	—
Loans from subsidiary company – increase/(decrease)		—	—	10	9,339
Dividends received		—	—	10,000	4,500
Purchase of subsidiary (group – net of cash acquired)	33	—	(3,144)	—	(8,478)
Contingent consideration paid re acquisition		(189)	—	(189)	—
Net cash (used in)/generated from investing activities		(10,253)	(12,265)	9,821	5,361
Cash flows from financing activities					
Proceeds from issue of ordinary shares		—	24,146	—	24,146
Loan to Employee Benefits Trust-(increase)		—	—	(1,193)	—
Transactions in own shares held in trust		(918)	(116)	—	(116)
Bank term loan repayments		(1,200)	(1,200)	(1,200)	(1,200)
Shareholder loans repaid		—	(23,000)	—	(23,000)
Dividends paid		(6,906)	(3,278)	(6,906)	(3,278)
Net cash used in financing activities		(9,024)	(3,448)	(9,299)	(3,448)
Net increase/(decrease) in cash and cash equivalents		5,164	2,221	83	(11)
Cash and cash equivalents at beginning of year		7,442	5,221	14	25
Cash and cash equivalents at end of year		12,606	7,442	97	14

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

1. General information

EMIS Group plc ("the company" or "the parent company") is the parent company of subsidiary companies (together "the group") whose activities consist of the design, development, supply and support of computer software and systems for healthcare professionals, principally general practitioners and pharmacists, 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.

The 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.

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

The company's activities and an outline of the developments taking place in relation to its products, services and marketplace are considered in the Chairman and Chief Executive's Review on pages 4 to 6. The revenue, trading results and cash flows are explained in the Financial Review on pages 10 to 12. Note 4 to the Financial Statements sets out the company's financial risks and the management of capital risks.

The company has structured bank debt of £4.6m repayable by March 2014. However, it is profitable and expects to continue to be so. It has significant cash resources to more than cover its bank borrowings, a high and continuing level of recurring revenue and also expects to continue to have high cash conversion for the foreseeable future.

Accordingly, after careful enquiry and review of available financial information, including projections of profitability and cash flows for the two years to 31 December 2013, the directors believe that the company has 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 s408 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 £9,254,000 (2010: £2,923,000).

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 2011:

- Amendment to IAS 24 Related Party Disclosures, which amends the definition of a related party.

(b) New standards, amendments and interpretations issued and early adopted

The following new standards and amendments and interpretations to standards have been early adopted:

IFRS 11 Joint Arrangements, which differentiates "joint ventures" from "joint operations," together with amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. Consequently the group have been required to early adopt IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities.

Financial statements

Notes to the financial statements continued

2. Summary of significant accounting policies *continued*

2.3 Changes in accounting policy and disclosure *continued*

(c) New and amended standards and interpretations mandatory for the first time for the financial year beginning 1 January 2011 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
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
Amendments to IFRIC 14 – IAS 19	Prepayments of a Minimum Funding Requirement	1 January 2011
Annual improvements programme:		
– IFRS 3 Business Combinations	Clarifications and amendments	1 July 2010
– IFRS 7 Financial Instruments: Disclosures	Clarifications and amendments	1 January 2011
– IAS 1 Presentation of Financial Statements	Clarification of amounts to be disclosed	1 January 2011
– IFRIC 13 Customer Loyalty Programmes	Clarification point	1 January 2011

(d) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 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
Amendment to IFRS 7	Disclosures: Transfers of Financial Assets	1 July 2011	Not yet endorsed
Amendment to IFRS 1	Severe Hyperinflation	1 July 2011	Not yet endorsed
Amendment to IAS 12	Deferred Tax	1 January 2012	Not yet endorsed
IFRS 9	Financial Instruments	1 January 2013	Not yet endorsed

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 and RX Systems Limited, the two non-trading subsidiaries, EMIS Professional Publishing Limited and Pathway Trust Limited and EMIS Inc., which at the year end was in the process of liquidation, following sale of its trade and undertaking during the year.

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 and joint ventures

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.

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.

2. Summary of significant accounting policies *continued*

2.4 Basis of consolidation *continued*

Associates and joint ventures *continued*

Investments in associates and joint ventures 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 group 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.

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.

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.
- 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.
- 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 the profit before finance income, finance costs, share of profit of associate, joint venture loss (see note 5), 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.

2. Summary of significant accounting policies *continued*

2.8 Intangible assets *continued*

(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,
- 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.

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.

For each unique software product for which development costs are included in intangible assets an initial assessment of the useful economic life is made based on the anticipated conditions in each market from which economic benefits are expected to be derived. Consideration for choosing useful economic lives will include, amongst other criteria:

- future anticipated revenues
- customer requirements
- NHS funding arrangements
- the political environment
- competitor activity

The useful economic life for each product is then monitored at regular intervals and if required is amended to reflect any change.

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 for both GP and, more recently, also for integrated care. EMIS Web is a "transformational" 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 continues with the controlled roll out programme and enabling product enhancement programme.

Amortisation of EMIS Web software for GPs will follow the roll out programme so as to reflect the availability of the software 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 10 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. Summary of significant accounting policies *continued*

2.9 Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment 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 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.

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 group 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 group statement of comprehensive income 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 group statement of comprehensive income, 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 group statement of comprehensive income on a straight line basis over the term of each lease.

2. Summary of significant accounting policies *continued*

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.

2.15 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 group statement of comprehensive income.

As regards the EMIS Inc. discontinued operation during the year, on consolidation the remaining assets and liabilities have been translated into the group's presentational currency at the rate ruling at the balance sheet date, consistent with the prior year, and the results have been translated at the average rate for the period to cessation of trading. 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 treated as treasury shares and are stated at fair value and presented as a reduction of shareholders' equity (see note 29). Gains and losses on transactions in the company's own shares are not recognised in the group statement of comprehensive income, but are taken directly to retained earnings, accounted for on a first in first out basis.

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 group 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. Summary of significant accounting policies *continued*

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.

3. Critical accounting estimates and judgements

Accounting estimates and judgements are made and continually evaluated based on past experience together with expectations relating to 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 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 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 group 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, 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. Following the closure of the Canadian operation, the group does not have any significant foreign currency risk.

Exposure to financial risks is monitored by the finance/administration department under policies approved by the board. An assessment of the risks is provided to the board at regular intervals and is discussed to ensure that the risk mitigation procedures are compliant with 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 longstanding 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 control and monitor 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 £4.6 million. 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 £12.3 million, on which interest received is subject to fluctuations in market rates.

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 to March 2013 there will be price renegotiations.

Financial statements

Notes to the financial statements continued

4. Financial risk management *continued*

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.
- 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.

The group 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 integrated care and (b) the RX Systems business, relating to community pharmacies.

Healthcare Gateway Limited ("HGL"), the joint venture formed during 2010 with In Practice Systems Limited to enable the sharing of patient data via a medical interoperability gateway, is reported for 2011 as a joint venture activity in accordance with the provisions of IFRS 11, which have been adopted early by the company. Accordingly, this activity is not reported as an operating activity for 2011, but was in the 2010 group statement of comprehensive income, as well as having been regarded by the board as an operating segment in those financial statements.

Each operating segment is assessed by the board based on a measure of adjusted EBIT. 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.

Segmental reporting

	2011			2010		
	EMIS £'000	RX £'000	Total £'000	EMIS £'000	RX £'000	Total £'000
Continuing operations						
Revenue	59,633	13,605	73,238	56,922	4,978	61,900
Segmental EBITDA (before contract asset depreciation)	26,292	2,484	28,776	24,594	579	25,173
Total depreciation	(3,313)	(82)	(3,395)	(2,790)	(30)	(2,820)
Segmental operating profit as reported internally	22,979	2,402	25,381	21,804	549	22,353
Amortisation						
– on acquired assets	(2,076)	(851)	(2,927)	(2,076)	(354)	(2,430)
– on internally developed assets	(155)	—	(155)	(3)	—	(3)
Segmental operating profit for reporting purposes	20,748	1,551	22,299	19,725	195	19,920
Group operating expenses			(781)			(283)
Flotation and transaction costs			—			(1,258)
Share of HGL joint venture loss			—			(46)
Total operating profit			21,518			18,333
Finance costs net of income			(48)			(375)
Share of profit of associate			81			109
Share of HGL joint venture loss			(116)			—
Profit for the financial year before taxation			21,435			18,067

The RX 2010 figures relate to the five month post acquisition period.

Revenue excludes inter-group transactions.

Revenue within the EMIS segment of approximately £53.4m (2010: £52.2m) is derived from the NHS and related bodies.

5. Operating segments *continued*

Segmental reporting *continued*

	2011			2010		
	EMIS £'000	RX £'000	Total £'000	EMIS £'000	RX £'000	Total £'000
Segmental assets as reported internally	25,250	2,952	28,202	19,190	2,172	21,362
Other segmental assets:						
– Goodwill and intangible assets	38,788	11,754	50,542	38,630	12,605	51,235
	64,038	14,706	78,744	57,820	14,777	72,597
Non segmental assets:						
– Group			26			48
– Investments in associate and joint venture			2,742			2,661
– Cash and cash equivalents			12,606			7,442
– Discontinued operation			1			398
Total assets as reported			94,119			83,146
Segmental liabilities as reported internally	(20,233)	(6,172)	(26,405)	(16,107)	(4,915)	(21,022)
Other segmental liabilities	(6,645)	(1,470)	(8,115)	(6,735)	(1,757)	(8,492)
	(26,878)	(7,642)	(34,520)	(22,842)	(6,672)	(29,514)
Non segmental liabilities:						
– Group			(108)			(53)
– Bank loans			(4,580)			(5,764)
– Contingent consideration			(757)			(946)
– Discontinued operation			(62)			(87)
Total liabilities as reported			(40,027)			(36,364)

Capital expenditure in the year on property, plant and equipment, reported in non-current assets, amounted to £6,540,000 for EMIS and £156,000 for RX.

6. Other operating expenses by function

	2011 £'000	2010 £'000
Administration costs	4,934	3,285
Establishment costs	1,273	986
Motor, travel and selling costs	2,156	1,974
Contract asset depreciation	1,909	1,503
Total other operating expenses	10,272	7,748

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Notes to the financial statements continued

7. Operating profit

The following have been included in arriving at operating profit:

	2011 £'000	2010 £'000
Research and development expenditure	5,629	5,124
Development expenditure capitalised	(3,830)	(3,801)
Depreciation of property, plant and equipment		
– depreciation of owned assets	3,395	2,798
Amortisation of intangible assets		
– arising on business combinations	2,927	2,431
– internally generated	154	2
Operating lease rentals		
– land and buildings	444	298
– plant and equipment	88	40
Net foreign exchange (profit)/loss	(18)	54

The total research and development cost shown above of £5,629,000 (2010: £5,124,000), consists of the direct salary and national insurance costs of relevant UK staff and the costs of Australian based staff. Software development costs amounting to £3,830,000 (2010: £3,801,000) have, in accordance with the criteria set out in IAS 38, been capitalised.

8. Finance income

	2011 £'000	2010 £'000
Bank interest	57	48
Other interest	2	—
Profit on sale of own shares	23	3
Exchange profit	18	—
	100	51

9. Finance costs

	2011 £'000	2010 £'000
Bank loans	132	159
Other loans	—	197
Exchange loss	—	54
Amortisation of bank loan issue costs	16	16
	148	426

10. Auditor's remuneration

	2011 £'000	2010 £'000
Baker Tilly UK Audit LLP:		
Audit Services		
– Statutory audit of parent and consolidated accounts	22	22
– audit of accounts of subsidiary companies	42	42
Other services		
– review of interim results	12	10
Baker Tilly Tax and Accounting Limited		
Taxation services		
– compliance services	10	16
– advisory services	10	43
Baker Tilly Corporate Finance LLP		
Transaction services	—	190
	96	323

11. Employees

	2011 No.	2010 No.
The average monthly number of persons (including directors) employed by the group during the year was as follows:		
– management and administration	86	75
– software support and development	421	344
– maintenance	325	299
– others	66	73
	898	791
	2011 £'000	2010 £'000
Staff costs for above persons:		
– wages and salaries	26,624	23,289
– social security costs	2,786	2,335
– pension costs – defined contribution plans	229	132
– share based payments expense (note 29)	206	10
– share option expense (note 29)	7	—
	29,852	25,766
Dealt with as follows:		
– charged in group statement of comprehensive income	26,022	21,965
– capitalised development costs	3,830	3,801
	29,852	25,766

Financial statements

Notes to the financial statements continued

12. Income tax expense

	2011 £'000	2010 £'000
Income tax:		
– current tax charge	5,153	4,841
– prior year tax charge	(730)	(14)
Total current tax	4,423	4,827
Deferred taxation:		
– current period	(32)	41
Total deferred tax	(32)	41
Total tax charge in group statement of comprehensive income	4,391	4,868
Factors affecting the tax charge for the year:		
Profit before tax	21,435	18,067
Profit before taxation multiplied by the averaged domestic income tax rate in the UK of 26.5% (2010 – 28%)	5,680	5,059
Tax effects of:		
– expenses not deductible for tax purposes	28	174
– research and development enhanced relief	(278)	—
– joint venture/associate reported net of tax	9	(31)
– adjustment for prior periods	(730)	(14)
– deferred tax rate change	(318)	(320)
Tax charge for the year	4,391	4,868

13. Earnings per share (EPS)

Number of ordinary shares (millions)	2011	2010
Reconciliation of weighted average:		
– in issue	58.55	56.42
– held as own shares in Treasury by Employee Benefit Trust	(0.08)	(0.01)
– adjusted number used in basic EPS calculation	58.47	56.41
Effect of potentially dilutive securities:		
– share options	—	—
Weighted average used in diluted EPS	58.47	56.41

Shares under option are only regarded as dilutive when, applying fair value (determined as the average share price of the company's shares since the date of the grant of options including the IFRS 2 fair value of future employee services), they would result in the issue of ordinary shares for less than the average price of ordinary shares during the period since the date of grant. As indicated above, there has been no actual dilutive effect during the period.

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

The weighted average number of shares in issue for 2010 takes account of the issue of 8,333,334 shares on 29 March 2010 and 216,683 shares on 19 August 2010.

	2011			2010		
Earnings per ordinary share	Earnings £'000	No. of shares (million)	Amount per share (pence)	Earnings £'000	No. of shares (million)	Amount per share (pence)
Basic and diluted EPS:						
Earnings attributable to equity holders	14,892	58.47	25.47	11,194	56.41	19.84

EPS has been calculated by dividing the net profit attributable to equity holders of the company by the weighted average number of shares noted above.

14. Dividends

	2011 £'000	2010 £'000
Interim dividend for the year to 31 December 2010 of 5.6p	—	3,278
Final dividend for the year to 31 December 2010 of 5.6p	3,276	—
Interim dividend for the year to 31 December 2011 of 6.2p	3,630	—
Total	6,906	3,278

A final dividend for the year to 31 December 2011 of 6.2p amounting to £3,630,000 will be proposed at the 2012 Annual General Meeting. If approved, this dividend will be paid on 30 April 2012 to shareholders on the register on 13 April 2012. 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 2012.

15. Goodwill

Group: £'000

Cost and net book amount:

2010

As at 1 January 2010	15,853
Arising on acquisition of RX Systems	6,098
As at 31 December 2010	21,951

2011

As at 1 January 2011	21,951
Movements in year	—
2011	21,951

Allocated to the group's cash generating units (CGUs) as follows:

– EMIS	15,853
– RX Systems	6,098
Total	21,951

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 identified according to operating segment as follows:

	2011 £'000	2010 £'000
EMIS	15,853	15,853
RX Systems	6,098	6,098
2011	21,951	21,951

Each allocation is tested annually for impairment and, to confirm that no impairment of the goodwill is necessary, management have 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 2014 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 (2010 3.5%) and 4.0% for RX Systems, until 31 December 2016 and then 1% for both EMIS and RX Systems in perpetuity. The pre-tax cash flows for the five year period have been discounted back to 31 December 2011 using weighted average costs of capital of 9% in relation to EMIS (2010 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.

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16. Other intangible assets

Group:	Computer software £'000	Customer relationships £'000	Total £'000
Cost			
As at 1 January 2010	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
2011 additions – internally developed	3,830	—	3,830
Impairment re discontinued operation	(1,442)	—	(1,442)
As at 31 December 2011	19,506	18,864	38,370
Amortisation and impairment			
As at 1 January 2010	(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)
In year to 31 December 2011			
– amortisation	(1,713)	(1,368)	(3,081)
– impairment re discontinued operation	—	—	—
As at 31 December 2011	(5,360)	(4,419)	(9,779)
Net book value:			
At 31 December 2011	14,146	14,445	28,591
At 31 December 2010	13,471	15,813	29,284
At 1 January 2010	9,974	11,081	21,055

Customer relationships have a remaining amortisation period of 12 years (2010 13 years) for EMIS and 8.6 years (2010: 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 seven years (2010: eight years). The EMIS and RX Systems acquired software have remaining amortisation periods of 2.3 years (2010: 3.3 years) and 2.6 years (2010: 3.6 years) respectively.

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 2010	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)
At 31 December 2010	3,579	9,844	1,363	3,005	17,791
Re-allocation	54	—	(54)	—	—
Additions in 2011	1,820	2,570	347	1,962	6,699
Disposals in 2011	—	(460)	(64)	(1,063)	(1,587)
At 31 December 2011	5,453	11,954	1,592	3,904	22,903
Accumulated depreciation and impairment losses					
At 1 January 2010	144	1,822	340	1,264	3,570
Charged in 2010	78	2,144	153	574	2,949
On disposals in 2010	—	—	—	(786)	(786)
At 31 December 2010	222	3,966	493	1,052	5,733
Re-allocation	16	—	(16)	—	—
Charged in 2011	69	2,529	251	607	3,456
On disposals in 2011	—	(325)	(61)	(736)	(1,122)
At 31 December 2011	307	6,170	667	923	8,067
Net book value:					
At 31 December 2011	5,146	5,784	925	2,981	14,836
At 31 December 2010	3,357	5,878	870	1,953	12,058
At 1 January 2010	3,396	3,578	784	1,748	9,506

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 £8,074,000 and accumulated depreciation of £4,080,000, including depreciation of £1,909,000 charged in other operating expenses in the year. The net book value amounts to £3,994,000.

The depreciation charged in 2011 includes £61,000 (2010: £131,000) which is included in the loss from discontinued activities.

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18. Investments in subsidiaries

Company:	£'000
Cost and net book value	
As at 1 January 2010	38,034
Addition in 2010 – RX Systems (note 33)	10,131
As at 31 December 2010 and 31 December 2011	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.

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. (in liquidation following sale of trade and undertaking during year)	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 and joint venture

Group:	2011 £'000	2010 £'000
Associates		
As at 1 January	2,661	2,552
Acquisition in year	—	—
Share of profit for year	81	109
As at 31 December	2,742	2,661

The company has two associates, Pharmacy 2U 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 during 2010. It has developed, and continues to enhance the development of, a pharmacy electronic point of sale system, which is enabling RX to expand 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.

	2011 £'000	2010 £'000
Aggregate amounts relating to P2U are as follows:		
Assets	6,572	6,114
Liabilities	(3,438)	(3,369)
Revenues	17,069	18,780
Profit before taxation	554	758
Profit after taxation	405	545

19. Investment in associates and joint venture *continued***Joint venture**

Healthcare Gateway Limited ("HGL"), the joint venture formed during 2010 with In Practice Systems Limited, enables the sharing of patient data via a medical interoperability gateway.

The group has a 50% interest in HGL, acquired on formation for £1. The venture has to date been funded by loans from each joint venture party and at 31 December 2011 the group is owed £274,000 (2010: £24,000).

	2011 £'000	2010 £'000
Aggregate amounts relating to HGL are as follows:		
Assets	140	38
Liabilities	(464)	(131)
Revenues	9	—
Loss before taxation	(316)	(130)
Loss after taxation	(232)	(93)
Share of loss for year	(116)	(46)

As referred to in the accounting policies (note 2.3), HGL is reported for 2011 as a joint venture activity, in accordance with the provisions of IFRS 11, which have been adopted early by the company. This activity was reported in the 2010 financial statements as an operating segment.

The HGL liabilities consist principally of loans owing to the joint venture partners. In these consolidated accounts the group's share of the losses to date has been set off in the consolidated balance sheet against the amount owing to the group.

20. Inventories

Group:	2011 £'000	2010 £'000
Finished goods	1,422	668

No inventory write downs have been required.

21. Trade and other receivables

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Current:				
Trade and other receivables	9,676	6,946	—	—
Prepayments and accrued income	2,295	2,136	2	48
Loan to Employee Benefits Trust	—	—	1,313	—
Income tax	—	—	180	351
	11,971	9,082	1,495	399

22. Cash and cash equivalents

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cash at bank	12,606	7,442	97	14

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Notes to the financial statements continued

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	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade and other receivables	9,676	6,946	—	—
Cash at bank	12,606	7,442	97	14
	22,282	14,388	97	14

No collateral security is held.

Trade and other receivables

Reporting date balances fall within the following categories:

	Group	
	2011 £'000	2010 £'000
EMIS:		
UK governmental health bodies:		
– Agencies (eg Connecting for Health)	2,644	3,220
– Others (eg Primary Care Trusts)	1,794	818
RX Systems:		
– Group and independent high street pharmacies	1,627	1,282
– Distributors	1,071	591
Other third party debtors across the group	2,540	1,035

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:

– December	7,237	6,257
– November	1,586	415
– October and earlier	853	274
	9,676	6,946

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

Cash at bank

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

	Group	
	2011 £'000	2010 £'000
– A2	5,135	2,402
– Aa3	7,466	4,945
– Other balances	5	95
	12,606	7,442

24. Trade and other payables

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Current:				
Trade payables	3,981	3,531	—	—
Accrued expenses	2,343	1,638	67	—
	6,324	5,169	67	—

25. Current tax liabilities

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Corporation tax	1,321	2,572	—	—
Other tax and social security	2,820	2,531	—	—
	4,141	5,103	—	—

26. Borrowings

Company and group:

	2011 £'000	2010 £'000
Non-current		
Bank loans – secured	3,396	4,580
Current		
Bank loans – secured	1,184	1,184
	4,580	5,764

Bank loans consist of a term loan to March 2013 amounting to £1,600,000 at 31 December 2011, 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.

The fair value of non-current borrowings carried at £3,396,000 (2010: £4,580,000) as shown above is estimated to have a fair value of £3,372,000 (2010: £4,527,000). The fair values are based on cash flows discounted using a rate based on the borrowing rate of 2.91% (2010: 2.87%).

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

Analysis of debt maturity:

	2011 £'000	2010 £'000
Amounts payable:		
In one year or less	1,200	1,200
In more than one year but not more than two years	400	1,200
In more than two years but not more than five years	3,000	3,400
In five years or more	—	—
Debt issue costs to be amortised over outstanding term	(20)	(36)
	4,580	5,764

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.

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27. Deferred tax

	Plant and equipment £'000	Intangible assets £'000	Property £'000	Total £'000
At 1 January 2010	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
At 31 December 2010	137	(7,906)	(725)	(8,494)
Charge to income	(104)	—	—	(104)
Impairment – discontinued operation	—	375	—	375
Intangibles amortisation	—	814	—	814
Development costs	—	(1,010)	—	(1,010)
Depreciation on building	—	—	16	16
Effect of rate change	(5)	293	28	316
At 31 December 2011	28	(7,434)	(681)	(8,087)

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:

	2011 £'000	2010 £'000
Deferred tax liabilities	(8,115)	(8,634)
Deferred tax assets	28	140
	(8,087)	(8,494)

28. Share capital and premium

	Ordinary shares		Share Premium £'000	Total £'000
	Number	£'000		
At 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
At 31 December 2010	58,550,017	586	24,767	25,353
Movements in 2011	—	—	—	—
At 31 December 2011	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.

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 2011.

29. Share based payments

The parent company operates two share option schemes, the EMIS Group plc 2011 Share Option Plan, which is a H M Revenue and Customs approved share option scheme, and the EMIS Group plc Unapproved Option Scheme. Both schemes were formed during 2011 and under these options were granted to senior members of management, not including directors of the company, on 11 October 2011. Details are as follows:

	2011 Share Option Plan	Unapproved Option Scheme
Number of shares over which options have been/are:		
– granted	66,225	12,299
– forfeited	—	—
– exercised	—	—
– outstanding at end of year	66,225	12,299
– exercisable at end of year	—	—

All share options have been granted at market value at the date of grant, namely £5.28 per share and are exercisable at that price. There are no performance conditions.

Options are conditional on the employee completing three years' service, other than in certain limited circumstances. Options are exercisable starting three years from the date of grant and have a contractual option term of five years. The group has no legal or constructive obligation to repurchase or settle any of the options for cash.

The weighted average fair value of the shares over which options have been granted determined using the Black – Scholes valuation model was £1.09 per share. The significant inputs into the model were the weighted average share price of £5.28 at the option grant date, the exercise price of £5.28, volatility of 36%, dividend yield of 2.35% an expected option life of three years and an annual risk – free interest rate of 2.75%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices post the AIM listing of the company's shares on 29 March 2010.

The company also 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 also established in 2010 to hold shares in the company to facilitate share based emolument payments.

From 1 November 2011, for every three shares (previously four shares) acquired by an employee the company adds one free "matching" share. The matching shares, together with further free shares allocated to members under the scheme during the year had a value of £206,000 (2010: £10,000).

30. Operating lease commitments

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

Group	2011 £'000	2010 £'000
Land and buildings		
– due within one year	382	322
– due between two and five years	397	454
– due in more than five years	—	—
Plant, machinery and motor vehicles		
– due within one year	72	88
– due between two and five years	160	164
– due in more than five years	—	29
	1,011	1,057

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31. Capital commitments

At 31 December 2011 the group had capital commitments in respect of motor vehicles amounting to £25,000 (2010: £50,000).

32. Cash generated from operations

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Continuing operations				
Profit before tax	21,435	18,067	9,074	2,573
Finance income	(100)	(51)	(10,000)	(4,500)
Finance costs	148	426	148	389
Share of profit of associate	(81)	(109)	—	—
Share of joint venture loss	116	—	—	—
Operating profit (loss) from continuing activities	21,518	18,333	(778)	(1,538)
Adjustment for non-cash items:				
Amortisation of intangible assets	3,081	2,433	—	—
Depreciation of property, plant and equipment	3,395	2,820	—	—
Profit on transactions in own shares	(23)	(4)	—	(4)
Charge for share based remuneration	7	—	7	—
Joint venture loss adjusted on indebtedness	(116)	—	—	—
Operating cash flow before changes in working capital	27,862	23,582	(771)	(1,542)
Changes in working capital:				
(Increase) decrease in inventory	(754)	40	—	—
(Increase) decrease in trade and other receivables	(2,889)	(35)	46	(48)
Increase (decrease) in trade and other payables	1,444	(1,142)	67	(572)
Increase in deferred income	5,250	1,568	—	—
Net cash flow from operating activities	30,913	24,013	(658)	(2,162)
Discontinued operation				
Operating loss	(1,894)	(1,961)	—	—
Adjustment for non-cash items:				
Impairment:				
– intangible assets	1,442	—	—	—
– deferred taxation released	(375)	—	—	—
Depreciation of plant and equipment	61	129	—	—
Net cash flow from discontinued operation	(766)	(1,832)	—	—

33. Prior year business combination

On 1 August 2010 EMIS Group plc acquired 78.9% of the called up ordinary share capital of RX Systems Limited ("RX Systems"), an unlisted company providing pharmacy software and services.

The following table 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 (being maximum payable and fair value):	
– paid in 2011	189
– payable in full in 2012	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

The provisional fair values placed on the acquired identifiable intangible assets in the 2010 Directors' report and accounts amounted to £6,861,000. The fair values have been finalised in the current year and no material adjustment to those provisional fair values have been required.

34. Discontinued operation

Analysis of the result of the Canadian discontinued operation, and the result recognised on the measurement to fair value of assets relating to the discontinuance:

	2011 £'000	2010 £'000
Group		
Revenue	126	493
Expenses	(953)	(2,454)
Loss before tax of discontinued operation	(827)	(1,961)
Tax	—	—
Loss after tax of discontinued operation	(827)	(1,961)
Impairment loss recognised on re-measurement of intangible assets to fair value	(1,442)	—
Less deferred taxation release	375	—
	(1,894)	(1,961)

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35. Pension commitments

The total costs charged to income consist of £124,000 (2010: £98,000) representing EMIS contributions payable to individual personal pension plans, £106,000 (2010: £34,000) in relation to RX Systems group and personal pension arrangements and £13,000 (2010: £53,000) is included in the loss from discontinued operations in relation to employees of EMIS Inc.

Former Canadian employees were members of a federally managed retirement benefit plan operated by the government of Canada, known as the Canada Pension Plan (CPP). EMIS Inc. was 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 was to make the specified contributions.

36. 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:

	2011 £'000	2010 £'000
– salaries and other short-term employee benefits	1,645	1,638
– post retirement benefits	134	76

	2011 £'000	2010 £'000
Directors' emoluments		
Aggregate emoluments	621	770
Pension costs – defined contribution plans	46	53
	667	823

Retirement benefits are accruing to three (2010: three) directors under defined contribution personal pension schemes.

Highest paid director		
– aggregate emoluments	183	199
– pension costs – defined contribution plans	16	15
	199	214

Transactions between the group and:

	2011 £'000	2010 £'000
Subsidiary company (not wholly owned) – RX Systems Limited		
Sales of goods and services in year	1,454	366
Amounts owed by subsidiary at year end	199	12
Associates – Pharmacy 2U Limited		
Sales of goods and services in year	33	32
Amounts owed at year end	—	—
Joint venture – Healthcare Gateway Limited		
Sales of goods and services in year	264	24
Payment for tax loss surrendered	19	—
Amounts owed by related party at year end	274	24
Directors		
Sale of motor vehicle at market value	4	—



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