

COMPANY NO: 3716736

# iSOFT GROUP PLC

Annual Report

Year ended 30 April 2004



## **CONTENTS**

<b>01</b>	FINANCIAL HEADLINES
<b>02</b>	LETTER FROM THE CHAIRMAN
<b>06</b>	CHIEF EXECUTIVES REPORT
<b>10</b>	OPERATING AND FINANCE REVIEW
<b>14</b>	REPORT OF THE DIRECTORS
<b>18</b>	CORPORATE GOVERNANCE REPORT
<b>24</b>	CORPORATE SOCIAL RESPONSIBILITY STATEMENT
<b>28</b>	REMUNERATION REPORT
<b>34</b>	AUDIT COMMITTEE REPORT
<b>36</b>	INDEPENDANT AUDITORS' REPORT
<b>37</b>	FINANCIAL SATEMENTS
<b>70</b>	FIVE YEAR SUMMARY
<b>72</b>	COMPANY INFORMATION
<b>73</b>	NOTABLE DATES

Year ended 30 April	2004	2003	2002	2001	2000
Turnover (£'m)	149.3	91.5	60.1	31.1	17.0
Normalised operating profit* (£'m)	39.5	25.6	16.4	7.6	3.5
Normalised profit before tax* (£'m)	36.8	23.5	15.4	7.2	3.1
Underlying earnings per share*	17.70p	15.09p	10.49p	4.77p	2.46p
Average monthly employees	1,338	580	430	252	162

IN THE YEAR ENDED 30 APRIL 2004

^ **63.1%**

Turnover growth of 63.1%  
to £149.3m

^ **56.5%**

Normalised profit before tax\*  
increased 56.5% to £36.8m  
a profit margin of 24.7%

^ **£35.9m**

Net cash inflow from  
operating activities\* totalled  
£35.9m, representing a  
normalised profit before  
tax\* cash conversion ratio  
of 97.6%

^ **17.3%**

Underlying earnings per  
share\* for the year increased  
17.3% to 17.70 pence

\* stated before amortisation of goodwill and exceptional items

\* stated before the cash impact of exceptional items

02

**LETTER FROM THE CHAIRMAN**  
page two

**WE HAVE CONSIDERABLE INNOVATIVE TALENT WITHIN OUR  
ORGANISATION AND A FERVENT DESIRE TO EXPRESS IT**

Dear Shareholder,

Since its listing on the London Stock Exchange in July 2000, iSOFT has grown strongly to become a healthcare software applications company of international significance. The year ended 30 April 2004 continued the consistent record of strong growth in turnover and profitability.

Our progress as a publicly quoted company is testimony to our ability to deliver software applications of unique value to our growing healthcare industry customer base. From its inception, the iSOFT business has had the ambition to be the global leader in the provision of software applications for healthcare provider organisations.

The rate of progress made in the year ended 30 April 2004 has been pleasing with a number of new business wins overseas to complement our outstanding success in winning contracts under the National Programme for Information Technology (NPfIT) in England. Global leadership as an application software supplier to the healthcare market is within our reach and we remain committed to this goal for your benefit and that of our customers and employees.

Leadership in our market depends on reading future trends in healthcare better than our competitors, developing innovative software application responses to these trends and establishing distribution networks to get our products to market effectively. In the year ended 30 April 2004, we have continued to invest heavily in our *LORENZO* software application to meet the current and emerging information systems requirements of hospital organisations and primary care physicians.

Our use of technology in delivering comprehensive functionality and utility to support healthcare processes positions *LORENZO* favourably against international requirements for healthcare software. The demonstrable strength of our software applications led to the announcement in April 2004 of our alliance with Microsoft to package *LORENZO* for ease of implementation by third party organisations on an international basis. Increasingly, we expect to work with the large IT service organisations to hasten the introduction of our applications into new international markets.

The year ended 30 April 2004 was significant in corporate development terms because of our merger with Torex PLC (Torex). The merger completed on 23 December 2003 and was finally cleared by the Office of Fair Trading (OFT) on 24 March 2004. The rationale for the merger was well understood and supported by the investor community, customers and staff of both iSOFT and Torex. From the outset we made it clear that the combined entity will have a single application portfolio, based primarily on the iSOFT suite of software. The strength of the former Torex service organisation will be deployed increasingly to support the *LORENZO* offering either through direct involvement with customers or via our work with IT service organisations engaged in implementing iSOFT applications.

The rationale for the merger anticipated significant synergies and, despite a protracted period of competition review by the OFT, we completed all planning work for the integration of the two businesses by our year end. We are confident, based on that work, that we have increased the capacity of our organisation to be an effective international healthcare software application vendor. Additionally we expect to realise considerable cost structure improvements from the opportunity to rationalise our operations, particularly in, but not confined to, the UK.

Overall, we are very pleased with the merger progress and are re-inforced in our view that the transaction represents a step-change in iSOFT's progression towards being the global leader in healthcare software applications.

A key factor in the successful development of the iSOFT business is the strength of your Board in terms of its experience, enthusiasm and commitment to good governance. The changes made since our last year end position us well for the next stage of corporate development of iSOFT.

Of course good strategic direction requires a strong execution capability. During the last year we have strengthened our operational management team as a priority for the business. The merger with Torex brought with it considerable operational management talent, particularly in the software services area. We were pleased to welcome these new colleagues into the enlarged iSOFT business. However, we have also recognised the need for investment staffing in order to maintain the rate of growth that we have come to expect. Accordingly, we have made a number of senior external recruitments aimed at consolidating our position in established markets and opening new international territories for our software applications.

I would like to express my personal thanks to all our staff for their hard work and commitment to the iSOFT business over the last year.

The success that we have achieved is only possible because we have considerable innovative talent within our organisation and a fervent desire to express it through our application products for the benefit of our healthcare customers.

The iSOFT business has performed well to date and the strength of the Group's current market position is such that I am confident that we are poised for further profitable growth over the coming years.

Yours sincerely



**Patrick Cryne**  
Executive Chairman



06

**CHIEF EXECUTIVE'S REPORT**  
page six



## **INVESTMENT IN MODERN INFORMATION TECHNOLOGY SOLUTIONS IS RECOGNISED AS A KEY TOOL IN THE EFFICIENT ORGANISATION AND DELIVERY OF CARE**

### **A YEAR OF CONSIDERABLE PROGRESS**

The year ended 30 April 2004 was a period of considerable progress for the iSOFT business. Group revenues grew 63.1% to £149.3m, with the normalised operating profit\* result of £39.5m representing an increase of 54.4% from the previous year.

Strong operating cash generation together with the sale of the former Torex Retail Division in February 2004 contributed to a net cash generation before financing of £71.6m. As a result we are pleased to report a year end net cash position of £3.8m. This balance sheet strength will help the Group take advantage of new business development opportunities as they present themselves.

In addition to the positive financial performance, this year has seen a clear strengthening of our position in the international healthcare applications market. The recent successes in major regional and national procurements have established iSOFT as one of the leading international healthcare application suppliers.

### **THE INTERNATIONAL HEALTHCARE APPLICATIONS MARKET**

The need to cap the rate of growth in the cost of providing healthcare services, whilst at the same time delivering against patient demands for improvement in the quality and effectiveness of the healthcare treatments they receive, is a challenge facing every modern economy.

The answer lies in identifying ways to improve efficiency and reduce the burden on expensive, scarce resources. In order to meet this objective, healthcare delivery networks are forming that are designed to reduce the load on acute services and

emphasise intermediate, community and domiciliary care. Realising the benefits of connecting up individual healthcare providers and establishing an effective supply chain of services across entire healthcare communities therefore represents the principal objective of these reform initiatives.

Importantly, investment in modern information technology solutions is recognised as a key tool in the efficient organisation and delivery of care.

With the administrative and clinical practice of medicine largely common around the world, new generation software applications that support the capture, collation, processing, distribution and presentation of information for all those involved in the delivery of healthcare in a given community are in great demand in each of the major healthcare economies. At the heart of this new information systems requirement is the introduction of comprehensive electronic health records for citizens.

The requirement for healthcare information services to have extended reach across communities has led to the procurement of these solutions being conducted on a scaled-up, regional, or even national, basis. This represents a significant international opportunity for a leading modern applications expert, such as iSOFT.

### **DEVELOPING MODERN INNOVATIVE APPLICATIONS**

The success of the iSOFT business to date, and the ability to capitalise on the significant market opportunity now available to us, depends principally on the strength of our application offering.

iSOFT applications remain positively differentiated from competitor offerings as a result of constant innovation in architecture, functionality, utility and the effective use of technology.

*LORENZO*, our latest generation application, addresses fully the administrative and clinical information management requirements of the modern healthcare economy.

Our ability to maintain this leadership is due to the expert analysis and design capability across the Group's international operations and, significantly, the strength of our dedicated offshore software application development centre in Chennai, India. Established in January 2001, this centre is responsible for software code development and maintenance for all strategic applications.

The centre represents a major competitive advantage by bringing world class technology solutions to market with unprecedented speed. As a result, we will continue our commitment to building our offshore capability aggressively over the course of the next few years.

### **A SUBSTANTIAL ESTABLISHED BUSINESS**

The iSOFT business has established a substantial presence in a number of international healthcare systems markets. At the date of this Annual Report, more than 1,500 hospital organisations and other healthcare institutions together with over 5,000 primary care physicians depend on iSOFT applications to deliver care. This user base extends into fourteen countries, with representation on five continents.

\* stated before amortisation of goodwill and exceptional items

The NHS National Programme for Information Technology (NPfIT) in England, provided an opportunity to test the strength of the iSOFT application proposition against a shortlist of the other leading international healthcare application vendors. This procurement process represented arguably the stiffest test ever applied to the array of international suppliers who lay claim to having advanced application solutions relevant to the needs of modern healthcare economies.

The selection approach addressed not only the scope of the functional requirements of healthcare applications, but also their integration capabilities and performance in large scale implementations.

Our significant success in securing the application provider role in three of the five regional contracts awarded under the NPfIT procurement is testimony to the completeness and competitiveness of our applications. It has created an extremely strong international reference for iSOFT and has stimulated a significant amount of interest from healthcare economies around the world that are considering similar IT reform initiatives and associated procurements.

#### **NEW INTERNATIONAL MARKET OPPORTUNITIES**

The success of iSOFT's international expansion to date evidences the quality of the upfront analysis performed on any prospective individual market opportunity, the rigour applied in identifying the most effective means of entry and our strong track record of execution.

Given the widespread healthcare IT reform agenda and the international attractiveness of our application offering, the iSOFT business is certainly not opportunity constrained. As we plan and prepare for further geographic expansion, the challenge is for us to grow our analytical capability and maintain our capacity to execute.

Over the years we have developed considerable experience of operating both with third party service organisations, as distributors of our product, and with an acquisition-led approach to entering a new geographic market. The decision on whether to partner, to acquire or to adopt a combined strategy will be taken on a region-by-region basis to ensure that the preferred approach represents that best suited to the characteristics of a particular market.

A key test applied by iSOFT when evaluating a new geography is whether the opportunity exists to establish a meaningful market share in a short period of time and in doing so gain early traction in generating an appropriate financial return relative to the cost of market entry.

We will continue to apply this test rigorously when identifying relevant new markets.

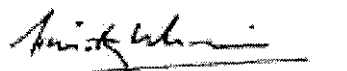
#### **OUTLOOK**

Over the course of the next twelve months we will, in the first instance, develop our business interests in our established geographic markets and in doing so drive the further organic growth of our business.

We will complete our preparation for the launch of *LORENZO* in a number of new geographic markets and, as part of this preparation, confirm the most appropriate means of entry and development of those markets.

In summary, we expect over the course of the next year to sustain good growth and position the Group for further acceleration of that growth in future years.

The opportunity now clearly exists for iSOFT to realise its ambition of being the global leader in the provision of healthcare applications. We look forward with confidence.



**Tim Whiston**  
Chief Executive Officer



10

**OPERATING AND FINANCE REVIEW**  
page ten

**THIS WAS A VERY SUCCESSFUL YEAR FOR ISOFT WITH  
SIGNIFICANT ORGANIC GROWTH CONFIRMING THE STRENGTH  
OF OUR APPLICATION PROPOSITION**

**OVERVIEW**

This was a very successful year for ISOFT, with significant organic growth confirming the strength of our application proposition. In addition, the merger with Torex PLC (Torex) has established ISOFT as the fourth largest software and computer services company on the London Stock Exchange.

**TRADING RESULTS**

In the year ended 30 April 2004, Group turnover increased 63.1% to £149.3m. Adjusting for the part year effect of the merger, underlying organic turnover growth was 15.5%.

Normalised operating profit\* increased by 54.4% to £39.5m (2003: £25.6m), and normalised profit before tax\* grew 56.5% to £36.8m (2003: £23.5m).

Underlying earnings per share\* increased 17.3% to 17.70p.

The quality of the profit generated by the Group is underlined by consistent strong operating cash generation. The cash inflow from operating activities\* during the year was £35.9m representing a cash conversion ratio of 97.6% against normalised profit before tax\*.

The Group's net funds position at the year-end was £3.8m compared with a net debt position of £2.9m in the previous year.

A reconciliation of normalised operating profit, normalised profit before taxation and underlying earnings per share to the statutory accounts is set out below.

**MERGER WITH TOREX**

The merger with Torex was completed on 23 December 2003. The total consideration of £371.9m was satisfied by the issue of ISOFT shares at the rate of 1.7692 ISOFT shares for each Torex share. Costs amounted to £4.1m. Goodwill recorded on the balance sheet is £397.2m which is stated after fair value adjustments which increased the net assets of Torex by £54.0m.

Torex has been consolidated using acquisition accounting for the period 24 December 2003 to 30 April 2004 and contributed £6.3m to normalised operating profit\* for the year. In the year prior to acquisition, Torex made a normalised operating profit\* of £32.2m. This profit result included a contribution from the Torex Retail Division of £9.0m.

Torex Retail was disposed of on 14 February 2004 for net proceeds of £61.2m. These proceeds have been used primarily to pay down bank borrowings.

The regulatory clearance of the merger with Torex included a requirement to dispose of the Torex Laboratory business.

As a result, this small business unit is held as an asset for resale with a carrying value of £6.5m.

**OPERATING PERFORMANCE**

The ISOFT business proposition has been carefully crafted over recent years with a focus around the provision of modern, forward referencing applications. The launch of *LORENZO* as the next generation of ISOFT application was announced last year and has been favourably received by customer bases in each of our geographic markets.

The application is acknowledged for delivering greater processing power, functionality and utility by those healthcare provider organisations seeking comprehensive modern application solutions.

In the UK, our operating performance has been dominated by the advent of the NHS National Programme for Information Technology (NPfIT) in England.

The 2003 Operating Review predicted that ISOFT would be well placed in the NPfIT procurement and this proved to be the case with ISOFT selected as the principal application supplier in three of the five Local Service Provider contracts awarded in late 2003 and early 2004.

It is pleasing to see such significant early returns from recent application development investment.

Year ended 30 April 2004	Operating profit £m	Profit before taxation £m	Earnings per share pence
As disclosed in the statutory accounts	20.3	17.6	6.66
Goodwill amortisation	11.3	11.3	7.04
Exceptional items	7.9	7.9	4.93
Tax on exceptional items	-	-	(0.93)
Normalised/underlying amounts	39.5	36.8	17.70

\* stated before amortisation of goodwill and exceptional items

\* stated before the cash impact of exceptional items

In the Australian market where we had already secured a leading market share, we experienced reduced demand but the Group remains well placed to take advantage of any upturn in healthcare IT spend over the coming years. We continued to move forward our presence in Asia Pacific and there are plans to build our Asia Pacific business interests further during 2005.

The merger with Torex has provided the iSOFT Group with a strong presence in Germany and the Netherlands. Both entities have performed well in the four months since acquisition and the introduction of the iSOFT brand and the *LORENZO* application will provide additional impetus to our growth strategy in mainland Europe.

#### **BUSINESS INTEGRATION**

The merger with Torex positioned iSOFT as a leading healthcare IT provider in an international context.

The integration of the two businesses has proceeded according to plan, following regulatory approval, and the delivery of synergy savings in the enlarged Group's cost base is well underway. A formal Business Improvement Programme is in place and the Group will continue with integration activities over the course of the next financial year.

iSOFT's track record of successfully integrating businesses over the last four years provides a proven framework for addressing the challenges of merging entities and building value.

#### **GLOBAL FUNCTIONAL STRUCTURE**

In order to deliver the business proposition seamlessly across the Group, a new organisation structure has been implemented under which the Group is organised along functional lines.

The structure consists of the main Board, Product Strategy and Technology Group, Product Development, Commercial, Operations and Finance and Administration functions.

By organising the Group in this way, the Board can ensure that each area of the business operates in accordance with the central strategy of delivering packaged applications in response to modern healthcare reform initiatives around the world.

#### **PARTNERSHIPS**

In Spring 2004, iSOFT announced its world-wide strategic alliance with Microsoft. This agreement commits both organisations to working jointly towards iSOFT's next-generation healthcare application, *LORENZO*. A substantial part of the agreement involves Microsoft committing technical resources to assist iSOFT in packaging its solutions for delivery by third-party service organisations on a regional and national scale.

#### **APPLICATION DEVELOPMENT**

During 2004, research and development expenditure increased from £7.9m to £12.7m representing 8.5% of turnover. We continued to invest in our dedicated software application development centre in Chennai, India, concluding the year with 430 staff employed in the centre. This gives us a major competitive advantage in accelerating our development cycle times, allowing us to bring new application product to market with unprecedented speed.

Application design work continues to be undertaken by staff located in our core markets, notably the United Kingdom, Germany, the Netherlands and Australia, however, code manufacture and maintenance for all strategic products will continue to be performed in India.

Our commitment to maintaining application leadership is underlined by the average number of staff directly employed in research and development activities during the year of 491 (2003: 233), representing approximately 36.7% of the Group's average total head count.

#### **EXCEPTIONAL RESTRUCTURING COSTS**

An exceptional restructuring charge of £7.9m has been included in the profit and loss account. As we implement our integration plans the most significant savings are expected to come from elimination of duplicate overhead costs and headcount rationalisation. The headcount reduction opportunity comes primarily as a result of the merger as the Group focuses on a single application portfolio.

#### **INTEREST**

Net interest payable in the year was £2.6m (2003: £2.1m). The increase in comparison with the previous year is due to the full year impact of the iSOFT term loan and inclusion of interest costs on Torex borrowings.

#### **TAXATION**

The reduction in the effective tax rate\* for the year to 22.6% (2003: 23.3%) is due primarily to the impact of new regulations which permit employee share option gains to be deducted in the computation of the Group's corporation tax charge.

## EARNINGS PER SHARE

Underlying earnings per share\*, increased by 17.3% to 17.70p per share (2003: 15.09p).

Basic and diluted earnings per share were affected by the new shares issued during the year and by the exceptional restructuring charge. Basic earnings per share were 6.66p (2003: 11.17p) and diluted earnings per share, calculated in accordance with FRS 14, were 6.57p (2003: 11.08p).

## BALANCE SHEET

The Group consolidated balance sheet strengthened significantly over the year. Following the merger with Torex, closing net assets totalled £452.2m compared with an opening net asset position of £73.5m. The net funds position is £3.8m (2003: net debt of £2.9m), with cash balances of £75.0m (2003: £45.5m) at the balance sheet date.

The net increases in current assets and current liabilities results from the trading performance in the year and the impact of the merger.

## FUNDING

The cash conversion of profits remains a key performance objective for the Group. Cashflow generated from operating activities\* was £35.9m (2003: £23.5m) which represents a cash conversion of 97.6% (2003: 100%) relative to the normalised profit before tax\* result.

At the balance sheet date, the Group had a total credit facility in place of £145.0m in addition to net funds of £3.8m. The facilities are structured to suit the Group's short and medium term cash needs with a combined revolving credit facility and overdraft of £85m and a five-year fixed term loan of £60m.

Cash deposits are managed to maximise interest receipts whilst maintaining sufficient flexibility.

Exposure to foreign exchange fluctuations is monitored on an ongoing basis with balances maintained in foreign currencies to match planned expenditure where appropriate. At the balance sheet date there was no material exposure to foreign exchange risk.

## ACCOUNTING POLICIES

The Group fully adopted the requirements of FRS 17 "Retirement Benefits" in respect of the defined benefit scheme operated by Torex. At the balance sheet date, the FRS 17 deficit in respect of this pension scheme was £8.7m. Net of the related deferred tax asset, the pension liability recognised in the Group accounts is £6.1m. The net pension deficit acquired with Torex was accounted for as part of the fair value exercise. The scheme was closed to new members in April 2000.

During the year, the Accounting Standards Board issued Application Note G ("ANG") to FRS 5 "Reporting the Substance of Transactions" which sets out the principles that should be followed in recognising revenue. The adoption of ANG has not resulted in a change in the Group's revenue recognition policies.

All other accounting policies remain consistent with prior years and are set out in detail on pages 44 to 46.

## INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the year ending 30 April 2006, the Group will be required to publish its consolidated financial statements under International Financial Reporting Standards ("IFRS").

The Group's profit and loss account, balance sheet, cash flow statement and related notes for the year ending 30 April 2005 will have to be restated for comparative purposes.

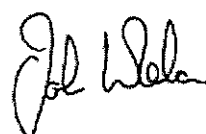
There are a number of key differences between IFRS and current UK GAAP. The most significant difference to potentially affect the Group is in relation to the treatment of product development expenditure.

As permitted by UK GAAP, the Group currently expenses all development expenditure as incurred, whereas IFRS requires such expenditure, providing certain criteria are met, to be capitalised and amortised over its useful life.

The Group is currently in the process of assessing the full impact of IFRS and will complete its IFRS implementation programme during the year ending 30 April 2005 in order to ensure full compliance with IFRS in the year ending 30 April 2006.

## DIVIDENDS

Consistent with a progressive dividend policy, the directors have proposed a final dividend of 1.7p per share (2003: 1.2p). Combined with the interim dividend of 0.7p (2003: 0.6p) per share, this gives a total dividend payment for the year of 2.4p per share (2003: 1.8p) reflecting the directors' confidence in the future. The proposed final dividend, if approved at the Annual General Meeting, will be paid on 31 July 2004 to shareholders on the register on 2 July 2004.



**John Whelan**  
Group Finance Director

\* stated before amortisation of goodwill and exceptional items

\* stated before the cash impact of exceptional items





## **ISOFT IS A SOFTWARE APPLICATION PRODUCT BUSINESS LICENSING PROVEN APPLICATION SOFTWARE TO HEALTHCARE PROVIDER ORGANISATIONS**

The directors present their annual report and the audited financial statements of the Company and the Group for the year ended 30 April 2004.

### **PRINCIPAL ACTIVITIES**

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

### **BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

On 23 December 2003, the merger with Torex PLC (Torex) was declared unconditional. The directors consider that the Group will continue to enjoy growth for the foreseeable future. The Letter from the Chairman on page 02, the Chief Executive's Report on page 06, and the Operating and Finance Review on page 10 provide further details of the performance of the business during the year and of expected future developments. The Corporate Social Responsibility Statement on page 24 provides an update on the Group's policies in respect of employees and the environment.

### **RESULTS AND DIVIDENDS**

The results of the Group are set out in the consolidated profit and loss account on page 39. The directors recommend the payment of a final dividend of £3.8m to the holders of the ordinary shares, which together with the interim dividend of £0.9m, gives a total equity dividend for the year of £4.7m.

After deduction for dividends, the retained profit for the financial year was £6.0m.

### **DIRECTORS**

The directors of the Company as at the balance sheet date are shown below:

**Patrick Cryne** (53), Executive Chairman, was appointed to the Board of iSOFT Group plc on 28 April 1999. He took on the role of Executive Chairman on 23 December 2003.

**Tim Whiston** (36), Chief Executive Officer, joined the business as finance director in August 1997 and was subsequently appointed to the Board of iSOFT Group plc on 14 April 2000. He has acted as Company Secretary since that date. He took on the role of Chief Executive Officer on 2 February 2004.

**Steve Graham** (40), Group Commercial Director, was appointed to the Board of iSOFT Group plc on 28 April 1999.

**Mark Woodbridge** (33), Business Development Director, joined the iSOFT Group plc Board following the merger with Torex on 23 December 2003. He was formerly the Finance Director of Torex PLC.

**John Whelan** (37), Group Finance Director, was appointed to the Board of iSOFT Group plc on 13 February 2004. Before joining iSOFT he spent several years working for Lufthansa in Europe and North America. He is a chartered accountant.

**Digby Jones** (48), Senior Independent Non-executive director and Chairman of the Nominations Committee<sup>†</sup>, was appointed to the Board on 19 May 2000. He is Director General of the Confederation of British Industry (CBI), a non-executive director of Alba plc, a director of Business in the Community, a non-executive director of the unlisted mhl support plc and Chairman of the unlisted etrinsic plc.

**Eurfyl ap Gwilym** (59), Non-executive director and Chairman of the Audit Committee<sup>\*\*</sup>, was appointed to the Board on 19 May 2000. He is a director of the Principality Building Society and was formerly a director of the Terence Chapman Group plc.

**Geoff White** (51), Non-executive director and Chairman of the Remuneration Committee<sup>††</sup>, was appointed to the Board on 19 May 2000. He is Chairman of SMP Group and non-executive director of Tekdata Interconnect Ltd and Tekdata Distribution Ltd. He is also a non-executive director of Radiance Inc. He was formerly 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.

**Rene Kern** (40), Non-executive director, was appointed to the Board on 14 March 2003. He is a senior executive with General Atlantic Partners who at the balance sheet date owned 7.7% of the shares of iSOFT Group plc. He is also a director of TDS Informationstechnologie AG which is domiciled in Germany.

**David Thorpe** (54), Non-executive director<sup>\*\*\*</sup>, joined the iSOFT Group plc Board on 23 December 2003, having been appointed as non-executive director of Torex PLC on 28 May 2003. He has held a number of senior positions for Electronic Data Systems (EDS) including UK Chief Executive and latterly President of EDS Europe. He is a non-executive director of VT Group, Innovation Group and of Staffware plc. He is also Chairman of Tunstall Ltd. He is a member of the Chartered Institute of Public Finance and Accounting.

\* Member of the Audit Committee    \* Member of the Remuneration Committee    † Member of the Nominations Committee

**Dr Colin Wall** (54), Non-executive director<sup>\*\*\*</sup>, joined the iSOFT Group plc Board on 23 December 2003, having been appointed as non-executive director of Torex PLC in October 1998. He was employed with Blue Circle Industries plc in a number of senior management roles and subsequently worked in a number of consultancy roles.

Roger Dickens resigned as a director on 23 December 2003. Chris Moore was appointed on 23 December 2003 and resigned on 2 February 2004.

The Board considers that Digby Jones, Eurfyl ap Gwilym, Geoff White, David Thorpe and Colin Wall were independent throughout the year and that they remain independent at the date of this report.

All directors are subject to election by the shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years.

In accordance with this, the directors retiring by rotation are Patrick Cryne, Tim Whiston, Eurfyl ap Gwilym and Rene Kern, who, being eligible, offer themselves for re-election at the Annual General Meeting. The Executive Chairman has confirmed that the non-executives (Eurfyl ap Gwilym and Rene Kern) standing for re-election have fully met the performance standards required of non-executive directors by the Company and that they continue to demonstrate commitment to the role.

In addition, Mark Woodbridge, John Whelan, David Thorpe and Colin Wall will stand for election at the Annual General Meeting, it being the first since their individual appointment.

#### **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 2003	% issued capital	Ordinary shares at 30 April 2004	% issued capital
Patrick Cryne	12,000,000	9.69%	12,000,000	5.32%
Steve Graham	8,000,000	6.46%	8,000,000	3.55%
Tim Whiston	402,488	0.33%	402,488	0.18%
Mark Woodbridge	-	-	238,561	0.11%
Digby Jones	25,000	0.02%	25,000	0.01%
Eurfyl ap Gwilym	45,454	0.04%	45,454	0.02%
David Thorpe	-	-	10,000	0.00%
Colin Wall	-	-	206,403	0.09%
Geoff White	110,454	0.09%	110,454	0.05%

Beneficial interests include the director's personal holdings and those of their spouse and minor children as well as holdings in family trusts of which the directors' spouse or their minor children are beneficiaries or potential beneficiaries. Included in the total shown above for Patrick Cryne is 450,000 of such holdings.

John Whelan and Rene Kern had no beneficial share interest at the balance sheet date.

Rene Kern is an employee of General Atlantic Partners who owned 7.7% 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 2004 and 23 June 2004.

#### **RESEARCH AND DEVELOPMENT**

The Group has a continuing commitment to a significant level of application development investment.

During the year, development investment totalled £12.7m (2003: £7.9m), representing 8.5% of turnover (2003: 8.6%). All research and development expenditure is charged to the profit and loss account as incurred.

This expenditure 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 Company and the potential for future revenue generation.

The Board's commitment to development is demonstrated by an average of 491 employees having been dedicated to this area in 2004 (2003: 233) out of a total average employee base of 1,338 (2003: 580). In addition, the formal worldwide strategic alliance announced by iSOFT and Microsoft further strengthens the Group's research and development capability.

#### **QUALITY**

iSOFT maintains a policy of ensuring that appropriate standards of operation are maintained across the Group. Our achievement of ISO 9001:2000 accreditation has been extended to our software application development centre in Chennai which supports our commitment to this quality standard.

#### PAYMENTS TO CREDITORS

Whilst the Group does not follow any specific external code or standard on payment practice, the policy for all suppliers is to fix terms of payment when agreeing the terms of each business transaction and to ensure that the supplier is aware of those terms. The Group seeks to abide by those terms whenever it is satisfied that the supplier has met the contractual obligations. At 30 April 2004, the number of days of trade creditors for the Group, calculated by reference to the total amounts invoiced by suppliers, was 36 days (2003: 46 days).

#### SHARE CAPITAL

Full details of changes in share capital in the year are shown in note 23 to the financial statements on pages 65 to 66.

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

Fidelity International Limited and FMR Corporation	11.2%
ISIS Asset Management	10.1%
General Atlantic Partners L.P.	7.7%
Insight Investment Management	4.9%
Morley Fund Management	4.7%
Legal and General Investment Management	4.5%
Aegon Asset Management	3.5%

#### ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the offices of Ashurst, Boardwalk House, 5 Appold Street, London, EC2 2HA starting at 10.00am on Thursday 22 July 2004.

The resolutions to be proposed at the Annual General Meeting, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders. The proxy card for registered shareholders is distributed with the Annual Report and Accounts.

#### AUDITORS

A resolution to re-appoint RSM Robson Rhodes LLP will be proposed at the forthcoming Annual General Meeting.

#### APPROVAL

The Report of the Directors was approved by the Board on 23 June 2004 and signed on its behalf by:



**Tim Whiston**  
Chief Executive Officer



## **THE BOARD OF DIRECTORS SUPPORTS THE HIGHEST STANDARDS IN CORPORATE GOVERNANCE AND SEEKS TO APPLY RECOMMENDED BEST PRACTICE**

### **CORPORATE GOVERNANCE PHILOSOPHY AND APPROACH**

The Board of directors (the Board) is committed to the highest levels of business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Board supports the highest standards in corporate governance and seeks to apply recommended best practice where this is appropriate for the Group.

The Board acknowledges that the Group operates in a rapidly developing business environment. Changes to the risk profiles in the business environment arise as a result of both external challenges, in a highly competitive and politically driven market place, and through internal challenges including the growth in the size of the business and the development of new products, management systems and procedures. These challenges also manifest themselves in greater detail as risks to the success of the Group's financial, operational and compliance activities. As a result, the Board is diligent in evaluating and prioritising each risk and in determining appropriate systems and controls to detect and address them on an on-going basis. By doing so, the Board believes that an effective mechanism for continual improvement in threat mitigation and opportunity management is being adopted.

### **THE BOARD OF DIRECTORS**

The Group is controlled by the Board of directors which, at 30 April 2004 comprised the Executive Chairman, the Chief Executive Officer, three further executive directors and six experienced non-executive directors, five of whom were independent for their period of appointment during the year. Biographical details of each director are set out on pages 15 to 16. Each non-executive director is encouraged to contribute to both the full Board and its committees as appropriate.

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

There is a formal schedule of matters reserved for the Board. These include strategy, approval of annual budgets, significant investments and risk management. The Board met seven times during the year.

Regular dialogue is maintained to ensure that the investing community receives a balanced and consistent view of the Group's performance.

### **STATEMENT OF DIRECTORS' ROLES**

With the objective of ensuring successful creation of shareholder value within a framework of acceptable risk, the Board sees its role to include:

- assisting value creation through entrepreneurial leadership and by the controlled and measured management of a wide range of business risks;
- deciding the strategic direction and providing the resources required to fulfil the future needs of the business;

- representing the interests of shareholders and satisfying all statutory duties due to them;
- ensuring appropriate behaviour with respect to the various codes of corporate governance and good business practices and by providing an audit trail of accountability;
- overseeing good corporate citizenship and ethical behaviour by the Group and its employees with regard to all its internal and external stakeholders;
- providing a challenging confidential forum, free from conflicts, 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 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 his decisions on major issues and investments;
- constituting subcommittees of the Board to address the issues of remuneration, appointments and audit; and
- providing open disclosure in respect of the remuneration of executive directors and senior members of staff in order to incentivise other staff.

The directors confirm that they have complied with the above requirements in performing their roles.

The Board believes that its style of involvement with management through the Chief Executive Officer and the executive directors is the most effective way to provide confidence in the control environment of the Group. Through openness, the provision of well-defined information and discussion, the Board endeavours to understand and provide leadership as to the willingness of the Group to take appropriate risks in the interests of the shareholders.

#### **SHAREHOLDER COMMUNICATION**

The Board is committed to good communication with its shareholders and maintaining an open and proactive dialogue with its institutional investors.

The Board values the views of shareholders and recognises their interests in the Group's strategy and performance.

A regular dialogue is maintained with investment fund managers, other investors and equity analysts to ensure that the investing community receives a balanced and consistent view of the Group's performance.

The Chief Executive Officer and Group Finance Director normally attend all investor briefings and the Executive Chairman attends as required and, in particular, at the interim and full year results announcements.

All shareholders are welcomed to the Annual General Meeting where the Executive Chairman provides an overview of the Group's business performance and future prospects. Shareholders are encouraged to raise questions and express their views. The Executive Chairman aims to ensure that all directors including Committee Chairmen are available at the meeting to answer relevant questions.

In addition, the Group has established an investor relations facility on its website where up to date financial and other information can be found.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those 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;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The Annual Report is available on the Group's website [www.isoftware.com](http://www.isoftware.com). The maintenance and integrity of the Group's website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

### **APPOINTMENTS TO THE BOARD**

Each member of the Board brings different experience and skills to the operation of the Board and its various committees. The 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.

All directors are required to submit themselves for re-election at regular intervals and at least every three years.

### **INFORMATION AND PROFESSIONAL DEVELOPMENT**

The directors have implemented appropriate reporting procedures to ensure that they are supplied with timely, accurate and comprehensive information to enable the Board to discharge its duties in full. Existing Board members have many years of relevant experience, all are responsible for ensuring continuing professional development to maintain up to date and effective skills and knowledge. The directors have access to seek independent advice, at the Group's expense, if necessary for the proper performance of their duties. The directors also have access to the Company Secretary for his advice and services.

### **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 includes a mix of financial and non-financial, together with predictive and historic indicators.

### **BOARD COMMITTEES**

The Audit Committee, the Nominations Committee and the Remuneration Committee deal with specific aspects of the Group's affairs in accordance with their written terms of reference. Each are comprised of only independent non-executive directors. The non-executive directors also met once during the period without the Executive Chairman or other executive directors present.

### **THE NOMINATIONS COMMITTEE**

The Nominations Committee has only recently been established. Its terms of reference include the authority to review and make recommendations to the Board about Board appointments. Digby Jones is Chairman of the Nominations Committee and all independent non-executive directors are members of the Committee.

### **THE REMUNERATION COMMITTEE**

The Remuneration Committee met four times during the year and all members were present at each meeting. The Committee is chaired by Geoff White and all independent non-executive directors are members of the Committee. The Remuneration Report is set out on pages 28 to 33.

### **THE AUDIT COMMITTEE**

The Audit Committee met three times during the year and all members were present at each meeting. All independent non-executive directors with the exception of Digby Jones are members of the Committee with other directors and the external auditors invited as appropriate. The report of the Audit Committee is set out on pages 34 to 35.

### **INTERNAL CONTROL**

The Board retains full responsibility for the Group's system of internal controls, which operate on a global basis, and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can, therefore, provide only reasonable and not absolute assurance against material misstatement or loss. In accordance with the Combined Code, the directors have reviewed the effectiveness of the Group's system of internal controls during the year, including financial, operational, compliance and risk management controls.

Key elements of the Group's internal controls are:

- a clearly defined management structure and delegation of authority to committees of the Board, heads of departments and individual business units;
- clearly documented internal procedures set out in the Group's ISO 9001:2000 accredited quality management manual;
- regular internal quality audits of key processes and procedures under the Group's ISO 9001:2000 accredited quality management process;

- an internal quality audit function which consists of four full time and fifty two part time members;
- high recruitment standards together with formal career development and training to ensure the integrity and competence of staff;
- regular and comprehensive information provided to management, covering financial performance and key performance indicators, including non-financial measures;
- a detailed budgeting process and rolling three year strategic plans which are approved by the Board;
- procedures for the approval of capital expenditure and investment and acquisition projects;
- on-going review of contractual agreements with existing and new customers; and
- monthly monitoring and re-forecasting of results against budget, with investigation and action taken in response to variances.

Following the merger with Torex, the Group plans to introduce an internal audit function dedicated to testing internal financial controls during the year ending 30 April 2005. Further detail is provided in the Audit Committee report on pages 34 to 35.

#### **COMPLIANCE WITH CODE PROVISIONS**

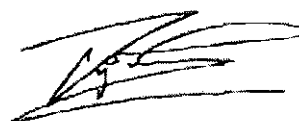
The directors believe that the Group has complied in all material requirements of the Combined Code issued in June 1998 as annexed to the Financial Service Authority's Listing Rules throughout the year.

The revised Combined Code (the 'Revised Code') was issued in July 2003 incorporating recommendations from the Higgs Report on Corporate Governance and the Smith report in respect of Audit Committees. The Revised Code will be applicable to the Group's financial year ending 30 April 2005. Having reviewed the principles and provisions of the Revised Code, the Board believes that it currently substantially complies with the new provisions and expects to be fully compliant by this time next year.

#### **GOING CONCERN**

The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than twelve months from the date of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements. The directors have satisfied themselves that the Group is in a sound financial position and that sufficient cash resources will be available to meet foreseeable investment opportunities or other cash requirements.

This report was approved by the Board on 23 June 2004 and signed on its behalf by:



**Digby Jones**  
Senior Independent Director







**THE GROUP'S PHILOSOPHY IS TO ESTABLISH A PAPERLESS WORKING ENVIRONMENT WHEREVER APPROPRIATE THROUGH THE AUTOMATION OF EMPLOYEE MANAGEMENT TOOLS**

**COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY**

It is iSOFT's view that operating in an environmentally and socially sustainable manner provides a stronger basis for future development of the business operations, financial performance, protection of reputation and market valuation. Whilst this is the first corporate social responsibility statement we have published, all of the policies have existed for some time as an integral part of the iSOFT business.

As a result of this deep commitment to Corporate Social Responsibility, iSOFT was awarded membership to the FTSE4Good Index in September 2003. Created by the independent global index company, FTSE Group, the index is designed to identify companies that meet globally recognised corporate social responsibility standards.

**EMPLOYMENT POLICY**

The objective of iSOFT's employment policy is to support our business goals through the attraction, retention and realisation of the full potential from a high-calibre workforce.

During the year, regular consultations and briefings took place with employees to enhance their understanding of the Group's performance and the financial and economic environment in which it operates.

Priority is given to ensuring that employees are aware of significant matters relating to the Group's trading performance and organisational changes.

The directors recognise the importance of individual employee contributions in delivering the Group's successful performance to date and have maintained the commitment that each employee receives a formal appraisal every six months.

The appraisal process is a key determinant of remuneration and advancement, as well providing an opportunity to monitor ongoing employee progress.

The directors further recognise that sustaining the Group's competitive advantage over the longer term is dependent on employees realising their full potential. It is Group practice, therefore, to ensure that personal development, reward and promotion is determined with direct reference to ability, commitment and individual contributions to the collective achievements.

iSOFT recognises its responsibilities as a significant and growing employer in India and has established close links to local universities and proactively supports local community initiatives such as education sponsorship.

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

**EQUAL OPPORTUNITIES POLICY**

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

Disabled individuals are afforded the same opportunities as others, and the Group actively supports the employment of disabled persons both during the recruitment process and in the retention of employees who become disabled whilst in the employment of the Group.

**HEALTH AND SAFETY POLICY**

The health and safety of our employees is also of paramount importance to iSOFT. In fostering a working environment encouraging productivity, participation and togetherness, the Group has created a workplace which embraces statutory requirements and best practice guidelines wherever possible.

**EMPLOYEE EQUITY PARTICIPATION**

A significant number of employees have shareholding interests in the Company either directly or under share option and "Sharesave" schemes. The directors actively encourage employee equity participation, subject always to the Group's employee share dealing code rules, as they firmly believe that this encourages the profitable development of the Group. Details of the current employee share option schemes and the options granted during the year are provided in note 23 to the financial statements on page 66.

Our July 2003 Sharesave scheme has been widely participated in, with 29% of eligible employees in iSOFT's world-wide locations now participating in the Scheme. Given the success of the original schemes, the directors are proposing to introduce a new offer under the existing Sharesave scheme in the coming year. Participation in the Sharesave scheme is encouraged across the Group.

**BUSINESS IMPROVEMENT PROGRAMME**

Following the completion of the merger with Torex and the conclusion of the National Programme for Information Technology (NPfIT) in England procurement, a top-to-bottom Business Improvement Programme was instigated with the objective of redesigning the Group wide operational organisational structures, to achieve optimisation of the significant talent residing within the enlarged Group's workforce. This Programme will also ensure that the resulting structures are populated with the appropriate number of skilled resources. After completion of merger integration activities, already at an advanced stage, the programme focus will turn to continual improvement initiatives and other organisational development activities.

**EMPLOYEE CONSULTATION**

In conjunction with this Programme, iSOFT introduced an Employee Consultation Forum ('VOICE') in April of this year, with elected representatives. VOICE was established to create a means of active involvement, social dialogue, information dissemination and communication with the employees of the Group based within the UK. The success of this forum will be reviewed over the remainder of 2004 and, if successful, rolled out across other international operations.

**SOCIAL, ENVIRONMENTAL AND ETHICAL (SEE) MATTERS**

The iSOFT business as a whole recognises that achieving success in environmental and social management is a joint responsibility between employees and management. Indeed 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 provider 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 maintains an environmental policy to raise awareness, establish standards, assess the impact of its business activities on the environment, set improvement objectives and monitor performance against these objectives.

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

- the continuing promotion of remote working to reduce the environmental burden of commuting and business travel;
- introducing leading edge technology solutions to promote direct electronic information processing and exchange and teleconferencing; and
- enhancements to the Group's intranet site such that employee communications can be distributed electronically.

The Group's philosophy is to establish a paperless working environment wherever appropriate. This has been realised through the automation of a number of employee management tools such as performance appraisals, annual leave requests, sickness records and the job profile library.

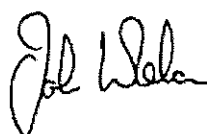
The responsibility for maintaining and enforcing the SEE policy resides at Board level. A copy of the current environmental policy is available on the Group website.

**DONATIONS**

The Board of Directors feels that the choice of charitable activities is a matter of conscience for individual members of staff, particularly given our wide involvement with numerous healthcare institutions. No charitable donations were made during the year.

iSOFT made no financial contributions to any political parties in the year.

This report was approved by the Board on 23 June 2004 and signed on its behalf by:



**John Whelan**  
Group Finance Director





**REMUNERATION PACKAGES OF THE EXECUTIVE DIRECTORS ARE REVIEWED ANNUALLY TO ENSURE THAT THEY REMAIN SUPPORTIVE OF THE GROUP'S BUSINESS OBJECTIVES**

**THE REMUNERATION COMMITTEE**

The Remuneration Committee (the 'Committee') is primarily responsible for formulating and recommending to the Board the framework for executive remuneration, and determining, on behalf of the Board and shareholders, the specific remuneration packages of the executive directors.

The members of the Committee during the year were Geoff White as Committee Chairman, Digby Jones and Eurfyl ap Gwilym. On 11 May 2004, David Thorpe and Colin Wall were appointed to the Committee. All of the members of the Committee are independent non-executive directors.

During the year the Committee received guidance on executive remuneration from the Executive Chairman and the Chief Executive Officer, except on matters relating to their own remuneration. The Committee also consulted with New Bridge Street Consultants LLP who have been appointed by the Committee to provide independent, external advice. No other services were provided to the Company during the year by New Bridge Street Consultants LLP.

**REMUNERATION POLICY**

The Committee's policy is to recommend that remuneration packages are effective in attracting, retaining and motivating executive directors and other senior management of the calibre required to achieve the Group's objectives. Additionally, the policy is to provide an appropriate means of aligning executives' interests with the interests of shareholders.

The Committee has developed a remuneration policy which includes a competitive base salary having regard to levels of responsibility, experience and

market comparatives and a significant proportion of remuneration linked directly to Group and individual performance.

The remuneration of executive directors comprises basic salary, private health insurance, life assurance, a contribution towards personal pension arrangements, a performance related bonus and, where appropriate, the opportunity to participate in the Group's share option schemes. Remuneration packages of the executive directors are reviewed annually to ensure that they remain supportive of the Group's business objectives, principally the creation of shareholder value. To this end the current remuneration is strongly weighted towards prospective business performance, in the form of cash and deferred share bonuses.

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. The basic annual fee for non-executive directors was increased during the year in line with market comparatives and commensurate with the growth in the size of the Company. The Board has the power to pay additional remuneration for any services outside the scope of the ordinary duties of a non-executive director.

**BASIC SALARY**

Basic salaries are reviewed annually and adjustments made where necessary to reflect changes in responsibilities, individual performance and market rates. The nature and complexity of the business has increased significantly during the year and salaries have been increased to reflect the growth of the Company and the extended responsibilities of the directors.

Basic salary levels are benchmarked against similar positions in comparable FTSE 250 companies.

**PERFORMANCE RELATED BONUS**

The Group provides performance related bonuses for executive directors. Bonuses are payable at the discretion of the Committee based on the Group's performance and the individual executive's contribution to that performance. The financial performance targets are set with reference to, amongst other things, underlying earnings per share and normalised profit before tax growth targets. For the coming year, the year to 30 April 2005, the Committee decided that payment of the profit bonus will be dependent on the Group normalised profit before tax for the year, amended for the impact of any acquisitions. The Committee considers the individual performance criteria to be appropriately challenging.

To align the long-term interests of executive directors and shareholders, the Group operates a deferred bonus plan whereby 50 per cent of any bonus earned is payable in the form of shares in the Company ("Bonus Shares"), equal in value (at the time when the bonus is declared) to the amount of bonus paid. Release of Bonus Shares is deferred for a further three years and is conditional upon the director remaining in employment with the Group throughout that period. Exceptionally, Bonus Shares may be released early if the executive director ceases employment within the Group by reason of death, disability, injury, redundancy, retirement or otherwise if the Remuneration Committee so determines. Bonus Shares may also be released early in the event of a takeover or corporate reconstruction of the Group.

Details of deferred share bonus awards to date are set out on page 32.

For the year to 30 April 2005, performance related bonuses for executive directors are again restricted to 200 per cent of basic annual salary. The maximum bonus payable to any individual executive director would consist of a cash bonus and deferred share bonus, each worth 100 percent of basic salary, but this level of bonus would be payable only in the event of outstanding performance, substantially in excess of the targets set.

#### SHARE OPTION SCHEMES

The Group operates an approved and an unapproved share option scheme. The schemes are designed to provide long-term incentives to recipients, thus assisting in the creation and sustaining of shareholder value.

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 33.

Any options granted in the year to 30 April 2005 will require an appropriately challenging performance target, based on normalised profit before tax growth in the three years following the grant, to be satisfied before they become exercisable. This figure is reflected in these financial statements which have been audited by RSM Robson Rhodes LLP.

#### PENSIONS

The Group makes an annual payment equal to 20 per cent of basic salary to the executive directors. Directors are responsible for using these funds to make their own pension arrangements. The Company does not operate a defined benefit scheme for directors.

#### SERVICE CONTRACTS

Details of the service contracts of those serving as executive directors during the year are as follows:

	Contract date	Unexpired term	Notice period	Termination payments
P Cryne	25 Mar 2003	Rolling	12 months	1 year's salary plus one year's pension contribution
T Whiston	25 Mar 2003	Rolling	12 months	1 year's salary plus one year's pension contribution
S Graham	19 May 2000	Rolling	12 months	1 year's salary plus one year's pension contribution
J Whelan	12 Dec 2002	Rolling	12 months	1 year's salary plus one year's pension contribution
M Woodbridge	See below for further details			
C Moore	See below for further details			
R Dickens	See below for further details			

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. The Committee is mindful of the need to consider compensation commitments, if any, that are appropriate in the event of the early termination of executive directors' contracts bearing in mind the Group's legal obligations and the individual's ability to mitigate their loss.

Roger Dickens resigned as a director of iSOFT on 23 December 2003. He is retained by the Group as a Business and Strategy Executive under a service contract effective 23 December 2003 and is paid an aggregate annual remuneration of £360,000. He is not entitled to any performance related or other bonus. The contract is for a fixed period until 23 December 2006 and thereafter until terminated by either party giving to the other nine weeks notice.

The service contracts of Chris Moore and Mark Woodbridge were effective from 23 December 2003 and were negotiated as part of the merger of Torex and include special provisions in the event of early termination within two years of the merger.

Termination of Chris Moore's contract by the Company giving notice, prior to 23 December 2005, would require the payment of the aggregate amount of salary, bonus and benefits of Chris Moore from the date of termination until 23 December 2005 subject to the payment not being less than one year's salary, bonus and benefits. In addition to this amount, a further payment equal to one year's salary, bonus and benefits would be payable provided that he abides by certain post termination restrictive covenants lasting 12 months after termination. After 23 December 2005, the notice period for Chris Moore is 12 months with provision for immediate termination provided a payment in lieu of notice of one year's salary, bonus and benefits is made.



No amounts are then payable in respect of abiding by post restrictive covenants.

Chris Moore resigned as a director of the company on 2 February 2004 and the Company has not made any termination payments following his resignation.

In the event that the Company terminates Mark Woodbridge's contract prior to 23 December 2004, the Company is required to pay the aggregate amount of salary and benefits of Mark Woodbridge from the date of termination until 23 December 2005. In addition to this amount, a further amount will be payable calculated as one year's bonus entitlement reduced pro-rata by the period elapsed between the completion date of the merger, 23 December 2003, and the date of termination. After 23 December 2004, the notice period for Mark Woodbridge is 12 months with provision for immediate termination provided a payment in lieu of notice of one year's salary and benefits is made. No amounts are then payable in respect of bonus entitlements.

In the case of all directors, none of the amounts above are payable in the event of summary dismissal.

Non-executive directors do not have service agreements and are appointed under letters of appointment. There are no provisions for early termination payments. Re-appointment is not automatic and current terms of appointment expire in May 2006, except in the case of David Thorpe and Colin Wall, whose appointments were effective in December 2003 and expire in December 2006. Letters of appointment are available for inspection at the Company's registered office.

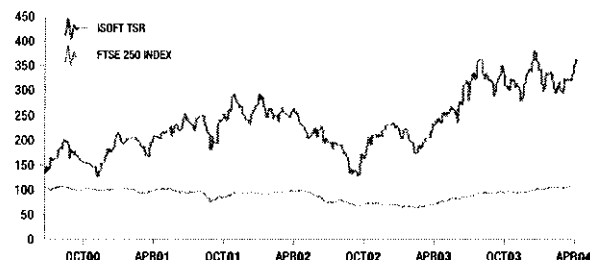
#### EXTERNAL APPOINTMENTS

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, therefore, in these circumstances permitted to retain any remuneration earned from the external appointment.

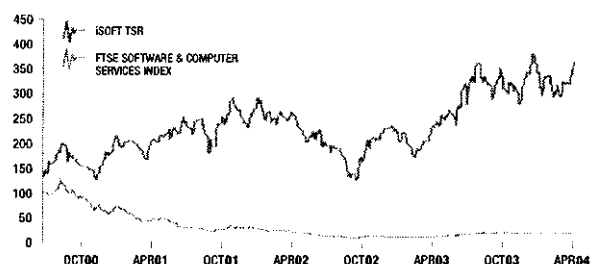
#### TOTAL SHAREHOLDER RETURN

The graphs below illustrate Total Shareholder Return (TSR) performance of the Company in comparison to appropriate equity market indices over the period since listing in July 2000. TSR is defined as share price growth plus reinvested dividends. The Committee has decided that the FTSE 250, the FTSE Software & Computer Services and the FTSE techMARK 100 indices are suitable comparators as the Company has been a constituent of these indices for a significant period since flotation.

**iSOFT TSR  
versus  
FTSE 250  
Index TSR**



**iSOFT TSR  
versus  
FTSE Software &  
Computer Services  
Index TSR**



**iSOFT TSR  
versus  
FTSE techMARK  
100TSR**



**REMUNERATION REPORT**

page thirty two

**DIRECTORS' REMUNERATION (AUDITED)**

Directors' remuneration for the year ended 30 April 2004 was as follows:

	Basic salary earned/fees	Benefits*	Performance related bonus payable in cash	Total 2004	Total 2003	Prevailing basic salary/fees at 30 April 2004
	£'000	£'000	£'000	£'000	£'000	£'000
Patrick Cryne	379	1	255	635	579	425
Tim Whiston	346	1	258	605	512	430
Steve Graham	328	1	252	581	502	360
Mark Woodbridge <sup>1</sup>	103	-	38	141	-	300
John Whelan <sup>2</sup>	56	-	34	90	-	270
Chris Moore <sup>3</sup>	31	-	-	31	-	-
Roger Dickens <sup>4</sup>	217	1	-	218	486	-
Digby Jones	41	-	-	41	30	60
Eurfyl ap Gwilym	41	-	-	41	30	60
Geoff White	41	-	-	41	30	60
David Thorpe <sup>5</sup>	15	-	-	15	-	50
Colin Wall <sup>6</sup>	15	-	-	15	-	50
Rene Kern <sup>7</sup>	-	-	-	-	-	-
<b>Total</b>	<b>1,613</b>	<b>4</b>	<b>837</b>	<b>2,454</b>	<b>2,169</b>	<b>2,065</b>

\* Benefits comprise private health insurance and life assurance.

<sup>1</sup> Mark Woodbridge was appointed on 23 December 2003.<sup>2</sup> John Whelan was appointed on 13 February 2004. The remuneration table only includes his earnings since his appointment to the Board.<sup>3</sup> Chris Moore was appointed on 23 December 2003 and resigned on 2 February 2004.<sup>4</sup> Roger Dickens resigned on 23 December 2003.<sup>5</sup> David Thorpe was appointed on 23 December 2003.<sup>6</sup> Colin Wall was appointed on 23 December 2003.<sup>7</sup> Rene Kern is a director but receives no fee.

The deferred share bonus awards represent 50 per cent of the total annual bonus awarded to directors in respect of performance during the financial year ended on the award date. The monetary value of the bonus not taken up in cash is translated into shares based on the average market price of the Company's shares in the three trading days preceding the award date. The only remaining performance criterion attaching to the above awards is that the directors remain in employment with the Company for three years from the date of the relevant award.

The average market price of the Company's shares on the three trading days prior to 30 April 2003 was 265 pence and for the three trading days prior to 30 April 2004 was 409 pence.

There have been no variations in the terms and conditions of scheme interests during the year.

**DEFERRED SHARE BONUS PLAN (AUDITED)**

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

**Deferred share bonus summary as at 30 April 2004**

	Award date	At 1 May 2003 number	Shares awarded number	At 30 April 2004 number	Vesting date
Patrick Cryne	30 Apr 2003	95,351		95,351	01 May 2006
	30 Apr 2004		62,378	62,378	01 May 2007
Tim Whiston	30 Apr 2003	95,351		95,351	01 May 2006
	30 Apr 2004		63,112	63,112	01 May 2007
Steve Graham	30 Apr 2003	82,637		82,637	01 May 2006
	30 Apr 2004		61,644	61,644	01 May 2007
Mark Woodbridge	30 Apr 2004		9,173	9,173	01 May 2007
John Whelan	30 Apr 2004		39,628	39,628	01 May 2007
Roger Dickens	30 Apr 2003	76,403		76,403	01 May 2006

#### DIRECTORS' SHARE OPTIONS (AUDITED)

In addition to the directors' share interests noted in the Report of the Directors on page 16, the following share options have been granted to directors:

Exercise price (pence)	At 1 May 2003*	Granted during the year	At 30 April 2004	Date from which exercisable	Expiry date
<b>Tim Whiston</b>					
110 <sup>1</sup>	101,000	-	101,000 <sup>3</sup>	11 Jul 2003	10 Jul 2010
174 <sup>1</sup>	250,000	-	250,000 <sup>3</sup>	20 Dec 2003	19 Dec 2010
249 <sup>1</sup>	850,000	-	850,000 <sup>3</sup>	22 Jun 2004	21 Jun 2011
145 <sup>2</sup>	480,176	-	480,176	11 Oct 2005	10 Oct 2012
145 <sup>2</sup>	19,824	-	19,824	11 Oct 2005	10 Oct 2012
<b>Mark Woodbridge</b>					
92.5 <sup>4</sup>	12,816	-	12,816	5 Mar 2002	4 Mar 2009
156.9 <sup>4</sup>	17,842	-	17,842	13 Aug 2002	12 Aug 2009
295.7 <sup>4</sup>	35,684	-	35,684	9 Feb 2003	8 Feb 2010
374.5 <sup>4</sup>	36,268	-	36,268	15 Mar 2004	14 Mar 2011
350.4 <sup>4</sup>	127,382	-	127,382	19 Sep 2004	18 Sep 2011
420.0 <sup>4</sup>	21,212	-	21,212	27 Feb 2005	26 Feb 2012

\* Or at date of appointment if later.

1 Options are exercisable subject to 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:

- 25% of options may be exercised if the Company's TSR over the period exceeds the growth in RPI by 20%
- 50% of options may be exercised if the Company's TSR over the period exceeds the growth in RPI by 35%
- 100% of options may be exercised if the Company's TSR over the period exceeds the growth in RPI by 50%

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%

In both cases, 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 Company performance criteria for these options has been satisfied.

4 Rolled over from Torex share options. There are no outstanding performance criteria attaching to these options.

The market mid price of the Company's shares at 1 May 2003 and 30 April 2004 was 266 pence and 416 pence respectively. The range during the financial year was between 261 pence and 429 pence.

#### DIRECTORS' PENSION ENTITLEMENTS (AUDITED)

The Company contributes 20 per cent of basic salary towards the directors' individual pension arrangements where such an entitlement is included in the individual director's service contract. Directors are responsible for using the contribution to make their own pension arrangements. Amounts contributed to individual directors' pension arrangements in the year were as follows:

	2004 £'000	2003 £'000
Patrick Cryne	76	65
Tim Whiston	69	52
Steve Graham	66	56
John Whelan	11	-
Chris Moore	6	-
Roger Dickens	43	56
	271	229

This report was approved by the Board on 23 June 2004 and signed on its behalf by:



**Geoff White**  
Chairman of the Remuneration Committee



## **THE AUDIT COMMITTEE CONTINUES TO REVIEW THE RISK MANAGEMENT PROCESSES AND INTERNAL CONTROL FRAMEWORK IN PLACE THROUGHOUT THE ORGANISATION**

### **ROLE OF THE AUDIT COMMITTEE**

The Audit Committee is responsible for making recommendations on the appointment of external auditors, the level of the audit fee and for ensuring their independence. The Audit Committee reviews proposed results publications and the effectiveness of internal controls.

### **AUDIT COMMITTEE MEMBERSHIP AND MEETINGS**

The Audit Committee is chaired by Eurfyl ap Gwilym. Other members of the Audit Committee are David Thorpe (from 11 May 2004), Colin Wall (from 11 May 2004) and Geoff White. Digby Jones was a member of the Audit Committee until 11 May 2004. All members of the Audit Committee are independent non-executive directors. Other directors and the external auditors are invited to Audit Committee meetings as appropriate.

The Audit Committee met three times during the year with the Group Finance Director and twice with the external auditors. In addition, the Audit Committee also met with the external auditors without the executive directors being present on two occasions. All of the Audit Committee meetings were fully attended, save that Digby Jones was absent from two of the meetings. Details of the remuneration of the members of the Audit Committee are set out on page 32 of the Remuneration Report.

### **FINANCIAL STATEMENTS, INTERNAL FINANCIAL CONTROLS AND RISK MANAGEMENT SYSTEMS**

The Audit Committee meets to review the Group's annual and interim financial statements, internal management arrangements, accounting policies and internal financial controls.

The Audit Committee continues to review the risk management processes and the internal control framework in place throughout the organisation. The key elements of this framework are summarised in the Corporate Governance report included within this annual report.

### **EXTERNAL AUDITORS**

The Audit Committee also reviews annually the performance of the Group's external auditors to ensure that an objective, professional and cost-effective relationship is maintained. The Audit Committee is also responsible for monitoring non-audit fees paid to the external auditors to ensure that no conflicts of interest arise.

The Audit Committee must authorise all non-audit work above £5,000 commissioned from the external auditors in advance of such work being undertaken. The Audit Committee has reviewed the non-audit fees paid to the external auditors which, in aggregate, totalled £27,000 and has deemed that in the year ended 30 April 2004 they do not affect independence.

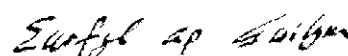
### **INTERNAL AUDIT FUNCTION**

The Audit Committee is responsible for considering the need for an internal audit function on an annual basis.

Historically, the Audit Committee has been satisfied that a separate, independent internal financial audit function has not been required given the relative size and complexity of the Group's operations. Following the merger with Torex and the consequent increase in the size of the business, the Audit Committee believes it is now necessary to introduce an internal audit function appropriate to a large, rapidly growing public company.

The Group is currently preparing to introduce an internal financial audit function during the year ending 30 April 2005 to further enhance the existing internal control framework. The work of the internal financial audit function will supplement the work of the internal quality audit team which was introduced during the year ended 30 April 2004 following the Group receiving ISO 9001:2000 accreditation. The work of the internal quality audit team during the year has concentrated on ensuring that the Group complies with rigorous quality processes covering both operational and financial procedures. The Group's quality processes are also subject to annual external audits which all received satisfactory results during the year.

The report was approved by the Board on 23 June 2004 and signed on its behalf by:



**Eurfyl ap Gwilym**  
Chairman of the Audit Committee

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS  
OF ISOFT GROUP PLC**

We have audited the financial statements on pages 39 to 69. We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders 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 Remuneration Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities on page 20.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority. We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the

Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Letter from the Chairman, the Chief Executive's Report, the Operating and Finance Review, the Corporate Governance Report, the Corporate Social Responsibility Statement, the unaudited part of the Remuneration Report, the Audit Committee Report and the Five Year Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**BASIS OF AUDIT OPINION**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and

disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

**OPINION**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 April 2004 and of the Group's profit for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

*RSM Robson Rhodes LLP*

**RSM Robson Rhodes LLP**  
Chartered Accountants and  
Registered Auditors  
Manchester, England  
23 June 2004



**FINANCIAL STATEMENTS**



**Consolidated profit and loss account  
for the year ended 30 April 2004**

	Note	Continuing operations: Ongoing 2004 £'000	Continuing operations: Acquisitions 2004 £'000	Total 2004 £'000	Total 2003 £'000
Turnover	2	105,704	43,556	149,260	91,495
Net operating costs	3	(77,080)	(51,868)	(128,948)	(70,545)
Operating profit before goodwill amortisation and exceptional items		33,292	6,241	39,533	25,600
Goodwill amortisation		(4,668)	(6,642)	(11,310)	(4,650)
Exceptional items	3	-	(7,911)	(7,911)	-
<b>Operating profit/(loss)</b>	3	<b>28,624</b>	<b>(8,312)</b>	<b>20,312</b>	<b>20,950</b>
Net interest payable and similar charges	4			(2,614)	(2,070)
Other finance cost	22_iii			(105)	-
<b>Profit on ordinary activities before taxation</b>				<b>17,593</b>	<b>18,880</b>
Tax on profit on ordinary activities	7			(6,809)	(5,484)
<b>Profit on ordinary activities after taxation</b>				<b>10,784</b>	<b>13,396</b>
Minority interests - equity				(85)	(146)
<b>Profit for the financial year</b>				<b>10,699</b>	<b>13,250</b>
Dividends on equity shares	9			(4,711)	(2,192)
<b>Retained profit for the year</b>				<b>5,988</b>	<b>11,058</b>
<b>Earnings per share:</b>					
Basic	10			6.66p	11.17p
Diluted	10			6.57p	11.08p
Underlying*	10			17.70p	15.09p

There is no difference between the results reported above and those on a historical cost basis.

\* stated before amortisation of goodwill and exceptional items

**Consolidated statement of total recognised gains and losses  
for the year ended 30 April 2004**

	2004 £'000	2003 £'000
Profit for the financial year	10,699	13,250
Foreign exchange (loss)/gain	(243)	670
Actuarial loss recognised in the pension scheme	(40)	-
Movement on deferred tax relating to pension liability	67	-
<b>Total recognised gains for the financial year</b>	<b>10,483</b>	<b>13,920</b>

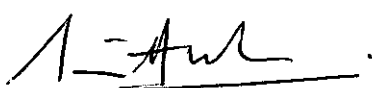
**Reconciliation of movements in shareholders' funds  
for the year ended 30 April 2004**

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
Profit for the financial year	10,699	7,248	13,250	4,624
Dividends	(4,711)	(4,711)	(2,192)	(2,192)
	5,988	2,537	11,058	2,432
Other recognised gains and losses	(216)	-	670	-
Shares issued net of costs	372,895	372,895	12,881	12,881
<b>Net increase in shareholders' funds</b>	<b>378,667</b>	<b>375,432</b>	<b>24,609</b>	<b>15,313</b>
Opening shareholders' funds	73,270	55,119	48,661	39,806
<b>Closing shareholders' funds</b>	<b>451,937</b>	<b>430,551</b>	<b>73,270</b>	<b>55,119</b>

**Consolidated balance sheet  
as at 30 April 2004**

	Note	2004 £'000	2003 £'000
<b>Fixed assets</b>			
Intangible assets – goodwill	11	473,237	91,989
Tangible assets	12	11,870	1,776
		<u>485,107</u>	<u>93,765</u>
<b>Current assets</b>			
Assets held for resale	15	7,500	-
Stocks		3,837	-
Debtors	16	106,936	31,113
Cash at bank and in hand		<u>75,034</u>	<u>45,451</u>
		<u>193,307</u>	<u>76,564</u>
<b>Creditors: amounts falling due within one year</b>	17	<u>(142,397)</u>	<u>(44,216)</u>
<b>Net current assets</b>		<u>50,910</u>	<u>32,348</u>
<b>Total assets less current liabilities</b>		<u>536,017</u>	<u>126,113</u>
<b>Creditors: amounts falling due after one year</b>	18	<u>(67,212)</u>	<u>(52,586)</u>
<b>Provisions for liabilities and charges</b>	21	<u>(10,487)</u>	<u>-</u>
<b>Net assets excluding pension liability</b>		<u>458,318</u>	<u>73,527</u>
<b>Pension liability</b>	22	<u>(6,119)</u>	<u>-</u>
<b>Net assets including pension liability</b>		<u>452,199</u>	<u>73,527</u>
<b>Capital and reserves</b>			
Called up share capital	23	22,542	12,382
Share premium account	24	36,672	30,119
Merger reserve	24	363,865	7,683
Profit and loss account	24	<u>28,858</u>	<u>23,086</u>
<b>Equity shareholders' funds</b>		<u>451,937</u>	<u>73,270</u>
Minority interests - equity		<u>262</u>	<u>257</u>
<b>Capital employed</b>		<u>452,199</u>	<u>73,527</u>

The financial statements were approved by the Board of Directors on 23 June 2004 and signed on its behalf by:



**Tim Whiston**  
Chief Executive Officer



**John Whelan**  
Group Finance Director


**FINANCIAL STATEMENTS**

page forty two

**Company balance sheet  
as at 30 April 2004**

	Note	2004 £'000	2003 £'000
<b>Fixed assets</b>			
Investments	13	444,825	51,849
<b>Current assets</b>			
Debtors	16	114,588	71,986
Creditors: amounts falling due within one year	17	(67,911)	(16,545)
<b>Net current assets</b>		<u>46,677</u>	<u>55,441</u>
<b>Total assets less current liabilities</b>		<u>491,502</u>	<u>107,290</u>
Creditors: amounts falling due after one year	18	(60,951)	(52,171)
<b>Net assets</b>		<u>430,551</u>	<u>55,119</u>
<b>Capital and reserves</b>			
Called up share capital	23	22,542	12,382
Share premium account	24	36,672	30,119
Merger reserve	24	363,865	7,683
Profit and loss account	24	7,472	4,935
<b>Equity shareholders' funds</b>		<u>430,551</u>	<u>55,119</u>

The financial statements were approved by the Board of Directors on 23 June 2004, and signed on its behalf by:



**Tim Whiston**  
Chief Executive Officer



**John Whelan**  
Group Finance Director

**Consolidated cash flow statement  
for the year ended 30 April 2004**

	Note	2004 £'000	2003 £'000
<b>Net cash inflow from operating activities before cash outflow from restructuring provision</b>		<b>35,938</b>	<b>23,538</b>
Cash outflow from restructuring provision		(319)	-
<b>Net cash inflow from operating activities</b>	25	<b>35,619</b>	<b>23,538</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		785	356
Interest paid		(3,199)	(2,529)
Issue costs of new bank loans		(608)	(481)
Finance lease interest paid		(57)	(9)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(3,079)</b>	<b>(2,663)</b>
<b>Taxation</b>		<b>(5,325)</b>	<b>(4,295)</b>
<b>Capital expenditure</b>			
Payments for tangible fixed assets		(3,034)	(357)
Receipts from sale of tangible fixed assets		896	26
<b>Net cash outflow from capital expenditure</b>		<b>(2,138)</b>	<b>(331)</b>
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings	14	(4,633)	(34,422)
Overdrafts acquired with subsidiary undertakings	14	(5,134)	(8)
Deferred consideration paid on prior year acquisitions		(2,126)	-
Disposal of subsidiary undertakings		60,794	-
<b>Net cash inflow/(outflow) from acquisitions and disposals</b>		<b>48,901</b>	<b>(34,430)</b>
<b>Equity dividends paid</b>		<b>(2,365)</b>	<b>(1,648)</b>
<b>Net cash inflow/(outflow) before financing</b>		<b>71,613</b>	<b>(19,829)</b>
<b>Financing</b>			
Issue of ordinary shares		6,067	12,656
Expenses paid in connection with ordinary share issue		(1,890)	(275)
New bank and other loans		70,000	51,500
Repayment of bank and other loans		(115,965)	(22,693)
Capital element of finance lease payments made		(341)	(121)
<b>Net cash (outflow)/inflow from financing</b>		<b>(42,129)</b>	<b>41,067</b>
<b>Increase in cash</b>	26	<b>29,484</b>	<b>21,238</b>

## Notes to the financial statements

**01 Accounting policies** The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards. The accounting policies have been applied consistently throughout both the current year and preceding year with the exception of the adoption of FRS 17 "Retirement Benefits". Following the merger with Torex PLC ("Torex") on 23 December 2003, the Group has adopted FRS 17 in accounting for the defined benefit schemes of Torex. As the Group has not had any defined benefit pension arrangements in prior years, the change in accounting policy has not resulted in a prior year adjustment. Acquisition accounting has been adopted for the merger with Torex and the deficit on acquisition of the Torex defined benefit schemes has been dealt with by way of a fair value adjustment.

The principal accounting policies adopted by the directors are described below:

### i\_Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings using acquisition accounting. The results of subsidiary undertakings acquired or disposed of during a financial year are included from, or up to, the effective date of acquisition or disposal. Inter-company transactions and balances are eliminated on consolidation. Where a subsidiary is held exclusively for resale, the financial results of that company are not consolidated.

### ii\_Goodwill

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

### iii\_Research and development

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

### iv\_Turnover

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

Historically, in the absence of a United Kingdom accounting standard on revenue recognition, the Group followed guidance set out under US GAAP, in particular SOP 97-2 and SAB 101. During the current financial year, the Accounting Standards Board issued Application Note G to FRS 5 which closely mirrors the principles historically followed by the Group. As a result, there has been no change to the recognition of revenue in the Group's financial statements. The Group's approach to revenue recognition is that revenue is only recognised when:

1. persuasive evidence of an arrangement exists;
2. the price to the customer is fixed or determinable;
3. *any services deliverable under the supply arrangement are clearly separable from the software supply;*
4. physical delivery has occurred or services have been rendered;
5. contract milestones have been achieved; and
6. collectibility is reasonably assured and there are no material outstanding conditions or contingencies attaching to the receipt of monies due.

In the event that services deliverable under a supply arrangement are not clearly separable from the software supply, total revenue in relation to the supply arrangement is recognised straight line over the period of the arrangement.

## Notes to the financial statements

### v\_Recognition of profit

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

**01**  
**Accounting**  
**policies**  
**cont...**

### vi\_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.

Results of overseas subsidiaries are translated using the average exchange rate for the period. The balance sheets of overseas subsidiaries are translated using the closing year end rate. Exchange differences arising from the re-translation of the opening net assets of overseas subsidiaries are taken to reserves.

### vii\_Tangible fixed assets

Tangible fixed assets are stated at invoice 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, by category of fixed asset, are as follows:

- |   |                |
|---|----------------|
| • freehold property                       | 2%             |
| • office equipment, fixtures and fittings | 12.5% to 20.0% |
| • computer equipment                      | 33.3%          |

### viii\_Assets held for resale

Acquired assets held for resale are stated at the directors' valuation of anticipated net realisable value.

### ix\_Stocks

Stocks 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.

### x\_Share schemes

The Company has taken advantage of the exemption in UITF 17 "Employee Share Schemes" (Revised 2000) in respect of the accounting for its employee savings related option schemes which states that the requirements of the Abstract need not be applied to such schemes.

The cost in relation to the deferred bonus scheme is charged in the year of performance. The related credit entry is made within liabilities reflecting the fact that the deferred shares will be satisfied by a purchase of shares from the market.

### xi\_Fixed asset investments

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

### xii\_Leased assets

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

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

## Notes to the financial statements

**01**  
**Accounting**  
**policies**  
cont...

### xiii\_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.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses.

### xiv\_Pensions

As noted above, following the acquisition of Torex, the Group acquired a defined benefit pension scheme and has therefore implemented the requirements of FRS 17 during the year. The pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any increase in the present value of liabilities within the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income/cost. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses. Pension scheme surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of related deferred tax.

The Group also operates a number of defined contribution pension schemes. The pension charge shown in the financial statements for these schemes represents the total contributions payable by the Group for the year.

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 schemes.

**02**  
**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 is generated from this activity.

Turnover by geographical market		2004	2003
		£'000	£'000
United Kingdom and other EU states		134,563	74,010
Asia Pacific		14,697	17,485
		<u>149,260</u>	<u>91,495</u>



## Notes to the financial statements

### Geographical operations

	United Kingdom and other EU states		Asia Pacific		Rest of World		Total	Total
	2004	2003	2004	2003	2004	2003	2004	2003
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total turnover	135,320	75,825	14,697	17,485	2,845	1,569	152,862	94,879
Internal turnover	(757)	(1,815)	-	-	(2,845)	(1,569)	(3,602)	(3,384)
<b>External turnover</b>	<b>134,563</b>	<b>74,010</b>	<b>14,697</b>	<b>17,485</b>	<b>-</b>	<b>-</b>	<b>149,260</b>	<b>91,495</b>
Operating profit before goodwill amortisation and exceptional items	36,858	19,128	2,166	5,875	509	597	39,533	25,600
Goodwill amortisation	(11,145)	(4,526)	(130)	(109)	(35)	(15)	(11,310)	(4,650)
Exceptional items	(7,911)	-	-	-	-	-	(7,911)	-
<b>Operating profit</b>	<b>17,802</b>	<b>14,602</b>	<b>2,036</b>	<b>5,766</b>	<b>474</b>	<b>582</b>	<b>20,312</b>	<b>20,950</b>
<b>Net assets</b>	<b>442,948</b>	<b>67,566</b>	<b>7,795</b>	<b>4,723</b>	<b>1,456</b>	<b>1,238</b>	<b>452,199</b>	<b>73,527</b>

Turnover, operating profit and net assets from acquisitions are materially derived from the United Kingdom and other EU states.

Net operating costs are analysed as follows:

	Note	Continuing operations		Total	Total
		Ongoing	Acquisitions	2004	2003
		2004	2004	2004	2003
		£'000	£'000	£'000	£'000
Change in stocks of finished goods		-	(280)	(280)	-
Other external charges		(26,195)	(9,628)	(35,823)	(30,780)
Staff costs	5	(29,884)	(18,454)	(48,338)	(24,496)
Exceptional staff costs		-	(5,864)	(5,864)	-
Total staff costs		(29,884)	(24,318)	(54,202)	(24,496)
Depreciation of tangible fixed assets	12	(834)	(1,160)	(1,994)	(592)
Goodwill amortisation	11	(4,668)	(6,642)	(11,310)	(4,650)
Other operating charges		(15,499)	(7,793)	(23,292)	(10,027)
Exceptional other operating charges		-	(2,047)	(2,047)	-
Total other operating charges		(15,499)	(9,840)	(25,339)	(10,027)
Total operating costs		(77,080)	(51,868)	(128,948)	(70,545)

Exceptional costs in 2004 comprise the costs of rationalising and reorganising the Group following the acquisition of Torex. The costs incurred comprise severance and redundancy costs of £5,864,000 and other costs, principally comprising professional advisory fees and property related costs, of £2,047,000 (see note 21).

02  
Segmental  
analysis  
cont...

03  
Operating  
profit/(loss)

**FINANCIAL STATEMENTS**

page forty eight

**Notes to the financial statements**

03	2004	2003
Operating profit/(loss)	£'000	£'000
Operating profit/(loss) is stated after charging/(crediting):		
cont... Research and development:		
- Current period expenditure	12,690	7,896
Loss/(profit) on disposal of fixed assets	1	(3)
Depreciation and amortisation:		
- Goodwill	11,310	4,650
- Tangible fixed assets, owned	1,589	526
- Tangible fixed assets, held under finance leases	405	66
Operating lease rentals:		
- Premises	1,638	718
- Vehicles and equipment	1,423	678

During the period, the following services were provided by the Group's auditor:

	2004	2003
	£'000	£'000
Audit services – Group and statutory audits	331	100
Further assurance services	24	137
Tax services – compliance services	3	24
– advisory services	-	10
	<u>358</u>	<u>271</u>

Included in the analysis above are fees and expenses of £25,000 (2003: £20,000) in respect of the parent company. In order to ensure that the independence of the Group's auditors is not compromised, the level of non-audit work performed by them is kept to a minimum. All individual pieces of non-audit work above £5,000 must receive prior authorisation from the Audit Committee.

04	2004	2003
Net interest payable and similar charges	£'000	£'000
Interest receivable comprises:		
Bank interest	785	328
Interest payable comprises:		
Bank loans and overdrafts	(3,199)	(2,338)
Amortisation of loan arrangement fees	(143)	(51)
Finance leases	(57)	(9)
	<u>(3,399)</u>	<u>(2,398)</u>
Net interest payable and similar charges	<u>(2,614)</u>	<u>(2,070)</u>

## Notes to the financial statements

Staff costs during the period were as follows:

	2004 £'000	2003 £'000	05 Employee information
Wages and salaries	41,840	21,477	
Social security costs	4,706	1,835	
Other pension costs	1,792	1,184	
	<u>48,338</u>	<u>24,496</u>	
Exceptional redundancy costs (see note 02)	5,864	-	
Total staff costs	<u>54,202</u>	<u>24,496</u>	

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

	2004 Number	2003 Number
Development	491	233
Sales and marketing	91	60
Installation and project management	479	133
Customer services	137	88
Administration	140	66
	<u>1,338</u>	<u>580</u>

Total remuneration in respect of directors was as follows:

	2004 £'000	2003 £'000	06 Directors' remuneration
Salary and fees	1,613	1,324	
Benefits	4	4	
Bonus (payable in cash)	837	971	
	<u>2,454</u>	<u>2,299</u>	
Aggregate emoluments	271	229	
Pension contribution payments	<u>2,725</u>	<u>2,528</u>	

A total of six directors received pension contributions to fund personal pension arrangements (2003: four). No share options were exercised by directors during the year or the prior year.

Further details of directors' remuneration are included in the audited section of the Remuneration Report on pages 28 to 33.

**Notes to the financial statements**

<b>07</b>	<b>i_Analysis of tax charge in the period</b>	<b>2004</b>	<b>2003</b>
<b>Tax on profit on ordinary activities</b>		<b>£'000</b>	<b>£'000</b>
	<b>United Kingdom corporation tax</b>		
	Current tax on income for the year	7,248	3,685
	Adjustments in respect of prior years	(336)	44
		<u>6,912</u>	<u>3,729</u>
	Double tax relief	(76)	(94)
		<u>6,836</u>	<u>3,635</u>
	<b>Overseas taxation</b>		
	Overseas taxation	1,838	2,840
	Adjustments in respect of prior years	264	(402)
		<u>2,102</u>	<u>2,438</u>
	<b>Current taxation</b>	<b>8,938</b>	<b>6,073</b>
	<b>Deferred taxation</b>		
	Net reversal of timing differences	(2,129)	(589)
	<b>Tax on profit on ordinary activities</b>	<b>6,809</b>	<b>5,484</b>
	<b>ii_Reconciliation of current tax charge</b>	<b>2004</b>	<b>2003</b>
		<b>£'000</b>	<b>£'000</b>
	Profit on ordinary activities before taxation	17,593	18,880
	Theoretical tax at UK corporation tax rate of 30% (2003: 30%)	5,278	5,664
	Effects of:		
	Expenditure not tax deductible	2,083	1,018
	Movement on deferred tax not provided	55	(584)
	Utilisation of tax losses	255	-
	Adjustments in respect of prior periods	(72)	(358)
	Difference in tax rates in overseas companies	(49)	(128)
	Withholding tax	(76)	(94)
	Exchange rate differences	9	(34)
	Group relief surrendered for nil consideration	146	-
	Accelerated capital allowances	1,309	589
	<b>Actual current taxation charge (note 7_i)</b>	<b>8,938</b>	<b>6,073</b>

The Group relief surrendered for nil consideration relates to a surrender to Torex Laboratory Systems Limited, a subsidiary which has not been consolidated into the Group financial statements.

**iii\_Factors that may affect future tax charges**

The iSOFT Group has operations in various overseas jurisdictions, some of which have higher corporation tax rates than the UK. The profitability of these overseas operations will have an effect on the Group tax charge going forward.

## Notes to the financial statements

Of the profit for the financial year, a profit of £7,248,000 (2003: £4,624,000) is dealt with in the accounts of iSOFT Group plc. The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and have not presented a profit and loss account for the Company alone.

**08**  
**Profits of**  
**holding**  
**company**

### Equity dividends

Ordinary shares of £0.10 each:

- Interim dividend of 0.70p per share (2003: 0.60p)
- Proposed final dividend of 1.70p per share (2003: 1.20p)

**2004**  
**£'000**

**2003**  
**£'000**

**09**  
**Dividends**

**879**

**706**

**3,832**

**1,486**

**4,711**

**2,192**

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of shares in issue. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted for the potential ordinary share dilution from share options. Reconciliations of the earnings and weighted average number of shares are set out below:

**10**  
**Earnings**  
**per share**

	<b>2004</b>			<b>2003</b>		
	<b>Earnings</b>	<b>Weighted average number of shares</b>	<b>Per share amount</b>	<b>Earnings</b>	<b>Weighted average number of shares</b>	<b>Per share amount</b>
	<b>£'000</b>	<b>'000</b>	<b>pence</b>	<b>£'000</b>	<b>'000</b>	<b>pence</b>
<b>Basic earnings per share</b>						
Earnings attributable to shareholders	<b>10,699</b>	<b>160,595</b>	<b>6.66</b>	13,250	118,588	11.17
Dilutive effect of options	-	2,252	(0.09)	-	1,034	(0.09)
<b>Diluted earnings per share</b>	<b>10,699</b>	<b>162,847</b>	<b>6.57</b>	13,250	119,622	11.08

### Underlying earnings per share (excluding goodwill amortisation and exceptional items)

<b>Basic earnings per share</b>	<b>10,699</b>	<b>160,595</b>	<b>6.66</b>	13,250	118,588	11.17
Goodwill amortisation	11,310	-	7.04	4,650	-	3.92
Exceptional items	7,911	-	4.93	-	-	-
Tax on exceptional items	(1,502)	-	(0.93)	-	-	-
<b>Underlying earnings per share</b>	<b>28,418</b>	<b>160,595</b>	<b>17.70</b>	17,900	118,588	15.09

Underlying earnings per share excludes the effect of goodwill amortisation and exceptional items. This is presented to show more comparable and representative information on the underlying trading performance.

**Notes to the financial statements**

<b>11</b>	<b>Group</b>	<b>Goodwill</b>
<b>Intangible</b>		<b>£'000</b>
<b>fixed assets</b>	<b>Cost</b>	
	At 1 May 2003	101,859
	Additions (note 14)	399,294
	Adjustment in respect of deferred consideration	(6,769)
	Exchange adjustments	33
	At 30 April 2004	<b>494,417</b>
	<b>Amortisation</b>	
	At 1 May 2003	9,870
	Charged for the year	11,310
	At 30 April 2004	<b>21,180</b>
	<b>Net book value</b>	
	At 30 April 2004	<b>473,237</b>
	At 1 May 2003	<b>91,989</b>

Acquisition accounting has been adopted in respect of all business combinations. The additions to goodwill during the year represent the merger with Torex PLC on 23 December 2003 resulting in goodwill of £397,187,000, the acquisition of i-Health/Galen on 9 January 2004 resulting in goodwill of £1,294,000, and an additional 7% stake in iSOFT R&D Private Limited resulting in additional goodwill of £813,000.

The goodwill arising on the merger with Torex is being amortised on a straight line basis over 20 years. This is the period over which the directors estimate that the value of the underlying business acquired will continue to exceed the value of the underlying assets. Goodwill in respect of all other acquisitions is amortised over 20 years.

The adjustment in respect of deferred consideration comprises:

- £4,640,000 reduction to the final settlement of the deferred consideration payable on the original acquisition of iSOFT plc (see note 17).
- £2,273,000 reduction in the directors estimate of the deferred consideration payable on the acquisition of Revive Group Limited (see note 17).
- £144,000 increase in the total consideration payable in respect of Paramedical Pty Limited (see note 17).

The directors have elected to amortise the revised carrying value of goodwill in respect of iSOFT plc, Revive Group Limited and Paramedical Pty Limited on a prospective basis over their remaining useful economic lives.

**Company**

The Company has no intangible fixed assets.

**Notes to the financial statements**

Group	Freehold land & buildings £'000	Fixtures fittings & equipment £'000	Total £'000	12 Tangible fixed assets
<b>Cost</b>				
At 1 May 2003	-	3,607	3,607	
On acquisition (note 14)	4,961	29,963	34,924	
Additions	-	3,071	3,071	
Disposals	(514)	(1,532)	(2,046)	
Exchange adjustments	(4)	(272)	(276)	
At 30 April 2004	<b>4,443</b>	<b>34,837</b>	<b>39,280</b>	
<b>Depreciation</b>				
At 1 May 2003	-	1,831	1,831	
On acquisition (note 14)	1,049	24,382	25,431	
Disposals	(137)	(1,487)	(1,624)	
Exchange adjustments	(3)	(219)	(222)	
Charge for the year	72	1,922	1,994	
At 30 April 2004	<b>981</b>	<b>26,429</b>	<b>27,410</b>	
<b>Net book value</b>				
At 30 April 2004	<b>3,462</b>	<b>8,408</b>	<b>11,870</b>	
At 1 May 2003	-	1,776	1,776	

At the balance sheet date the net book value of tangible fixed assets includes £1,149,000 (2003: £162,000) in respect of assets held under finance leases. Depreciation charged in the period on those assets amounted to £405,000 (2003: £66,000).

**Company**

The Company has no tangible fixed assets.

Company	Shares in subsidiary undertakings £'000	13 Fixed asset investments
<b>Cost and net book value</b>		
At 1 May 2003	51,849	
Additions	399,889	
Adjustments to deferred consideration	(6,913)	
At 30 April 2004	<b>444,825</b>	

Additions represent £371,878,000 in respect of the issue of shares on the merger with Torex PLC and an investment in a subsidiary undertaking, iSOFT Solutions Limited for £28,011,000.

The adjustments to deferred consideration relate to the acquisitions of iSOFT plc and Revive Group Limited (see note 17).

**Notes to the financial statements**

13 Fixed asset investments	Principal trading Subsidiaries	Class of share held	Proportion of shares	Nature of business	Country of incorporation
cont...	iSOFT plc	Ordinary	100%	Computer services	England & Wales
	iSOFT R&D Private Limited*	Ordinary	82%	Software development	India
	iSOFT Australia Pty Limited*	Ordinary	100%	Computer services	Australia
	iSOFT New Zealand Limited*	Ordinary	100%	Computer services	New Zealand
	iSOFT Holdings (Singapore) Limited*	Ordinary	100%	Computer services	Singapore
	iSOFT Applications Limited	Ordinary	100%	Computer Services	England & Wales
	iSOFT Solutions Limited	Ordinary	100%	Computer Services	England & Wales
	Revive Health Limited*	Ordinary	100%	Computer services	England & Wales
	Torex PLC	Ordinary	100%	Holding company	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
	Torex-Hiscom BV*	Ordinary	100%	Computer services	Netherlands
	Torex GAP GmbH*	Ordinary	100%	Computer services	Germany
	Torex Health Switzerland Limited*	Ordinary	100%	Computer services	Switzerland
	Torex Business Solutions (Ireland) Limited*	Ordinary	100%	Computer services	Ireland
	Torex Business Solutions (Hong Kong) Limited*	Ordinary	100%	Computer services	Hong Kong
	Torex Business Solutions UK Limited*	Ordinary	100%	Computer services	England & Wales
	Torex Laboratory Systems Limited*	Ordinary	100%	Computer services	England & Wales
	Torex Radiology Systems Limited*	Ordinary	100%	Computer services	England & Wales
	HAS Solutions Pty Limited*	Ordinary	100%	Computer services	Australia
	Paramedical Pty Limited*	Ordinary	100%	Computer services	Australia

\* denotes shares not held directly by iSOFT Group plc.

All of the subsidiary undertakings, with the exception of Torex Laboratory Systems Limited, have been consolidated in the Group financial statements. The financial statements of Torex Laboratory Systems Limited have not been consolidated since acquisition on 23 December 2003 as it is being held exclusively for resale. The aggregate amount of the capital and reserves of Torex Laboratory Systems Limited was £454,000 at 30 April 2004. The profit before tax for the period since acquisition to 30 April 2004 was £155,000. In addition, the results of the companies forming the Retail Division of Torex PLC (principally Torex Retail Limited, Arciris Holdings Limited, Figure Retail Systems Limited and POS Group Limited) acquired on 23 December 2003 were not consolidated into the Group results between acquisition and the date of their disposal on 14 February 2004 as the companies were also held exclusively for resale.

A full list of subsidiary undertakings will be annexed to the Company's next annual return.



## Notes to the financial statements

### i\_Merger with Torex PLC

On 23 December 2003, the merger of ISOFT Group plc and Torex PLC ("Torex") was declared unconditional. Acquisition accounting has been adopted. The book and provisional fair values of Torex on acquisition were as follows:

### 14 Acquisitions

	Book value £'000	Revaluations £'000	Provisional fair value £'000
Tangible fixed assets	9,922	(473)	9,449
Assets held for resale	1,475	67,685	69,160
Stocks	4,750	(1,193)	3,557
Debtors	52,388	(2,412)	49,976
Deferred tax	3,104	3,675	6,779
Overdraft	(5,134)	-	(5,134)
Corporation tax	(5,626)	(1,501)	(7,127)
Deferred consideration	(12,724)	4,057	(8,667)
Trade and other creditors	(56,244)	(8,489)	(64,733)
Debt	(69,675)	-	(69,675)
Provisions for liabilities and charges	(1,551)	(1,379)	(2,930)
Pension liability	-	(5,964)	(5,964)
Net liabilities acquired	(79,315)	54,006	(25,309)
Goodwill			397,187
Consideration			371,878
Satisfied by:			
Shares issued			367,825
Acquisition costs (of which £200,000 remains unpaid at 30 April 2004)			4,053
			371,878

Revaluation adjustments comprise:

- Write off of obsolete fixed assets of £473,000.
- The adjustment in respect of assets held for resale represents the actual net proceeds of £61,185,000 of the Retail Division of Torex which was disposed of on 14 February 2004 to Lynxangel Limited, together with £6,500,000 representing the estimated carrying value of Torex Laboratory Systems Limited. Both the Retail Division of Torex and Torex Laboratory Systems have not been consolidated into the acquisition balance sheet or the Group's post acquisition balance sheet on the grounds that they were/are held exclusively for resale.
- Write down of stocks by £1,193,000 to their estimated recoverable value.
- Additional provision for bad and doubtful debts of £2,412,000.
- Reassessment of the corporation tax liabilities of Torex to reflect an additional liability of £1,501,000 and inclusion of a deferred tax asset arising as a result of the fair value adjustments of £3,675,000.
- Reassessment of the amounts payable in respect of deferred consideration by £4,057,000 based on most recent available data.
- An adjustment to trade and other creditors of £8,489,000 comprising the reassessment of a number of onerous contracts to reflect an additional liability of £4,293,000 and the inclusion of £4,196,000 of liabilities in existence at the acquisition date but not recorded in the acquisition balance sheet.
- Additional property provisions of £1,379,000 in respect of onerous lease commitments and dilapidations.
- Inclusion of the £8,519,000 pension liability of Torex calculated on an FRS 17 basis and stated net of the related deferred tax asset of £2,555,000. See note 22 for details of the assumptions used in assessing this liability.

From 24 December 2003 to 30 April 2004, Torex (excluding the Retail Division and Torex Laboratory Systems) contributed £43,268,000 to turnover, £6,329,000 to operating profit before goodwill amortisation and exceptional items and £5,321,000 to profit before taxation, goodwill amortisation and exceptional items. Torex contributed £6,266,000 to the Group's net operating cashflows, paid £902,000 in respect of interest, £nil in respect of taxation and utilised £1,521,000 for capital expenditure.

**Notes to the financial statements**

- 14 The summary trading results of Torex for the preceding financial year ended 31 December 2002 and from 1 January 2003 to 23 December 2003 are as follows:
- Acquisitions cont...

	Period to 23 December 2003 £'000	Year ended 31 December 2002 £'000
<b>Turnover</b>	193,481	161,791
Operating profit before goodwill amortisation and exceptional items	32,156	26,587
Goodwill amortisation	(9,756)	(8,020)
Exceptional items	(7,960)	-
<b>Operating profit</b>	14,440	18,567
Net interest payable	(4,641)	(3,879)
<b>Profit before taxation</b>	9,799	14,688
Taxation	(5,721)	(6,197)
<b>Profit after taxation</b>	4,078	8,491
<b>Adjusted profit before taxation, goodwill amortisation and exceptional items</b>	27,515	22,708

In the period to 23 December 2003, turnover includes £59,675,000 (year to 31 December 2002: £41,671,000) and operating profit before exceptional items includes £9,042,000 (year to 31 December 2002: £4,869,000) in respect of the Retail Division of Torex.

Exceptional items in the period to 23 December 2003 comprise merger related costs of £5,409,000, directors' severance costs of £1,056,000 and costs of £1,495,000 associated with the termination of an onerous supplier contract.

The summary statement of recognised gains and losses of Torex for the preceding financial year ended 31 December 2002 and from 1 January 2003 to 23 December 2003 is as follows:

	Period to 23 December 2003 £'000	Year ended 31 December 2002 £'000
<b>Profit for the period</b>	4,078	8,491
Foreign exchange gain	925	320
<b>Total recognised gains</b>	5,003	8,811

There is no material difference in the results when calculated using the accounting policies of iSOFT Group plc set out in note 01.

## Notes to the financial statements

### ii\_Acquisition of i-Health and Galen

On 9 January 2004, the Group acquired the business and certain assets and liabilities of i-Health Limited and Galen Group Limited in New Zealand. Acquisition accounting has been adopted. The book and fair values of these companies on acquisition were as follows:

	Book and provisional fair value £'000
Tangible fixed assets	44
Creditors	(63)
Net liabilities acquired	(19)
Goodwill	1,294
Consideration	1,275
Satisfied by:	
Cash consideration on acquisition	741
Deferred consideration	495
Acquisition costs paid	39
	1,275

From the date of acquisition to 30 April 2004, i-Health and Galen contributed £288,000 to turnover and made an operating loss before goodwill amortisation of £88,000. The post acquisition cashflows of i-Health and Galen were not material.

### iii\_Further investment in iSOFT R&D Private Limited

On 31 July 2003, the Group increased its stake in iSOFT R&D Private Limited ("iSOFT R&D") from 75% to 82%. In accordance with FRS 2, given that the carrying values of the net assets in iSOFT R&D were not materially different from their fair values and the change in stake is not considered significant, the net assets of iSOFT R&D have not been revalued on consolidation. Accordingly, the additional goodwill generated by the increase in stake is as follows:

	£'000
Consideration – satisfied in shares	893
Additional net assets acquired	(80)
Goodwill on increase in stake	813

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000	15 Assets held for resale
Business held for resale	6,500	-	-	-	
Property held for resale	1,000	-	-	-	
	7,500	-	-	-	

**Notes to the financial statements**

- 15 Assets held for resale cont...** The business held for resale represents the Group's investment in Torex Laboratory Systems Limited, which was acquired on the merger with Torex and is held exclusively with a view to resale. The investment is held at the Directors' estimate of carrying value. During the period from acquisition to 30 April 2004, there were no material trading transactions between this business and the rest of the Group, and there were no dividends received or receivable from them. An amount of £342,000 is held within other debtors representing amounts owed by Torex Laboratory Systems Limited principally in respect of the payment of salaries by group companies on behalf of Torex Laboratory Systems Limited.
- The property held for resale relates to a property acquired on the merger with Torex which is in the process of disposal. The property is held at its estimated net realisable value.

<b>16 Debtors</b>	<b>Group 2004 £'000</b>	<b>Company 2004 £'000</b>	<b>Group 2003 £'000</b>	<b>Company 2003 £'000</b>
Trade debtors	42,380	-	10,859	-
Amounts owed by Group undertakings	-	113,980	-	71,863
Deferred taxation	9,513	-	566	-
Other debtors	4,938	463	175	25
Prepayments and accrued income	50,105	145	19,513	98
	<b>106,936</b>	<b>114,588</b>	<b>31,113</b>	<b>71,986</b>

In the normal course of its business the Group enters into financing arrangements with third party funders in respect of specific customer contracts. These transactions are entered into to provide PFI (Private Finance Initiative) compliant finance for the capital cost of multi-year customer contracts. In these arrangements the present value of the customer receivable is matched by the amount due to the funding provider. Given the directly related nature of the transactions the Group does not recognise the equal and opposite related balances. This treatment is in accordance with FRS 5.

Prepayments and accrued income include a balance of £4,215,000 (2003: £901,000) due after one year.

**Movement in deferred tax asset - Group**

	<b>£'000</b>
Balance at 1 May 2003	566
Amount credited to profit and loss account (note 7)	2,129
Acquisitions (note 14)	6,779
Exchange rate differences	39
Balance at 30 April 2004	<b>9,513</b>

**Analysis of deferred tax asset - Group**

	<b>2004 £'000</b>	<b>2003 £'000</b>
Accelerated capital allowances	662	76
Short-term timing differences	5,234	490
Losses carried forward	3,617	-
Deferred tax asset	<b>9,513</b>	<b>566</b>

There are other potential deferred tax assets totalling £2,143,000 (2003: £500,000) that have not been recognised on the basis that the future economic benefit is as yet uncertain.

**Company**

The Company has no deferred tax balance.

**Notes to the financial statements**

	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000	17 Creditors: amounts falling due within one year
Bank and other borrowings (note 19)	9,850	21,997	6,033	10,219	
Trade creditors	11,118	353	3,486	501	
Amounts owed to Group undertakings	-	36,864	-	510	
Corporation tax	14,151	-	3,334	-	
Other taxation and social security	11,648	-	2,721	-	
Accruals and other creditors	41,189	1,105	11,817	2,779	
Deferred income	43,737	-	14,289	-	
Deferred consideration	6,872	3,760	1,050	1,050	
Proposed dividends	3,832	3,832	1,486	1,486	
	<b>142,397</b>	<b>67,911</b>	<b>44,216</b>	<b>16,545</b>	

Deferred consideration, of which £6,872,000 (2003: £3,760,000) is payable within one year and £4,738,000 (2003: £10,293,000) is payable after one year, comprises:

- £3,360,000 (2003: £8,000,000) in respect of the acquisition agreement between KPMG and the Company for the purchase of ISOFT plc on 28 May 1999. The agreement provided for an amount of deferred consideration to become payable in cash by the Company in the event that the Company's shares became listed on a recognised stock exchange on or before 30 April 2003. This amount was only to become payable when the original directors on acquisition realised the whole or substantially the whole of their equity shares into cash. In prior years, the estimate of deferred consideration payable of £8,000,000, which was included within deferred consideration falling due after one year, was calculated as a proportion of the market capitalisation of the Company after certain deductions had been made. At the balance sheet date, the Company had reached agreement with KPMG to settle the deferred consideration. The agreed final settlement of £3,360,000 was paid on 26 May 2004. The reduction in the directors' original estimate of the deferred consideration payable, amounting to £4,640,000, has been adjusted through goodwill (see note 11).
- £400,000 (2003: £3,050,000) relating to the acquisition of Revive Group Limited ("Revive") on 27 November 2002. The sale and purchase agreement provided that the deferred consideration was payable based on a percentage of the cash backed operating profit generated by Revive in each of the three years ended 30 November 2005 providing certain levels of cash backed profit and turnover were attained in each of those years. During the year, £377,000 of deferred consideration has been paid and the Company has now reached agreement with the vendors that a final payment of £400,000 will be made in full settlement of the deferred consideration. The reduction in the directors' original estimate of the deferred consideration payable, amounting to £2,273,000, has been adjusted through goodwill (see note 11).
- £6,000,000 (2003: £nil) in respect of the Torex acquisition of HAS Solutions Pty Limited ("HAS") on 6 September 2003. The deferred consideration is payable based on multiples of the profit after taxation generated by HAS in the calendar years from 31 December 2003 to 31 December 2006. The amount included in the financial statements represents the Company's estimate of the amounts that will become payable under the terms of the sale and purchase agreement. Payments of the deferred consideration are due annually in respect of each calendar year end. The maximum potential deferred consideration payable under the terms of the sale and purchase agreement is estimated to be £10,700,000.
- £918,000 (2003: £nil) in respect of the Torex acquisition of GAP Management AG on 29 May 2002. The deferred consideration has now been finalised and is payable on 31 March 2005.
- £495,000 (2003: £nil) relating to the acquisition of i-Health Limited 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 Company'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.
- £437,000 (2003: £293,000) in respect of the acquisition of Paramedical Pty Limited. Following the end of the performance period in respect of the deferred consideration, the estimate of the amount payable has been increased by £144,000. The consideration is payable fourteen days following the finalisation of the audited financial statements of Paramedical Pty Limited for the year ended 30 April 2004.

**Notes to the financial statements**

18		Group	Company	Group	Company
Creditors:		2004	2004	2003	2003
amounts		£'000	£'000	£'000	£'000
falling due					
after one year	Bank and other borrowings (note 19)	61,417	60,573	42,293	42,171
	Deferred consideration (note 17)	4,738	-	10,293	10,000
	Other creditors	1,057	378	-	-
		<u>67,212</u>	<u>60,951</u>	<u>52,586</u>	<u>52,171</u>

19		Group	Company	Group	Company
Bank and		2004	2004	2003	2003
other		£'000	£'000	£'000	£'000
borrowings	Due within one year:				
	Bank overdraft	-	12,772	-	4,320
	Bank loans	9,225	9,225	5,899	5,899
	Finance leases	625	-	134	-
		<u>9,850</u>	<u>21,997</u>	<u>6,033</u>	<u>10,219</u>
	Due after one year:				
	Bank loans	60,820	60,573	42,171	42,171
	Finance leases	597	-	122	-
		<u>61,417</u>	<u>60,573</u>	<u>42,293</u>	<u>42,171</u>
		<u>71,267</u>	<u>82,570</u>	<u>48,326</u>	<u>52,390</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 0.65% and 1.125% over the bank's base rate dependent on the level of the Group's net debt position. Bank loans are stated net of unamortised issue costs of £608,000 (2003: £143,000).

For details of the Group's banking facilities see note 20.

20	The Group's financial instruments comprise bank borrowings, some cash and various items, such as trade debtors, trade creditors etc. that arise directly from its operations. 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 and they are summarised below. The Group does not trade in financial instruments.
<b>Financial instruments</b>	

## Notes to the financial statements

### Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. There is also a small amount of finance lease commitment. The Group has arranged facilities whereby United Kingdom held cash balances are used to net off the balance on the loans, with interest calculated on the net balance. The interest rate exposure of the financial liabilities of the Group was as follows:

20  
Financial  
instruments  
cont...

	2004				2003			
	Fixed interest rate £'000	Floating interest rate £'000	Non interest bearing £'000	Total £'000	Fixed interest rate £'000	Floating interest rate £'000	Non interest bearing £'000	Total £'000
Sterling								
- Loans	-	70,045	-	70,045	-	48,070	-	48,070
- Finance leases	1,222	-	-	1,222	256	-	-	256
- Deferred consideration	-	-	11,610	11,610	-	-	11,343	11,343
- Provisions	-	-	10,487	10,487	-	-	-	-
At 30 April	1,222	70,045	22,097	93,364	256	48,070	11,343	59,669

The weighted average interest rate on fixed rate borrowings was 8.0% (2003: 7.8%) and the weighted average period to maturity was 1.0 years (2003: 1.5 years). The weighted average period to maturity on non-interest bearing financial liabilities was 1.7 years (2003: 8.7 years). The only financial assets held by the Group are cash at bank. Amounts held at the year end were:

	2004 £'000	2003 £'000
Sterling	37,094	33,315
Euros	27,866	1,694
Australian dollar	8,705	9,827
Singapore dollar	260	302
Swiss franc	694	-
Indian rupees	336	313
Hong Kong dollar	73	-
Norwegian kroner	6	-
	<u>75,034</u>	<u>45,451</u>

All cash is at floating rates based on relevant national LIBID 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. If necessary, transaction risk would be minimised by use of the forward hedge market. At the year end, there are no currency hedging arrangements in place (2003: none).

There are net foreign currency monetary assets/(liabilities) held by subsidiaries with a functional currency of sterling of £16,788,000 (2003: £3,307,000) denominated in euros, £252,000 (2003: £949,000) denominated in Australian dollars and (£393,000) (2003: £nil) denominated in Hong Kong dollars. In addition, there are net foreign currency monetary assets/(liabilities) held by subsidiaries with a functional currency of the euro of £1,245,000 (2003: (£1,782,000)) denominated in sterling, (£173,000) (2003: £nil) denominated in Hong Kong dollars and £130,000 (2003: £nil) denominated in the Swiss franc.

## Notes to the financial statements

## 20 Liquidity risk

Financial  
instruments  
cont...

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.

Following the merger with Torex, the Group renegotiated its banking facilities in April 2004. The new facilities provide for a term loan of £60,000,000 and a multi-currency revolving credit facility of £85,000,000. The term loan is repayable in quarterly payments commencing August 2004 with the last payment scheduled for September 2008. The revolving credit facility is also subject to review in September 2008. As at 30 April 2004, £75,000,000 of the revolving credit facility was unused by the Group.

## Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short term trade creditors and accruals, at 30 April 2004 was:

	2004				2003			
	Bank loans £'000	Finance leases £'000	Other £'000	Total £'000	Bank loans £'000	Finance leases £'000	Other £'000	Total £'000
Due within one year, or on demand	9,225	625	15,143	24,993	5,899	134	1,050	7,083
Due after one year but not more than two years	12,124	597	2,004	14,725	5,899	94	1,293	7,286
Due after two years but not more than five years	38,878	-	4,084	42,962	36,272	28	1,000	37,300
Due in more than five years	9,818	-	866	10,684	-	-	8,000	8,000
At 30 April	<u>70,045</u>	<u>1,222</u>	<u>22,097</u>	<u>93,364</u>	<u>48,070</u>	<u>256</u>	<u>11,343</u>	<u>59,669</u>

Other financial liabilities represent deferred consideration payable of £11,610,000 (2003: £11,343,000), the Group's restructuring provision of £7,280,000 (2003: £nil) and the Group's property provisions of £3,207,000 (2003: £nil).

## Fair value of financial instruments

There is no difference between the book value and fair value of the aforementioned financial instruments.

21  
Provisions for  
liabilities and  
charges

	Restructuring £'000	Property £'000	Group Total £'000
At 1 May 2003	-	-	-
On acquisition (note 14)	-	2,930	2,930
Created – exceptional charge	7,599	312	7,911
Utilised	(319)	(35)	(354)
At 30 April 2004	<u>7,280</u>	<u>3,207</u>	<u>10,487</u>



## Notes to the financial statements

The restructuring provision represents the estimated cost of the restructuring of the Group following the merger with Torex on 23 December 2003. Through its Business Improvement Programme ("BiP"), the Group is currently integrating the former business of Torex with that of the ISOFT Group. The provision at the year end represents the estimated cost of redundancies and severance packages identified to date that will be payable. The provision is expected to be used in the next financial year.

At the year end, the provision held in respect of properties represents the estimated cost of exiting a number of vacant properties held by the Group of £2,026,000 and the provision for leasehold dilapidations on a number of the Group's leasehold properties of £1,181,000. The anticipated cost of exiting the Group's vacant properties has been estimated taking account of residual lease commitments, contracted sub let income and other potential penalties associated with termination of leases. The provision is expected to be utilised over the next eight years. The dilapidations provision has been calculated taking advice from property surveyors where necessary.

## 21 Provisions for liabilities and charges cont...

As a result of the merger with Torex, the Group acquired the Torex Medical Systems defined benefit scheme ("the TMS scheme") and has adopted the requirements of FRS 17. As the Group previously had no defined benefit pension arrangements, the change in accounting policy has not resulted in a prior year adjustment. The assets of the TMS scheme are held in a separate trustee administered fund. The most recent actuarial valuation of the scheme was at 30 April 2004. The valuation of the TMS scheme used the projected unit method and was carried out by KPMG, professionally qualified actuaries.

## 22 Pension commitments

The principal assumptions used by the actuaries were:

	30 April 2004 %	23 December 2003 %
Rate of increase in pensionable salaries	4.4	4.3
Rate of increase in pensions in payment and deferment	2.9	2.8
Discount rate	5.6	5.5
Inflation assumption	2.9	2.8

The assets of the scheme and the weighted average expected return were:

	Long term rate of return expected at 30 April 2004 %	Value at 30 April 2004 £'000	Long term rate of return expected at 23 December 2003 %	Value at 23 December 2003 £'000
Equities	7.5	8,834	7.5	8,848
Bonds	4.9	1,085	4.9	1,170
Insurance policy	5.0	1,193	5.0	1,173
Other	3.75	684	3.75	489
Total market value of assets		11,796		11,680
Present value of scheme liabilities		(20,537)		(20,199)
Deficit in the scheme		(8,741)		(8,519)
Related deferred tax asset		2,622		2,555
Net pension liability		(6,119)		(5,964)

**Notes to the financial statements**

22 Pension commitments cont...	<b>i_Analysis of amount charged to operating profit in respect of defined benefit schemes:</b>	<b>Period to 30 April 2004 £'000</b>
	Current service cost	226
	Past service cost	-
	<b>Total operating charge</b>	<b>226</b>
	 <b>ii_Movement in surplus during the period:</b>	 <b>£'000</b>
	Deficit in scheme at 23 December 2003	(8,519)
	Movement:	
	Current service cost	(226)
	Contributions	149
	Other finance cost	(105)
	Actuarial loss	(40)
	<b>Deficit in scheme at 30 April 2004</b>	<b>(8,741)</b>
	 <b>iii_Analysis of the amount charged to other finance cost:</b>	 <b>Period to 30 April 2004 £'000</b>
	Expected return on pension scheme assets	261
	Interest on pension scheme liabilities	(366)
	<b>Net finance cost</b>	<b>(105)</b>
	 <b>iv_Analysis of the amount recognised in the statement of total recognised gains and losses:</b>	 <b>Period to 30 April 2004 £'000</b>
	Actual return less expected return on pension scheme assets	(250)
	Experience gains and losses arising on pension scheme liabilities	30
	Changes in the assumptions underlying the present value of the scheme liabilities	180
	<b>Actuarial loss recognised in the statement of total recognised gains and losses</b>	<b>(40)</b>

## Notes to the financial statements

### v\_History of experience gains and losses:

	Period to 30 April 2004	22 Pension commitments cont...
Difference between the actual and expected return on scheme assets:		
Amount (£'000)	(250)	
Percentage of scheme assets	(2%)	
Experience gains and losses on scheme liabilities:		
Amount (£'000)	30	
Percentage of the present value of the scheme liabilities	0%	
Total amount recognised in the statement of total recognised gains and losses:		
Amount (£'000)	(40)	
Percentage of the present value of the scheme liabilities	(0%)	

### vi\_Overseas arrangements

As a result of the merger with Torex, the Group also acquired pension obligations in the Netherlands. Torex-Hiscom 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 Torex-Hiscom 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 FRS 17. The premiums due from the employer for the period 1 January 2004 to 30 April 2004 were 451,000 euros (approximately £300,000). 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.

	2004 £	2003 £	23 Share capital
<b>Authorised</b>			
350,000,000 (2003: 200,000,000) ordinary shares of £0.10 each	<u>35,000,000</u>	<u>20,000,000</u>	
	2004 £	2003 £	
<b>Allotted, called up and fully paid</b>			
225,421,755 (2003: 123,822,436) ordinary shares of £0.10 each	<u>22,542,176</u>	<u>12,382,224</u>	

### Shares issued during the period

On 23 December 2003, the Company increased its authorised share capital from 200,000,000 ordinary shares of £0.10 each to 350,000,000 shares of £0.10 each.

97,532,617 shares at a value of £367,824,750 were allotted on the merger with Torex (see note 14i). Issue expenses of £1,890,000 arising on the allotment of the shares have been charged to the share premium account.

On 31 July 2003, the Company allotted 250,000 shares at a fair value of £893,000 in consideration for an additional 7% stake in ISOFT R&D Private Limited (see note 14\_iii).

3,816,702 shares have been issued during the year to satisfy the Company's requirements under the Group's share option schemes. Consideration received was £6,067,000.

**Notes to the financial statements****23 Share options****Share capital**  
cont...

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. All options were granted at market value at the date of grant.

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period of option
11 Jul 2000	428,000	110.0	10 Jul 2001	11 Jul 2003 - 10 Jul 2010
20 Dec 2000	250,000	174.0	19 Dec 2001	20 Dec 2003 - 19 Dec 2010
13 Apr 2001	50,000	189.0	12 Apr 2002	13 Apr 2004 - 12 Apr 2011
22 Jun 2001	850,000	249.0	21 Jun 2002	22 Jun 2004 - 21 Jun 2011
11 Oct 2001	1,363,000	217.5	10 Oct 2002	11 Oct 2004 - 10 Oct 2011
30 Sept 2002	1,735,000	151.3	29 Sept 2003	30 Sept 2005 - 30 Sept 2012
11 Oct 2002	500,000	145.0	10 Oct 2003	11 Oct 2005 - 10 Oct 2012
27 Nov 2002	500,000	233.0	26 Nov 2003	27 Nov 2005 - 26 Nov 2012
25 Mar 2004	1,750,000	338.0	24 Mar 2005	25 Mar 2007 - 24 Mar 2014

These share schemes have been set up under a joint election to transfer the liability for employers NI to the employee. As a result, in accordance with UITF25, no profit and loss charge arises.

Following the merger with Torex, the following Torex share options were rolled over into options over iSOFT Group shares.

Date of grant	Number	Subscription price per share (pence)	End of personal performance period	Period of option
5 Mar 1999	120,467	92.47	23 Dec 2003	5 Mar 2002 - 4 Mar 2009
13 Aug 1999	75,326	156.91	23 Dec 2003	13 Aug 2002 - 12 Aug 2009
9 Feb 2000	354,901	295.67	23 Dec 2003	9 Feb 2003 - 8 Feb 2010
24 Aug 2000	207,458	355.36	23 Dec 2003	24 Aug 2003 - 23 Aug 2010
15 Mar 2001	1,164,917	374.46	23 Dec 2003	15 Mar 2004 - 14 Mar 2011
24 Sep 2001	224,389	317.66	23 Dec 2003	24 Sep 2004 - 23 Sep 2011
24 Sep 2001	265,379	350.44	23 Dec 2003	19 Sep 2004 - 18 Sep 2011
27 Feb 2002	212,278	418.27	23 Dec 2003	27 Feb 2005 - 26 Feb 2012
22 Feb 2003	48,653	202.35	23 Dec 2003	22 Feb 2006 - 21 Feb 2013

In addition to the options above, 375,115 options were outstanding in respect of the Company's savings related share option scheme. 291,009 of these options have an exercise price of 175.0 pence (first exercisable in 2006) and 84,106 have an exercise price of 239.0 pence (first exercisable in 2007).

**Notes to the financial statements**

Group	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000	24 Reserves
At 1 May 2003	30,119	7,683	23,086	
Retained profit for the period	-	-	5,988	
Exchange differences	-	-	(243)	
Premium on shares issued net of issue costs	6,553	356,182	-	
Actuarial loss recognised in the pension scheme	-	-	(40)	
Movement on deferred tax relating to pension liability	-	-	67	
<b>At 30 April 2004</b>	<b>36,672</b>	<b>363,865</b>	<b>28,858</b>	

The profit and loss account includes £6,119,000 (2003: £nil), stated after deferred taxation of £2,622,000 (2003: £nil) in respect of pension scheme liabilities of the Torex Medical Systems defined benefit scheme (see note 22).

Company	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At 1 May 2003	30,119	7,683	4,935
Retained profit for the period	-	-	2,537
Premium on shares issued net of issue costs	6,553	356,182	-
<b>At 30 April 2004</b>	<b>36,672</b>	<b>363,865</b>	<b>7,472</b>

The Company has taken advantage of the relief afforded under section 133 of the Companies Act 1985 in respect of the merger and consequent acquisition accounting of Torex PLC. Accordingly, the premium on issue of the shares for the merger of Torex PLC has been credited to the merger reserve in both the Company and the Group.

	2004 £'000	2003 £'000	25 Reconciliation of operating profit to net operating cash flows
<b>Operating profit</b>	<b>20,312</b>	<b>20,950</b>	
Exceptional costs charged to operating profit	7,911	-	
<b>Operating profit before exceptional items</b>	<b>28,223</b>	<b>20,950</b>	
Goodwill amortisation	11,310	4,650	
Depreciation of tangible fixed assets	1,994	592	
Difference between pension charge and cash contributions	77	-	
Increase in stocks	(417)	-	
Increase in debtors	(17,815)	(7,483)	
Increase in creditors	12,600	4,832	
Decrease in property provision	(35)	-	
Loss/(profit) on sale of fixed assets	1	(3)	
<b>Net cash inflow from operating activities before cash outflow from restructuring provision</b>	<b>35,938</b>	<b>23,538</b>	
Net cash outflow from restructuring provision	(319)	-	
<b>Net cash inflow from operating activities</b>	<b>35,619</b>	<b>23,538</b>	

**Notes to the financial statements**

26 Analysis of change in net (debt)/funds	At 1 May 2003	Cash flow	Acquisition (excl. cash and overdrafts)	Non cash movements	Exchange movement	At 30 April 2004
	£'000	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand	45,451	29,484	-	-	99	75,034
Bank loans	(48,070)	46,573	(68,405)	(143)	-	(70,045)
Finance leases	(256)	341	(1,270)	(37)	-	(1,222)
<b>Borrowings</b>	<b>(48,326)</b>	<b>46,914</b>	<b>(69,675)</b>	<b>(180)</b>	<b>-</b>	<b>(71,267)</b>
<b>Net (debt)/funds</b>	<b>(2,875)</b>	<b>76,398</b>	<b>(69,675)</b>	<b>(180)</b>	<b>99</b>	<b>3,767</b>

The cash outflow from bank loans includes £608,000 of debt issue costs paid in the year.

27 Reconciliation of net cash flow to movement in net (debt)/funds	2004 £'000	2003 £'000
Increase in cash	29,484	21,238
Cash outflow/(inflow) from decrease/(increase) in debt	46,914	(28,205)
<b>Decrease/(increase) in net (debt)/funds from cash flows</b>	<b>76,398</b>	<b>(6,967)</b>
Debt acquired with Torex PLC	(69,675)	-
New finance leases incepting in the period	(37)	(42)
Exchange movement	99	500
Amortisation of loan arrangement fees	(143)	(51)
<b>Decrease/(increase) in net (debt)/funds in the period</b>	<b>6,642</b>	<b>(6,560)</b>
<b>Net (debt)/funds at 1 May 2003 and 1 May 2002</b>	<b>(2,875)</b>	<b>3,685</b>
<b>Net funds/(debt) at 30 April 2004 and 30 April 2003</b>	<b>3,767</b>	<b>(2,875)</b>

**Notes to the financial statements**

At 30 April 2004, the Group has lease agreements in respect of properties, vehicles, plant and equipment for which payments extend over a number of years.

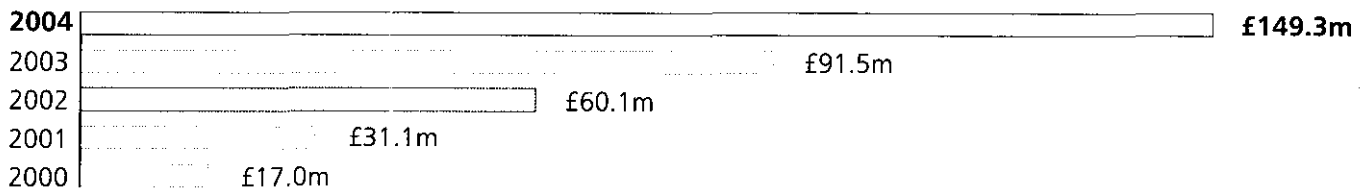
	Property	2004 Vehicles, plant and equipment £'000	Property	2003 Vehicles, plant and equipment £'000	28 Operating lease commitments
<b>Annual commitments under non-cancellable operating leases expiring:</b>					
Within one year	478	441	214	150	
Within two to five years	1,469	2,246	326	260	
After five years	1,313	6	123	32	
	<u>3,260</u>	<u>2,693</u>	<u>663</u>	<u>442</u>	

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

29  
Capital  
commitments

**FIVE YEAR SUMMARY**  
page seventy

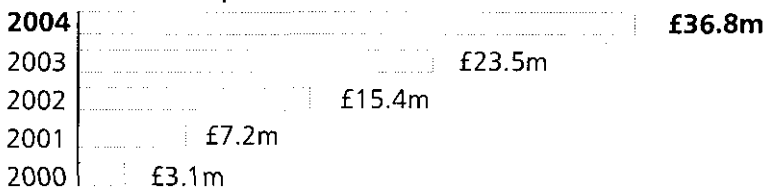
**Turnover**



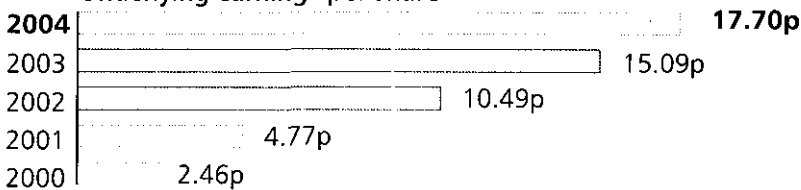
**Normalised operating profit\***



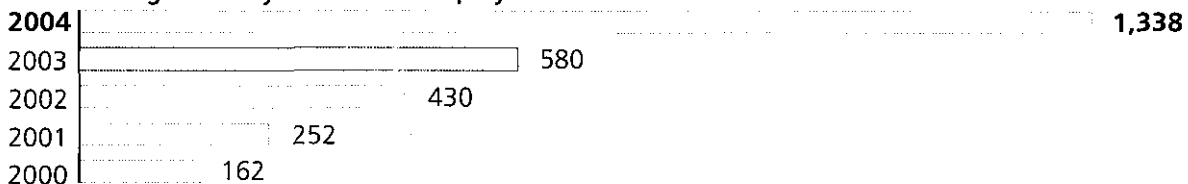
**Normalised profit before tax**



**Underlying earnings per share\***



**Average monthly number of employees**





**FIVE YEAR SUMMARY**  
page seventy one

Results	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Turnover	149.3	91.5	60.1	31.1	17.0
Normalised operating profit*	39.5	25.6	16.4	7.6	3.5
Normalised profit before tax*	36.8	23.5	15.4	7.2	3.1
Key Statistics					
Earnings per share	6.66p	11.17p	7.69p	3.07p	1.95p
Diluted earnings per share	6.57p	11.08p	7.61p	3.06p	1.95p
Underlying earnings per share*	17.70p	15.09p	10.49p	4.77p	2.46p
Net funds/(debt)	3.8	(2.9)	3.7	(13.5)	(3.6)
Gearing	-	3.9%	-	48.5%	37.2%
Net cash flow from operating activities"	35.9	23.5	16.9	8.3	(1.2)
Average monthly number of employees	1,338	580	430	252	162

\* stated before amortisation of goodwill and exceptional items

\* before cash outflow from restructuring provision

**BOARD OF DIRECTORS**

Patrick Cryne  
Executive Chairman

Tim Whiston  
Chief Executive Officer

John Whelan  
Group Finance Director

Steve Graham  
Group Commercial Director

Mark Woodbridge  
Business Development Director

**NON-EXECUTIVE DIRECTORS**

Digby Jones  
Senior non-executive director

Eurfyl ap Gwilym  
Geoff White  
Rene Kern  
Dr Colin Wall  
David Thorpe

**COMPANY SECRETARY**

Tim Whiston

**FINANCIAL ADVISORS & STOCKBROKERS**

Hoare Govett Limited  
250 Bishopsgate  
London EC2M 4AA

**AUDITORS**

RSM Robson Rhodes LLP  
Colwyn Chambers  
19 York Street  
Manchester M2 3BA

**SOLICITORS**

Ashurst  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

**REGISTERED & HEAD OFFICE**

iSOFT Group plc  
Bridgewater House  
58-60 Whitworth Street  
Manchester M1 6LT

**REMUNERATION ADVISORS**

New Bridge Street Consultants LLP  
20 Little Britain  
London EC1A 7DH

**BANKERS**

Lloyds TSB Bank plc  
25 Gresham Street  
London EC2V 7HN

Royal Bank of Scotland plc  
135 Bishopsgate  
London EC2M 3UR

Barclays Bank plc  
5 The North Colonnade  
Canary Wharf  
London E14 4BB

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

**PUBLIC RELATIONS**

Financial Dynamics  
Holborn Gate  
26 Southampton Buildings  
London WC2A 1TB

**REGISTRARS**

Lloyds TSB Registrars  
The Causeway Worthing  
West Sussex BN99 6DA

**REGISTERED NUMBER**

3716736

**WEBSITE**

[www.isoftware.com](http://www.isoftware.com)

	<b>2004</b>
FINANCIAL YEAR END	APRIL
	MAY
PRELIMINARY RESULTS ANNOUNCED	JUNE
ANNUAL GENERAL MEETING FINAL DIVIDEND PAYMENT	JULY
	AUGUST
	SEPTEMBER
FINANCIAL HALF YEAR	OCTOBER
	NOVEMBER
INTERIM RESULTS ANNOUNCED	DECEMBER
	<b>2005</b>
INTERIM DIVIDEND PAYMENT	JANUARY
	FEBRUARY
	MARCH
FINANCIAL YEAR END	APRIL



THE QUEEN'S AWARDS  
FOR ENTERPRISE:  
INTERNATIONAL TRADE  
2002

**iSOFT GROUP PLC 2004 ANNUAL REPORT AND ACCOUNTS**  
FOR THE TWELVE MONTH PERIOD ENDED 30 APRIL 2004