# SANDERSON GROUP PLC

## Annual Report and Accounts

for the year ended 30 September 2011

**IT solutions driving continual business improvement**

**2011**

# About Sanderson

IT solutions driving continual business improvement

Sanderson is a publicly owned, UK provider of software solutions and IT services. We supply innovative, market-focused solutions primarily to the **multi-channel retail** and **manufacturing** sectors.

Highly experienced in the markets we serve, we forge long-term relationships with our customers. This allows us to consistently deliver real business benefit and help our customers achieve rapid return on their investment in IT.

Established in 1983, Sanderson has a multi-million pound turnover and a track record of profitable trading. We strive to be the best in our chosen fields and achieve market leadership through the quality of our products, people and services.

## Contents



SANDERSON GROUP PLC

# Since 30 September 2011

*Stock Exchange Announcement 23 January 2012*

## £11.7m Trade Sale of High Street Retail business & trading update

Sanderson Group plc ('Sanderson' or the 'Group'), the software and IT services business specialising in multi-channel retail and manufacturing markets in the UK and Ireland, announces that on 20 January 2012 it completed the sale of Sanderson RBS Limited ('Sanderson RBS'), the Group business which specialised in the sale of 'electronic point of sale' ('epos') solutions to major high street retailers, to Torex Retail Holdings Limited ('Torex'). Torex are a leading technology provider to the retail, hospitality and convenience and fuel markets. The cash consideration of £11.5m is payable on completion with additional cash consideration of £0.15m being payable unconditionally on 6 April 2012 and a further £0.1m payable dependent upon receipt by Sanderson RBS of specific customer payments.

In the year ending 30 September 2011, Sanderson RBS achieved sales of £12.36m, operating profit of £1.41m (stated before amortisation, share-based payment and allocation of group cost) and profit before taxation of £0.86m. The net assets of Sanderson RBS at 30 September 2011 were £3.56m.

The cash proceeds of the sale will enable the Group to repay its bank debt and leave a positive cash balance of approximately £4m. The Board has a strategy to develop and expand the Group, to build shareholder value and to increase shareholder returns. The cash will be used to invest in the further development of products and services, especially in the areas of online sales and ecommerce solutions. The Sanderson strategy is to enhance the Group's presence in its core markets of multi-channel retail and manufacturing, both through further development of existing product suites, as well as by complementary acquisitions. The Board will also consider taking advantage of the Group's strong cash generation to accelerate the Group's progressive dividend policy.

Given the current challenging economic environment, Sanderson has maintained good trading momentum. The new product suites launched over the last 18 months, which include Green IT, Software as a Service, Cloud Solutions and the very latest versions of the ecommerce software with modern functionality and features, have made the Group more competitive and have contributed to the improvement in trading and the gaining of new customers. The Sanderson manufacturing business has continued to trade well as has the Group's multi-channel business, which has won new customers, especially from companies operating in the areas of catalogue and online sales, ecommerce and wholesale distribution. At the end of the first quarter, to 31 December 2011, order intake in the manufacturing and multi-channel businesses was almost 10% ahead of the comparative period of the previous financial year.

Sanderson now has a strengthened balance sheet, cash in the bank and continues to improve its competitive market position. The Board is confident that the Group will make further progress during the current year and anticipates updating shareholders with progress at the Annual General Meeting which will be held on 15 March 2012.

Commenting on the transaction, Chairman, Christopher Winn, said that:

"We believe that this is both a satisfactory transaction for Sanderson shareholders as well as a good opportunity for both the Sanderson RBS staff as well as for Torex, led by Steve Rowley. I would, on behalf of the Board and the shareholders of Sanderson, thank especially David Mahoney, the Managing Director of Sanderson RBS for his leadership and Steve Watson, the management and staff, for their loyalty, hard work and support in making a strong contribution to the rebuilding of the Group's value since the very tough period from late 2008 through 2009."

Mr Winn added:

"Looking ahead, our focus will be on the continued development of the Sanderson products and services, with special emphasis on further enhancement of the online sales and ecommerce solutions. We intend to further expand the Sanderson customer base and to increase investment in our successful manufacturing business which is enjoying positive trading momentum. The Board strategy is to achieve growth both organically through investment in new products and services as well as by selective acquisitions as opportunities arise."

# At a glance
Sanderson 2010 –11

SANDERSON GROUP PLC

Sanderson is an established and profitable software and IT services business specialising in the multi-channel retail and manufacturing markets. Operating primarily in the UK and Ireland, the Group delivers solutions to organisations with turnovers typically between £5m and £250m. Sanderson maintains a strong market position due to the quality of its products and services and its successful track record.

The Group has a strong revenue model, with approximately 50% of revenue arising from recurring licence, support and maintenance contracts. A further 40% is derived from the existing customer base, with the balance represented by revenue from new customers.

Sanderson is a resilient business. The strength of the Group's large, well-established customer base is expected to enable Sanderson to trade robustly in the current financial year, subject to general market conditions prevailing within the UK economy. Our focus on all aspects of multi-channel retail, including the active and growing online sales sector, provides a level of protection from the uncertain market conditions currently affecting retail.

The Sanderson business was founded in 1983 and grew organically and by acquisition to over £119m revenue. In December 2003, the original Sanderson Group was demerged into three separate, independent entities with the present Group retaining the Sanderson name and brand. Sanderson is a name widely recognised as an established provider of software and IT services.

The Group's industry knowledge, proven revenue model, track record and acquisition experience gives the Company the confidence that it is well placed to deliver both organic and acquisition-led growth in the future.

## Manufacturing
*Proven solutions for manufacturing and food & drink processing*

Sanderson has been helping UK manufacturers succeed with their IT systems for over 25 years. Our expertise is in delivering proven software and long-term value. Industry established, our modern business systems support many sectors and types of manufacturing and are specifically designed for the markets they address — discrete manufacturing, food processing, print and distribution. Our 'Green IT' product suite complements our range of 'Factory Automation' solutions which improve efficiency in manufacturing and bring many cost saving benefits to customers.

### Customers include:

Sherborne, Memory Lane Cakes, Magnadata, Anstey, Protex, Denman, nairn's, Dunbrock's, Douglas, Witwood Food Products, English Provender Co, LTE, Bromford Industries

### Case Study:

ENGLISH PROVENDER Co

**English Provender Co.**

EPC has 370+ employees, £70m turnover, and manufactures a range of condiments, chutneys and dressings under The English Provender Co. brand, its "Very Lazy" sub-brand, and increasingly under major retailers' own premium labels. It operates a state-of-the-art facility near Newbury, meeting the highest food production standards. Sanderson software is an integral part of EPC's business, managing finance, production, stock, traceability, sales, factory & warehouse automation and management information. Says MD Stephen Hughes: "The Sanderson system is driving our business. It is a great system that will continue to support this business for many years and I would certainly recommend it to others".

# Multi-Channel Retail

*Helping multi-channel businesses excel*

As a long-standing supplier of software and services to retail, mail order catalogue, fulfilment, wholesale and online businesses, Sanderson has a unique understanding of multi-channel sales. We offer a comprehensive range of IT solutions to meet the needs of organisations operating in this sector. With systems that are flexible and capable of growing as business requirements change, we deliver proven solutions which help our customers achieve return on investment. Our latest products include 'Business Assurance', a suite of services designed to protect businesses from system failures and reduce cost of ownership, and 'Green IT', solutions which deliver energy saving efficiencies to our customers.

## Retail Solutions

Sanderson is one of the UK's leading providers of retail technology. Retailers of all types and sizes use our solutions to manage their operations and be more productive, competitive and profitable. With a wealth of knowledge and experience, and a richly diverse customer base, we offer an extensive portfolio of software and services for head office, back office and store.

### Customers include:

Harrods, Selfridges & Co, TieRack, French Connection, Wilkinson, Lakeland, English Heritage, Jaeger, Ryman, Fenwick Bond Street, Tottenham Hotspur, The Garden Centre Group

### Case Study: Hamleys

**Hamleys**

Hamleys, the iconic London based toy store, joined its Regent Street neighbours Kurt Geiger and Jaeger, when in 2010 it became the sixth Regent Street store to partner with Sanderson for the supply, installation and support of its EPoS system. Sanderson implemented the solution, which Hamleys use to run their business, across 10 stores in the UK and Ireland, and have since delivered a number of significant business-enhancing projects including customer preferred currency, tax free shopping and mobile point of sale for queue-busting during busy periods. David Oakley, Head of IT at Hamleys, states "Sanderson worked hard to deliver the EPoS replacement project within the agreed timescales. We've developed a great working relationship; the Sanderson team are very responsive and the system has delivered tangible business benefits."

## Multi-Channel, E-Commerce and Wholesale Solutions

For businesses that sell via stores, mail order catalogues, call centres, wholesale and the web, Sanderson has a true multi-channel software offering which meets all the demanding requirements of the market. Sanderson provides integrated ecommerce systems which underpin online operations, and is a major provider of IT solutions to the delivered wholesale and cash and carry industry.

### Customers include:

OKA, Aspinal of London, Thorntons, Hotel Chocolat, Nisa Today's, mothercare, MandMDirect

### Case Study: Beaverbrooks

**Beaverbrooks**

Beaverbrooks is a UK based jeweller and multi-channel retailer. Established in 1919, they have over 800 employees, with 66 shops throughout the UK, plus Internet and mail order divisions. They came third in the Sunday Times 100 best companies to work for, 2010. Commenting on their use of multi-channel retail software from Sanderson, Patrick Walker, Head of IT at Beaverbrooks, said, "The Sanderson solution has brought together our multiple sales channels and collective systems, providing us with a central hub that allows us to operate a true multi-channel sales organisation. It has improved our operational efficiency and provides us with real-time sales and customer data, which we didn't have with our previous system. This has made a huge difference to our business."

# Chairman's statement

"Sanderson has continued to trade well with a good level of momentum across its multi-channel retail and manufacturing businesses. Whilst the Group's trading has continued to be impacted by the slow pace of recovery in the UK economy and more challenging trading conditions on the high street, the new products and services introduced over the last two years have driven the improvement in the Group's trading performance."

### Highlights – Financial

- Revenue of £26.42m (2010: £26.99m)
- Operating profit of £2.09m (2010: £1.69m)
- Adjusted operating profit* increased to £3.30m (2010: £3.09m)
- Profit attributable to shareholders of £0.80m (2010: £0.27m)
- Basic earnings per share of 1.90p (2010: 0.60p)
- Adjusted basic earnings per share† of 5.50p (2010: 3.90p)
- Cash generated from operations increased to £3.43m (2010: £3.37m)
- Net debt at period-end further reduced to £6.72m (2010: £7.84m)
- Proposed final dividend of 0.45p per share (2010: 0.35p) making a total dividend for the year of 0.75p per share (2010: 0.60p)
- New and improved banking facilities successfully negotiated with HSBC in August

### Highlights – Operational

- Further improvement in gross margins to 71.7% (2010: 69.0%)
- Recurring revenues from annual software licences, support and managed service contracts rose to £13.70m (2010: £13.66m) representing 52% of total revenues (2010: 51%)
- Total of 26 new customers gained across all product areas including Brown Thomas, B&M Retail, Twinings, Lewis's Home Retail and Gardners
- Innovation on new products and services — Retail Concept Suite following Green IT, Software as a Service and Cloud delivery models

* Before amortisation of acquisition-related intangibles and charge in respect of share-based payments.

† Before amortisation of acquisition-related intangibles, charge in respect of share-based payments and exceptional finance costs.

### Introduction

Sanderson has continued to trade well with a good level of momentum across its multi-channel retail and manufacturing businesses. Whilst the Group's trading has continued to be impacted by the slow pace of recovery in the UK economy and more challenging trading conditions on the high street, the new products and services introduced over the last two years have driven the improvement in the Group's trading performance.

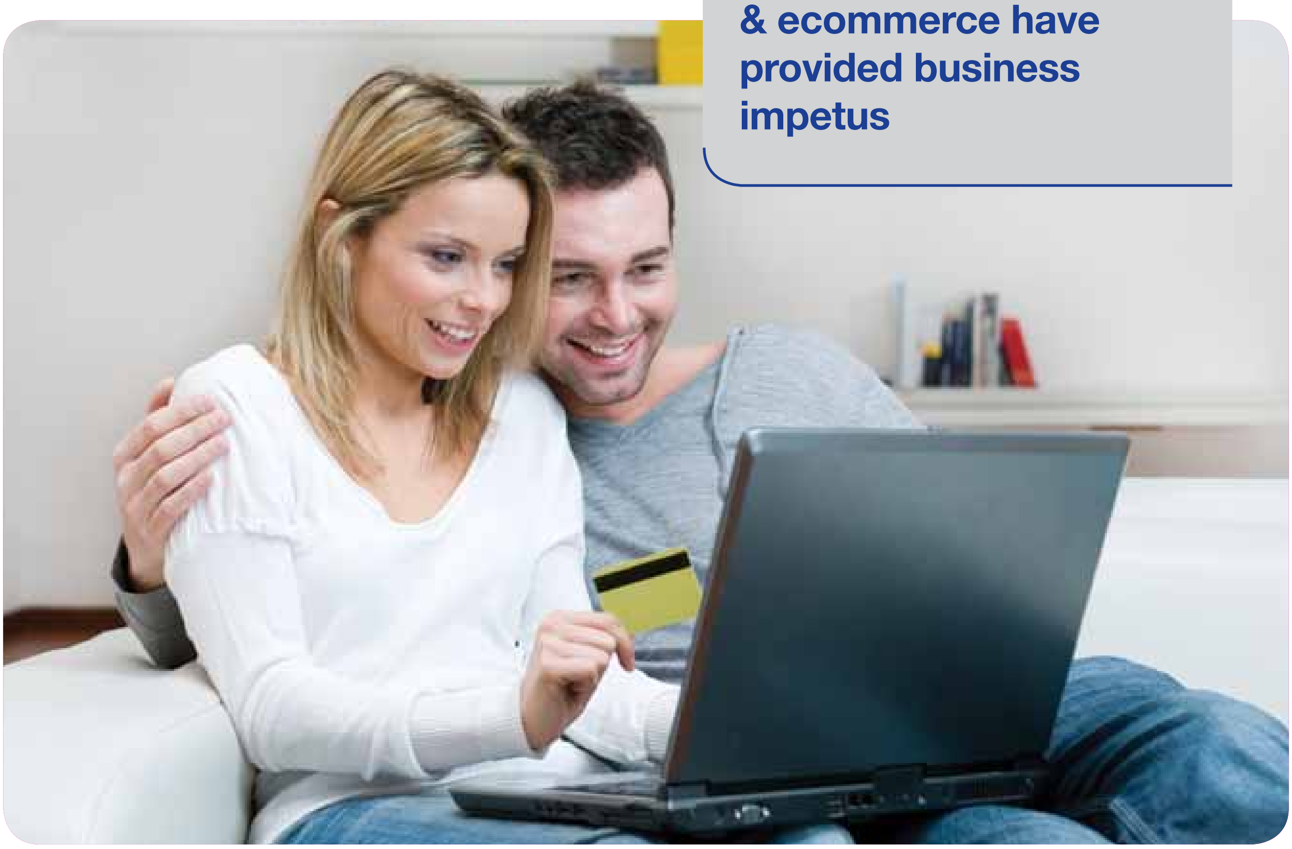
In August, the Group announced the refinancing of its term debt and working capital facilities with HSBC Bank plc having replaced the Royal Bank of Scotland ('RBS') as the Group's banker. This was achieved ahead of schedule, provides the Group with an improved banking arrangement and achieves significant cost savings in the future when compared to the RBS facility.

### Results

The Group has focused on selling and supplying higher margin solutions based upon its own software and services and this has resulted in an improved gross margin of 71.7% (2010: 69.0%). The higher gross profit of £18.95m (2010: £18.63m) has more than offset the effect of a slight decline in revenues from £26.99m in 2010 to £26.42m in 2011.

Recurring revenues from annual software licences, support and managed service contracts increased to £13.70m, representing 52% of total revenue (2010: £13.66m, 51% of revenue). Operating profit, before the amortisation of acquisition-related intangibles and the charge in respect of share-based payments, increased by 7% to £3.30m (2010: £3.09m). Profit attributable to shareholders increased to £0.80m (2010: £0.27m) and as a result basic earnings per share increased to 1.90p (2010: 0.60p). Adjusted basic earnings per share, stated before the amortisation of acquisition-related intangibles, the charge in respect of share-based payments and exceptional finance costs increased to 5.50p (2010: 3.90p).

Cash generated from operations in the 12 months to 30 September 2011 improved to £3.43m (2010: £3.37m). The Group remains strongly cash generative and net debt has fallen to £6.72m at 30 September 2011 (2010: £7.84m) from a peak of £12.46m at 31 March 2008. The Board anticipates further significant reductions in the levels of net debt in future periods.



**Latest technologies in internet retailing & ecommerce have provided business impetus**

### Dividend

The Board is pleased with the continued improvement in the trading performance reported for the financial year and whilst continuing to focus on further reducing debt levels, it is seeking to return to a progressive dividend policy. Subject to approval at the Annual General Meeting of shareholders, expected to be held on 15 March 2012, a final dividend of 0.45p per ordinary share is proposed, making a total of 0.75p for the year, which represents a 25% increase compared with the total dividend of 0.60p paid in 2010. The final dividend will be paid on 30 March 2012 to shareholders on the register at the close of business on 9 March 2012.

### Business review

Sanderson provides a wide range of software solutions to the multi-channel retail and manufacturing markets. These solutions comprise primarily the Group's own software often integrated with other market-leading products, which are installed, supported and serviced by Sanderson staff. The efficient provision of cost effective solutions with an emphasis on quality, consistency and reliability, continues to ensure both a very high retention of customers, as well as acting as an excellent reference base for new customers.

The Group has continued to invest in its sales and marketing capability and has accelerated investment in the development of new products and services. There has been increased focus on the account management and support provided to existing customers whilst more aggressively competing for and gaining new customers. The new product and service suites of Business Assurance and Factory Automation introduced in the previous year have continued to gain traction in their respective markets. The introduction of solutions based on the latest technologies in the areas of internet retailing and ecommerce have provided further business impetus.

The product portfolios were additionally enhanced by the launch of a number of energy saving products, collectively branded 'Green IT'.

Sanderson continues to focus on supplying customers with value for money solutions, frequently providing a compelling return on investment. Enhancements to existing systems are targeted at

# Chairman’s statement continued

> “The Group has made good progress since 2009 notwithstanding challenging conditions in its core markets. The Sanderson business model, with strong cash flows and high levels of recurring revenue provides both good resilience in these challenging markets, as well as a solid foundation for future growth. The Board remains cautious in its outlook and sensitive to conditions in the general economy, but the strong order book and improved competitive market position provide a reasonable level of confidence moving into the financial year ending 30 September 2012.”
>
> **Christopher Winn**

providing customers with tangible benefits such as cost savings and business efficiencies. The latest versions of the Group’s software products incorporate features which address both regulatory and legislative compliance whether for the Payment Card Industry in retail or food standards and traceability in food manufacturing, as well as utilising latest technologies which enable increased Factory and Warehouse Automation.

Order intake has been resilient, despite some slowdown in activity in the high street retail sector towards the end of the financial year. At 30 September 2011, the order book stood at £2.92m (excluding support) compared to £3.03m at 30 September 2010 and £1.92m at 30 September 2009.

### Review of multi-channel retail

The Group provides end-to-end, comprehensive IT solutions to businesses operating in the areas of online sales, ecommerce, catalogue sales, wholesale distribution and high street retail outlets. Revenues derived from multi-channel retail operations were £20.28m compared with £21.17m in 2010. Reflecting a higher proportion of our own software and services, gross margins increased from 64.9% in 2010, to 68.4% in 2011.


The multi-channel business, encompassing all operations of the division with the exception of high street retail, performed very strongly during the year. The wholesale distribution and cash and carry market was particularly active during our fifteenth year of operating in this sector. Activity levels in the online sales and ecommerce sector remain strong.

In terms of the high street retail business, the Group has invested in the Milton Keynes office from where managed services and support services are provided to our high street retail customers. A new Retail Concept Suite has been developed which showcases and demonstrates latest store technologies aimed at assisting retailers to maximise customer spend.

Activity levels from the larger existing retail customers have continued to be strong, especially in the areas of fraud prevention and PCI (‘Payment Card Industry’) compliance. The Group has also developed a new hospitality and catering module within its suite of retail software, which utilises the latest tablet PCs and wireless technology to enable customers to achieve savings and efficiencies in catering management. Salford Royal NHS Foundation Trust has achieved significant savings and the Bradford Teaching Hospitals NHS Trust, Whipps Cross University Hospital NHS Trust and The Adelaide and Meath Hospital, Dublin, have now adopted the Sanderson system.

A total of 22 new customers were gained during the year (2010: 24) even though, being symptomatic of the well-reported high street slowdown, a number of large orders which were expected to be placed before the end of the financial year were deferred. New customers included Brown Thomas, B&M Retail, Country Homes & Gardens, Twinings and Lewis’s Home Retail. In addition, large projects were awarded by a number of existing customers, including Wilkinson, The Original Factory Shop, Fenwick and Lakeland.

### Review of manufacturing

The Group’s manufacturing business covers the provision of modern, comprehensive IT solutions to manufacturing companies which operate primarily in the engineering, plastics, aerospace, electronics, print and food manufacturing sectors. Revenues grew by 5% to £6.15m (2010: £5.83m) and the most marked recovery in activity was in the area of general manufacturing, especially printing and aerospace.

## Green IT, SaaS & Cloud solutions will drive growth

Four new customers were gained including Gardners, Albury Chickens and Dairy Best Victoria, compared with the same number in the previous year ending 30 September 2010. Recurring revenues continue to be strong, accounting for 58% of total revenue (2010: 61%). The gross margin from the recurring revenues stream covers 78% of divisional overheads (2010: 83%).

UK manufacturing has been a challenging sector to operate within, but the Sanderson business has a good management team and has continued to show resilience, achieving growth over the last two years. The latest version of the Unity software, together with recent product and service initiatives have been well received by customers and the current order book is strong.

### Strategy

The Group's strategy is to be the supplier of choice in its target markets by offering modern, functionally rich products, backed by a high quality service, thereby delivering cost effective solutions to customers and providing long-term growth in earnings and enhanced value to our investors.

### Management and staff

The Group Operating Board and senior management team have continued to be instrumental in delivering an improved and improving business performance. In total, the Group employs approximately 250 staff, who have a high level of experience in the specialist markets which the Group addresses. The commitment of staff to the development of the Sanderson business is crucial and we would like to thank all of our staff for their support, commitment and contribution to the Group's progress.

### Outlook

The Group has gained customers in all of its new product areas and the Warehouse and Factory Automation products have already accounted for nearly one million pounds' worth of additional new business since launch in 2010. Going forward, we believe that the Group's Green IT, SaaS and Cloud solutions will drive further growth.

The Group has made good progress since 2009 notwithstanding challenging conditions in its core markets. The Sanderson business model, with strong cash flows and high levels of recurring revenue provides both good resilience in these challenging markets, as well as a solid foundation for future growth. The Board remains cautious in its outlook and sensitive to conditions in the general economy, but the strong order book and improved competitive market position provide a reasonable level of confidence moving into the financial year ending 30 September 2012.

**Christopher Winn**
Chairman
28 November 2011

# Financial review

Adrian Frost

"Sanderson remains a cash generative business. The Group has achieved an operating profit to cash conversion ratio in excess of 100% for the second consecutive year, enabling the further reduction of debt levels."

### Trading results

A review of the trading performance of the Group during the year is set out in the Chairman's statement. An increase in the proportion of proprietary software and services sold contributed to a 2% increase in gross profit to £18.95m. With action being taken to reduce the underlying cost base, operating profit (stated before amortisation of acquisition-related intangibles and share-based payment charges) increased by 7% to £3.30m.

### Cash flow

Sanderson remains a cash generative business. The Group has achieved an operating profit to cash conversion ratio in excess of 100% for the second consecutive year, enabling the further reduction of debt levels. Sanderson refinanced with HSBC Bank plc in July 2011, entering into a new, four year term facility. Changes to the schedule of capital and interest repayments resulted in the Group making three interest payments during the financial year, compared with five in the comparative period. This change provided further cash which has been invested to strengthen the competitive position of the Group.

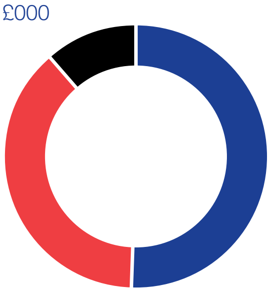
Credit control is an important role within the finance function, not only because of its direct contribution to cash generation, but also because overdue debt is often a sign that a customer is unhappy with the standard of software or services provided. Overdue debt levels are one of the key performance indicators used by management to assess business performance and further details are provided later in this report. Whilst all business operations perform well against this measure, the manufacturing division has excelled during the year with the proportion of debt over 60 days old at record lows.

### Balance sheet

Notwithstanding the focus on reducing debt levels, the levels of cash generated by Sanderson during the year have enabled investment in the following:

- An increased capital expenditure programme, incorporating a major upgrade of facilities at the Milton Keynes office, the Group-wide deployment of a new communications infrastructure and the first phase of a virtualisation project designed to reduce electricity consumption and hardware maintenance costs whilst also providing increased operational resilience.
- A significant increase in market-specific intellectual property developed by our skilled employees. Building on the success of recent Factory Automation and Business Assurance solutions, the year ended 30 September 2011 saw the Group launch further manufacturing solutions including Software-as-a-Service and Unity Essentials whilst multi-channel retail initiatives included further additions to our IPR portfolio designed to complement the Retail-J product as well as enhancements to our own retail and hospitality systems. Further development initiatives are scheduled for the year ending 30 September 2012.

**Revenue Analysis**
£000



| | |
|---|---|
| Recurring Revenue | 13,699 |
| Incremental Revenue | 10,320 |
| New Customer Revenue | 2,404 |

**Significant investment in market-specific intellectual property with further manufacturing solutions including Software-as-a-Service and Unity Essentials**

### Treasury

The Group manages its treasury function as part of the central finance department. Substantially all of the Group's operations are UK based, and as such there is no significant exposure to foreign currencies and associated exchange rate fluctuations. All borrowing facilities are negotiated, approved and managed centrally. Interest rate hedging arrangements are used to provide protection against significant interest rate fluctuations. As part of the refinancing of term debt with HSBC, the interest rate swap previously in place was reset to provide a fixed rate of interest on 75% of amounts outstanding over the four year term of the facility.

### Principal risks

Risk management is an important part of the management process throughout the Group and systems of internal controls have been developed to address the principal risks. A policy of continuous improvement has been adopted when assessing the adequacy of internal controls by means of regular review.

The principal risks faced by the Group are considered to be:

- **Strategic** The Group operates in a dynamic market, and constantly seeks to ensure the solutions it offers to customers remain competitive. In recent years our development of Factory Automation, Business Assurance and Green IT solutions, together with the launch of our Software as a Service product offering, are examples of development undertaken to remain competitive.
- **Economic** As a supplier to the retail and manufacturing markets a further worsening of the economic climate affecting these sectors may lead to a reducing spend on IT systems and services by customers and prospective customers. The Group strives to offer solutions that provide demonstrable return on investment for both existing, as well as new customers, as a strategy to capture more of our customers' budgeted IT spend.
- **Operational** The Group's most significant assets are the intangible assets acquired with acquisitions, the intellectual property developed by the Group and its employees. The Group's quality procedures ensure software products remain reliable and of high quality. The market for skilled staff remains competitive. Recruiting, retaining, developing and motivating staff continues to be a key priority for the business.
- **Reputational** The Group values its strong and diverse customer base highly, as the majority of annual revenue is derived from the continued provision of existing and new solutions to existing customers, who also provide references for potential new customers.
- **Liquidity** The Group's exposure to liquidity risk arises as a result of bank loans drawn to fund previous acquisitions. The loans are term facilities with scheduled repayments that are factored into the Group's trading and cash forecasts. Economic conditions create uncertainty particularly over the level of demand for the Group's solutions with potential implications on actual levels of revenue and cash generation. The Group's trading and cash forecasts take account of possible changes in trading performance and show the Group will be able to operate within the existing facilities.
- **Financial** The systems of internal control deployed within the Group are designed to prevent financial loss. Controls are strongest in areas where management consider the potential exposure of the Group to material loss to be at its greatest, such as contract management and credit control.
- **Environmental** The Group addresses the risk its activities place on the environment through the promotion of green initiatives wherever possible.

# Financial review continued

**The Board is seeking to return to a progressive dividend policy as trading results continue to improve**

**Key performance indicators ('KPIs')**

The following KPIs are some of the tools used by management to monitor the performance of the operating businesses within the Group, in addition to the more traditional income statement, statement of financial position and cash flow analysis reviewed at regular Board meetings:

| Indicator | 2011 | 2010 |
|---|---|---|
| Revenue per employee | **£101,600** | £97,500 |
| Operating profit* per employee | **£12,700** | £11,100 |
| Debtors over 60 days as percentage of total debtors | **8.9%** | 8.3% |
| Debt to earnings ratio | **2.06 times** | 2.33 times |
| Dividend cover | **5.2** | 6.1 |

* Before amortisation of acquisition-related intangibles and share-based payment charges.

Adjusted basic earnings per share†
**up 41%**
**to 5.50p**
(2010: 3.90p)

Total dividend for the financial year
**up 25%**
**to 0.75p**
(2010: 0.60p)

† Before amortisation of acquisition-related intangibles, charge in respect of share-based payments and exceptional finance costs.

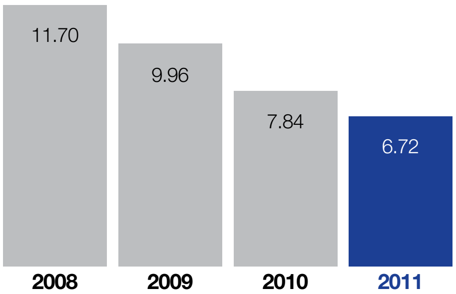
"Overdue debt levels are one of the key performance indicators used by management to assess business performance. The manufacturing division has excelled during the year with the proporton of debt over 60 days old at record lows."

Cost saving initiatives undertaken during the year to 30 September 2011 have focused on improving administrative efficiencies and reducing the amount of low margin engineering work undertaken, especially to customers that do not use Sanderson software products. These initiatives have facilitated a headcount reduction that in turn contributed to improved performances in respect of both revenue and operating profit per employee.

The percentage of debtors over 60 days old has increased slightly. The monetary increase amounted to only £4,000 and the overall profile of debt over 60 days improved. The ratio was affected by a reduction in the overall value of debt outstanding at the year end, which is due to the excellent work undertaken by our credit control staff and customer account managers in obtaining timely payment.

The debt to earnings ratio compares gross bank debt with earnings before interest, tax, depreciation, amortisation and share-based payment charges (EBITDA). The Group has made significant progress in improving this KPI and will meet the previously reported target of less than 2 times early in the financial year ending 30 September 2012. Further improvements in profitability and continuing with the debt repayment schedule should enable a new target of 1.5 times to be achieved during 2012.

**Net debt**
£m




Dividend cover compares cash generated from operations less cash flow from financing activities but before payment of dividend with the level of dividend payments made. The directors are seeking to return to a progressive dividend policy as trading results continue to improve. The dividend cover measure provides an indication as to the level of surplus cash generated by the business to fund dividends and capital expenditure. The directors consider a ratio of at least 3 to be a prudent, sustainable measure. The ratio is expected to fall in the short-term as dividend payments increase.

**Adrian Frost**
Finance Director
28 November 2011

# Board of directors

## Christopher Winn
*Executive Chairman*

Aged 61. Educated at Grammar School and Nottingham University, Christopher worked for British Olivetti until 1974 when he joined the ACT Group – ACT Group became the second UK IT company to be listed on the London Stock Exchange in 1979. He served on the Group plc Board between 1983 and 1994, undertaking a number of senior roles and in 1995, he joined the former Sanderson Group, becoming Group Chief Executive later in that year. In 1999, he led a management buyout or 'take private' of the former Sanderson Group with the support and backing of the Alchemy Plan. Following restructuring and the demerger of the original Group, the business, which was focused primarily on UK commercial markets and which retained the Sanderson Group name, gained admission to the London Stock Exchange AIM market in December 2004.

## Adrian Frost BA, ACA
*Finance Director*

Aged 44. A graduate of Sheffield University, Adrian qualified as a Chartered Accountant whilst working for RSM Robson Rhodes. In 1996, he joined Hadley Industries plc as Group Financial Controller. Adrian joined Sanderson in 2000, shortly after the management buyout, and worked closely with the Board in restructuring the former Group into three separate businesses – Sanderson, Civica and Talgentra. Adrian was appointed Finance Director of Talgentra following the formal demerger of the Group, and rejoined Sanderson Group plc in May 2005.

## David Gutteridge
*Non-Executive Director*

Aged 60. David is the senior independent Non-Executive Director of Sanderson Group plc. He is the Chairman of Tinglobal Limited, an IT infrastructure and support solutions provider. David has also acted as an independent consultant involved in strategic business development and corporate transactions. He is a member of the Chartered Institute of Management Accountants. He was co-founder of Financial Objects plc in 1995 and, as Finance Director and then Chief Operating Officer, led several acquisitions and the full listing on the London Stock Exchange in 1998. Prior to this, he held a number of senior financial and commercial roles at ACT Group plc, Seiko Epson Limited and Logica plc.

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### Philip Kelly

*Non-Executive Director*

Aged 59. Philip is a Non-Executive Director of several companies in the software and related services sector. He has over 20 years' experience as the Chief Executive of private and publicly quoted software companies supplying the commercial and public sectors in the UK, Europe and the USA. Philip had previously worked for Digital Equipment and 3i Consultants.

### John Paterson

*Non-Executive Director*

Aged 65. John has extensive City experience as an investment analyst. He was Managing Director of Albert E Sharp Securities stockbrokers from 1993 until the acquisition of Albert E Sharp by Old Mutual in 1998, and he was instrumental in setting up Arden Partners in 2002 where he was a Director until November 2004.

## Group information

### Company Secretary
Adrian Frost

### Registered company number
4968444

### Registered and head office
Sanderson House
Manor Road
Coventry
CV1 2GF

### Nominated advisor and broker
Charles Stanley
25 Luke Street
London
EC2A 4AR

### Registrar
Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
Birmingham
B63 3DA

### Solicitors to the Company
Schofield Sweeney
Springfield House
76 Wellington Street
Leeds
LS1 2AY

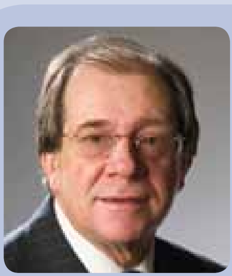
### Auditors to the Company
Grant Thornton UK LLP
Enterprise House
115 Edmund Street
Birmingham
B3 2HJ

### Financial PR
Winningtons
WestPoint
78 Queens Road
Bristol
BS8 1QX

# Operating board

Day-to-day management of the Group's activities is undertaken by an operating board comprising three senior directors together with the executive directors of Sanderson Group plc. The operating board focuses on both business development and maximising opportunities within the existing customer base.

## Executive directors (biographies on page 12)



**Christopher Winn**
*Chairman*

**Adrian Frost**
*Finance Director*

## Senior directors

**David Mahoney**

*Managing Director Sanderson RBS*

David has over 20 years' experience in software and IT services, focused mainly on retail solutions. He joined RBS in 1997, having spent the previous 10 years with Dixons Stores Group (DSG). Early roles concentrated on improving professional services offerings and he was promoted to Operations Director of RBS in 2002, having previously held the roles of Development Director and Support Director. His focus during this phase was to define the managed service strategy, to refine the company's structure and to ensure that the organisation was optimised to meet customer expectations. David was appointed Managing Director in 2008 following the acquisition of RBS by Sanderson and continues to promote the managed service offering and reinforce our position as a top tier solution provider.

**Ian Newcombe**

*Managing Director Multi-Channel Solutions*

Ian has over 30 years' experience in software and IT services. Beginning his career in electronics, he moved into the computer industry in 1979 when he joined ACT Group plc, where as a local board member, he helped establish an international IT support and software services business. In 1996, Ian joined Mitsubishi Electric of Japan at UK board level. As International Project Director, he was instrumental in the formation of an ISP (Internet Service Provider) and online financial services business, successfully launching a range of innovative products in the UK and Europe. In 1999, he was appointed Consulting Director of Talgentra Ltd, where he developed a new consulting services business which rapidly expanded overseas. In 2005, Ian became Managing Director of what is now the enlarged multi-channel sales division of Sanderson.

**Steve Watson**

*Deputy Chairman Sanderson Retail Division*

After graduating from the University of Bristol, Steve qualified as a chartered accountant with Price Waterhouse. He subsequently spent 10 years working for Swiss Bank Corporation in London, where he was an executive director in the bank's investment banking division, specialising in the field of cross-border mergers and acquisitions in the financial services industry. In 1992, he became one of the founder directors of what is now Sanderson RBS. During the 15 year period prior to the acquisition of this company by Sanderson Group plc, Steve held a number of senior roles at Sanderson RBS including Finance Director, Chief Operating Officer and Chief Executive. Steve was appointed Deputy Chairman of the retail division of Sanderson in October 2008.

# 2011 colleague career achievement awards

From 2011 onwards, we have decided to present some selective career achievement awards to honour the hard work, dedication and professionalism shown by our colleagues. An annual event, the awards will recognise just some of the many staff who have made a particularly positive contribution to the Group during the year.

### Lee Wright

*Systems Architect, Production & Print*

Lee graduated from Loughborough University with an honours degree in mechanical engineering and joined the Sanderson development team in 1999 aged 23. During his career with Sanderson, Lee has progressed from Junior Programmer through to Systems Architect. In this role, he is responsible for exploring new and emerging technologies, and devising ways to harness these advancements to support the strategic development of our products. Lee also plays a key part in the Group's partnership with Microsoft.

### James Pegler

*Development Manager, Food & Drink*

James graduated from Bristol University with a BSc in Physics. His programming experience at University led him to a career in software development and he joined Sanderson as a Trainee Programmer in 1995. Rising through the ranks, James took on full management responsibility for the development team of the Sanderson food and drink business in 2011. As Development Manager, James is responsible for training developers. He also has a customer facing role agreeing development specifications and taking an active part in addressing customer issues. A driving force in meeting delivery targets, James has a positive attitude and always looks for solutions not problems.

### Sharon Rutherford

*Database Marketing Executive*

Sharon joined Sanderson as an Office Administrator. Looking for a new challenge and a chance to expand her skill set, she became a Junior Developer in 2005. After a stint in development, she decided to combine her technical and organisational expertise in one role and moved to the marketing team in 2007 as Database Marketing Executive. In this role, she utilises her skills in database management, software programming, html design, and website maintenance, to support the Sanderson Group in its marketing activities. Highly efficient, Sharon always goes the 'extra mile' whether it is being one of the first in the office at 7.30am or one of the last still working at 8 o'clock at night.

### Julie Plant

*Sales Order Administrator*

Julie joined Sanderson in December 2002 from Central Sheffield University Hospitals. Initially, a buyer/order administrator, Julie was promoted to Sales Order Administrator with responsibility for overseeing the processing of all orders received by the Group, last year. In this capacity, Julie has driven through improvements in Sales Order Processing and Contract Control, and has been instrumental in the implementation of new policies and procedures – helping the Group cope with exceptional order intake periods.

### Dani McNamara

*Assistant Accountant, Retail*

Dani joined Retail Business Solutions straight from college in 1996. Initially as a receptionist, she expanded the role and undertook a number of tasks designed to aid the senior management team. Looking for a fresh challenge, she joined the sales administration team a year later and was responsible for the production of sales quotations and ITT responses. Dani then moved into finance. Now an Assistant Accountant, Dani has assumed full responsibility for customer invoicing, credit control, bad debt management, bank reconciliation and payroll. Colleagues say Dani is a constant breath of fresh air and praise her for her ability to improve every area of the company she has worked in.

The commitment of all our staff to the development of the Sanderson business is crucial and we would like to thank all of our staff for their support, commitment and contribution to the Group's progress.

SANDERSON GROUP PLC

# Corporate governance statement

As the Company's shares are traded on AIM, the Company is not required to report on compliance with the Combined Code on Corporate Governance (Combined Code). However, the Company is committed to high standards of corporate governance and has adopted the following recommendations of the Combined Code.

### Board of directors

The Board is broadly balanced with two executive and three non-executive directors. All executive directors are subject to election by shareholders at the first opportunity after their appointment and to re-election at regular intervals thereafter.

The Board meets on a monthly basis and retains full and effective control of the Group. Additional meetings are arranged as appropriate to consider Group strategy, acquisition and disposal strategies, internal controls and risk analysis, and the annual budget. Day-to-day management of the Group is delegated to the management team, which comprises the executive directors and operating board.

### Board committees

The Board has established three committees each consisting of, as a minimum, the three non-executive directors. Each committee has defined terms of reference.

The Audit Committee is chaired by David Gutteridge, and meets at least twice a year with the executive directors and representatives of the external auditors in attendance. The Committee's duties include the review of interim and preliminary announcements, compliance with accounting standards, consideration of the Annual Report and Accounts prior to submission to the Board for approval, the appointment and remuneration of the external auditors together with their scope of work and consideration of their findings, and the review of internal controls.

The Remuneration Committee is chaired by John Paterson, and is referred to below.

The Nominations Committee comprises the non-executive directors and Christopher Winn, and is responsible for making recommendations on the appointment of additional directors and for reviewing the composition of the Board and the Board committees. It is chaired by Christopher Winn.

### Directors' remuneration

As its shares are traded on AIM the Company is not obliged to comply with the provisions of the Directors' Remuneration Report Regulations 2002. However, as part of its commitment to best practice, the Company adheres to the principles of good governance when deciding remuneration strategy and has delegated responsibility for remuneration policy to the Remuneration Committee.

The Remuneration Committee meets at least once a year, and its broad responsibility is to ensure the remuneration packages of the executive directors and senior management are competitive and designed to attract, retain and motivate individuals of high quality. The Remuneration Committee is made up of the three non-executive directors, and is chaired by John Paterson.

The policy of the Group on directors' remuneration is to provide competitive packages that reward Group and individual performance. Remuneration packages comprise a basic salary, an annual performance-related bonus, pension contributions and other benefits. Where appropriate, participation in share incentive plans is also offered.

Details of directors' remuneration are provided in note 7 to the accounts. Details of options granted under share incentive plans are set out in the Directors' report.

### Internal control

The Board is responsible for establishing and maintaining the Group's system of internal controls. Control systems are designed to meet the particular needs of the Group and to address the risks to which the Group is exposed. By their nature, internal control systems are designed to manage rather than eliminate risk, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board has adopted a policy of continuous improvement by regular review for assessing the adequacy of internal controls.

### Shareholder communication

The directors seek to visit institutional shareholders at least twice a year. In addition all shareholders are welcome to attend the Annual General Meeting, where there is an opportunity to question the directors as part of the agenda, or more informally after the meeting. Communication with shareholders is seen as an important part of the Board's responsibilities and care is taken to ensure that all price sensitive information is made available to all shareholders at the same time.

### Funding

During the year, the Group has generated earnings before interest, tax, depreciation, amortisation and share-based payment charges ('EBITDA') of £3.56m (2010: £3.47m), operating cash flows of £3.43m (2010: £3.37m) and has repaid £1.18m of bank debt. Taking account of cash balances at the year end, net debt has reduced from £7.84m to £6.72m.

Improvements in profitability and reductions in the level of net debt achieved in the last two years enabled the Group to refinance its term debt in 2011. The improved terms of the HSBC facility will provide additional funds enabling Sanderson to continue to add to its portfolio of intellectual property and in turn grow revenue in future periods.

The Group's trading results have been on or near to forecast since 2009. Forecasts prepared by the Board extend to September 2014 and take account of reasonably possible changes in trading performance that may arise as a result of the Group's principal risks as detailed in the Financial review. The forecasts illustrate that the Group should be able to operate within the recently negotiated available bank facility and accordingly the directors have prepared the accounts on a going concern basis.

# Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2011.

### International Financial Reporting Standards

These Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

### Principal activities

The Company acts as a holding company. The Group's principal activity is the supply of IT services and software.

### Business review

A comprehensive analysis of the Group's development and performance is contained in the Chairman's statement and Financial review. This analysis includes comments on the position of the Group at the end of the financial period, consideration of the principal risks and uncertainties facing the business and the key performance indicators which are monitored in relation to the achievement of the strategy of the business.

Information on the financial risk management strategy of the Group and of the exposure of the Group to currency risk, interest rate risk, price risk, credit risk and liquidity risk is set out in note 22 to the accounts.

### Dividend

A final dividend of 0.35 pence per share was paid on 25 March 2011 (2010: 0.20 pence) relating to the financial year ended 30 September 2010. An interim dividend of 0.30 pence per ordinary share was paid on 19 August 2011 (2010: 0.25 pence per share) in respect of the financial year ended 30 September 2011. The directors propose the payment of a final dividend in respect of the year ended 30 September 2011 of 0.45 pence per ordinary share. The final dividend is subject to shareholder approval at the Annual General Meeting on 15 March 2012 and, if approved, will be paid on 30 March 2012 to shareholders on the register at the close of business on 9 March 2012.

### Employees

The Group's policy of providing employees with information about the Group has continued and regular meetings are held between management and employees to allow exchanges of information and ideas. The Group continues to consider ways to encourage the involvement of employees in the Group's performance.

The Group gives every consideration to applications for employment by disabled persons where the requirements of the job may be adequately filled by a disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

### Directors and directors' interests

The directors who held office at the end of the financial year are set out below, together with their interests in the ordinary shares of the Company according to the register of directors' interests:

| | Interest at end of year | Interest at start of year |
|---|---|---|
| | Ordinary shares of 10 pence | Ordinary shares of 10 pence |
| Christopher Winn | 13,000,000 | 13,000,000 |
| Adrian Frost | 61,000 | 61,000 |
| Philip Kelly* | 20,000 | 20,000 |
| David Gutteridge* | 325,000 | 125,000 |
| John Paterson* | 90,000 | 90,000 |

* Denotes non-executive directors.

The following options to purchase ordinary shares in the Company have been granted to directors of the Company:

| | In issue at year end | Exercise price | Performance conditions | Earliest exercise date | Expiry date |
|---|---|---|---|---|---|
| During the financial year ended 30 September 2005: | | | | | |
| Christopher Winn | 199,980 | 54.25p | Yes | 01/10/2007 | 30/09/2014 |
| Christopher Winn | 910,972 | 50p | Yes | 01/10/2007 | 15/12/2014 |
| Christopher Winn | 910,972 | £1* | Yes | 01/10/2007 | 15/12/2011 |
| Adrian Frost | 175,421 | 57p | Yes | 01/10/2007 | 30/09/2014 |
| Adrian Frost | 215,579 | 56p | Yes | 01/10/2007 | 15/12/2014 |
| Adrian Frost | 215,579 | £1* | Yes | 01/10/2007 | 15/12/2011 |
| During the financial year ended 30 September 2009: | | | | | |
| Adrian Frost | 200,000 | 9.5p | Yes | 03/08/2012 | 03/08/2017 |

* Total amount payable on each occasion of exercise.

*Notes relating to options to purchase ordinary shares*

The options in respect of Mr Winn were awarded on admission to AIM on 16 December 2004. With the exception of the option to purchase 200,000 ordinary shares awarded on 3 August 2009, the options in respect of Mr Frost were awarded on 27 May 2005 following his appointment to the Board. Options with an exercise price of £1 per each occasion of exercise were granted under a Long Term Incentive Plan ('LTIP').

None of the directors who held office at the end of the financial year had any other disclosable interest in the shares of Sanderson Group plc or any other Group companies.

**Substantial shareholdings**

The Company has been advised of the following notifiable interests in more than 3% of its ordinary share capital as at the date of this report.

| | Number of shares | % |
|---|---|---|
| Christopher Winn | 13,000,000 | 29.87 |
| AXA Framlington Investment Management | 3,996,303 | 9.18 |
| Hargreave Hale & Co | 3,165,000 | 7.27 |
| ISIS Ep LLP | 3,000,075 | 6.89 |
| Chelverton Asset Management | 2,730,000 | 6.27 |
| Unicorn Asset Management | 1,540,200 | 3.54 |

**Policy and practice on payment of creditors**

Whilst the Company does not follow any specified code or standard of payment practice it does endeavour to ensure all payments are made within mutually agreed credit terms.

At the year end, the Company had no trade creditors (2010: nil).

**Research and development**

The Group undertakes a continuous programme of development expenditure, both as part of a long-term development programme and in response to specific customer or market requirements. Development expenditure is capitalised only when the end product is technically and commercially feasible and when sufficient resource is available to complete the development. All other development expenditure, including projects on which revenue of an amount equal to or greater than the cost of development has been generated in the same period as that in which the cost is incurred, is recognised in the income statement as an expense.

# Directors' report continued

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

The directors are responsible for preparing the Annual 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 the directors have elected to prepare Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Parent company financial statements continue to be prepared under UK GAAP, as permitted by the Companies Act 2006. 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 the Group and of the profit or loss of the Company and the Group for the 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 IFRSs or UK 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 Group will continue in business.

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 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.

In so far as each of the directors is aware:

- There is no relevant audit information of which the Company's auditors are unaware; and
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

### Auditors

Grant Thornton UK LLP are willing to continue in office. In accordance with s489(4) of the Companies Act 2006 a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

The Grant Thornton UK LLP audit partner will have served in that capacity for five years prior to the commencement of the audit of the financial statements for the year ending 30 September 2012. This period will exceed the period normally recommended to ensure independence but is subject to the Audit Committee's discretion to extend for a further year.

The Audit Committee has determined that it is in the best interest of audit quality that the current audit partner should continue in his role for a further year. The Audit Committee is satisfied that by the application of safeguards, the extension does not undermine the objectivity and independence of the auditor. Grant Thornton UK LLP has agreed to this extension which will bring the total period served by the audit engagement partner to six years.

By order of the Board

**Adrian Frost**
Secretary
Sanderson Group plc
Sanderson House
Manor Road
Coventry
CV1 2GF
28 November 2011

# Report of the independent auditors to the members of Sanderson Group plc

We have audited the Group financial statements of Sanderson Group plc for the year ended 30 September 2011 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

### Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities in respect of the Directors' report and the financial statements set out on page 20, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

### Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Separate opinion in relation to IFRSs

As explained in note 2 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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.

### Other matter

We have reported separately on the parent company financial statements of Sanderson Group plc for the year ended 30 September 2011.

**David Munton**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
28 November 2011

# Consolidated income statement

for the year ended 30 September 2011

| | Note | Total 2011 £000 | Total 2010 £000 |
|---|---|---|---|
| **Revenue** | 4 | **26,423** | 26,999 |
| Cost of sales | | **(7,470)** | (8,366) |
| **Gross profit** | | **18,953** | 18,633 |
| Technical and development costs | | **(8,441)** | (8,813) |
| Administrative and establishment expenses | | **(5,899)** | (5,854) |
| Sales and marketing costs | | **(2,526)** | (2,277) |
| **Results from operating activities** | | **2,087** | 1,689 |
| | | | |
| **Results from operating activities before adjustments in respect of the following:** | 6 | **3,302** | 3,093 |
| Amortisation of acquisition-related intangibles | | **(1,168)** | (1,381) |
| Share-based payment charges | 5 | **(47)** | (23) |
| **Results from operating activities** | 4 | **2,087** | 1,689 |
| | | | |
| Finance income | 8 | **437** | 391 |
| Finance expenses | 9 | **(1,451)** | (1,578) |
| Exceptional finance expense | 9 | **(379)** | — |
| Movement in fair value of derivative financial instrument | | **55** | 4 |
| **Profit before taxation** | | **749** | 506 |
| Taxation | 10 | **55** | (234) |
| **Profit for the year attributable to equity holders of the parent** | | **804** | 272 |
| **Earnings per share** | | | |
| **From continuing operations** | | | |
| Basic earnings per share | 12 | **1.9p** | 0.6p |
| Diluted earnings per share | 12 | **1.7p** | 0.6p |

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

# Consolidated statement of comprehensive income

for the year ended 30 September 2011

| | Note | 2011 £000 | 2010 £000 |
|---|---|---|---|
| **Profit for the year** | | **804** | 272 |
| **Other comprehensive income** | | | |
| Defined benefit pension plan actuarial losses | 25 | **(429)** | (2,163) |
| Deferred taxation effect of defined benefit pension plan items | 15 | **116** | 606 |
| **Other comprehensive income for the year, net of taxation** | | **(313)** | (1,557) |
| **Total comprehensive income/(expense) attributable to equity holders of the parent** | | **491** | (1,285) |

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

# Consolidated statement of financial position

at 30 September 2011

| | Note | 2011 £000 | 2010 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **746** | 430 |
| Intangible assets | 14 | **32,066** | 32,997 |
| Deferred tax assets | 15 | **1,614** | 1,721 |
| | | **34,426** | 35,148 |
| **Current assets** | | | |
| Inventories | | **162** | 321 |
| Trade and other receivables | 16 | **7,124** | 7,669 |
| Income tax receivable | | **–** | 81 |
| Cash and cash equivalents | | **619** | 248 |
| | | **7,905** | 8,319 |
| **Current liabilities** | | | |
| Bank loans and borrowings | 17 | **(975)** | (1,644) |
| Trade and other payables | 19 | **(4,922)** | (5,043) |
| Derivative financial instrument | 22 | **(430)** | (485) |
| Income tax payable | | **(53)** | – |
| Deferred income | | **(6,683)** | (7,098) |
| | | **(13,063)** | (14,270) |
| **Net current liabilities** | | **(5,158)** | (5,951) |
| **Total assets less current liabilities** | | **29,268** | 29,197 |
| **Non-current liabilities** | | | |
| Bank loans and borrowings | 17 | **(6,360)** | (6,440) |
| Pension obligations | 25 | **(3,994)** | (3,779) |
| Deferred tax liabilities | 15 | **(439)** | (759) |
| | | **(10,793)** | (10,978) |
| **Net assets** | | **18,475** | 18,219 |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | 20 | **4,338** | 4,338 |
| Share premium | 21 | **4,178** | 4,178 |
| Retained earnings | 21 | **9,959** | 9,703 |
| **Total equity** | | **18,475** | 18,219 |

These financial statements were approved by the Board of directors on 28 November 2011 and were signed on its behalf by:

**Christopher Winn**
Director

**Company Registration Number**
4968444

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

# Consolidated statement of changes in equity

for the year ended 30 September 2011

| | Share capital £000 | Share premium £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|
| At 1 October 2010 | 4,338 | 4,178 | 9,703 | 18,219 |
| Dividend paid | — | — | (282) | (282) |
| Share-based payment charge | — | — | 47 | 47 |
| Transactions with owners | — | — | (235) | (235) |
| Profit for the year | — | — | 804 | 804 |
| *Other comprehensive income:* | | | | |
| Actuarial result on employee benefits | — | — | (429) | (429) |
| Deferred tax on above | — | — | 116 | 116 |
| Total comprehensive expense | — | — | 491 | 491 |
| **At 30 September 2011** | **4,338** | **4,178** | **9,959** | **18,475** |

for the year ended 30 September 2010

| | Share capital £000 | Share premium £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|
| At 1 October 2009 | 4,338 | 15,178 | 160 | 19,676 |
| Dividend paid | — | — | (195) | (195) |
| Share-based payment charge | — | — | 23 | 23 |
| Capital reconstruction* | — | (11,000) | 11,000 | — |
| Transactions with owners | — | (11,000) | 10,828 | (172) |
| Profit for the year | — | — | 272 | 272 |
| *Other comprehensive income:* | | | | |
| Actuarial result on employee benefits | — | — | (2,163) | (2,163) |
| Deferred tax on above | — | — | 606 | 606 |
| Total comprehensive expense | — | — | (1,285) | (1,285) |
| At 30 September 2010 | 4,338 | 4,178 | 9,703 | 18,219 |

* Court approval for the re-designation of £11,000,000 on the share premium account as distributable reserves was received on 31 March 2010.

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

# Consolidated statement of cash flows

for the year ended 30 September 2011

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year after taxation | 804 | 272 |
| *Adjustments for:* | | |
| Amortisation of intangible assets | 1,230 | 1,495 |
| Depreciation | 196 | 260 |
| Loss on disposal of assets | 5 | — |
| Share-based payment charge | 47 | 23 |
| Net finance expense | 1,338 | 1,183 |
| Income tax | (55) | 234 |
| **Operating cash flow before changes in working capital and provisions** | 3,565 | 3,467 |
| Movement in trade and other receivables | 545 | (1,527) |
| Movement in inventories | 159 | 40 |
| Movement in trade and other payables | (535) | 1,648 |
| Payments to defined benefit pension scheme | (305) | (258) |
| **Cash generated from operations** | 3,429 | 3,370 |
| Interest paid | (591) | (1,245) |
| Income tax received | 92 | 541 |
| **Net cash flow from operating activities** | 2,930 | 2,666 |
| **Cash flow from investing activities** | | |
| Purchase of property, plant and equipment | (517) | (199) |
| Development expenditure capitalised | (299) | (152) |
| **Net cash flow from investing activities** | (816) | (351) |
| **Cash flow from financing activities** | | |
| Repayment of bank borrowing | (8,577) | (1,459) |
| Inception of new bank borrowing | 7,400 | — |
| Fees paid in respect of change of banker | (275) | — |
| Repayment of finance lease principal | (9) | (12) |
| Equity dividends paid | (282) | (195) |
| **Net cash flow from financing activities** | (1,743) | (1,666) |
| Net increase in cash and cash equivalents | 371 | 649 |
| Cash and cash equivalents at beginning of year | 248 | (401) |
| **Cash and cash equivalents at the end of the year** | 619 | 248 |

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

# Notes to the consolidated financial statements

forming part of the financial statements

## 1. Reporting entity

Sanderson Group plc is a company domiciled in the United Kingdom. The address of the Company's registered office is Sanderson House, Manor Road, Coventry, CV1 2GF. The consolidated financial statements for the year ended 30 September 2011 comprise the results of the Company and its subsidiary undertakings (together referred to as the Group). The Group is primarily involved in the development and supply of IT software and services. The Company's shares are traded on the Alternative Investment Market of the London Stock Exchange.

## 2. Basis of preparation

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Group has applied all accounting standards and interpretations as issued by the International Accounting Standards Board and International Accounting Standards Interpretation Committee effective at the time of preparing the financial statements.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP. These parent company statements appear after the notes to the consolidated financial statements.

The financial statements have been prepared on a going concern basis. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance that may arise as a result of current economic conditions and other risks faced by the Group, show that the Group should be able to operate within the level of its current facility. The current facility was negotiated in July 2011, with term debt repayments and financial covenants set at a level commensurate with current levels of trading. This facility expires in July 2015.

### Basis of measurement

The financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below.

### Functional and presentation currency

The consolidated financial statements are presented in sterling, which is the functional currency of the Company.

### Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised. Information about significant areas of estimation and critical judgements that have the most significant impact on the financial statements are described in the following notes:

*Estimates*

*Note 14: Measurement of intangible assets:* In testing for impairment of intangible assets, management have made certain assumptions concerning the future development of the business that are consistent with the annual budget and business plan. Should these assumptions regarding the growth in profitability be unfounded then it is possible that intangible assets included in the balance sheet could be impaired. Management are confident that this will not be the case. The Group has a history of retaining customers, with the average length of customer relationship in excess of ten years. The time and resources required by organisations to change enterprise systems is significant and therefore discourages change. The Group therefore believes the existing business will continue to generate revenues, profits and positive cash flows for many years. Accordingly, when assessing the recoverable value attributable to goodwill and other intangible assets, management have estimated cash flows attributable to existing businesses and extrapolated forward budgets for the financial year ending 30 September 2012 in line with the average length of customer relationships. The results of this review are disclosed in note 14.

*Note 25: Measurement of defined benefit pension obligations:* The Group's interests in a defined benefit pension scheme have been accounted for in accordance with IAS 19 'Employee Benefits'. The main area of judgement is the valuation of pension scheme liabilities, which represent the net present value of future pension obligations. These calculations are performed by the scheme actuary, with whom the directors have agreed the underlying assumptions to be applied. The key assumptions are rates of increases in pension benefits, mortality rates, inflation and the discount rate applied to produce the net present value. The discount rate is derived from market rates on AA corporate bonds at the balance sheet date. A defined benefit pension scheme asset is recognised where the scheme rules give the Group an unconditional right to realise the benefit of the asset at some point in the future, or on settlement of the scheme.

**2. Basis of preparation** continued

*Note 16: Measurement of trade receivables:* Management assess the likely recoverability of amounts invoiced to customers on the basis of the credit worthiness of customers and the age of debts at the period end. The directors consider the carrying amount of trade receivables approximates to their fair value.

*Judgements*

*Note 14: Intangible assets:* Development expenditure is recognised on the balance sheet when certain criteria are met, as described more fully in the accounting policy on the treatment of research and development expenditure. Management use their judgement in assessing development projects against the criteria.

*Note 15: Deferred tax:* The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties.

**3. Accounting policies**

**Adopted IFRS not yet applied**

The following Adopted IFRS were available for early application but have not been applied by the Group in these financial statements:

- IFRS 9 Financial Instruments (effective 1 January 2013)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
- IFRS 11 Joint Arrangements (effective 1 January 2013)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 19 Employee Benefits (Revised June 2011) (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2013)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013)
- Disclosures — Transfers of Financial Assets — Amendments to IFRS 7 (effective 1 July 2011)
- Deferred Tax: Recovery of Underlying Assets, Amendments to IAS 12 Income Taxes (effective 1 January 2012)
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters — Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (effective 1 July 2011)
- Presentation of Items of Other Comprehensive Income — Amendments to IAS 1 (effective 1 July 2012)

Improvements to certain IFRS were also available for early adoption but have not been applied:

- IFRIC 14 & IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

**Basis of consolidation**

The consolidated financial information comprises a consolidation of the accounts of the Company and its subsidiary undertakings at the statement of financial position date. The results of subsidiary undertakings acquired during the financial year are included from the date of acquisition. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group balances and transactions including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

**Property, plant and equipment**

Property, plant and equipment are held at cost less accumulated depreciation and impairment charges.

Depreciation is calculated to write-off the cost of property, plant and equipment less the estimated residual value on a straight-line basis over the expected useful economic life of the assets concerned. Estimated residual values are revised annually.

The annual rates used are:

- leasehold buildings — over life of the lease
- plant and equipment — 15%–33⅓%

## Leases

Assets financed by leasing arrangements, which give rights approximating to ownership, are treated as if they had been purchased outright and are capitalised and depreciated over the shorter of the estimated useful life of the assets and the period of the leases. The capital element of future rentals is treated as a liability and the interest element is charged against profits in proportion to the balances outstanding. The rental costs of all other leased assets are charged against profits on a straight-line basis over the lease-term.

## Inventories

Inventories are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- goods for resale — purchase cost on a 'first-in/first-out' basis;
- work in progress — cost of direct materials and labour and a proportion of overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale.

## Accounting for financial assets

The Group has financial assets in the following categories:

- loans and receivables
- financial assets at fair value through profit or loss

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expense is recognised in the income statement or statement of other comprehensive income. All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets other than those categorised as at fair value through profit or loss are recognised at fair value plus transaction costs. Financial assets categorised as at fair value through profit or loss are recognised initially at fair value with transaction costs expensed through the income statement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value is recognised in profit or loss. Sanderson Group plc's trade and most other receivables fall into this category of financial instruments.

Significant receivables are considered for impairment on a case-by-case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics, if any. The percentage of the write-down is then based on recent historical counterparty default rates for each identified group.

## Accounting for financial liabilities

The Group's financial liabilities include borrowings and trade and other payables which are measured at amortised cost using the effective interest rate method.

Financial liabilities recorded at fair value through the income statement are initially recognised, net of issue costs, when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the income statement line 'movement in fair value of derivative financial instrument.' Financial liabilities are subsequently measured at amortised cost using the effective interest method.

## Derivative financial instruments

The Group has derivative financial instruments to reduce its exposure to interest rate fluctuations. These are carried at fair value through profit or loss. The Group does not hedge account for these items but reports the fair value as a financial asset or financial liability as appropriate at the balance sheet date.

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists. The Group has interest rate swap contracts that fall into this category.

3. **Accounting policies** continued

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits and bank overdrafts where they form an integral part of the Group's cash management. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs. The only equity instrument applicable to the Group is its issued share capital.

Retained earnings includes all current and prior period retained profits and losses.

Share premium includes any premium received on the issue of share capital. Transaction costs associated with the issuing of shares are deducted from share premium, net of any related tax benefits.

**Foreign currency**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

**Taxation**

Tax on the result for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in the consolidated statement of comprehensive income, in which case it is recognised as a separate line item in the same statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which an asset can be utilised. Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the year end date.

**Revenue**

Revenue comprises the fair value of sales of licences, support and maintenance contracts, training, consulting and implementation services and hardware. Revenue excludes both value added tax and transactions between Group companies.

Revenues are recognised on the basis of the performance of contractual obligations and to the extent that the right to consideration has been earned. In cases where a single contractual arrangement involves the sale of licences, support, maintenance and services the consideration received is allocated to the components of the arrangement on a relative fair value basis.

Licence fees are recognised upon the provision of software to the customer, providing that the payment terms are unconditional, full payment is contractually binding, collection is reasonably certain and there are no material contract conditions or warranties. Revenue from the provision of professional services including support, maintenance, training and consultancy services is recognised as the services are performed. Hardware sales are recognised on delivery. Maintenance and support revenues are recognised evenly over the period to which they relate.

**Goodwill**

Goodwill arising on acquisition of subsidiaries and businesses is capitalised as an asset and represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Identifiable net assets are those which are capable of being sold separately or which arise from legal rights regardless of whether those legal rights are separable.

## Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved or paid.

## Borrowing costs

Arrangement fees and other costs incurred directly as a result of borrowing arrangements are amortised over the committed period of the borrowing to which they relate.

## Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development activity is recognised on the consolidated statement of financial position if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- the Group intends to complete the development of the asset and has the ability to do so;
- the Group has the technical and financial resources to complete the asset and exploit the economic benefits arising from it;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be reliably measured.

Internally generated intangible assets are amortised over their useful economic life, typically between three and five years. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

## Other intangible assets

Intangible assets separately purchased, such as intellectual property rights, are capitalised at cost and amortised on a straight-line basis over their useful economic life. Intangible assets acquired through a business combination are measured at fair value and amortised over their useful economic lives.

The following periods are used when assessing useful economic lives for purposes of calculating amortisation charges:

| | |
|---|---|
| Intellectual property rights | 3–10 years |
| Customer relationships | 3–10 years |
| Distributor agreements | the unexpired period of the agreement |

## Impairment

The carrying amount of the Group's assets, other than inventories and deferred tax assets (see accounting policies above), are reviewed at each year end date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately. Impairment losses in respect of goodwill cannot be reversed.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets of the unit (group of units) on a pro rata basis.

## 3. Accounting policies continued

### Pension benefits

The Group operates defined contribution pension schemes and a subsidiary company is the principal employer to a closed defined benefit scheme. The Group's net obligation in respect of the defined benefit scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in prior periods; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is based on the annualised yield on AA credit related corporate bonds. The calculation is performed by a qualified actuary. Actuarial gains and losses are recognised immediately through the statement of comprehensive Income.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the consolidated income statement as incurred.

### Share-based payments

The equity settled share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured using the Black–Scholes model at grant date and spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options expected to vest. Deferred taxation is recognised over the vesting period.

### Segmental reporting

IFRS 8 requires the identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker ('CODM'). The CODM has been determined to be the executive directors.

The Group has two main operating divisions: multi-channel retail and manufacturing. These two divisions represent the Group's reportable segments under IFRS 8. Each segment has a manager who is directly accountable to the CODM.

Each segment is managed separately as the characteristics of the markets served differ. All inter-segment transfers take place on an arms-length basis. Accounting policies used for reporting the results of segments are the same as those adopted in preparing the financial statements of the Group. The activities of, and products and services offered by the segments are described in the Chairman's statement.

The Group operates a number of bank accounts including certain accounts specific to shared operations. Whilst information contained in the Income statement can be allocated between divisions certain balance sheet items, such as cash balances cannot be so allocated. For this reason, the cash and cash equivalents figure shown in note 4 to the financial statements does not correspond with the cash and cash equivalents figure of the Group disclosed in the consolidated statement of financial position. Bank balances in respect of shared operations are included in unallocated assets and liabilities.

## 4. Segmental reporting

The Group is managed as two separate divisions, providing IT solutions and associated services to the manufacturing and multi-channel retail sectors. Substantially all revenue is generated within the UK. The information provided to the CODM is analysed between the divisions as follows:

| | Manufacturing | | Multi-Channel | | Total | |
|---|---|---|---|---|---|---|
| | **2011 £000** | 2010 £000 | **2011 £000** | 2010 £000 | **2011 £000** | 2010 £000 |
| Revenue – external customers | **6,145** | 5,832 | **20,278** | 21,167 | **26,423** | 26,999 |
| Operating profit before amortisation* and share-based payment charges | **920** | 836 | **2,382** | 2,257 | **3,302** | 3,093 |
| Amortisation of acquisition–related intangibles | **—** | — | **(1,168)** | (1,381) | **(1,168)** | (1,381) |
| Share-based payment charges | **(8)** | (5) | **(39)** | (18) | **(47)** | (23) |
| Operating profit | **912** | 831 | **1,175** | 858 | **2,087** | 1,689 |
| Net finance expense | | | | | **(1,338)** | (1,183) |
| Profit before taxation | | | | | **749** | 506 |
| **Analysis of items contained within the statement of financial position** | | | | | | |
| Property, plant and equipment | **70** | 100 | **676** | 330 | **746** | 430 |
| Intangible assets | **11,360** | 11,228 | **20,706** | 21,769 | **32,066** | 32,997 |
| Inventory | **18** | 18 | **144** | 303 | **162** | 321 |
| Cash and cash equivalents | **207** | 734 | **934** | 922 | **1,141** | 1,656 |
| Trade and other receivables | **1,689** | 1,319 | **5,435** | 6,350 | **7,124** | 7,669 |
| Total assets | **13,344** | 13,399 | **27,895** | 29,674 | **41,239** | 43,073 |
| Trade and other payables | **(1,431)** | (1,266) | **(3,491)** | (3,777) | **(4,922)** | (5,043) |
| Deferred income | **(2,049)** | (1,721) | **(4,634)** | (5,377) | **(6,683)** | (7,098) |
| Total liabilities | **(3,480)** | (2,987) | **(8,125)** | (9,154) | **(11,605)** | (12,141) |
| Allocated net assets | **9,864** | 10,412 | **19,770** | 20,520 | **29,634** | 30,932 |
| Other unallocated assets and liabilities | | | | | **(11,159)** | (12,713) |
| Net assets | | | | | **18,475** | 18,219 |

* of acquisition-related intangibles.

The Group's assets are held in the United Kingdom. No one customer accounts for more than 10% of the sales of either division. Included within other unallocated assets and liabilities are bank overdrafts totalling £0.522m (2010: £1.408m) in respect of certain shared operations. Bank balances in respect of shared operations cannot be allocated between operating divisions.

## 5. Share-based payments

The Group operates an HMRC approved executive management incentive plan (EMI), an unapproved share option plan and a Long Term Incentive Plan ('LTIP'). Details of the total number of shares under option and conditions on qualification and exercise are set out below:

| Grant date | Employees entitled | Number of options | Performance conditions | Exercise price (p) | Earliest exercise date | Expiry date |
|---|---|---|---|---|---|---|
| 16/12/2004 | Management | 926,639 | Earnings per share growth | 50.00 | 01/10/2007 | 15/12/2014 |
| 16/12/2004 | Management | 370,013 | Earnings per share growth | 54.25 | 01/10/2007 | 30/09/2014 |
| 16/12/2004 | Management | 1,417,559 | TSR† target | 00.00* | 01/10/2007 | 15/12/2011 |
| 27/05/2005 | Management | 215,579 | Earnings per share growth | 56.00 | 01/10/2007 | 15/12/2014 |
| 27/05/2005 | Management | 175,421 | Earnings per share growth | 57.00 | 01/10/2007 | 30/09/2014 |
| 27/05/2005 | Management | 215,579 | TSR† target | 00.00* | 01/10/2007 | 15/12/2011 |
| 04/08/2009 | Management | 1,025,000 | ‡ | 09.50 | 03/08/2012 | 03/08/2016 |
| 21/05/2010 | Management | 1,050,000 | ‡ | 23.00 | 21/05/2013 | 21/05/2017 |
| 05/01/2011 | Management | 285,000 | ‡ | 27.50 | 05/04/2014 | 05/01/2021 |
| 29/06/2011 | Management | 675,000 | ‡ | 30.00 | 29/06/2014 | 29/06/2018 |
| | | 6,355,790 | | | | |

* Options granted under the LTIP have an exercise price of £1 on each occasion of exercise. Challenging targets were set in respect of total shareholder return compared to a group of comparator companies.

† Total Shareholder Return.

‡ Performance conditions relating to options issued after 2005 have included targets based on operating profit, growth in earnings per share and TSR.

The number and weighted average exercise price of share options are as follows:

| | **2011 Weighted average exercise price** | **2011 Number of options (number)** | 2010 Weighted average exercise price | 2010 Number of options (number) |
|---|---|---|---|---|
| Outstanding at start of year | **27.6p** | **6,505,226** | 28.9p | 5,455,226 |
| Granted during the year | **29.3p** | **960,000** | 23.0p | 1,050,000 |
| Forfeited during the year | **(52.0)p** | **(1,109,436)** | — | — |
| Outstanding at end of the year | **23.8p** | **6,355,790** | 27.6p | 6,505,226 |
| Exercisable at end of the year | **26.6p** | **3,320,790** | 33.0p | 4,430,226 |

Options outstanding at 30 September 2011 have exercise prices in the ranges 0.00p to 57.00p per share. The weighted average contractual life of the options is 3.8 years (2010: 4.1 years).

On 30 September 2011 the closing share price of Sanderson Group plc was 27p. During the year ending on that date the closing share price varied in the range 22p–39.50p.

### Fair value assumptions of share-based payments

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of fair value is measured using the Black–Scholes model. Details of the fair value of share options granted in the period and the preceding period, together with the assumptions used in determining the fair value are summarised below:

| | 2011 | 2010 |
|---|---|---|
| Weighted average share price at date of grant (pence) | 29.0 | 23.0 |
| Weighted average exercise price (pence) | 29.0 | 23.0 |
| Weighted average contractual life (years) | 5 | 3.5 |
| Weighted average expected volatility | 30% | 50% |
| Weighted average expected dividend yield | 2.15 | 0.0 |
| Weighted average risk free interest rate | 5.0 | 1.4 |
| Weighted average fair value of options granted (pence) | 8.0 | 9.0 |

The volatility assumption, measured at the standard deviation of expected share price movements, is based on a statistical analysis of historic movements over a two year period ending on the date of grant.

### Charge to the income statement

The charge to the income statement comprises:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Share-based payment charges | 47 | 23 |

## 6. Expenses and auditors' remuneration

Included in the income statement are the following items:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Auditors' remuneration: | | |
| Audit of these financial statements | 10 | 10 |
| Amounts received by auditors and their associates in respect of: | | |
| Audit of financial statements of subsidiaries pursuant to legislation | 43 | 35 |
| Taxation advice | 26 | 1 |
| Depreciation and other amounts written off property, plant & equipment: | | |
| Owned | 196 | 244 |
| Leased | – | 16 |
| Amortisation of acquisition-related intangible assets | 1,168 | 1,381 |
| Amortisation of development costs | 62 | 114 |
| Aggregate charge against income in respect of research and development | 2,085 | 2,114 |
| Cost of inventory recognised as an expense | 7,470 | 8,366 |
| Rentals payable under plant and machinery operating leases | 74 | 49 |
| Leasehold property rentals | 551 | 526 |

The audit fee relating to the parent company is borne by a subsidiary undertaking. The aggregate charge in respect of research and development represents the total cost incurred during the year, less amounts capitalised in accordance with IAS 38: Intangible Assets. Cost of inventory represents the cost of third party products provided to customers in conjunction with Sanderson's own proprietary software and services.

## 7. Personnel expenses

The average number of persons employed by the Group during the period was as follows:

| | **2011 number** | 2010 number |
|---|---|---|
| Technical | **198** | 215 |
| Sales and marketing | **32** | 33 |
| Administrative | **30** | 29 |
| | **260** | 277 |

The aggregate payroll costs of the persons employed, including directors, were as follows:

| | **2011 £000** | 2010 £000 |
|---|---|---|
| Wages and salaries | **9,995** | 9,404 |
| Social security costs | **1,127** | 1,026 |
| Contributions to defined contribution pension plans | **343** | 299 |
| Share-based payment expense | **47** | 23 |
| | **11,512** | 10,752 |

Salary costs in respect of the directors of the Company are set out below:

| | Salary or fees £000 | Bonus £000 | Payments to defined contribution pension £000 | Benefits in kind £000 | **Total 2011 £000** | Total 2010 £000 |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Christopher Winn | 237 | 51 | — | 7 | **295** | 382 |
| Adrian Frost | 137 | 41 | 18 | 2 | **198** | 175 |
| **Non-executive directors** | | | | | | |
| David Gutteridge | 30 | — | — | — | **30** | 30 |
| Philip Kelly | 30 | — | — | — | **30** | 30 |
| John Paterson | 30 | — | — | — | **30** | 30 |
| | 464 | 92 | 18 | 9 | **583** | 647 |

The executive directors receive a bonus calculated by reference to Group operating profit and earnings per share measured against targets set by the remuneration committee.

The executive directors are provided with life assurance, permanent health insurance and private medical insurance. The cost to the Group is reflected in the value of benefits in kind disclosed above. Contracts of employment for executive directors include mutual notice periods of 12 months.

The following table provides details of remuneration paid to key management personnel during the year. For purposes of this disclosure, key management personnel are defined as the executive directors, members of the operating board and the non-executive directors.

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| Salaries or fees, including bonuses | 1,028 | 1,323 |
| Benefits in kind | 23 | 28 |
| Pension contributions | 46 | 42 |
| Share-based payment charge | 36 | 21 |
| | 1,133 | 1,414 |

The directors received dividends from the Company by virtue of their shareholdings in the Company, details of which are disclosed in the Directors' report.

No director had a material interest in any contract in relation to the business of the Company or its subsidiary undertakings.

## 8. Finance income

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| Expected return on defined benefit pension scheme assets | 437 | 391 |

## 9. Finance expenses

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| Interest on bank overdrafts and loans | 804 | 1,016 |
| Interest on defined benefit pension scheme obligations | 524 | 421 |
| Loan arrangement fees | 123 | 141 |
| | 1,451 | 1,578 |

In addition to the amounts disclosed above, the Group incurred an exceptional finance expense in 2011 amounting to £379,000 (2010: £nil). The expense represents costs incurred in the early repayment of the previous banking facility advanced by the Royal Bank of Scotland, together with the write off of the unamortised portion of arrangement fees in respect of this facility.

## 10. Taxation

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| **Current tax expense** | | |
| UK corporation tax for the current year | – | – |
| Overseas corporation tax for the current year | 18 | 11 |
| Relating to prior periods | 24 | (117) |
| Total current tax | 42 | (106) |
| **Deferred tax** | | |
| Deferred tax for the current year | (196) | 185 |
| Relating to prior periods | 6 | 124 |
| Relating to change in rate of tax | 93 | 31 |
| Total deferred tax | (97) | 340 |
| Taxation (credited)/charged to the income statement | (55) | 234 |

### 10. Taxation continued

*Reconciliation of effective tax rate*

The current consolidated tax credit for the period is lower (2010: charge greater) than the average standard rate of corporation tax in the UK during the period of 27%. The differences are explained below.

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Profit before taxation | **749** | 506 |
| Tax using the average UK Corporation tax rate of 27% (2010: 28%) | **202** | 142 |
| *Effects of:* | | |
| Expenses not deductible for tax purposes | **92** | 70 |
| Utilisation of losses not previously recognised | **(472)** | (16) |
| Under provision in previous years | **30** | 7 |
| Change in tax rate | **93** | 31 |
| Total tax in income statement | **(55)** | 234 |

The following deferred tax asset has not been recognised, as its future economic benefit is uncertain:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Tax losses not recognised as future economic benefit is uncertain | **1,155** | 1,890 |

The gross value of losses to which the above deferred tax relates amount to £4,529,000 (2010: £6,750,000).

### 11. Dividends

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Interim dividend of 0.30p per share (2010: 0.25p) | **130** | 108 |
| Final dividend relating to previous financial year of 0.35p per share (2010: 0.20p) | **152** | 87 |
| Total dividend for the financial year | **282** | 195 |

A final dividend of 0.45 pence per ordinary share in respect of the financial year ended 30 September 2011 will be proposed at the Annual General Meeting of the Company, expected to be held on 15 March 2012. If approved by shareholders, the total final dividend payment will amount to £195,867.

### 12. Earnings per share

Basic and diluted earnings per share are calculated by dividing the result after tax for the year by the weighted average number of ordinary shares at the end of the year and the diluted weighted average number of ordinary shares at the end of the year respectively. In order to better demonstrate the performance of the Group, an adjusted earnings per share calculation has been presented below which adds back items typically adjusted for by users of the accounts. The calculations for earnings and the number of shares relevant to all of the measures of earnings per share described in the foregoing are set out below.

The calculation of the basic and diluted earnings per share is based on the following data:

| **Earnings:** | 2011 £000 | 2010 £000 |
|---|---|---|
| Result for the year from continuing operations | **804** | 272 |
| Amortisation of acquisition-related intangible assets | **1,168** | 1,381 |
| Exceptional finance charge | **379** | — |
| Share-based payment charges | **47** | 23 |
| Adjusted profit for the year | **2,398** | 1,676 |

| Number of shares: | 2011 number | 2010 number |
|---|---|---|
| In issue at the start of the year | **43,383,946** | 43,383,946 |
| Effect of shares issued in the year | **—** | — |
| Weighted average number of shares at year end | **43,383,946** | 43,383,946 |
| Effect of share options | **3,917,703** | 3,038,637 |
| Weighted average number of shares (diluted) | **47,301,649** | 46,422,583 |

| | 2011 pence | 2010 pence |
|---|---|---|
| Earnings per share: | | |
| Basic | **1.9** | 0.6 |
| Diluted | **1.7** | 0.6 |
| Adjusted earnings per share: | | |
| Basic | **5.5** | 3.9 |
| Diluted | **5.1** | 3.6 |

## 13. Property, plant and equipment

| | Leasehold improvements £000 | Plant and equipment £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 October 2009 | 513 | 784 | 1,297 |
| Additions | — | 199 | 199 |
| Disposals | (380) | (401) | (781) |
| Balance at 30 September 2010 | 133 | 582 | 715 |
| Additions | 325 | 192 | 517 |
| Disposals | (18) | (39) | (57) |
| Balance at 30 September 2011 | 440 | 735 | 1,175 |
| **Depreciation** | | | |
| Balance at 1 October 2009 | 279 | 527 | 806 |
| Charge for the year | 106 | 154 | 260 |
| Disposals | (380) | (401) | (781) |
| Balance at 30 September 2010 | 5 | 280 | 285 |
| Charge for the year | 47 | 149 | 196 |
| Disposals | (18) | (34) | (52) |
| Balance at 30 September 2011 | 34 | 395 | 429 |
| **Net book value** | | | |
| At 30 September 2010 | 128 | 302 | 430 |
| **At 30 September 2011** | **406** | **340** | **746** |

### Leased plant and machinery

At 30 September 2011 no assets were the subject of finance leases (2010: the net carrying amount of leased plant and machinery was £11,434).

## 14. Intangible assets

| | Goodwill £000 | Intellectual property £000 | Customer relationships £000 | Distributor agreements £000 | Development costs* £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 October 2009 | 32,296 | 1,782 | 2,714 | 3,468 | 743 | 41,003 |
| Internally developed | — | — | — | — | 152 | 152 |
| Balance at 30 September 2010 | 32,296 | 1,782 | 2,714 | 3,468 | 895 | 41,155 |
| Internally developed | — | — | — | — | 299 | 299 |
| Balance at 30 September 2011 | 32,296 | 1,782 | 2,714 | 3,468 | 1,194 | 41,454 |
| **Amortisation and impairment** | | | | | | |
| Balance at 1 October 2009 | 2,388 | 1,028 | 1,343 | 1,435 | 469 | 6,663 |
| Amortisation for the year | — | 302 | 385 | 694 | 114 | 1,495 |
| Balance at 30 September 2010 | 2,388 | 1,330 | 1,728 | 2,129 | 583 | 8,158 |
| Amortisation for the year | — | 244 | 247 | 677 | 62 | 1,230 |
| Balance at 30 September 2011 | 2,388 | 1,574 | 1,975 | 2,806 | 645 | 9,388 |
| **Net carrying value** | | | | | | |
| Balance at 30 September 2010 | 29,908 | 452 | 986 | 1,339 | 312 | 32,997 |
| **Balance at 30 September 2011** | **29,908** | **208** | **739** | **662** | **549** | **32,066** |

* Development costs are internally generated.

The amortisation charges are recognised in the following line items in the income statement:

| | **2011 £000** | 2010 £000 |
|---|---|---|
| Administrative and establishment expenses | **1,230** | 1,495 |

### Amortisation and impairment

Intangible assets other than goodwill are amortised over their useful economic lives. In the case of intellectual property, customer relationships and distributor agreements, the useful economic life is assessed by reference to the anticipated minimum period over which the cash-generating unit (CGU) is expected to remain in its present form. This is typically between three and ten years. Intellectual property and customer relationship assets have between one and six years unamortised economic life. Distributor agreements have one year's unamortised economic life. In the case of development costs, amortisation is charged over the period during which the development is expected to generate revenue.

Goodwill, analysed by reference to cash-generating units, is set out below:

| | **2011 £000** | 2010 £000 |
|---|---|---|
| Manufacturing | **11,051** | 11,051 |
| Multi-channel CGU 1; ecommerce, mail order & wholesale distribution | **10,622** | 10,622 |
| Multi-channel CGU 2; high street retail | **8,235** | 8,235 |
| Goodwill | **29,908** | 29,908 |

The Group tests goodwill annually for impairment, or more frequently if an event occurs to warrant a review. The recoverable amounts attributed to each CGU are based on value in use calculations. The key assumptions made in undertaking the value in use calculations involve estimating operating profit growth rates and are set out below. Budgeted profit and cash flow forecasts for the financial year ending 30 September 2012 have been extrapolated for periods of between ten and thirteen years (based on the average length of customer relationship) and used as the basis of the calculations.

Manufacturing CGU: 2% operating profit growth based on management estimates of achievable growth and efficiency improvements. The recent introduction of new products specifically developed by the Group for the manufacturing customer base are expected to enable the growth assumptions to be met.

Multi-Channel CGU 1: 5% operating profit growth. Based on independent estimates of industry specific growth rates where available and previous experience where not. Independent estimates suggest the ecommerce economy is likely to grow at 10% per annum in the short to medium term.

Multi-Channel CGU 2: 3% operating profit growth based on management estimates. Recent and future planned product initiatives provide confidence in the growth assumption being achieved.

Discount rate assumptions are based on management estimates of the internal cost of capital likely to apply over the expected useful economic life of the goodwill and management's view of the risk associated with each CGU. A discount rate of 8% has been applied to the manufacturing CGU and 12% elsewhere.

The directors have formulated profit and cash flow forecasts for the financial year ending 30 September 2012 on the basis of the growth rates set out above. In the event that economic conditions worsen and growth in revenue and gross margin is not achievable, the directors are of the view that judicious management of the Group's cost base will enable the profit growth targets to be achieved. The directors have sensitised the profit and cash flow forecast relating to all CGUs. The Manufacturing CGU profit forecast would need to fall by 15% to trigger an impairment charge. In the case of Multi-Channel, CGU 1 would require a profit reduction of 21% and for CGU 2 the reduction needed to trigger an impairment is 3.5%.

## 15. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following and are disclosed as non-current assets and liabilities in the consolidated statement of financial position:

| | **Assets** | | **Liabilities** | | **Net** | |
|---|---|---|---|---|---|---|
| | **2011 £000** | 2010 £000 | **2011 £000** | 2010 £000 | **2011 £000** | 2010 £000 |
| Property, plant and equipment | **318** | 306 | **—** | — | **318** | 306 |
| Intangible assets | **—** | — | **(439)** | (759) | **(439)** | (759) |
| Share-based payment expense | **40** | 30 | **—** | — | **40** | 30 |
| Trade and other payables | **60** | 152 | **—** | — | **60** | 152 |
| Employee benefits | **998** | 1,020 | **—** | — | **998** | 1,020 |
| Tax losses | **198** | 213 | **—** | — | **198** | 213 |
| | **1,614** | 1,721 | **(439)** | (759) | **1,175** | 962 |

### Movement in deferred tax for the year ended 30 September 2011

| | As at 1 October 2010 £000 | Income statement £000 | Statement of comprehensive income £000 | **As at 30 September 2011 £000** |
|---|---|---|---|---|
| Property, plant and equipment | 306 | 12 | — | **318** |
| Intangible assets | (759) | 320 | — | **(439)** |
| Share-based payment expense | 30 | 10 | — | **40** |
| Trade and other payables | 152 | (92) | — | **60** |
| Employee benefits | 1,020 | (138) | 116 | **998** |
| Tax losses | 213 | (15) | — | **198** |
| | 962 | 97 | 116 | **1,175** |

# Notes to the consolidated financial statements
continued

### 15. Deferred tax assets and liabilities continued
#### Movement in deferred tax for the year ended 30 September 2010

| | As at 1 October 2009 £000 | Income statement £000 | Statement of comprehensive income £000 | As at 30 September 2010 £000 |
|---|---|---|---|---|
| Property, plant and equipment | 291 | 15 | — | 306 |
| Intangible assets | (1,178) | 419 | — | (759) |
| Share-based payment expense | 155 | (125) | — | 30 |
| Trade and other payables | 107 | 45 | — | 152 |
| Employee benefits | 515 | (101) | 606 | 1,020 |
| Tax losses | 806 | (593) | — | 213 |
| | 696 | (340) | 606 | 962 |

A deferred tax asset has been recognised in respect of tax losses reasonably expected to be utilised in the financial year ending 30 September 2012. The amount of the asset recognised has been quantified by reference to forecasts of taxable profits expected to arise. Expenses not allowable in calculating taxable profit, such as amortisation are ignored in assessing the forecast level of taxable profit.

A deferred tax asset of £1,155,000 (2010: £1,890,000) in respect of tax losses has not been recognised, as its future economic benefit is uncertain.

The rate of UK corporation tax is due to change during the financial year ending 30 September 2012. The rate at which deferred tax assets will be utilised has therefore been adjusted, resulting in a charge to the income statement of £93,000 (2010: £31,000).

### 16. Trade and other receivables

| | **2011 £000** | 2010 £000 |
|---|---|---|
| Trade receivables | **5,440** | 5,811 |
| Prepayments and accrued income | **1,684** | 1,858 |
| | **7,124** | 7,669 |

All trade and other receivables are short-term. The directors consider that the carrying amount of trade receivables approximates to their fair value. All trade and other receivables have been reviewed for indications of impairment.

The Group invoices all pre-contracted recurring revenues up to six weeks before the renewal date. Payment terms require the invoices to be paid by the renewal date. Such invoices are only shown as overdue when the invoice remains outstanding after the renewal date has passed. Unless specific agreement has been reached with individual customers, all other invoices are due 30 days after the date of the invoice. The Group's terms and conditions of sale permit the Group to charge interest, at 4% above bank base rates, on all invoices that remain unpaid 30 days after their due date.

Due to the nature of the Group's trade certain customers may delay payment until contractual milestones have been met. Payment terms are not contingent on milestones being met, but an assessment as to the remaining work required to be done and the potential loss of customer goodwill arising from enforcement of contractual payment terms may take place when considering actions to be taken to secure payment. The Group has a good record in respect of invoiced amounts proving difficult to recover and does not ordinarily write off amounts due.

Of the total trade receivables shown above, £1,255,000 (2010: £1,586,000) are past due but not impaired. An analysis of these trade receivables is set out below:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| 0–30 days overdue | 769 | 1,104 |
| 30–60 days overdue | 180 | 129 |
| 60–90 days overdue | 183 | 122 |
| 90+ days overdue | 123 | 231 |
| Total | 1,255 | 1,586 |
| **Movement in impairment provisions:** | | |
| Balance at the beginning of the year | 8 | 13 |
| Impairment losses recognised | 42 | 28 |
| Amounts written off as uncollectible | (16) | (30) |
| Amounts recovered during the year | – | (3) |
| Balance at the end of the year | 34 | 8 |

## 17. Bank loans and other borrowings

| | 2011 £000 | 2010 £000 |
|---|---|---|
| **Current liabilities:** | | |
| Secured bank loans | 925 | 1,635 |
| Accrued interest payable | 50 | – |
| Current portion of obligations under finance leases | – | 9 |
| | 975 | 1,644 |
| **Non-current liabilities:** | | |
| Secured bank loans | 6,360 | 6,440 |

A secured bank loan of £7,400,000 was advanced by HSBC Bank plc under a facility expiring in July 2015. The loan is repayable in quarterly instalments of £231,250 with the balance of £3,700,000 repayable at the end of the term. The carrying value of loans and other borrowings is not materially different from fair value.

HSBC Bank plc holds fixed and floating charges over the whole of the Group's undertakings, property and assets. Interest on borrowings is charged at LIBOR plus 2.9%. The Group has entered into an interest rate swap covering 75% of the capital outstanding under which the effective rate of LIBOR is 3.9%.

Arrangement fees relating to the bank loan have been prepaid and are being amortised through the Income statement over the period of the loan.

## 18. Other interest-bearing loans and borrowings

### Finance lease liabilities

Finance lease liabilities are payable as follows:

| | Minimum lease payments 2011 £000 | Interest 2011 £000 | Principal 2011 £000 | Minimum lease payments 2010 £000 | Interest 2010 £000 | Principal 2010 £000 |
|---|---|---|---|---|---|---|
| Less than one year | – | – | – | 10 | 1 | 9 |

# Notes to the consolidated financial statements
continued

## 19. Trade and other payables

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Trade payables | **2,286** | 2,431 |
| Other taxation and social security | **1,498** | 1,040 |
| Accruals and customer deposits | **1,138** | 1,572 |
| | **4,922** | 5,043 |

All trade and other payables are short-term. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 20. Share capital

| | 2011 number '000 | 2010 number '000 |
|---|---|---|
| **Authorised** | | |
| Equity: 535,000,000 Ordinary shares of 10 pence each | **53,500** | 53,500 |

| | £000 | £000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| Equity: 43,383,946 Ordinary shares of 10 pence each | **4,338** | 4,338 |

Subsequent to the year end, 142,000 ordinary shares of 10 pence each were issued pursuant to the exercise of an option agreement for consideration of 28.75 pence per share, the market value of shares at close of trading on the day prior to issue.

## 21. Capital and reserves

### Reconciliation of movements in capital and reserves

Movements in capital and reserves are set out in the consolidated statement of changes in equity on page 25.

The accumulated amount of current and deferred tax relating to items that are charged or credited directly to equity is a credit of £270,000 (2010: a credit of £154,000).

## 22. Financial instruments disclosure

### Capital risk management

Sanderson Group plc's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide a return to shareholders.

The Group manages its capital through the optimisation of the debt and equity balance and by pricing products and services commensurate with the level of risk. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Group's Audit Committee reviews the capital structure as part of its risk analysis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Following the success in reducing debt levels in recent years, the Group has set a new target for gross debt to equate to no more than 1.5 times earnings before interest, tax, depreciation, amortisation and share-based payment charges ('EBITDA'). Based on the committee's recommendations, the Group is seeking to reduce debt levels in future periods by prioritising cash generated from operations to accelerate capital repayments.

The gearing ratio at the year end is as follows:

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| Debt | **7,335** | 8,084 |
| EBITDA | **3,560** | 3,467 |
| Debt to earnings ratio | **2.06** | 2.33 |

Debt is defined as long and short-term borrowing as detailed in note 17.

The Group is not subject to externally imposed capital requirements, other than the minimum capital requirements and duties regarding serious reduction of capital, as imposed by the Companies Act 2006 on all public limited companies.

### Categories of financial assets and financial liabilities

The Group held the following categories of financial instruments:

| | 2011<br>£000 | 2010<br>£000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including trade and other receivables, cash and cash equivalents) | **7,743** | 7,917 |
| **Financial liabilities** | | |
| Fair value through profit and loss (FVTPL) | **430** | 485 |
| Trade payables and accruals — held at amortised cost | **3,458** | 3,725 |
| Borrowings at amortised cost | **7,335** | 8,084 |
| | **11,223** | 12,294 |

The fair value of the financial instruments set out above is not materially different to the book value.

### Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring both forecast as well as actual cash flows to enable matching of the maturity profiles of financial assets and liabilities. Short-term financing needs are met by working capital facilities.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities. The table includes both interest and principal cash flows. Interest payable has been calculated by reference to the actual rate prevailing and balances outstanding at the balance sheet date.

| | **Current** | | **Non-current** | |
|---|---|---|---|---|
| **2011** | **Within 6 months £000** | **6 to 12 months £000** | **1 to 2 years £000** | **2 to 5 years £000** |
| Bank overdraft and loans | **718** | **702** | **1,356** | **6,220** |
| Trade and other payables | **3,458** | **—** | **—** | **—** |
| | **4,176** | **702** | **1,356** | **6,220** |

| | Current | | Non-current | |
|---|---|---|---|---|
| 2010 | Within 6 months £000 | 6 to 12 months £000 | 1 to 2 years £000 | 2 to 5 years £000 |
| Bank overdraft and loans | 1,182 | 1,140 | 2,072 | 5,779 |
| Finance lease obligations | 7 | 3 | — | — |
| Trade and other payables | 3,725 | — | — | — |
| | 4,914 | 1,143 | 2,072 | 5,779 |

## 22. Financial instruments disclosure continued

The Group's exposure to derivative financial instruments is limited to interest rate swaps for fixed terms that match the duration of the Group's term debt facilities. The derivative financial instruments expire on 31 July 2015. A total credit of £55,000 (2010: credit of £4,000) has been recognised in the income statement in respect of derivative financial instruments.

### Interest rate sensitivity analysis

The Group has entered into hedging arrangements to mitigate the risk of significant changes in interest rates. Had the amount of bank debt outstanding at the year end been outstanding for the whole year, a 1% increase or decrease in LIBOR rates would have resulted in an increase or decrease to interest payable of £18,500 (2010: £16,000).

### Interest rate swap contracts

The financial assets and liabilities are measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are interest rate swaps and are in Level 2.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposure on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows.

The Group has entered into a swap contract with HSBC Bank plc under which 75% of outstanding term debt is subject to a fixed rate swap. The principal sum subject to this arrangement reduces on a quarterly basis, by scheduled capital repayments, until July 2015.

At 30 September 2011 the fair value of interest rate swaps was recorded in the balance sheet as a liability of £430,000 (2010: £485,000).

Management monitor and manage the financial risks relating to the operations of the Group through internal risk reports. These risks include currency risk, price risk, interest rate risk, credit risk, liquidity risk and cash flow interest rate risk.

Where the Group considers the impact arising from one or more of these risks to be potentially material to the Group's financial position, derivative financial instruments are used to reduce the risk exposure. The use of financial derivatives requires the prior approval of the Board. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Whilst the Group entered into interest rate hedging arrangements during the year to mitigate the risk of significant movements in interest rates, it does not apply hedge accounting.

*Foreign currency risk management*

The Group has no material currency exposure. The Group's financial instruments are materially denominated in sterling.

*Price risk management*

When contracting with customers for the sale of third party product the Group adopts a cost plus approach enabling price increases to be passed to customers.

*Credit risk management*

The Group's credit risk is primarily attributable to its trade receivables. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Group has an excellent history in terms of the level of trade receivables written off as irrecoverable.

The credit risk on liquid funds is minimised because the counterparties are UK banks with high credit-ratings assigned by international credit-rating agencies.

*Management of other risks*

The Group's policies on interest rate and liquidity risk are described on pages 45 to 47.

## 23. Contingent liabilities

Each company within the Group has guaranteed the bank facilities of its fellow subsidiary companies. Bank facilities are also secured by fixed and floating charges over the whole of the Group's property, assets and undertakings. Total bank borrowings at 30 September 2011 amounted to £7,335,000 (2010: £8,075,000) net of arrangement costs.

## 24. Commitments

Capital commitments, approved by the Board and existing at 30 September 2011 amounted to £100,000 (2010: £nil).

Total commitments under non-cancellable operating leases are as follows:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Land and buildings £000** | **Other £000** | Land and buildings £000 | Other £000 |
| Payable: | | | | |
| Within one year | **14** | **1** | 467 | 24 |
| In the second to fifth years inclusive | **668** | **205** | 1,304 | 48 |
| Over five years | **5,158** | **—** | 3,195 | — |
| | **5,840** | **206** | 4,966 | 72 |

Operating leases relate to land, buildings, motor vehicles and other assets used to support the operational requirements of the Group.

## 25. Pension schemes

The Group operates three defined contribution pension schemes. The pension cost charge for the year relating to these schemes was £343,000 (2010: £299,000). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

A wholly owned subsidiary undertaking, Sanderson Limited, contributes to one defined benefit pension scheme. The scheme is now funded solely by employer contributions as it is closed to future accrual and as a result has no contributing members. The latest actuarial valuation of the scheme, as at 1 October 2008, showed the scheme to have a deficit of £3.70m. Sanderson Limited is now responsible for funding 75% of this deficit and an unrelated company funds the remaining 25%. The valuation was performed by the scheme actuary, who is independent of the Group. The valuation is based on the defined accrued benefit method, which is considered appropriate for schemes in which benefit accrual has ceased. The present value of defined benefit obligations as quantified using the defined accrued benefit method does not differ materially from the valuation that would arise using the projected unit credit method.

## 25. Pension schemes continued

The principal assumptions used for the purpose of the IAS 19 valuation were as follows:

| | 2011 | 2010 |
|---|---|---|
| Inflation | **3.30%** | 3.15% |
| Pension revaluation in deferment | **2.80%–3.30%** | 3.15% |
| Pension escalation in payment | **3.30%** | 3.15% |
| Discount rate | **5.00%** | 5.00% |
| | | |
| Expected rate of returns on scheme assets: | | |
| — Unitised with profits | **5.75%** | 5.75% |
| — Equities | **8.00%** | 8.00% |
| — Bonds and gilts | **5.00%** | 5.50% |
| — Cash | **3.50%** | 5.00% |
| Mortality table | **PCMA00 & PCFA00 with long cohort improvements (minimum 1% p.a. male, 0.50% female)** | PCMA00 & PCFA00 with long cohort improvements (minimum 1% p.a. male, 0.50% female) |

Amounts recognised in the income statement in respect of the scheme, before taxation:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Included within operating profit: | | |
| Current service cost | **(4)** | (4) |
| Included within interest receivable: | | |
| Expected return on scheme assets | **437** | 391 |
| Included within interest payable: | | |
| Interest cost on scheme liabilities | **(524)** | (421) |

Amounts recognised in the statement of comprehensive income, before taxation:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Actual return on scheme assets | **119** | 560 |
| Expected return on scheme assets | **(437)** | (391) |
| | **(318)** | 169 |
| Experience gains or losses arising on the scheme liabilities | **8** | (40) |
| Effect of changes in actuarial assumptions | **(119)** | (2,292) |
| Actuarial loss recognised in the statement of comprehensive income | **(429)** | (2,163) |

The cumulative actuarial gains and losses recognised in the statement of comprehensive income are as follows:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Cumulative actuarial loss at 1 October | **(4,338)** | (2,175) |
| Recognised during the year | **(429)** | (2,163) |
| Cumulative actuarial losses at 30 September | **(4,767)** | (4,338) |

The fair value of the scheme assets and present value of the scheme liabilities at each statement of financial position date were:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Fair value of defined benefit obligation | **(11,100)** | (10,466) |
| Fair value of scheme assets | **7,106** | 6,687 |
| Deficit in the scheme | **(3,994)** | (3,779) |
| Deferred taxation on above | **998** | 1,020 |
| Net pension liability | **(2,996)** | (2,759) |

The Group's share of the assets of the scheme are invested as follows:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Unitised with-profits fund | **2,412** | 2,222 |
| Legal & General Consensus Fund | **3,584** | 3,556 |
| Cash deposits | **1,110** | 909 |
| Closing fair value of scheme assets | **7,106** | 6,687 |

Changes in the Group's share of the fair value of the scheme's assets, before taxation:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Opening fair value of scheme assets at 1 October | **6,687** | 5,775 |
| Expected return | **437** | 391 |
| Actuarial (losses)/gains | **(318)** | 169 |
| Benefit payments made | **(5)** | 94 |
| Contributions paid | **305** | 258 |
| Closing fair value of scheme assets at 30 September | **7,106** | 6,687 |

Changes in the Group's share of the fair value of the defined benefit obligations, before taxation:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Opening defined benefit obligation at 1 October | **(10,466)** | (7,614) |
| Current service cost | **(4)** | (4) |
| Interest cost | **(524)** | (421) |
| Benefit payments made | **5** | (94) |
| Actuarial losses | **(111)** | (2,333) |
| Closing defined benefit obligation at 30 September | **(11,100)** | (10,466) |

## 25. Pension schemes continued

This history of the Group's share of the scheme's experience gains and losses:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Difference between the expected and actual return on the scheme assets: | | |
| — Amount (£000) | **(318)** | 169 |
| — Percentage of scheme assets | **4.5** | 2.5 |
| Experience gains and losses on scheme liabilities | | |
| — Amount (£000) | **8** | (40) |
| — Percentage of scheme assets | **0.1** | 0.01 |
| Total actuarial loss in the statement of comprehensive income | | |
| — Amount (£000) | **(429)** | (2,163) |
| — Percentage of scheme assets | **6.0** | 32.3 |

Total committed contributions to the defined benefit schemes for the financial year ending 30 September 2012 will amount to £285,000.

The history of the Group's share of the scheme for the current and prior periods, before taxation:

| | 2011 £000 | 2010 £000 | 2009 £000 | 2008 £000 | 2007 £000 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **(11,100)** | (10,466) | (7,614) | (6,065) | (6,881) |
| Fair value of scheme assets | **7,106** | 6,687 | 5,775 | 6,235 | 6,890 |
| (Deficit)/surplus in the scheme | **(3,994)** | (3,779) | (1,839) | 170 | 9 |
| Experience adjustments on the scheme liabilities | **(111)** | (2,333) | (1,615) | 884 | 194 |
| Experience adjustments on the scheme assets | **(318)** | 169 | (608) | (987) | 379 |

# Report of the independent auditors to the members of Sanderson Group plc

We have audited the parent company financial statements of Sanderson Group plc for the year ended 30 September 2011 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities in respect of the Directors' report and the financial statements set out on page 20, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

### Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

### Other matter

We have reported separately on the Group financial statements of Sanderson Group plc for the year ended 30 September 2011.

**David Munton**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
28 November 2011

# Company balance sheet
at 30 September 2011

| | Note | 2011 £000 | 2010 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 27 | **30,262** | 30,215 |
| Intangible assets | 28 | **72** | 116 |
| | | **30,334** | 30,331 |
| **Current assets** | | | |
| Debtors | 29 | **8,880** | 11,231 |
| **Creditors:** amounts falling due within one year | 30 | **(1,662)** | (4,268) |
| **Net current assets** | | **7,218** | 6,963 |
| **Total assets less current liabilities** | | **37,552** | 37,294 |
| **Creditors:** amounts falling due after more than one year | 31 | **(14,168)** | (14,311) |
| **Net assets** | | **23,384** | 22,983 |
| **Capital and reserves** | | | |
| Called up share capital | 32 | **4,338** | 4,338 |
| Share premium account | 34 | **4,178** | 4,178 |
| Share-based payments reserve | 34 | **1,703** | 1,656 |
| Profit and loss account | 34 | **13,165** | 12,811 |
| **Shareholders' funds** | 36 | **23,384** | 22,983 |

The balance sheet was approved by the Board of directors on 28 November 2011 and signed on its behalf by:

**Christopher Winn**
Director

**Company Registration Number**
4968444

# Notes to the Company balance sheet

### Basis of preparation

As used in the financial statements and related notes, the term 'Company' refers to Sanderson Group plc. The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

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

A separate profit and loss account dealing with the results of the Company only has not been presented, as permitted by Section 408 of the Companies Act 2006.

### Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Investment income is recognised on a receivable basis.

### Share-based payments

The equity-based share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as fair value is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting. Deferred taxation is recognised over the vesting period to the extent that the Company expects to receive a deduction in future periods in respect of share options granted.

The fair value of options to purchase shares in the Company that have been issued to employees of subsidiary companies is recognised as an additional cost of investment by the parent company. An equal amount is credited to a share-based payments reserve. This treatment is in accordance with FRS 20: Share-Based Payments.

### Taxation

The current tax charge is based on the profit for the year and is measured at the amounts expected to be paid based on the tax rates and laws substantively enacted by the balance sheet date. Current and deferred tax is recognised in the profit and loss account for the year except to the extent that it is attributable to a gain or loss that is or has been recognised directly in the statement of total recognised gains and losses.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or receive more, tax. Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

### Personnel expenses

The Company employed three non-executive directors (2010: three non-executives). Fees paid in respect of these appointments amounted to £90,133 (2010: £90,133). Details of the remuneration of executive directors, paid by subsidiary companies, is given in note 7 to the accounts.

### Financial instruments

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

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated on a straight-line basis.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

# Notes to the Company balance sheet
continued

## 26. Dividends

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Interim dividend of 0.30p per share (2010: 0.25p) | **130** | 108 |
| Final dividend relating to previous financial year of 0.35p per share (2010: 0.20p) | **152** | 87 |
| Total dividend for the financial year | **282** | 195 |

A final dividend of 0.45 pence per ordinary share in respect of the financial year ended 30 September 2011 will be proposed at the Annual General Meeting of the Company, expected to be held in March 2012. If approved by shareholders, the total final dividend payment will amount to £195,867.

## 27. Fixed asset investments

| **Shares in Group undertakings** | **£000** |
|---|---|
| **Cost and net book value** | |
| At beginning of year | 30,215 |
| Fair value of share options granted to employees of subsidiaries | 47 |
| **At 30 September 2011** | **30,262** |

Transactions between the Company and its wholly owned subsidiaries have not been disclosed in line with the exemptions available under FRS 8: Related Party Disclosures.

The principal subsidiary undertakings of Sanderson Group plc are set out below. In all cases the companies are incorporated in England & Wales, develop and supply IT products and services as their primary activity and the Group holds 100% of the issued share capital:

Sonarsend Limited
Sanderson Limited*
Sanderson Multi-Channel Solutions Limited*
Sanderson Retail Systems Limited*

* Shareholding held indirectly.

## 28. Intangible assets

| | **Intellectual property £000** |
|---|---|
| **Cost** | |
| At beginning and end of year | 217 |
| **Amortisation** | |
| At beginning of year | 101 |
| Amortisation in the period | 44 |
| At end of year | 145 |
| **Net carrying value** | |
| At 30 September 2010 | 116 |
| **At 30 September 2011** | **72** |

## 29. Debtors

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Prepayments and accrued income | 7 | 3 |
| Amounts due from subsidiary undertakings | 8,505 | 10,706 |
| Corporation tax | 363 | 373 |
| Deferred tax | 5 | 4 |
| Group relief receivable | – | 145 |
| | 8,880 | 11,231 |

## 30. Creditors: amounts falling due within one year

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Bank loans and overdraft | 1,609 | 2,244 |
| Amounts owed to subsidiary undertakings | – | 2,000 |
| Accruals | 53 | 24 |
| | 1,662 | 4,268 |

A secured bank loan totalling £7,400,000 has been advanced by HSBC Bank plc under a facility expiring in July 2015. The loan is repayable in quarterly instalments of £231,250 with the balance of £3,700,000 repayable at the end of the term. The carrying value of loans and other borrowings is not materially different from fair value.

HSBC Bank plc holds fixed and floating charges over the whole of the Group's undertakings, property and assets. Interest on borrowings is charged at LIBOR plus 2.9%. The Group has entered into an interest rate hedge covering 75% of the capital outstanding under which the effective rate of LIBOR is 3.9%. The interest rate hedge expires in July 2015.

## 31. Creditors: amounts falling due after more than one year

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Bank loan | 6,360 | 6,440 |
| Amount due to subsidiary undertakings | 7,808 | 7,871 |
| | 14,168 | 14,311 |

### Analysis of bank loans and overdraft:

| | 2011 £000 | 2010 £000 |
|---|---|---|
| Debt can be analysed as falling due: | | |
| In one year or less, or on demand | 1,609 | 2,244 |
| Between one and two years | 925 | 1,635 |
| Between two and four years | 5,435 | 4,805 |
| | 7,969 | 8,684 |

# Notes to the Company balance sheet
continued

## 32. Called up share capital

| | 2011 number '000 | 2010 number '000 |
|---|---|---|
| **Authorised** | | |
| Equity: 535,000,000 Ordinary shares of 10 pence each | **53,500** | 53,500 |

| | £000 | £000 |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| Equity: 43,383,946 Ordinary shares of 10 pence each | **4,338** | 4,338 |

Subsequent to the year end, 142,000 ordinary shares of 10 pence each were issued pursuant to the exercise of an option agreement for consideration of 28.75 pence per share, the market value of shares at close of trading on the day prior to issue.

## 33. Employee share option schemes

The Company granted options over its shares to directors and senior managers of subsidiary companies in the year to 30 September 2005 pursuant to an HMRC approved enterprise management incentive plan (EMI), an unapproved share option plan and a LTIP. Options over 1,025,000 shares were granted in the year to 30 September 2009, options over a further 1,050,000 shares were granted in the year to 30 September 2010 and options over 960,000 shares were granted in the year to 30 September 2011. In all cases the awards were pursuant to the unapproved share option plan.

None of the options have been granted to employees of the Company. The Company has adopted FRS 20 in accounting for options issued to employees of subsidiary companies.

## 34. Reserves

| | Share-based payment reserves £000 | Profit and loss account £000 | Share premium account £000 |
|---|---|---|---|
| At beginning of year | 1,656 | 12,811 | 4,178 |
| Retained result for the year | — | 636 | — |
| Fair value of share options granted to employees of subsidiaries | 47 | — | — |
| Dividends paid in year | — | (282) | — |
| **At end of year** | **1,703** | **13,165** | **4,178** |

## 35. Contingent liabilities

Each company within the Group has guaranteed the bank facilities of its fellow subsidiary companies. Bank facilities are also secured by fixed and floating charges over the whole of the Group's property, assets and undertakings. Total bank borrowings at 30 September 2011 amounted to £7,335,000 (2010: £8,075,000) net of arrangement costs.

## 36. Reconciliations of movements in shareholders' funds

| | 2011 £000 | 2010 £000 |
|---|---|---|
| **Profit/(loss) for the financial year** | **636** | (163) |
| Dividends paid | **(282)** | (195) |
| Retained profit/(loss) for the year | **354** | (358) |
| Fair value of share options granted to employees of subsidiaries | **47** | 23 |
| **Net addition to/(decrease in) shareholders' funds** | **401** | (335) |
| Opening shareholders' funds | **22,983** | 23,318 |
| **Closing shareholders' funds** | **23,384** | 22,983 |

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