SANDERSON GROUP PLC

Annual Report 2006

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IT solutions driving continual business improvement

Sanderson develops and delivers market-specific software and services. With experienced people, functionally rich products and an enviable reputation for good service, we help our customers gain rapid returns from their investment in IT.

Commenting on the results, Chairman, Christopher Winn, said:

"The results reflect 10% growth in gross margin, achieved on increased revenues. This improvement is due to an increase in the proportion of the Group's own software and services supplied and demonstrates the benefit of Intellectual Property Rights ('IPR') ownership.

Our strategy is to develop the Group by a combination of organic growth complemented by selective acquisitions. Our primary aim is to continue to deliver shareholder value through a progressive dividend policy, which is made possible by a business model that delivers high levels of profit and cash. We continue to work on bringing a number of acquisition opportunities to fruition in the coming year.

We are encouraged by the substantially increased level of sales prospects across the Group and notwithstanding challenges in some of our markets there are clear opportunities, especially within the Multi-Channel Sales sector and we intend to accelerate the rate of progress over the coming year."

Christopher Winn
Chairman

Chairman's statement

Introduction

The Group has adopted International Financial Reporting Standards ('IFRS') for the first time, and comparative results have been restated accordingly. The trading results for the year to 30 September 2006 show turnover of £16.15 million (2005: £15.46 million) and statutory operating profit of £2.17 million (2005: £1.27 million). Operating profit before amortisation, non-recurring items and share based payment charges amounted to £3.13 million (2005: £2.91 million).

Financial highlights

- Revenue of £16.15 million (2005: £15.46 million) up 4.5%
- Operating profit* of £3.13 million (2005: £2.91 million) up 7.6%
- Statutory operating profit of £2.17 million (2005: £1.27 million)
- Improvement in gross margin to 84% (2005: 80%)
- Recurring revenues 55% of total revenue (2005: 53%)
- Proposed final dividend of 1.5 pence per ordinary 10 pence share making a total for the year of 2.6 pence (2005: 2.5 pence) up 4.0%
- Sanderson Retail Systems acquisition integrated and performing profitably
- 25 new customers won during the year (2005: 17)

*Before amortisation of intangible assets, share based payment charges and 2005 non-recurring administrative expense.

Results

The results reflect 10% growth in gross margin, achieved on an increase in revenues of 4%. This is due to an increase in the proportion of the Group's own software and services supplied and demonstrates the benefit of IPR ownership. We completed the acquisition of Sanderson Retail Systems Limited ('SRS') in February 2006, and the business has made an encouraging contribution to Group profitability.

The effective rate of corporation tax in the year to September 2006 is less than 30% as a result of an overprovision for tax in prior years.

Business review

The Group has established a large client base over many years and has adopted a revenue model based upon retaining and developing clients by continuously offering new products and associated technology, together with professional services. Historically, over 50% of annual revenue is derived from recurring licence, support and maintenance contracts, with approximately 40% of revenue being derived from additional products and services supplied to existing clients. New clients account for the remaining 10% of revenue.

For the year ended 30 September 2006, recurring revenue continued to grow and represented 55% of total revenue compared with 53% last year. 25 new clients were won in the year, compared with 17 in the previous year and these new clients accounted for 9% of revenue. The average order value from new clients was around £60,000 with the largest individual client contributing just under £200,000. The reduction in the level of discretionary spend from existing clients in the Manufacturing sector experienced in the previous financial year continued into the current year.

The Group's software products are designed to meet all the operational needs of a broad range of businesses and cover functions such as sales and marketing, finance, human resources, purchasing, production, supply and distribution whilst also addressing specific requirements such as ingredient handling and call centre operations. Sanderson owns and develops the IPR to its software products and licences their use to customers.

The Group also provides consultancy services to assist in the set-up, installation and implementation of software in addition to the provision of general IT advice. Customers also contract for ongoing technical support and maintenance services.

During the year, 72% of Group revenues were generated from the sale of software products, with the remaining 28% arising from the provision of associated consultancy services. This compares to 75% for software and 25% for consultancy during the previous year and resulted in an increase in gross margin from 80% to 84%.

The acquisition of SRS provided the opportunity to reposition the Group, which now addresses two principal market sectors.

Review of manufacturing

The Manufacturing sector accounted for 46% of Group revenue, compared with 60% two years ago. Manufacturing covers the provision of IT solutions to sectors including engineering, plastics, electronics, furniture, automobile parts and print markets, as well as specialist solutions for the food industry. Market conditions continue to be challenging in this sector with discretionary spend lower than in previous years. By focusing on the delivery of our own software and services together with strict overhead controls, we have maintained a good level of profitability. The food industry has proved to be an active sector and we have been successful in gaining five new customers in the year including Sodexho, Nutri-Care and Kingfisher (Brixham) Limited.

Review of multi-channel sales

This sector accounted for 54% of Group revenue. Multi-Channel Sales addresses the needs of companies who sell goods via retail outlets, online sales, call centres, mail order and distributors. Increasing competition and the rapid growth in online sales have encouraged companies to seek efficiency gains through investment in IT, representing a significant opportunity for the Group. New customers gained during the year included Homeserve, Echo, Hayloft Plants and Help the Aged. The Group is developing a large number of sales opportunities in what is proving to be an active market sector and this will be a major focus for the Group in the coming year.

Balance sheet

The profile of the balance sheet changed following the acquisition of SRS, with debtors and deferred income increasing as a direct result. Since completing the acquisition, debtor levels have reduced but deferred income remains higher than at the previous year end due to the long-term nature of some of the SRS customer contracts.

Cash generation remains sound and cash generated from operations was 81% of operating profit before amortisation and share based payment charges. Net debt of £2.48 million has reduced from the post-acquisition peak of £3.26 million at the half-year. This low level of debt, combined with undrawn borrowing facilities, enables the Group to pursue further acquisitions.

Dividends

The Board is keen to ensure that shareholders benefit from the trading performance of the Group through a progressive dividend policy. Subject to approval at the Annual General Meeting of Shareholders, expected to be held on 6 February 2007, a final dividend of 1.5 pence per ordinary share is proposed and will be paid on 9 March 2007 to shareholders on the register at the close of business on 9 February 2007. Together with the interim dividend of 1.1 pence per ordinary share, this final dividend represents a total dividend for the year of 2.6 pence, an increase of 4%.

Strategy

Our customers continue to focus on the benefits derived from their investment in IT solutions, with efficiency improvements and process re-engineering being key factors in their decision to commit to new projects. We believe that the quality of our products and our development strategy address these key requirements, though the increasing length of the decision-making cycle is now generally acknowledged to be a feature of the markets in which we operate. Our strategy is to develop the Group by a combination of organic growth complemented by selective acquisitions. Our primary aim is to continue to deliver shareholder value through a progressive dividend policy which is made possible by a business model that delivers high levels of profit and cash. We continue to develop a number of acquisition opportunities for the coming year.

Staff

We would like to thank our colleagues for their commitment, expertise, and continued dedication in working with our customers and partners.

Outlook

We are encouraged by the substantially increased level of sales prospects across the Group and notwithstanding challenges in some of our markets there are clear opportunities, especially within the Multi-Channel Sales sector, and we intend to accelerate the rate of progress over the coming year.

Christopher Winn
Chairman
21 December 2006

Financial review

Accounting policies

The Group's results for the year to 30 September 2006 represent the first consolidated financial statements prepared by the Group in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and comparatives for 2005 have been restated from UK GAAP to comply with IFRS. Reconciliations of the restatement are given in note 33 and full details of the first time adoption of IFRS are given in the Group accounting policies in note 3. Results for the parent company have been consistently prepared in accordance with UK GAAP.

Results

A review of the performance of the Group during the year is set out in the Chairman's statement.

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. Consideration is given to interest rate hedging arrangements when new debt facilities are agreed, but current debt levels are such that interest costs and exposure to interest rate fluctuations are not material in the context of the Group's operating profit and as a result no such interest rate hedge arrangements are currently in place.

International financial reporting standards

The first time adoption of IFRS has impacted on the year's results. The principal changes relate to:

- acquisition of subsidiaries (treatment of goodwill);
- employee benefits (pension scheme accounting);
- share based payment charges;
- recording of dividends in the period paid;
- capitalisation of development expenditure where certain strict criteria are met.

The net impact of the restatement of last year's figures was to increase profit for the period from a retained loss after tax of £549,000 to a profit after tax of £495,000. Net assets increased from £16,545,000 to £17,709,000. Full details of the restatement appear in note 33.

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 are competitive.
- ***Operational***; the Group's most significant asset is its employees and the market for skilled staff is competitive. Recruiting, retaining, developing and motivating staff remain a constant challenge.
- ***Acquisition***; the Group continues to seek to acquire businesses that complement its existing activities, as well as similar businesses in new markets. Such a strategy has inherent risks in both valuing target businesses and successfully integrating them within the existing Group.
- ***Financial***; controls exist in the areas of contract management, credit control and pension scheme administration.
- ***Health & safety***; the provision of a safe and comfortable working environment is continuously reviewed.

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:

Indicator	2006	2005
Sales per employee	**£70,000**	£81,000
Operating profit* per employee	**£13,000**	£15,000
Total indirect cost per employee	**£49,000**	£52,000
Debtors over 60 days as percentage of total debtors	**9.7%**	11.2%
Capitalised development costs as a percentage of annual technical and development costs	**6.8%**	3.9%

*Before amortisation, share based payment charges and non-recurring expenses.

The sales and operating profit ratios have been affected by the acquisition of Sanderson Retail Systems Limited during the current financial year.

Adrian Frost
Finance Director
21 December 2006

Board of directors

Christopher Winn
Chairman, aged 56

After graduating from Nottingham University, Christopher worked at British Olivetti. In 1974 he joined Applied Computer Techniques which later became ACT Group plc, (the second UK IT company floated on the London Stock Exchange in 1979). He served on the ACT Group Board between 1983 and 1994 and undertook a number of senior roles. In 1995 he joined the former Sanderson Group and became Group Chief Executive. By 1999 turnover had risen to £100 million and in December of that year he led a management buyout of the former Sanderson Group backed by the Alchemy Plan. Following the take private he carried out a restructuring of the former Group and in 2002 focused on the Sanderson business.

David O'Byrne
Managing Director, aged 53

David has over 30 years' experience in the software and IT services sector. His early career was spent in a number of senior managerial roles in software companies. He joined the former Sanderson Group in 1986 to form their Local Government business, was appointed Managing Director of the public sector business in 1994 and managed its rapid growth prior to his appointment as Managing Director of Sanderson in April 2002.

Adrian Frost
Finance Director, Aged 39

A graduate of Sheffield University, Adrian qualified as a Chartered Accountant whilst working for RSM Robson Rhodes. He left the profession in 1996 and 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 55

David is currently Chairman of Global Computer Holdings Limited, an IT infrastructure solutions provider, and acts as an independent consultant involved in strategic business development and corporate transactions. David 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 Ltd and Logica plc. David is the senior independent non-executive director.

Philip Kelly
Non-Executive Director, aged 54

Philip is a Non-Executive Director of Radius Solutions (UK) Limited (formerly a wholly owned subsidiary of Radius plc, which was taken private with funding from the Alchemy Plan in 1998). He is also a non-executive director of Coalition Holdings Limited, a provider of technical and desktop services.
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. Philip was nominated for appointment to the Board by Alchemy Partners.

John Paterson
Non-Executive Director, aged 60

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.

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 three 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 six senior divisional directors.

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 a member of 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 are also offered.

Details of directors' remuneration are provided in note 10 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.

Going concern

The directors are confident, after making appropriate enquiries, that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2006.

International Financial Reporting Standards

These group financial statements have been prepared in accordance with IFRS. The principal changes relate to goodwill and intangible assets, employee benefit schemes and share based payment charges and the capitalisation of certain research and development costs.

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 and liquidity risk is set out in note 27.

Acquisition

On 22 February 2006 the company acquired 100% of the issued share capital of Sanderson Retail Systems Limited (formerly Megabyte Limited) for maximum consideration of £1,500,000 cash and 2,000,000 ordinary shares, plus related costs. £1,000,000 cash was paid and 1,000,000 ordinary shares were issued on completion, with the balance of the consideration being contingent on future trading results of Sanderson Retail Systems Limited.

Dividend

A final dividend of 1.4 pence per share was paid on 17 February 2006 (2005: no final dividend paid) relating to the financial year ended 30 September 2005. An interim dividend of 1.1 pence per ordinary share was paid on 14 July 2006 (2005: 1.1 pence per share) in respect of the financial year ended 30 September 2006. The directors propose the payment of a final dividend of 1.5 pence per ordinary share. The final dividend is subject to shareholder approval at the Annual General Meeting on 6 February 2007 and, if approved, will be paid on 9 March 2007 to shareholders on the register at 9 February 2007.

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	1,098,199	1,000,000
David Andrew O'Byrne	212,754	182,754
Adrian David Frost	15,000	10,000
Philip Edward Kelly*	20,000	20,000
David James Gutteridge*	100,000	100,000
John Clement Mackenzie Paterson*	90,000	80,000

* Denotes non-executive directors

Directors' report

(continued)

Directors and directors' interests (continued)

No new options were granted to directors in the current financial year.

The following options to purchase ordinary shares in the company were granted during the year ended 30 September 2005:

	In issue at year end	Exercise Price	Notes & Conditions	Earliest Exercise Date	Expiry Date
Christopher Winn	199,980	50p	1	01.10.2007	30.09.2014
Christopher Winn	910,972	50p	2	01.10.2007	15.12.2014
Christopher Winn	910,972	£1*	3	01.10.2007	31.12.2017
Christopher Winn	15,791	60p	4	01.07.2008	31.12.2008
David Andrew O'Byrne	199,980	50p	1	01.10.2007	30.09.2014
David Andrew O'Byrne	506,587	50p	2	01.10.2007	15.12.2014
David Andrew O'Byrne	506,587	£1*	3	01.10.2007	31.12.2017
David Andrew O'Byrne	15,791	60p	4	01.07.2008	31.12.2008
Adrian David Frost	175,421	57p	1	01.10.2007	30.09.2014
Adrian David Frost	215,579	56p	2	01.10.2007	15.12.2014
Adrian David Frost	215,579	£1*	3	01.10.2007	31.12.2017
Adrian David Frost	15,791	60p	4	01.07.2008	31.12.2008

* Total amount payable on each occasion of exercise

Notes & performance conditions

1. Executive Management Incentive Plan, subject to Inland Revenue limits. The performance conditions are:
   (a) First tranche (one-third of total) - no performance conditions.
   (b) Second tranche (one-third of total) - headline earnings per share growth in the period 1 October 2004 - 30 September 2005 to exceed the increase in the Retail Price Index by at least 2%.
   (c) Third tranche (one-third of total) - headline earnings per share growth in the period 1 October 2005 - 30 September 2006 to exceed the increase in the Retail Price Index by at least 2%.
2. Unapproved Share Option Plan, the performance conditions are the same as those applicable to the Executive Management Incentive Plan.
3. Long Term Incentive Plan, the shares will be awarded dependent upon the total shareholder return ('TSR') of the Company compared to the TSR of a comparator group of similar public companies during the period 16 December 2004 and 30 September 2007, as follows:
   (a) If the TSR of the company is ranked in the top 50% of the comparator group's TSR all of the ordinary shares over which an award has been made will vest.
   (b) If the TSR of the company is ranked in the bottom 40% of the comparator group's TSR none of the ordinary shares over which an award has been made will vest.
   (c) If the TSR of the company is ranked below the median but above 40% of the comparator group's TSR then the number of ordinary shares vesting will be calculated on a straight line basis.
4. Sharesave Plan, which is the subject of a 3 year savings plan.

The options in respect of Messrs Winn and O'Byrne were awarded on admission to AIM on 16 December 2004. The options in respect of Mr Frost were awarded on 27 May 2005 following his appointment to the board.

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

Substantial shareholdings

The company has been advised of the following notifiable interests, pursuant to sections 198-202 of the Companies Act 1985 (as amended by the Disclosure of Interests in Shares (Amended) Regulations 1993 and the Disclosure of Interests in Shares (Amendment) (No.2) Regulations), in its ordinary share capital.

	Number of shares	%
Alchemy Partners Nominees Ltd	11,298,995	27.02
Marlborough UK Equity Growth	3,037,000	7.26
Chelverton Asset Management	2,240,000	5.36
Polar Capital Technology Trust	2,000,000	4.79
BFS Small Companies	2,000,000	4.79
Universities Superannuation Scheme Limited	1,500,000	3.59

Employees

The company's policy of providing employees with information about the company has continued and regular meetings are held between management and employees to allow exchanges of information and ideas.

The company 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 company's policy wherever practicable to provide continuing employment under similar terms and conditions and to provide training, career development and promotion wherever appropriate.

Policy and practice on payment of creditors

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

At the year end, there were 46 days purchases in trade creditors (2005: 46 days).

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.

Political and charitable contributions

The Group made no political or charitable contributions during the year (2005: nil).

Auditors

For each of the persons who were directors at the time this report was prepared, the following applies:

- So far as the directors are 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 as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

A resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A D Frost
Secretary

Sanderson House
Manor Road
Coventry
CV1 2GF

21 December 2006

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

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

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law ('UK Generally Accepted Accounting Practice').

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

We have audited the Group and parent company financial statements (the 'financial statements') of Sanderson Group plc for the year ended 30 September 2006 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, Company Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the Directors' Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the EU, and for preparing the parent company financial statements in accordance with applicable law and UK Accounting Standards ('UK Generally Accepted Accounting Practice') are set out in the Statement of Directors' Responsibilities on page 10.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 30 September 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 September 2006;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds
LS1 4DW

21 December 2006

Consolidated income statement

for the year ended 30 September 2006

	Note	2006 £000	2005 £000
Revenue	3,4	**16,149**	15,460
Cost of sales		**(2,607)**	(3,123)
Gross profit		**13,542**	12,337
Technical and development costs		**(6,468)**	(5,433)
Administrative expenses		**(3,590)**	(3,085)
Sales and marketing costs		**(1,429)**	(1,473)
Other operating income	6	**119**	-
Non-recurring administrative expenses	7	**-**	(1,076)
Results from operating activities		**2,174**	1,270
Results from operating activities before amortisation, share based payment charges and non-recurring expenses		**3,135**	2,908
Amortisation of acquisition related intangibles		**(319)**	(104)
Share based payment charges	8	**(642)**	(458)
Non-recurring administrative expenses	7	**-**	(1,076)
Results from operating activities		**2,174**	1,270
Finance income	11	**288**	304
Finance expenses	12	**(563)**	(1,012)
Profit before tax		**1,899**	562
Taxation	13	**96**	(67)
Profit for the year attributable to equity holders of the parent		**1,995**	495
Earnings per share			
Basic earnings per share	15	**4.8p**	1.2p
Diluted earnings per share	15	**4.5p**	1.1p

All operations are continuing.

Consolidated statement of recognised income and expense

for the year ended 30 September 2006

	2006 £000	2005 £000
Defined benefit pension plan actuarial gains / (losses)	**630**	(1,052)
Deferred taxation effect of defined benefit pension items	**(190)**	306
Net income / (expense) recognised directly in equity	**440**	(746)
Profit for the year	**1,995**	495
Total recognised income / (expense) attributable to equity holders of the parent	**2,435**	(251)

Consolidated balance sheet

at 30 September 2006

	Note	2006 £000	2005 £000
Non-current assets			
Property, plant and equipment	16	**585**	914
Intangible assets	17	**27,051**	23,670
Deferred tax assets	18	**488**	1,051
		28,124	25,635
Current assets			
Inventories		**258**	103
Trade and other receivables	19	**4,127**	3,788
Income tax receivable		**211**	-
Cash and cash equivalents	20	**463**	524
		5,059	4,415
Current liabilities			
Bank loans and borrowings	21	**(528)**	(760)
Trade and other payables	24	**(2,351)**	(3,216)
Income tax payable		**-**	(455)
Deferred income		**(4,278)**	(4,050)
		(7,157)	(8,481)
Net current liabilities		**(2,098)**	(4,066)
Total assets less current liabilities		**26,026**	21,569
Non-current liabilities			
Loans and borrowings	21	**(2,420)**	(1,380)
Deferred contingent consideration	23	**(464)**	-
Deferred income		**(587)**	-
Employee benefits	32	**(1,849)**	(2,480)
		(5,320)	(3,860)
Net assets		**20,706**	17,709
Equity attributable to equity holders of the Company			
Share capital	25	**4,181**	4,081
Share premium	26	**14,578**	14,183
Shares to be issued	26	**495**	-
Retained earnings	26	**1,452**	(555)
Total equity		**20,706**	17,709

These financial statements were approved by the board of directors on 21 December 2006 and were signed on its behalf by:

D A O'Byrne
Director

Consolidated cash flow statement
for the year ended 30 September 2006

	Note	2006 £000	2005 £000
Cash flows from operating activities			
Profit for the period		**1,995**	495
Adjustments for:			
Amortisation of intangible assets		**319**	104
Depreciation		**160**	143
Share based payment charges		**642**	458
Net finance expense		**275**	708
Income tax expense		**(96)**	67
Profit on disposal of property, plant and equipment		**(119)**	-
Operating cash flow before changes in working capital and provisions		**3,176**	1,975
Movement in trade and other receivables		**934**	626
Movement in inventories		**(51)**	-
Movement in trade and other payables		**(1,372)**	(484)
Payments to employee benefit plan		**(80)**	(74)
Cash generated from operations		**2,607**	2,043
Interest paid		**(178)**	(329)
Income tax paid		**(639)**	(92)
Net cash from operating activities		**1,790**	1,622
Cash flow from investing activities			
Interest received		**-**	28
Proceeds from sales of property, plant and equipment		**530**	-
Purchase of plant and equipment		**(120)**	(107)
Development expenditure capitalised		**(271)**	(136)
Purchase of intellectual property		**(200)**	-
Acquisition of subsidiary		**(1,480)**	(857)
Net cash flow from investing activity		**(1,541)**	(1,072)
Cash flow from financing activities			
Proceeds from issue of shares		**-**	5,795
Proceeds from bank borrowing		**1,375**	2,500
Repayment of bank borrowing		**(625)**	(5,660)
Repayment of external borrowing		**-**	(4,000)
Repayment of finance lease principal		**(36)**	-
Equity dividends paid		**(1,024)**	(445)
Net cash flow from financing activities		**(310)**	(1,810)
Net decrease in cash and cash equivalents	28,29	**(61)**	(1,260)
Cash and cash equivalents at beginning of year		**524**	(1,784)
Cash and cash equivalents at the end of the year	28,29	**463**	524

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 2006 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 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.

These results represent the first annual financial statements the Group has prepared in accordance with its accounting policies under IFRS and the comparatives for 2005 have been restated from UK GAAP to comply with IFRS. A description of how the Group's reported performance and financial position were affected by the change, including reconciliations from UK GAAP to IFRS for prior period results, is provided in note 33. For the purpose of the accounts, the date of transition to IFRS is 1 October 2004.

The rules for first time adoption of IFRS are set out in IFRS 1 'First time adoption of international financial reporting standards'. In general, a company is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. The standard allows a number of exceptions to this general principle to assist companies as they change to reporting under IFRS. The Group has taken advantage of the following exemptions:

- Business combinations that took place prior to the date of transition have not been restated;
- At the date of transition, previous UK GAAP valuations have been used as deemed cost for properties;
- All cumulative actuarial gains and losses on defined benefit schemes have been recognised in equity at the date of transition.

The group has taken exemption, permitted under IFRS1 not to disclose the four year history.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 October 2004 for the purposes of the transition to Adopted IFRS. The principal exception is that, as more fully explained below, financial instruments accounting is determined on different bases in current year and comparative year due to the transitional provisions of IFRS1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39.

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.

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:

Note 5: acquisitions of subsidiaries

Note 8: measurement of share based payments

Note 32: measurement of defined benefit pension obligations

Notes to the consolidated financial statements
(continued)

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 7 'Financial instruments: Disclosure' applicable for years commencing on or after 1 January 2007. The application of IFRS 7 in the year ended 30 September 2006 would not have affected the balance sheets or income statement as the standard is concerned only with disclosure. The Group plans to adopt it in 2007.
- The amendments to IAS 39 in relation to the fair value option applicable for periods commencing on or after 1 January 2006 which will have no effect on the Group's primary statements or disclosures.

Basis of consolidation

The Group accounts incorporate the accounts of the company and all its subsidiaries for the year ended 30 September 2006. The results of subsidiaries acquired or disposed of during the period are included in the Group income statement from or up to the effective date that control passes. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an 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.

Effect of first time adoption of IAS 32 and IAS 39 on 1 October 2005

The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. Instead the following policy was applied in respect of financial instruments issued by the Group, investments in debt and equity securities.

In the comparative period all financial assets and financial liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provision for any permanent diminution in value. There were no adjustments necessary to implement the revised policy. Corresponding amounts for 30 September 2005 are presented and disclosed in accordance with the requirements of the Companies Act 1985 and FRS 4 (as applicable in comparative year). There are no material differences between the comparative year and current year bases of accounting.

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.
The annual rates used are generally:

- freehold buildings — 2%
- leasehold buildings — over life of the lease
- plant, machinery, fixtures and fittings — 15%-33 1/3%

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.

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.

3 Accounting policies (continued)

Interest income and interest expenses

Interest income and interest expenses are recognised in the income statement as they accrue, using the effective interest method.

Financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value, through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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 balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the 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.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges, are taken directly to the translation reserve. They are released into the income statement upon disposal.

The group has taken advantage of relief available in IFRS 1 to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to Adopted IFRS (1 October 2004).

Taxation

Tax on the profit or loss 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 equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet 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. 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.

Notes to the consolidated financial statements
(continued)

3 Accounting policies (continued)

Revenue
Revenue comprises the value of sales of licences, support & maintenance contracts and 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 when the services have been 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 separable identifiable net assets acquired. Identifiable intangibles are those which are capable of being sold separately or which arise from legal rights regardless of whether those legal rights are separable.

In accordance with IFRS 3 'Business combinations', goodwill arising prior to the effective transition date for IFRS has been frozen at its net book value as at the date of transition and will not be amortised. Goodwill written-off in prior years under previous UK GAAP will not be reinstated.

Goodwill arising after the IFRS transition date is stated at cost less accumulated impairment charges. Goodwill is allocated to cash generating units and is not amortised, but is subject to an annual impairment review with any impairment losses being recognised immediately in the income statement.

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 if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- 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, or over three years, whichever is the shorter period. 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 over their useful economic life.

Intangible assets acquired through a business combination are measured at fair value and amortised over their useful economic lives.

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

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset of its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement.

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 two closed defined benefit schemes. The Group's net obligation in respect of the defined benefit schemes 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 recognised income and expense.

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

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less allowance for any uncollectible amounts. Where debtor balances are considered to be irrecoverable an impairment charge is included in the income statement.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits.

For the purpose of the consolidated cash flow statement, cash and cash equivalents as described above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Share based payments

The 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 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 an expense 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.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interesting-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Investments in debt and equity securities

Investments are stated at amortised cost less impairment. Financial instruments held for trading or designated upon initial recognition or at the IAS 39 transition date if later are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Dividends

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

4 Segmental reporting

The operations of the Group are regarded as a single business segment, and are managed as such. Substantially all of the Group's revenue originates from the UK. Revenue by destination is not materially different from revenue by origin.

Notes to the consolidated financial statements
(continued)

5 Acquisitions of subsidiaries

On 22 February 2006, the Group acquired 100% of the issued share capital of Sanderson Retail Systems Limited (previously Megabyte Limited) for a combination of cash and share based consideration. The company develops and supplies IT services and software. In the seven months to 30 September 2006, the company contributed profit of £130,000 before tax.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amount £000	Fair value adjustment £000	Recognised value on acquisition £000
Property, plant and equipment	219	(66)	153
Intangible assets	-	1,848	1,848
Inventories	104	-	104
Income tax recoverable	103	-	103
Trade and other receivables	1,437	(164)	1,273
Trade and other payables	(552)	(20)	(572)
Deferred income	(815)	-	(815)
Deferred tax liability	-	(554)	(554)
Net identifiable assets and liabilities	496	1,044	1,540
Goodwill on acquisition			1,372
			2,912
Consideration paid:			
- cash			1,000
- shares issued			495
Costs incurred			105
Bank overdraft acquired			375
Net cash flow			1,975
Deferred contingent consideration:			
- cash			500
- shares to be issued			495
Discount on deferred contingent consideration			(58)
Total consideration			2,912

The fair value adjustments are provisional and relate to changes in depreciation rates to conform to Group policy, the recognition of intangible assets in accordance with IFRS, and adjustments to debtors and creditors to recognise liabilities identified during the course of the period. The fair value of the shares issued represents the market value at the date of acquisition.

Due to the revenue recognition policies previously adopted by Sanderson Retail Systems Limited, it is not possible to report revenue and income for the combined Group as though the acquisition date had been 1 October 2005.

The deferred contingent consideration is payable in December 2007 or December 2008, based on the results of Sanderson Retail Systems Limited for the period to 30 September 2007 or 30 September 2008.

Pre-acquisition carrying amounts were determined based on applicable IFRS, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values (see note 2). In determining the fair value of intangible assets, the Group applied a discount rate of 8% to estimated cash flows.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the workforce of the acquired business and the expected synergies to be achieved from integrating the company into the Group's operations.

6 Other operating income

Other income represents the net gain arising on the sale of property, plant and equipment (2005: no such income).

7 Non-recurring administrative expenses

No such expenses were incurred in the current year. Other expenses arising in 2005 represent the expenses and associated reorganisation costs incurred in relation to the admission of Sanderson Group plc to AIM on 16 December 2004.

8 Share based payments

The Group operates a sharesave scheme, an Inland Revenue approved executive management incentive plan (EMI), an unapproved share option plan and an LTIP. Details of the schemes are given below:

Grant Date	Employees entitled	Number of options	Performance conditions	Exercise Price (p)	Earliest exercise date	Expiry date
16/12/2004	Management	1,785,728	Earnings per share growth	50.0	01/10/2007	15/12/2014
16/12/2004	Management	1,262,952	Earnings per share growth	50.0	01/10/2007	30/09/2014
16/12/2004	Management	1,723,060	TSR Target	00.0	01/10/2007	31/12/2017
27/05/2005	Management	215,579	Earnings per share growth	56.0	01/10/2007	15/12/2014
27/05/2005	Management	250,421	Earnings per share growth	57.0	01/10/2007	30/09/2014
27/05/2005	Management	215,579	TSR Target	00.0	01/10/2007	31/12/2017
01/07/2005	Employees	678,373	No performance conditions	60.0	01/07/2008	31/12/2008
		6,131,692				

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

	Weighted average exercise price 2006 (p)	Number of options 2006 (number)	Weighted average exercise price 2005 (p)	Number of options 2005 (number)
Outstanding at start of year	35.8p	6,131,692	-	-
Granted during the year	-	-	35.8p	6,131,692
Forfeited during the year	(52.4p)	(131,574)	-	-
Outstanding at end of the year	35.4p	6,000,118	35.8p	6,131,692
Exercisable at end of the year	-	-	-	-

None of the options granted have, as yet, been exercised. Options outstanding at 30 September 2006 have exercise prices in the ranges 0.0p to 60.0p.

Options with no minimum exercise price have challenging targets in respect of total shareholder return compared to a group of comparator companies.

Notes to the consolidated financial statements

(continued)

8 Share based payments (continued)

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 assumptions used in determining the fair value are summarised below (based on a weighted average of grants in the year).

Granted in the year to 30 September 2006:

No options granted.

Granted in the year to 30 September 2005:

	Share save	EMI	LTIP	Unapproved
Fair value at measurement date (pence)	20.15	13.70	53.77	15.44
Share price (pence)	66.50	53.77	53.77	53.77
Exercise price (pence)	60.00	51.11	0.00	50.65
Expected volatility (%)	30	30	30	30
Average option life (year)	3	3	3	3
Expected dividend (%)	5	5	5	5
Risk free interest rate (%)	4.17	4.42	4.42	4.42

The expected volatility is based on the historic volatility of the company's share price.

Charge to the income statement

The charge to the income statement comprises:

	2006 £000	2005 £000
Share based payment charges	**596**	423
Provision for NI contributions on LTIP options	**46**	35
	642	458

9 Expenses and auditors' remuneration

Included in the income statement are the following items:

	2006 £000	2005 £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	**35**	30
Other services relating to taxation	**5**	14
All other services	**13**	263
Depreciation and other amounts written off tangible fixed assets:		
Owned	**143**	143
Leased	**17**	-
Amortisation of acquisition related intangible assets	**319**	104
Amortisation of research & development costs	**41**	50
Rentals payable under plant & machinery operating leases	**10**	5
Leasehold property rentals	**424**	419

The audit fee relating to the parent company is borne by a subsidiary undertaking. Of the fees paid to the auditor for non-audit services, £nil (2005: £263,000) were paid by the parent company in respect of flotation costs.

10 Personnel expenses

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

	2006 No.	2005 No.
Technical	**186**	152
Sales and marketing	**24**	20
Administrative	**22**	18
	232	190

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

	2006 £000	2005 £000
Wages and salaries	**7,452**	6,346
Social security costs	**795**	758
Contributions to defined contribution pension plans	**220**	253
Share based payment charges	**642**	458
	9,109	7,815

The company employed three non-executive directors (2005: three non-executives). Fees paid in respect of these appointments amounted to £76,000 (2005: £63,000).

None of the executive directors were remunerated by the company during the year, but by subsidiary companies. Details of their remuneration during the period are given below. 2005 figures include a severance payment to a former director.

	2006 £000	2005 £000
Salaries, including bonuses	**461**	601
Benefits in kind	**15**	12
Pension contributions - defined contribution schemes	**28**	32
	504	645

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

Share based payment charges attributable to arrangements in which the executive directors hold a beneficial interest amounted to £451,000 (2005: £279,000). Share based payment arrangements were not in place for the whole of the comparative period.

The aggregate of emoluments payable under service contracts and amounts receivable under long term incentive schemes of the highest paid director was £225,000 (2005: £207,000) including benefits in kind. In 2005 the director concerned received £50,000 as a bonus paid on the flotation of the company. Company pension contributions of £9,000 (2005: £12,000) were paid to a money purchase pension scheme on his behalf. Share based payment charges in respect of the highest paid director amounted to £242,000 (2005: £159,000).

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

11 Finance income

	2006 £000	2005 £000
Bank interest receivable	**-**	28
Expected return on defined benefit pension scheme assets	**288**	276
	288	304

Notes to the consolidated financial statements

(continued)

12 Finance expenses

	2006 £000	2005 £000
Loan note discount	-	329
Bank facility arrangement fees	-	175
Total non-recurring finance expenses	-	504
Bank interest expense	**154**	187
Other interest expense	**24**	-
Interest on defined benefit pension scheme obligations	**363**	321
Discount on deferred contingent cash consideration	**22**	-
	563	1,012

Non-recurring finance expense relates to the capital and debt structure of the Company in place prior to the admission to AIM on 16 December 2004.

13 Taxation

	2006 £000	2005 £000
Recognised in the income statement:		
Current tax expense		
UK corporation tax for the current year	**600**	429
Relating to prior periods	**(515)**	38
Total current tax	**85**	467
Deferred tax		
Deferred tax for the current year	**(154)**	5
Relating to prior periods	**(27)**	(405)
Total deferred tax	**(181)**	(400)
Taxation (credited) / charged to the income statement	**(96)**	67

Reconciliation of effective tax rate

The current consolidated tax charge for the period is lower (2005: lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below.

	2006 £000	2005 £000
Profit before tax	**1,899**	562
Tax using the UK Corporation tax rate of 30% (2005: 30%)	**570**	169
Effects of:		
Expenses not deductible for tax purposes	**47**	229
Tax payable at less than 30%	**(6)**	(8)
Losses not utilised in current year	**101**	-
Over provision in previous years	**(542)**	(367)
Expenses not reported in income statement	**(170)**	-
Deferred tax not recognised	-	44
Change in temporary differences	**(96)**	-
Total tax in income statement	**(96)**	67

13 Taxation (continued)

The over provision for income tax in previous years relates to the tax treatment of the change to the Group's revenue recognition policy in accordance with the application note relating to UK Financial Reporting Standard No.5, adopted in the year to 30 September 2004.

14 Dividends

	2006 £000	2005 £000
Interim dividend of 1.1p per share, (2005: 1.1p)	**452**	445
Final dividend relating to previous financial year of 1.4p per share (2005: nil)	**572**	-
Total dividend for the financial year	**1,024**	445

15 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit 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 which adds back items typically adjusted for by users of the accounts. The calculations for basic, diluted, adjusted basic and adjusted diluted earnings per share, as well as the weighted average number of ordinary shares at the end of the year are presented below.

	2006 £000	2005 £000
Profit for the year	**1,995**	495
Amortisation of acquisition related intangible assets	**319**	104
Share based payment charges	**642**	458
Non-recurring administrative expenses	**-**	1,076
Adjusted profit for the year	**2,956**	2,133

	2006 No.	2005 No.
In issue at the start of the year	**40,813,482**	50,000,000
Effect of shares issued in the year	**604,396**	28,024,298
Effect of share reconstruction*	**-**	(35,618,132)
Weighted average number of shares at year end	**41,417,878**	42,406,166
Effect of share options	**1,938,639**	2,155,233
Effect of deferred consideration	**1,000,000**	-
Weighted average number of shares (diluted) at year end	**44,356,517**	44,561,399

	2006 (pence)	2005 (pence)
Earnings per share:		
Basic	**4.8**	1.2
Diluted	**4.5**	1.1
Adjusted earnings per share:		
Basic	**7.1**	5.0
Diluted	**6.7**	4.8

* The company consolidated 50,000,000 ordinary shares of 1 pence into 5,000,000 ordinary shares of 10 pence prior to the company's admission to AIM on 16 December 2004.

Notes to the consolidated financial statements
(continued)

16 Property, plant and equipment

	Freehold land and buildings £000	Short leasehold land and buildings £000	Plant and equipment £000	Total £000
Cost				
Balance at 1 October 2004	762	350	1,886	2,998
Acquired with subsidiary undertaking	-	-	20	20
Additions	-	-	107	107
Balance at 30 September 2005	762	350	2,013	3,125
Acquired with subsidiary undertakings	-	-	126	126
Additions	-	-	116	116
Disposals	(738)	-	-	(738)
Reclassification	(24)	24	-	-
Balance at 30 September 2006	-	374	2,255	2,629
Depreciation				
Balance at 1 October 2004	322	-	1,746	2,068
Charge for the year	1	50	92	143
Balance at 30 September 2005	323	50	1,838	2,211
Charge for period	4	50	106	160
Disposals	(327)	-	-	(327)
Balance at 30 September 2006	-	100	1,944	2,044
Net book value				
At 30 September 2004	440	350	140	930
At 30 September 2005	439	300	175	914
At 30 September 2006	**-**	**274**	**311**	**585**

Leased plant and machinery

At 30 September 2006, the net carrying amount of leased plant and machinery was £69,000 (2005: £nil). The leased plant and equipment was acquired with Sanderson Retail Systems Limited on 22 February 2006, when the net book value was £78,000.

17 Intangible assets

	Goodwill £000	Intellectual Property £000	Customer Relationships £000	Distributor Agreements £000	Development Costs £000	Total £000
Cost						
Balance as at 1 October 2004	22,211	-	-	-	116	22,327
Business combination						
- review of fair value of assets previously acquired	239	-	-	-	-	239
Business combination						
- Sanderson PCSL Limited	802	128	183	-	-	1,113
Other acquisitions						
- internally developed	-	-	-	-	145	145
Balance at 30 September 2005	23,752	128	183	-	261	23,824
Business combination						
- Sanderson Retail Systems Ltd	1,372	524	1,174	150	-	3,220
Other acquisitions						
- externally purchased	-	250	-	-	-	250
Other acquisitions						
- internally developed	-	-	-	-	271	271
Balance at 30 September 2006	24,624	902	1,357	150	532	27,565
Amortisation and impairment						
Balance at 1 October 2004	-	-	-	-	-	-
Amortisation for the year	-	43	61	-	50	154
Balance at 30 September 2005	-	43	61	-	50	154
Amortisation for the year	-	104	198	17	41	360
Balance at 30 September 2006	-	147	259	17	91	514
Net carrying value						
Balance at 1 October 2004	22,211	-	-	-	116	22,327
Balance at 30 September 2005	23,252	85	122	-	211	23,670
Balance at 30 September 2006	**24,624**	**755**	**1,098**	**133**	**441**	**27,051**

Notes to the consolidated financial statements

(continued)

17 Intangible assets (continued)

Amortisation and impairment

Intangible assets other than goodwill are amortised over their useful economic life. 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 is expected to remain in its present form. This is typically between 3 and 5 years. In the case of development costs, amortisation is charged over the period during which the development is expected to generate revenue or 3 years, whichever is the shorter.

The amortisation and impairment charge is recognised in the following line items in the income statement:

	2006 £000	2005 £000
Administrative expenses	**360**	154

18 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 in the balance sheet:

	Assets		**Liabilities**		**Net**	
	2006 £000	2005 £000	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Property, plant and equipment	**225**	327	**-**	-	**225**	327
Intangible assets	**-**	-	**(621)**	(93)	**(621)**	(93)
Share based payment charges	**285**	73	**-**	-	**285**	73
Trade and other payables	**45**	-	**-**	-	**45**	-
Employee benefits	**554**	744	**-**	-	**554**	744
	1,109	1,144	**(621)**	(93)	**488**	1,051

Movement in deferred tax year ended 30 September 2006

	As at 1 October 2005 £000	**Income Statement £000**	**Acquisition of subsidiaries £000**	**Statement of recognised income and expense £000**	**As at 30 September 2006 £000**
Property, plant and equipment	327	(102)	-	-	225
Intangible assets	(93)	26	(554)	-	(621)
Share based payment charges	73	212	-	-	285
Trade and other payables	-	45	-	-	45
Employee benefits	744	-	-	(190)	554
	1,051	181	(554)	(190)	488

18 Deferred tax assets and liabilities (continued)

Movement in deferred tax year ended 30 September 2005

	As at 1 October 2004 £000	Income Statement £000	Acquisition of subsidiaries £000	Statement of recognised income and expense £000	As at 30 September 2005 £000
Property, plant and equipment	-	327	-	-	327
Intangible assets	-	-	(93)	-	(93)
Share based payment charges	-	73	-	-	73
Employee benefits	438	-	-	306	744
	438	400	(93)	306	1,051

Deferred tax recognised directly in equity

	2006 £000	2005 £000
Relating to employee benefit schemes	**190**	(306)

Deferred tax asset not recognised

	2006 £000	2005 £000
Tax losses, not recognised as future economic benefit is uncertain	**4,098**	2,452

19 Trade and other receivables

	2006 £000	2005 £000
Trade receivables	**3,219**	3,152
Prepayments and accrued income	**908**	636
	4,127	3,788

20 Cash and cash equivalents

	2006 £000	2005 £000
Cash and cash equivalents	**463**	524

21 Loans and other borrowings

	2006 £000	2005 £000
Current liabilities:		
Secured bank loans	**500**	760
Current portion of obligations under finance leases	**28**	-
	528	760
Non-current liabilities:		
Secured bank loans	**2,390**	1,380
Obligations under finance leases	**30**	-
	2,420	1,380

Notes to the consolidated financial statements
(continued)

21 Loans and other borrowings (continued)

The secured bank loans are repayable by equal quarterly instalments of £125,000. The carrying value of loans and other borrowings is not materially different from fair value.

Bank loans have been advanced by Royal Bank of Scotland plc under a 5 year term facility that is in place until November 2010. Royal Bank of Scotland 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 a percentage that varies by reference to the Group's gearing.

In addition to the creditors shown above, a subsidiary company issued loan notes as deferred consideration relating to a transaction entered into in 2000. The loan notes were repaid on 2 October 2006, and were fully guaranteed by Dresdner Bank AG. Dresdner Bank AG held a cash deposit equal to the value of the loan notes outstanding as security against the guarantee it had issued. Interest payments and receipts are approximately the same value in any one period. Interest is payable on the loan notes bi-annually by reference to LIBOR, and interest is receivable on the cash deposit bi-annually by reference to LIBID. On the basis that substantially all of the risks and rewards relating to the issue and repayment of the loan notes have been transferred, the directors consider it appropriate not to recognise the asset and liability separately in the accounts. At 30 September 2006 the value of loan notes outstanding and cash on deposit with Dresdner Bank AG amounted to £6,024,342.

22 Other interest-bearing loans and borrowings

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2006 £000	**Interest 2006 £000**	**Principal 2006 £000**	Minimum lease payments 2005 £000	Interest 2005 £000	Principal 2005 £000
Less than one year	**6**	**1**	**5**	**-**	-	-
Between one and five years	**60**	**7**	**53**	**-**	-	-
	66	**8**	**58**	**-**	-	-

The total obligations are payable:

	2006 £000	2005 £000
Within one year	**28**	-
After one year	**30**	-
	58	-

23 Deferred contingent consideration

	2006 £000	2005 £000
Arising on acquisition of Sanderson Retail Systems Limited (note 5)	**500**	-
Discount applied on deferred contingent consideration	**(58)**	-
Amortisation of discount in period	**22**	-
	464	-

24 Trade and other payables

	2006 £000	2005 £000
Trade payables	**674**	937
Other taxation and social security	**741**	898
Accruals	**936**	1,381
	2,351	3,216

25 Share capital

	2006 No. '000	2005 No. '000
Authorised		
Equity: Ordinary shares of 10 pence each	**53,500**	53,500

	2006 £000	2005 £000
Allotted, called up and fully paid Equity:		
Equity: Ordinary shares of 10 pence each	**4,181**	4,081

On 22 February 2006, the company issued 1,000,000 shares as part of the consideration payable on the acquisition of Sanderson Retail Systems Limited. A further 1,000,000 shares were included in the acquisition price as deferred contingent consideration and will be issued in either December 2007 or December 2008, dependent upon certain trading targets being met by Sanderson Retail Systems Limited. These deferred consideration shares have been valued at the market price of the shares in issue on 22 February 2006 and are shown in the balance sheet as 'shares to be issued'.

26 Capital and reserves

Reconciliation of movements in capital and reserves

	Attributable to equity holders of parent				
	Share capital £000	Share premium £000	Shares to be issued £000	Retained earnings £000	Total equity £000
At 1 October 2004	500	-	-	(282)	218
Actuarial results on employee benefits	-	-	-	(1,052)	(1,052)
Deferred taxation	-	-	-	306	306
Dividends paid	-	-	-	(445)	(445)
Share based payment charges	-	-	-	423	423
Issue of share capital	3,581	14,183	-	-	17,764
Result for the period	-	-	-	495	495
At 30 September 2005	4,081	14,183	-	(555)	17,709
Actuarial result on employee benefits	-	-	-	630	630
Deferred taxation	-	-	-	(190)	(190)
Dividends paid	-	-	-	(1,024)	(1,024)
Share based payment charges	-	-	-	596	596
Issue of share capital	100	395	495	-	990
Result for the period	-	-	-	1,995	1,995
At 30 September 2006	**4,181**	**14,578**	**495**	**1,452**	**20,706**

The aggregate amount of current and deferred tax relating to items that are charged or credited to equity is £368,000 (2005: £179,000).

Notes to the consolidated financial statements
(continued)

27 Financial instruments disclosure

Financial instruments policy
Treasury and financial risk policies are set by the board. All instruments utilised by the Group are for financing purposes. The day-to-day financial management and treasury function is controlled centrally for all operations. During the year the Group had no derivative transactions.

Financial assets and liabilities
The Group's financial instruments comprise borrowings, cash and liquid resources, and various items such as trade debtors, trade creditors, accruals and prepayments that arise directly from its operations.

Interest rate exposure
The Group's credit facilities attract interest at rates based on LIBOR plus a margin dependent upon the Group's gearing. The directors regularly review the costs of these facilities and consider whether they remain appropriate.

Currency exposure
At 30 September 2006 the Group had no material currency exposure. The Group's financial instruments are materially denominated in sterling.

Available facilities
The Group has overdraft and term debt facilities amounting to £9,089,000 secured on the Group's undertakings, property and assets. All borrowings are denominated in sterling and have floating interest rate terms. The maturity of the Group's undrawn committed facilities may be summarised as follows:

	2006 £000	2005 £000
One year or less, or on demand	**1,000**	1,000
Between two and five years	**5,199**	300
Undrawn committed facilities	**6,199**	1,300

28 Reconciliation of net cash to net funds

	2006 £000	2005 £000
Decrease in cash and cash equivalents	**(61)**	(1,260)
(Increase) / decrease in debt and finance leases	**(714)**	18,420
(Decrease) / increase in net funds from cash flows	**(775)**	17,160
Finance leases acquired with subsidiary	**(94)**	-
(Decrease) / increase in net funds	**(869)**	17,160
Net debt at beginning of year	**(1,616)**	(18,776)
Net debt at end of year	**(2,485)**	(1,616)

29 Analysis of net debt

	At start of period £000	Cash flow £000	Arising on acquisition of subsidiary £000	At end of period £000
Cash	524	(61)	-	463
Bank loan:				
Within one year	(760)	260	-	(500)
After one year	(1,380)	(1,010)	-	(2,390)
Obligations under finance leases	-	36	(94)	(58)
Net debt	(1,616)	(775)	(94)	(2,485)

30 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 property, assets and undertakings. Total bank borrowings at 30 September 2006 amounted to £2,890,000 (2005: £2,140,000).

31 Commitments

There were no capital commitments existing at 30 September 2006 or 30 September 2005.

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

	2006		2005	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**59**	-	47	-
In the second to fifth years inclusive	**149**	-	72	-
Over five years	**279**	-	186	-
	487	-	305	-

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

	2006		2005	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**16**	-	28	-
In the second to fifth years inclusive	**521**	-	474	-
Over five years	**5,651**	-	5,007	-
	6,188	-	5,509	-

Notes to the consolidated financial statements

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32 Pension schemes

The Group operates three defined contribution pension schemes in the UK. The pension cost charge for the year relating to these schemes was £220,000 (2005: £253,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

A company within the Group is also the principal employer to two defined benefit pension schemes, The Pension and Life Assurance Plan of Sanderson Systems Limited ('the Plan') and The Sanderson Group Retirement Benefit Scheme ('the Scheme'). The schemes are UK based and closed to new members and future accrual.

The defined benefit schemes are funded solely by employer contributions, as they are closed to future accrual and as a result have no contributing members. As part of the demerger of the former Sanderson Group in 2003, a legal agreement was reached under which the previous fellow subsidiary undertakings, Civica plc and Talgentra Holdings Limited, together with Sanderson Limited, collectively fund the Scheme and the Plan.

Triennial actuarial valuations as at 1 October 2005 for the Scheme and 1 November 2005 for the Plan are in the process of being finalised. Both valuations were performed by the actuaries appointed to the schemes, and in both cases the appointed actuaries are independent of the Group. Both valuations are based on the defined accrued benefit method, which is considered appropriate for schemes in which benefit accrual has ceased.

As a result of the legal agreement negotiated as part of the demerger referred to above, the Group is under no obligation to contribute to the funding arrangement of the Plan. Whilst the Plan has recourse to the Group in the event of a wind up under the provisions of s75 Pensions Act 1995, the directors are of the opinion that the likelihood of the debt materialising is sufficiently small that no provision has been made in the accounts in respect of the Group's obligations to the Plan.

The Group is the largest contributor to the funding arrangements of the Scheme, and has adopted IAS 19 in accounting for the Group's share of the Scheme's funding deficit.

IAS 19 disclosures

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

	Valuation 30 September 2006	Valuation 30 September 2005
Inflation	**2.9%**	2.8%
Pension revaluation in deferment	**2.9%**	2.8%
Pension escalation in payment	**2.9%**	2.8%
Discount rate	**5.1%**	4.9%
Mortality table	**AM92 & AF92**	AM92 & AF92

The Group's share of the assets and liabilities of the Scheme at 30 September were:

	2006 £000	2005 £000
Fair value of Scheme assets	**5,009**	4,727
Fair value of Scheme liabilities	**(6,858)**	(7,207)
Deficit	**(1,849)**	(2,480)

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

	2006 £000	2005 £000
Included within operating profit:		
Current service cost	**4**	4
Included within finance income:		
Expected return on Scheme assets	**288**	276
Included within finance expense:		
Interest cost on Scheme liabilities	**(363)**	(321)

32 Pension schemes (continued)

Amounts recognised in the statement of recognised income and expense, before taxation:

	2006 £000	2005 £000
Actual return on Scheme assets	**629**	530
Fair value of Scheme liabilities	**(288)**	(276)
Deficit	**341**	254
Experience gains or losses arising on the Scheme liabilities	**(128)**	(479)
Effect of changes in actuarial assumptions	**417**	(827)
Deficit net of deferred tax	**630**	(1,052)

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

	2006 £000	2005 £000
Opening defined benefit obligation	**(7,207)**	(5,933)
Current service cost	**(4)**	(4)
Interest cost	**(363)**	(321)
Benefit payments made	**427**	357
Actuarial gains / (losses)	**289**	(1,306)
Closing defined benefit obligation	**(6,858)**	(7,207)

The assets of the Scheme are principally invested in a unitised with-profits fund. Changes in the Group's share of the fair value of the Scheme's assets, before taxation:

	2006 £000	2005 £000
Opening fair value of Scheme assets	**4,727**	4,474
Expected return	**288**	276
Actuarial gains / (losses)	**341**	254
Benefit payments made	**(427)**	(357)
Contributions paid	**80**	80
Closing fair value of Scheme assets	**5,009**	4,727

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

	2006 £000	2005 £000
Present value of defined benefit obligation	**(6,858)**	(7,207)
Fair value of Scheme assets	**5,009**	4,727
Deficit in the Scheme	**(1,849)**	(2,480)
Experience adjustments on the Scheme liabilities	**289**	(1,306)
Experience adjustments on the Scheme assets	**341**	254

Total contributions to the defined benefit schemes for the financial year ending 30 September 2007 are not known as the Group is in the process of negotiating a new schedule of contributions with the Scheme actuary. Contributions will not be less than the £80,000 contributed during 2006.

Notes to the consolidated financial statements

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33 Explanation of transition to IFRS

As stated in the accounting policies, these are the Group's first annual consolidated financial statements prepared in accordance with IFRS. In preparing its opening IFRS balance sheet and comparative information for the financial statements for the year ended 30 September 2005, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

The details of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows are set out in the tables below. The adjustments have been required to comply with the following reporting standards:

IFRS 2 'Share based payments' requires the fair value cost of providing employee share ownership plans to be charged to the income statement over the estimated life of the share ownership plans. Under UK GAAP such charges were restricted to one specific share ownership plan, namely the Long Term Incentive Plan (LTIP).

IFRS 3 'Business combinations' requires goodwill to be capitalised and subjected to an annual impairment test rather than amortised by way of equal annual charges as required by UK GAAP. The standard also requires separable, identifiable, intangible assets arising on acquisition to be capitalised at fair value and amortised over their estimated useful economic lives. In addition, deferred contingent consideration in respect of previous acquisitions has been reassessed.

IAS 10 'Events after the balance sheet date' requires dividends to be recorded in the period in which they are approved or paid. Under UK GAAP dividends were adjusted for as a post balance sheet event.

IAS 12 'Income taxes' requires that deferred taxation be provided in respect of the share based payment charges and acquisition related intangible assets.

IAS 19 'Employee benefits' requires recognition of pension scheme deficits on the balance sheet and service costs, interest costs and expected returns on scheme assets to be charged to the income statement. Under UK GAAP, differences between funding contributions and the amount charged to the income statement were treated as either prepayments or accruals in the balance sheet. Pension scheme contributions and variations in pension costs resulting from actuarial valuations were spread over the future average working life of active members.

IAS 38 'Intangible assets' requires that development expenditure meeting certain criteria be capitalised and amortised over its useful economic life. Under UK GAAP all such development expenditure was expensed as incurred.

Reconciliation of profit – year ended 30 September 2005

	UK GAAP £000	IFRS 2 £000	IFRS 3 £000	IAS 19 £000	IAS 38 £000	Restated IAS £000
Revenue	15,460	-	-	-	-	15,460
Cost of sales	(3,123)	-	-	-	-	(3,123)
Gross profit	12,337					12,337
Administrative expenses	(12,156)	(148)	1,151	(9)	95	(11,067)
Result from operating activites	181	(148)	1,151	(9)	95	1,270
Finance income	28	-	-	276	-	304
Finance expense	(691)	-	-	(321)	-	(1,012)
Profit before tax	(482)	(148)	1,151	(54)	95	562
Income tax charge	(67)	-	-	-	-	(67)
Profit after tax	(549)	(148)	1,151	(54)	95	495
Earnings per share (pence)						
Basic	(1.29)	(0.34)	2.71	(0.13)	0.22	1.17
Diluted	(1.29)	(0.33)	2.58	(0.12)	0.21	1.05

33 Explanation of transition to IFRS (continued)

Reconciliation of equity at 30 September 2004

	UK GAAP £000	IFRS 2 £000	IFRS 3 £000	IAS 10 £000	IAS 19 £000	IAS 38 £000	Restated IAS £000
Assets							
Non-current assets							
Property, plant & equipment	930	-	-	-	-	-	930
Intangible assets	22,211	-	-	-	-	116	22,327
Deferred taxation	-	-	-	-	438	-	438
	23,141	-	-	-	-	116	23,695
Current assets							
Inventories	103	-	-	-	-	-	103
Trade & other receivables	4,145	-	-	-	-	-	4,145
Cash & cash equivalents	1,784	-	-	-	-	-	1,784
	6,032	-	-	-	-	-	6,032
Total assets	29,173	-	-	-	438	116	29,727
Liabilities							
Non-current liabilities							
Loans & borrowings	(18,331)	-	-	-	-	-	(18,331)
Employee benefits	(1,247)	-	-	-	(213)	-	(1,460)
	(19,578)	-	-	-	(213)	-	(19,791)
Current liabilities							
Loans & borrowings	(2,229)	-	-	-	-	-	(2,229)
Trade & other payables	(2,699)	-	-	-	(195)	-	(2,894)
Income tax payable	(100)	-	-	-	-	-	(100)
Deferred income	(4,495)	-	-	-	-	-	(4,495)
	(9,523)	-	-	-	(195)	-	(9,718)
Total liabilities	(29,101)	-	-	-	(408)	-	(29,509)
Net assets	72	-	-	-	30	116	218
Shareholders equity							
Share capital	500	-	-	-	-	-	500
Retained earnings	(428)	-	-	-	30	116	(282)
	72	-	-	-	30	116	218

Notes to the consolidated financial statements
(continued)

33 Explanation of transition to IFRS (continued)

Reconciliation of equity at 30 September 2005

	UK GAAP £000	IFRS 2 £000	IFRS 3 £000	IAS 10 £000	IAS 12 £000	IAS 19 £000	IAS 38 £000	Restated IAS £000
Assets								
Non-current assets								
Property, plant & equipment	914	-	-	-	-	-	-	914
Intangible assets	22,949	-	401	-	93	16	211	23,670
Deferred tax assets	400	-	-	-	(93)	744	-	1,051
	24,263	-	401	-	-	760	211	25,635
Current assets								
Inventories	103	-	-	-	-	-	-	103
Trade & other receivables	3,788	-	-	-	-	-	-	3,788
Cash & cash equivalents	524	-	-	-	-	-	-	524
	4,415	-	-	-	-	-	-	4,415
Total assets	28,678	-	401	-	-	760	211	30,050
Liabilities								
Non-current liabilities								
Loans & borrowings	(1,380)	-	-	-	-	-	-	(1,380)
Employee benefits	(1,173)	-	-	-	-	(1,307)	-	(2,480)
	(2,553)	-	-	-	-	(1,307)	-	(3,860)
Current liabilities								
Loans & borrowings	(760)	-	-	-	-	-	-	(760)
Trade & other payables	(4,315)	-	750	572	-	(223)	-	(3,216)
Income tax payable	(455)	-	-	-	-	-	-	(455)
Deferred income	(4,050)	-	-	-	-	-	-	(4,050)
	(9,580)	-	750	572	-	(223)	-	(8,481)
Total liabilities	(12,133)	-	750	572	-	(1,530)	-	(12,341)
Net assets	16,545	-	1,151	572	-	(770)	211	17,709
Shareholders equity								
Share capital	4,081	-	-	-	-	-	-	4,081
Share capital	14,183	-	-	-	-	-	-	14,183
Retained earnings	(1,719)	-	1,151	572	-	(770)	211	(555)
	16,545	-	1,151	572	-	(770)	211	17,709

Company balance sheet

at 30 September 2006

	Note	At 30 September 2006 £000	At 30 September 2005 £000 Restated
Fixed Assets			
Tangible Assets		**-**	-
Investments	37	**23,118**	20,523
		23,118	20,523
Current assets			
Debtors	39	**1,655**	1,022
Current liabilities			
Creditors: amounts falling due within one year	40	**(1,147)**	(2,383)
Net current assets / (liabilities)		**508**	(1,361)
Total assets less current liabilities		**23,626**	19,162
Creditors: amounts falling due within one year	41	**(4,159)**	-
Net assets		**19,467**	19,162
Capital and reserves			
Called up share capital	42	**4,181**	4,081
Shares to be issued		**495**	-
Share premium account	43	**14,578**	14,183
Profit and loss account	43	**213**	898
Equity Shareholders' funds		**19,467**	19,162

The balance sheet was approved by the board of directors on 21 December 2006 and signed on its behalf by:

D A O'Byrne
Director

Notes to the company balance sheet

34 Company accounting policies

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 1985. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

These accounts 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 230 (4) of the Companies Act 1985.

Under FRS 1 the company is exempt from the requirement to present its own cash flow statement.

Adoption of newly applicable accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements, except that the following new standards have been adopted for the first time:

- FRS 20 'Share based payment charges;
- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements have been restated in accordance with the new policies and the balance sheet at period end restated, as summarised below:

	30 September 2005 £000
Reduction in creditors - proposed dividend	572

In addition to the above restatement, deferred consideration relating to the acquisition of Sanderson PCSL Ltd in July 2005 has been restated.

Financial instruments
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised at cost.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

34 Company accounting policies (continued)

Share based payment charges

The 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 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 an expense 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.

Taxation

The charge to taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes that have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard No.19.

35 Personnel expenses

The company employed three non-executive directors (2005: three non-executives). Fees paid in respect of these appointments amounted to £76,000 (2005: £63,000).

36 Employee share option schemes

The Company granted options over its shares to directors and senior managers pursuant to an Inland Revenue approved enterprise management incentive plan (EMI), an unapproved share option plan and a long-term incentive plan (LTIP). No options have been granted during the year to 30 September 2006.

In addition, a Sharesave Plan has been made available to all employees. Options were granted in 2005 subject to a three year savings plan.

The key features of the LTIP are as follows:

- Shares will be released dependent upon Total Shareholder Return ('TSR') achieved by the Group over the period from 16 December 2004 to 30 September 2007 relative to the performance of a peer group of other listed companies in the same or similar sectors. TSR is defined as the growth in the Company's share price together with net dividends paid.
- None of the awards granted will vest for performance in the bottom 40% of the peer group, rising to 100% vesting for performance in the top half of the peer group.
- Share awards will be in the form of a deferred right over ordinary shares.

The directors are currently of the opinion that based upon performance to date, the maximum number of shares will be acquired by participants on the respective vesting dates in respect of the LTIP awards made. This has generated a profit and loss account charge of £407,000 (2005: £310,000).

The following table summarises the LTIP awards issued and which remain outstanding at 30 September 2006. The exercise price for these awards is £1 per employee on each occasion of exercise.

	Total awards outstanding at 30 September 2006	Market price at date of grant	Exercise period
Christopher Winn	910,972	50p	After 01.10.2007
David Andrew O'Byrne	506,587	50p	After 01.10.2007
Adrian David Frost	215,579	56p	After 01.10.2007
Other employees	305,501	50p	After 01.10.2007

Notes to the company balance sheet
(continued)

36 Employee share option schemes (continued)

The following table summarises the options outstanding under the other share option schemes.

	Shares under option at 30 September 2006	Exercise price	Exercise period
Approved EMI plan	1,413,373	50-57p	After 01.10.2007
Unapproved plan	2,001,307	50-56p	After 01.10.2007
Sharesave plan	646,791	60p	From 01.07.2008

37 Dividends

Under FRS 21 'Events after the balance sheet date', dividends are required to be accounted for in the period when approved or paid rather than the period when recommended as previously reported.

	2006 £000	2005 £000 Restated
Interim dividend of 1.1p per share, (2005: 1.1p)	**452**	445
Final dividend relating to previous financial year of 1.4p per share (2005: nil)	**572**	-
Total dividend for the financial year	**1,024**	445

38 Fixed asset investments

	Shares in Group undertakings £000 Restated
Company	
Cost	
At beginning of year	20,523
Additions – Sanderson Retail Systems Limited	2,595
At end of year	23,118
Net book value	
At 30 September 2006	**23,118**
At 30 September 2005	20,523

The principal subsidiary undertakings of Sanderson Group plc and their countries of incorporation are:

	Country of incorporation	Principal Activity	Class and percentage of shares held
Sonarsend Limited	England & Wales	Development & supply of IT products and services	**100%**
Sanderson Limited*	England & Wales	Development & supply of IT products and services	**100%**
Sanderson PCSL Limited	England & Wales	Development & supply of IT products and services	**100%**
Sanderson Retail Systems Limited	England & Wales	Development & supply of IT products and services	**100%**

* Shareholding in Sanderson Limited held by Sonarsend Limited.

39 Debtors

	2006 £000	2005 £000 Restated
Prepayments and accrued income	**13**	8
Deferred taxation	**285**	-
Amounts due from subsidiary undertakings	**1,004**	431
Group relief receivable	**353**	583
	1,655	1,022

40 Creditors: amounts falling due within one year

	2006 £000	2005 £000 Restated
Bank loans and overdraft	**500**	-
Other taxation and social security	**-**	35
Accruals	**147**	24
Deferred consideration	**500**	-
Amount due to subsidiary undertakings	**-**	2,324
	1,147	2,383

Bank loans have been advanced by Royal Bank of Scotland plc under a 5 year term facility that is in place until November 2010. Royal Bank of Scotland 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 a percentage that varies by reference to the Group's gearing.

In addition to the creditors shown above, a subsidiary company issued loan notes as deferred consideration relating to a transaction entered into in 2000. The loan notes were repaid on 2 October 2006, and were fully guaranteed by Dresdner Bank AG. Dresdner Bank AG held a cash deposit equal to the value of the loan notes outstanding as security against the guarantee it had issued. Interest payments and receipts are approximately the same value in any one period. Interest is payable on the loan notes bi-annually by reference to LIBOR, and interest is receivable on the cash deposit bi-annually by reference to LIBID. On the basis that substantially all of the risks and rewards relating to the issue and repayment of the loan notes have been transferred, the directors consider it appropriate not to recognise the asset and liability separately in the accounts. At 30 September 2006 the value of loan notes outstanding and cash on deposit with Dresdner Bank AG amounted to £6,024,342.

41 Creditors: amounts falling due after more than one year

	2006 £000	2005 £000
Bank loan	**2,389**	-
Amount due to subsidiary undertakings	**1,770**	-
	4,159	-

Analysis of debt:

	2006 £000	2005 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	**500**	-
Between one and two years	**500**	-
Between two and five years	**1,889**	-
	2,889	-

Notes to the company balance sheet

(continued)

42 Called up share capital

	2006 No. '000	2005 No. '000
Authorised		
Equity: Ordinary shares of 10 pence each	**53,500**	53,500

	2006 £000	2005 £000
Allotted, called up and fully paid		
Equity: Ordinary shares of 10 pence each	**4,181**	4,081

On 22 February 2006, the company issued 1,000,000 shares as part of the consideration payable on the acquisition of Sanderson Retail Systems Limited. A further 1,000,000 shares were included in the acquisition price as deferred contingent consideration and will be issued in either December 2007 or December 2008, dependent upon certain trading targets being set by Sanderson Retail Systems Limited. These deferred consideration shares have been valued at the market price of the shares in issue on 22 February 2006 and are shown in the balance sheet as 'shares to be issued'.

43 Reserves

Company

	Profit and loss account £000	Shares to be issued £000	Share premium account £000
At beginning of year	898	-	14,183
Issue of share capital as consideration	-	495	395
Retained result for the year	(1,046)	-	-
LTIP reserve transfer	361	-	-
At end of year	213	495	14,578

44 Contingent liabilities

The company has guaranteed the bank facilities of its subsidiary companies. Bank facilities are also secured by fixed and floating charges over the whole of the company's property, assets and undertakings. Total bank borrowings at 30 September 2006 amounted to £2,890,000 (2005: £2,140,000).

45 Reconciliations of movements in shareholders' funds

	Company 2006 £000	Company 2005 £000 Restated
(Loss) / profit for the financial year	**22**	1,068
Dividends paid and proposed	**(1,024)**	(445)
Retained (loss) / profit for the year	**(1,046)**	623
LTIP reserve transfer	**361**	275
Issue of share capital	**495**	17,764
Shares to be issued	**495**	-
Net addition to shareholders' funds	**305**	18,662
Opening shareholders' funds	**19,162**	500
Closing shareholders' funds	**19,467**	19,162

Prior period restatement

The following UK accounting standards have been adopted for the first time in preparing the accounts of the company for the year ended 30 September 2006.

FRS21 Events after the balance sheet date

The standard requires dividends to be recognised when paid, or approved in General Meeting. As a result, certain dividends previously accrued at period ends have been recognised when paid.

FRS25 Financial instruments disclosure and presentation

Dividends, when recognised, are now reported as a movement in reserves rather than at the time of the profit and loss account.

Adoption has required the restatement of comparative figures shown in the balance sheet as summarised below:

	30 September 2005 £000
Reduction in creditors – proposed dividend	572

Financial calendar

Annual general meeting	6 February 2007
Registration for dividend	9 February 2007
Final dividend payment date	9 March 2007
Interim period end	31 March 2007
Year end	30 September 2007

Company information

Company secretary	Adrian Frost
Registered company number	4968444
Registered & head office	Sanderson House Manor Road Coventry CV1 2GF
Nominated advisor & broker	Arden Partners Arden House 17 Highfield Road Edgbaston Birmingham B15 3DU
Registrar	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen Birmingham B63 3DA
Solicitors to the company	Schofield Sweeney St James House 28 Park Place Leeds LS1 2SP DLA Piper Rudnick Gray Cary UK LLP Fountain Precinct Balm Green Sheffield S1 1RZ
Auditors to the company	KPMG Audit Plc 1 The Embankment Neville Street Leeds LS1 4DW

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