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iSOFT

iSOFT Group plc
Annual report and accounts for the year ended 30 April 2007

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REPORT OF THE CHAIRMAN AND ACTING CHIEF EXECUTIVE OFFICER

Introduction

I write to you at a time when the sale process has been extended as a result of the improved all-cash offer received from CompuGROUP on 20 July 2007. The offer from CompuGROUP represents a significant premium over the IBA Health bid and is a satisfactory outcome for shareholders.

I would not wish to gloss over the fact that long-term shareholders in iSOFT have suffered a substantial decline in the value of their investment since late 2005. However, after the many disappointments that occurred in the first six months of 2006, we have made considerable progress in rescuing iSOFT and restoring it to a position where today the Group has solid value, as recognised by the CompuGROUP offer. After a complex and painstaking sale process, iSOFT is at last on the way to becoming part of a well-funded group with growth prospects.

Trading results for the year ended 30 April 2007

By way of introduction to the results, let me remind you that between January and June 2006, iSOFT experienced a series of difficulties, starting with a profits warning triggered by difficulties in the National Programme for IT in England (NPfIT). Many of those difficulties were outside our control and caused consequential delays to the delivery of LORENZO. The situation was further aggravated by speculation and media comment and a necessary decision to change the Group's accounting policy for the recognition of revenues, which exposed starkly the underlying funding issues that it faced. In July 2006 we became aware of certain accounting irregularities involving 2004 and 2005, the effect of which appears to have been to recognise some revenues earlier than they should have been which, following an independent investigation, were reported to the FSA. The resulting FSA investigation remains ongoing, but is focused on the issues we reported to them.

Tim Whiston resigned as Chief Executive Officer on 14 June 2006 and I took over as acting Chief Executive Officer in addition to my role as Chairman. Since then, new management has been brought into the Group, we have renegotiated the terms of our relationship with CSC on the NPfIT, launched a regeneration programme and initiated discussions leading to the current offer from CompuGROUP. Whilst revenues and profit from operations prior to exceptional items for the year ended 30 April 2007 were lower than in the corresponding period, both profit from operations prior to exceptional items and the year-end cash position were considerably better than we had budgeted for at the beginning of the year.

The trading performance in the financial year was within the range of the Group's recently stated expectations. In spite of the difficult trading circumstances in which we have operated during the past twelve months, there is a large installed base of systems generating solid recurring revenue streams. I indicated last October that we expected revenues for the full year to be 10–15% lower than last year and the final outcome was in the middle of that range, with sales 13.1% lower year-on-year, at £175.2 million. In Europe, the disposal of our operation in Switzerland in May 2006 was more than offset by a first full-year contribution from our Spanish operation, which was acquired in October 2005.

A sharp reduction in the overall cost base enabled us to report a normalised profit from operations of £6.6 million (2006: £13.3 million) before £21.0 million of net exceptional items (2006: £351.4 million). Had we not taken urgent action to cut costs, it is likely that iSOFT would have registered a substantial normalised operating loss for the year. At the start of May 2006 the Group's cost base was running at an annualised rate of nearly £210 million, which reflected an organisation that had been focused too much on growth and too little on cost efficiency, especially at the corporate level. Development costs were also very high and rising fast, partly because we were, and to an extent still are, bearing the dual costs of maintaining the existing portfolio of strategic products, while at the same time applying maximum effort to complete the development of LORENZO for delivery to the NPfIT in 2008. Operating costs excluding exceptional items for the full year ended 30 April 2007 were just below £170 million.

Net financing costs rose to £7.7 million (2006: £5.6 million) reflecting higher underlying working capital levels due to the "unwinding" of prior year advance payments, largely offset by the favourable impact of action to manage our balance sheet resources more tightly. However, there was a sharp increase in the cost of borrowing from January 2007 onwards when special payment-in-kind (PIK) interest became payable under the terms of the bank agreement put in place in August 2006.

Of the exceptional costs of £21.8 million, £4.0 million related to the closure of the former head office in Manchester and £11.3 million to redundancy and regeneration plan costs. A further £6.5 million was incurred for legal and advisory fees relating to changes in our funding arrangements, strategic sale discussions and the FSA investigation. The disposal of the Swiss operation resulted in a net gain of £0.3 million and the write-back of negative goodwill resulted in a gain of £0.6m.

There was a net tax credit of £13.2 million for the year, resulting in a net loss of £8.8 million compared with a net loss of £382.2 million in the previous year, most of which arose as the result of a one-time goodwill impairment charge of £351.4 million. A tax refund of £21.5 million was agreed in connection with the restatement of prior year revenues at 30 April 2006, of which £5.3 million was received in the first half and the balance in the second half.

There were 232,485,722 shares in issue at 30 April 2007, with outstanding warrants to subscribe for a further 8,595,362 shares.

Funding

The Group had net debt of £67.9 million at 30 April 2007, compared with £41.8 million at the end of the previous year, largely due to the impact of unwinding up-front payments received in prior years. The debt position was significantly better than originally expected due to the tax refund received, action taken under the regeneration programme and the incentive to minimise debt ahead of PIK interest charges.

The Group signed a new agreement with its banks at the end of August 2006, which provided facilities of £141 million until November 2007. The cost of drawings against those facilities ranges from 200–450 basis points over LIBOR. However, the Group was required to pay additional PIK interest at the rate of 5% per annum on the total committed facilities from 1 January 2007, which rose to 7.5% per annum with effect from 1 April 2007 and 10% per annum from 1 July 2007 onwards.

Under the terms of the CompuGROUP offer, iSOFT's bank facilities will be fully repaid. Letters of credit and other guarantees of £46.1 million that were outstanding at 30 April 2007 are due to unwind almost entirely over the next year and a half as the contracts are delivered. These contingent commitments will also be taken over by CompuGROUP. The balance of outstanding third-party contract financing arrangements that amounted to £43.6 million at 30 April 2007 will unwind in the normal course of business predominantly over the next two years. CompuGROUP will finance the acquisition and repayment of iSOFT's existing bank facilities, which are repayable upon a change of control of iSOFT, and the ongoing working capital requirements of the Enlarged Group, through a combination of CompuGROUP Holding's existing cash resources and committed new debt facilities of £285 million arranged and underwritten by SEB AG.

New agreement with CSC—progress with the National Programme

In August 2006, we entered into a new contract with CSC, with whom we have been working successfully in the North West region of the NPfIT since 2004. Under that contract, iSOFT agreed to be paid by CSC based on delivery against a number of key milestones. The majority of these milestones involved key product deliverables, comprising interim stages leading to the delivery of full LORENZO 3.5 functionality in the first quarter of 2008. As the quid pro quo for greater control and certainty over payment, iSOFT agreed that in the event it failed to deliver on time against the key milestones, CSC would have the right to step in and manage iSOFT's development operation, but without taking over any intellectual property rights.

The agreement was entered into in anticipation of a major redistribution of responsibilities within the NPfIT. In September 2006 it was announced that Accenture would transfer to CSC its obligations to provide services to the North East and East and East Midlands ("EEM") regions with effect from 8 January 2007 and CSC retained iSOFT to provide software in the regions that it took over.

The August 2006 agreement with CSC has recently been superseded. On 18 June 2007, iSOFT and CSC agreed to integrate their teams involved in the development of software for NPfIT, under CSC's leadership. iSOFT will contribute certain of the teams of people directly involved in the NPfIT project, although the responsibility for employment of all such staff would remain with iSOFT.

iSOFT will retain the intellectual property rights to LORENZO, including the rights to exploit it outside the CSC clusters. LORENZO installations (current and planned) outside these clusters will be unaffected and iSOFT does not anticipate that the changes to the contract will impact its core long-term strategy of

developing LORENZO as its strategic product to be sold internationally. In addition to LORENZO, CSC will take responsibility for the code streams of i Patient Manager (i PM) and i Integration Engine (i IE) for the NPfIT, two of iSOFT's current products. The provision and support of these products by iSOFT for other customers will be unaffected.

Some two-thirds of licence payments to iSOFT under the new agreement will for the next three years be calendar-based and the remainder will be based on mutually agreed milestones in order to ensure the alignment of both parties' interests. At the same time, CSC gave its consent under the August 2006 agreement to a change of control in the ownership of iSOFT.

This series of changes has seen us move from a complex organisation structure serving two separate customers on the NPfIT (Accenture and CSC) to one in which we now have a single organisation fronting up to the NHS, providing a streamlined and simplified management structure. I am convinced that this is a much better way forward for ourselves, for CSC and ultimately of course for the NHS.

Under the terms of the CompuGROUP offer for iSOFT that was published on 20 July 2007, CompuGROUP declared that, if it is successful in acquiring iSOFT, it intends to sell to CSC those parts of iSOFT's operations that are currently under CSC management and which develop and support product for the NPfIT and that CompuGROUP will transfer to CSC copies of certain source codes, tangible assets and staff resources used by iSOFT in the business of the development and support of the NHS versions of the LORENZO software and the NPfIT versions of i Patient Manager and i Integration Engine.

The Regeneration Plan

In July 2006 we began an intensive two-year transformation process covering every aspect of the business, which we refer to internally as the Regeneration Plan. The Regeneration Plan was launched formally in September 2006. The Group's management has been strengthened, product management is being fully integrated with product development on an international basis and we have already made substantial progress in reducing our cost base. The one-time costs of this action were significant last year, but will provide a solid foundation for the future.

We have put into action a series of radical changes to the business to ensure that we maximise the commercial opportunities for the product portfolio, that the cost base is appropriate for the business today and that it is an efficient, lean base for the coming years. In terms of operating and overhead costs, we have been engaged in a continuous process of cutting costs. The closure of the Company's head office in Manchester and the transfer of key support functions to other operational locations were typical of the radical action that we felt was necessary.

The initial target of this programme was to reduce the annualised cost base from £210 million at the start of last year, to below £180 million in the financial year which commenced 1 May 2007. With operating costs excluding exceptional items for the full year ended 30 April 2007 down to less than £170 million we are running ahead of that target and there is potential for further reductions in due course, especially once LORENZO has been launched. At the same time, some reinvestment will be required to rebalance the business to an optimal size and shape, which we expect will result in an ongoing cost level at, or slightly below, the level incurred in 2007.

Commercial strategy and product development

We are committed to deliver LORENZO 3.5 to CSC by early 2008 and CSC in turn is due to start rolling it out to the NPfIT from mid-2008 onwards. This is the single most important task we face today and the future of the Company relies heavily on it.

Our aim over the next few years is to exploit fully the existing portfolio of strategic products—especially i PM and i CM—prior to the gradual introduction of LORENZO from mid-2008 onwards. We are currently supporting too many variants of our core portfolio of around 30 existing products and have therefore put in place a central product management function, whose principal objective is to rationalise the portfolio and standardise products based on a single, configurable code stream across all of our international country operations, thereby leveraging our experience to a far greater degree.

LORENZO is iSOFT's flagship strategic offering and it is central to the Group's future. It is an integrated healthcare system, built using a modern service oriented architecture (SOA) and adopting web-based protocols. It is designed to be flexible and adaptable and will provide customers with easy operability and lower costs of ownership than any other healthcare IT product. That flexibility will enable customers

to upgrade existing systems incrementally, phase and manage their investment resources and provide them with a low-risk, fully compatible upgrade path

LORENZO comprises several layers of development. The technology layers provide a framework within which both iSOFT and third-party systems can be retained by customers but enabled to communicate securely with newly installed LORENZO solution applications. LORENZO functionality is now being tested at early adopter sites in Germany and the Netherlands.

We continue to apply substantial resources to the development of LORENZO, with much of that resource located in Chennai and Hyderabad in India, where the Group now has approaching 1,300 employees, being enhanced by resources from CSC.

Investigation into possible accounting irregularities

In June 2006 the Group announced a change in accounting policy for revenue recognition, as a consequence of which it became necessary to review and restate revenues in prior years. Arising out of that review a number of possible accounting irregularities came to light in which it appears that some revenues reported in the financial years ended 30 April 2004 and 2005 may have been recognised earlier than they should have been.

On 20 July 2006 the Group engaged its auditors, Deloitte & Touche LLP, to conduct a formal initial investigation into these possible irregularities. In August 2006 it was confirmed that there were indeed matters that needed further investigation and we handed over relevant documents to the Financial Services Authority (FSA), which is now conducting that investigation. The Group is working closely and co-operatively with the FSA in order to complete the investigation as quickly as possible.

On 25 October 2006 the Accountancy Investigation and Discipline Board (AIDB) announced that it will conduct its own investigation. The AIDB investigation is a review of the conduct of those members of accountancy bodies that are regulated by the AIDB who were executive or non-executive directors of iSOFT during the relevant periods, and RSM Robson Rhodes LLP, iSOFT's auditor for the financial years ended 30 April 2003, 2004 and 2005.

All current executive directors of iSOFT who are members of those accountancy bodies were appointed after the dates under investigation, as was the non-executive director who is currently chairman of the audit committee. The initial investigation into possible accounting irregularities conducted by Deloitte & Touche LLP in July and August 2006 did not uncover evidence that any of the current non-executive directors had any knowledge of the irregularities.

At the present time we have no indication of when either the FSA or the AIDB intend to conclude their investigations and report. On the basis of information that has come to light so far, the directors consider that the restatement of revenues in the financial statements for the year ended 30 April 2006 corrected, where appropriate, the impact of these particular matters. As the investigation is not yet concluded, it is not possible for the Board to finally determine what implications, if any, may arise from the conclusion of the investigation into these matters. Nevertheless they must be thoroughly investigated and we will continue to co-operate with both organisations.

Board changes

The Board underwent further substantial change during the year. Tim Whiston resigned as Chief Executive Officer on 14 June 2006 and I took over the responsibilities of the Chief Executive Officer from that date. The original intention was to appoint a suitable replacement as soon as possible but the recruitment process was put on hold in October 2006 when we decided to enter into discussions with a number of external parties that had expressed an interest in acquiring all or part of iSOFT.

On 8 August 2006, iSOFT announced that Steve Graham, then Commercial Director of the Company, had been suspended following the initial investigation into possible accounting irregularities in the financial years ended 30 April 2004 and 2005. On 27 March 2007 the Board decided to remove Steve Graham as a director and he also ceased to be an employee of the Company on that date.

On 31 January 2007, Bill Henry was appointed to the Board. Bill joined the Group as Chief Operating Officer on 28 June 2006 after serving as Chief Executive of Star Technology Services. Bill's experience and input have been instrumental in helping us to make a strong start in turning around the financial performance and prospects of iSOFT, and the Board was very pleased to recognise his contribution by appointing him as a member of the Board.

On 4 May 2007 Ravi Kumar, Chief Technology Officer, resigned from the Board by mutual consent. Ravi made an enormous contribution to iSOFT over many years and in particular through his vision in creating the framework design for LORENZO. The Board wishes him good fortune for the future.

Management and employees

The management of the Company and all our staff have shown great support and understanding in dealing with the challenges we have faced in the past twelve months and once again I should like to thank them all for their support.

About 700 of our employees in the UK and India, representing about a quarter of our total staff, have started operating under CSC's management while LORENZO 3.5 and LORENZO 4.0 are completed. This is an unusual arrangement but one that is in the best interests of the NPfIT and ultimately of iSOFT. I hope and expect that the experience of working closely with the CSC Alliance on NPfIT will be valuable for everyone.

Under the terms of the CompuGROUP offer announced on 20 July 2007, the above members of staff would become full-time employees of CSC.

Prospects

Until the sale process has been fully resolved, it remains difficult to close sales of new systems to some customers. Once this situation is resolved, the Board currently believes that the Group will be better positioned to achieve some sales growth. The Board does not expect the Group to return to significant and sustained revenue growth until LORENZO is developed to such a point where it is broadly marketable outside the UK, this point to be reached in late 2007/early 2008. The Board's current expectation is that revenues associated with international sales of LORENZO would not occur until fiscal 2009 and beyond.

The cost base has been reduced substantially during 2007 and we begin the current financial year with the expectation that, including reinvestment, the cost base will be similar to 2007. The Board expects the ongoing Regeneration Programme to further reduce this cost base in the medium term, although the majority of cost reduction initiatives have already been taken. However, with an improved outlook for revenues once the business has long-term financing in place, and the further action we can take with regard to the cost base, we are optimistic with respect to the prospects of the Group.

In conclusion, we have made significant advances since the middle of 2006. Our position in the UK National Programme for IT has been stabilised and the new agreement with CSC underpins and de-risks the development programme for LORENZO, which we continue to believe is potentially the most advanced healthcare IT system in the world.



John Weston
Chairman and Acting Chief Executive Officer
31 July 2007

PROFILE

About iSOFT

iSOFT builds software applications for the healthcare market. We are a leader in the provision of advanced application solutions in modern healthcare economies around the world. We are creating solutions that set a new standard in supporting co-operation between all those involved in healthcare delivery.

iSOFT has delivered applications to more than 8,000 healthcare units in 27 countries, including 1,800 hospitals and more than 6,200 family doctor practices.

iSOFT is developing and starting to deliver **LORENZO**, its next-generation product, which we believe is one of the most advanced healthcare IT systems in the world. **LORENZO** is based on a service oriented architecture (SOA), which makes it highly flexible and scaleable, with low costs of maintenance and operation. **LORENZO** provides a low-risk, modular upgrade path for healthcare authorities.

LORENZO is a state-of-the-art healthcare solution addressing fully the administrative and clinical information management requirements of citizens, patients and healthcare professionals. It is designed to help promote clinical and corporate governance, quality, efficiency and consent in healthcare, enhancing the experience for all participants. It provides growth potential and flexibility for the future.

LORENZO—One product, many solutions.

History of iSOFT

The business initially operated as part of the KPMG partnership under the trading name KPMG Health Systems. The business was bought out from KPMG in April 1998. On 19 July 2000, iSOFT Group plc achieved a full listing on the London Stock Exchange. The business has since continued to act as a consolidator in the healthcare applications market and the principal milestones of its development are set out below.

- 2006 Disposal of Swiss operations
- 2005 Acquisition of Novasoft Sanidad S A
- 2004 World-wide strategic alliance with Microsoft
- 2004 Two principal contracts entered into to deliver software and services as part of the National Programme for IT (NPfIT) in England
- 2003 Merger with Torex plc
- 2002 Acquisition of Revive Group Limited
 - Acquisition of Paramedical Pty Limited
 - Acquisition of healthcare business of Northgate Information Solutions plc
 - Microsoft global launch partner and the only European software partner for the Windows XP Tablet PC launch
- 2001 Dedicated offshore development business established in Chennai, India
 - Acquisition of ACT Medisys Limited
 - Acquisition of Eclipsys Limited and Eclipsys Pty Limited
- 2000 Full listing on London Stock Exchange
- 1999 Only Microsoft SQL Server 7.0 launch partner in UK health
 - Acquisition of CSC's Australian healthcare systems business
- 1998 Management buy-out by senior executives to create iSOFT
- 1994 Healthcare information systems business founded within KPMG

Strategic objectives

iSOFT's aim is to become a global leader in the development and distribution of comprehensive and modern software applications for the healthcare sector. These applications are a core component of modern healthcare IT investment programmes.

iSOFT was among the first to predict the nature and scope of the healthcare reform now being seen in many of the world's modern economies and the important role that information technology has to play in supporting this reform agenda. The demand for modern information management systems is growing and the Group is uniquely placed to participate as an international vendor.

Business strategy

A clearly defined business strategy accompanied iSOFT's listing on the London Stock Exchange in 2000. Consistent with this strategy, management has from the outset focused on exploiting the best technology available to develop software application systems that address the administrative and clinical information management needs of healthcare provider organisations. These needs include administrative tasks such as appointment booking, resource scheduling, clinical information management and electronic patient record creation and exchange.

As the demand for advanced healthcare applications has developed, both in the UK and internationally, iSOFT has established a reputation for anticipating and planning for the emerging requirements of modern healthcare provision. Management's strategy for developing the Group's global capability has been focused on leveraging the extensive existing product portfolio by incorporating international best practice into new strategic product offerings such as LORENZO. The Group seeks to combine this expertise with the latest relevant and proven technologies to create the most competitive application offerings whilst minimising technology risk.

The following diagram illustrates the success achieved by iSOFT in building successive generations of software, by predicting and then targeting the evolving market requirements, whilst also harnessing the best available technology at the time.

Image removed for filing purposes please visit
www.isoftware.com/financial information for complete version

iSOFT recognised that large-scale procurement needs would favour international vendors of substance, often operating in consortia. iSOFT has therefore built business alliances and, where appropriate, made strategic acquisitions which equip the Group to accommodate local requirements, whilst delivering solutions that reflect international best practice.

Market drivers

Modern economies face a number of common challenges in healthcare provision.

The rising cost of healthcare An ageing population, rising prescription drug costs, malpractice claims, government regulation and advances in medicine and diagnostic techniques have increased costs associated with healthcare delivery.

Increasing patient-driven demand A rise in healthcare consumerism, with patients demanding greater access to safe, timely, quality care and, where direct payment is required, competitive pricing.

Reduced funding Changes in funding models, typically resulting in a reduction in the level of funding available, are compelling drivers for increasing efficiency, particularly in clinical and administrative workflows

Increasing regulation As new and more rigorous clinical governance and mandatory reporting regulations are introduced, providers continue to assess and upgrade IT systems to achieve compliance

These drivers are consistent throughout all modern healthcare economies, thereby creating a significant global market for integrated IT applications, systems and solutions Individual economies are re-engineering their domestic healthcare systems at different rates, with the UK National Health Service leading the way It is now widely accepted that addressing the needs of individual healthcare units on a standalone basis will not suffice if meaningful improvements are to be achieved More fundamental structural reform is required with care processes delivered by a variety of healthcare organisations and professionals acting collaboratively and in increasingly formalised relationships

Investment in a new generation of information management systems, which permit the scheduling of resources and the communication of comprehensive patient information across traditional organisational boundaries, is now recognised as critical to supporting the transformation of healthcare provision

Market size

The international healthcare information technology market, including software, hardware and services, was estimated to be worth just over £10 billion in 2005 Frost & Sullivan forecast that this figure will reach £17 billion by 2010, giving a compound annual growth rate (CAGR) of around 11% The size and growth rates for each major region are estimated as follows

	EMEA	Americas	APAC	Total
	£m			
Market size 2005	1,996	6,882	1,322	10,200
% CAGR	10.6%	10.7%	12.1%	10.9%
Est market size 2010	3,303	11,443	2,340	17,086

Source Frost & Sullivan—Global Market Sizing, Analysis of Healthcare IT Markets, March 2006

EMEA: Europe (including Scandinavia), Middle East and Africa

Americas United States and Canada, Central and South America

APAC: Asia Pacific, including Australia and New Zealand

The Group believes that healthcare information software represents approximately 40% of the above market

International competition

Given the historic fragmentation of the healthcare systems market, the competitive landscape in each geographic market tends to be dominated by small, country-specific vendors ahead of market reform (e.g. the NPfIT in England) In line with the market's move towards more comprehensive integrated solutions, sub-scale local vendors are increasingly being squeezed out of the market in favour of a small number of international vendors with the reputation and investment capacity to deliver against integrated national requirements

iSOFT's broad and technologically capable product offering and large number of reference sites creates a strong competitive position in the global healthcare IT market iSOFT's success in recent high-profile procurements has confirmed the strength of the Company's product and, in particular, that of the LORENZO strategic application roadmap iSOFT is today a leading supplier of technologically advanced healthcare software applications in the international market, due to the Company's significant installed international base, its market-leading LORENZO solution roadmap, participation in major market reform projects and key early adopter reference sites

Barriers to market entry

iSOFT software has already been deployed in a large number of trusts and healthcare organisations. To replace these installed systems with alternative systems and applications would be expensive, time-consuming and would potentially lead to a loss of functionality.

The LORENZO roadmap provides the most advanced and only fully integrated software solution capable of seamlessly meeting both the functional and strategic capabilities sought by the NPIIT in England and other large-scale healthcare procurement organisations. Given the broad conservatism of the healthcare market, any major new investment must support the phased migration of existing legacy systems, thereby reducing the risks and cost associated with new IT investments.

In summary, the structural growth market for international healthcare IT, combined with iSOFT's well-established international position and market-leading LORENZO solution, provides a basis for solid growth over the coming years.

FINANCIAL AND OPERATING REVIEW

Overview

The year ended 30 April 2007 was another challenging period. Operationally the Group made considerable progress in stabilising the business after the difficulties experienced in 2006. In particular, we have revised our agreements under the National Programme for IT in England (NPfIT). Working now with CSC alone, we present a single delivery organisation to the NHS, thereby streamlining service delivery and de-risking the launch of LORENZO.

We have also substantially reorganised and strengthened our business structures, bringing in new management and reducing the cost base of the Group.

Accounting policies

The Group's financial statements have been prepared under International Financial Reporting Standards (IFRS). There have been no new standards or changes to the interpretation of existing standards that have a material impact upon the results of the Group in the current year.

Trading results

In the year to 30 April 2007, Group revenues decreased from £201.7 million to £175.2 million. Although iSOFT has a large installed base of customers that generates significant levels of recurring revenue, the ability to win new contracts was affected by adverse publicity surrounding the Group's financial position last year and recently by uncertainties surrounding its long-term ownership.

Profit from operations before exceptional items was £6.6 million, compared with £13.3 million for the previous year. This operating margin of 3.8% reflected the reduced level of revenue and a substantial level of operational expenditure on maintaining existing products and developing the LORENZO platform. The Group continues to maintain nearly 30 core products within its intellectual property portfolio whilst at the same time developing LORENZO. In 2007, the cost of product development and support was £22.5 million, which compares with £22.6 million in the previous year. This is an essential commitment to maintaining the Group's position as a leading healthcare software product and services company.

We have continued to invest in our dedicated Product Development Centre in Chennai, India, and the Solution Centre in Hyderabad. The average number of application specialists was 1,481 compared to 1,454 last year, representing approximately 48% of the total headcount of the Group. Investment in the Product Development Centre peaked in September 2006 and the total headcount had fallen to below 1,300 by year-end. We anticipate a reduction in the number of core products being maintained as the product streamlining process continues and as many existing products are replaced over the medium term by the LORENZO product suite.

We also reduced corporate overheads sharply following the launch of the regeneration plan in September 2006. Operating costs excluding exceptional items were reduced in the year from £188.4 million to £168.6 million through reductions in headcount, closure of the Group's former head office in Manchester and tight management of discretionary costs.

Group profitability is clearly below our medium-term expectations. To improve efficiency and streamline the cost base, we continue through the regeneration programme to reduce costs further across the business, whilst investing in specifically targeted areas to ensure progress in our operational delivery is maintained.

Operating performance

The iSOFT strategy is to develop and promote a common software application offering that is adaptable for all markets and this continues to provide a focal point for our operational and marketing activities. The Directors believe that the LORENZO concept is being positively received by customers. Product roll-out is taking place at early adopter sites in Germany and the Netherlands, and we expect to see the commencement of LORENZO user functionality in the United Kingdom from mid-2008 onwards. The Group's mainstream activities in the United Kingdom, Europe and Asia Pacific continue in the meantime to sell and support the existing product portfolio, aided by the pull of the LORENZO product roadmap.

Our activities in the United Kingdom remained dominated by the provision of services around a strong installed base of existing clients. During the year the Group reached an agreement whereby the iSOFT NPfIT software will be installed in seven hospitals in the London and Southern regions. Work under the NPfIT is building up, with the interim delivery of existing products such as iSOFT Patient Manager (iPM) and iSOFT Clinical Manager (iCM) into many health trusts. Existing systems are being packaged with core elements of LORENZO technology, enabling those systems to communicate with the NHS National Data Spine and the new national network. Existing applications will be upgraded to LORENZO functionality from mid-2008 onwards. This will provide customers with a phased, low-risk migration of their systems.

In Asia we have seen progress with a dedicated local team now in place. The major project win in the year was in Malaysia where a contract for a fully-integrated iSeries system including clinical, pharmacy and laboratory functionality was won and will be delivered in the current financial year. In our Australia/New Zealand business we continue to see progress with significant iSeries functionality being delivered into Victoria Health.

In Europe, we have delivered LORENZO clinical functionality into the University Hospital Aachen in Germany. The systems are being vigorously tested for scalability and functionality and we are making solid and satisfactory progress. Our operations in the Netherlands and Germany continued to strengthen their market positions while in Spain our new organisation acquired in late-2005 made good progress. We believe that many of the major countries in Western Europe will introduce standardisation in the provision of healthcare systems in the coming years to reduce costs and improve the quality of services. This represents a significant opportunity for iSOFT in the future, benefiting from its experience in the United Kingdom.

Exceptional Items

The Group incurred exceptional costs of £21.8 million, including £4.0 million for closure of the former head office in Manchester and £11.3 million in redundancy and reorganisation costs. A further £6.5 million was incurred for legal and advisory fees relating to changes in our funding arrangements, strategic sale discussions and the FSA investigation. The results for the year to 30 April 2006 included an impairment charge of £351.4 million in respect of goodwill.

Interest

Net interest cost in the year was £7.7 million (2006: £5.6 million). This increase reflected higher drawings under the banking facilities, a reduced level of cash and consequent interest income and the accrual of £2.6 million of PIK interest since 1 January 2007. The net interest charge comprised:

	2007	2006
	£'000	
Interest paid on term loan	(2,846)	(2,338)
Interest paid on overdrafts	(2,664)	(1,252)
Facility non-utilisation and margin on LOCs	(1,495)	(608)
Contract funding finance charges	(1,744)	(3,726)
Other finance costs	(1,695)	(824)
Total finance costs	(10,444)	(8,748)
Investment revenue	2,720	3,099
Net interest charge	<u>(7,724)</u>	<u>(5,649)</u>

Taxation

The tax credit of £13.2 million reflected a £21.5 million tax repayment received in the UK following the change in the Group's accounting policy for revenue recognition in the year to 30 April 2006, offset by the tax charges on underlying profits in the other territories. Of this repayment, £6.4 million was accounted for in the year to 30 April 2006, being the Group's assessment of the losses available for carry-back to prior years at that time. The increased repayment has reduced to £64.6 million the losses available to carry forward at 30 April 2007.

Loss per share

The basic and diluted loss per share was 3.8p (2006: 165.1p)

Reduction in limitations

During the year we have made significant progress in reducing and where possible removing the limitations identified last year during the preparation of the accounts

Last year we had 5 limitations that resulted in the auditors being unable to form an opinion on the accounts, these were

- 1 Investigation into accounting irregularities
- 2 Accounting policy for revenue and cost recognition and lack of associated accounting information
- 3 Information concerning the status of delivery under the National Programme for IT
- 4 Potential for claims
- 5 Going concern

The detail of the current position with regard to these is included in note 1. The remaining limitations are

- 1 Investigation into accounting irregularities
These investigations are ongoing, however the FSA have confirmed that their investigations have not caused them to look at any matters outside those drawn to its attention by the Company
- 2 Accounting policy for revenue and cost recognition and lack of associated accounting information
Steps have been taken in the current financial year to improve the business systems and processes, and the consequent improving level of information as the year has progressed has enabled the Directors more accurately to estimate the stage of completion of contractual arrangements. However, given the lack of historical information, estimates have had to be made in relation to certain contracts which account for £12.4 million of revenue in the current year
- 3 Going concern
Details of the assumptions applied by the Directors in adopting the going concern basis in these financial statements are set out in note 1

As a result of these remaining limitations, the auditors, whilst providing an opinion on the accounts have provided a qualified opinion as a result of these remaining limitations, with an emphasis of matter paragraph in relation to going concern

Risk factors

The Group's financial condition and results of operations could be materially affected by a number of internal or external events or factors. These risks are broadly categorised under the following headings

- Market-related risks
- The competitive position of the Group
- The National Programme for IT in England
- The financial position of the Group

Additional risks not currently known to us, or risks that we currently regard as immaterial, could have a material adverse effect on the Group's financial condition or the results of operations. These may be considered either as downside risk—the risk that something can go wrong and result in a financial loss or financial exposure for the Group—or volatility risk. Volatility risk is the risk associated with uncertainty, which means that there may be an opportunity for financial gain as well as financial loss.

Market-related risk

iSOFT operates in the international healthcare IT market. The use of IT systems in healthcare provision remains comparatively low compared with other industries, except in the US where the Group does not currently have operations. Spending is rising rapidly in many other developed economies and represents an increasing proportion of government spending, especially due to the ageing profile of the population. Improving the efficiency and effectiveness of healthcare provision is therefore a priority in many economies, and healthcare IT spending is increasing at rates between 6–10% per annum. The Group therefore believes that it is operating in a market with above-average growth prospects into the foreseeable future.

Political or social risk The Group operates mainly in Western Europe, Asia, Australia and New Zealand and believes that the political or social risks of disruption to its operations in these regions are comparatively small.

Environmental or other operational regulatory risk The Group does not operate in a significantly hazardous industry.

Nevertheless it takes reasonable steps to ensure that it complies with regulations relating to the disposal and recycling of computer equipment and the control of water discharge and air emissions, and that it minimises paper use.

Competitive position

Customer dependence The Group has a large number of individual customers. The Group recorded revenues of £30.2 million under England's NPfIT in the year ended 30 April 2007, representing 17.2% of total revenues. If the Group ceased to be involved in NPfIT without appropriate compensation, it would have a material adverse impact on its revenues and profits. To manage this risk the Group continues to apply significant focus and management resource to ensuring that the requirements of this complex programme are fulfilled. Sales to the next largest customer amounted to £3.8 million.

Technology and intellectual property rights The Group develops and installs administrative and clinical healthcare software systems. Its future financial success depends on continuing to develop systems with better functionality and lower costs of ownership for its customers. iSOFT has a history of developing advanced products since its launch in 1998 and the current development of LORENZO is expected to maintain the Group's technology lead. However, the Group is at risk if its systems do not function properly, if competitors are able to develop similar technology independently and more quickly, and if the Group does not adequately protect its intellectual property or does not take steps to prevent the misappropriation or infringement of its intellectual property.

Key employees The Group's success depends on recruiting and retaining key management, development, support and sales staff. Given the current circumstances surrounding the Group, the risk of the Group not being able to retain and recruit high calibre employees is greater. The Group employs a rigorous range of policies and practices to incentivise, motivate and retain key employees.

Reputation Events and publicity surrounding iSOFT over the last 18 months, including the profits warnings in January and April 2006 and the change in revenue recognition policy in June 2006 have had an adverse impact on the reputation of iSOFT with regard to its products and its financial structure. These concerns have had an impact on the propensity of customers to enter into contracts with the Company.

The National Programme for IT in England

The National Programme for IT (NPfIT) is an ambitious programme to deliver integrated electronic patient records nationally. The creation of a national electronic patient record requires departmental, patient administration and general practitioner software to communicate on a national basis and on a scale that has not previously been attempted anywhere in the world. It is a large-scale and ground-breaking programme and there are many challenges still facing the programme.

During the last 12 months iSOFT has entered into agreements with CSC which are mutually beneficial to CSC and iSOFT and which underpin and de-risk the development and launch of LORENZO and secure an important revenue stream from the NPfIT. Those agreements are:

On 11 August 2006, iSOFT signed a Memorandum of Understanding (MOU) with CSC confirming the schedule under which it will provide deliveries to CSC up to a value of £153 million in respect of the CSC Agreement, subject to the satisfactory achievement of delivery milestones, with the opportunity to win additional NPfIT business in future through CSC in certain circumstances. Under this agreement, iSOFT has made a number of commitments with respect to the future development of its products for the NPfIT and the costs that it will bear for that work. CSC would have the right to take over the management of the development team in the event that iSOFT is unable to fulfil those obligations with respect to the future development. However the rights to the IPR remain with iSOFT under all circumstances. This agreement offers greater certainty of cash flow to iSOFT as payments are tied to specific milestones tied for the most part to software incremental releases.

On 28 September 2006, NHS Connecting for Health, Accenture and CSC announced a change of Local Service Provider for delivery of the NHS National Programme for IT in the North East and East and East Midlands regions. As a result, the contract between iSOFT and Accenture was terminated, although iSOFT provided transitional services until 8 January 2007. Under the termination arrangements, iSOFT and Accenture agreed that no further payments would be made between the two parties and any potential litigation relating to the period between 2 April 2004 and 28 September 2006 was annulled. Accenture transferred responsibility for the delivery of its obligations within the NPfIT to CSC and CSC continues to fulfil its contractual obligations to provide services to the North West and West Midlands region.

iSOFT is the principal CSC alliance member and its application suite forms the core of the CSC alliance's software solution already being implemented in the North West and West Midlands. iSOFT retains exclusivity in providing core software solutions in the North East region and exclusivity for interim solutions in the East and East Midlands region. iSOFT will retain preferred supplier status for future solutions in the East and East Midlands region, subject to a benchmarking review. This agreement increased to more than £300 million the potential lifetime value of revenues expected from the NPfIT project.

The August 2006 agreement with CSC has recently been amended. On 18 June 2007, iSOFT and CSC agreed to integrate their teams involved in the development of software for NPfIT, under CSC's leadership. iSOFT will contribute certain of the teams of people directly involved in the NPfIT project although all such staff would remain in the employment of iSOFT.

iSOFT will retain the intellectual property rights to LORENZO, including the rights to exploit it outside the CSC clusters. LORENZO installations (current and planned) outside these clusters will be unaffected and iSOFT does not anticipate that the changes to the contract will impact its core long-term strategy of developing LORENZO as its strategic product to be sold internationally. In addition to LORENZO, CSC will take responsibility for the code streams of i Patient Manager (i PM) and i Integration Engine (i IE) for the national programme, two of iSOFT's current products. The provision and support of these products by iSOFT for other customers will be unaffected.

Some two-thirds of licence payments to iSOFT under the new agreement will over the next three years be calendar-based and the remainder will be based on mutually agreed milestones in order to ensure the alignment of the two parties' interests. At the same time, CSC gave its consent in a separate letter, under the August 2006 agreement, to a change of control in the ownership of iSOFT.

This series of changes has seen us move from a complex organisation structure serving two separate customers on the NPfIT (Accenture and CSC) to one in which we now have a single organisation fronting up to the NHS, providing a streamlined and simplified management structure. This is a better way forward for iSOFT, CSC and for the NHS.

Under the terms of the CompuGROUP offer for iSOFT that was announced on 20 July 2007, CompuGROUP has said that, if it is successful in acquiring iSOFT, it intends to sell to CSC those parts of iSOFT's operations that are currently under CSC management and which develop and support product for the NPfIT.

Financial position

Liquidity The Group's overall objective is to ensure that it is at all times able to meet its financial commitments as and when they fall due. Note 1 outlines a number of uncertainties and assumptions which could impact this objective. To the extent possible, surplus funds are collected centrally and managed to retain flexibility, whilst ensuring reasonable interest receipts and minimal credit risk. The Group renegotiated the maturity of all of its bank borrowing facilities in August 2006 to ensure that it has sufficient short-term liquidity. The Group's bank borrowing facilities mature in November 2007 or, if earlier, on the date of the proposed acquisition of the Group by CompuGROUP. Consequently the Group will require financing by the Group's proposed new parent company at a level adequate to meet its projected financing requirement, or through a refinancing of the Group's existing debt should the proposed acquisition not occur.

Funding and cash flow The Group may require capital to sustain or expand its business in the future. At present the Group has established sources such as cash flow from operations, bank debt, equity or the realisation of non-core assets and, subject to the uncertainties set out in note 1, believes that the sources of funding currently available will be sufficient to fund its operations (see page 16 for further information regarding the revision of bank facilities). If the Group's plans or assumptions regarding its funding requirements change, it may need to seek other sources of financing such as additional lines of credit with commercial banks or institutions, to renegotiate existing bank facilities or seek additional equity contributions. The renegotiated facilities carry stepped interest from 1 January 2007. The Group has been using the period of stability provided by the revised facilities to consider and execute a longer-term financial strategy.

Investigations into accounting irregularities As detailed in Note 1, the Company commenced an investigation into possible accounting irregularities in July 2006. The initial investigation completed on 7 August 2006 concluded that there were grounds for a more formal investigation which is still being conducted by the FSA. In October 2006 the Accountancy Investigation and Discipline Board (AIDB) announced that it will conduct its own investigation. The AIDB investigation concerns individuals and another party rather than the Company.

The investigation by the FSA is ongoing and the Company continues to co-operate with the FSA. The FSA has confirmed that their investigations have not caused them to look at any other matters outside those particular contracts drawn to their attention by the Company. These matters could impact on reported revenues and profits and, in the balance sheet, deferred income and accrued income and consequent potential liabilities, including fines. However, the directors consider that the restatement of revenues in the financial statements for the year ended 30 April 2006 corrected, where appropriate, the impact of these particular matters. As the investigation is not yet concluded, it is not possible for the Board to finally determine what implications, if any, may arise from the conclusion of the investigations into these matters.

Pension schemes The Group operates both defined benefit and defined contribution pension plans, the majority of which are in the United Kingdom. The UK defined benefit scheme was in deficit by £11.2 million at 30 April 2007 calculated under an IAS 19 basis. Deterioration in asset prices or long-term interest rates could lead to an increase in the deficit or give rise to an additional funding requirement.

Volatility There are a number of additional volatility risks concerning the valuation of assets and liabilities, currency fluctuations and interest rate exposures, which are set out in note 19 to the financial statements.

Balance sheet and funding

At 30 April 2007 the Group had net debt of £67.9 million (2006 £41.8 million) as detailed in note 19, including contract financing arrangements, with cash and cash equivalents of £19.0 million (2006 £77.5 million). The net cash outflow from operations before exceptional items amounted to £26.5 million (2006 inflow of £1.9 million), reflecting the operating difficulties of the business and the net impact of unwinding customer up-front payments received in previous financial years.

The reduction in net cash of £58.5 million, which is summarised below, largely reflects the unwinding of advance payments received by the Group in prior years, restructuring costs of £12.8 million, interest

payments of £2.9 million and capital expenditure of £3.7 million, offset by a net tax refund of £19.9 million. The cash outflow in the year was as follows

	£m
Cash outflow from operations	(26.5)
Income taxes received	19.9
Net interest paid	(2.9)
Purchase of fixed assets and capitalised costs	(3.7)
Restructuring costs	(12.8)
Net loans and financing repayments	(33.8)
Proceeds from fixed asset disposals	1.3
Reduction in cash balance	<u>(58.5)</u>

At 30 April 2007 the Group had banking facilities amounting in total to £141.0 million, comprising a term loan of £36.0 million and a revolving credit facility of £105.0 million. At the balance sheet date the term loan was fully drawn and of the revolving credit £54.1 million was drawn leaving unutilised facilities of £50.9 million and cash of £19.0 million. The utilisation of the revolving credit facility comprised drawings of £8.0 million and letters of credit and guarantees of £46.1 million. The unutilised facilities and cash held by the Company provide the liquidity required by the Company. The bank facilities expire on 14 November 2007.

Additionally, to assist with the funding of the business during a period of high development spending, the Group previously utilised contract financing arrangements. Amounts payable to third-party providers of this funding from the proceeds of collections from customers amounted at the balance sheet date to £43.6 million (2006: £62.0 million) and have been included on balance sheet. The Group has ceased using third-party non-recourse contract financing arrangements because of the high relative cost.

Revision of bank facilities

Under the terms of the CompuGROUP offer, which was announced on 20 July 2007, CompuGROUP has indicated its intention to repay all of iSOFT's existing bank borrowings at completion, and take over its contingent liabilities, including letters of credit issued in the form of guarantees in respect of up-front payments received by iSOFT in prior years in addition to all third-party contract financing arrangements.

CompuGROUP will finance the acquisition and repayment of iSOFT's existing bank facilities and the ongoing working capital requirements of the Enlarged Group, through a combination of CompuGROUP Holding's existing cash resources and committed new debt facilities of £285 million arranged and underwritten by SEB AG.

Should the CompuGROUP offer not be accepted then the Group will seek to negotiate an extension to the current bank facilities.

Foreign currency

Foreign currency transactional exposure is monitored on an ongoing basis and is managed using natural hedges where possible. Where natural hedges for economic exposures are not available, non-deliverable forward contracts are utilised to hedge the Group's exposures.

Working capital

The Group's working capital (defined as inventories and trade and other receivables less trade and other payables, excluding corporation tax recoverable and deferred consideration) amounted to £(54.7) million at 30 April 2007, compared with £(87.4) million at the end of the previous financial year. As a result of the change in revenue recognition accounting policy made as at 30 April 2006, creditor balances included £53.8 million (2006: £96.8 million) for deferred income, including up-front payments made by customers in previous financial years. The Group's additional working capital requirements over the next two years to fund operating costs as these up-front payments unwind are reflected within the existing bank facilities of the Group referred to above.

Trade receivables at 30 April 2007 amounted to £28.9 million (2006: £34.4 million), representing 51 days' sales outstanding, compared with 53 days at the end of the previous financial year, on a comparable restated basis.

Pensions

The Group operates a mixture of defined benefit and defined contribution pension schemes, the former having been acquired as part of the merger with Torex. The Torex Medical Systems defined benefit scheme was closed to new members in April 2000. This pension scheme is accounted for in accordance with IAS 19. At the balance sheet date, the IAS 19 deficit in respect of the scheme was £11.2 million, which is recorded in the financial statements with a corresponding deferred tax asset of £3.4 million.

The Company intends to close this pension scheme to future accrual of benefits. The Company has consulted with members of the scheme and is in the process of discussions with the Trustees of the pension scheme to reach agreement on the future funding of the deficit.

Dividends

The Company does not have distributable reserves from which to pay dividends to holders of ordinary shares and therefore is not able to pay a dividend for the year ended 30 April 2007.

A handwritten signature in black ink, appearing to read 'G James', with a large, stylized 'G' and 'J'.

Gavin James
Group Finance Director
31 July 2007

REPORT OF THE DIRECTORS

The Directors present their annual report and the audited financial statements of the Company and the Group for the year ended 30 April 2007

Principal activities

The Group licenses and implements market-leading software applications to healthcare provider organisations. It provides solution design and development, installation, system configuration, training and customer support services in respect of its applications.

Business review and future developments

The performance of the business during the year, the financial position at the year end and a review of expected future developments are set out in the Report of the Chairman and Acting Chief Executive Officer on page 1 and the Financial and Operating Review on page 10. The Group's Corporate Social Responsibility policies in respect of employees and the environment are set out on pages 30–31.

The Directors are committed to the principles of good governance. A statement explaining the Company's corporate governance is set out on pages 22–29.

Key performance indicators are set out on page 94.

Results and dividends

The results of the Group are set out in the Consolidated Income Statement. The Company has no distributable reserves from which to pay a final dividend for the year ended 30 April 2007. The Group made a loss for the financial year of £8.8 million (2006: £382.2 million).

Directors

The Directors of the Company at the balance sheet date are shown below.

John Weston CBE (55), Chairman, was appointed to the Board of the Company as Non-Executive Chairman on 19 October 2005. Following the resignation of Tim Whiston on 14 June 2006, he has also assumed on a temporary basis the duties of the Chief Executive Officer. John Weston was formerly Chief Executive of British Aerospace plc from 1998 to 2002 and spent more than 30 years with that company in a variety of senior management positions. He is also Chairman of Acra Controls, Insensys and Learndirect—the University for Industry. John Weston is also a member of the President's Committee of the CBI. He was formerly Non-Executive Chairman of Spirent Communications plc.

Gavin James (44), Group Finance Director, was appointed to the Board of the Company on 21 June 2005. He was formerly Finance Director of Morse plc from 1998 to 2005 and before that was Group Finance Director of Menveir-Swain Group plc. He is a fellow of the Institute of Chartered Accountants in England and Wales.

Bill Henry (40), Chief Operating Officer, joined iSOFT in June 2006 and was appointed to the Board of the Company on 31 January 2007. He was previously CEO of Star Technology Services, a division of MessageLabs Group. From 2000 until 2004 he worked at PeopleSoft where he was part of the executive team that turned the US services business around. Prior to that, he held executive roles at Bellcore/Telcordia Technologies, Sprint and Computer Sciences Corporation (CSC).

Ravi Kumar (39), Chief Technology Officer, joined KPMG's healthcare information systems business in 1992 and was part of the original management team of iSOFT when it was founded in 1998. He was appointed to the Board of the Company on 7 October 2004. Ravi Kumar left his role as Chief Technology Officer and resigned as a director of the Company on 4 May 2007.

Eurfyl ap Gwilym (62), Non-executive director, was appointed to the Board of the Company on 19 May 2000 and is Chair of the Remuneration Committee. He is a non-executive director of the Principality Building Society, NCC Group plc and Pure Wafer plc. He was formerly a director of the Terence Chapman Group plc.

Rene Kern (44), Non-executive director, was appointed to the Board of the Company on 14 March 2003. He is a managing director and a member of the Executive and Investment committees of General Atlantic LLC, which owned 5.01% of the shares of iSOFT Group plc at the balance sheet date. He is also a non-executive director of Intec Telecom Systems plc and RiskMetrics Group Inc.

Ken Lever (53), Non-executive director and chair of the Audit Committee, joined the Board of the Company on 21 June 2005 and is the Senior Independent Director. He is the Finance Director of Tomkins Plc, and the Chairman of the Hundred Group Financial Reporting Committee. He has held executive directorships at Albright and Wilson plc, Alfred McAlpine plc and Corton Beach plc and was a partner in Arthur Andersen. He is a fellow of the Institute of Chartered Accountants in England and Wales.

David Thorpe (57), Non-executive director, joined the Board of the Company on 23 December 2003. He has held a number of senior positions within Electronic Data Systems (EDS) including UK Chief Executive and latterly President of EDS Europe. He is Executive Chairman of Morgan Chambers plc, non-executive chairman of CAS Services Holdings Limited and a non-executive director of VT Group plc, the Innovation Group plc and Staffware plc. He is also non-executive Chairman of Tunstall Ltd and a member of the Chartered Institute of Public Finance and Accounting.

Geoff White (54), Non-executive Deputy Chairman and chair of the Nomination Committee, was appointed to the Board of the Company on 19 May 2000. He is Non-executive Chairman of Patientline and Camwatch Ltd and a non-executive director of Tekdata Distribution Ltd and Tekdata Interconnections Ltd. He was formerly Non-executive Chairman of Punch Graphix plc and Chief Executive of Pressac plc and a non-executive director of Derby City NHS Trust. He is a fellow of the Institute of Chartered Accountants in England and Wales.

Tim Whiston resigned as Chief Executive Officer and as a director of the Company on 14 June 2006. On 8 August 2006, the Board deemed it appropriate to suspend Steve Graham pending the final outcome of the more formal investigation into possible accounting irregularities. On 27 March 2007, Steve Graham was removed as a director and ceased to be an employee of the Company. Ravi Kumar resigned from the Board on 4 May 2007.

The Board considered that on his appointment John Weston was independent. The Board considers that Eurfyl ap Gwilym, Ken Lever, David Thorpe and Geoff White were independent throughout the year and that they remain independent at the date of this report. The Board does not consider Rene Kern to be independent due to his relationship with General Atlantic Partners LLC, which holds a 5.01% shareholding in the Company. All directors are subject to election by the shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals determined in accordance with the Company's Articles of Association.

Bill Henry will stand for election at the Annual General Meeting, it being the first Annual General Meeting since his appointment. In addition, Gavin James, Ken Lever and Geoff White will retire by rotation and will offer themselves for re-election at the AGM. The Chairman has confirmed that the directors standing for re-election have fully met the performance standards required of directors by the Company and that each of them continues to be committed to the role.

Directors' share interests

The beneficial share interests in the ordinary share capital of the Company of those persons who were directors at the balance sheet date were as follows:

	Ordinary shares at 1 May 2006	% Issued capital	Ordinary shares at 30 April 2007	% Issued capital
John Weston	106,000	0.05%	106,000	0.05%
Gavin James	134,553 ⁽¹⁾⁽²⁾	0.06%	134,553 ⁽¹⁾⁽²⁾	0.06%
Ravi Kumar	885,298 ⁽¹⁾⁽²⁾	0.38%	885,298 ⁽¹⁾⁽²⁾	0.38%
Eurfyl ap Gwilym	45,454	0.02%	45,454	0.02%
David Thorpe	10,000	0.004%	10,000	0.004%
Geoff White	50,454	0.02%	50,454	0.02%

* at 1 May 2006 or date of appointment if later

(1) Including a beneficial interest in awards made under the iSOFT Performance Share Plan 2005 on 28 July 2005. For further details of the iSOFT Performance Share Plan 2005 see page 33.

(2) Including a beneficial interest in the Bonus Shares awarded on 28 July 2005. For further details of the Bonus Shares see page 37.

Beneficial interests include the directors' personal holdings and those of their spouses and minor children as well as holdings in family trusts of which the directors' spouses or their minor children are beneficiaries or potential beneficiaries

Rene Kern had no beneficial share interests at the balance sheet date, however, he is an employee of General Atlantic LLC, which owned 5.01% of the issued share capital of iSOFT Group plc at the balance sheet date

There have been no changes in the above interests between 30 April 2007 and 31 July 2007

Research and development

The Group committed significant investment to research and development in 2007 and employed an average 1,481 employees during the year (2006: 1,454) out of a total average employee base of 3,107 (2006: 3,224). Research and development spending, net of capitalised costs of £Nil million (2006: £0.7 million), totalled £22.5 million (2006: £22.6 million), representing 12.8% of turnover. This investment ensures that iSOFT's software application portfolio benefits from the latest technologies and continues to address the current and emerging customer business needs, thus protecting the market position of the Group and the potential for future revenue generation.

Quality

iSOFT maintains a policy of ensuring that appropriate standards of operation are maintained across the Group. During the year ISO 9001:2000 accreditation has been further extended to four more sites in Australia. iSOFT has also obtained ISO 27001 for the Banbury site.

Payments to creditors

The Company does not follow any specific external code or standard on payment practice, but its policy is to negotiate normal commercial terms of payment with all suppliers and to ensure that those suppliers are made fully aware of those terms. The Company abides by those terms provided it is satisfied that suppliers have met their contractual obligations. At 30 April 2007, the number of days of trade creditors, calculated by reference to the total amounts invoiced by suppliers, was 60 days (2006: 33 days).

Share capital

Full details of changes in share capital in the year are shown in note 22 to the financial statements on page 77. 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 31 July 2007:

Deutsche Bank AG	10.05%
K Capital Partners LLC	9.82%
UBS Investment Bank	8.54%
General Atlantic Partners	5.01%
Arrowstreet Capital	3.53%
Legal and General	3.25%
The Capital Group Companies Inc	3.45%
Openheimer funds Inc	3.30%

Annual General Meeting

The timing and venue for the Annual General Meeting will be notified in due course. 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 Notice of Annual General Meeting.

Information given to auditors

Each of the directors at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Auditors

The Company has monitored and reviewed the performance of its external auditors as detailed in the Audit Committee Report, and proposes to re-appoint Deloitte & Touche LLP at the forthcoming Annual General Meeting

Approval

The Report of the Directors was approved by the Board on 31 July 2007 and signed on its behalf by

A handwritten signature in black ink, appearing to be 'JW', enclosed within a circular or oval shape.

John Weston
Chairman and Acting Chief Executive Officer

CORPORATE GOVERNANCE REPORT

The Board of iSOFT Group plc is committed to maintaining the required standards of corporate governance. The following statement explains how the Company has applied the principles of good governance and best practice in compliance with the provisions of the Combined Code.

Statement of Compliance with the Code of Best Practice

Throughout the year ended 30 April 2007, the Company has been in compliance with the Code provisions set out in section 1 of the 2003 FRC Combined Code on Corporate Governance, with the exception of the following matters listed below:

- 1 Following the resignation of the Chief Executive Officer, Tim Whiston, on 14 June 2006, the Chairman has also assumed the responsibilities of the Chief Executive Officer. As a result, the Company does not currently comply with the provision A 2.2 of the Combined Code that requires a clear division of responsibilities at the head of a Company between the running of the Board and executive responsibility for the running of a Company's business. However, the Board recognises that the Chairman has assumed these responsibilities as a temporary measure and believes that the Chairman is best placed to lead the Company through this transitional period. During the year the Board considered appointing additional executive and non-executive directors to increase the diversity, skills and experience brought to the Board and to complement existing expertise. This consideration led to the appointment of Bill Henry as Chief Operating Officer to the Board on 31 January 2007. Appointment of additional non-executive directors was deferred pending the outcome of the sale process of the Company.
- 2 The Combined Code provision B2.1 requires the remuneration committee to comprise at least three members who should all be considered to be independent. Following the resignation of Colin Wall on 3 April 2006, the Remuneration Committee has comprised only two independent directors. On 24 August 2006, the Board appointed Eurfyl ap Gwilym as chairman of the remuneration committee. During the year the Board did not appoint a third member of the remuneration committee and consequently the Company has not been in compliance with this Code provision throughout the year.
- 3 The Combined Code provision A3.3 requires the Board to appoint one of the independent non-executive Directors to be the senior independent director. On 25 July 2005 Colin Wall replaced Sir Digby Jones as Senior Independent Director. Subsequently, the Board took the opportunity to consider its structure and balance and appointed Ken Lever to this role on 24 August 2006. As a result, there was no compliance with this provision between 3 April 2006 and 24 August 2006 (see point 2 above).

Board balance and independence

Up until 14 June 2006 when Tim Whiston resigned, the Board comprised a non-executive Chairman, a Chief Executive Officer, three further executive directors and five experienced non-executive directors. From 14 June 2006, the non-executive Chairman also assumed the duties of the Chief Executive Officer. On 31 January 2007, Bill Henry was appointed as an executive director bringing the number of executive directors to four for the period from 31 January to 27 March 2007. On 27 March 2007 Steve Graham was removed as a director reducing the number of executive directors to three from the period 27 March 2007 to 3 May 2007 when Ravi Kumar resigned as a director. From 3 May 2007, the Board has comprised a non-executive Chairman and acting Chief Executive Officer, two executive directors and five experienced non-executive directors.

Biographical details of each director are set out on pages 18–19.

In accordance with A 3.1 of the Combined Code Eurfyl ap Gwilym, Ken Lever, David Thorpe and Geoff White are considered to be independent Directors. Rene Kern is not considered to be an independent Director, on account of him being a Director of General Atlantic LLC, which owned 5.01% of iSOFT Group plc at 30 April 2007.

Chairman and Chief Executive

John Weston was appointed Non-Executive Chairman on 19 October 2005. The Board considers that on his appointment the Chairman met the independence criteria set out in paragraph A 3.1 of the Combined Code. As reported above, following the resignation of the Chief Executive Officer on 14 June 2006, the Chairman has also assumed the responsibilities of the Chief Executive Officer since that time.

Board responsibilities

The Board has adopted a formal schedule of matters reserved for its attention, which include the determination of strategy and the approval of annual budgets, significant investments and risk management. This schedule is available for inspection at the Company's registered office.

The Board's role includes

- representing the interests of shareholders and satisfying all statutory duties due to them,
- deciding the strategic direction of the Company and providing the resources required to fulfil its future needs,
- providing a challenging, confidential forum in which the Chief Executive Officer can test strategic thinking with an informed Group having broad continuity over time,
- requiring the Chief Executive Officer to report regularly and openly on the operational performance of all parts of the Group,
- monitoring the effectiveness of the Chief Executive Officer and his executive team against a series of performance objectives and benchmarks,
- setting a control framework within which the Chief Executive Officer can operate and authorising decisions on major issues and investments,
- constituting sub-committees of the Board to address the issues of remuneration, new appointments and audit,
- determining the remuneration of executive directors and senior members of staff and ensuring that they are appropriately incentivised,
- assisting value creation through entrepreneurial leadership and by the controlled and measured management of a wide range of business risks,
- ensuring appropriate behaviour with respect to the various codes of corporate governance and good business practice, including providing an audit trail of accountability, and
- overseeing good corporate citizenship and ethical behaviour by the Group and its employees with regard to all its internal and external stakeholders.

The directors are encouraged to bring independent judgement to bear on both strategic and operational matters. Any director may challenge Company policy and decisions are taken democratically after discussion.

The Board believes that regular involvement with management through the Acting Chief Executive Officer and the executive directors is the most effective way to monitor performance and achieve proper control of the Group. Through openness, the provision of well-defined information and discussion, the Board endeavours to provide leadership in the interests of shareholders.

Board meetings

The Board normally meets at least nine times per year for scheduled Board meetings. The Board also meets as required on an ad hoc basis to deal with urgent business. The table below lists the number of

Board meetings (excluding ad hoc sub-committees) and Board committee meetings, and Directors' attendance throughout the year

	Board Meetings	Nomination Committee	Remuneration Committee	Audit Committee
Total number of meetings held	15	1	5	8
John Weston	15	—	2	8
Bill Henry ⁽¹⁾	8	—	—	—
Gavin James	15	—	—	8
Steve Graham ⁽²⁾	1	—	—	—
Tim Whiston ⁽³⁾	1	—	—	—
Ravi Kumar	14	—	—	2
Eurfyl ap Gwilym	15	—	5	8
Rene Kern	11	—	—	2
Ken Lever	14	—	5	8
David Thorpe	12	1	—	6
Geoff White	14	1	—	2

(1) Bill Henry was appointed as an executive director on 31 January 2007

(2) Steve Graham was suspended as a director on 8 August 2006 and was removed as a director on 27 March 2007

(3) Tim Whiston resigned as a director on 14 June 2006

During the year ended 30 April 2007, the Chairman held meetings with the non-executive directors, without executive directors present after every scheduled Board meeting except two. The Board also appointed ad hoc sub-committees as appropriate during the year to consider specific transactions and other Board-related matters.

Appointments to the Board

Under the Company's Articles of Association, all directors are subject to reappointment by shareholders at the Annual General Meeting (AGM) following their appointment, and one third of the directors must retire annually by rotation and seek reappointment at the AGM. Gavin James, Ken Lever and Geoff White will retire by rotation and will offer themselves for re-election at the AGM.

Each member of the Board brings different experience and skills to the operation of the Board and its various committees. Board composition is kept under review and when a new appointment is to be made, consideration is given to the particular skills, knowledge and experience that a potential new member could add to the existing Board composition. Comprehensive, formal and tailored induction is provided to new Board members. The Group has long recognised the vital role that non-executive directors have in ensuring high governance standards and maintains a significant, high-calibre non-executive representation on the Board.

Details of the length of executive Director's service contracts appear on page 34. The terms of appointment of non-executive Directors are set out on page 38. Any reappointment of a non-executive director beyond two three-year terms is subject to rigorous review. Any non-executive director who has served for more than nine years is subject to annual reappointment by shareholders at the AGM.

Information and professional development

In advance of each scheduled Board meeting, all directors are supplied with information and briefing material in relation to the business to be considered at that meeting. Senior executives and advisers are invited to attend Board meetings as required by Directors. The Chairman and Group Finance Director also brief Directors on key issues and communications with institutional investors.

Directors have access to the advice and services of the Company Secretary, and may seek independent advice, at the Group's expense, if necessary for the proper performance of their duties. The availability of this advice is set out for non-executive directors in writing upon their appointment.

Induction and training for new directors is arranged by the Company Secretary. Existing Board members have many years of relevant experience and each is responsible for ensuring their continuing professional development to maintain up-to-date and effective skills and knowledge.

Performance evaluation

The Board monitors performance against the achievement of the Group's strategic objectives. Each executive director has defined responsibilities for performance and measurement of achievement. These include a mix of financial and non-financial, predictive and historic indicators.

The Board has conducted an evaluation of its own performance and that of the Board Committees and individual directors and continues to monitor and consider the effectiveness and performance of each.

Board committees

The Audit, Nomination and Remuneration Committees of the Board deal with specific aspects of the Group's affairs in accordance with their written terms of reference, which are available for inspection at the Company's Registered Office. Each is comprised of independent non-executive directors only.

The Chairman and other directors are able to attend the meetings of the Board committees under the policy that any director may attend any meeting of a Board committee providing they have no conflict of interest in respect of the business to be discussed.

The Nomination Committee

The Board has established a Nomination Committee which meets formally as necessary. The principal function of the Nomination Committee is to review and make recommendations to the Board about Board appointments. The terms of reference of the committee are as follows:

- to propose to the Board the responsibilities of non-executive directors including membership and chairmanship of Board committees,
- to ensure that there is a satisfactory, formal process for the selection of non-executive directors,
- to propose to the Board any new Board appointments,
- to ensure there is good succession planning at Board level,
- to review the effectiveness of directors, and
- to nominate suitable people for the most senior executive positions, including that of Chief Executive Officer.

The Nomination Committee was chaired by Geoff White, Non-Executive Deputy Chairman, throughout the year. Members of the committee during the year comprised Geoff White and David Thorpe. Other directors are able to attend the meetings of the Nomination Committee under the practice that any director may attend any meeting of a Board Committee providing they have no conflict of interest in respect of the business to be discussed.

The Nomination Committee reviewed and made proposals for the nomination of Bill Henry as Chief Operating Officer and executive Board director.

The Remuneration Committee

Members of the committee during the year were Eurfyl ap Gwilym and Ken Lever. Eurfyl ap Gwilym was appointed Chairman of the Remuneration Committee on 24 August 2006. Details of the role and work of the Remuneration Committee are set out in the Remuneration Report on page 32.

The Audit Committee

Since 25 July 2005, Ken Lever has been the Chairman of the Audit Committee. David Thorpe and Eurfyl ap Gwilym are also members of the Committee. Other directors and the internal and external auditors are invited to attend meetings of the Committee as appropriate. Details of the role and work of the Audit Committee are set out in the report of the Audit Committee on page 39.

Accountability and audit

Financial reporting

Through the Financial and Operating Review, the Board seeks to provide a balanced assessment of the business of the Group. In conjunction with the Report of the Chairman and Acting Chief Executive

Officer, the Directors' Report and the financial statements, the Board seeks to provide a balanced assessment of the Group's performance, position and prospects

Internal control

Notwithstanding the investigation into possible accounting irregularities, the Board has applied principle C 2 of the Combined Code which requires them to establish a continuous process for identifying, evaluating and managing the significant risks the Group faces which accords with the guidance on internal control published in September 1999 (the Turnbull Guidance). The Board regularly reviews this process which has been in place throughout the financial year and up until the date of the approval of this report. Further information on this review process is noted below.

The Board retains full responsibility for the Group's systems of internal controls and for reviewing its effectiveness. Whilst acknowledging their overall responsibility for the system of internal control, the directors are aware that the system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable and not absolute assurance against material misstatement or loss.

Historically, key elements of the Group's internal controls are

- a business risk framework identifying the potential likelihood of strategic, operational, commercial and financial risks, their respective potential financial impact and the plans and associated management action to mitigate those risks,
- detailed budgeting process,
- quarterly re-forecasting of profits and cash flows,
- regular monitoring of results and forecasts against budget, with investigation and action taken in response to variances,
- established procedures for the approval of capital expenditure, investment and acquisition projects,
- clearly defined management structure and delegated authorities for individual business units and managers within the business units,
- clearly documented internal procedures set out in the Group's ISO 9001 2000 accredited quality management system and regular internal quality audits of key processes and procedures, and
- regular provision of information to executive management and the Board covering financial performance and key performance indicators, including non-financial measures.

It was identified during the year ended 30 April 2006 that there were areas where the systems of internal control needed to be strengthened to improve the overall effectiveness of the management of the Group. Progress on these items is detailed below.

(1) Forecasting of profits and cash flows of the business units of the Group

The Group is developing an integrated financial model which will provide Income Statement, Balance Sheet and Cashflow information at a business unit and Group level and will address the key cashflow drivers of the business, contract finance unwind, working capital movements and the anticipated changes arising from the ongoing business regeneration plan.

(2) Strengthening controls around revenue recognition and the establishment of systems to support the current basis of revenue recognition

A contract costing database based on existing systems and drawing, as far as possible, from already existing data has been set up in the UK. A process is now operating in the UK that

- facilitates contract profitability analysis,
- concentrates on the major contracts involving implementation phases or managed services,
- supports the implementation of the revised revenue recognition policy, and
- utilises time recording systems for charging of employees' time to projects.

This will be introduced into the international business units during the year to 30 April 2008.

(3) Clear identification of product profitability

A project has commenced with the aim of providing monthly product reporting during the new financial reporting year. This involves developing a system for reporting revenue, time-related costs, direct expenses and direct overheads by product. Initial focus is on core international products and on revenue/costs relating to the NPfIT. First reports are expected in the early part of the new financial year.

(4) Review and approval by the Board of contractual arrangements with existing and new customers

The Board is informed of all key business issues through regular reporting, including

- progress and the latest status on the National Programme for IT (NPfIT),
- significant new contractual arrangements, and
- status of contractual issues

(5) Monitoring the progress of new product development in accordance with agreed milestones

A monitoring process is in place for all significant contracts

(6) The process for reviewing the Board's own effectiveness

A self-assessment process has been implemented to assess the effectiveness of the Board and Board Committees

A combination of Internal Audit reviews, self-assessment control questionnaires and balance sheet reviews has enabled an assessment of the internal control environment to be made. This has identified additional specific projects where further improvements in financial controls can be made in certain business units.

Management has appropriate action plans to address identified shortcomings following each review. The progress against which is part of the continuous process to identify, evaluate and manage specific risks faced by the business.

The Directors confirm that there has been a process in place from the start of the year to date of the approval of this report for identifying, evaluating and managing significant risks faced by the Company, which is in accordance with guidance on internal control published in September 1999 (the Turnbull Guidance).

Going concern

The Group's directors have prepared projected cash flow information for the period ending 12 months from the date of approval of these accounts. The projections include certain key assumptions made by directors, described in note 1.

The nature of the Group's business is that there can be considerable unpredictable variation and uncertainty regarding the timing and/or occurrence of the matters referred to in note 1, the timing and margin of sales, the quantum and timing of cash flows from new business activity and the achievements of contractual milestones.

In preparing these projections the directors recognise that there are material uncertainties that may cast significant doubts on the Group's ability to continue as a going concern.

Having taken into account the uncertainties referred to in note 1 and above, the directors consider that the cash flow projections are compiled on a reasonable basis and it is on that basis, taking into account the offer from CompuGROUP, that the directors consider it appropriate to prepare the Group's accounts on the going concern basis. The accounts do not include any adjustments which may be necessary if the Group was unable to continue to operate.

As noted on page 15 the Group's existing bank facilities expire on 14 November 2007. If the takeover of iSOFT by CompuGROUP proceeds then the existing debt, contingent liability and contract finance obligations will be assumed by CompuGROUP. CompuGROUP will finance the acquisition and repayment of iSOFT's existing bank facilities, which are repayable upon a change of control of iSOFT, and the ongoing working capital requirements of the Enlarged Group, through a combination of CompuGROUP Holding's existing cash resources and committed new debt facilities of £285 million arranged and underwritten by SEB AG.

Should the takeover not proceed then the Group would require re-financing of its bank facilities to continue to operate.

Shareholder communication

The Board is committed to maintaining regular, open dialogue with all of its shareholders. The Board values the views of shareholders and recognises their interests in the Group's strategy and performance. Regular face-to-face meetings are held with institutional fund managers and equity analysts to ensure that the investing community receives a balanced and consistent view of the Group's performance. In normal circumstances when the Group has a separate Chairman and Chief Executive Officer, the Chief Executive Officer and Group Finance Director regularly attend investor meetings and briefings. The Chairman attends as required and, in particular, at the interim and full year results announcements. Whilst the Chairman and Chief Executive Officer roles are temporarily combined as noted above, the Chairman/Acting Chief Executive Officer and Group Finance Director will attend briefings.

The Group has established an investor relations facility on its website www.isoftware.com/investor_centre where up-to-date financial and other information can be found, including copies of the Company's presentations to analysts.

Constructive use of the AGM

The Board welcomes the opportunity offered by the AGM to communicate with investors, and encourages their attendance. Shareholders are invited to use this opportunity to raise questions and express their views. Those unable to attend are invited to submit their questions in writing.

The Chairman introduces the AGM with a formal presentation of the Group's business performance over the past year and future prospects going forward. The Chairman of each of the Board committees is available at the AGM to answer questions on their areas of responsibility.

The numbers of proxy votes cast in favour of, and against, resolutions are reported to the meeting and will this year be published subsequently on the Company's website, www.isoftware.com.

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the group financial statements under IFRSs as adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the individual company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent, and
- state whether applicable UK Accounting Standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the individual

company 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 the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Based on the matters described in note 2 on page 51 and subject to the matters referred to in note 1, the Directors have a reasonable expectation that the Company and the Group have, subject to the support of CompuGROUP (following the offer being effected via a scheme of arrangement), adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The Annual Report is available on the Group's website at www.isoftware.com/investor-centre

The reader's attention is drawn to note 1 of the financial statements "Significant matters relating to the basis of preparation of the financial statements".

Approval

This report was approved by the Board on 31 July 2007 and signed on its behalf by

A handwritten signature in black ink, consisting of a large capital 'J' followed by several loops and a final horizontal stroke, all enclosed within a large, hand-drawn oval.

John Weston
Chairman and Acting Chief Executive Officer

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Commitment to Corporate Social Responsibility

It is iSOFT's view that operating in an environmentally and socially sustainable manner provides a stronger basis for the future development of its business operations

Employment policy

As a knowledge-based organisation, iSOFT continually reviews the suitability of employment policies and practices to attract and retain knowledgeable, high-performing employees

The directors recognise the importance of individual employee contributions in delivering the Group's performance and have maintained a commitment that each employee should receive a formal appraisal every six months. The appraisal process is an important means by which individual reward and personal advancement is determined. The process measures individual performance against an integrated scorecard of objectives, under the headings financial, technical and operational, management and relationships, team working and collaborative effort.

Due to the uncertainty surrounding the future of the Company, there was a significant risk that it might lose key employees. To address this risk the Company implemented a retention plan.

The Company maintains links to local universities and supports education sponsorship within local communities, principally in India and Germany.

Equal opportunities policy

The Group is a committed equal opportunities employer and operates working practices to promote an employment environment that is free from discrimination and harassment.

It is iSOFT policy to ensure that all employees and applicants are treated equally, regardless of gender, marital status, race, colour, disability or sexual orientation. Disabled individuals are afforded the same opportunities as others, and the Group actively supports the employment of disabled persons and in the retention of employees who become disabled whilst in the employment of the Group.

Health and safety policy

Following a review of the Group's Health and Safety management, the Group is currently revising its Health and Safety policy and planning to improve communication of its Health and Safety policy and arrangements through the production and issue of a new guide for all employees and visitors.

Employee equity participation

Many employees across the Group have shareholding interests in the Company either directly or under share option and Sharesave schemes. The directors actively encourage employee equity participation, subject to compliance with the Group's employee share dealing policy. Details of the current employee share option schemes and options granted during the year are provided in note 22 to the financial statements on page 77.

Employee communication and consultation

The Group provides employees with regular updates and information about the Group through the electronic publication of an employee newsletter and through the Group's employee intranet, iGATE. In March 2007, the Chief Operating Officer introduced a monthly webcast to all employees.

iSOFT has established two Employee Consultation Forums ('iVOICE') with elected representatives. These are for employees in the UK and India. iVOICE was established to create a means of active involvement, social dialogue, information dissemination and communication. In the UK, iVOICE played an important role in representing employee interests to the Company regarding the closure of the Birmingham office and the initial stages of the UK headcount reduction programme.

Social, environmental and ethical (SEE) matters

The iSOFT business recognises that achieving success in environmental and social management is a joint responsibility between employees and management. Active employee participation in community

events and charities is strongly supported through the giving of time and the internal promotion and support for such activities

The directors recognise that whilst iSOFT's business activities as a developer and supplier of software applications have minimal direct environmental impact, there are environmental impacts in running a company and our commitment to adopting best practice evidences our responsibility. The Group's environmental policy aims to raise awareness of environmental matters, establish standards, assess the impact of its business activities on the environment, set improvement objectives and monitor performance against these objectives.

The Group's philosophy is to establish a paperless working environment wherever appropriate. This is supported through the automation of a number of internal management and administrative processes such as performance appraisals, job profiles, a competency framework and annual leave requests. The Group continues to look at ways to move closer to a paperless working environment.

The Group also encourages staff to minimise unnecessary travel by using web exchange and video conferencing facilities and working from home in appropriate circumstances.

The responsibility for maintaining and enforcing the SEE policy resides at Board level. The Board confirms that it does not consider any significant SEE issues to have arisen during the course of the year.

A copy of the current environmental policy is available on the Group's website at www.isoftplc.com/corporate/company_information

Donations

Individual office locations throughout the Group have informally co-ordinated employee fund-raising activities for national charities during the course of the year.

iSOFT made no charitable or political donations in the year.

Approval

This report was approved by the Board on 31 July 2007 and signed on its behalf by

A handwritten signature in black ink, appearing to be 'JW', enclosed within a circular scribble.

John Weston
Chairman and Acting Chief Executive Officer

REMUNERATION REPORT

Introduction

This report sets out the iSOFT Group executive remuneration policy, structure and details of remuneration received by directors in the year ended 30 April 2007 as required by the Directors' Remuneration Report Regulations 2002

Role of the Remuneration Committee

The Remuneration Committee is responsible for setting the remuneration of the Chairman, executive directors and direct reports to the Chief Executive Officer and the executive directors, where base pay is in excess of £100,000 per annum, or where base plus cash bonuses are in excess of £200,000 per annum. The Remuneration Committee also monitors remuneration policy more generally and particularly in relation to overall coherence and expected or potential cost. The remuneration of non-executive directors is determined by the Board as a whole. No director is involved in discussions relating to his own remuneration.

Membership and meetings

The members of the Remuneration Committee during the year were Eurfyl ap Gwilym and Ken Lever. Eurfyl ap Gwilym was appointed chairman of the committee on 24 August 2006. All of the members of the Remuneration Committee are independent non-executive directors. The committee met 5 times during the year. Details of attendance at meetings can be found on page 24. The Chairman and other directors are able to attend the meetings of the Remuneration Committee under the practice that any director may attend any meeting of a Board Committee providing they have no conflict of interest in respect of the business to be discussed.

Advisers

During the year the Remuneration Committee received guidance on executive remuneration from the Chairman, the Group Human Resources Director and the Company Secretary, except on matters relating to their own remuneration. The Remuneration Committee received independent external advice from Kepler Associates Ltd as its principal independent external adviser for remuneration matters.

Executive directors' remuneration policy

The Remuneration Committee aims to align executive director and senior management interests with the interests of shareholders by ensuring that remuneration at senior levels is weighted toward performance-related elements. The policy is also specifically designed to attract, retain and motivate the talent the business needs.

Remuneration packages of the executive directors are reviewed annually to ensure that they remain aligned with the Group's business objectives and the interests of shareholders. The remuneration of executive directors during the year comprised the following elements:

- base salary,
- annual performance bonus,
- share option awards,
- pension contribution,
- other benefits, and
- transaction bonuses

Base salary

Base salaries are reviewed annually and adjustments made where necessary to reflect changes in responsibilities, individual performance and market rates.

The Remuneration Committee determined the competitiveness of pay will be assessed primarily in terms of total remuneration, with less emphasis on base salary alone. Base salary and total remuneration levels are benchmarked against similar positions in comparable companies. The executive directors' base

salaries are reviewed at 1 January consistent with other Group employees. Details of directors' emoluments are set out on page 35.

Annual performance bonus

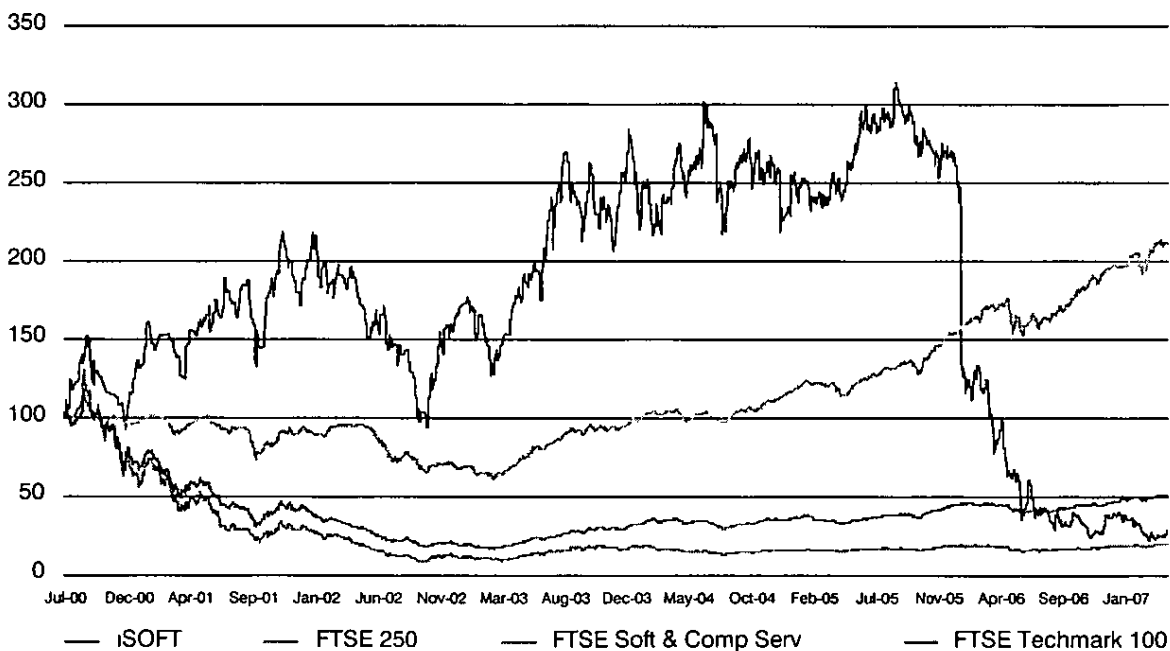
The Group provides performance-related bonuses for executive directors. Annual bonuses for directors are capped at 100% of base salary and the whole of the bonus is paid in cash. Bonuses are payable at the discretion of the Committee based on the Group's financial performance and individual performance. The financial performance targets are set with reference to, amongst other things, Group normalised profit before tax, amended for the impact of any acquisitions and exceptional items. The Remuneration Committee ensures that the individual performance criteria are suitably challenging and as such are aligned with shareholder interests.

The Performance Share Plan (PSP) 2005

The Performance Share Plan (PSP) was approved by the shareholders at the AGM in July 2005. Under the PSP, executive directors can receive annual grants of nil-cost options or conditional shares which will vest three years after the date of grant to the extent that performance conditions have been achieved. Grant sizes may be reviewed from time to time, taking account of total remuneration for executives within the Group versus the market. It is not intended to change the grant sizes each year but there is an overall annual plan limit of 200% of base salary to allow flexibility in exceptional circumstances.

The performance measure is iSOFT's Total Shareholder Return (TSR), i.e. share price growth and dividends, relative to that of the companies that make up the FTSE Software & Computer Services Index.

The graph below illustrates TSR performance of the Company in comparison to the FTSE Software & Computer Services Index over the period since listing in July 2000.



No options or conditional shares will vest if iSOFT is ranked below median, 20% of shares will vest for median performance and full vesting will occur only for top quartile performance. Vesting between median and upper quartile will be on a straight-line basis. The executives will be entitled to a payment equal to the dividends which would have been due during the three-year performance period on those shares that actually vest.

Due to the circumstances in which the Company found itself, the Company did not make any awards under the PSP during the year.

Share options

The Group operates an approved and an unapproved share option scheme

Due to the exceptional circumstances existing in the current year, share options have been granted to directors to align their interests with those of shareholders. All options granted to executive directors are subject to the achievement of certain performance conditions

Details of the share options granted to date are set out on page 36

Pension contributions

The Group makes an annual payment to executive directors equal to 20% of base salary. Directors are responsible for using these funds to make their own pension arrangements. Details of contributions paid to the executive directors during the year are set out on page 38

Other benefits

Other benefits provided to the executive directors comprised private health insurance, private medical insurance and life assurance. Ravi Kumar's entitlement to a car allowance ended on 30 April 2006

The Bonus Co-investment Plan (BCP) 2005

The Bonus Co-Investment Plan (BCP) was approved by the shareholders at the AGM in July 2005. Under the terms of this plan, executive directors are able to commit voluntarily up to 100% of their earned annual bonus into iSOFT shares. This would provide the opportunity for executives to earn matching shares up to a maximum of three for one subject to iSOFT meeting challenging three-year Earnings Per Share (EPS) growth targets. In the event that an executive director disposes of committed shares within a period of three years, he loses the benefit of the BCP in respect of the committed shares disposed of. The Remuneration Committee reviewed the introduction of the BCP in 2007 and decided to postpone the introduction of the BCP due to the circumstances in which the Company found itself

Transaction Bonuses

The Company has written to Gavin James, Bill Henry and 11 senior managers informing them that they will be entitled to receive a bonus based on a percentage of their base salary relating to the sale of the Company. The amount of any such bonus will be calculated by reference to specific sale prices being achieved, and will not be payable at all if certain minimum targets are not achieved

Service contracts and termination provisions policy

The Combined Code and the latest guidelines issued by institutional investors recommend that notice periods of no more than one year be set as an objective for executive directors, and that any payments to a departing executive director should be determined having full regard to the duty of mitigation. It is the Company's intention to achieve these objectives, wherever possible

Details of the service contracts of those serving as executive directors at the year end are set out below

	Contract date	Unexpired term	Notice period	Termination payments
Bill Henry	26 June 2006	Rolling	12 months	1 year's salary plus 1 year's pension contribution and benefits
Gavin James	25 April 2005	Rolling	12 months	1 year's salary plus 1 year's pension contribution and benefits
Ravi Kumar	01 November 2004	Rolling	12 months	1 year's salary plus 1 year's pension contribution and benefits

The Company's policy is that in normal circumstances executive directors should have rolling service contracts with an indefinite term providing for a maximum of one year's notice from either party to reflect market practice

Share ownership guideline

To further align the interests of shareholders and executives, the Remuneration Committee has introduced a share ownership guideline, which requires executive directors to hold shares with a value equivalent to 125% of salary for executive directors. During the year the share ownership guideline was met by Ravi Kumar and up to their resignations by Tim Whiston and Steve Graham. Due to the exceptional circumstances of the Group in the current year the requirement in respect of Gavin James has been deferred. As a newly appointed executive director, Bill Henry is not yet required to meet this guideline.

External appointments

The consent of the Board is required for any external appointments proposed by an individual director, such as a non-executive director position with another Company, to ensure that the appointment does not give rise to a conflict of interest. Where an appointment is accepted, it must be undertaken in the director's own time. The director is permitted to retain any remuneration earned from the external appointment. Details of principal external appointments of the directors are set out on pages 18-19.

Directors' emoluments (audited)

Directors' remuneration for the year ended 30 April 2007 was as follows:

	Base salary	Benefits	Compensation	Bonus payable in cash	Total 2007	Total 2006	Prevailing base salary/fees at 30 April 2007
				£'000			
John Weston ⁽¹¹⁾	412	—	—	—	412	107	440
Patrick Cryne ⁽¹⁾	—	—	—	—	—	93	—
Tim Whiston ⁽⁸⁾	54	14	552	133	753	465	—
Steve Graham ⁽⁹⁾	353	4	—	—	357	390	—
Gavin James ⁽²⁾	254	5	—	260	519	190	260
Bill Henry ⁽³⁾	65	1	—	260	326	—	260
Ravi Kumar ⁽¹⁰⁾	250	4	250	125	629	259	—
Geoff White	85	—	—	—	85	120	60
Sir Digby Jones ⁽⁴⁾	—	—	—	—	—	24	—
Eurfyl ap Gwilym	55	—	—	—	55	54	60
Colin Wall ⁽⁵⁾	—	—	—	—	—	60	—
David Thorpe	50	—	—	—	50	50	50
Rene Kern ⁽⁶⁾	—	—	—	—	—	—	—
Ken Lever ⁽⁷⁾	60	—	—	—	60	42	60
Total	1,638	28	802	778	3,246	1,854	1,190

* Benefits comprise private medical insurance, life assurance, permanent health insurance and car allowances. Pension contributions made by the Company are shown separately on page 38.

- (1) Patrick Cryne resigned as a director on 19 October 2005. He was retained by the Group as an employee in the role of Business Development Executive under his existing service contract and resigned on 26 February 2006.
- (2) Gavin James was appointed on 21 June 2005 and started employment in July 2005. He sacrificed an element of his base salary towards payment into his Group Personal Pension Scheme via the SmartPay mechanism.
- (3) Bill Henry was appointed as a director on 31 January 2007.
- (4) Sir Digby Jones resigned as a non-executive director on 25 July 2005. As was indicated in last year's annual report, the Company retained the services of Sir Digby Jones as an adviser following his resignation as a director on 25 July 2005. Under the terms of this arrangement, Sir Digby Jones was paid a fee of £45,000 during the financial year ended 30 April 2006.
- (5) Colin Wall resigned as a non-executive director on 3 April 2006.
- (6) Rene Kern is a director but receives no fee.
- (7) Ken Lever was appointed as a non-executive director on 21 June 2005.
- (8) Tim Whiston resigned as Chief Executive Officer on 14 June 2006. The amount shown above as base salary earned includes £2,000 back pay for the increase in remuneration received with effect of 1 April 2005. Following his resignation on 14 June 2006, Tim Whiston was paid a sum of £552,000, being equivalent to 12 months' notice and pension contributions. The

Remuneration Committee also agreed that Tim Whiston's deferred bonus shares would vest and would be settled by a cash payment of £132,685. The Remuneration Committee further resolved that Tim Whiston would be treated as a good leaver for the purposes of the share option schemes and the PSP.

In addition to the emoluments above, in the financial year ended 30 April 2006 he exercised 1,701,000 share options with a gross gain of £3,687,730 and sold 935,852 of the shares acquired, realising sufficient funds to match tax liabilities and amounts payable to the Company on the option exercises.

- (9) Steve Graham's base salary earned shown above includes £2,000 back pay for the increase in remuneration received with effect from 1 April 2005.
- (10) Ravi Kumar received £250,000 as compensation for loss of office. In addition to the emoluments above, in the financial year ended 30 April 2006 Ravi Kumar exercised 226,000 share options with a gross gain of £596,283 and sold 155,813 of the shares acquired realising sufficient funds to match tax liabilities and amounts payable to the Company on the options exercised.
- (11) John Weston's base salary was increased to £440,000 per annum with effect from 14 June 2006 reflecting the increased responsibility in his combined role as Chairman and Acting Chief Executive Officer.

Share options (audited)

In addition to the directors' share interests noted in the Report of the Directors on page 19, the following share options have been granted to directors:

	Exercise price pence	At 1 May 2006*	Granted during the year	Exercised during the year	At 30 April 2007	Date from which exercisable	Expiry date
Bill Henry	50 25 ⁽¹⁾	—	477,611	—	477,611	5 September 2009	4 September 2016
Gavin James	423 75 ⁽²⁾	250,000	—	—	250,000	30 June 2008	29 June 2015
	50 25 ⁽¹⁾	—	500,000	—	500,000	5 September 2009	4 September 2016
						30 September	
Ravi Kumar	151 33 ⁽³⁾	100,000	—	—	100,000	2005	29 September 2012
	338 ⁽²⁾	150,000	—	—	150,000	24 March 2007	23 March 2014
	371 69 ⁽²⁾	250,000	—	—	250,000	9 February 2008	8 February 2015

* Or at date of appointment if later.

- (1) Options are exercisable subject to growth in the Company's normalised profit before tax exceeding the growth in RPI by 2% over the 3 year period commencing on the day following the final day of any period by reference to which the Company's financial results are calculated immediately preceding the date of grant.
- (2) Options are exercisable subject to the growth in the Company's normalised profit before tax relative to the growth in RPI over the three year period from the date of grant of the option.
- 50% of options may be exercised if normalised profit before tax growth exceeds the growth in RPI by 10%.
 - 100% of options may be exercised if normalised profit before tax growth exceeds the growth in RPI by 20%.
 - Where the performance target growth falls between the levels specified, the proportion of options that may be exercised will be calculated on a straight line basis. Where the growth is less than the minimum growth level specified above, all of the options lapse and cease to be exercisable.
- (3) The performance criteria for these options has been satisfied as the performance of the Company's Total Shareholder Return (TSR) relative to growth in the Retail Price Index (RPI) over the three year period from the date of grant of the option has exceeded the growth in RPI by 50%.

Performance Share Plan 2005

	Award date	At 1 May 2006 and 30 April 2007 Number	Date due to vest
Ravi Kumar	28 July 2005	74,745	29 July 2008
Gavin James	28 July 2005	74,745	29 July 2008

The mid market price of the Company's shares at 1 May 2006 and 30 April 2007 was 117.5 pence and 41.75 pence respectively. The range during the financial year was between 118.25 pence and 31.75 pence. The shares are subject to forfeiture arrangements in the event that the Company's Total Shareholder Return (TSR) does not achieve the performance measures set out below over a three year period relative to the companies that make up the FTSE Software & Computer Services Index.

- If the Company is ranked at or above the upper quartile position of the TSR list, all of the shares will become vested and be released to the director
- If the Company is ranked at a median position of the TSR list, 20% (rounded up to the nearest whole share) of the shares will become vested and be released to the director
- If the Company is ranked below the median position of the TSR list, none of the shares will be released to the director
- If the Company is ranked between the median and upper quartile positions of the TSR list, the number of shares which will become vested and released to the director will be calculated on a straight line basis between the median and upper quartile

Deferred share bonus awards (audited)

Shares awarded to the directors and former directors under the deferred share bonus plan are as follows

	Award date	At 1 May 2006 number	Lapsed/ Vested number	At 30 April 2007 number	Vesting date
Patrick Cryne ⁽²⁾	30 April 2003	95,351	—	95,351	1 May 2006
	30 April 2004	62,378	—	62,378	1 May 2007
	30 April 2005	44,507	—	44,507	1 May 2008
Tim Whiston ⁽¹⁾	30 April 2003	95,351	(95,351)	—	1 May 2006
	30 April 2004	63,112	(63,112)	—	1 May 2007
	30 April 2005	81,690	(81,690)	—	1 May 2008
Steve Graham ⁽³⁾	30 April 2003	82,637	(82,637)	—	1 May 2006
	30 April 2004	61,644	(61,644)	—	1 May 2007
	30 April 2005	68,450	(68,450)	—	1 May-2008
Ravi Kumar	30 April 2005	47,605	—	47,605	1 May-2008
Roger Dickens	30 April 2003	76,403	—	76,403	1 May 2006

(1) In June 2006, £132,856 was paid to Mr Whiston in cash to settle the deferred share awards outstanding to him

(2) On 15 March 2006, the Remuneration Committee exercised its discretion to allow Patrick Cryne to retain his deferred bonus shares

(3) On 27 March 2007, Steve Graham was removed as a Director and his deferred shares lapsed

(4) Pending the outcome of the FSA investigation, the Company has decided not to settle any of the deferred share awards that have potentially vested but have not been paid

If the director leaves employment with the Company before the end of the three-year holding period, for any reason other than ill-health, redundancy, retirement, death or because the business or Company with whom he holds office is no longer a member of the Group, or for any other reason at the discretion of the Remuneration Committee, the director shall immediately forfeit all of the deferred share bonus award

Other Deferred Share Awards

Other deferred shares awarded to the directors as bonus shares are as follows

	Award date	At 1 May 2006 and 30 April 2007 number	Vesting date
Ravi Kumar	28 July 2005	59,808	29 July 2008
Gavin James	28 July 2005	59,808	29 July 2008

Deferred share bonus awards are awards of conditional shares which have been granted to executive directors and which will vest three years after the date of grant. If the director leaves employment with the Company before the end of the three-year holding period, for any reason other than ill-health, redundancy, retirement, death or because the business or Company with whom he holds office is no longer a member of the Group, or for any other reason at the discretion of the trustee, the director shall immediately forfeit all of the conditional shares. If the director leaves for any of the reasons set out above

before the end of the three-year period, the conditional shares shall be released to the director corresponding to the proportion of the holding period which has elapsed at the date of leaving

Pension contributions (audited)

In addition to the remuneration included in the table on page 35, pension contributions for Directors were as follows:

	2007	2006
	£'000	
Patrick Cryne	—	18
Tim Whiston	11	93
Steve Graham	71	77
Ravi Kumar ⁽¹⁾	55	76
Gavin James ⁽²⁾	55	64
Bill Henry	13	—
Total	205	328

(1) Ravi Kumar invested an element of his pension allowance in the Company's Group Pension via the SmartPay mechanism. The employer's National Insurance rebate for 2006 of £5,000 has been included in the pension allowance amount shown above. The increased pension allowance amount for 2006 was due to the pension allowance back payments for 2005.

(2) Gavin James invested an element of his pension allowance in the Company's Group Pension via the SmartPay mechanism. The employer's National Insurance rebate for 2005 of £2,000 has been included in the pension allowance amount shown above. The 2007 pension allowance amount is lower than 2006 because it does not include the pension salary sacrifice amounts which were contained in the 2006 figure.

Non-executive directors

Non-executive directors do not have service agreements and are appointed under letters of appointment. Under the terms of the letters of appointment, non-executive directors are appointed for an initial term of three years, unless the appointment is terminated by either party. There are no provisions for early termination payments. The appointment of a non-executive director is subject to shareholder approval at the first annual general meeting following the director's appointment. Continuation of appointment is subject to continued satisfactory performance and re-election at forthcoming annual general meetings, in accordance with the Company's articles of association. Letters of appointment are available for inspection at the Company's registered office.

The remuneration of non-executive directors is determined by the Board with regard to market comparatives. Independent advice is sought to ensure parity is maintained with similar businesses. Remuneration was last reviewed in January 2007.

The basic annual fee for non-executive directors was not increased during the year. The Board may pay additional remuneration for any services outside the scope of the ordinary duties of a non-executive director.

Combined Code

The Committee and its operation comply with the principles of good governance and the Combined Code on corporate governance as appended to the Listing Rules of the FSA.

Approval

This report was approved by the Board on 31 July 2007 and signed on its behalf by:



Eurfyl ap Gwilym
Chair of the Remuneration Committee

AUDIT COMMITTEE REPORT

This report to shareholders has been prepared in accordance with the requirements of paragraph C 3.3 of the Combined Code and paragraphs 5.1 and 5.2 of the Guidance on Audit Committees prepared by Sir Robert Smith. The report describes the activities of the Audit Committee in meeting these requirements.

Terms of reference

The Audit Committee's terms of reference are reviewed from time to time and approved by the Board of iSOFT. They are based on the model terms of reference set out in the Guidance Note produced by the Institute of Chartered Secretaries and Administrators and the guidance notes set out in Sir Robert Smith's report published in January 2003.

The terms of reference cover membership and appointments, meetings, (frequency, quorum, attendees and minutes), duties and responsibilities covering external audit, internal audit, financial reporting, internal controls and risk management systems, whistleblowing, reporting responsibilities, authority (delegated by the Board) and a number of other matters.

Audit Committee membership and experience

The Audit Committee comprises three independent non-executive directors. The members of the Committee are Ken Lever, who was appointed to the Committee as Chairman on 25 July 2005, David Thorpe, who was appointed on 11 May 2004, and Eurfyl ap Gwilym, who was appointed in preparation for the listing of the Company on the London Stock Exchange. Eurfyl ap Gwilym served as Chairman until 25 July 2005. Colin Wall was also a member of the committee until the appointment of Ken Lever. The Board has determined that all members of the committee are independent non-executive directors for the purposes of the Combined Code. The members have wide-ranging commercial, financial and management experience that they bring to the work of the Audit Committee. Their biographical details are set out on pages 18–19.

Meetings

The Audit Committee meets at least four times a year and on other occasions as circumstances require. The quorum for the meeting is two members. The Finance Director, representatives of the external auditor and the internal auditor attend the meetings under a standing invitation. The Chairman, Chief Executive Officer and other directors are able to attend the meetings of the Audit Committee. Other finance executives attend the meetings and the Company Secretary is secretary to the Committee. The Audit Committee Chairman reports regularly to the Board on its activities. Eight meetings were held during the year and attendance is set out on page 24.

Work of the Committee

The Audit Committee has established an agenda framework that iSOFT believes is vital for maintaining an appropriate focus on the objectives of the Committee. The agenda framework sets out all of the operational duties and responsibilities outlined in the Committee's terms of reference and is based on four meetings in July, August, November and April. The areas covered by the agenda framework are as follows:

- Corporate Governance, including the regular review of the terms of reference and annual evaluation, regulatory issues, review of delegated authorities and review of auditor independence,
- Business Risk Assurance and internal audit, including the review of the business risk assessment completed by executive management, the review of the internal audit plan and review of internal audit reports,
- confidential sessions with the external auditor and internal auditor in the absence of executive management,
- financial reporting, including current accounting and financial reporting matters and review of interim and annual reports and related results' announcements, and

- external audit and appointment of external auditors, including audit plan, and scope, review of audit fees, cost effectiveness, reports on interim and annual financial statements, audit status reports, management letters and the nature and extent of non-audit services performed by the external auditor

The audit plan and scope sets out details of the areas to be covered and how the audit is to be conducted. The Chairman of the Audit Committee meets periodically with the external auditor to discuss progress on the audit and the major points arising, and has the opportunity to assess the effectiveness of the process. The Audit Committee is also able to assess the effectiveness of the process through reports made to the Committee by the external auditor.

In addition to the items considered by the Audit Committee under the "agenda framework", during the financial year other important issues considered included regular reviews of the internal control systems and the statement to be made in the Annual Directors' Report and Financial Statements in respect of internal controls, Group business risk profile, updates on compliance with the Combined Code, and developments in accounting systems. Confidential meetings with representatives of the independent audit and internal audit functions, in the absence of executives, took place during the year.

The Audit Committee met earlier in the year to consider the 2007 interim financial statements.

Non-audit services are ordinarily put out to tender and require the approval of the Chairman of the Audit Committee above certain levels. In those cases where the work was awarded to the external auditor it was concluded that the firm of the independent auditor was best placed to supply such services due to the experience and qualifications of the individuals providing such services and that the best interests of the Company were served by engaging the firm of the independent auditor. The policies adopted by the Audit Committee, including those relating to audit partner rotation and relevant ethical guidance issued by the professional bodies in the Consultative Committee of Accountancy Bodies, in particular that the external auditor should not audit its own firm's work, make management decisions for the Company, create a mutuality of interest nor be put in the position of advocate for the Company, when taken together, provide adequate protection of auditor independence. All fees proposed by the external auditor must be reported to the Audit Committee and prior approval is required from the Chairman of the Audit Committee for any projects with fees in excess of £5,000. Deloitte & Touche LLP have provided tax compliance and corporate finance services to the Company during the year. Deloitte & Touche LLP with Eversheds LLP also undertook on behalf of the Company an investigation into the accounting irregularities as described on page 49.

The committee has reviewed the non-audit fees paid to the external auditors which, in aggregate, totalled £2,539,000 and has deemed that in the year ended 30 April 2007 they do not affect independence.

As noted on page 43, the independent auditors' opinion as to whether the financial statements give a true and fair view in respect of the accounts for the year ended 30 April 2007 is qualified due to the matters outlined in note 1.

Internal audit function

In 2005, the Group introduced an internal financial audit function, supported by resources from Ernst & Young LLP, to enhance the existing internal control framework. Their work focused on a review of segregation of duties and adherence to Group Schedules of Authorisation, together with a follow-up on prior year's findings in four territories. This work was supplemented by specialist pieces of work performed by other consultants. Work performed to date internally has included the update of the Group risk assessment, self assessment of financial controls and balance sheet reviews for all the Group entities. The internal audit function reports formally to the Audit Committee.

Approval

The report was approved by the Board on 31 July 2007 and signed on its behalf by



Ken Lever
Chairman of the Audit Committee

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ISOFT GROUP PLC

We have audited the Group financial statements of iSOFT Group plc for the year ended 30 April 2007, which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, and the related notes 1 to 30. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the individual company financial statements of iSOFT Group plc for the year ended 30 April 2007. The opinion in that report is qualified on the grounds of limitations on audit scope and is modified by the inclusion of an emphasis of matter regarding going concern.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Group financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and whether the Group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the directors' report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Financial and Operating Review, Report of the Chairman and Chief Executive Officer, Corporate Social Responsibility Statement and Key Performance Indicators that are cross-referred from the Business Review section of the Directors' Report.

In addition, we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the board's statement on internal control covers 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 other information contained in the annual report for the above year as described in the contents section, including the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned 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 Group financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error.

However, the evidence available to us was limited because of the following significant matters:

Investigations into accounting irregularities in relation to subsidiaries

As detailed in note 1, the Board initiated a formal investigation into accounting irregularities on 20 July 2006, which has given rise to investigations by the Financial Services Authority ("FSA") and the Accountancy Investigation and Discipline Board ("AIDB"). The Directors recognise that the AIDB investigation concerns individuals and another party rather than the Company.

The FSA has confirmed to the Company that their investigations have not caused them to look at any other matters outside those particular contracts drawn to their attention by the Company. These matters could impact on reported revenues and profits and, in the balance sheet, deferred income, accrued income and consequent potential liabilities. As detailed in note 1, the Directors consider that the restatement of revenues in the financial statements for the year ended 30 April 2006 corrected, where appropriate, the impact of these particular matters. However, the Directors recognise that the FSA investigation is not yet finally concluded.

Given the circumstances, the ability of the directors to conclude on the completeness or accuracy of transactions recorded in the year ended 30 April 2007 and prior periods is limited. Consequently, the evidence available to us was limited, and there were no other satisfactory audit procedures that we could adopt to confirm that no further adjustments to the financial statements as presented are required.

Accounting policy for revenue and cost recognition and lack of associated accounting information

As detailed in notes 1 and 2, in the prior year the Group changed its accounting policy for revenue and cost recognition on contracts, as the current board considered the previous accounting policy to be inappropriate. Under the previous accounting policy the directors deemed it unnecessary to establish a detailed contract costing and review process to measure contract activity. Under the new accounting policy, sufficient and appropriate audit evidence is not available to determine whether revenue and costs are properly recognised in the consolidated income statement and consolidated balance sheet to reflect the stage of completion of contracts.

This limitation on audit scope has a potential impact on certain items recorded in the financial statements, in particular revenues of £12.4 million (2006: £7.1 million), accrued income of £2.0 million (2006: £2.8 million), deferred income of £6.6 million (2006: £10.5 million) and other liabilities of £1.1 million (2006: £Nil) and any consequential impact on the reported loss.

This represents contracts with a total value of £56.0 million, on which cumulative revenues to 30 April 2007 of £28.4 million had been recognised.

There was no system of control over such contracts, in place throughout the year ended 30 April 2007, on which we could rely for the purposes of our audit and there were no other satisfactory audit procedures that we could adopt to confirm that such amounts have been properly recorded.

Lack of information on status of delivery of product under the National Programme for IT in the year ended 30 April 2006

As detailed in note 1, the Group changed its accounting policy for revenue recognition under the National Programme for IT in the year ended 30 April 2006, the new policy being based on the timing of

software delivery Under the former accounting policy, the directors deemed it unnecessary to record the detailed status of delivery and acceptance of product The company has been unable to obtain conclusive third-party confirmation of the status of delivery and acceptance of product for periods earlier than the year ended 30 April 2006 As a result, under the new accounting policy, sufficient and appropriate audit evidence is not available to determine whether revenue amounting to £32.2 million had been recognised in the consolidated income statement and consolidated balance sheet in the year ended 30 April 2006 to reflect contract activity

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the directors' remuneration report described as having been audited

Qualified opinion arising from limitations in audit scope

Except for any adjustments to the financial statements that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters noted above, in our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 April 2007 and of its loss for the year then ended, and
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the group financial statements

In respect of the limitations on our work referred to above we have not obtained all the information and explanations that we considered necessary for the purpose of our audit

Separate opinion in relation to IFRS: qualified opinion arising from limitations in audit scope on view given by financial statements

As explained in note 2 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board Except for any adjustments to the financial statements that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters noted above, in our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 30 April 2007 and of its loss for the year then ended

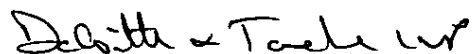
Emphasis of matter—going concern

Without qualifying our opinion in this regard, we draw attention to the disclosures made in note 1 of the financial statements concerning the Group's ability to continue as a going concern These include the following uncertainties

- the unencumbered completion of the proposed acquisition of the Group by CompuGROUP UK Limited, which is subject to shareholder and court approval,
- the ongoing willingness and ability of CompuGROUP UK Limited to provide adequate financing arrangements if the transaction legally completes,
- the renewal of existing banking facilities, which are presently scheduled to expire on 14 November 2007, should the proposed acquisition by CompuGROUP UK Limited not take place, and
- satisfactory trading in line with the Directors' expectations The nature of the Group's business is such that there can be considerable unpredictable variation and uncertainty regarding the timing and margin on sales, the quantum and timing of cash flows from new business activity and the achievement of contractual milestones and contractual requirements

Having taken into account these material uncertainties, the directors consider it is appropriate to prepare the financial statements on the going concern basis In the circumstances of the Group, these conditions, along with the other matters included in note 1, indicate the existence of a material

uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern, which would include writing down the carrying value of assets, including goodwill, to their recoverable amount and providing for any further liabilities that might arise as it is not practicable to determine or quantify them



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Manchester, United Kingdom
31 July 2007

Consolidated income statement for the year ended 30 April 2007

	Notes	2007	2006
		£'000	
Revenue	3	175,206	201,695
Negative goodwill and impairments	4a	591	(351,410)
Exceptional costs	4b	(21,812)	—
Profit on disposal of subsidiary undertaking	11iii	269	—
Other operating costs	4	(168,563)	(188,386)
Total operating costs		(189,515)	(539,796)
Loss from operations		(14,309)	(338,101)
Investment revenues	5	2,720	3,099
Finance costs	6	(10,444)	(8,748)
Loss before tax		(22,033)	(343,750)
Tax credit/(charge)	8	13,213	(38,432)
Loss for the financial year		(8,820)	(382,182)
Attributable to			
Minority interests—equity		258	357
Equity holders of the parent		(9,078)	(382,539)
Loss for the year		(8,820)	(382,182)
Loss per share			
	Notes	2007	2006
Basic and diluted loss per share	10	(3 8p)	(165 1p)

Consolidated statement of recognised income and expense for the year ended 30 April 2007

	<u>2007</u>	<u>2006</u>
	£'000	
Exchange differences on translation of foreign operations	102	(345)
Actuarial gains/(losses)	70	(957)
Tax on items taken to equity	(218)	942
Net losses recognised directly in equity	(46)	(360)
Loss for the year	<u>(8,820)</u>	<u>(382,182)</u>
Total recognised income and expense for the year	<u>(8,866)</u>	<u>(382,542)</u>
Attributable to		
Equity holders of the parent	(9,124)	(382,899)
Minority interests—equity	258	357
	<u>(8,866)</u>	<u>(382,542)</u>

Consolidated balance sheet as at 30 April 2007

	Notes	2007	2006
		£'000	
Non-current assets			
Goodwill	11	141,114	144,144
Other intangible assets	11	—	771
Property, plant and equipment	12	10,552	14,057
Deferred tax asset	13	7,653	10,027
		<u>159,319</u>	<u>168,999</u>
Current assets			
Inventories		125	720
Trade and other receivables	14	51,439	66,250
Cash and cash equivalents	15	19,047	77,543
		<u>70,611</u>	<u>144,513</u>
Non-current assets held for sale	16	—	4,000
Total assets		<u>229,930</u>	<u>317,512</u>
Current liabilities			
Trade and other payables	17	(106,054)	(151,698)
Obligations under finance leases	18	(470)	(947)
Bank and other loans	18	(58,148)	(47,765)
Short-term provisions	20	(1,783)	(943)
		<u>(166,455)</u>	<u>(201,353)</u>
Liabilities associated with non-current assets classified as held for sale	16	—	(3,000)
		<u>(166,455)</u>	<u>(204,353)</u>
Net current liabilities		<u>(95,844)</u>	<u>(59,840)</u>
Non-current liabilities			
Bank and other loans	18	(28,004)	(70,149)
Retirement benefit obligation	21	(11,167)	(10,712)
Obligations under finance leases	18	(276)	(529)
Deferred tax liabilities	13	(312)	(805)
Other payables		(4,094)	(3,327)
Long-term provisions	20	(1,118)	(2,199)
		<u>(44,971)</u>	<u>(87,721)</u>
Total liabilities		<u>(211,426)</u>	<u>(292,074)</u>
Net assets		<u>18,504</u>	<u>25,438</u>
Equity			
Share capital	22	23,249	23,249
Share premium account	23	53,543	53,543
Own shares	23	(3,758)	(3,758)
Merger and other reserves	23	129,273	130,742
Retained earnings	23	(183,803)	(178,948)
Equity attributable to equity holders of the parent		<u>18,504</u>	<u>24,828</u>
Minority interest		—	610
Total equity		<u>18,504</u>	<u>25,438</u>

The financial statements were approved by the Board of Directors and authorised for issue on 31 July 2007. They were signed on its behalf by



John Weston
Chairman and Acting Chief Executive Officer



Gavin James
Group Finance Director

Consolidated cash flow statement for the year ended 30 April 2007

	Notes	2007	2006
		£'000	
Operating activities			
Cash absorbed by normal operations		(26,532)	1,946
Cash absorbed by exceptional items		(12,766)	—
Cash absorbed by operations	24	(39,298)	1,946
Income taxes received/(paid)		19,947	(17,788)
Interest paid		(5,636)	(4,644)
Net cash flow used in operating activities		(24,987)	(20,486)
Investing activities			
Interest received		2,720	2,456
Purchases of property, plant and equipment		(3,630)	(5,717)
Proceeds on disposal of property plant and equipment		1,349	37
Deferred consideration paid		(79)	(241)
Purchase of own shares		—	(3,758)
Disposal/(acquisition) of subsidiaries		(144)	(8,250)
Capitalised development costs		—	(722)
Net cash from/(used in) investing activities		216	(16,195)
Financing activities			
Dividends paid		—	(6,030)
Proceeds on issue of shares		—	7,030
New loans raised		285	41,548
Repayments of obligations under finance leases		(1,015)	(1,199)
Debt issue costs		(1,200)	(66)
Repayment of loans		(31,829)	(37,195)
Net cash (used in)/from financing activities		(33,759)	4,088
Net decrease in cash and cash equivalents		(58,530)	(32,593)
Exchange differences		34	(4)
Cash and cash equivalents at beginning of year		77,543	110,140
Cash and cash equivalents at end of year		19,047	77,543

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. Significant matters relating to the basis of preparation of the financial information

The financial statements are prepared in accordance with International Financial Reporting Standards as detailed in note 2. In preparing these financial statements, the following significant limitations and circumstances were taken into account:

Investigations into accounting irregularities

On 20 July 2006, the Board initiated a formal investigation into accounting irregularities. The Company announced on 24 August 2006 that the FSA had notified the Company that it would be conducting an investigation into possible accounting irregularities. Furthermore, on 25 October 2006, the Accountancy Investigation and Discipline Board ("AIDB") announced its intention to commence its own investigation into the same matters. The AIDB investigation concerns individuals and another party rather than the Company.

The investigation by the FSA is ongoing and the Company continues to co-operate with the FSA. The FSA has confirmed that their investigations have not caused them to look at any other matters outside those particular contracts drawn to their attention by the Company. These matters could impact on reported revenues and profits and, in the balance sheet, deferred income and accrued income and consequent potential liabilities, including fines. However, the directors consider that the restatement of revenues in the financial statements for the year ended 30 April 2006 corrected, where appropriate, the impact of these particular matters. As the investigation is not yet concluded, it is not possible for the Board to finally determine what implications, if any, may arise from the conclusion of the investigations into these matters.

Accounting policy for revenue and cost recognition and lack of associated accounting information

The Group's accounting policy for revenue recognition was changed during the year ended 30 April 2006. Further details on the background to this accounting policy change are contained in the Annual Report and Financial Statements for that year.

Under the new accounting policy for revenue recognition, and in accordance with the requirements of IAS 18, contractual revenue that is earned through the rendering of services should be recognised on a stage of completion basis in line with the activity and costs associated with each project. Under the former accounting policy, it had not been deemed necessary to capture individual contract costs to measure contract activity.

As a result, the information was not available to enable management to measure revenue on a strict stage of completion basis and therefore, in relation to the financial statements for the year ended 30 April 2006, the directors concluded that, in the absence of more reliable data, the most appropriate and practicable basis in the circumstances was to recognise revenue on existing contracts using time as the basis of recognition. Licence and implementation revenue was therefore spread evenly over the estimated period of implementation in the case of implementation (unbundled) contracts and over the total contract term in the case of bundled contracts.

During the year ended 30 April 2007, steps have been taken such that for new contractual arrangements and for existing contracts prospectively the directors believe that it is possible to capture costs and activity on a contract by contract basis so that costs and activity can be used as a basis of allocating costs and revenues between accounting periods.

However, despite the steps taken in the current financial year to improve the business systems and processes, given that the historical costing records of the business do not identify activity by contract, the information is not available to enable management to measure revenue on a strict stage of completion basis retrospectively.

The lack of historical records has also meant that it has not been possible to provide sufficient and appropriate evidence to the independent auditors to demonstrate that revenue and costs are properly recognised in the appropriate period in line with contract activity as required by the Group's revenue recognition policy for the financial years to 30 April 2006.

The steps taken in the current financial year to improve the business systems and processes, and the consequent improving level of information available as the year has progressed, have enabled the directors to estimate the stage of completion of contractual arrangements. The directors have concluded that, under the circumstances, this provides the best available representation of revenues in the year to 30 April 2007.

Given the lack of complete historical information, estimates have had to be made in relation to certain contracts. This has a potential impact on certain items recorded in the financial statements, in particular revenues of £12.4 million (2006: £7.1 million), accrued income of £2.0 million (2006: £2.8 million), deferred income of £6.6 million (2006: £10.5 million) and other liabilities of £1.1 million (2006: £Nil) and any consequential impact on the reported loss.

This represents contracts with a total value of £56.0 million, on which cumulative revenues to 30 April 2007 of £28.4 million had been recognised.

If complete historical information were available it may give rise to adjustments or restatements to these amounts in the current and comparative periods as presented that could be material to that period.

Information concerning the status of delivery under the National Programme for IT ("NPfIT") in the year ended 30 April 2006

In the year ended 30 April 2006, the Group changed its revenue recognition policy in relation to the NPfIT contracts based on the timing of software delivery.

Due to the complexity of the contractual arrangements between Connecting for Health and the Local Service Providers (LSPs) and between the LSPs and iSOFT and the difficulty in measuring and recording delivery of product, the Board was unable to obtain conclusive third-party confirmation of the status of delivery.

In August and September 2006 new agreements were entered into with CSC, and Accenture transferred its obligations under the National Programme to CSC. Under these new contracts iSOFT will in future be paid by CSC based on its delivery against milestones. The achievement of milestones will now form the basis for revenue recognition under the National Programme and provide appropriate third-party evidence to support the phasing of revenue.

The new agreements also provided third-party evidence of the revenue recognisable to date under that element of the National Programme, and confirmed the Group's appropriate cumulative revenue recognition on the National Programme to 30 April 2006. The Group is still unable to obtain third-party evidence to determine the appropriate phasing of that revenue between the year ended 30 April 2006 and periods prior to this. The amount of revenue recognised under such contracts in the year ended 30 April 2006 was £32.2 million.

On the basis of the limited third-party evidence that is available and the detailed internal knowledge and records of the iSOFT operational team, the Board believes that in the circumstances it has taken all reasonable steps to ensure that revenue recognised in the comparative period is in accordance with the stated accounting policies. However, conclusive third-party confirmation of the status of delivery from the LSPs may have given rise to adjustments or restatements to the comparative period as presented which could be material to that period.

Potential for claims as disclosed previously

The Group had previously reported that it had experienced a number of difficulties in the delivery of the National Programme for IT, some of which were outside the control of the Group. Some of these difficulties resulted in formal correspondence being exchanged between the Company and the LSPs, Accenture and CSC, alleging material contractual breach by the Company. The Company has vigorously denied all of the alleged breaches. None of this correspondence resulted in notice to terminate being given or any formal claims being made by the LSPs.

During the year ended 30 April 2007, agreement was reached with each of Accenture and CSC whereby all potential historic claims have been waived.

Additionally the group reported in the 31 October 2006 interim report that it was in discussions with the Health Services Executive (HSE) to resolve certain matters in relation to the contract between iSOFT and the HSE. These discussions are continuing and are detailed in note 29.

Going concern

The Board has prepared projected cash flow information for the period ending 12 months from the date of approval of these financial statements. The projections include certain key assumptions made by the directors:

- (a) Satisfactory continuation of trading in line with the Directors' expectations
- (b) The satisfaction of the conditions contained in the banking agreement to enable the continuation of the Group's facilities to the earlier of 14 November 2007 or the date of the proposed acquisition of the Group by CompuGROUP
- (c) The successful completion of the recommended offer for the Group by CompuGROUP
- (d) The refinancing of the Group's banking facilities by the Group's proposed new parent company at a level adequate to meet the projected financing requirement of the Group, or through a refinancing of the Group's existing debt should the proposed acquisition not occur
- (e) The ongoing ability and willingness of CompuGROUP to provide such financial support to iSOFT Group Plc following the transaction to enable the Group to continue to trade

It is assumed that CompuGROUP will finance the acquisition and repayment of iSOFT's existing bank facilities, which are repayable upon a change of control of iSOFT, and the ongoing working capital requirements of the Enlarged Group, through a combination of CompuGROUP Holding's existing cash resources and committed new debt facilities of £285 million arranged and underwritten by SEB AG.

In preparing their projections the directors recognise that there are material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. These are as follows:

The nature of the Group's business is such that there can be considerable unpredictable variation and uncertainty regarding the matters referred to above, the timing and margin on sales, the quantum and timing of cash flows from new business activity and the achievement of contractual milestones. In addition, until the proposed CompuGROUP transaction legally completes, the successful completion of the transaction (including shareholder and court approval) and ongoing willingness and ability of CompuGROUP to provide financial support to the Group remain uncertainties. Should the transaction not proceed, it would be necessary to extend or renegotiate the Group's banking agreements beyond their current expiry date of 14 November 2007.

Having taken into account the uncertainties inherent in the assumptions referred to in this note, the directors consider that the cash flow projections are compiled on a reasonable basis and that it is appropriate that the financial information should be prepared on the going concern basis. Future events may give rise to circumstances not foreseen by the stated assumptions such that the use of the going concern basis proves to be inappropriate. Should the going concern basis be inappropriate, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial information does not contain any adjustments that would be required were a satisfactory outcome to the uncertainties, as detailed above, not achieved. Such adjustments would include writing down the carrying value of assets, including goodwill, to their recoverable amount and providing for any further liabilities that may arise.

2. General information and significant accounting policies

General information

iSOFT Group plc is a Company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 95. The nature of the Group's operations and its principal activities are set out on page 18 and in the Financial and Operating Review on pages 10–17.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in the note below.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

IFRS 7	<i>Financial instruments Disclosures, and the related amendment to IAS 1 on capital disclosures</i>
IFRS 8	<i>Operating Segments</i>
IAS 1	<i>Amendment "Capital Disclosures"</i>
IAS 23	<i>Amendment "Borrowing Costs"</i>
IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i>
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
IFRIC 8	<i>Scope of IFRS 2</i>
IFRIC 9	<i>Reassessment of Embedded Derivatives</i>
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
IFRIC 11	<i>Group and Treasury Share Transactions</i>
IFRIC 12	<i>Service Concession Arrangements</i>

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except for additional disclosures on capital and financial instruments, and interim financial reporting when the relevant standards come into effect for periods commencing on or after 1 January 2007

Significant accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") The financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation

The financial statements have been prepared on the historical cost basis The principal accounting policies adopted are set out below

Going concern

The Group's directors have prepared projected cash flow information for the period ending 12 months from the date of approval of these accounts The projections include certain key assumptions made by the directors as disclosed in note 1

The Group has undergone and continues with a significant restructuring of its UK and international operations, a process which has generated cost savings through, inter alia, the removal of excess resources built up during the Group's development over recent years, the simplification and re-engineering of the Group's core processes and systems, the renegotiation of contractual commitments and the streamlining and simplification of the Group's market offerings The nature of the Group's business is such that there can be considerable unpredictable variation in the timing and margin of sales, the quantum and timing of cash flows from new business activity and the achievement of contractual milestones However, on the basis of the projected cash flow information, which assumes the continued careful management of working capital, the directors consider that the Group will continue to operate within the bank facilities currently agreed However, these facilities end on 14 November, 2007 As highlighted in note 1, it is the Directors' expectation that revised facilities will be provided by a new parent company or through a refinancing of the Group's existing debt should the proposed acquisition not occur

Having taken into account the uncertainties referred to above and in note 1, the directors consider that the cash flow projections are compiled on a reasonable basis on the assumptions set out in note 1 and it is on that basis that the directors consider it appropriate to prepare the Group's accounts on the going concern basis The accounts do not include any adjustments which may be necessary if the Group were unable to continue to operate Such adjustments would include writing down the carrying value of

assets, including goodwill, to their recoverable amount and providing for any further liabilities that may arise

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 April each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (negative goodwill) is credited to the profit and loss account in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority in excess of the minority interest is allocated against the interests of the parent.

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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with those used by the Group.

Intercompany transactions, balances, and income and expense are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the attributable net book value of goodwill is included in the determination of the profit or loss on disposal.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Internally-generated intangible assets—research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from the Group's software development is recognised only if all of the following conditions are met:

- an asset is created that can be clearly identified,
- it is probable that the asset created will generate future economic benefits, and
- the development cost of the asset can be measured reliably

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives commencing from the date of first income recognition. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Revenue

The Group's revenues are derived from the sale of software product licences, the attendant installation, maintenance and support revenues and supplies of third-party hardware and software.

The change in revenue recognition policy in the prior year was implemented by way of a prior year adjustment as required by International Financial Reporting Standard 1. The accounting policy restatement involved reversing revenues of £76 million, £54 million and £44 million (total £174 million) which were recognised in the years ended 30 April 2005, 2004 and 2003 or earlier, respectively. Those revenues are now being recognised in the current and future years in accordance with the provisions of the new accounting policy. In calculating the prior year adjustment, note 1 outlines the limitations in the historical data available to the Directors.

The Group's policy on revenue recognition is that revenue is recognised only when persuasive evidence of the arrangement exists, the price to the customer is fixed or determinable and collectibility is reasonably assured and there are no material outstanding conditions or contingencies attaching to the receipt of monies due.

Unbundled arrangements

The Group enters into certain arrangements involving the delivery and implementation of a given software product against predetermined milestones, and the future maintenance and support thereof. In the case of such arrangements the revenue from the sale of product software licences is not clearly separable from the attendant installation and the revenue for services is recognised on a percentage completion basis over the period of the installation with due regard for future anticipated costs. Support revenues in this regard are recognised from implementation over the remaining period of the arrangement.

National Programme for IT

The National Programme contract is a product delivery arrangement with a phased release of functionality enhancements over the period of the arrangement. The licence revenue is recognised as the elements of the product are delivered. Implementation and service revenues are recognised in line with the provision of those services, and support revenues on a percentage completion basis over the relevant period of the arrangement.

Bundled arrangements

The Group enters into bundled service arrangements whereby it agrees to make certain software applications available for the duration of the arrangement. As the fair values of the services deliverable and maintenance and support to be provided under such supply arrangements are not clearly separable from the software supply, total revenue in relation to the supply arrangement is recognised on a stage of completion basis over the period of the arrangement, subject to the limitations in historical information available outlined in note 1.

Revenue arising from contract extensions involving the granting of a licence to continue to use installed software for an extended time period is recognised on a straight line basis over the extended period.

Deferred income is recognised in respect of invoices issued and cash received in advance of revenue recognition

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. Translation differences are taken to the profit and loss account.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, results of overseas subsidiaries are translated using the average exchange rate for the period, unless exchange rates fluctuate significantly. The balance sheets of overseas subsidiaries are translated using the closing year end rate. Exchange differences arising, if any, are taken to equity. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling-denominated assets and liabilities.

Exceptional items

Exceptional items are transactions deemed exceptional by the Directors as a result of their size or incidence.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts when there is objective evidence that the asset is impaired. The allowance recognised is the difference between the asset's carrying amount and the estimated future cash flows on an undiscounted basis.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Bank and other borrowings, including discounted receivables financing

Interest-bearing bank loans and financing arrangements entered into in respect of specific customer contracts are recorded at the proceeds received, net of direct issue costs.

Finance charges are accounted for on an accrual basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts and options to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are recognised on the Group balance sheet at fair value. The Group has not applied hedge accounting and changes in the fair value of derivative financial instruments are recognised in the income statement as they arise. The fair value of derivative financial instruments at 30 April 2006 and 30 April 2007 was not material.

Property, plant and equipment

Property, plant and equipment is stated at cost less any applicable discounts. Depreciation is provided at rates calculated to write down the cost of property, plant and equipment over their estimated useful life on a straight-line basis. The annual rates of depreciation, by category of fixed asset, are as follows:

• freehold land and buildings	2%
• long leasehold improvements	over period of lease
• fixtures, fittings and equipment	12.5% to 20.0%
• computer equipment	33.3%

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When a non-current asset or disposal group no longer meets the criteria for being held for sale, the asset or disposal group ceases to be classified as held for sale and is measured at the lower of its carrying amount before classification, adjusted for depreciation or amortisation that would have been charged and its recoverable amount.

Inventories

Inventories comprise goods held for resale and are stated at the lower of cost and net realisable value. Cost includes all costs in bringing each product to its present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Share-based payments

The Group has applied the requirements of IFRS 2, "Share-based Payments". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2005.

The Group issues equity-settled share-based payments to certain employees.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of a Black-Scholes model or binomial model, as most appropriate for the terms of the instrument. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The cost in relation to the deferred bonus scheme is charged in the year of performance.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are included in the balance sheet at fair value, or, if lower, at the present value of the minimum lease payments, each determined at inception of the lease. These assets are 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. Finance charges are charged directly against income.

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

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out on a tri-annual basis and updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Multi-employer defined benefit schemes are accounted for as defined contribution schemes when the Group is unable to identify its share of the underlying assets and liabilities of the scheme.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions are reviewed on a regular basis and released to profit and loss account where changes in circumstances indicate that a provision is no longer required.

Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies the Directors have made judgements that those policies that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below) are detailed in note 1.

Key sources of estimation uncertainty

In addition to the matters described in note 1, the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires an entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £141.1 million and no impairment was identified in the current year review.

Deferred tax

Determining whether a deferred tax asset should be recognised in respect of utilisable tax losses requires an estimation of the future taxable profits of the legal entities in which the tax losses reside. Details of the deferred tax assets recognised are shown in note 13.

3. Segmental analysis

The principal activity of the Group is the development and supply of software application products and related services to the healthcare sector. All turnover and profit/(loss) is generated from this activity.

Revenue

An analysis of the Group's revenue is as follows:

	2007	2006
	£'000	
Supply of software, maintenance and support services	175,206	201,695
Investment revenue	2,720	3,099
Total revenue	177,926	204,794

Geographical operations

	United Kingdom and Ireland 2007	2006	Other EU 2007	2006	Rest of World 2007	2006	Total 2007	Total 2006
	£'000							
Total revenue	107,804	132,014	53,768	58,048	39,026	36,044	200,598	226,106
Internal revenue	(2,978)	(4,771)	(2)	—	(22,412)	(19,640)	(25,392)	(24,411)
External revenue	104,826	127,243	53,766	58,048	16,614	16,404	175,206	201,695
Operating (loss)/profit before goodwill and exceptional items	(9,501)	2,471	11,059	5,749	5,085	5,089	6,643	13,309
Exceptional items	(19,283)	—	(1,899)	—	(630)	—	(21,812)	—
Profit on disposal of subsidiaries	269	—	—	—	—	—	269	—
Goodwill impairment	—	(257,574)	—	(64,888)	591	(28,948)	591	(351,410)
(Loss)/profit from operations	(28,515)	(255,103)	9,160	(59,139)	5,046	(23,859)	(14,309)	(338,101)
Investment revenues	—	—	—	—	—	—	2,720	3,099
Finance costs	—	—	—	—	—	—	(10,444)	(8,748)
Loss before tax	—	—	—	—	—	—	(22,033)	(343,750)
Tax credit/(charge)	—	—	—	—	—	—	13,213	(38,432)
Loss for the year	—	—	—	—	—	—	(8,820)	(382,182)
Net (liabilities)/assets	(96,667)	(82,536)	116,466	110,701	(1,295)	(2,727)	18,504	25,438
Other information								
Capital additions	2,261	3,253	287	363	1,082	2,886	3,630	6,502
Depreciation	(4,747)	(3,196)	(452)	(730)	(1,487)	(842)	(6,686)	(4,768)
Amortisation of intangible assets	(771)	(2,305)	—	—	—	—	(771)	(2,305)
Balance sheet								
Segment assets	63,865	154,389	145,012	142,585	21,053	20,538	229,930	317,512
Segment liabilities	(160,532)	(236,925)	(28,546)	(31,884)	(22,348)	(23,265)	(211,426)	(292,074)
Net (liabilities)/assets	(96,667)	(82,536)	116,466	110,701	(1,295)	(2,727)	18,504	25,438

During the year the Directors have reconsidered the allocation of assets by segment. As a result of this change the 2006 asset allocation has been restated to be comparable with the current year allocation.

4. Operating costs and loss for the year

4a) Net operating costs

Net operating costs (credits) are analysed as follows

	2007	2006
	£'000	
Change in stocks of finished goods	595	491
Other external charges	35,967	44,576
Staff costs	96,397	106,959
Depreciation of property, plant and equipment	4,966	4,768
Amortisation of development costs	771	2,305
Total other operating charges	<u>29,867</u>	<u>29,287</u>
Operating costs before goodwill impairment and exceptional items	168,563	188,386
Exceptional items (including accelerated depreciation of £1,720,000 and staff costs of £5,613,000 in 2007)	21,812	—
Profit on disposal of subsidiary undertakings	(269)	—
Negative goodwill and impairments	<u>(591)</u>	<u>351,410</u>
Total operating costs	<u>189,515</u>	<u>539,796</u>

4b) Exceptional items

During the year the Group has been engaged in a number of activities that are exceptional in nature. These activities include the restructuring of the business (under a plan described as the "regeneration plan"), the investigation of the accounting irregularities and the subsequent support of the FSA investigation, and the planning and preparation for the sale of the business or the provision of long-term finance. These costs are summarised as follows:

	£'000
Regeneration plan and redundancies	11,305
Property provisions	3,999
Corporate finance and strategic options costs	5,767
Accounting irregularities and FSA professional fees	741
	<u>21,812</u>

Goodwill impairment, the release of negative goodwill and profit on disposal of subsidiaries have also been classified as exceptional items and separately identified on the face of the income statement.

4c) Impact of changes in estimates

During the year, and as described in note 1, the directors have reassessed various estimates regarding revenue recognition made in the prior year. In accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", such changes to estimates have been recognised in the 2007 results.

The net impact of these reassessments of prior year estimates has resulted in an increase in revenues of £2.1 million and an increase in the loss for the year of £0.7 million. These reassessments relate to previous years' estimates and hence there will be no impact in future periods.

4d) Loss for the year

	2007	2006
	£'000	
Loss for the year is stated after charging/(crediting)		
Staff costs (including exceptional costs of £5,613,000 in 2007)	102,010	106,959
Research and development, net of capitalised costs	22,493	22,556
Current service costs in respect of defined benefit scheme	670	760
Loss on disposal of fixed assets	—	—
Gain on disposal of subsidiary operation	(269)	—
Foreign exchange gains	(91)	(220)
Foreign exchange losses	123	54
Depreciation of property, plant and equipment		
Owned (including exceptional costs of £1,720,000 in 2007)	5,799	3,580
Held under finance leases	887	1,188
Amortisation of development costs	771	2,305
Negative goodwill and impairments	(591)	351,410
Exceptional items (see note 4a)	21,812	—
Operating lease rentals		
Premises	4,442	4,193
Vehicles and equipment	790	2,083

The following services were provided by the Group's auditor

	2007	2006
	£'000	
Fees payable to the Company's auditors for the audit of the Company's annual accounts	50	45
The audit of the Company's subsidiaries pursuant to legislation	585	760
Total audit fees	635	805
Tax services—compliance work	70	—
Tax services—advisory	290	—
Corporate Finance services	1,624	200
Forensic services	555	—
Other assurance services	—	70
Total non-audit fees	2,539	270
Total professional fees	3,174	1,075

All individual pieces of non-audit work above £5,000 must receive prior authorisation from the Audit Committee

5. Investment revenues

	2007	2006
	£'000	
Bank interest	1,314	2,439
Other interest and foreign exchange	1,406	660
	2,720	3,099

6. Finance costs

	2007	2006
	<u>£'000</u>	
Bank loans overdrafts and other loans	8,749	7,983
Amortisation of loan arrangement fees	1,267	239
Pension fund finance costs	305	330
Finance leases	123	196
	<u>10,444</u>	<u>8,748</u>

7. Staff costs

7a) Staff costs (including executive directors) during the year were as follows

	2007	2006
	<u>£'000</u>	
Wages and salaries	91,736	94,953
Social security costs	7,098	8,384
Other pension costs	3,176	3,622
	<u>102,010</u>	<u>106,959</u>

Defined contribution pension costs totalled £2,506,000 (2006 £2,862,000)

7b) The average monthly number of employees (including executive directors) employed by the Group during the year was

	2007	2006
	<u>Number</u>	
Development	1,481	1,454
Sales and marketing	112	148
Installation and project management	1,218	1,289
Administration and services	296	333
	<u>3,107</u>	<u>3,224</u>

8. Tax

8a) Analysis of tax (credit)/charge in the year

	2007	2006
	£'000	
United Kingdom corporation tax		
Current tax on loss for the year	115	(4,431)
Adjustments in respect of prior years	(17,196)	(1,782)
	(17,081)	(6,213)
Overseas taxation		
Current tax on profit/(loss) for the year	1,976	(43)
Adjustments in respect of prior years	229	(140)
	2,205	(183)
Total current taxation	(14,876)	(6,396)
Deferred taxation		
Current year—United Kingdom	600	44,600
Current year—overseas	2,340	2,503
	2,940	47,103
Prior year—United Kingdom	(873)	(2,550)
Prior year—overseas	(404)	275
	(1,277)	(2,275)
Total deferred taxation	1,663	44,828
Tax (credit)/charge	(13,213)	38,432

8b) The tax (credit)/charge for the year can be reconciled to the loss per income statement as follows

	2007	2006
	£'000	
Loss before tax	(22,033)	(343,750)
Loss on ordinary activities tax thereon at 30% (2006 30%)	(6,610)	(103,125)
Effects of		
Non-taxable or deductible income and expenditure	(901)	1,574
Goodwill impairment not deductible	—	100,593
Current year tax losses carried forward not provided	13,439	37,393
Withholding taxes written off	115	—
Difference in tax rates in overseas companies	(1,242)	(1,672)
Adjustment in respect of prior period deferred tax	(1,277)	(2,275)
Adjustment in respect of prior period corporation tax	(16,967)	(1,922)
Other current year deferred tax movements not provided	230	7,866
Tax (credit)/charge for the year	(13,213)	38,432

In addition to the amounts charged to the income statement, tax related to certain share options and adjustments to reserves totalling £218,000 has been charged directly to equity (2006 £942,000 credit)

UK Corporation tax is calculated at 30% (2006 30%) of the estimated assessable loss for the year
Taxation for other jurisdictions is calculated at the rate prevailing in the respective jurisdictions

9. Dividends

	<u>2007</u>	<u>2006</u>
	<u>£'000</u>	
Equity dividends paid		
Ordinary shares of £0.10 each		
Final dividend for year ended 30 April 2006 of nil pence per share (2005 1.82p)	—	4,176
Interim dividend for the year ended 30 April 2007 of nil pence per share (2006 0.80p)	<u>—</u>	<u>1,854</u>
	<u>—</u>	<u>6,030</u>

No final dividend can be declared in respect of the year ended 30 April 2007

10. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of shares in issue. The weighted average number of shares for the calculation of the diluted loss per share in the years ended 30 April 2007 and 30 April 2006 are the same as that for the basic loss per share because the exercise of share options and warrants would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33. Details of options outstanding that are currently anti-dilutive are included in note 22.

	<u>Loss</u>	<u>Weighted</u>	<u>2007</u>		<u>Weighted</u>	<u>2006</u>
	<u>£'000</u>	<u>average</u>	<u>Loss</u>		<u>Average</u>	<u>Loss</u>
		<u>number</u>	<u>per share</u>		<u>number of</u>	<u>per share</u>
		<u>of shares</u>	<u>amount</u>		<u>shares</u>	<u>amount</u>
		<u>'000</u>	<u>pence</u>		<u>'000</u>	<u>pence</u>
Basic and diluted loss per share						
Loss attributable to shareholders	<u>(8,820)</u>	<u>232,486</u>	<u>(3.8)</u>	<u>(382,182)</u>	<u>231,550</u>	<u>(165.1)</u>

11. Intangible assets

	Goodwill	Negative Goodwill £'000	Other intangible assets
Cost			
At 1 May 2005	502,835	—	4,357
Additions—internally developed	—	—	722
Additions—acquired	13,899	—	—
At 1 May 2006	516,734	—	5,079
Acquired negative goodwill	—	(591)	—
Derecognised on disposal of a subsidiary	(920)	—	—
Other changes	(2,529)	—	—
At 30 April 2007	<u>513,285</u>	<u>(591)</u>	<u>5,079</u>
Amortisation and impairment			
At 1 May 2005	21,180	—	2,003
Amortisation and impairment	351,410	—	2,305
At 1 May 2006	372,590	—	4,308
Amortisation and impairment	—	(591)	771
Derecognised on disposal of a subsidiary	(419)	—	—
At 30 April 2007	<u>372,171</u>	<u>(591)</u>	<u>5,079</u>
Carrying amount			
At 30 April 2007	<u>141,114</u>	<u>—</u>	<u>—</u>
At 1 May 2006	<u>144,144</u>	<u>—</u>	<u>771</u>

Goodwill

Acquisition accounting has been adopted in respect of all business combinations. The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill was allocated as follows:

	2007	2006
	£'000	
UK and Ireland	282,966	282,966
Other European Union	177,218	180,667
Rest of World	31,921	31,921
	<u>492,105</u>	<u>495,554</u>

Impairment

The recoverable amounts of the CGUs are determined from value in use calculations, derived from the present value of future cash flows generated by the CGUs. There are a number of assumptions and estimates involved in calculating the present value of future cash flows, including but not restricted to the following:

- growth rates applied to EBITDA, used as the basis for the future cash flows,
- the long-term growth rates for the Group's key markets applied into perpetuity,
- the discount rate applied to the cash flows to calculate their present value, and
- the estimated recoverable value for any CGUs which the Board expects to divest within the time frame considered.

Although the Board is satisfied that the assumptions used are appropriate to the current circumstances of the Group, changes to these key assumptions or estimates could significantly affect the result of the impairment calculation. The basis of the assumptions used is as follows:

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the business. The growth rates are based on management forecasts for the specific markets.

The Group prepares pre-tax cash flow forecasts derived from the most recent financial forecasts approved by management for the next two years and extrapolates cash flows for future periods based on growth rates varying from 0%–5%. The Directors consider that the rates used do not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast pre-tax cash flows ranges from 13%–20% and represents the Directors' current best estimate of the weighted average cost of capital in each of the years for which cash forecasts have been discounted.

The carrying amount of goodwill at the balance sheet date was £141.1 million (2006: 144.1 million).

Other intangible assets

Other intangible assets represent capitalised development costs. The amortisation period for development costs is dependent on the expected life of the related product release, which is currently estimated at one year.

Acquisitions and disposals

i. Acquisition of Novasoft Sanidad

On 11 October 2005, iSOFT acquired 100% of the Sanidad healthcare operations of Novasoft. Acquisition accounting was adopted. There are no changes to the fair values recognised at acquisition. Following agreement with Novasoft, no further consideration will be paid, resulting in a decrease in deferred consideration of £2,529,000 from £12,656,000 to £10,127,000.

ii. Further investment in iSOFT R&D Private Limited (iSOFT R&D)

In April 2007, the Group increased its stake in iSOFT R&D from 94% to 100% through the repurchase of the outstanding shares for £243,000. Negative goodwill arising on the transaction has been calculated as the difference between the consideration paid and the book value of the assets acquired, as follows:

	<u>£'000</u>
Consideration settled in cash	243
Additional net assets acquired	<u>(834)</u>
Negative goodwill	<u>(591)</u>

At 30 April 2006, the minority interest shareholders, who were also employees of the Group, held a put option in respect of their shareholding, whereby the Group may be required to purchase the remaining 6% minority interest at any time between 31 July 2006 and 31 July 2009 for consideration of shares in iSOFT Group plc. This was settled during the year.

The negative goodwill arising has been transferred to the income statement.

iii. Disposal of iSOFT Switzerland

£501,000 of goodwill has been deducted in arriving at the profit on disposal in relation to the disposal of Swiss operations in May 2006.

12 Property, plant and equipment

	Freehold and long leasehold land & buildings	Fixtures, fittings & equipment £'000	Total
Cost			
At 1 May 2005	4,650	37,804	42,454
Acquisition of subsidiaries	—	7	7
Additions	—	6,502	6,502
Disposals	—	(496)	(496)
Exchange adjustments	—	111	111
At 1 May 2006	4,650	43,928	48,578
Additions	520	3,110	3,630
Transfer from net current assets (note 16)	1,000	—	1,000
Disposals	(1,401)	(2,285)	(3,686)
Exchange adjustments	—	(100)	(100)
At 30 April 2007	<u>4,769</u>	<u>44,653</u>	<u>49,422</u>
Accumulated depreciation			
At 1 May 2005	1,219	28,870	30,089
Disposals	—	(459)	(459)
Charge for the year	251	4,517	4,768
Exchange adjustments	—	123	123
At 1 May 2006	1,470	33,051	34,521
Disposals	(187)	(2,127)	(2,314)
Charge for the year	247	6,439	6,686
Exchange adjustments	—	(23)	(23)
At 30 April 2007	<u>1,530</u>	<u>37,340</u>	<u>38,870</u>
Carrying amount			
At 30 April 2007	<u>3,239</u>	<u>7,313</u>	<u>10,552</u>
At 1 May 2006	<u>3,180</u>	<u>10,877</u>	<u>14,057</u>

Additions to plant and equipment during the year include £278,000 financed by new finance leases

At the balance sheet date, the net book value of property, plant and equipment included £679,000 (2006 £1,376,000) in respect of assets held under finance leases. Depreciation charged in the period on those assets amounted to £887,000 (2006 £1,188,000)

Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportionate ownership interest is given in note 4 of the parent Company's individual financial statements

13. Deferred tax asset/(liability)

Deferred tax comprises

	2007	2006
	£'000	
Assets		
Utilisable losses	—	122
Short-term timing differences	3,704	6,291
Pension accrual	3,351	3,215
Unexercised share options	—	273
Accelerated depreciation allowances	598	—
Holiday pay	—	126
Deferred tax asset	<u>7,653</u>	<u>10,027</u>
Liabilities		
Accelerated depreciation allowances	(312)	(574)
Development costs	—	(231)
	<u>(312)</u>	<u>(805)</u>
Net deferred tax asset	<u>7,341</u>	<u>9,222</u>

The movement in deferred tax comprises

	£'000
At 1 May 2005	55,186
Amount charged to income statement	(47,103)
Amount charged to equity	(1,208)
Exchange movements	72
Income statement credit regarding prior year	<u>2,275</u>
Balance at 1 May 2006	9,222
Amount credited to income statement	(2,940)
Amount charged to equity	(218)
Exchange movements	—
Income statement charge regarding prior year	<u>1,277</u>
Balance at 30 April 2007	<u>7,341</u>

The movement is split as follows

	Accelerated capital allowances	Short-term timing differences	Losses	Pension	Share options £000	Development costs	Holiday pay	Rolled over gains	Total
As at 1 May 2005	(921)	5,399	48,399	2,750	2,420	(706)	144	(2,299)	55,186
Income statement movement	314	854	(48,277)	176	(651)	475	(18)	2,299	(44,828)
Exchange movements	33	39	—	—	—	—	—	—	72
Equity movement	—	—	—	288	(1,496)	—	—	—	(1,208)
As at 30 April 2006	(574)	6,292	122	3,214	273	(231)	126	—	9,222
Income statement movement	860	(2,588)	(122)	158	(76)	231	(126)	—	(1,663)
Exchange movements	—	—	—	—	—	—	—	—	—
Equity movement	—	—	—	(21)	(197)	—	—	—	(218)
As at 30 April 2007	<u>286</u>	<u>3,704</u>	<u>—</u>	<u>3,351</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,341</u>

At the balance sheet date, the Group has potential net deferred tax assets, principally arising from losses and short-term timing differences totalling £72,263,000 (2006 £69,069,000) for offset against future taxable profits. A deferred tax asset has been recognised in respect of £7,652,000 (2006 £9,222,000) of such losses and timing differences. No deferred tax has been recognised in respect of the remaining £64,611,000 (2006 £59,847,000) of losses as their utilisation cannot be considered more likely than not.

14. Trade and other receivables

	2007	2006
	£'000	
Trade debtors	28,894	34,405
Corporation tax recoverable	575	5,636
Other debtors	2,578	1,369
Prepayments and accrued income	19,392	24,840
	<u>51,439</u>	<u>66,250</u>

The average credit period taken in relation to contract services is 51 days (2006 75 days). No interest is charged on the receivables. Allowance has been made for estimated irrecoverable amounts determined by reference to default experience.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Credit risk is focused on a small number of high value contracts, which are long-term in nature. Outside these contracts the potential exposure is spread over a large number of customers.

15. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

16. Non-current assets held for sale

	2007	2006
	£'000	
Property held for sale	—	4,000
Liabilities associated with assets held for sale	—	(3,000)

The property held for resale in 2006 has been reclassified to property, plant and equipment in the current year as the Directors believe that it no longer satisfies the requirements of IFRS 5 to be classified as an asset held for resale.

17. Trade and other payables

	2007	2006
	£'000	
Trade creditors	10,087	13,626
Other taxation and social security	3,684	11,158
Accruals and other creditors	38,134	27,178
Corporation tax payable	—	—
Deferred income	53,820	96,814
Deferred consideration	329	2,922
	<u>106,054</u>	<u>151,698</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 40 days (2006 31 days)

Deferred income represents invoices issued and cash received in advance of revenue recognition

Deferred consideration of £329,000 (2006 £2,922,000) comprises

- £329,000 (2006 £314,000) relating to the acquisition of i-Health on 9 January 2004. The deferred consideration is payable based on proportion of revenue in each of the five years ending 31 December 2008. The amount included in the financial statements represents the Director's estimate of the amounts that will become payable under the terms of the sale and purchase agreement. The maximum potential deferred consideration payable under the terms of the sale and purchase agreement is approximately £8,700,000
- £Nil (2006 £2,529,000) in respect of the acquisition of Novasoft Sanidad on 11 October 2005
- £Nil (2006 £79,000) in respect of the Torex PLC acquisition of HAS Solutions Pty Limited ("HAS")

18. Bank and other loans

	2007	2006
	£'000	
Due within one year		
Other loans	15,581	18,639
Bank loans	42,567	28,000
Unsecured loan notes	—	1,126
Finance leases	470	947
	<u>58,618</u>	<u>48,712</u>
Due after one year		
Bank loans	—	26,747
Other loans	28,004	43,402
Finance leases	276	529
	<u>28,280</u>	<u>70,678</u>
Total	<u>86,898</u>	<u>119,390</u>

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 between 2.0% and 4.5% over LIBOR

19. Financial assets and liabilities

	Fixed interest rate	Floating interest rate	Non- interest bearing	2007 Total	Fixed Interest Rate	Floating interest rate	Non- interest bearing	2006 Total
	£'000							
Loans	43,585	42,567	—	86,152	62,041	54,747	1,126	117,914
Finance leases	746	—	—	746	1,476	—	—	1,476
Deferred consideration	—	—	329	329	—	—	2,922	2,922
Provisions	—	—	2,901	2,901	—	—	3,142	3,142
At 30 April	<u>44,331</u>	<u>42,567</u>	<u>3,230</u>	<u>90,128</u>	<u>63,517</u>	<u>54,747</u>	<u>7,190</u>	<u>125,454</u>

The Group's financial assets and liabilities comprise bank borrowings, cash and various items, such as trade debtors, trade creditors etc that arise directly from its operations. Short-term debtors and creditors have been excluded from all of the following disclosures except in relation to currency risk. 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.

Net debt comprises

	2007	2006
	£'000	
Drawings under revolving credit facility ⁽¹⁾	6,567	15,747
Term loans	36,000	39,000
Finance lease liabilities	746	1,476
Contract finance arrangements	43,585	62,041
Loan notes	—	1,126
	<u>86,898</u>	<u>119,390</u>
Cash	<u>(19,047)</u>	<u>(77,543)</u>
Net debt	<u>67,851</u>	<u>41,847</u>

(1) Letters of credit and guarantees of £46.1m (2006: £88.2m) were provided utilising the revolving credit facility. Drawings are stated net of prepaid fees of £533,000 (2006: £600,000) and proceeds held on deposit of £900,000 (2006: £Nil).

The Group is exposed to fair value risk in respect of its fixed rate financial assets and liabilities and cash flow interest rate risk in respect of its floating rate liabilities.

The weighted average interest rate on fixed rate borrowings was 4.09% (2006: 4.13%) and the weighted average period to maturity was 2.32 years (2006: 2.31 years). The weighted average period to maturity on non-interest bearing financial liabilities was 1.6 years (2006: 4.8 years). The effective interest rate for financial liabilities ranges from 4% to 10%.

Financial assets

Cash and cash equivalents held at the year-end were

	2007	2006
	£'000	
Sterling	1,062	62,155
Euro	13,131	10,926
Australian Dollar	2,456	2,056
New Zealand Dollar	53	71
Singapore Dollar	214	154
Swiss Franc	—	575
Indian Rupee	924	877
Hong Kong Dollar	587	359
Canadian Dollar	127	16
US Dollar	249	110
South African Rand	185	177
Norwegian Kroner	59	67
	<u>19,047</u>	<u>77,543</u>

All cash is at floating rates based on relevant national LIBOR equivalents or government bond rates

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. From time to time the Group takes out forward foreign exchange contracts to hedge foreign currency transaction exposures. At 30 April 2007 and 2006 the fair value of currency hedging arrangements was not material.

There are net foreign currency monetary assets/(liabilities) held by subsidiaries with a functional currency of sterling of £563,000 (2006 £1,109,000) denominated in euros, £6,000 (2006 £1,000) denominated in Australian dollars, £185,000 (2006 £177,000) denominated in South African Rand, £249,000 (2006 £108,000) denominated in US Dollars and £59,000 (2006 £61,000) denominated in Norwegian Kroner. Receipts and payments are made in these respective currencies in the normal course of business.

Liquidity risk

It is the Group's policy to maintain a mix of short, medium and long-term borrowings with its bankers. Flexibility is achieved by the use of a revolving credit facility and a fixed-term loan facility.

At the balance sheet date the Group had a term loan of £36,000,000 (including £9,000,000 at 4.5% over LIBOR) and a multi-currency revolving credit facility of £105,000,000. The term loan has quarterly conversions of £3,000,000 which move the borrowing rate from 2.0% to 4.5% above LIBOR. As at 30 April 2007, £50,879,000 of the revolving credit facility was unused by the Group.

Current bank facilities

In August 2006, the Group secured the revision of £141 million of facilities. The facilities following the revision include:

- £105 million revolving credit facility,
- £36 million term loan facility with no further amortisation, and
- £25 million facility, available following disposal of non-core assets

The maturity date of the above facilities is 14 November 2007. The financial terms were amended to better reflect the Group's revised business expectations and revenue recognition policies.

Warrants over 3.7% of the issued Share Capital of the business were granted to the lender with an exercise price of 10 pence per share as a condition of the new facilities. The warrants will be exercisable between issue and 36 months from the date of the revision of the facilities. Additionally, further fees are

payable on facilities outstanding post 31 December 2006. These additional fees are payable at the end of the facility term or, if earlier, at the date of any refinancing of the facilities. These fees, calculated on the total facility available, are 5.0% per annum for the three months to the 31 March 2007, 7.5% per annum for the three months to 30 June 2007, and 10.0% per annum thereafter.

The costs of refinancing include an amendment fee of £1.2 million, the write off of £0.6 million in unamortised fees and professional fees of approximately £1.0 million. The cost of interest has increased in accordance with the revised margins. Margins on debt now range between 200 and 450 basis points over LIBOR depending on the usage of different elements of the facilities. The financial covenants applicable to the revised facilities relate to key performance indicators (KPIs) such as rolling EBITDA and the reduction in letters of credit. To assist in the monitoring of the KPIs, further financial and non-financial information is provided to the lenders on a periodic basis. In addition the facilities may be terminated in the event of certain actual or threatened litigation, termination of material contracts or the exercise of step in rights. As part of the revision to the facilities a waiver of any prior breaches of covenants was provided.

These banking facilities have provided the Group with a period of stability during which the corporate finance strategy of the Group has been considered and executed, resulting in a recommended offer for the Company. Additionally, these banking agreements include mandatory prepayments relating to planned disposals, additional covenants relating to material contracts, additional reporting requirements and waivers of any previous breaches of financial covenants.

The directors, having undertaken to pursue a refinancing of the Group, have recommended an offer (as detailed in note 30) for the Company. The future funding of the group is expected to be provided for through the banking facilities to be provided by the proposed new parent Company.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short-term trade creditors and accruals was as follows:

	Bank and other loans	Finance leases	Other	2007 Total	Bank and other loans	Loan notes	Finance leases	Other	2006 Total
	£'000								
Due within one year, or on demand	58,148	470	2,111	60,729	46,639	1,126	947	3,865	52,577
Due after one year but not more than two years	12,460	276	642	13,378	26,996	—	304	487	27,787
Due after two years but not more than five years	15,064	—	477	15,541	38,200	—	225	885	39,310
Due in more than five years	480	—	—	480	4,953	—	—	827	5,780
At 30 April	<u>86,152</u>	<u>746</u>	<u>3,230</u>	<u>90,128</u>	<u>116,788</u>	<u>1,126</u>	<u>1,476</u>	<u>6,064</u>	<u>125,454</u>

Other financial liabilities represent deferred consideration payable of £329,000 (2006: £2,922,000), the Group's restructuring provision of £154,000 (2006: £115,000) and the Group's property provisions of £2,747,000 (2006: £3,027,000).

Obligations under finance leases

	Minimum lease payments		Present value of lease payments	
	2007	2006	2007	2006
	£'000			
Amounts payable under finance leases				
Within one year	512	1,030	470	947
In the second to fifth years inclusive	299	554	276	529
	811	1,584	746	1,476
Less future finance charges	(65)	(108)	—	—
Present value of lease obligations	746	1,476	746	1,476
Less Amount due within 12 months			(470)	(947)
Amount due for settlement after 12 months			276	529

The Group has leased certain of its fixtures and equipment under finance leases. The average lease term is 3 years. For the year ended 30 April 2007, the average effective borrowing rate was 9.56% (2006 9.56%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

The fair value of the Group's lease obligations approximates their carrying amount. There is no material difference between the book value and fair value of the aforementioned financial instruments.

20. Provisions for liabilities and charges

	Restructuring	Property	Total
	£'000		
At 1 May 2005	407	3,929	4,336
Utilised	(108)	(725)	(833)
Credited to income statement	(184)	(177)	(361)
At 30 April 2006	115	3,027	3,142
Utilised	—	(1,279)	(1,279)
Credited to income statement	(115)	(1,400)	(1,515)
Created in the year	154	2,399	2,553
At 30 April 2007	154	2,747	2,901
		2007	2006
		£'000	
Included in current liabilities		1,783	943
Included in non-current liabilities		1,118	2,199
		2,901	3,142

The provision held in respect of properties represents the estimated cost of exiting a number of vacant properties held by the Group of £1,519,000 (2006 £2,102,000) and the provision for leasehold dilapidations on a number of the Group's leasehold properties of £1,228,000 (2006 £925,000).

The anticipated timing of outflows in respect of provisions is as follows

	2007	2006
	£'000	
Within 1 year	1,783	943
Within 1-2 years	642	487
Within 2-5 years	476	885
After more than 5 years	—	827
	<u>2,901</u>	<u>3,142</u>

21 Defined benefit pension schemes

21a) Assumptions and scheme deficit

The Group has a mixture of defined benefit and defined contribution schemes, the former having been acquired as part of the merger with Torex. The assets of the Torex Medical Systems (TMS) defined benefit scheme are held in a separate trustee administered fund. Full actuarial valuations of the scheme are undertaken on a triennial basis. The last completed full actuarial valuation was at 1 January 2005. The most recent actuarial valuation of the scheme for IAS 19 disclosures was at 30 April 2006. The IAS 19 valuation of the TMS scheme used the projected unit method and was carried out by KPMG, professionally qualified actuaries, using the following assumptions

	2007	2006	2005
	%		
Rate of increase in pensionable salaries	4.0	4.0	4.3
Rate of increase in pensions in payment and deferment	3.1	2.9	2.8
Discount rate	5.35	5.25	5.4
Inflation assumption	3.1	2.9	2.8
Uplift on liabilities for mortality assumptions	5.0	5.0	5.0

The fair value of the assets of the scheme and the weighted average expected return were

	Long-term rate of return expected at 30 April 2007	Value at 30 April 2007	Long-term rate of return expected at 30 April 2006	Value at 30 April 2006
	%	£'000	%	£'000
Equities	7.8	12,995	7.5	12,723
Bonds	5.3	2,454	4.7	1,372
Insurance policy	—	—	5.0	1,319
Other	3.75	1,811	3.75	833
Total market value of assets		17,260		16,247
Present value of scheme liabilities		(28,427)		(26,959)
Deficit in the scheme		<u>(11,167)</u>		<u>(10,712)</u>

The long-term rate of return expected on the various classes of scheme asset is set out above. For bonds and cash balance the market yields at the balance sheet date are known and the overall expected rate for bonds will therefore reflect the actual portfolio of bonds held by the scheme.

For equities the future yield is subjective. It is usually expected that the long-term return on equities will be higher than the return from bonds as a result of the equity-risk premium. The rates have remained relatively unchanged year on year as the yield on Government bonds has been relatively unchanged.

21b) Total expense recognised in the Income Statement

	2007	2006
	£'000	
Current service cost	670	760
Interest on obligations	1,418	1,196
Expected return on assets	(1,113)	(866)
Total operating charge	<u>975</u>	<u>1,090</u>

A charge for the year of £670,000 (2006 £760,000) has been included in wages and salaries costs and £305,000 (2006 £330,000) has been included in finance costs. Actuarial gains and losses have been included in the statement of recognised income and expense.

21c) Changes in the present value of the defined benefit obligation

	2007	2006
	£'000	
Opening defined benefit obligation	26,959	21,979
Service cost	670	760
Interest cost	1,418	1,196
Actuarial (gain)/losses	(212)	3,594
Employee element of service cost	150	161
Benefits paid	(558)	(731)
Closing defined benefit obligation	<u>28,427</u>	<u>26,959</u>

21d) Movement in fair value of scheme assets during the year

	2007	2006
	£'000	
Opening fair value of assets	16,247	12,812
Expected return	1,113	866
Actuarial (losses)/gains	(142)	2,637
Contributions by employer	450	502
Employee contributions	150	161
Less benefits paid	(558)	(731)
Closing fair value of assets	<u>17,260</u>	<u>16,247</u>

21e) History of experience gains and losses

	2007	2006	2005
Difference between the actual and expected return on scheme assets			
Amount (£'000)	(142)	2,637	203
Percentage of scheme assets	(1%)	16%	2%
Experience gains/(losses) on scheme liabilities			
Amount (£'000)	92	(1,665)	645
Percentage of the present value of the scheme liabilities	0%	(6%)	3%

The directors anticipate that contributions to the scheme in the year to 30 April 2008 will be approximately £2,000,000.

21f) Overseas arrangements

As a result of the merger with Torex, the Group also acquired pension obligations in the Netherlands. SOFT Netherlands BV participates in an industry-wide defined benefit pension plan, known as the PGGM. The PGGM provides pension benefits related to final pay at retirement for approximately 1.8 million people, who are current or former employees in the healthcare and social work sector in the

Netherlands The PGGM is a multi-employer plan under which iSOFT Netherlands BV is unable to identify its share of the underlying assets and liabilities, and the Group has therefore adopted defined contribution accounting as permitted by IAS 19 The premiums paid by the employer for the year were €1,161,000 (approximately £785,000) The employer's contributions are expected to increase by up to 15% in the foreseeable future to restore the funding level of the PGGM in respect of past service benefits to its target level Non-current liabilities in the amount of £2,682,000 (2006 £3,327,000) have been recognised in respect of this scheme within other payables

The Group is party to gratuity fund and long service award schemes in India, the liability for which is calculated on an actuarial basis The liability at 30 April 2007 was £854,000 (2006 £448,000) of which £349,000 is included within other payables within one year and £505,000 is included within other payables after more than one year

The Group is party to a local defined benefit scheme in Germany the liability for which is calculated on an actuarial basis The liability at 30 April 2007 was £572,000 (2006 £534,000) and is included within other payables after more than one year

22. Share capital

	2007	2006
	£	
Authorised		
350,000,000 (2005 350,000,000) ordinary shares of £0 10 each	<u>35,000,000</u>	<u>35,000,000</u>
	2007	2006
	£	
Allotted, called up and fully paid		
232,485,722 (2006 232,485,722) ordinary shares of £0 10 each	<u>23,248,572</u>	<u>23,248,572</u>

There have been no shares issued during the year

Share options

The following options are outstanding under the Company's unapproved and approved share option schemes Exercise of these options is subject to employees meeting individual performance criteria and also to the performance of the Group measured over three years from the date of grant Options include directors' share options Executive options are granted at market value at the date of grant

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period exercisable from	Period exercisable to
11-Jul-00	100,000*	110 0	10-Jul-01	11-Jul-03	10-Jul-10
13-Apr-01	50,000*	189 0	12-Apr-02	13-Apr-04	12-Apr-11
11-Oct-01	225,000*	217 5	10-Oct-02	11-Oct-04	10-Oct-11
30-Sep-02	500,000*	151 3	29-Sep-03	30-Sep-05	29-Sep-12
25-Mar-04	1,460,000	338 0	24-Mar-05	25-Mar-07	24-Mar-14
09-Feb-05	3,165,787	371 7	08-Feb-06	09-Feb-08	08-Feb-15
30-Jun-05	250,000	423 8	29-Jun-06	30-Jun-08	29-Jun-15
28-Jul-05	687,500	418 0	27-Jul-06	28-Jul-08	27-Jul-15
05-Sep-06	8,103,611	50 3	04-Sep-07	05-Sep-09	05-Sep-16

The following Torex share options were rolled over into options over iSOFT Group shares at the time of the merger and are still outstanding

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period exercisable from	Period exercisable to
09-Feb-00	37,461*	295 67	23-Dec-03	09-Feb-03	08-Feb-10
15-Mar-01	131,798*	374 46	23-Dec-03	15-Mar-04	14-Mar-11
27-Feb-02	102,608*	418 27	23-Dec-03	27-Feb-05	26-Feb-12

* The Company has taken advantage of the exemption available under IFRS 2 not to apply the requirements of that IFRS to options granted prior to November 2002

In addition to the options above, 4,603,131 options were outstanding in respect of the Company's savings related share option scheme, 338,607 have an exercise price of 266 14 pence (first exercisable in 2007), 87,541 have an exercise price of 348 5 pence (first exercisable in 2008) and 4,176,983 have an exercise price of 44 1 pence (first exercisable in 2009) These options are granted at a 20% discount to market value at the date of grant

Furthermore, awards of 765,039 shares were made under the Performance Share plan (PSP) 2005 on 28 July 2005 of which 732,151 were outstanding at 30 April 2007 As at 30 April 2007, 884,665 shares were held in trust to satisfy the awards under this plan

Further details of share options in respect of directors are included in the Remuneration Report on page 36

Warrants

During the year the Group issued warrants in respect of 8,595,362 shares The holders have the right to subscribe for new iSOFT shares at a price of 10 pence per share and are exercisable at any time prior to 17 October 2009

23. Reserves and reconciliation of changes in equity for the year ended 30 April 2007

23a) Movement on Group reserves:

	Share premium account	Merger and other reserves	Own shares	Retained earnings
	£'000			
At 1 May 2005	43,082	361,332	—	(23,412)
Loss for the year	—	—	—	(382,182)
Dividends	—	—	—	(6,030)
Eligible transfer of impairment charge to merger reserve	—	(233,175)	—	233,175
Premium on shares issued net of issue costs	10,461	—	—	—
Share based payment charge for the period	—	2,585	—	—
Minority interest movement	—	—	—	(139)
Shares acquired in the period	—	—	(3,758)	—
Other recognised gains and losses	—	—	—	(360)
At 30 April 2006	53,543	130,742	(3,758)	(178,948)
Loss for the year	—	—	—	(8,820)
Share option charge for the year	—	2,800	—	—
Eligible transfer to retained earnings	—	(4,269)	—	4,269
Minority interest movement	—	—	—	(258)
Other recognised gains and losses	—	—	—	(46)
At 30 April 2007	53,543	129,273	(3,758)	(183,803)

Merger and other reserves include merger reserves of £124 million (2006 £124 million)

During 2006 the Group acquired 884,655 shares at a cost of £3,758,000 These shares were acquired through the Group Employee benefit trust, to satisfy grants made in the current year under the Performance Share Plan (PSP) 2005 and under the Directors' deferred share plan

23b) Consolidated reconciliation of changes in equity for the year ended 30 April 2007

	2007	2006
	£'000	
Total recognised income and expense for the year	(8,866)	(382,542)
Opening equity	25,438	404,255
Dividends paid	—	(6,030)
Minority interest movement	(868)	—
Issue of ordinary shares, net of costs	—	10,929
Share based payment charge	2,800	2,584
Investment in own shares	—	(3,758)
Closing equity	<u>18,504</u>	<u>25,438</u>

24. Reconciliation of loss from operations to net cash from operating activities

	2007	2006
	£'000	
Loss from operations	(14,309)	(338,101)
Amortisation and impairment of intangible assets	771	353,715
Release of negative goodwill	(591)	—
Depreciation of property, plant and equipment	6,686	4,768
Share-based payment charge	2,800	2,585
Difference between pension charge and cash contributions	220	258
Decrease in provisions	(241)	(833)
Profit on disposal of subsidiary	(269)	—
Operating cash flows before movements in working capital	(4,933)	22,392
Decrease in inventories	595	492
Decrease in receivables	8,967	12,547
Decrease in payables	(43,927)	(33,485)
Cash(used in)/generated from operations	<u>(39,298)</u>	<u>1,946</u>

25. Operating lease commitments

At 30 April 2007, the Group had outstanding commitments for future lease payments under non-cancellable operating leases expiring as follows

	2007		2006	
	Property	Vehicles, plant and equipment	Property	Vehicles, plant and equipment
	£'000			
Within one year	4,318	927	4,375	1,761
Within two to five years	9,556	857	11,424	511
After five years	9,832	159	10,921	—
	<u>23,706</u>	<u>1,943</u>	<u>26,720</u>	<u>2,272</u>

Operating lease payments represent rentals payable by the Group under property and equipment leases. These leases are negotiated for terms of up to 25 years on property with break clauses typically every 5 years with rentals fixed for similar periods.

26. Share-based payments

Equity-settled share option and deferred share schemes

The Company has a number of share option and SAYE schemes for all employees of the Group, together with a performance share scheme for certain senior employees and a deferred share bonus scheme for Directors. Details of the operation of these schemes are included in note 22 and the

Directors' remuneration report Details of the executive and SAYE options outstanding during the year are as follows

	2007		2006	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at beginning of period	9,286,095	3 43	11,747,388	2 83
Granted during the period	12,904,138	0 48	1,652,256	4 04
Forfeited during the period	(2,773,337)	(2 83)	(415,338)	3 10
Exercised in the period	—	—	(3,698,211)	1 82
Exercisable at the end of the period	<u>19,416,896</u>	<u>1 56</u>	<u>9,286,095</u>	<u>3 43</u>

There were no exercises of share options exercised during the period The options outstanding at 30 April 2007 had weighted average remaining contractual life of 8 46 years Details of options and shares granted in the year ended 30 April 2007 are included in note 22 The aggregate of the estimated fair values of the options granted was £2,486,000 (2006 £1,870,070)

The inputs into the Black-Scholes model for the applicable options granted in the year are as follows

	2007	2006
Weighted average share price (£)	0 51	3 71
Weighted average exercise price (£)	0 48	3 54
Expected volatility	0 48	0 52
Expected life (years)	3 00	3 00
Risk-free rate (%)	4 81	4 60
Dividend yield (%)	0 98	0 60
Fair value (£)	0 19	1 36

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous seven years The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

The Group has also granted deferred bonus shares to directors The movement on these entitlements was as follows

	Number of shares	Weighted average exercise price (£)
At 1 May 2005	818,756	3 30
Granted in the year	119,616	4 27
Lapsed in the year	(39,628)	(4 08)
At 30 April 2006	898,744	3 39
Lapsed in the year	(212,731)	(3 34)
Exercised in the year	(240,153)	(3 31)
At 30 April 2007	<u>445,860</u>	<u>3 46</u>

Due to the nature of the scheme the fair value equates to the exercise price

The Group granted 765,039 shares under the Performance Share Plan (PSP) 2005 on 28 July 2005 of which 732,151 are still outstanding These shares were valued using a binomial model and have an estimated fair value of £2 67 per share

The Group recognised total expenses of £2,800,000 (2006 £2,585,000) related to equity-settled share-based payment transactions

27. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 32 to 38

	2007	2006
	£'000	
Short-term employee benefits	2,803	2,402
Post-employment benefits	—	1
Termination benefits	802	—
Share-based payment	559	1,097
	<u>4,164</u>	<u>3,500</u>

28. Capital commitments

At the year end capital commitments totalled £3,000 (2006 £588,000)

29. Contingent liabilities

The Group has contracted to supply health information systems to the Health Services Executive (HSE) in Ireland over the period to 2015, with a contract value of €56 million. To date, implementation of these systems is in accordance with the operational plans. Within the contract, however, iSOFT contracted to provide a letter of credit if the net assets shown in the consolidated accounts of iSOFT Group plc are less than €75 million and to maintain professional indemnity insurance cover at levels not currently available to the Company in the insurance markets. Following the Group's change in accounting policy for the year ended 30 April 2006 and the significant goodwill impairment charge, its consolidated net assets under the new accounting policies fell below this amount. Additionally, iSOFT contracted to make available certain software functionality which will not be available in the timescales contracted. iSOFT and the customer are engaged in discussions to resolve these matters, which the directors are hopeful will lead to a satisfactory outcome. However, were agreement not to be reached, the remedies for such breaches in contract could include termination of the contract and damages. The remainder of the HSE programme is proceeding satisfactorily. It is not possible for the Board to conclude what implications, if any, may arise from the conclusion of the ongoing discussions into these matters.

Litigation

As at the date of this document, iSOFT is aware of the following litigation proceedings involving the iSOFT Group

- (a) the proceedings in the Supreme Court of Queensland, Brisbane Registry (Proceedings No BS9769/06), between the Australian Church in Australia Property Trust in Australia (Q) (as plaintiff) and iSOFT Australia Pty Ltd (as defendant). The plaintiff alleges that iSOFT Australia Pty Ltd breached a software supply agreement dated 17 September 2001 and made misleading and deceptive representations, such that the plaintiff has suffered loss and damage in the amount of approximately A\$9,115,000, and
- (b) the proceedings under case number CIV-2006-404-004502 filed in the High Court at Auckland, New Zealand, between I-Health Limited (as plaintiff) and iSOFT NZ Limited and iSOFT Australia Pty Limited (as first and second respondents respectively). The proceedings arose out of a business and asset sale agreement entered into by iSOFT NZ Limited (as purchaser), iSOFT Australia Pty Limited (as the purchaser's guarantor) and I-Health Limited (as vendor), whereby iSOFT NZ Limited acquired the business and assets of I-Health Limited (including I-Health Limited's software known as "healthviews"). Payment for the business included payments based on revenue earned by iSOFT NZ Limited from the healthviews software over a five-year period following settlement of the sale. I-Health Limited claims that iSOFT NZ Limited has

breached its obligations under the business and asset sale agreement to, inter alia, promote and develop the healthviews software thus negatively impacting on the earn-out payments due to I-Health Limited. The maximum payable under the earn-out agreement is A\$24.9 million.

30 Subsequent events

CSC arrangements

On 18 June 2007 iSOFT reached agreement with CSC which provide improved efficiency of the overall NPfIT delivery process whilst retaining ownership of the development expertise and LORENZO intellectual property and increasing the certainty as to payment receivable from NPfIT. This involves (i) integrating the CSC and iSOFT teams involved in the development of the software for NPfIT under CSC's leadership, (ii) iSOFT retaining the intellectual property rights to LORENZO including rights to exploit it outside of the CSC clusters, (iii) CSC taking responsibility for the iPatient Manager and iIE product code streams for the NPfIT, and (iv) some two thirds of the licence payments due to iSOFT under the arrangement being calendar-based with the balance being based on agreed milestones.

Recommended Offer for the Company

Following the announcement by iSOFT on 6 July 2007 that the resolutions proposed in connection with the IBA offer, for the entire issued and to be issued share capital of iSOFT via a scheme of arrangement, at both the Court meeting and extraordinary general meeting of iSOFT shareholders had been passed by the requisite majority, on 19 July 2007 the iSOFT Board received an unsolicited proposal from CompuGROUP UK Limited (a newly incorporated wholly-owned subsidiary of CompuGROUP Holding AG, which has been formed for the purposes of effecting an offer for iSOFT via a scheme of arrangement), comprising an all cash offer of 66p per share for the entire issued and to be issued share capital of iSOFT. The only conditions to the proposal are approval by iSOFT's shareholders and court approval for the scheme of arrangement pursuant to which CompuGROUP will acquire iSOFT.

This proposal has been recommended by the iSOFT board and was formally announced as an offer to the market on 20 July 2007.

CompuGROUP will finance the acquisition and repayment of iSOFT's existing bank facilities, which are repayable upon a change of control of iSOFT, and the ongoing working capital requirements of the Enlarged Group, through a combination of CompuGROUP Holding's existing cash resources and committed new debt facilities of £285 million arranged and underwritten by SEB AG.

CompuGROUP Holding has reached agreement with CSC, if the scheme of arrangement becomes effective, whereby CSC will take full control of certain of its obligations in respect of the NPfIT.

UK Corporation Tax

As a result of the budget announced by the Chancellor of the Exchequer on 21 March 2007, the rate of corporation tax for large companies in the United Kingdom will reduce from 30% to 28% from April 2008.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ISOFT GROUP PLC

We have audited the individual company financial statements of ISOFT Group plc for the year ended 30 April 2007, which comprise the balance sheet and the related notes 1 to 14. These individual company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors' remuneration report are included in the Group annual report of ISOFT Group plc for the year ended 30 April 2007. We have reported separately on the group financial statements of ISOFT Group plc for the year ended 30 April 2007 and on the information in the directors' remuneration report that is described as having been audited. That opinion in that report is qualified on the grounds of limitations on audit scope and is modified by the inclusion of an emphasis of matter regarding going concern.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the individual company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the individual company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual company financial statements give a true and fair view and whether the individual company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the individual company financial statements. The information given in the Directors' Report includes that specific information presented in the Financial and Operating Review, Report of the Chairman and Chief Executive Officer, Corporate Social Responsibility Statement and Key Performance Indicators that are cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited individual company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual company financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned 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 individual company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

However, the evidence available to us was limited because of the following significant matters

Investigations into accounting irregularities in relation to subsidiaries

As detailed in note 1 to the Group financial statements, the Board initiated a formal investigation into accounting irregularities on 20 July 2006, which has given rise to investigations by the Financial Services Authority ("FSA") and the Accountancy Investigation and Discipline Board ("AIDB"). The Directors recognise that the AIDB investigation concerns individuals and another party rather than the Company.

The FSA has confirmed to the Company that their investigations have not caused them to look at any other matters outside those particular contracts drawn to their attention by the Company. These matters could impact on reported revenues and profits and, in the balance sheet, deferred income, accrued income and consequent potential liabilities. As detailed in note 1 to the Group financial statements, the Directors consider that the restatement of revenues in the financial statements for the year ended 30 April 2006 corrected, where appropriate, the impact of these particular matters. However, the Directors recognise that the FSA investigation is not yet finally concluded.

Given the circumstances, the ability of the directors to conclude on the completeness or accuracy of transactions recorded in the year ended 30 April 2007 and prior periods is limited. Consequently, the evidence available to us was limited, and there were no other satisfactory audit procedures that we could adopt to confirm that no further adjustments to the individual company financial statements as presented are required.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual company financial statements.

Qualified opinion arising from limitation in audit scope

Except for any adjustments to the individual company financial statements that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matter noted above, in our opinion:

- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 April 2007,
- the individual company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the individual company financial statements.

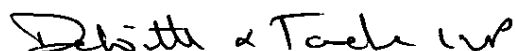
In respect of the limitations on our work referred to above we have not obtained all the information and explanations that we considered necessary for the purposes of our audit.

Emphasis of matter—going concern

Without qualifying our opinion in this regard, we draw attention to the disclosures made in note 1 to the Group financial statements concerning the Company's ability to continue as a going concern. These include the following uncertainties:

- the successful completion of the proposed acquisition of the Group by CompuGROUP UK Limited, which is subject to shareholder and court approval,
- the ongoing willingness and ability of CompuGROUP UK Limited to provide adequate financing arrangements if the transaction legally completes,
- the renewal of existing banking facilities, which are presently scheduled to expire on 14 November 2007, should the proposed acquisition by CompuGROUP UK Limited not take place, and
- satisfactory trading in line with the Directors' expectations. The nature of the Group's business is such that there can be considerable unpredictable variation and uncertainty regarding the timing and margin on sales, the quantum and timing of cash flows from new business activity and the achievement of contractual milestones and contractual requirements.

Having taken into account these material uncertainties, the directors consider it is appropriate to prepare the financial statements on the going concern basis. In the circumstances of the Group, these conditions, along with the other matters included in note 1, indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern, which would include writing down the carrying value of assets, including goodwill, to their recoverable amount and providing for any further liabilities that might arise as it is not practicable to determine or quantify them.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Manchester, United Kingdom
31 July 2007

Balance sheet as at 30 April 2007

	Note	2007 £'000	2006
Fixed assets			
Tangible fixed assets	3	617	2,749
Investments	4	87,218	87,218
		<u>87,835</u>	<u>89,967</u>
Current assets			
Debtors	5	27,446	64,827
Cash at bank and in hand		504	12
		<u>27,950</u>	<u>64,839</u>
Creditors amounts falling due within one year	6	(74,626)	(66,769)
Net current liabilities		<u>(46,676)</u>	<u>(1,930)</u>
Total assets less current liabilities		41,159	88,037
Creditors amounts falling due after one year	7	—	(26,640)
Provisions for liabilities and charges	8	(2,117)	—
Net assets		<u>39,042</u>	<u>61,397</u>
Capital and reserves			
Called-up share capital	9	23,249	23,249
Share premium account	10	53,543	53,543
Investment in own shares	10	(3,758)	(3,758)
Share-based payment reserve	10	3,603	4,800
Merger reserve	10	88,683	88,683
Profit and loss account	11	(126,278)	(105,120)
Equity shareholders' funds		<u>39,042</u>	<u>61,397</u>

The financial statements were approved by the Board of directors and authorised for issue on 31 July 2007. They were signed on its behalf by

John Weston
Chairman and Acting Chief Executive Officer

Gavin James
Group Finance Director

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. Significant accounting policies

i. Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and law. In preparing these individual company financial statements the limitations and circumstances set out in note 1 to Group financial statements, in particular in relation to investigations into accounting irregularities, were taken into account.

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year. There have been no new financial reporting standards impacting the Company in the current year.

ii. 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. Translation differences are taken to the profit and loss account.

iii. Tangible fixed assets

Tangible fixed assets are stated at cost less any applicable discounts. 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 on office equipment, fixtures and fittings are 12.5% to 20.0%.

iv. Share-based payments

The Company has applied the requirements of FRS 20, "Share-based Payments". In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2005.

The Company issues equity-settled share-based payments to certain employees.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value is measured by use of a Black-Scholes model or binomial model, as most appropriate for the terms of the instrument. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The cost in relation to the deferred bonus scheme is charged in the year of performance.

v. Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment.

vi. Leased assets

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

vii. Taxation

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

Deferred tax is provided on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

viii. Pensions

The Company operates a defined contribution scheme. The pension charge shown represents the total contributions made by the Company for the year.

2. Loss for the year

2a) Company profit and loss account

As permitted by Section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year. A loss of £23,618,000 (2006: loss of £379,545,000) is dealt with in the accounts of the Company. The loss in the prior year includes investment and loan impairments totalling £383,353,000.

The auditors' remuneration for services to the Company was £50,000 (2006: £45,000).

2b) Staff costs

	2007	2006
	£'000	
Employees costs including directors amounted to:		
Wages and salaries	13,134	12,714
Social security costs	1,113	1,257
Other pension costs	366	577
	<u>14,613</u>	<u>14,548</u>

2c) The average monthly number of employees, including executive directors, employed by the Company during the year was:

	2007	2006
	Number	
Development	16	20
Sales and marketing	11	17
HR, legal and finance	48	55
Computer services	31	37
	<u>106</u>	<u>129</u>

3 Tangible fixed assets

	Fixtures, fittings & equipment £'000
Cost	
At 1 May 2006	3,035
Disposals	<u>(2,085)</u>
At 30 April 2007	<u>950</u>
Depreciation	
At 1 May 2006	286
Charge for the year	384
Disposals	<u>(337)</u>
At 30 April 2007	<u>333</u>
Net book value	
At 30 April 2007	<u>617</u>
At 1 May 2006	<u>2,749</u>

4. Fixed asset investments

	Shares in subsidiary undertakings £'000
Cost	
At 1 May 2006 and 30 April 2007	<u>449,680</u>
Provision for impairment	
At 1 May 2006 and 30 April 2007	<u>(362,462)</u>
Net book value	
At 30 April 2006 and 30 April 2007	<u>87,218</u>

Principal trading Subsidiaries	Class of share held	Proportion of shares	Nature of business	Country of incorporation
iSOFT plc	Ordinary	100%	Computer services	England & Wales
iSOFT R&D Private Limited*	Ordinary	100%	Software development	India
iSOFT Australia Pty Limited*	Ordinary	100%	Computer services	Australia
iSOFT NZ Limited*	Ordinary	100%	Computer services	New Zealand
iSOFT Holdings (Singapore) Limited*	Ordinary	100%	Computer services	Singapore
iSOFT Ltd	Ordinary	100%	Computer services	Ireland
Revive Health Limited*	Ordinary	100%	Computer services	England & Wales
Torex Health Limited*	Ordinary	100%	Computer services	England & Wales
Torex Services Limited*	Ordinary	100%	Computer services	England & Wales
Torex Medical Systems Limited*	Ordinary	100%	Computer services	England & Wales
iSOFT Netherlands BV*	Ordinary	100%	Computer services	Netherlands
iSOFT Deutschland GmbH*	Ordinary	100%	Computer services	Germany
iSOFT Business Solutions (Ireland) Limited*	Ordinary	100%	Computer services	Ireland
iSOFT Business Solutions (HK) Limited*	Ordinary	100%	Computer services	Hong Kong
iSOFT Business Solutions UK Limited*	Ordinary	100%	Computer services	England & Wales
Torex Radiology Systems Limited*	Ordinary	100%	Computer services	England & Wales
Torex Protos Limited*	Ordinary	100%	Computer services	England & Wales
HAS Solutions Pty Limited*	Ordinary	100%	Computer services	Australia
Paramedical Pty Limited*	Ordinary	100%	Computer services	Australia
iSOFT Sanidad S A *	Ordinary	100%	Computer services	Spain

* denotes shares not held directly by iSOFT Group plc

All companies have a financial year end of 30 April, with the exception of iSOFT R&D Private Limited, which has a financial year end of 31 March

5. Debtors

	2007	2006
	£'000	
Amounts owed by Group undertakings	26,656	63,093
Other debtors	121	—
Prepayments and accrued income	360	767
Deferred tax	309	967
	<u>27,446</u>	<u>64,827</u>

Deferred tax comprises

	2007	2006
	£'000	
Accelerated capital allowance	(268)	121
Short-term timing differences	(41)	(1,088)
Deferred taxation asset	<u>(309)</u>	<u>(967)</u>

The movement on deferred tax comprises

	2007
	£'000
As at 1 May 2006	(967)
Credited in the year	658
As at 30 April 2007	<u>(309)</u>

6. Creditors: amounts falling due within one year

	2007	2006
	£'000	
Bank and other borrowings	42,566	47,262
Trade creditors	1,126	864
Amounts owed to Group undertakings	21,629	14,845
Corporation tax	—	24
Accruals and other creditors	<u>9,305</u>	<u>3,774</u>
	<u>74,626</u>	<u>66,769</u>

Bank loans and overdrafts mature as follows

	2007	2006
	£'000	
Amounts falling due within 1-2 year	—	11,760
Amounts falling due within 2-5 years	—	14,880
Amounts falling due after more than one year	—	26,640
Amounts falling due within 1 year	<u>42,566</u>	<u>47,262</u>
	<u>42,566</u>	<u>73,902</u>

7. Creditors: amounts falling due after more than one year

Creditors falling due after more than one year in the prior year comprised bank loans. In August 2006 the Company entered into new facility arrangements, details of which are included in note 19 of the Consolidated Group Accounts. As a result of the revised arrangements all amounts are now payable within 1 year.

8. Provisions for liabilities and charges

Provisions for liabilities and charges comprise provision against onerous lease liabilities as follows

	2007
	£'000
As at 1 May 2006	—
Charge for the year	2,251
Transfer from accruals	466
Utilised in the year	<u>(600)</u>
As at 30 April 2007	<u>2,117</u>

9 Called-up share capital

	2007	2006
	£	
Authorised		
350,000,000 (2005 350,000,000) ordinary shares of £0 10 each	<u>35,000,000</u>	<u>35,000,000</u>
	2007	2006
	£	
Allotted, called-up and fully paid 232,485,722 (2006 232,485,722) ordinary shares of £0 10 each	<u>23,248,572</u>	<u>23,248,572</u>

There were no shares issued during the year

Share options

The following options are outstanding under unapproved and approved share option schemes. Exercise of these options is subject to employees meeting individual performance criteria and also to the performance of the Group measured over three years from the date of grant. Options include directors' share options. Executive options are granted at market value at the date of grant.

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period exercisable from	Period exercisable to
11-Jul-00	100,000*	110 0	10-Jul-01	11-Jul-03	10-Jul-10
11-Oct-01	150,000*	217 5	10-Oct-02	11-Oct-04	10-Oct-11
30-Sep-02	210,000*	151 3	29-Sep-03	30-Sep-05	29-Sep-12
25-Mar-04	765,000	338 0	24-Mar-05	25-Mar-07	24-Mar-14
09-Feb-05	1,861,929	371 7	08-Feb-06	09-Feb-08	08-Feb-15
30-Jun-05	250,000	423 8	29-Jun-06	30-Jun-08	29-Jun-15
28-Jul-05	173,000	418 0	27-Jul-06	28-Jul-08	27-Jul-15
05-Sep-06	3,052,611	50 3	04-Sep-09	05-Sep-06	04-Sep-16

The following Torex share options were rolled over into options over iSOFT Group shares at the time of the merger and are still outstanding in respect of employees of iSOFT Group plc

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period exercisable from	Period exercisable to
27-Feb-02	21,229*	418 27	23-Dec-03	27-Feb-05	26-Feb-12

* The Company has taken advantage of the exemption available under FRS 20 not to apply the requirements of the FRS to options granted prior to 7 November 2002.

In addition to the options above, 192,905 options were outstanding in respect of the savings-related share option scheme, 8,142 have an exercise price of 266 14 pence (first exercisable in 2007), 6,360 have an exercise price of 348 5 pence (first exercisable in 2008) and 178,403 have an exercise price of 44 1 pence (first exercisable in 2009). These options are granted at a 20% discount to market value at the date of grant.

Furthermore awards of 731,008 shares were made under the Performance Share plan (PSP) 2005 on 28 July 2005. An equivalent number of shares were held in trust to satisfy the awards under this plan.

Equity-settled share option and deferred share schemes

The Company has a number of share option and SAYE schemes for all employees of the Group, together with a performance share scheme for certain senior employees and a deferred share bonus.

scheme for Directors Details of the executive and SAYE options outstanding during the year are as follows

	30 April 2007		30 April 2006	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
		£		£
Outstanding at beginning of period	4,385,967	3 50	6,416,686	2 79
Granted during the period	3,644,152	0 50	506,204	4 17
Forfeited during the period	(1,253,445)	(2 68)	(54,903)	(1 57)
Exercised in the period	—	—	(2,482,020)	(1 84)
Exercisable at the end of the period	<u>6,776,674</u>	<u>2 04</u>	<u>4,385,967</u>	<u>3 50</u>

There were no options exercised in the period The options outstanding at 30 April 2007 had weighted average remaining contractual life of 8.12 years The aggregate of the estimated fair values of the options granted in the year was £652,000 (2006 £601,477)

The inputs into the Black-Scholes model for the above options are as follows

	30 April 2007	30 April 2006
Weighted average share price (£)	0 51	3 72
Weighted average exercise price (£)	0 50	3 69
Expected volatility	0 47	0 51
Expected life (years)	3 00	3 00
Risk-free rate (%)	4 76	4 62
Dividend yield (%)	0 97	0 60
Fair value (£)	0 18	1 35

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous seven years The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

The Group has also granted deferred bonus shares to directors The movement on these entitlements was as follows

	Number of shares	Weighted average exercise price
		£
At 1 May 2005	818,756	3 30
Granted in the year	119,616	4 27
Lapsed in the year	<u>(39,628)</u>	<u>(4 08)</u>
At 30 April 2006	898,744	
Lapsed in the year	(212,731)	(3 34)
Exercised in the year	<u>(240,153)</u>	<u>(3 31)</u>
At 30 April 2007	<u>445,860</u>	<u>3 46</u>

Due to the nature of the scheme the fair value equates to the exercise price

The Group granted 765,039 shares under the Performance Share Plan (PSP) 2005 on 28 July 2005 of which 732,151 were outstanding at 30 April 2007 These shares were valued using a binomial model and have an estimated fair value of £2.67 per share

The Company recognised total expenses of £1,263,000 (2006 £1,727,000) related to equity-settled share-based payment transactions

Warrants

During the year the Group issued warrants in respect of 8,595,362 shares. The holders have the right to subscribe for new iSOFT shares at a price of 10 pence per share and are exercisable at any time prior to 17 October 2009.

10. Reserves

	Share premium account	Share based payment reserve	Investment in own shares	Merger reserve
			£'000	
At 1 May 2006	53,543	4,800	(3,758)	88,683
Eligible transfer from share based payment reserve	—	(2,460)	—	—
Share option charge	—	1,263	—	—
At 30 April 2007	<u>53,543</u>	<u>3,603</u>	<u>(3,758)</u>	<u>88,683</u>

11. Profit and loss account

	£'000
At 1 May 2006	(105,120)
Transfer from share based payment reserve	2,460
Loss for the financial year	(23,618)
As at 30 April 2007	<u>(126,278)</u>

12. Reconciliation of movement in shareholders' funds for the year ended 30 April 2007

	2007	2006
	£'000	
Loss for the financial year	(23,618)	(379,545)
Dividends	—	(6,030)
	<u>(23,618)</u>	<u>(385,575)</u>
Shares issued net of costs	—	10,932
Share option reserve	1,263	1,727
Investment in own shares	—	(3,758)
Net decrease in shareholders' funds	<u>(22,355)</u>	<u>(376,674)</u>
Opening shareholders' funds	61,397	438,071
Closing shareholders' funds	<u>39,042</u>	<u>61,397</u>

13. Operating lease commitments

At 30 April 2007 the Company has lease arrangements in respect of properties, vehicles, plant and equipment for annual rentals as follows:

	2007		2006	
	Property	Vehicles, plant and equipment	Property	Vehicles, plant and equipment
			£'000	
Leases expiring				
Within one year	—	—	—	—
Within two to five years	—	35	—	53
After five years	<u>444</u>	<u>—</u>	<u>387</u>	<u>—</u>
	<u>444</u>	<u>35</u>	<u>387</u>	<u>53</u>

14. Commitments and contingencies

iSOFT Group Plc has expressed its intention to provide financial support to certain subsidiary undertakings for periods up to 12 months. It is not practicable to quantify the impact, if any, should such financial support be required.

FIVE YEAR SUMMARY

	IFRS 2007	IFRS 2006	IFRS 2005 £m	UK GAAP 2004	UK GAAP 2003
Results					
Revenue	175.2	201.7	186.1	94.8	51.3
Operating profit/(loss)					
Normalised operating profit/(loss)*	6.6	13.3	7.2	(15.0)	(14.6)
Normalised (loss)/profit before tax*	(1.1)	7.7	(0.9)	(17.7)	(16.7)
(Loss)/profit from operations	(14.3)	(338.1)	8.5	(34.2)	(19.2)
Key statistics					
(Loss)/earnings per share (pence)	(3.8)	(165.1)	2.6	(17.1)	(12.6)
Underlying (loss)/earnings per share (pence)	2.89	(13.3)	2.6	(8.1)	(12.0)
Net funds/(debt)	(67.9)	(41.8)	(1.6)	(64.7)	(39.6)
Cash (used in)/generated by operations	(39.3)	1.9	92.4	35.9	23.5
Average number of employees	3,107	3,224	2,546	1,338	580

* Stated before goodwill amortisation, goodwill impairment and exceptional costs

COMPANY INFORMATION

Executive directors

John Weston

Chairman and acting Chief Executive Officer

Executive directors

Bill Henry

Chief Operating Officer

Gavin James

Group Finance Director

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Geoff White

Non-executive Deputy Chairman

Ken Lever

Senior Independent Director

Eurfyl ap Gwilym

Rene Kern

David Thorpe

Company Secretary

Teifion Hill

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