Egton Medical Information Systems Limited

Annual report and financial statements

Registered number 02117205

31 December 2017

Contents

Officers and professional advisers

Directors
A J Thorburn – appointed 1 May 2017
P J Southby
C M K Spencer – resigned 30 April 2017
S O'Hanlon
M Murphy – resigned 10 March 2017
S Wilcock
D S Lawrence – appointed 10 March 2017, resigned 7 July 2017
I Taylor – appointed 25 July 2017

Secretary
C Benson – appointed 20 October 2017
S Waite – resigned 20 October 2017

Company number
02117205 (England and Wales)

Registered office
Rawdon House
Green Lane
Yeadon
Leeds
LS19 7BY

Auditor
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

Strategic report

Principal activities

The Company's principal activities during the year were the design of computer software for healthcare professionals, mainly General Practitioners, together with the hosting, supply and support of computer systems for the healthcare profession and other users.

Review of the business and results

During the year, the Company continued to make progress towards its vision of supporting longer and healthier lives for everyone by providing integrated, excellent and innovative healthcare IT for patients and those involved in their care. Primary Care maintained its record of steady growth from a loyal customer base, with almost three-quarters of our English GP practices being EMIS Health users for over ten years.

The company accelerated its internal integration in the year to reflect anticipated changes in NHS models of care, this reorganisation is now complete and has aligned the company with the NHS's need to deliver more integrated connected care between hospitals, GP Practices and community services. A one off cost of £4.1m was incurred in respect of the reorganisation.

EMIS Health - Primary Care
EMIS Health grew its UK GP market share in the year by 1% to 56% and maintained its market leadership position.

EMIS Health now supports clinicians providing integrated care across 128 different clinical care pathways such as diabetes services, minor injury services and child and adolescent mental health services. This means high-quality, informed and integrated clinical care can be delivered.

The Group benefitted from strong market shares across all four nations of the UK, with a number one position in England (57% market share), number two in Wales (45%), number one in Northern Ireland (55%) and number one in Scotland (54%).

As announced on 30 January 2018, in 2019 and 2020 EMIS Health's market share in Wales, relating to just under 200 practices and approximately £2m of revenue per annum, will reduce as it was not appointed to the forthcoming NHS Wales GP framework agreement. While we submitted what we believed was a strong and competitive bid for the Welsh framework agreement, we were not prepared to sign up to some of the contract terms requested by the customer for a relatively small contract. However, we are a long term market player and remain committed to winning new business across Wales with other products and services in our portfolio.

We are actively involved in the Scotland bid which is a similar sized framework for the Group. We will continue to develop the bid over the coming months and proceed as appropriate.

During the period, EMIS Health achieved accreditation from NHSD to deliver its Electronic Prescription Service (EPS) to the dispensing doctor market. This is an important development for EMIS Health both in supporting our existing customer base while delivering new growth opportunities in this sector. This also aligns with a new technology foundation for dispensing doctors that will allow users to adopt the mandated dispensing standards as defined under the Falsified Medicine Directive (FMD).

EMIS Group supports the desire of NHS England to have more organisations connected in the UK healthcare ecosystem. EMIS Health has been building its own ecosystem of healthcare providers and recently added its 101st partner on the EMIS Web platform.

Egton, the Group's ICT infrastructure, engineering and non-clinical software division, performed well, expanding its range of software, hardware and services, including health administration, compliance software and GP practice websites. As part of a new suite of innovative products, Egton deployed Wi-Fi infrastructure and analytics to over 1,000 GP surgeries during 2017. New products for 2018 include a digitisation service, currently in pilot, which offers practices the ability to scan paper records, freeing up valuable practice space and supporting the NHS's "Paperless 2020" strategy.

Strategic report *(continued)*

In January 2018 the company identified and reported legacy SLA issues with the NHS Digital (NHSD) framework contract. A provision of £11.2m has been made to cover the estimated cost of settling the issue with NHSD and the cost of remediating the software code to address the problem backlog present at the year end, together with associated professional fees.

EMIS Health - Community
EMIS Health grew in the community segment in the year and moved up to number two in the market with a 17% market share (2016: 16%).

The NHS continues to innovate with new models of care in the community to relieve pressure from front line services in hospitals across the UK. EMIS Health can help by providing software for doctors and nurses 'on the go' in the community who visit patients at home. EMIS Health is upgrading EMIS Web and investing in dedicated product and development teams to meet the challenges of the future, working closely with its community market user group.

We expect to see further growth in this market in 2018 and beyond. The goal in the mid-term is to consolidate our number two market position and aim for market leadership over time.

The potential for joined-up care across healthcare localities using EMIS Web continues to grow. Currently EMIS Health has a strong presence in community and 100% presence in primary care within 42 Clinical Commissioning Groups (CCGs) (2016: 38).

Results

Total revenue was £101.3m (2016: £104.0m). Operating profit amounted to £14.1m (2016: £27.9m). The profit for the year including interest and after charging tax amounted to £11.6m (2016: £24.5m). A dividend of £20.0m was paid to the parent company during the year (2016: £20.0m).

Key performance indicators (KPIs)

The directors have monitored the performance of the Company by reference to certain financial and non-financial key performance indicators (KPIs). The financial indicators include profitability, revenues and cash generation. Non-financial KPIs include the numbers of sites deployed, customer satisfaction and staff turnover.

Principal risks and uncertainties

Healthcare structure and procurement changes
The Company is dependent on the strategic direction of the NHS in respect of how it plans to make use of available IT innovations to reduce its costs and improve its efficiency. We have mitigated the risk in a number of ways including close engagement with the NHS, proactive response to published NHS plans, regular monitoring of markets/competition and review of sales team structures.

Product integration and interoperability
The Company must ensure its products are integrated with the rest of the EMIS Group in order to efficiently align technology and workflows. This leads to the realisation of the best clinical safety and financial outcomes. We are mitigating this risk by divisional restructure and integration and by Group product integration.

Software development and hosting
The Company needs to ensure the development, hosting and roll-out of new and existing products delivers customers' expectations. We are mitigating this risk by the implementation of new processes supported by disaster recovery plans and utilising our ISO certified secure IT hosting facilities.

Strategic report *(continued)*

Principal risks and uncertainties (continued)

Recruitment and retention
The Company is reliant on the skills and knowledge of its people in a wide range of areas, but especially in software development, clinical safety and information technology systems. Failure to recruit and retain an appropriate number of suitably qualified people in critical areas could lead to a deterioration in the quality of our products and services. A people strategy has been implemented across the Emis Group including succession plans in place for key roles and a pay and benefits review.

Information Governance and security
The Company is responsible for hosting over 40 million individual patient records containing confidential and sensitive personal data. Our systems contribute towards the efficient operation of GP surgeries and other healthcare providers through the secure, reliable and accurate processing of such information. There are significant risks associated with managing and hosting such information, including loss, theft or corruption of data. The Company recognises that the trust placed in it by Government, by healthcare providers and by citizens is fundamental to the success of our business. Our reputation rests on our integrity and the quality of stewardship we apply to such sensitive and valuable data. Mitigating controls include maintenance of ISO 27001 certification, including an in-house ISO quality assurance team, documented and externally tested business continuity and disaster recovery plans.

Clinical safety
As a provider of critical IT systems to organisations that provide direct healthcare to patients, and as a direct provider of healthcare itself, the Company is exposed to a range of clinical risks. There is a risk of clinical harm to patients should the Company's IT systems fail to provide accurate, reliable and timely personal information to healthcare professionals; for example, regarding a patient's known allergies, existing prescribed medication or other relevant personal information.

Clinical safety (continued)
The risk is mitigated by the Group's Chief Medical Officer and a network of clinical safety officers in place with responsibility for clinical safety across the Group. Our policies and procedures are designed to meet the regulatory requirements of NHS Digital's information standards SCCI0129 or SCCI0160 (depending upon the nature of the business involved). The Company has accredited clinicians involved in software development procedures to identify and mitigate potential clinical risks in new software releases or updates. Clinical sign-off is required for all releases and new implementations

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

Exposure to financial risks is monitored by the finance/administration department under policies approved by the Board. An assessment of the risks is provided to the Board at regular intervals and is discussed to ensure that the risk mitigation procedures are compliant with company policy and that any new risks are appropriately managed.

Credit risk
The Company's credit risk is primarily attributable to its trade debtors, which are stated net of allowances for any estimated irrecoverable amounts. However, this risk is mitigated by payment being received in advance for a significant proportion of goods and services provided.

There is some concentration of risk, as EMIS has significant dealings with various parties within the National Health Service. However, the Company has long standing relationships with its large number of end users and in addition to the normal credit management processes, the nature of these relationships assist management in controlling its credit risk.

Credit risk also arises on cash and cash equivalents placed with the Company's bank. EMIS monitors the financial standing of any institution with which it deposits cash.

Strategic report *(continued)*

Principal risks and uncertainties (continued)

Liquidity risk

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

Interest rate risk
The company does not hedge its interest rate risk.

Future developments

In response to the discovery of service level reporting issues in January 2018 the company has deployed additional support and software development staff to resolve the legacy issues. The company has met the key service level obligations under the GP Systems of Choice (GPSoC) contract from 1 July 2018 and expect to continue to do so. The company continues to engage constructively with NHSD on the settlement and expects that, when finalised, will be within the provision that has been made.

The Company continues to trade in line with the Board's expectations, with good revenue visibility and profit performance continuing into 2018. The high level of recurring revenue and strong order book at the start of 2018 provide an excellent platform for the business to continue to invest with confidence in developing future products and services.

By order of the board

Peter Southby
Director
Rawdon House, Green Lane, Yeadon, Leeds LS19 7BY
26 September 2018

Directors' report

The directors present their report and the audited financial statements of Egton Medical Information Systems Limited ("EMIS") for the year ended 31 December 2017.

Directors

The directors of the company, who, unless otherwise stated, have held office throughout the year and subsequently, are as follows:

A J Thorburn – appointed 1 May 2017
P J Southby
C M K Spencer – resigned 30 April 2017
S O'Hanlon
M Murphy – resigned 10 March 2017
S Wilcock
D S Lawrence – appointed 10 March 2017, resigned 7 July 2017
I Taylor – appointed 25 July 2017

Dividends

A final dividend of £2.50 a share, totalling £20.0m, was paid during the year (2016: £2.50 a share, totalling £20.0m).

Directors' indemnities

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

Research and development

Research and development expenditure in the year amounted to £8.3m (2016: £9.7m). Research and development activities are mainly the researching, designing and development of medical software.

Political Donations

The Company made no political donations or incurred any political expenditure during the year (2016: £nil).

Disabled persons

The Company treats applications for employment from disabled persons equally with those of other applicants having regard to their ability, experience and the requirements of the job. Where existing employees become disabled, appropriate efforts are made to provide them with continuing suitable work within the Company and to provide retraining if necessary.

Employee involvement

The Company's policy is to ensure adequate provision for the welfare, and health and safety of its employees and of other people who may be affected by its activities. The Company is committed to ensuring there are equal opportunities for all employees, irrespective of age, gender, race, colour, sexual orientation, disability or marital status.

The Company encourages the involvement of its employees and employees are made aware of significant matters through regular updates from the Board of Directors and Divisional Managing Directors, management meetings, informal briefings, team meetings and the Company's intranet, discussion forums and website.

Directors' report *(continued)*

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Other information

An indication of likely future developments in the business has been included in the Strategic Report on Page 5.

Auditor

KPMG LLP are the auditors of the Company. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will, therefore, continue in office.

By order of the Board

Peter Southby
Director
Rawdon House, Green Lane, Yeadon, Leeds LS19 7BY
26 September 2018

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Egton Medical Information Systems Limited

Opinion

We have audited the financial statements of Egton Medical Information Systems Limited ("the company") for the year ended 31 December 2017 which comprise the profit and loss account and other comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Independent auditor's report to the members of Egton Medical Information Systems Limited *(continued)*

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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

JPass

Johnathan Pass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

28 September 2018

Profit and loss account and other comprehensive income
For the year ended 31 December 2017

	Note	2017 £	2016 £
Turnover	*2*	**101,307,090**	103,966,070
Changes in stocks		**(161,944)**	547,575
Cost of goods and services		**(11,400,780)**	(10,536,673)
Staff costs	*7*	**(37,787,588)**	(40,706,792)
Other operating expenses	*3*	**(37,834,583)**	(25,366,176)
Adjusted operating profit		**29,390,990**	29,065,665
Reorganisation costs	*6*	**(4,080,877)**	(1,161,661)
Service level reporting charges	*6*	**(11,187,918)**	-
Operating profit		**14,122,195**	27,904,004
Gain on sale of investment	*12*	**-**	1,532,323
Income from shares in group undertakings		**650,000**	400,000
Interest payable	*4*	**(246,811)**	(169,352)
Interest receivable	*5*	**657**	-
Profit before taxation	*6*	**14,526,041**	29,666,975
Taxation of profit	*8*	**(2,931,231)**	(5,200,490)
Profit for the financial year		**11,594,810**	24,466,485
Other comprehensive income			
Other comprehensive income for the year, net of income tax		**-**	-
Total comprehensive income for the year		**11,594,810**	24,466,485

Revenue and Operating Profit for the year are derived from the company's continuing operations. The accompanying notes form part of these financial statements.

The notes on pages 14 to 28 form part of these financial statements.

Balance sheet
As at 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Tangible assets	*10*	**16,777,527**	17,355,940
Intangible assets	*11*	**14,207,253**	17,795,224
Investments	*12*	**105**	105
		30,984,885	35,151,269
Current assets			
Stocks	*13*	**1,570,521**	1,732,465
Debtors	*14*	**67,693,168**	56,533,305
Cash at bank and in hand		**7,368,113**	4,487,951
		76,631,802	62,753,721
Current liabilities			
Creditors	*15*	**(49,558,861)**	(42,430,661)
Provision	*20*	**(11,187,918)**	-
		(60,746,779)	(42,430,661)
Net current assets		**15,885,023**	20,323,060
Total assets less current liabilities		**46,869,908**	55,474,329
Provisions for liabilities			
Deferred tax liability	*19*	**(714,599)**	(913,830)
Net assets		**46,155,309**	54,560,499
Capital and reserves			
Called up share capital	*16*	**8,001,000**	8,001,000
Profit and loss account		**36,406,528**	44,811,718
Capital contribution reserve		**1,747,781**	1,747,781
Shareholder's funds		**46,155,309**	54,560,499

The notes on pages 14 to 28 form part of these financial statements.

These financial statements were approved by the board of directors on 26 September 2018 and were signed on its behalf by:

Peter Southby
Director

Statement of changes in equity

For the year ended 31 December 2017

	Profit and loss account	Called up share capital	Capital contribution reserve	Total Equity
	£	£	£	£
As at 1 January 2016	**40,345,233**	**8,001,000**	**1,747,781**	**50,094,014**
Profit for the year	24,466,485	-	-	24,466,485
Dividends	(20,000,000)	-	-	(20,000,000)
As at 1 January 2017	**44,811,718**	**8,001,000**	**1,747,781**	**54,560,499**
Profit for the year	11,594,810	-	-	11,594,810
Dividends	(20,000,000)	-	-	(20,000,000)
As at 31 December 2017	**36,406,528**	**8,001,000**	**1,747,781**	**46,155,309**

The notes on pages 14 to 28 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

1.1 Basis of preparation

Egton Medical Information Systems Limited ("the Company") is a limited company incorporated and domiciled in the UK. The Company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements. The financial statements represent information about the Company as an individual undertaking and not about its group. These financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101")* and also in accordance with the Companies Act 2006.

These financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (EU-IFRS), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The company's ultimate parent undertaking, EMIS Group Plc, includes the company in its consolidated financial statements, which are prepared in accordance with EU-IFRS, and are available to the public through www.emisgroupplc.com/investors.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets, and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of EMIS Group Plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share based payments
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.2 Going concern

The company's activities, together with an outline of the developments taking place in relation to its products, services and marketplace, along with information in relation to the revenue, trading results, cash flows and the company's financial risks and the management of capital risks, are considered in the Strategic report. The company is profitable and expects to continue to be so. It has significant cash resources, a high and continuing level of recurring revenue and also expects to continue to have high cash conversion for the foreseeable future.

Accordingly, after careful enquiry and review of available financial information, including projections of profitability and cash flows for the two years to 31 December 2019, the directors believe that the company has adequate resources to continue to operate for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis of accounting in the preparation of the financial statements of the company.

Notes *(continued)*

1 Accounting policies *(continued)*

1.3 Exemptions applied

As the company is a wholly owned subsidiary of EMIS Group plc, incorporated in England and Wales, which publishes consolidated financial statements in which the company and its subsidiary undertakings are included, the company has taken advantage of the exemption clauses within the Companies Act 2006 s401 not to prepare consolidated accounts.

1.4 Research and development

Research costs are expensed as incurred. Development expenditure is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

1.5 Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation, which is provided on all tangible fixed assets other than freehold land, to write assets down to their estimated residual value over their estimated useful lives at the following annual rates:

Freehold property	2% straight line
Computer equipment	25% straight line
Fixtures, fittings and equipment	25% straight line
Motor vehicles	20% straight line

1.6 Intangible fixed assets

Expenditure on software development is capitalised as an intangible asset if it meets the criteria set out in IAS 38 'Intangible Assets', requiring it to be probable that the expenditure will generate future economic benefits and can be measured reliably. To meet these criteria, it is necessary to be able to demonstrate, among other things, the technical feasibility of completing the intangible asset so that it will be available for use or sale.

The costs incurred in the development stage for substantially new or enhanced products are assessed against the IAS 38 criteria and considered for recognition as an asset when they meet those criteria. These costs are generally incurred in developing the detailed product design, software configuration and interfaces, in the coding of software, in its integration with hardware, and in its testing.

Development expenditure directed towards incremental improvements in existing products, remedial work and other maintenance activity does not qualify for recognition as an intangible asset.

Where a product is technically feasible, production and sales are intended, a market exists, and sufficient resources are available to complete the project, development costs (including only direct employee costs) are capitalised and subsequently amortised on a straight-line basis over the estimated useful life, reflecting the pattern of the expected future economic benefits. Where these conditions are not met, development expenditure is recognised as an expense in the period in which it is incurred.

Intangible fixed assets are stated at historical cost less amortisation, which is provided on all intangible fixed assets, to write assets down to their estimated residual value over their estimated useful lives at the following annual rates:

Computer software purchased externally	12.5% to 25% straight line
Development costs	12.5% to 25% straight line

Development expenditure is capitalised in accordance with the criteria of IAS 38, and for this reason is not regarded as a realised loss.

1.7 Fixed asset investments

Fixed asset investments, including investments in joint ventures, associated undertakings and available for sale investments, are stated at cost less any provision made for a permanent impairment in value.

Notes *(continued)*

1 Accounting policies *(continued)*

1.8 Impairment of property, plant and equipment and intangible assets

At each year end the carrying amounts of property, plant and equipment and intangible assets is reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

An impairment loss is recognised whenever the carrying amount of an asset exceeds the asset's recoverable amount. Impairment losses are recognised as an expense.

The recoverable amount of the assets is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate reflects current market assessments of the time value of money and the risks specific to the asset.

1.9 Non-derivative financial instruments

Trade receivables

Trade receivables are amounts due from customers for goods sold and services provided in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when the carrying value of the receivable exceeds the present value of future cash flows discounted using the original effective interest rate.

Investments

Investments in subsidiaries, associates and joint ventures are recorded at cost. They are tested for impairment when there is objective evidence of impairment. Any impairment losses are recognised in the profit and loss account in the period they occur.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.10 Stocks

Stocks are valued at the lower of cost and net realisable value. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items.

1.11 Deferred taxation

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets and liabilities is reviewed at each balance sheet date. Deferred tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Deferred tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the income statement.

1.12 Leased assets and obligations

Operating lease annual rentals are charged to profit and loss on a straight line basis over the term of each lease.

Notes *(continued)*

1 Accounting policies *(continued)*

1.13 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year into defined contribution schemes.

1.14 Revenue

Revenue is recognised at the fair value of the right to the consideration received or receivable for goods sold and services provided in the normal course of business during the year. Revenue is shown net of value added tax, returns, rebates and discounts. Revenue is recognised when the amount can be reliably measured, when it is probable that future economic benefits will flow to the company and when specific criteria have been met for each of the company's activities, as described below:

- Revenue from the sale of software licences (through software subscription fees), maintenance and software support and other support services is recognised on a straight-line basis over the period of supply.
- Revenue from hosting services, principally under the General Practitioner Systems of Choice (GPSoC) framework, is recognised as follows:

  – Provision of infrastructure and hardware – over the period that the service is provided, in line with the anticipated life of the related assets as capitalised within property, plant and equipment.

  – Other services are recognised over the period of supply or when delivered as appropriate
- Revenue from hardware sales is recognised when ownership passes.
- Revenue from training, consultancy and system implementations, and revenue from licences of a perpetual nature, is recognised when delivery to a customer has occurred with no significant vendor obligations remaining and where the collection of the resulting receivable is considered probable

1.15 Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

1.16 Share based payments

Employees of the Company participate in share option schemes operated by the parent company. The grant date fair value of share-based payment awards granted is recognised as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Where a member of the Group grants awards to the Company's employees, and the Company has no obligation to settle the award, the Company accounts for these share based payments as equity settled. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to the profit and loss account.

Notes *(continued)*

2 Turnover

The company's revenue is derived from its continuing principal activities and had the following geographical split:

	2017	2016
	£	£
United Kingdom	**97,992,370**	101,616,329
Rest of the World	**3,314,720**	2,349,741
	101,307,090	103,966,070

3 Other operating expenses by function

	2017	2016
	£	£
Administration costs	**6,288,408**	8,138,624
Establishment costs	**2,183,828**	2,050,636
Motor, travel and selling costs	**3,193,704**	3,208,044
Contract asset depreciation	**1,285,051**	1,955,545
Depreciation of property, plant and equipment	**2,664,424**	3,002,328
Amortisation of intangible fixed assets	**6,950,373**	5,849,338
Reorganisation costs	**4,080,877**	1,161,661
Service level reporting charges	**11,187,918**	-
Total other operating expenses	**37,834,583**	25,366,176

4 Interest payable and similar charges

	2017	2016
	£	£
Exchange loss	**-**	15,337
Interest paid to group company	**246,811**	154,015
	246,811	169,352

5 Interest receivable

	2017	2016
	£	£
Exchange gain	**657**	-
	657	-

Notes *(continued)*

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2017	2016
	£	£
Depreciation of property, plant and equipment:		
Charge for the year:		
Owned assets: Contract assets	**1,285,051**	1,955,545
Other assets	**2,664,424**	3,002,328
Amortisation of intangible fixed assets	**6,950,373**	5,849,338
Profit on sale of fixed assets	**176,073**	211,125
Auditor remuneration:		
Audit of these financial statements	**67,169**	36,750
Reorganisation costs	**4,080,877**	1,161,661
Service level reporting charges (note 20)	**11,187,918**	-
Research and development expenditure	**8,337,012**	9,718,000
Operating lease rentals:		
Land and buildings	**45,666**	156,612
Other	**854,998**	835,129

Amounts receivable by the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, EMIS Group plc.

Reorganisation costs relate to non-recurring redundancy and restructuring costs.

7 Staff numbers and costs

The average monthly number of people (including directors) employed by the Company during the year was:

	2017	2016
	No.	No.
Management and administration	**65**	82
Software support and development	**491**	537
Sales, maintenance and training	**338**	370
Others	**100**	110
	994	1,099

Notes *(continued)*

7 Staff numbers and costs *(continued)*

	2017	2016
	£	£
The aggregate payroll costs of these persons are as follows:		
Wages and salaries	**35,261,750**	37,509,676
Share based payments (See note 21)	**298,012**	289,732
Social security costs	**3,879,053**	3,825,000
Pension costs (See note 18)	**1,438,687**	1,357,958
	40,877,502	42,982,366
Dealt with as follows:		
Charged in profit and loss account	**37,787,588**	40,706,792
Capitalised in the development of software developed internally	**3,089,914**	2,275,574
	40,877,502	42,982,366

Directors' remuneration

	2017	2016
	£	£
Aggregate emoluments	**1,035,632**	1,202,971
Gains on exercise of share options	**473,844**	-
Termination benefits	**426,423**	-
Company contributions payable to individual personal pension plans	**72,597**	115,272
	2,008,496	1,318,243

Retirement benefits are accruing to five (2016: five) directors under defined contribution personal pension schemes.

Highest paid director

	2017	2016
	£	£
Aggregate emoluments	**115,130**	338,838
Gains on exercise of share options	**444,676**	-
Termination benefits	**106,000**	-
Company contributions payable to individual personal pension plan	**21,934**	47,736
	687,740	386,574

Notes *(continued)*

8 Taxation

	2017	2016
	£	£
Corporation tax		
Current tax on income for the period	**3,063,935**	6,372,630
Adjustments in respect of the prior year	**93,014**	(422,000)
Total current tax	**3,156,949**	5,950,630
Deferred tax		
Current year	**(225,718)**	(750,140)
Total deferred tax	**(225,718)**	(750,140)
Tax on profit	**2,931,231**	5,200,490

Factors affecting the tax charge for the year

	2017	2016
	£	£
Profit for the year	**11,594,810**	24,466,485
Total tax expense	**2,931,231**	5,200,490
Profit before taxation	**14,526,041**	29,666,975
Profit multiplied by the averaged standard rate of corporation tax in the UK of 19.25% *(2016: 20.00%)*	**2,796,263**	5,933,395
Effects of:		
Expenses / income not deductible / taxable for tax purposes	**41,954**	(338,015)
Adjustments in respect of prior years	**93,014**	(422,000)
Other permanent items	**-**	27,110
Tax charge for the year	**2,931,231**	5,200,490

9 Dividend

	2017	2016
	£	£
Ordinary shares		
Final paid - £2.50 a share (2016: £2.50)	**20,000,000**	20,000,000
	20,000,000	20,000,000

Notes *(continued)*

10 Tangible fixed assets

	Land and buildings £	Computer equipment £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
Cost					
At 1 January 2017	10,146,038	35,087,701	3,096,776	2,378,388	50,708,903
Additions	1,000	3,039,288	451,558	-	3,491,846
Disposals	-	(42,291)	(8,781)	(1,075,023)	(1,126,095)
At 31 December 2017	10,147,038	38,084,698	3,539,553	1,303,365	53,074,654
Depreciation					
At 1 January 2017	1,317,590	29,047,739	1,219,857	1,767,777	33,352,963
Charged in the year	185,881	2,809,554	668,787	285,253	3,949,475
Disposals	-	(25,388)	(970)	(978,953)	(1,005,311)
At 31 December 2017	1,503,471	31,831,905	1,887,674	1,074,077	36,297,127
Net book value					
At 31 December 2017	**8,643,567**	**6,252,793**	**1,651,879**	**229,288**	**16,777,527**
At 1 January 2017	8,828,448	6,039,962	1,876,919	610,611	17,355,940

11 Intangible fixed assets

	Computer software developed internally £	Computer software purchased externally £	Total £
Cost			
At 1 January 2017	31,858,314	5,372,301	37,230,615
Additions	2,748,606	714,215	3,462,821
Disposals	-	(112,144)	(112,144)
At 31 December 2017	34,606,920	5,974,372	40,581,292
Amortisation			
At 1 January 2017	17,193,673	2,241,718	19,435,391
Charge for the year	5,950,264	1,000,109	6,950,373
Disposals	-	(11,725)	(11,725)
At 31 December 2017	23,143,937	3,230,102	26,374,039
Net book value			
At 31 December 2017	**11,462,983**	**2,744,270**	**14,207,253**
At 1 January 2017	14,664,641	3,130,583	17,795,224

Notes *(continued)*

12 Fixed asset investments

	2017 £	2016 £
Shares in subsidiary undertakings and joint ventures	**105**	105
	105	105

Details of the Company's subsidiary undertakings and joint ventures are as follows:

Name and nature of business	Country of registration	Class of share	% held
Healthcare Gateway Limited – establishment of Medical Interoperability Gateway ("MIG")	England	£1 ordinary	50
EMIS Health India Private Limited – development of healthcare software	India	RS10 Ordinary	10

On 2 July 2016 the Company disposed fully of its minority interest in P2U, generating net proceeds and a gain on disposal of £1,532,323, following the full impairment of the investment in the prior year.

The registered office of Healthcare Gateway is: C/O IBB Solicitors, Capital Court, 30 Windsor Street, Uxbridge, UB8 1AB

The registered office of EMIS Heath India Private Limited is: Unit No. A1, Level 3, Shriram The Gateway SEZ, No. 16, G.S.T. Road, Perungalathur, Chennai-600 063, India

13 Stocks

	2017 £	2016 £
Finished goods	**1,570,521**	1,732,465

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £11,562,724 (2016: £9,989,098). The write-down of stocks to net realisable value amounted to £nil (2016: £nil). The reversal of write-downs amounted to £nil (2016: £nil).

Notes *(continued)*

14 Debtors

	2017	2016
	£	£
Due within one year:		
Trade debtors	**7,612,426**	5,288,412
Other debtors	**61,140**	156,073
Prepayments and accrued income	**12,020,007**	15,803,141
Amount owed by parent company	**45,212,574**	31,352,237
Amounts owed by fellow group companies	**887,187**	3,933,442
Corporation tax	**1,899,834**	-
	67,693,168	56,533,305

15 Creditors: amounts falling due within one year

	2017	2016
	£	£
Trade creditors	**1,903,533**	2,814,933
Corporation tax	**-**	1,509,853
Other taxation and social security	**3,532,912**	3,824,706
Accruals and deferred income	**25,095,138**	21,328,664
Other creditors	**364,074**	362,089
Amounts owed to fellow group companies	**18,663,204**	12,590,416
	49,558,861	42,430,661

Amounts owed to fellow group companies include loan amounts that attract an annual interest rate of 1.6% and are repayable on demand.

16 Equity share capital

	2017	2016
	£	£
Allotted, issued and fully paid:		
8,001,000 ordinary shares of £1 each	**8,001,000**	8,001,000

17 Commitments under operating leases

Non-cancellable operating lease rentals are payable as follows:	2017	2016
	£	£
Land and buildings		
Less than one year	**45,666**	64,104
Between one and five years	**-**	57,154
More than five years	**-**	-
Plant and machinery		
Less than one year	**731,609**	1,329,543
Between one and five years	**587,733**	1,312,937
More than five years	**-**	-
	1,365,008	2,763,738

Notes *(continued)*

18 Employee benefits

The total costs charged to profit and loss account amounts to £1,438,687 *(2016: £1,357,958)* representing company contributions payable to individual personal pension plans.

19 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	**2017**	2016	**2017**	2016
	£	£	**£**	£	**£**	£
Capitalised development expenditure	-	-	**(1,916,417)**	(2,402,695)	**(1,916,417)**	(2,402,695)
Tangible fixed assets	**1,409,078**	1,481,950	-	-	**1,409,078**	1,481,950
Other timing differences	-	6,915	**(207,260)**	-	**(207,260)**	6,915
Tax assets / (liabilities)	**1,409,078**	1,488,865	**(2,123,677)**	(2,402,695)	**(714,599)**	(913,830)

Movement in deferred tax during the year:	1 Jan 2017 £	Movement £	**31 Dec 2017** **£**
Capitalised development expenditure	(2,402,695)	486,278	**(1,916,417)**
Tangible fixed assets	1,481,950	(72,872)	**1,409,078**
Other timing differences	6,915	(214,175)	**(207,260)**
Tax assets / (liabilities)	(913,830)	199,231	**(714,599)**

20 Provision

	2017	2016
	£	£
Service level reporting charges	**11,187,918**	-

The provision at 31 December 2017 of £11,187,918 (2016: £nil) is in respect of service level reporting charges in relation to the NHS Digital reporting issue and reflects the estimated future cost of settling the issue with NHS Digital and the cost of remediating the software code to address the problem backlog present at 31 December 2017, together with associated professional fees. The year-end provision was the full amount provided in the year with nothing being utilised in the year.

Notes *(continued)*

21 Share-based payments

The following share option schemes existed during the period;

	2011 Share Option Plan					
Grant date	2 May 2013	18 October 2013	15 October 2014	28 April 2015	27 April 2016	21 April 2017
Exercise period	May 2016–May 2018	October 2016–October 2018	October 2017–October 2019	April 2018–April 2020	April 2019–April 2021	April 2020-April 2022
Share price at grant date	730p	656p	737p	901p	970p	899p
Exercise price	730p	656p	737p	901p	970p	899p
Expected volatility	35%	35%	35%	26%	30%	30%
Expected life (years)	3	3	3	3	3	3
Risk-free rate	1.40%	1.40%	2.37%	2.37%	2.37%	2.37%
Expected dividend yield	2.20%	2.20%	2.33%	2.03%	2.19%	2.73%
Fair value per option	157p	141p	164p	152p	190p	164p

	Unapproved option scheme	
Grant date	18 October 2013	27 April 2016
Exercise period	July 2016–October 2018	April 2019–April 2021
Share price at grant date	656p	970p
Exercise price	656p	970p
Expected volatility	35%	30%
Expected life (years)	3	3
Risk-free rate	1.40%	2.37%
Expected dividend yield	2.20%	2.19%
Fair value per option	89p	190p

	LTIP						
Grant date	16 January 2014	1 May 2014	28 April 2015	27 April 2016	21 April 2017	1 May 2017	4 September 2017
Exercise period	January 2017-January 2024	May 2017-May 2024	April 2018-April 2025	April 2019-April 2026	April 2020-April 2027	May 2020-May 2027	May 2020-May 2027
Share price at grant date	630p	635p	908p	970p	899p	934p	914p
Exercise price	0p	0p	0p	0p	0p	0p	0p
Expected volatility	35%	35%	26%	30%	30%	30%	30%
Expected life (years)	3	3	3	3	3	3	3
Risk-free rate	2.37%	2.37%	2.37%	2.37%	2.37%	2.37%	2.37%
Expected dividend yield	2.52%	2.52%	2.03%	2.19%	2.71%	2.71%	2.69%
Fair value per option	584p	589p	854p	908p	836p	836p	843p

There were 139,893 (2016: 29,519) options exercised during the year. The weighted average share price at the date of exercise of share options exercised during the year was £9.39 (2016: £8.79). The options outstanding at the year end have an exercise price in the range of £nil to £9.70 (2016: £nil to £9.70) and a weighted average contractual life of 1.5 years (2016: 1.2 years).

As the consolidated financial statements of EMIS Group Plc include the equivalent disclosures, the Company has taken the exemptions available under FRS 101 in respect of IFRS 2 Share Based Payments.

Notes *(continued)*

21 Share-based payments *(continued)*

EMIS Group plc operates a HMRC approved Share Incentive Plan, which is open to all UK employees of the Company with at least one year's service. Those joining contribute a maximum of £1,800 a year, or 10% of salary, whichever is smaller, which is used to acquire shares in the parent company at market price.

22 Capital commitments

At the year end the company had capital commitments of £1,047,145 *(2016: £51,179).*

23 Transactions with directors

There were no transactions with directors during the year.

24 Contingent liabilities

The Company and certain other EMIS Group plc subsidiaries have given guarantees in support of the Group's banking facility, consisting of term loans of £nil (2016: £2.0m), a revolving credit facility of £25.0m (2016: £6.0m), and an overdraft facility of £5.0m (2016: £10.0m). £25.0m of the revolving credit facility was undrawn at 31 December 2017 (2016: £6.0m) and there was £5.0m of unused overdraft (2016: £7.2m).

25 Ultimate parent company

The company's immediate and ultimate parent company and the parent company of the smallest and largest group to include the company in its consolidated financial statements is EMIS Group plc, a company incorporated in England and Wales. Copies of the Group financial statements can be obtained from The Secretary, EMIS Group plc, Rawdon House, Green Lane, Yeadon, Leeds, West Yorkshire, LS19 7BY.

26 Related parties

During the year the Company entered into transactions, in the ordinary course of business, with other wholly owned subsidiaries of Emis Group plc. The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries. Transactions entered into, and trading balances outstanding at 31 December 2017 with other related parties, are as follows:

	Sales to related party	Recharges to related party	Amounts owed by related party	Amounts owed to related party
Associates				
2017	-	-	-	-
2016	£26,000	-	-	-
Joint ventures				
2017	-	**£1,383,449**	-	**£92,265**
2016	-	£854,269	£79,212	-

Notes *(continued)*

27 Accounting estimates and judgements

Accounting estimates and judgements are made and continually evaluated based on past experience together with expectations relating to future events that are believed to be reasonable at the present time. Due to the inherent uncertainty involved in making these estimates and judgements, actual outcomes could be different. The critical estimates, assumptions and judgements made in arriving at the amounts recognised in these financial statements that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are as follows:

Development costs
The key areas of judgement are in determining whether the expenditure meets the criteria for capitalisation and the useful life over which this expenditure is amortised. Expenditure is only capitalised if it meets the criteria set out in IAS 38 'Intangible Assets', details are set out in note 1.6. Useful lives are based on management estimates of the period over which assets are expected to generate revenue. These estimates are reviewed periodically for continued appropriateness. Changes to estimates can result in variations in carrying values and amounts charged to the profit and loss account from period to period.

Revenue recognition
The key area of judgement in respect of recognising revenue is the timing of recognition, specifically in relation to deferral of revenues that are invoiced and paid in advance of services being provided. Details are set out in note 1.14.

Service level reporting charges
Service level reporting charges of £11,187,918 have been recognised in the comprehensive statement of income, relating to the NHS Digital reporting issue. Estimates have been made with regard to anticipated costs of settling the issue with NHS Digital and the cost of remediating the software code to address the problem backlog present at the year end, together with associated professional fees. It is expected that all software defects will be remedied and settlement costs paid during 2018, and accordingly the total anticipated cost of £11,187,918 has been recognised as a provision within current liabilities.