COMPANY NO: 3716736

iSOFT GROUP PLC

ANNUAL REPORT

♦Year ended 30 April 2002♦

financial headlines

	2002 £m	2001 £m	2000 £m	1999 £m
Turnover	**60.1**	31.1	17.0	11.1
Operating profit	**13.1**	5.8	3.1	1.1
Normalised profit before tax*	**15.4**	7.2	3.1	0.8
Average monthly employees	**430**	252	162	81

In the year ended 30 April 2002...

_continuing operations enjoyed turnover growth of **93.1%** to **£60.1m**

_operating profit increased **128.3%** to **£13.1m**, a margin of **21.9%**

_the net cash inflow from operating activities totalled **£16.9m**, representing an operating profit conversion of **128.6%**

_underlying earnings per share* for the year increased **119.9%** to **10.49 pence**

*after adding back amortisation of goodwill and exceptional items

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We have strengthened
our position as the innovative supplier
of information systems to healthcare provider
organisations in our target markets through
continuing investment in our software products

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I am pleased
to report that we have built
on our strong performance last year with
outstanding results for the year ended 30 April 2002

Once again an outstanding performance

This is iSOFT's second set of annual accounts as a public company and I am pleased to report that we have built on our strong performance last year with outstanding results for the year ended 30 April 2002.

The clarity of iSOFT's business proposition allows us to set accurate expectations for our shareholders, customers and staff. Our shareholders expect strong growth in sales, profits and cash generation. We have delivered in each of these areas and believe that our shareholders will be pleased with all aspects of our financial performance as set out in these accounts.

Our shareholders have further expectations that coincide with those of our customers and staff. All our stakeholders know iSOFT as an innovative company that leads the field in developing new information systems that play a key part in improving the delivery of healthcare services to citizens in modern economies. I am pleased to report that we have continued to fund an aggressive investment in the development of our product portfolio. The year ended 30 April 2002 has seen the scope and content of our application systems offerings advance dramatically to meet the needs of modernising healthcare economies, not least the United Kingdom.

Advancing our strategy

iSOFT is a pure health systems play. Moreover, our focus as a supplier of software applications is towards the major healthcare enterprises, most notably hospital organisations. We recognise that hospitals are required increasingly to work as part of a supply chain with other healthcare agencies. Our software applications maintain comprehensive, multi-media electronic records for patients within the hospital. Furthermore, our applications support shared care delivered in conjunction with general practitioners, community care and social services. Through this interoperability our applications describe the processes and healthcare events involved in the treatment of critical and chronic diagnostic conditions for citizens as individuals.

Our innovation in the use of new and emerging technologies for improving the management, dynamics and dissemination of information around the healthcare delivery system, truly differentiates the iSOFT business. We have grown our software manufacturing capability to over 100 personnel. In conjunction with the support provided by our software partners, Microsoft and Oracle Corporation, this capacity continues to ensure that iSOFT is first to market with software innovations in support of government initiatives generally, and our customers' requirements in particular.

The comprehensive nature of our software systems and the use of the latest technologies creates for our customers the most modern turnkey applications. In the last year we have worked hard to ensure that our systems can be delivered as application content either by our own organisation or through third party service providers. We have seen clear moves by governments in all our markets to look for ways of replacing legacy hospital systems quickly in support of rapid modernisation. Suppliers to healthcare organisations are being encouraged to specialise in ways that will allow preferred system solutions to be scaled-up quickly. At iSOFT we have no doubt that we are primarily an application content provider, and whilst we offer 'light touch' managed services, we have worked closely during the year with service providers like CSC and EDS, and expect to collaborate more with these and other complementary organisations. This approach has allowed us to improve our strong margins and offers the prospects of further progression.

The key to iSOFT's continuing success has been our ability to win new customers for our products in competitive procurements. The year ended 30 April 2002 has been no exception, and we have added new customers and sold our new product offerings extensively to existing customers. Our strategy is based on extending our customer base both organically and through acquisitions. The profile of our acquisitions to date has typically been organisations with strong customer bases and outdated product portfolios into which we can trade our own modern software offerings.

Acquisition of the health systems business of Northgate Information Solutions plc

Since the 2002 year end the Group has announced the proposed £33.0m acquisition of the healthcare systems business of Northgate Information Solutions plc, subject only to the approval of the vendor's shareholders. This acquisition provides a significant increase to our hospital systems market share in the United Kingdom and brings with it a valuable extension to our workforce in terms of management, technicians and implementation staff. In the short and medium term, we will refer intensive managed service commitments back to Northgate Information Solutions plc in order to continue our focus on providing additional application content and 'light touch' services to the newly acquired customer base.

At a time when governments and large scale service providers are looking to work closely with market leading application vendors, this acquisition will strengthen our appeal as a business partner and give us the prospect of greater returns from our software application investment.

Our management, staff and organisation

In the year ended 30 April 2002 we have continued our investment in staff development to ensure that we produce the managers and specialists required by our rapidly growing business.

At iSOFT, we operate a highly integrated business. Our structure distinguishes between two distribution units concerned with European and Asia Pacific operations, and a software development unit. This distinction allows our management and staff to relate to clear objectives by which they can measure their own success. This structure also facilitates close co-operation across the units to ensure that our strategy and plans are well fitted to the market opportunities that exist and are emerging. Above these operational units is the Group function that contains representatives from each of the units to ensure coherence and optimisation in planning and objective setting.

We have been highly successful in growing our staff and many of our senior management team have grown-up inside the business. Where appropriate, we have added to this home grown talent with discerning external recruitments in the areas of new and emerging technologies and operating methods. I am very proud of the progress made by our staff and their involvement in iSOFT's success. The obvious benefit of this progress has been to create effective succession for all management positions and technology specialisms, thereby eliminating the risk of over dependency on key staff.

The Queen's Award for Enterprise

The success of the iSOFT business over the period since flotation has been acknowledged by a number of prestigious business accolades. We are particularly proud to have been awarded a Queen's Award for Enterprise in the year 2002. The award recognised our success in growing our international trade consistently and significantly. Our achievement in this regard is a tribute to the energy and commitment of our staff and their creativity in developing solutions that have true international appeal.

In summary and conclusion, the iSOFT business has proved its proposition and its ability to repeat success. We like our position in the healthcare systems market space and look forward to building on the strong commercial platform we have created for the benefit of our shareholders, customers and staff.

Roger Dickens

Roger Dickens - **Executive Chairman**

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Government commitment to modernisation of healthcare services is highly visible in all our target markets

Another year of success

The year ended 30 April 2002 has been one of further success for the iSOFT business. Whilst market conditions for technology companies generally have been difficult, iSOFT's exclusive focus on the healthcare sector in those countries involved in modernisation of healthcare services has meant that we have continued to grow our business strongly.

The iSOFT business has shown more than just defensive qualities from an investor perspective in the past year. We have strengthened our position as the innovative supplier of health information systems to healthcare provider organisations in our target markets, through continuing investment in our software products. The evidence of this progress has been expressed in terms of strong organic growth in turnover and profits.

Our turnover for the year ended 30 April 2002 was £60.1m, representing an overall growth rate of 93.1% over the previous year, of which 77.1% was organic. This ability to sell more of our market leading product range to new and existing customers in competitive procurement situations is continuing proof of our proposition that focus on being an application system content provider in our market space offers strong growth prospects for our investors.

Further proof is the growth in profitability and margins. The year ended 30 April 2002 saw operating profit rise to £13.1m, representing growth from the previous year of 128.3%, and saw margin improvement to 21.9%.

Continuing the proposition

Beyond our outstanding results, there is growing evidence that governments are looking to the supplier community to specialise increasingly in order to allow the modernisation initiatives reliant on better information flow to be implemented more quickly. A number of our traditional healthcare systems competitors have moved out of the application content space to concentrate on application service provision in response to this trend.

The opportunities for iSOFT to partner with service providers have increased as a consequence. iSOFT's *strategy and differentiation has* been based on concentrating on application content development, and this has positioned us well over the last year. This is likely to continue as governments encourage suppliers to work in partnership and concentrate on their respective strengths.

The main issue influencing government thinking is the need to scale-up information systems solutions to support improved *healthcare delivery in the* short/medium term to meet the growing expectations of citizens.

iSOFT has worked innovatively and consistently since its flotation in July 2000 on ensuring that our applications can be used as content for those organisations that are able to offer scaled-up application services. This has given us a leadership position among those companies specialising in software product development to the healthcare sector.

The majority of our turnover and profit in the year ended 30 April 2002 was attributable to direct provision of application systems and tightly coupled services, under a traditional turnkey system model. However, we also saw the first significant examples of iSOFT supplying application content to service organisations for information system delivery to customers under Application Service Provider (ASP) arrangements. We expect this approach to become more common over the next few years. This presents prospects for iSOFT to continue to strengthen its margins. As its own *services specialise around software*, the costs of sale and delivery are consequently reduced.

Product development in a changing environment

Over the past year, iSOFT has continued to invest heavily in the development of its market leading product portfolio. Approximately £5.3m was reinvested in product development in the last year, continuing the growing trend in absolute terms since flotation. We have concentrated our development in three areas. Firstly, we have released new versions of our successful iSOFT2000 product to deliver high performance, comprehensive electronic patient *record functionality for hospital* organisations. Secondly, we have worked on functionality to allow interoperability and information exchange between hospitals and other healthcare agencies to support shared care. Lastly, and most excitingly, we have made significant investments in designing schemas for the electronic health record for direct citizen access, building on government initiatives in the areas of e-booking and e-prescribing. As part of this initiative, we have worked with application service providers, broadcasters and device technology companies to look at opportunities for extending information reach to the citizen as a consumer of healthcare services. We expect access to healthcare services to be delivered in due course via digital interactive television and the new generation of smart telephones. iSOFT intends to be a leader in making its information accessible to the citizen via new and emerging device technologies, thereby continuing its proposition *as a leading application content* provider in an increasingly connected world.

Our customers and staff

In our Annual Report last year, we expressed our commitment to ensure that our services to customers were improved in terms of responsiveness as the challenges for information production and dissemination intensify. We have enhanced our iASSIST on-line customer support services to automate issue logging. iASSIST not only allows our customers to log issues directly through iSOFT's web site, but also integrates with the self-logging functionality built into our applications in the event of a system fault.

We continue to maintain an effective dialogue with our customers through user groups as well as focus groups, working on our product development agenda. We attach great value to our customers' views on our service performance and their on-the-ground priorities for systems development. The year ended 30 April 2002 has been a constructive one in a time of great change and we have made good progress in further developing our working relationships with customers.

The key to satisfying our customers is close collaborative working. The credibility and the quality of iSOFT staff is paramount in this process. We have invested significantly in a staff development programme across our business to give our personnel, at all levels, the opportunity to enhance their skills. The growth of our business requires the development of competencies both in breadth and depth, and our investment over the past year has been towards ensuring that iSOFT is not inhibited from progressing because of skill gaps or our ability to broaden our management base. Personally, I am extremely grateful to our staff for their commitment, particularly over the last year, in ensuring that the iSOFT enterprise has continued to take advantage of the opportunities to be innovative and supportive of our customers, as they respond to the challenges of reform and modernisation.

The outlook

Government commitment to modernisation of healthcare services is highly visible in all our target markets. We will retain a strong focus on the United Kingdom, Irish, Scandinavian and Australasian markets as they progress their highly visible investments in information systems to support the development of citizen-oriented electronic health records. As the public funded healthcare economies lead in the need to reform, the insurance and reimbursement-based funded nations will follow in due course, and we will track the buying propensities in other markets and be ready to enter at the appropriate time.

Given the leading edge position of our application systems, we remain very confident that iSOFT can continue its growth as a specialist supplier to the healthcare industry. The outlook remains extremely favourable for our clearly differentiated proposition.

Patrick Cryne

Patrick Cryne - **Chief Executive**

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Our progress in the year is continuing testimony to the strength of our proposition and our ability to execute

Continuing market successes

The year ended 30 April 2002 saw continuing success for iSOFT in procurements for major hospital system replacements and enhancements in all our target markets. The United Kingdom, Ireland and Australia were particularly active markets in terms of buying activity and I am pleased to record major market share advances for our business in each of these territories.

In the United Kingdom, we were successful in selling electronic patient record systems to 14 NHS Trusts in support of their progress towards meeting the targets set in the government's *Information* for Health strategy. We also won significant new contracts for pathology system replacements, most notably the Path Links project to supply modern pathology systems across Lincolnshire. The end of the year saw iSOFT systems installed in over 65% of NHS Hospital Trusts in the United Kingdom.

The Irish Government also published its information systems strategy for the public hospital sector entitled Quality and Fairness. As with the United Kingdom's *Information* for Health, a central feature of Quality and Fairness is an acknowledged need to modernise information systems across the hospital enterprise. In anticipation of the strategy's publication, a large number of procurements were commenced during the year aimed at introducing new electronic patient record systems and modernising pathology services. Again I can report several new business wins in both of these areas. Our progress in the pathology market space was particularly remarkable, with iSOFT systems being selected in 3 Irish Health Boards. iSOFT now has an unassailable market share position with more than 70% of Health Boards/Health Authorities now using or planning to install our pathology system products.

Entering the year, iSOFT was already the major market player in the Australian hospital systems space with a market share of over 60%. We have continued to make progress during the year with the roll-out of the multi campus version of our iSOFT2000 electronic patient records system across the state of New South Wales. This version allows our iSOFT2000 product to be delivered as application content to all hospitals within the state. We have also sold enterprise wide systems to 6 hospitals in other states.

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Although the greatest visibility in hospital system procurements is in the public sector, there has also been significant new business activity in private sector hospitals as they seek to maintain a brand differential. iSOFT is unique in its ability to offer its systems with equal success in both public and private hospital procurements. We are the leading supplier to the private sector in the United Kingdom and Ireland, and we are close to achieving this position in the Australian market.

The number of outstanding procurements in each of our target markets is at an all time high in all of our preferred territories and iSOFT is well positioned in the majority of these. This augurs very well for our business in the coming year.

Customer delivery

We have worked hard over the year to improve our methodologies for implementing and supporting our applications. Our objective is to enrich the value to our customers of working with our applications for the benefit of healthcare practitioners and their patients. We recognise that governments in all the modernising healthcare economies are looking to make rapid progress and are encouraging close co-operation between service organisations and application content companies towards this end.

In the year ended 30 April 2002, we have done much to simplify and automate the implementation processes involved in making our applications available to hospital organisations. We are now comfortable in allowing third party service providers to offer our applications to their managed service customers. In the year, we provided our applications to CSC and EDS for implementation in selected customer situations. This approach strengthens our margins and allows the user base for our applications to be extended more rapidly and without constraints on iSOFT's own service resources.

Using the normal metrics by which we judge our support performance to our customers, the year ended 30 April 2002 was a very successful one for iSOFT. In terms of response times, reliability and system availability, we are operating at the highest levels of performance in the history of our business. I believe that we can now claim to be operating above the industry norms for our market sector. This is evidenced not only in statistical metrics produced by our iASSIST service, but also in the referenceability of our applications in customer settings. Being an early adopter of new technologies in our applications gives us the opportunity to continue to improve services in the future, but I am particularly pleased by the progress made during this year.

Human resources

In all operational areas our staff have performed well. This year has seen the successful integration of the sales, implementation and customer services functions from the businesses we acquired in 2001, as well as the establishment of a single product management function operating across the Group. We have an informed sales force, experienced in the issues of reform and knowledgeable about our products and their technology platforms. Our project management and implementation personnel are among the best in the industry and are able to provide feedback from customer installations that direct product enhancements for continuing user satisfaction. In customer support services, the successful introduction of iASSIST across the breadth of our customer base allows our staff to focus their energies according to the real priorities of our customers. The quality of our dialogue with customers has improved as a consequence.

Over the year our workforce has increased to 472 employees. Staff turnover has fallen to 13% which bears favourable comparison with our peers. We are seen generally within the industry as a good employer, offering interesting work roles and incentives that encourage innovation, entrepreneurship and commercialism.

Our progress in the year is continuing testimony to the strength of our proposition and our ability to execute. I see no immediate barriers to the continuation of our operational success.

Steve Graham - **Chief Operating Officer**

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group finance director's report

The quality of the Group's trading result and its underlying capacity for cash generation was clearly evidenced in the year with a net cash inflow from operations of £16.9m

Trading results

In the year ended 30 April 2002 the Group delivered a profit before tax of £12.2m on turnover of £60.1m, a profit margin of 20.3%. This represented an increase in profit of 129.3% compared to the prior year. Adding back the £3.3m amortisation charge for the year, normalised profit before tax totalled £15.4m, a profit margin of 25.7%.

The progressive improvement in profitability continues to be driven by the sale of established software applications into both existing and new customer situations. Our market share has increased through the accumulation of new business wins and the strategic acquisition of customer base. Continuing operations enjoyed underlying organic growth in turnover of 77.1%.

Cash flow

The quality of the Group's trading result and its underlying capacity for cash generation was clearly evidenced in the year with a net cash inflow from operations of £16.9m. This represents an operating profit conversion of 128.6%. Adding back the amortisation charge for the year to operating profit, this represents a conversion of 103.0%.

Acquisitions

The Group continues to participate in the rationalisation of the supplier side of the healthcare systems market. The primary objective of this acquisition strategy is to grow further our existing strong market presence.

On 29 May 2001, the Group acquired the entire issued share capital of Eclipsys Limited and Eclipsys Pty Limited for a cash consideration, excluding acquisition costs, of £6.1m. Goodwill included in the consolidated balance sheet in respect of this acquisition was £6.9m.

On 21 December 2001, the Group acquired the entire issued share capital of Paramedical Pty Limited for an initial cash consideration of £1. A further £0.3m of deferred consideration is estimated to be payable in cash upon satisfaction of certain performance criteria over the period to 3 December 2003. Goodwill included in the consolidated balance sheet in respect of this acquisition was £0.5m.

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Since the year end, the Group has announced the proposed acquisition of the healthcare systems business assets of Northgate Information Solutions plc. Completion of the acquisition is subject only to the approval of the vendor's shareholders. Upon satisfaction of this condition, a cash consideration of £33.0m will be paid. It is proposed that this acquisition will be funded by a new term loan debt facility.

Interest

The net interest payable in the year of £1.0m related principally to the acquisition debt funding outstanding during the year. At the balance sheet date £17.6m of acquisition debt remained outstanding.

Taxation

The effective tax rate for the year of 25.4% was due primarily to the utilisation of the brought forward trading losses acquired with ACT Medisys Limited. The impact of the utilisation of these losses was such that it offset the underlying increase in the effective tax rate due to the goodwill amortisation charge that is not a deductible expense for the determination of taxable profits.

Earnings per share

Basic and diluted earnings per share were affected by the new shares issued during the year. Basic earnings per share were 7.69 pence and diluted earnings per share calculated in accordance with FRS14 were 7.61 pence. Underlying earnings per share, representing basic earnings per share before amortisation of goodwill and exceptional items, increased by 119.9% to 10.49 pence per share.

Dividends

The directors have declared a final dividend of 0.80 pence per share. Combined with the interim dividend of 0.40 pence per share, this gives a total dividend payment for the year of 1.20 pence per share. The final dividend will be paid on 31 July 2002 to shareholders on the register on 28 June 2002.

Balance sheet

The net asset position of the Group has increased by 74.8% over the year to £48.7m. The net increase in intangible fixed assets relates to the goodwill from acquisitions less the amortisation charge in the year.

Movements in tangible fixed assets, current assets and current liabilities relate primarily to the trading performance of the business during the year. The net current assets of £9.1m includes £8.4m of deferred income held at the balance sheet date. Adjusting for this deferral, the underlying net current asset position totalled £17.4m. The net effect on equity shareholders' funds of the new ordinary shares issued during the year was £13.1m.

Funding

The generation of cash from operations remains a central objective for the Group. Cash balances at the end of the year totalled £23.7m, up from £9.9m last year. At the balance sheet date the Group had an unutilised overdraft facility £6m. Cash deposits are managed to maximise interest receipts whilst maintaining sufficient flexibility. Exposure to foreign exchange fluctuations is monitored on an ongoing basis. At the balance sheet date there was no material exposure to foreign exchange risk. The shares issued during the year raised net cash of £13.1m for the Group, being £13.4m less associated expenses. The net cash raised added further strength to the balance sheet, providing additional resources to support organic growth and funding for strategic acquisitions.

Tim Whiston - **Group Finance Director**

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The directors present their report together with the audited financial statements of the Group and the Company for the year ended 30 April 2002

Principal activities

The Group is a software products business, licensing proven application software to healthcare enterprises from an established product portfolio. It also provides installation, system configuration, training and customer support services in respect of its products.

Business review and future developments

The Group will continue to enjoy growth for the foreseeable future. The Chairman's statement on page 4, the Chief Executive's report on page 8, the Chief Operating Officer's report on page 12 and the Group Finance Director's report on page 16 provide further details of the business during the year and of future developments.

Results and dividends

The results of the Group are set out in the consolidated profit and loss account on page 35. The directors recommend the payment of a final dividend of £942k to the holders of the ordinary shares, which together with the interim dividend of £471k, gives a total equity dividend payment for the year of £1,413k. After payment of dividends, the retained profit for the financial year was £7,581k.

Directors

Details of the directors of the Company serving at the balance sheet date are set out as follows:

Roger Dickens (54), Executive Chairman, was appointed to the Board of iSOFT Group plc on 28 April 1999. He is currently non-executive Chairman of West Bromwich Building Society and a non-executive director of Carillion plc.

Patrick Cryne (51), Chief Executive, was appointed to the Board of iSOFT Group plc on 28 April 1999.

Steve Graham (38), Chief Operating Officer, was appointed to the Board of iSOFT Group plc on 28 April 1999.

Tim Whiston (34), Group Finance Director, was appointed to the Board of iSOFT Group plc on 14 April 2000 and has acted as Company Secretary since that date.

Graeme Wilson (38), Asia Pacific Chief Executive, was appointed to the Board of iSOFT Group plc on 16 July 2001.

Digby Jones (46), Senior non-executive director*, was appointed to the Board on 19 May 2000. He is Director General of the Confederation of British Industry (CBI) and a director of Business in the Community.

Eurfyl ap Gwilym (57), Non-executive director*, was appointed to the Board on 19 May 2000. He is a director of Principality Building Society and was formerly a director of Terence Chapman Group plc.

Geoff White (49), Non-executive director*, was appointed to the Board on 19 May 2000. He is Chairman of Tekdata Group Limited and was formerly Chief Executive of Pressac plc.

*Members of the Group's Audit Committee and Appointments and Remuneration Committee.

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The Board considers that the non-executive directors were independent throughout the year and that they remain independent at the date of this report.

All directors are subject to election by the shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. In accordance with this, the directors retiring by rotation are Tim Whiston, Graeme Wilson and Eurfyl ap Gwilym, who being eligible offer themselves for re-election at the Annual General Meeting.

Donations

No charitable or political donations were made during the year.

Social, Environmental and Ethical matters ('SSE') statement

The Group's primary objective is to maximise the returns for its shareholders. The directors believe however, that it is also possible to develop a business framework that encompasses a broader range of considerations including social, environmental and ethical issues, without necessarily compromising this primary objective. Indeed it is believed that operating in an environmentally and socially sustainable manner provides a stronger basis for future development of the business operations, financial performance, protection of reputation and market valuation. As an international business with overseas operations to which domestic benchmarks are not always appropriate, the Group aims to, as a minimum, operate in accordance with local best practice. In recognition of these matters the Group has developed specific policies and codes of practice in relation to employment and environmental practices.

Employees

During the year the Group continued to communicate and consult with employees using a variety of traditional and new media channels. Priority is given to ensuring that employees are aware of significant matters relating to the Group's trading performance and organisational changes. The directors recognise the importance of individual employee contributions in delivering the Group's successful performance to date. They further recognise that sustaining the Group's competitive advantage over the longer term is dependent on employees realising their full potential.

It is Group practice, therefore, to ensure that personal development, reward and promotion is determined with direct reference to ability, commitment and individual achievement. Disabled individuals are afforded the same opportunities as others, and the Group actively supports the employment of disabled persons both during the recruitment process and in the retention of employees who become disabled whilst in the employment of the Group.

The Group is an equal opportunities employer and has established policies to promote an employment environment that is free from discrimination, harassment and victimisation. Management seek to ensure that no employee, or applicant, is treated less favourably on the grounds of gender, marital status, race, colour, disability or sexual orientation or is disadvantaged by conditions or requirements that cannot objectively be justified.

A significant number of employees have shareholding interests in the Company either directly or under share option schemes. The directors actively encourage this level of employee participation, subject always to the Group's employee share dealing code rules, and are proposing to introduce a new share save scheme in the coming year. Details of the current employee share option schemes and the options granted during the year are provided in Note 23 on page 57.

Employees are typically educated to degree standard and, as a Microsoft Certified Solution Provider Partner, iSOFT actively promotes Microsoft accreditation for staff engaged in the development and support of the software product portfolio. The directors are proud of the Group's record in respect of staff retention and development.

Environmental matters

The Group recognises the importance of environmental responsibility and as such has developed an environmental policy to raise awareness, establish standards, assess the impact of its business activities on the environment, set improvement objectives and monitor performance against these objectives.

Recent examples of the Group's commitment to this policy are as follows:

- _re-cycling of IT hardware down through the organisation structure, with redundant equipment ultimately disposed of in an environmentally friendly manner fully compliant with current legislation
- _re-cycling of office waste
- _encouraging remote working to reduce the environmental burden of commuting and business travel, employing technology solutions such as direct electronic information processing and exchange and teleconferencing

The responsibility for maintaining and enforcing the policy resides at Board level. A copy of the current environmental policy is available on the Company website.

Research and development

The Group has a continuing commitment to a significant level of product development investment. During the year development investment totalled £5.3m, representing 8.8% of turnover, all of which has been charged to profits. This expenditure ensured that the products benefit from the latest technologies and continue to address the current and emerging customer business needs, thus protecting the market position of the product offering and the potential for future revenue generation.

Payments of creditors

Whilst the Group does not follow any specific external code or standard on payment practice, the policy for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure that the supplier is aware of those terms, and to abide by those agreed terms. At 30 April 2002 the number of days of trade creditors for the Company was 67.

Share capital

Full details of changes in share capital in the year are shown in Note 22 on page 56.

Other than the directors, the Company has been notified of the following interests in more than 3% of the issued share capital of the Company at the date of this report:

	% holding
_Lloyds TSB Group	3.01
_Healthnet	3.02
_Shell Pension Fund	3.33

Annual General Meeting

The Annual General Meeting will be held at the Company's registered office in Manchester, starting at 10.30am on Tuesday 16 July 2002. The resolutions to be proposed at the Annual General Meeting, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders. The proxy card for registered shareholders is distributed with the Annual Report and Accounts.

Auditors

RSM Robson Rhodes are willing to continue in office as company auditor and a resolution to reappoint them will be proposed at the Annual General Meeting.

Approval

The Report of the Directors was approved by the Board on 18 June 2002 and signed on its behalf by:

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

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The Board is committed to high standards of Corporate Governance

corporate governance

The Board is committed to high standards of Corporate Governance. This statement describes how the principles set out in Section 1 of the Combined Code, as annexed to the Financial Service Authority's Listing Rules, are applied in practice by the Group.

Directors

The Group is controlled by the Board of Directors which, at 30 April 2002, comprised the Executive Chairman, the Chief Executive, three further executive directors and three experienced and independent non-executive directors. The Board has named Digby Jones as the senior non-executive director. Summary biographies of the directors are set out on page 21.

In addition to ongoing day to day operational dealings, the directors meet formally on a regular basis to monitor financial performance, current trading and future prospects, to evaluate merger and acquisition opportunities, to review strategy and policy and to consider a schedule of any other matters specifically reserved for Board decision.

The directors have implemented appropriate reporting procedures to ensure that they are supplied with timely, accurate and comprehensive information to enable the Board to discharge its duties in full. The Board is responsible for the Group's internal systems for corporate governance, risk management, quality and control, together with consideration of social, environmental and ethical matters.

All directors have access to seek independent advice, at the Group's expense, if considered necessary for the proper performance of their duties. The directors also have access to the Company Secretary for his advice and service. The Board includes individuals with many years relevant experience.

Board committees

The Audit Committee, chaired by Eurfyl ap Gwilym and comprising Digby Jones and Geoff White, meets at least twice a year to make recommendations on the appointment of external auditors and the level of audit fee, to review the Interim Report and the Annual Report and Accounts of the Group prior to them gaining Board approval, to consider the Group's internal controls and to review the Group's statement on going concern. The external auditors are entitled, and the Group Finance Director is invited, to attend where appropriate. The Audit Committee has the discretionary power to invite others to attend as necessary.

The Appointments and Remuneration Committee, chaired by Geoff White and comprising Digby Jones and Eurfyl ap Gwilym, meets at least once a year. The committee is responsible for recommendations to the Board on remuneration, benefits and terms of employment, including any performance related bonuses and share option schemes for executive directors and other senior members of staff. Further details of the executive remuneration policy are set out on page 28. The appointment of executive and non-executive directors is a formal process involving all members of the Board.

Investor relations

The Board has a policy of providing any reasonably requested historical information and explanations to shareholders on request. Institutional shareholders are invited to meet representatives of the Board at least twice a year, shortly after publication of the interim and annual results. All shareholders are sent a copy of the Interim Report and the Annual Report and Accounts.

Directors' responsibilities

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

_selected suitable accounting policies and applied them consistently

_made judgements and estimates that are reasonable and prudent

_followed applicable United Kingdom accounting standards

_prepared the financial statements on the going concern basis

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

The directors are responsible for ensuring that the Report of the Directors and other information included in the Annual Report and Accounts is prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring the Annual Report and Accounts includes information required by the Listing Rules of the Financial Services Authority.

The Annual Report and Accounts are available on the Company's website. The maintenance and integrity of the Company's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the Annual Report and Accounts since they were initially presented on the website. The legislation in the United Kingdom governing the preparation and dissemination of the Annual Report and Accounts and other information included in Annual Reports may differ from legislation in other jurisdictions.

Internal control and financial reporting

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

In accordance with the Combined Code the directors continually review the effectiveness of the Group's system of internal controls, including financial, operational, compliance and risk management.

Key elements of the Group's financial controls are:

_annual planning and budgeting, with re-forecasting in light of actual trading results performed on a monthly basis throughout the year

_comprehensive financial analysis and commentary for the Board for formal review, including trading performance, cash and working capital reports with comparisons against budget and forecast

_maintenance of an appropriately sized, experienced, finance function which monitors the financial performance of all operational areas of the Group on an ongoing basis

_procedures for ensuring that appropriate authority is given to commit the Group to both revenue and capital spend

_an appropriate organisational structure, with well defined and clearly understood responsibilities, and delegation of authority

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

Compliance with the Combined Code

The directors believe that the Company has complied with all material requirements of the Combined Code throughout the year.

Going concern

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

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Remuneration packages of the executive directors are reviewed annually to ensure that they remain supportive of the Group's business objectives, principally the creation of shareholder value

Remuneration policy

The Board is responsible for determining the Group's remuneration policy. The Appointments and Remuneration Committee makes recommendations to the Board to ensure that the remuneration offered is competitive and that it is effective in attracting, retaining and motivating executive directors and other senior management of the appropriate calibre.

The recommended remuneration packages make reference to a peer group of similar companies, taking into account relative performance, size and complexity. The Committee is also authorised to seek the advice of independent professional consultants. The Board accepted all recommendations made by the Committee during the year.

Remuneration packages of the executive directors are reviewed annually to ensure that they remain supportive of the Group's business objectives, principally the creation of shareholder value. To this end the packages are strongly weighted towards prospective business performance, with a high proportion of variable performance-related compensation in comparison with fixed basic salary.

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

Basic salary and other benefits

The remuneration of executive directors comprises basic annual salary, private health insurance, life assurance, the performance related bonus and the opportunity to participate in the Group's share option schemes. The executive directors are not entitled to receive any pension contributions.

Performance related bonus

The Group provides for performance related bonuses for executive directors. Bonuses are payable at the discretion of the Appointments and Remuneration Committee based on the Group's financial performance and the individual executive's contribution to that performance. The financial performance targets are set with reference to, amongst other things, the analysts' forecast earnings figures with an amount equal to 40% of basic salary payable on meeting these market expectations. Combined with the individual objective element of bonus, the maximum performance related bonus ever payable is 300% of basic salary, with such an award requiring delivery of a truly outstanding performance.

Equity participation

The Group believes that share ownership by executive directors, managers and employees can strengthen the link between their personal interests and those of the other shareholders. The Group operates an approved and two unapproved share option schemes.

Share option schemes

To date, Tim Whiston has participated in the Group share option schemes. No other director has received share options under these schemes. The Appointments and Remuneration Committee has granted share options under the schemes to senior executives and staff. Such grants are subject to appropriate performance of the Company and the individual.

For share options granted prior to 4 December 2001, the Company performance target references the percentage by which total shareholder return exceeds the growth in the retail price index over the three year period from the date of grant of the option. In the case of these options granted, the performance condition is such that:

- 25% of options may be exercised if the total shareholder return over the period exceeds the growth in the retail price index by 20%
- 50% of options may be exercised if the total shareholder return over the period exceeds the growth in the retail price index by 35%
- 100% of options may be exercised if the total shareholder return over the period exceeds the growth in the retail price index by 50%

For share options granted after 4 December 2001, the Company performance target references the percentage by which normalised profit before tax growth exceeds the growth in the retail price index over the three year period from the date of grant of the option. In this case, the performance condition is such that:

- 50% of options may be exercised if normalised profit before tax growth exceeds the growth in the retail price index by 10%
- 100% of options may be exercised if normalised profit before tax growth exceeds the growth in the retail price index by 20%

Where the performance target growth falls between the percentage levels specified above, the proportion of options that may be exercised will be calculated on a straight line basis. Where the relative growth percentage is less than the minimum growth level specified above, all of the options lapse and cease to be exercisable.

The schemes are designed to provide long-term incentives to recipients, thus assisting in the creation and sustaining of shareholder value.

Pensions

The Group does not pay pension contributions on behalf of the executive directors.

Service contracts

All executive directors have agreements that can be terminated by the Group on twelve months notice. The Appointments and Remuneration Committee are mindful of the need to consider compensation commitments, if any, that are appropriate in the event of the early termination of executive directors' contracts, bearing in mind the Group's legal obligations and the individual's ability to mitigate their loss.

The consent of the Board is required for any external appointments where it may give rise to a conflict of interest. Where an appointment is accepted, it must be undertaken in the directors' own time. The director is, therefore, in these circumstances permitted to retain any remuneration earned from the appointment.

The Company's articles of association specify that a number equal to not less than one third of the directors must retire by rotation at every general meeting. Retiring directors are selected, in the first instance, as those directors who want to retire and do not wish to be re-elected, with the balance made up from those who have been directors for the longest period since elected or last reappointed.

Directors' remuneration

Directors' remuneration for the year ended 30 April 2002 was as follows:

	Basic salary/fees	**Benefits**	**Performance related bonus**	**Total 2002**	Total 2001
	£'000	**£'000**	**£'000**	**£'000**	£'000
Roger Dickens	210	1	624	835	372
Patrick Cryne	229	1	720	950	409
Steve Graham	198	1	624	823	352
Tim Whiston	154	1	585	740	248
Graeme Wilson	71	-	114	185	-
Digby Jones	25	-	-	25	25
Geoff White	25	-	-	25	25
Eurfyl ap Gwilym	25	-	-	25	25

Directors' share interests

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

	Ordinary shares at 1 May 2001*	**% issued capital**	**Ordinary shares at 30 April 2002**	**% issued capital**
Roger Dickens	12,450,000	11.10	10,925,000	9.28
Patrick Cryne	19,277,000	17.19	16,900,000	14.36
Steve Graham	12,000,000	10.70	9,950,000	8.45
Tim Whiston	352,488	0.31	352,488	0.30
Graeme Wilson	1,065,000	0.90	1,065,000	0.90
Digby Jones	45,454	-	25,000	-
Geoff White	45,454	-	45,454	-
Eurfyl ap Gwilym	45,454	-	45,454	-

*or date of appointment if later

Beneficial holdings include the directors' personal holdings and those of their spouse and minor children as well as holdings in family trusts of which the directors' spouse or their minor children are beneficiaries or potential beneficiaries. At 30 April 2002 Patrick Cryne had 450,000 of such holdings included in the totals shown above.

In addition to the directors' share interests noted above, the following share options have been granted:

	Exercise price (pence)	At 1 May 2001	Granted during the year	At 30 April 2002	Date from which exercisable	Expiry date
Tim Whiston	110	101,000	-	101,000	11 Jul 2003	10 Jul 2010
Tim Whiston	174	250,000	-	250,000	20 Dec 2003	19 Dec 2010
Tim Whiston	249	-	850,000	850,000	22 Jun 2004	21 Jun 2011

No share options were exercised by directors during the year.

The market mid price of the Company's shares at 1 May 2001 and 30 April 2002 was 234.0 pence and 286.0 pence respectively. The range during the financial year was between 195.0 pence and 331.0 pence.

There have been no changes in the above interests between the 30 April 2002 and 18 June 2002.

Shareholder approval

A resolution has been tabled inviting the Annual General Meeting to approve the remuneration policy.

independent auditors' report to the shareholders of iSOFT Group plc

two-thousand and two

We have audited the financial statements on pages 35 to 59.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority. We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 April 2002 and of the Group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes

RSM Robson Rhodes
Chartered Accountants and Registered Auditors
Manchester, England
18 June 2002

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financial statements

The progressive improvement in profitability continues to be driven by the sale of established software applications into both existing and new customer situations

The progressive improvement
in profitability continues to be driven
by the sale of established software applications
into both existing and new customer situations

consolidated profit and loss account for the year ended 30 April 2002

	Note	Continuing operations: Existing 2002 £'000	Continuing operations: Acquisitions 2002 £'000	Total 2002 £'000	Total 2001 £'000
Turnover	2	**55,118**	**4,984**	**60,102**	31,131
Operating costs excluding exceptional items and goodwill amortisation		**(40,392)**	**(3,291)**	**(43,683)**	(23,511)
Exceptional items	3	**-**	**-**	**-**	(325)
Goodwill amortisation		**(2,962)**	**(309)**	**(3,271)**	(1,535)
Operating costs		**(43,354)**	**(3,600)**	**(46,954)**	(25,371)
Operating profit	4	**11,764**	**1,384**	**13,148**	5,760
Net interest payable and similar charges	5			**(970)**	(450)
Profit on ordinary activities before taxation	6			**12,178**	5,310
Tax on profit on ordinary activities	9			**(3,092)**	(1,850)
Profit on ordinary activities after taxation				**9,086**	3,460
Minority interests - equity				**(92)**	(17)
Profit for the financial year				**8,994**	3,443
Dividends					
- Equity				**(1,413)**	(1,126)
- Non-equity				**-**	(78)
	10			**(1,413)**	(1,204)
Retained profit for the year	24			**7,581**	2,239
Earnings per share:					
Basic	11			**7.69p**	3.07p
Diluted	11			**7.61p**	3.06p
Underlying	11			**10.49p**	4.77p

There is no difference in either the current or the preceding period between the results disclosed in the profit and loss account and the results prepared on a historical cost basis.

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

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statement of total recognised gains and losses for the year ended 30 April 2002

	2002 £'000	2001 £'000
Profit for the financial year	**8,994**	3,443
Foreign exchange gain/(loss)	**178**	(142)
Total recognised gains for the financial year	**9,172**	3,301

reconciliation of movements in shareholders' funds for the year ended 30 April 2002

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Profit for the financial year	**8,994**	**3,473**	3,443	1,434
Dividends	**(1,413)**	**(1,413)**	(1,204)	(1,204)
	7,581	**2,060**	2,239	230
Issue of share capital net of issue costs	**13,066**	**13,066**	22,715	22,715
Redemption of share capital	**-**	**-**	(6,577)	(6,577)
Foreign exchange gain/(loss)	**178**	**-**	(142)	-
Net increase in shareholders' funds	**20,825**	**15,126**	18,235	16,368
Opening shareholders' funds	**27,836**	**24,680**	9,601	8,312
Closing shareholders' funds	**48,661**	**39,806**	27,836	24,680

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

consolidated balance sheet as at 30 April 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Intangible assets - goodwill	12	**60,912**	57,406
Tangible assets	13	**1,971**	1,827
		62,883	59,233
Current assets			
Debtors due within one year	16	**18,647**	14,312
Cash at bank and in hand		**23,713**	9,898
		42,360	24,210
Creditors: amounts falling due within one year	17	**(33,307)**	(28,268)
Net current assets/(liabilities)		**9,053**	(4,058)
Total assets less current liabilities		**71,936**	55,175
Creditors: amounts falling due after one year	18	**(23,129)**	(27,308)
Provision for liabilities and charges	19	**(23)**	-
Minority interests - equity		**(123)**	(31)
Net assets		**48,661**	27,836
Capital and reserves			
Called up share capital	22	**11,772**	11,212
Share premium account	24	**18,327**	5,821
Merger reserve	24	**7,204**	7,204
Profit and loss account	24	**11,358**	3,599
Equity shareholders' funds		**48,661**	27,836

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

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company balance sheet as at 30 April 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Investments	14	**47,325**	47,519
Current assets			
Debtors due within one year	16	**25,003**	11,432
Cash at bank and in hand		**201**	418
		25,204	11,850
Creditors: amounts falling due within one year	17	**(10,060)**	(7,621)
Net current assets		**15,144**	4,229
Total assets less current liabilities		**62,469**	51,748
Creditors: amounts falling due after one year	18	**(22,663)**	(27,068)
Net assets		**39,806**	24,680
Capital and reserves			
Called up share capital	22	**11,772**	11,212
Share premium account	24	**18,327**	5,821
Merger reserve	24	**7,204**	7,204
Profit and loss account	24	**2,503**	443
Equity shareholders' funds		**39,806**	24,680

The financial statements were approved by the Board of Directors on 18 June 2002, and signed on its behalf by:

P. Cryne

Patrick Cryne - **Chief Executive**

Tim Whiston - **Group Finance Director**

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

consolidated cash flow statement for the year ended 30 April 2002

	Note	2002 £'000	2001 £'000
Net cash inflow from operating activities	25	**16,905**	8,304
Returns on investments and servicing of finance			
Interest received		**165**	99
Interest paid		**(1,230)**	(284)
Finance lease interest paid		**(16)**	(7)
Non-equity dividends paid		**-**	(212)
Net cash outflow from returns on investments and servicing of finance		**(1,081)**	(404)
Taxation		**(2,987)**	(1,059)
Capital expenditure			
Payments for tangible fixed assets		**(965)**	(468)
Receipts from sale of tangible fixed assets		**49**	-
Net cash outflow from capital expenditure		**(916)**	(468)
Acquisitions and disposals			
Purchase of subsidiary undertakings		**(6,690)**	(25,908)
Cash refund on prior year acquisition		**270**	-
Cash acquired with subsidiary undertakings		**208**	1,509
Net cash outflow from acquisitions and disposals		**(6,212)**	(24,399)
Equity dividends paid		**(1,312)**	(352)
Net cash inflow/(outflow) before financing		**4,397**	(18,378)
Financing			
Issue of ordinary shares		**13,440**	17,789
Expenses paid in connection with ordinary share issue		**(374)**	(2,278)
New bank and other loans		**-**	20,000
Repayment of bank and other loans		**(3,472)**	(1,337)
Redemption of ordinary and preference shares		**-**	(6,577)
Capital element of finance lease payments made		**(176)**	(124)
Net cash inflow from financing		**9,418**	27,473
Increase in cash	27	**13,815**	9,095

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

notes to the financial statements

two thousand and two

1_ accounting policies

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

i_New accounting standards

FRS19 'Deferred Tax' has been adopted for the first time in these accounts and no prior year adjustment has arisen from the adoption. FRS18 'Accounting Policies' has also been adopted. It did not cause any other changes in policy, as after careful review, the directors are satisfied that the current accounting policies are the most appropriate for the Company.

ii_Basis of consolidation

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

iii_Goodwill

Positive goodwill is the excess of the cost of an acquired entity over the aggregate of the fair values of that entity's identifiable assets and liabilities. Positive goodwill relating to acquisitions is shown in the balance sheet as an asset. On completion of each acquisition the directors estimate the useful economic life and it is over this period that the goodwill is amortised on a straight-line basis. For transactions where the primary objective is the acquisition of customer base, and where the customer relationships continue under multi-year contract arrangements, the directors believe it appropriate to ascribe useful economic lives of up to 20 years. To date all acquisitions have been assessed by directors to have useful economic lives of 20 years. In addition to systematic amortisation, the book value is written down to recoverable amount when any impairment is identified.

iv_Profit for the financial year

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

v_Turnover

The Group's revenues are derived from the sale of software product licences, the attendant installation, maintenance and support service revenues, supplies of third party hardware and software and the provision of PFI compliant finance facilities offered by third party funders. All revenue is reported exclusive of value added tax and other sales tax.

In the absence of a United Kingdom accounting standard on revenue recognition, the Group believes that the best guidance is set out under US GAAP, in particular SOP 97-2 and SAB 101. The Group's approach to revenue recognition closely mirrors US GAAP, with revenue only recognised when:

_1. persuasive evidence of an arrangement exists
_2. physical delivery has occurred or services have been rendered
_3. the price to the customer is fixed or determinable
_4. any services deliverable under the supply arrangement are clearly separable from the software supply and
_5. collectibility is reasonably assured and there are no material outstanding conditions or contingencies attaching to the receipt of monies due

vi_Recognition of profit

Turnover from the sale of software product licences is recognised at the time the software licence is granted in accordance with agreed contractual triggers, typically the supply of the software product to the customer. Revenues from the attendant installation, maintenance and support services are recognised proportionally over the period that the services are provided with due regard for future anticipated costs. Payments received in advance of services are recorded in the balance sheet as deferred income.

vii_Research and development

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

viii_Depreciation

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

_office equipment, fixtures and fittings	12.5% to 20.0%
_computer equipment	33.3%
_motor vehicles	25.0%

ix_Foreign exchange

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

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

x_Taxation

Corporation tax is provided on taxable profits at the current rate.

The following constitutes a change in the accounting policy for deferred taxation in order to comply with FRS19:

Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Previously, under SSAP15 provision was made for deferred tax using the liability method on all timing differences only to the extent they were expected to reverse in the future without being replaced.

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1_ *accounting* policies cont...

xi_Leased assets

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

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

xii_Pensions

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

2_ segmental analysis

Turnover by geographical market	**2002 £'000**	2001 £'000
United Kingdom and other EU states	**48,833**	23,219
Australasia	**11,269**	7,912
	60,102	31,131

Geographical operations

	United Kingdom and other EU states		**Australasia**		**Rest of World**		**Total**	Total
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
Turnover	**50,760**	23,219	**9,342**	7,912	**-**	-	**60,102**	31,131
Profit/(loss) before interest	**10,557**	3,564	**3,059**	2,279	**(468)**	(83)	**13,148**	5,760
Netassets/(liabilities)	**45,663**	26,334	**3,338**	1,379	**(340)**	123	**48,661**	27,836

Turnover in United Kingdom and other EU states includes £5,700,000 (2001:£2,500,000) in respect of amounts billed under PFI (Private Finance Initiative) type contracts, where a corresponding finance repayment is forwarded to the third party provider of capital and recorded in operating costs.

The principal activity of the Group is the development and supply of software products and systems to the healthcare sector.

3_ exceptional items

The prior year exceptional cost of £325,000 related to National Insurance contributions paid and payable by the Company on the exercise of share options under the iSOFT Group Number 1 Share Option Scheme. No further options have been or will be granted under this scheme.

4_ operating profit

Continuing operations	Note	Existing 2002 £'000	Acquisitions 2002 £'000	Total 2002 £'000	Total 2001 £'000
Turnover		**55,118**	**4,984**	**60,102**	31,131
Other external charges		**(13,687)**	**(1,009)**	**(14,696)**	(6,844)
Staff costs	7	**(18,533)**	**(1,178)**	**(19,711)**	(10,843)
Depreciation of tangible fixed assets	13	**(473)**	**(40)**	**(513)**	(386)
Goodwill amortisation	12	**(2,962)**	**(309)**	**(3,271)**	(1,535)
Other operating charges		**(7,699)**	**(1,064)**	**(8,763)**	(5,763)
Total operating costs		**(43,354)**	**(3,600)**	**(46,954)**	(25,371)
Operating profit		**11,764**	**1,384**	**13,148**	5,760

5_ net interest payable and similar charges

	2002 £'000	2001 £'000
Interest receivable comprises:		
Bank interest	**192**	85
Interest payable comprises:		
Bank loans and overdrafts	**(1,132)**	(514)
Amortisation of loan arrangement fees	**(14)**	(14)
Finance leases	**(16)**	(7)
	(1,162)	(535)
Net interest payable and similar charges	**(970)**	(450)

6_ profit on ordinary activities before taxation

	2002 £'000	2001 £'000
This is arrived at for the Group after charging:		
Research and development:		
- Current period expenditure	**5,270**	2,833
Auditors' remuneration in respect of:		
- Audit services	**71**	52
- Other services	**48**	23
Loss on disposal of fixed assets	**78**	-
Depreciation and amortisation:		
- Goodwill	**3,271**	1,535
- Tangible fixed assets, owned	**424**	307
- Tangible fixed assets, held under finance leases	**89**	79
Operating lease rentals:		
- Premises	**515**	445
- Vehicles and equipment	**622**	190

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7_ employee information

Staff costs during the period were as follows:

	2002 £'000	2001 £'000
Wages and salaries	**17,280**	9,344
Social security costs	**1,853**	1,176
Other pension costs	**578**	323
	19,711	10,843

The average monthly number of employees, including executive directors, employed by the Group during the period was:

	2002 Number	2001 Number
Development	**150**	60
Sales and marketing	**51**	26
Installation and project management	**124**	79
Customer services	**56**	53
Administration	**49**	34
	430	252

8_ directors' remuneration

Total remuneration in respect of directors was as follows:

	2002 £'000	2001 £'000
Salary and fees	**937**	695
Benefits	**4**	31
Bonus	**2,667**	730
Emoluments	**3,608**	1,456
Money purchase pension contributions	**-**	3
	3,608	1,459

No share options were exercised by directors during the year.

Details of individual director's remuneration and interests in share capital, together with a summary of the Group's remuneration policy are contained within the Remuneration Report on pages 28 to 31 which forms part of these financial statements.

9_ tax on profit on ordinary activities

	2002 £'000	2001 £'000
United Kingdom Corporation tax		
Current tax on income for the year	**2,771**	1,566
Adjustments in respect of prior years	**(248)**	-
	2,523	1,566
Double tax relief	**(219)**	-
After double tax relief	**2,304**	1,566
Overseas taxation		
Overseas taxation	**778**	316
Adjustments in respect of prior years	**(45)**	-
	733	316
Current taxation	**3,037**	1,882
Deferred taxation		
Net origination/(reversal) of timing differences	**56**	(32)
Changes in tax rates	**(1)**	-
	55	(32)
Tax on profit on ordinary activities	**3,092**	1,850

Current tax reconciliation	**2002 £'000**	2001 £'000
Profit on ordinary activities before taxation	**12,178**	5,310
Theoretical tax at UK corporation tax rate of 30% (2001: 30%)	**3,653**	1,593
Effects of:		
Expenditure not tax deductible	**1,085**	848
Movement on deferred tax not provided	**(1,015)**	(542)
Adjustments in respect of prior periods	**(293)**	-
Difference in tax rates in overseas companies	**(112)**	-
Witholding tax	**(219)**	-
Exchange rate differences	**(6)**	-
Tax on pre-acquisition profits	**-**	(49)
Accelerated capital allowances	**(20)**	(21)
Deferred tax on write down of intellectual property	**(36)**	53
Actual current taxation charge	**3,037**	1,882

Change of accounting policy

The adoption of FRS19 'Deferred Tax' did not have any impact on the Group accounts.

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10_ dividends

	2002 £'000	2001 £'000
Equity dividends		
A ordinary shares of £0.01 each:		
- Special pre-flotation dividend	-	5
Ordinary shares of £0.10 each:		
- Interim dividend of 0.40p per share (2001:0.25p)	**471**	280
- Proposed final dividend of 0.80p per share (2001:0.75p)	**942**	841
	1,413	1,126
Non-equity dividends		
Preference share dividend at 6%	-	78
	1,413	1,204

11_ earnings per share

	Earnings £'000	Weighted average number of shares	2002 Per share amount (pence)
Basic earnings per share			
Earnings attributable to shareholders	**8,994**	**116,926,971**	**7.69**
Dilutive effect of options	-	**1,233,165**	-
Diluted earnings per share	**8,994**	**118,160,136**	**7.61**

	Earnings £'000	*Weighted average* number of shares	*2001* Per share *amount (pence)*
Basic earnings per share			
Earnings attributable to shareholders	3,365	109,477,500	3.07
Dilutive effect of options	-	540,582	-
Diluted earnings per share	3,365	110,018,082	3.06

Underlying earnings per share represents basic earnings per share before goodwill amortisation, 2.80 pence (2001:1.40 pence), and exceptional items, NIL (2001:0.30 pence).

12_ intangible fixed assets

Group	Goodwill £'000
Cost	
At 1 May 2001	59,332
Amendment to fair value of prior year acquisition	(484)
Amendment to cost of investment for prior year acquisition	(270)
Additions	7,441
Foreign exchange on translation differences	90
At 30 April 2002	**66,109**
Amortisation	
At 1 May 2001	1,926
Charged in year	3,271
At 30 April 2002	**5,197**
Net book value	
At 30 April 2002	**60,912**
At 1 May 2001	57,406

Goodwill additions have arisen due to the purchase of subsidiary undertakings during the year. Goodwill has also been amended following the reassessment in the year of the fair value of acquired balances of a prior year acquisition and of a refund against the cost of investment of that acquisition. See Note 15 for details of these transactions.

Company

The Company has no intangible fixed assets.

13_ tangible fixed assets

Group	Fixtures and fittings	Office equipment	Motor vehicles	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**
At 1 May 2001	1,770	3,415	421	5,606
Fair value adjustments (Note 15 iii)	(1,005)	(2,595)	152	(3,448)
Acquisition of subsidiaries	55	81	99	235
Additions	815	320	-	1,135
Disposals	-	-	(458)	(458)
Foreign exchange translation differences	24	29	-	53
At 30 April 2002	**1,659**	**1,250**	**214**	**3,123**
Depreciation				
At 1 May 2001	1,088	2,449	242	3,779
Fair value adjustments (Note 15 iii)	(948)	(2,063)	31	(2,980)
Acquisition of subsidiaries	36	49	31	116
Disposals	-	-	(285)	(285)
Foreign exchange translation differences	4	5	-	9
Charged in year	173	234	106	513
At 30 April 2002	**353**	**674**	**125**	**1,152**
Net book value				
At 30 April 2002	**1,306**	**576**	**89**	**1,971**
At 1 May 2001	682	966	179	1,827

At the balance sheet date the net book value of tangible fixed assets includes £183,000 (2001:£422,000) in respect of assets held under finance leases. Depreciation charged in the period on those assets amounted to £89,000 (2001:£79,000).

Company

The Company has no tangible fixed assets.

14_ fixed asset investments

Company	Shares in subsidiary undertakings £'000
Cost and Net Book Value	
At 1 May 2001	47,519
Additions	76
Refund of consideration for prior year acquisition	(270)
At 30 April 2002	**47,325**

See Note 15 iii for details of the additions and refund of consideration received for a prior year acquisition.

14_ fixed asset investments cont...

Principal trading subsidiaries	Class of share held	Proportion held by the parent Company	Proportion held by the Group	Country of incorporation
iSOFT plc	Ordinary	100%		England & Wales
iSOFT Overseas Holdings Limited	Ordinary	100%		England & Wales
iSOFT Limited	Ordinary		100%	Ireland
Eclipsys Limited	Ordinary		100%	England & Wales
iSOFT R&D Private Limited	Ordinary		75%	India
iSOFT Holdings Pty Limited	Ordinary	50%	100%	Australia
iSOFT Healthcare Systems Pty Limited	Ordinary		100%	Australia
iSOFT Australia Pty Limited	Ordinary		100%	Australia
Eclipsys Pty Limited	Ordinary		100%	Australia
Paramedical Pty Limited	Ordinary		100%	Australia
ACT Medisys Limited	Ordinary	100%		England & Wales
iSOFT Laboratory Systems Limited	Ordinary		100%	England & Wales

With the exception of the holding companies all the above subsidiaries have the same principal trading activity as the Group as set out in Note 2. Every subsidiary has been included within the consolidated financial statements.

15_ acquisition of subsidiary undertakings

i_Acquisition of Eclipsys Limited and Eclipsys Pty Limited

On 29 May 2001 the Group acquired 100% of the issued share capital of Eclipsys Limited and Eclipsys Pty Limited whose assets and liabilities were as follows:

	Book value and fair value £'000
Tangible fixed assets	107
Debtors	175
Cash at bank and in hand	163
Creditors	(714)
Net separable liabilities acquired	(269)
Goodwill	6,880
	6,611
Satisfied by:	
Cash consideration paid (including acquisition costs paid and payable)	6,611

There have been no fair value or accounting policy adjustments made to the acquired balance sheets.

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15_ acquisition of subsidiary undertakings cont...

Since acquisition, Eclipsys Limited and Eclipsys Pty Limited have contributed £1,671,000 to the Group operating cash inflow.

Pre-acquisition performance of Eclipsys Limited and Eclipsys Pty Limited

The summary trading results of Eclipsys Limited and Eclipsys Pty Limited for the preceding financial year ended 31 December 2000 and from 1 January 2001 to the date of acquisition are as follows:

	12 months to 31 December 2000 £'000	Period to 29 May 2001 £'000
Turnover	1,556	910
Operating costs	(1,391)	(624)
Operating profit	165	286
Net interest received	119	27
Profit before taxation	284	313

ii_Acquisition of Paramedical Pty Limited

On 21 December 2001 the Group acquired 100% of the issued share capital of Paramedical Pty Limited whose assets and liabilities were as follows:

	Book value £'000	Fair value adjustment £'000	Fair value £'000
Tangible fixed assets	12	-	12
Debtors	73	(8)	65
Cash at bank and in hand	45	-	45
Creditors	(317)	(13)	(330)
Net separable assets acquired	(187)	(21)	(208)
Goodwill			485
			277

Satisfied by:	
Cash consideration (including acquisition costs paid and payable)	277

Cash consideration includes £1 paid on acquisition date and an estimated £277,000 of deferred consideration payable upon satisfaction of certain performance criteria by the acquired company over the period to 3 December 2003.

The fair value adjustment has been made to reflect as at the date of acquisition, the fair value of assets and liabilities acquired.

Since acquisition, Paramedical Pty Limited has contributed £213,000 to the Group operating cash inflow and paid £178,000 in respect of financing.

15_ acquisition of subsidiary undertakings cont...

Pre-acquisition performance of Paramedical Pty Limited

The summary trading results of Paramedical Pty Limited for the preceding financial year ended 30 June 2001 and from 1 July 2001 to the date of acquisition are as follows:

	12 months to 30 June 2001 £'000	Period to 21 December 2001 £'000
Turnover	378	186
Operating costs	(621)	(195)
Exceptional costs	-	(1,382)
Operating loss	(243)	(1,391)
Net interest paid	(61)	(44)
Loss before taxation	(304)	(1,435)

The exceptional costs in the period to 21 December 2001 relate to write off of previously capitalised development costs and goodwill.

iii_Adjustment to consideration and fair values acquired on prior year acquisition

ACT Medisys Limited	Provisional fair value £'000	Hindsight period adjustments £'000	Final fair value £'000
Tangible fixed assets	869	(468)	401
Debtors	1,933	(68)	1,865
Cash at bank and in hand	1,509	-	1,509
Creditors	(13,171)	1,020	(12,151)
Net separable liabilities acquired	(8,860)	484	(8,376)
Goodwill			34,291
			25,915

Satisfied by:	
Initial cash consideration (including acquisition costs paid and payable)	26,109
Refund of cash consideration contingent on finalisation of net assets position	(270)
Acquisition costs incurred in the year	76
Final cash consideration	25,915

Following a review of the Companies accounting records, adjustments have been made based on a physical review of fixed assets and detailed review of the recoverable value of debtors and the actual liability value of creditors.

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16_ debtors

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Trade debtors	7,347	-	7,487	-
Amounts owed by Group undertakings	-	24,848	-	11,187
Other debtors	485	43	813	245
Prepayments and accrued income	10,815	112	6,012	-
	18,647	25,003	14,312	11,432

In the normal course of its business the Group enters into financing arrangements with third party funders in respect of specific customer contracts. These transactions are entered into to provide PFI (Private Finance Initiative) compliant finance for the capital cost of multi-year customer contracts. In these arrangements the present value of the customer receivable is matched by the amount due to the funding provider. Given the directly related nature of the transactions the Group does not recognise the equal and opposite related balances. This treatment is in accordance with FRS5.

17_ creditors: amounts falling due within one year

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Bank loans (Note 20)	5,030	5,030	3,905	3,905
Amounts due under finance leases (Note 20)	146	-	199	-
Trade creditors	2,852	214	2,506	513
Amounts owed to Group undertakings	-	203	-	1,027
Corporation tax	2,004	-	2,119	-
Other taxation and social security	2,667	-	579	-
Other creditors	-	-	707	-
Accruals	11,276	3,671	8,440	1,335
Deferred income	8,390	-	8,972	-
Proposed dividends	942	942	841	841
	33,307	10,060	28,268	7,621

18_ creditors: amounts falling due after one year

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Bank loans (Note 20)	**14,663**	**14,663**	19,068	19,068
Amounts due under finance leases (Note 20)	**189**	**-**	240	-
Deferred consideration	**8,277**	**8,000**	8,000	8,000
	23,129	**22,663**	27,308	27,068

The acquisition agreement between KPMG and the Company for the purchase of iSOFT plc on 28 May 1999 provided for an amount of deferred consideration to become payable in cash by the Company in the event that the Company's shares became listed on a recognised stock exchange on or before 30 April 2003. The amount of deferred consideration payable was calculated as a proportion of the market capitalisation of the Company after certain deductions had been made. This amount will only become payable when the directors realise the whole or substantially the whole of their equity shares into cash.

The directors are of the opinion that, taking into account advice received, the amount of deferred consideration which will become payable under this agreement has not altered since the prior period balance sheet date and will not exceed £8,000,000. The amount payable is non interest bearing and has not been discounted.

The balance of the deferred consideration creditor relates to an acquisition during the period. See Note 15 ii.

19_ provision for liabilities and charges

Group

	Deferred tax £'000
Balance at 1 May 2001	(32)
Amount charged to profit and loss (Note 9)	55
Balance at 30 April 2002	**23**

	2002 £'000	2001 £'000
Accelerated capital allowances	**41**	21
Short-term timing differences	**(18)**	(53)
	23	(32)

The prior year deferred tax asset of £32,000 was included within other debtors in the consolidated balance sheet.

The Group has £1,350,000 (2001:£4,349,000) of tax losses carried forward and available for relief against future profits. These tax losses would be recovered on the realisation of suitable taxable profits within the Group.

Company

The Company has no deferred tax balance.

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20_ borrowings

	Group 2002 £'000	Company 2002 £'000	Group 2001 £'000	Company 2001 £'000
Due within one year				
Bank loans	**5,030**	**5,030**	3,905	3,905
Finance leases	**146**	**-**	199	-
	5,176	**5,030**	4,104	3,905
After one but not more than two years				
Bank loans	**4,406**	**4,406**	4,405	4,405
Finance leases	**98**	**-**	102	-
	4,504	**4,406**	4,507	4,405
After two but not more than five years				
Bank loans	**9,007**	**9,007**	10,913	10,913
Finance leases	**91**	**-**	138	-
	9,098	**9,007**	11,051	10,913
More than five years				
Bank loans	**1,250**	**1,250**	3,750	3,750
	20,028	**19,693**	23,412	22,973

All of the Group bank loans and overdraft are secured by a floating charge over the assets of the Group and are subject to interest at 1% over the bank's base rate.

The Group bank loans consist of: £2,068,000 outstanding on a medium term loan, repayable quarterly at £230,000 with final payment of £260,000 due on 31 July 2004; £3,250,000 *outstanding on a term-loan, repayable quarterly at £250,000 with last payment due on* 1 May 2005; £14,375,000 outstanding on a term-loan, repayable quarterly at £625,000 with last payment due on 31 October 2007.

The Group overdraft facility is £6,000,000. At 30 April 2001 the Group overdraft facility was £10,000,000 less the amount outstanding on the medium term loan.

21_ financial instruments

The Group's financial instruments comprise bank borrowings, some cash and various items, such as trade debtors, trade creditors etc. that arise directly from its operations. The Group does not use derivative instruments in the course of its business. Short-term debtors and creditors have been excluded from all of the following disclosures as they are dealt with during the normal course of business, under working capital management and credit control. The Board considers that the fair value of financial assets and liabilities is not materially different from the book value. The main risks arising from, and impacted by, the financial assets and liabilities of the Group are interest rate risk, foreign currency risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. There is also a small amount of finance lease commitment. The Group has arranged facilities whereby United Kingdom held cash balances are used to net off the balance on the loans, with interest calculated on the net balance. Interest on all loans and overdrafts is charged at 1% over the base rate.

The interest rate exposure of the financial liabilities of the Group was as follows:

	Fixed interest rate		**Floating interest rate**		**Total**	Total
	2002	2001	**2002**	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Sterling						
- Loans	**-**	-	**19,693**	22,973	**19,693**	22,973
- Finance leases	**335**	439	**-**	-	**335**	439

The only financial assets held by the Group (excluding debtors due within one year) that are sufficiently material to require disclosure are cash at bank. Amounts held were as follows:

	2002	2001
	£'000	£'000
Sterling	**19,814**	8,754
Australian dollar	**3,728**	1,037
Indian rupees	**171**	107
	23,713	9,898

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21_ financial instruments cont...

Currency risk

The Group is exposed to translation and transaction foreign exchange risk. The Group regularly reviews its exposure to translation risk and where appropriate will match this risk with an appropriate level of borrowings in the same currency. If necessary, transaction risk would be minimised by use of the forward hedge market.

Liquidity risk

Group policy is to maintain a mix of short, medium and long term borrowings with their bankers. Short-term flexibility is achieved by overdraft facilities. Details of the year end position, which is in accordance with this policy, are given in Note 20.

The facilities are subject to review as follows:

The overdraft facility is subject to review on an annual basis, with the next review due on 31 March 2003.

At 30 April 2002 and 30 April 2001, the Group had no undrawn committed borrowing facilities.

Maturity of financial liabilities

The Group's financial liability analysis at 30 April 2002 is set out in Note 20.

22_ share capital

Authorised	2002 £	2001 £
200,000,000 ordinary shares of £0.10 each	**20,000,000**	20,000,000

Allotted and fully paid	2002 £	2001 £
117,724,779 (2001:112,124,779) ordinary shares of £0.10 each	**11,772,478**	11,212,478

Shares issued during the period

On 22 June 2001 5,600,000 £0.10 ordinary shares were issued at £2.40 per share. The premium on issue of these shares, net of issue costs, was taken to the share premium account.

23_ share options

The following options are outstanding under the iSOFT Group Number 3 Executive Share Option Scheme, which is an unapproved scheme. Exercise of these options is subject to employees meeting individual performance criteria and also to the performance of the Company. Options include directors' share options. All options were granted at market value at the date of grant.

Date of grant	Number	Subscription price per share (pence)	Personal performance period ends	Period of option
11 Jul 2000	2,500,000	110.0	10 Jul 2001	11 Jul 2003 - 10 Jul 2010
20 Dec 2000	250,000	174.0	19 Dec 2001	20 Dec 2003 - 19 Dec 2010
13 Apr 2001	170,000	189.0	12 Apr 2002	13 Apr 2004 - 12 Apr 2011
22 Jun 2001	850,000	249.0	21 Jun 2002	22 Jun 2004 - 21 Jun 2011
11 Oct 2001	1,486,000	217.5	10 Oct 2002	11 Oct 2004 - 10 Oct 2011
5 Jan 2002	100,000	273.0	4 Jan 2003	5 Jan 2005 - 4 Jan 2012

All options granted are subject to the Company performance condition, measured over three years from the date of grant.

No options were exercisable during the period.

The iSOFT Group Number 2 Executive Share Option Scheme is an Inland Revenue approved share option scheme, under which no share options have been granted at the year end.

These share schemes have been set up under a joint election to transfer the liability for employers NI to the employee. In accordance with UITF25 no NI cost has been recognised in the accounts.

24_ share premium account and reserves

Group	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At 1 May 2001	5,821	7,204	3,599
Retained profit for the period	-	-	7,581
Exchange differences	-	-	178
Premium on shares issued net of issue costs	12,506	-	-
At 30 April 2002	**18,327**	**7,204**	**11,358**

Company	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At 1 May 2001	5,821	7,204	443
Retained profit for the period	-	-	2,060
Exchange differences	-	-	-
Premium on shares issued net of issue costs	12,506	-	-
At 30 April 2002	**18,327**	**7,204**	**2,503**

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25_ reconciliation of operating profit to net operating cash flows

	2002 £'000	2001 £'000
Operating profit	**13,148**	5,760
Amortisation of intangible assets and goodwill	**3,271**	1,535
Depreciation of tangible fixed assets	**513**	386
Increase in debtors	**(4,357)**	(994)
Increase in creditors	**4,180**	1,681
Loss on sale of fixed assets	**78**	-
Foreign exchange differences	**72**	(64)
Net cash inflow from continuing operating activities	**16,905**	8,304

26_ analysis of change in net (debt)/funds

	At 1 May 2001 £'000	Cash flow (excl. cash) £'000	Acquisition £'000	Non cash movements £'000	At 30 April 2002 £'000
Cash at bank and in hand	9,898	13,815	-	-	**23,713**
Net cash	9,898	13,815	-	-	**23,713**
Bank and other loans	(22,973)	3,472	(178)	(14)	**(19,693)**
Finance leases	(439)	176	-	(72)	**(335)**
Borrowings	(23,412)	3,648	(178)	(86)	**(20,028)**
Net (debt)/funds	(13,514)	17,463	(178)	(86)	**3,685**

27_ reconciliation of net cash flow to movement in net funds

	2002 £'000	2001 £'000
Increase in cash	**13,815**	9,095
Cash outflow/(inflow) from decrease/(increase) in debt	**3,648**	(18,540)
Decrease/(increase) in net funds/(debt) from cash flows	**17,463**	(9,445)
Debt acquired with subsidiary	**(178)**	(447)
New finance leases incepting in the period	**(120)**	(41)
Finance lease reduction by way of asset disposal	**48**	-
Amortisation of loan arrangement fees	**(14)**	(14)
Decrease/(increase) in net funds/(debt) in the period	**17,199**	(9,947)
Net debt at 1 May 2001 and 1 May 2000	**(13,514)**	(3,567)
Net funds/(debt) at 30 April 2002 and 30 April 2001	**3,685**	(13,514)

28_ operating lease commitments

	2002	2001
	£'000	£'000
Annual property rentals on leases which expire:		
Within one year	**203**	212
Between one and five years	**651**	395
	854	607

	£'000	£'000
Annual equipment rentals on leases which expire:		
Within one year	**143**	48
Between one and five years	**279**	118
	422	166

	£'000	£'000
Annual motor vehicle rentals on leases which expire:		
Within one year	**49**	23
Between one and five years	**45**	34
	94	57

29_ capital commitments

At the year end neither the Group nor the Company had entered into any capital commitments.

30_ contingent liabilities

A contingent liability of £184,000 existed at the year end. This value represents the element of the deferred consideration relating to the acquisition during the year of Paramedical Pty Limited, which becomes payable as a result of certain performance criteria being met for the period to 30 April 2004, the payment of which is not considered probable.

31_ related party transactions

There were no related party transactions during the period.

32_ post balance sheet event

On 18 June 2002 the Company agreed to acquire the healthcare business of Northgate Information Solutions plc. Completion of the acquisition is subject only to the approval of the vendors shareholders. Upon satisfaction of this condition, a cash consideration of £33.0m will be paid. It is proposed that this acquisition will be funded by a new term loan debt facility.

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directors and advisors

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Board of directors

Roger Dickens	Executive Chairman
Patrick Cryne	Chief Executive
Steve Graham	Chief Operating Officer
Tim Whiston	Group Finance Director
Graeme Wilson	Asia Pacific Chief Executive
Digby Jones	Non-executive director
Eurfyl ap Gwilym	Non-executive director
Geoff White	Non-executive director

Company Secretary	Tim Whiston
Senior non-executive director	Digby Jones
Audit Committee	Eurfyl ap Gwilym, Committee Chairman, Digby Jones, Geoff White
Appointment and Remuneration Committee	Geoff White, Committee Chairman, Digby Jones, Eurfyl ap Gwilym,
Financial Advisors and Stockbrokers	Hoare Govett Limited, 250 Bishopsgate, London EC2M 4AA
Auditors	RSM Robson Rhodes, Colwyn Chambers, 19 York Street, Manchester M2 3BA
Solicitors	Ashurst Morris Crisp, Broadwalk House, 5 Appold Street, London EC2A 2HA
	Pinsent Curtis Biddle, 3 Colmore Circus, Birmingham BH4 6BH
Bankers	Lloyds TSB Bank plc, Birmingham City Centre, PO Box 908, 1 Cornwall Street, Birmingham B3 2DS
Public Relations	Citigate Dewe Rogerson, 3 London Wall Buildings, London Wall, London EC2M 5SY
Registrars	Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA
Registered and Head Office	Bridgewater House, 58-60 Whitworth Street, Manchester M1 6LT
Registered number	3716736