SANDERSON GROUP PLC

Annual Report and Accounts

for the year ended 30 September 2010

IT solutions driving continual business improvement

2010

About Sanderson

IT solutions driving continual business improvement

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

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

Established in 1983, Sanderson has a multi-million pound turnover and a track record of profitable trading. We employ around 300 people nationwide and continually invest in developing technology skills and business know-how.

We strive to be the best in our chosen fields and achieve market leadership through the quality of our products, people and services.

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SANDERSON GROUP PLC

Highlights

Financial

- Revenue up 8% to £26.99m (2009: £24.90m)
- Operating profit of £1.69m (2009: loss of £0.33m)
- Adjusted* operating profit up 12% to £3.09m (2009: £2.76m)
- Basic earnings per share of 0.60p (2009: loss per share of 2.70p)
- Adjusted* basic earnings per share of 3.90p (2009: 4.00p)
- Cash generated from operations up 80% to £3.37m (2009: £1.87m)
- Net debt at year end further reduced by £2.12m to £7.84m (2009: £9.96m)
- Proposed final dividend of 0.35p per share (2009: 0.20p) making total dividend for the year of 0.60p (2009: 0.40p), an increase for the year of 50%

Revenue
up 8%
to £26.99m
(2009: £24.90m)

Adjusted operating profit*
up 12%
to £3.09m
(2009: £2.76m)

Operational

- Total order intake up 22% to £15.55m (2009: £12.73m) which included £3.96m of orders from new customers (2009: £1.33m)
- Recurring revenues of £13.66m representing 51% of total revenues (2009: £13.56m, 55% of total revenues)
- "Business Assurance" and "Factory Automation" product and service suites introduced last year gained further traction
- Green IT product suite launched during the year
- Multi-channel retail operations increased revenues from both new and existing customers by 10% to £21.17m (2009: £19.16m); 24 new customers during the year, including Hamleys, David Austin Roses, TJ Hughes and Links of London
- Manufacturing operations increased revenues to £5.83m (2009: £5.73m); four new customers including Bromford Industries and Piroto Labelling

Net debt
down 21%
to £7.84m
(2009: £9.96m)

Total dividend for the year
up 50%
to 0.60p
(2009: 0.40p)

* Before amortisation of acquisition-related intangibles, exceptional costs, impairment of goodwill and share-based payment charges.

At a glance

Sanderson

SANDERSON GROUP PLC

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

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

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

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

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

Manufacturing

Proven solutions for manufacturing and food & drink processing

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

Customers include:

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

Case Study:

Tunnock's

Tunnock's products – including caramel wafers, snowballs and teacakes – have become iconic. The company now sells to 30 countries across the world, reaching as far as Canada, Japan and Kuwait. Bruce Reidford, Company Secretary, describes how Sanderson food software and the company's 12 year relationship with Sanderson have enabled their business growth.

"We just could not have coped without Sanderson software. It would have been impossible to manage our expansion into global markets and to manage the regulatory demands. But it's not just about software. Sanderson has understood the way we operate, our values and our needs. They are very responsive and an excellent business partner."

Multi-Channel Retail

Helping multi-channel businesses excel

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

Retail Solutions

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

Customers include:

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

Case Study: Lakeland

Lakeland

Lakeland is a £140m+, multi-channel retailer, with 48 stores throughout the UK and a thriving mail order business. It was rated No. 1 High Street Shop in the Which? 2010 survey of 100 high street retailers. Lakeland has been a customer of retail management software supplier, Sanderson, for many years. What started out as a conventional customer-supplier relationship has progressed significantly and the two organisations now work very closely together. Operations Director, Gary Marshall comments, "Sanderson is very much a strategic partner. They certainly understand their market. They understand what retailers want and they strive very hard to deliver. They are very effective at what they do. It's a partnership that we value because we know they will respond and deliver what they promise."

Multi-Channel, E-Commerce and Wholesale Solutions

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

Customers include:

OKA At Home with Design, Aspinal of London, Thorntons, Hotel Chocolat, Nisa Today's, mothercare, MandM Direct

Case Study: Healthspan

Healthspan

Healthspan is the UK's leading home shopping supplier of vitamins, minerals and health supplements. The business has enjoyed huge growth in the past few years and averages the despatch of 30,000 packages to customers every day. On selecting Sanderson software, Healthspan's Deputy Manager Director, Graham Case, recalls: "What we needed was a system that would become the backbone of the whole organisation". That backbone is Elucid - the leading multi-channel software solution, supplied by Sanderson – and it has been the lifeblood of the Healthspan business. "The solution has definitely brought us improved speed, efficiency and, importantly, accuracy." The business prides itself on uncompromising service and quality, and this wouldn't be possible without the all-round visibility and flexibility that Elucid has provided.

Chairman's statement

Christopher Winn

"Sanderson has continued to experience the improved level of momentum in its businesses which commenced in the late summer of 2009, achieving an increased order intake and further growth in its order book during the year. Notwithstanding the UK economy's slow recovery from recession and competitive market conditions, the Group has continued to gain an increased value of business from new customers in both its manufacturing and multi-channel retail divisions."

Introduction

Sanderson has continued to experience the improved level of momentum in its businesses which commenced in the late summer of 2009, achieving an increased order intake and further growth in its order book during the year. Notwithstanding the UK economy's slow recovery from recession and competitive market conditions, the Group has continued to gain an increased value of business from new customers in both its manufacturing and multi-channel retail divisions.

The Group has continued to invest resources into both improving service levels, as well as, in the development of new software products, including the Group's managed service offering, which the Board anticipates will further enhance market competitiveness and future profitability.

Revenues increased during the year ended 30 September 2010 and the efficiency measures implemented over the course of the previous year contributed to the increase in the Group's overall profitability. Sanderson has added significantly to its customer base, with a continued focus on retaining and growing its recurring revenues. In addition, the Group has maintained efficient and prudent management of working capital. Strong cash generation during the year has enabled the Group to report a further significant reduction in net debt of more than £2m.

Results

Revenues for the year ended 30 September 2010 increased by 8% to £26.99m (2009: £24.90m) with recurring revenues from annual software licences, support and managed service contracts increasing to £13.66m and representing 51% of total revenue (2009: £13.56m, 55% of revenue). Operating profit, before the amortisation of acquisition-related intangibles, exceptional costs, impairment of goodwill and before the charge in respect of share-based payments, increased by 12% to £3.09m (2009: £2.76m). Profit before taxation, before the amortisation of acquisition-related intangibles, exceptional costs, impairment of goodwill and before the charge in respect of share-based payments increased by 79% to £1.91m (2009: £1.07m).

Cash generated from operations in the 12 months to 30 September 2010 increased by 80% to £3.37m (2009: £1.87m). The Group remains focused on strong cash generation and net debt has fallen to £7.84m at 30 September 2010 (2009: £9.96m) from a peak of £12.46m at 31 March 2008. Further reductions in net debt form a key part of the Group's plans to strengthen the consolidated statement of financial position in the short to medium term.

Deferred income increased by 3% from the prior period, to stand at £7.10m at the year end (2009: £6.91m). Whilst a creditor, deferred income is an important measure of the strength of the Sanderson business model, being the amount of recurring revenue paid in advance but deferred for revenue recognition purposes to future accounting periods.

Cash generated from operations
up 80%
to £3.37m
(2009: £1.87m)

Adjusted profit before taxation*
up 79%
to £1.91m
(2009: £1.07m)

* Before amortisation of acquisition-related intangibles, exceptional costs, impairment of goodwill and share-based payment charges.

Hamleys joined neighbours Kurt Geiger & Jaeger to become sixth Regent Street retailer to partner with Sanderson

Business review

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

Building the aggregate value of recurring revenues remains a key Group objective. Having developed and organically grown a managed services and hosting business now contributing annual revenue in excess of £3m per annum, the Group is undertaking a further capital investment in the Milton Keynes managed services centre in order to improve the platform for further growth.

The Group has continued to increase its sales and marketing efforts, focusing on the improved account management of existing customers, whilst more aggressively competing and gaining new customers. The new product and services suites of Business Assurance and Factory Automation, introduced in the previous year, have continued to gain traction in their respective markets. The introduction, in March 2010, of solutions based on the latest technologies in the areas of internet retailing and ecommerce have provided further business impetus. The product portfolios were further enhanced by the launch, in the second half year, of a number of energy saving products, collectively branded 'Green IT'.

Total order intake for the year was strong at £15.55m compared to £12.73m in the previous financial year, with orders from new customers in the 12 months to 30 September 2010 of £3.96m (2009: £1.33m). At 30 September 2010, the order book stood at £3.03m compared to £1.92m at 30 September 2009.

Chairman's statement continued

"Whilst the Board remains cautious in its outlook and sensitive to conditions in the general economy, the new financial year has started well. The Group continues to be busy and improving business momentum, illustrated by the increasing value of the order book, provides the Board with a good level of confidence moving into the financial year ending 30 September 2011."
Christopher Winn

Review of multi-channel retail
The Group provides end-to-end, comprehensive IT solutions to businesses operating in retail, mail order, fulfilment and wholesale distribution and, increasingly, to those with an online sales presence. Revenues derived from multi-channel retail operations increased by 10% to £21.17m (2009: £19.16m). Activity levels from the larger existing retail customers have continued to be strong, especially in the areas of fraud prevention and PCI compliance. Business from our smaller retail customers, including charities, has begun to recover from the low levels of the previous year.

A total of 24 new customers were gained during the year (2009: 21) including Hamleys, David Austin Roses, TJ Hughes, Aquascutum and Links of London. Large projects were awarded by a number of existing customers, including Wilkinson, The Original Factory Shop, Fenwick and Lakeland.

Order intake was much improved at £12.95m for the financial year (2009: £10.62m) and the order book at 30 September 2010 was £2.47m (2009: £1.47m).

Review of manufacturing
The Group's manufacturing business covers the provision of modern, functionally rich, IT solutions to manufacturing companies which operate primarily in the engineering, plastics, aerospace, electronics, print and food process sectors. Revenues were higher at £5.83m (2009: £5.73m) and the most marked recovery in activity was in the area of general manufacturing, especially printing and aerospace.

Four new customers were gained including Bromford Industries (aerospace), Piroto Labelling (print), Susan Day Cakes (food processing) and MacSween of Edinburgh (food processing), compared with three in the 12 months ending 30 September 2009. Recurring revenues continue to be strong, accounting for 61% of total revenue (2009: 66%). The gross margin from this revenue stream covers 83% of divisional overheads (2009: 83%).

Strategy
The Group's concentration on the core markets of multi-channel retail and manufacturing ensure a total focus on developing specialist solutions to customers and prospective customers in these sectors. In addition to the new products and services already introduced (Business Assurance, Factory Automation and Green IT), further new developments are scheduled for introduction during the year. We continue to maintain and to enhance market competitiveness designed to deliver an improved financial performance, which in turn will ensure longer term growth prospects and enable the further reduction of net debt.

Dividend
The Board is pleased with the improvement in trading performance reported for the financial year and whilst continuing to focus on reducing debt levels, it is seeking to return to a progressive dividend policy. Subject to approval at the Annual General Meeting of shareholders, expected to be held on 10 March 2011, a final dividend of 0.35 pence per ordinary share is proposed, making a total of 0.60 pence for the year (2009: 0.40 pence). The final dividend will be paid on 25 March 2011 to shareholders on the register at the close of business on 4 March 2011.

New customer order intake up 198%

Management and staff
The Group operating board (constituted in October 2008) and 'new management team', has continued to be instrumental in delivering an improved and improving business performance. In total, the Group employs approximately 270 staff, who have a high level of experience in the specialist markets which the Group addresses. The commitment of staff to the development of the Sanderson business is crucial and we would like to thank all of our staff for their support, commitment and contribution to the Group's progress.

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

The successful introduction of our Business Assurance and Factory Automation solutions has recently been complemented by the introduction of internet retailing, ecommerce and Green IT products. Software as a Service ('SaaS') will be launched during the next quarter. 'SaaS' is defined by TechMarketView LLP, the UK's leading research and analysis business for the technology sector, as '*the off-premise provision of applications on demand on a pay-for-use basis by the IP owner*'. The new SaaS offering will initially target smaller manufacturing businesses looking to move to their first enterprise-wide system, a new sector of the market for Sanderson.

Whilst the Board remains cautious in its outlook and sensitive to conditions in the general economy, the new financial year has started well. The Group continues to be busy and improving business momentum, illustrated by the increasing value of the order book, provides the Board with a good level of confidence moving into the financial year ending 30 September 2011.

Christopher Winn
Chairman
30 November 2010

Financial review

Adrian Frost

"The Group remains focused on strong cash generation and net debt has fallen to £7.84m at 30 September 2010 as a result of an 80% increase in cash generated from operations. Further reductions in net debt, together with continued growth of the Group's profits, remain key goals for management."

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. Interest rate hedging arrangements are used to provide protection against significant interest rate fluctuations.

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.
- **Economic** As a supplier to the retail and manufacturing markets, a further worsening of the economic climate affecting these sectors may lead to a reducing spend on IT systems and services by customers and prospective customers.
- **Operational** The Group's most significant assets are the intangible assets acquired with acquisitions, the intellectual property developed by the Group and its employees. The Group's quality procedures ensure software products remain reliable and of high quality. The market for skilled staff is competitive. Recruiting, retaining, developing and motivating staff remains a key priority of the business.

Revenue Analysis
£000

51% of revenue derived from annual, pre-contracted ('recurring') sources

Recurring revenue margin covers **66%** of overheads

Incremental revenue margin covers **43%** of overheads

- **Liquidity** The Group's exposure to liquidity risk arises as a result of bank loans drawn to fund previous acquisitions. The loans are term facilities with scheduled repayments that are factored into the Group's trading and cash forecasts. Economic conditions create uncertainty particularly over the level of demand for the Group's solutions with potential implications on actual levels of revenue and cash generation. The Group's trading and cash forecasts take account of possible changes in trading performance and show the Group will be able to operate within the existing facilities.
- **Financial** The systems of internal control deployed within the Group are designed to prevent financial loss. Controls are strongest in areas where management consider the potential exposure of the Group to material loss to be at its greatest, such as contract management and credit control.

Successful introduction of Factory Automation & Business Assurance solutions complemented by launch of Green IT product suite

Key performance indicators ('KPIs')

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

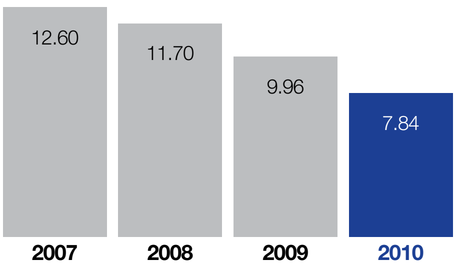
Indicator	2010	2009
Revenue per employee	**£97,500**	£85,200
Operating profit* per employee	**£11,100**	£9,500
Debtors over 60 days as percentage of total debtors	**8.3%**	7.7%
Debt to earnings ratio	**2.33 times**	3.20 times

* Before amortisation of acquisition-related intangibles, exceptional costs, impairment of goodwill and share-based payment charges.

Improved activity levels, together with the effect of cost reduction initiatives implemented in 2009 and affecting headcount, have contributed to improved performances in respect of both revenue and operating profit per employee. Continued development and expansion of the Group's product offerings should contribute to further improvements in these measures.

The percentage of debtors over 60 days old has increased slightly. The total includes an amount of £102,000 relating to an ongoing project at year end, paid in October 2010. Had the payment been received prior to year end, the debtor percentage over 60 days would have fallen to 6.5%. Cash collection remains a key part of our working capital management. Against a backdrop of continuing economic difficulty, bad debt expense fell in 2010 as a result of the excellent work undertaken by our credit control staff and customer account managers.

Net Debt
£m



The debt to earnings ratio compares gross bank debt with earnings before interest, tax, depreciation and amortisation (EBITDA). The Group is seeking to reduce this ratio below 2 and has made significant progress during the year ended 30 September 2010, further reducing the ratio from 3.20 to 2.33. Further improvements in profitability and continuing with the debt repayment schedule should enable this target to be achieved in the financial year ending 30 September 2011.

Adrian Frost
Finance Director
30 November 2010

Board of directors

Christopher Winn
Chairman

Aged 60. Educated at Queen Elizabeth School, Kirkby Lonsdale and Nottingham University, Christopher worked for British Olivetti until 1974 when he joined the ACT Group — ACT Group became the second UK IT company to be listed on the London Stock Exchange in 1979. He served on the Group plc Board between 1983 and 1994, undertaking a number of senior roles and in 1995, he joined the former Sanderson Group, becoming Group Chief Executive later in that year. In 1999, he led a management buyout or 'take private' of the former Sanderson Group with the support and backing of the Alchemy Plan. Following restructuring and the demerger of the original Group, the business which was focused primarily on UK commercial markets and which retained the Sanderson Group name, gained admission to the London Stock Exchange AIM market in December 2004.

Adrian Frost BA, ACA
Finance Director

Aged 43. A graduate of Sheffield University, Adrian qualified as a Chartered Accountant whilst working for RSM Robson Rhodes. In 1996, he joined Hadley Industries plc as Group Financial Controller. Adrian joined Sanderson in 2000, shortly after the management buyout, and worked closely with the Board in restructuring the former Group into three separate businesses — Sanderson, Civica and Talgentra. Adrian was appointed Finance Director of Talgentra following the formal demerger of the Group, and rejoined Sanderson Group plc in May 2005.

David Gutteridge
Non-Executive Director

Aged 59. David is the senior independent Non-Executive Director of Sanderson Group plc. He is the Chairman of Tinglobal Limited, an IT infrastructure and support solutions provider, and was, until recently, a Non-Executive Director at AIM listed Cyan Technology plc, a fabless semiconductor company developing configurable low power microcontrollers. David has also acted as an independent consultant involved in strategic business development and corporate transactions. He is a member of the Chartered Institute of Management Accountants. He was co-founder of Financial Objects plc in 1995 and, as Finance Director and then Chief Operating Officer, led several acquisitions and the full listing on the London Stock Exchange in 1998. Prior to this he held a number of senior financial and commercial roles at ACT Group plc, Seiko Epson Ltd and Logica plc.

SANDERSON GROUP PLC

Philip Kelly
Non-Executive Director

Aged 58. Philip is a Non-Executive Director of several companies in the software and related services sector. He has over 20 years' experience as the Chief Executive of private and publicly quoted software companies supplying the commercial and public sectors in the UK, Europe and the USA. Philip had previously worked for Digital Equipment and 3i Consultants.

John Paterson
Non-Executive Director

Aged 64. John has extensive City experience as an investment analyst. He was Managing Director of Albert E Sharp Securities stockbrokers from 1993 until the acquisition of Albert E Sharp by Old Mutual in 1998, and he was instrumental in setting up Arden Partners in 2002 where he was a Director until November 2004.

Group information

Company Secretary
Adrian Frost

Registered company number
4968444

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Auditors to the Company
Grant Thornton UK LLP
Enterprise House
115 Edmund Street
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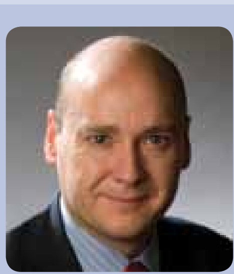
Financial PR
Winningtons Financial
Westpoint
78 Queens Road
Bristol
BS8 1QX

Operating board

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

Executive directors (biographies on page 10)



Christopher Winn
Chairman

Adrian Frost
Finance Director

Senior directors

David Mahoney

Managing Director Sanderson RBS

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

Ian Newcombe

Managing Director Multi-Channel Solutions

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

David O'Byrne

Group Projects Director

David has over 35 years' experience in the software and IT services sector. His early career was spent in a number of senior technical and managerial roles in commercial and 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 the rapid growth of this business prior to his appointment as Managing Director of Sanderson in April 2002. David stepped down from the main Board in 2009 to focus on Group projects. David works on a part-time basis.

Steve Watson

Deputy Chairman Sanderson Retail Division

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

Employees

The Group's employees are a significant asset of the business. We are fortunate to be able to employ staff with detailed knowledge of the industries in which we operate. We have taken the opportunity to highlight some of the many staff who deliver value to our customers and to our organisation on a daily basis.

Sid Desai

Solutions Architecture Manager

Sid graduated from King's College London in 2000, with a BSc (Hons) in Mathematics and Computer Science. After time at Torex — XN Corporation and high street retailer Argos, he joined Sanderson RBS in 2004. Sid manages a team of Solution Architects and has been responsible for the technical requirements of over 20 retail customers including Fenwick, Harrods, Selfridges, Tottenham Hotspur, Wilkinson and Wyevale Garden Centres (where he helped them win the Retail Systems Award for 'EPoS Solution of the Year'). Recent success stories include the Hamleys' roll-out and re-architecture of the TJ Hughes infrastructure after acquiring this customer from a competitor.

Janet Cartlidge

Business Analyst, Production & Print

Janet has been implementing IT solutions in manufacturing environments, on both the client and supplier side, for nearly 24 years. She started her career at Spencer Clark Metal Industries in 1986, progressing to IT Manager, before becoming Divisional IT Manager for the Metals and Distribution Divisions of Aurora Group. Janet joined Sanderson in 1998 as an Analyst Programmer. Now Business Analyst, Janet brings all her industry experience to bear in this position, and is responsible for both the presales and implementation aspects of customer projects — her latest work involving Bromford Industries, a new aerospace customer for Sanderson in 2010.

Spencer McKelvey

Head of Account Management, Retail

A graduate of Southampton University, Spencer gained a 2:1 degree in History before joining NSB Retail Solutions (later acquired by BT Expedite) in sales and marketing. He was appointed as an account manager at Retail Business Solutions (now Sanderson RBS) in 2001. Spencer became Head of Account Management in 2010. Spencer's dedication to delivering exceptional customer service, and his achievements in sales, were recognised last year when he won the Sanderson award for Salesperson of the Year.

Melanie Tymm

Client Services Manager, Multi-Channel Solutions

Melanie graduated from Plymouth University with a 2:1 BA (Hons) degree in Business Studies and a distinction in Industrial Studies with Marks and Spencer. She holds post graduate certificates in Project Management and Marketing. Melanie joined Elucid (acquired by Sanderson in 2007) in 2001. As Client Services Manager, she leads a team of consultants and has successfully managed over 20 major existing, as well as new customer projects including Marshalls, Scotts of Stow and Thorntons.

Fiona Crombie

PA to the Chairman

Fiona joined Sanderson in 2002, as the Chairman's PA. During her time at Sanderson, in support of the Chairman, she has been involved in acquisitions, the admission of Sanderson Group to the London Stock Exchange AIM market, and shareholder communications. Fiona has 15 years' experience working in tax and financial environments and prior to Sanderson, worked at Arthur Andersen where she was PA to the Office Managing Partner.

Lorna White

Graduate Management Trainee

Lorna obtained her 2:1 degree in Business Management & Information Management from the University of Sheffield. She demonstrated her business acumen whilst at University by winning a Rolls Royce award of excellence, taking part in the IBM challenge, and gaining a Chartered Institute of Management certificate from the Entrepreneurship Summit. Lorna joined Sanderson on its Graduate Management Trainee Programme in 2010.

Corporate governance statement

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

Board of directors

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

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

Board committees

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

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

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

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

Directors' remuneration

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

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

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

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

Internal control

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

Shareholder communication

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

Funding

During the year, the Group has generated earnings before interest, tax, depreciation and amortisation ('EBITDA') of £3.47m (2009: £3.11m), operating cash flows of £3.37m (2009: £1.87m) and has repaid £1.46m of bank debt. Taking account of cash balances at the year end, net debt has reduced from £9.96m to £7.84m.

As reported in the Chairman's statement on pages 4 to 7, the Group has reported an improvement in profitability and activity levels year on year and is seeing improving market conditions. Forecasts prepared by the Board extend to September 2012 and take account of reasonably possible changes in trading performance that may arise as a result of the Group's principal risks as detailed in the Finance review. The forecasts illustrate that the Group should be able to operate within the available bank facility and accordingly the directors have prepared the accounts on a going concern basis.

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2010.

International Financial Reporting Standards

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

Principal activities

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

Business review

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

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

Dividend

A final dividend of 0.20 pence per share was paid on 26 March 2010 (2009: 0.20 pence) relating to the financial year ended 30 September 2009. An interim dividend of 0.25 pence per ordinary share was paid on 20 August 2010 (2009: 0.20 pence per share) in respect of the financial year ended 30 September 2010. The directors propose the payment of a final dividend in respect of the year ended 30 September 2010 of 0.35 pence per ordinary share. The final dividend is subject to shareholder approval at the Annual General Meeting on 10 March 2011 and, if approved, will be paid on 25 March 2011 to shareholders on the register at the close of business on 4 March 2011.

Employees

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

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

Directors and directors' interests

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

	Interest at end of year	**Interest at start of year**
	Ordinary shares of 10 pence	Ordinary shares of 10 pence
Christopher Winn	13,000,000	2,238,199
Adrian Frost	61,000	61,000
Philip Kelly*	20,000	20,000
David Gutteridge*	125,000	125,000
John Paterson*	90,000	90,000

* Denotes non-executive directors.

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

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

† Total amount payable on each occasion of exercise.

Notes relating to options to purchase ordinary shares

The Remuneration Committee commissioned an independent review of the performance conditions relating to those options for which conditions had been set. In all cases, the report found that the qualifying conditions had been met and accordingly all of the options issued during the financial year ended 30 September 2005 are exercisable.

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

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

Substantial shareholdings

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

	Number of shares	%
Christopher Winn	13,000,000	29.9
AXA Framlington Investment Management	3,996,303	9.2
ISIS Ep LLP	3,000,075	6.9
Chelverton Asset Management	2,730,000	6.3
Marlborough Special Situations Fund	2,165,000	5.0
Polar Capital Technology Trust	1,900,000	4.4
Unicorn Asset Management	1,540,200	3.5

Policy and practice on payment of creditors

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

At the year end, the Company had no trade creditors (2009: nil).

Research and development

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

Directors' report continued

Statement of directors' responsibilities in respect of the directors' report and the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Parent company financial statements continue to be prepared under UK GAAP, as permitted by the Companies Act 2006. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS or UK GAAP have been followed as appropriate, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

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

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

By order of the Board

Adrian Frost
Secretary
Sanderson Group plc
Sanderson House
Manor Road
Coventry
CV1 2GF
30 November 2010

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

We have audited the Group financial statements of Sanderson Group plc for the year ended 30 September 2010 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and notes thereto. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities in respect of the Directors' report and the financial statements set out on page 18, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRS

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

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

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the parent company financial statements of Sanderson Group plc for the year ended 30 September 2010.

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
30 November 2010

Consolidated income statement

for the year ended 30 September 2010

	Note	Before amortisation and impairment of intangible assets £000	Amortisation and impairment of intangible assets £000	Total 2010 £000	Total 2009 £000
Revenue	4	26,999	—	**26,999**	24,896
Cost of sales		(8,366)	—	**(8,366)**	(6,868)
Gross profit		18,633	—	**18,633**	18,028
Technical and development costs		(8,813)	—	**(8,813)**	(8,789)
Administrative and establishment expenses		(4,473)	(1,381)	**(5,854)**	(7,275)
Sales and marketing costs		(2,277)	—	**(2,277)**	(2,297)
Results from operating activities		3,070	(1,381)	**1,689**	(333)
Results from operating activities before adjustments in respect of the following:	6	3,093	—	**3,093**	2,763
Amortisation of acquisition-related intangibles		—	(1,381)	**(1,381)**	(1,381)
Exceptional operating costs	6	—	—	**—**	(190)
Impairment of goodwill		—	—	**—**	(1,499)
Share-based payment charges	5	(23)	—	**(23)**	(26)
Results from operating activities	4	3,070	(1,381)	**1,689**	(333)
Finance income	8	391	—	**391**	405
Finance expenses	9	(1,578)	—	**(1,578)**	(1,537)
Movement in fair value of derivative financial instrument		4	—	**4**	(561)
Profit/(loss) before taxation		1,887	(1,381)	**506**	(2,026)
Taxation	10	(234)	—	**(234)**	841
Profit/(loss) for the year attributable to equity holders of the parent		1,653	(1,381)	**272**	(1,185)
Earnings/(loss) per share					
From continuing operations					
Basic earnings/(loss) per share	12			**0.6p**	(2.7p)
Diluted earnings/(loss) per share	12			**0.6p**	(2.7p)

Consolidated statement of comprehensive income

for the year ended 30 September 2010

	Note	2010 £000	2009 £000
Profit/(loss) for the year		**272**	(1,185)
Other comprehensive income			
Foreign exchange differences		**–**	(13)
Defined benefit pension plan actuarial losses	25	**(2,163)**	(2,223)
Deferred taxation effect of defined benefit pension plan items	15	**606**	622
Other comprehensive income for the year, net of taxation		**(1,557)**	(1,614)
Total comprehensive expense attributable to equity holders of the parent		**(1,285)**	(2,799)

Consolidated statement of financial position

at 30 September 2010

	Notes	2010 £000	2009 £000
Non-current assets			
Property, plant and equipment	13	**430**	491
Intangible assets	14	**32,997**	34,340
Deferred tax assets	15	**1,721**	1,874
		35,148	36,705
Current assets			
Inventories		**321**	361
Trade and other receivables	16	**7,669**	6,171
Income tax receivable		**81**	506
Cash and cash equivalents		**248**	–
		8,319	7,038
Current liabilities			
Bank loans and borrowings	17	**(1,644)**	(1,672)
Trade and other payables	19	**(5,043)**	(3,697)
Derivative financial instrument	22	**(485)**	(489)
Deferred income		**(7,098)**	(6,672)
		(14,270)	(12,530)
Net current liabilities		**(5,951)**	(5,492)
Total assets less current liabilities		**29,197**	31,213
Non-current liabilities			
Loans and borrowings	17	**(6,440)**	(8,286)
Pension and other employee obligations	25	**(3,779)**	(1,839)
Deferred income		**–**	(234)
Deferred tax liabilities	15	**(759)**	(1,178)
		(10,978)	(11,537)
Net assets		**18,219**	19,676
Equity attributable to equity holders of the Company			
Share capital	20	**4,338**	4,338
Share premium	21	**4,178**	15,178
Retained earnings	21	**9,703**	160
Total equity		**18,219**	19,676

These financial statements were approved by the Board of directors on 30 November 2010 and were signed on its behalf by:

Christopher Winn
Director

Company Registration Number
4968444

Consolidated statement of changes in equity

for the year ended 30 September 2010

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

for the year ended 30 September 2009

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2008	4,338	15,178	3,107	22,623
Dividend paid	—	—	(174)	(174)
Share-based payment charge	—	—	26	26
Transactions with owners	—	—	(148)	(148)
Loss for the year			(1,185)	(1,185)
Other comprehensive income:				
Foreign exchange differences	—	—	(13)	(13)
Actuarial result on employee benefits	—	—	(2,223)	(2,223)
Deferred tax on above	—	—	622	622
Total comprehensive expense	—	—	(2,799)	(2,799)
At 30 September 2009	4,338	15,178	160	19,676

Consolidated statement of cash flows

for the year ended 30 September 2010

	Notes	2010 £000	2009 £000
Cash flows from operating activities			
Profit/(loss) for the year after taxation		**272**	(1,185)
Adjustments for:			
Amortisation and impairment of intangible assets		**1,495**	2,988
Depreciation		**260**	240
Share-based payment expense		**23**	26
Net finance expense		**1,183**	1,693
Income tax		**234**	(841)
Operating cash flow before changes in working capital and provisions		**3,467**	2,921
Movement in trade and other receivables		**(1,527)**	762
Movement in inventories		**40**	36
Movement in trade and other payables		**1,648**	(1,611)
Payments to employee benefit plan		**(258)**	(234)
Cash generated from operations		**3,370**	1,874
Interest paid		**(1,245)**	(1,372)
Income tax received		**541**	653
Net cash flow from operating activities		**2,666**	1,155
Cash flow from investing activities			
Purchase of plant and equipment		**(199)**	(129)
Development expenditure capitalised		**(152)**	(92)
Net cash flow from investing activities		**(351)**	(221)
Cash flow from financing activities			
Repayment of bank borrowing		**(1,459)**	(2,200)
Repayment of finance lease principal		**(12)**	(21)
Equity dividends paid	11	**(195)**	(174)
Net cash flow from financing activities		**(1,666)**	(2,395)
Net increase/(decrease) in cash and cash equivalents		**649**	(1,461)
Cash and cash equivalents at beginning of year		**(401)**	1,060
Cash and cash equivalents at the end of the year		**248**	(401)

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 2010 comprise the results of the Company and its subsidiary undertakings (together referred to as the Group). The Group is primarily involved in the development and supply of IT software and services. The Company's shares are traded on the Alternative Investment Market of the London Stock Exchange.

2. Basis of preparation

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

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

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

The financial statements have been prepared on a going concern basis. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance that may arise as a result of current economic conditions and other risks faced by the Group, show that the Group should be able to operate within the level of its current facility. The current facility was renegotiated in July 2009, with term debt repayments and financial covenants set at a level commensurate with current levels of trading. This facility expires in June 2014.

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgements

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

Note 14: Measurement of intangible assets: In testing for impairment of goodwill, management have made certain assumptions concerning the future development of the business that are consistent with the annual budget and business plan. Should these assumptions regarding the growth in profitability be unfounded then it is possible that goodwill included in the Consolidated statement of financial position could be impaired. Management are confident that this will not be the case. The Group has a history of retaining customers, with the average length of customer relationship in excess of ten years. The time and resources required by organisations to change enterprise systems is significant and therefore discourages change. The Group therefore believes the existing business will continue to generate revenues for many years. Accordingly, when assessing the recoverable value attributable to goodwill, management have estimated cash flows attributable to existing businesses and extrapolated forward 2010/11 budgets in line with the average length of customer relationships.

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

2. Basis of preparation continued

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

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

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 3 Business Combinations (Revised 2008)
- IFRS 9 Financial Instruments
- IAS 24 (Revised 2009) Related Party Disclosures
- IAS 32 Classification of Rights Issues

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

- IFRIC 14 & IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 19 — Extinguishing Financial Liabilities with Equity Instruments

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

Changes in accounting policies

The Group has adopted IAS 1 'Presentation of Financial Statements (Revised 2007)', which does not affect the financial position or profits of the Group, but gives rise to additional disclosures. IAS 1 'Presentation of Financial Statements (revised 2007)' affects the presentation of owner changes in equity and introduces a 'Statement of Comprehensive Income'. In accordance with the new standard, a 'Statement of Recognised Income and Expense' is no longer required and a 'Statement of Changes in Equity' is presented.

IAS 1 'Presentation of Financial Statements (Revised 2007)' requires presentation of a comparative statement of financial position as at the beginning of the first comparative period, in some circumstances. The directors do not consider that this is necessary this year as the 2009 consolidated statement of financial position is the same as that previously published.

IFRS 3 'Business Combinations (Revised 2008)' has resulted in a number of changes to the way that future business combinations are measured and accounted for. However, there were no such business combinations during 2010.

IFRS 7 'Amendment on Improving Financial Instruments Disclosures' requires additional disclosures for financial instruments carried at fair value in the Statement of Financial Position. These fair value measurements are categorised into a three level hierarchy (see note 22) reflecting the extent to which they are valued on observable data.

Under IFRS 8 'Operating Segments', the information reported is as in previous years, and is that used by the chief operating decision maker for internally evaluating segment performance and deciding how to allocate resources to operating segments.

Basis of consolidation

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

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

Property, plant and equipment

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

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

The annual rates used are:

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

Inventories

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

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

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

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

Accounting for financial assets

The Group has financial assets in the following categories:

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

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

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

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

3. Accounting policies continued

Accounting for financial liabilities

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

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

Derivative financial instruments

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

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

Cash and cash equivalents

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

Equity instruments

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

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

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

Foreign currency

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

Taxation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Accounting policies continued

Impairment

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

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

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

Pension benefits

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

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Statement of other comprehensive income as incurred.

Share-based payments

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

Segmental reporting

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

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

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

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

4. Segmental reporting

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

	Manufacturing		Multi-Channel		Total	
	2010 £000	2009 £000	**2010 £000**	2009 £000	**2010 £000**	2009 £000
Revenue — external customers	**5,832**	5,733	**21,167**	19,163	**26,999**	24,896
Operating profit before amortisation, impairment and share-based payment charges	**836**	758	**2,257**	2,005	**3,093**	2,763
Amortisation of acquisition-related intangibles	**—**	—	**(1,381)**	(1,381)	**(1,381)**	(1,381)
Impairment of goodwill	**—**	(1,499)	**—**	—	**—**	(1,499)
Exceptional operating costs	**—**	(44)	**—**	(146)	**—**	(190)
Share-based payment charges	**(5)**	—	**(18)**	(26)	**(23)**	(26)
Operating profit/(loss)	**831**	(785)	**858**	452	**1,689**	(333)
Net finance expense					**(1,183)**	(1,693)
Profit/(loss) before taxation					**506**	(2,026)
Property, plant and equipment	**100**	198	**330**	293	**430**	491
Intangible assets	**11,228**	11,209	**21,769**	23,131	**32,997**	34,340
Inventory	**18**	37	**303**	324	**321**	361
Cash and cash equivalents	**734**	—	**922**	92	**1,656**	92
Trade and other receivables	**1,319**	1,263	**6,350**	4,908	**7,669**	6,171
Total assets	**13,399**	12,707	**29,674**	28,748	**43,073**	41,455
Bank overdraft	**—**	(493)	**—**	—	**—**	(493)
Trade and other payables	**(1,266)**	(659)	**(3,777)**	(3,038)	**(5,043)**	(3,697)
Deferred income	**(1,721)**	(2,059)	**(5,377)**	(4,851)	**(7,098)**	(6,906)
Total liabilities	**(2,987)**	(3,211)	**(9,154)**	(7,889)	**(12,141)**	(11,096)
Allocated net assets	**10,412**	9,496	**20,520**	20,859	**30,932**	30,359
Other unallocated assets and liabilities					**(12,713)**	(10,683)
Net assets					**18,219**	19,676

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

5. Share-based payments

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

Grant date	Employees entitled	Number of options	Performance conditions	Exercise price (p)	Earliest exercise date	Expiry date
16/12/2004	Management	1,566,762	Earnings per share growth	50.00	01/10/2007	15/12/2014
16/12/2004	Management	764,326	Earnings per share growth	54.25	01/10/2007	30/09/2014
16/12/2004	Management	1,417,559	TSR† target	00.00*	01/10/2007	15/12/2011
27/05/2005	Management	215,579	Earnings per share growth	56.00	01/10/2007	15/12/2014
27/05/2005	Management	250,421	Earnings per share growth	57.00	01/10/2007	30/09/2014
27/05/2005	Management	215,579	TSR† target	00.00*	01/10/2007	15/12/2011
04/08/2009	Management	1,025,000	Operating profit, EPS growth and TSR† targets	09.50	03/08/2012	03/08/2016
21/05/2010	Management	1,050,000	Operating profit, EPS growth and TSR† targets	23.00	21/05/2013	21/05/2017
		6,505,226				

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

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

	2010 Weighted average exercise price	2010 Number of options (number)	2009 Weighted average exercise price	2009 Number of options (number)
Outstanding at start of year	**28.9p**	**5,455,226**	34.0p	5,463,128
Granted during the year	**23.0p**	**1,050,000**	9.5p	1,025,000
Forfeited during the year	**—**	**—**	(41.5p)	(1,032,902)
Outstanding at end of the year	**27.6p**	**6,505,226**	28.9p	5,455,226
Exercisable at end of the year	**33.0p**	**4,430,226**	33.0p	4,430,226

The Remuneration Committee commissioned an independent review of the performance conditions relating to those options for which conditions had been set and the qualifying periods had ended. In all cases where options remain to be exercised the report found that the qualifying conditions had been met.

Options outstanding at 30 September 2010 have exercise prices in the ranges 0.0p to 57.0p per share. The weighted average contractual life of the options is 4.1 years (2009: 6.4 years).

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.

Granted in the year to 30 September 2010:

Options over 1,050,000 shares were granted on 21 May 2010, to members of the operating board and certain other senior managers, with performance targets based on the profitability of the Group, percentage increases in share price and total shareholder return compared with a peer group, all targets being measured over a three year period. At the date of grant the market price of shares was 23.0p, which is also the exercise price. In calculating the fair value of the options, expected volatility in the share price was assumed to be 50%, the average life of the options was assumed to be three and a half years and a risk-free rate of interest was assumed to be 1.4%. Expected volatility was determined by reference to the historical volatility of the Group's share price between June 2007 and May 2010.

Granted in the year to 30 September 2009:

Options over 1,025,000 shares were granted on 4 August 2009, to members of the operating board with performance targets based on the profitability of the Group, percentage increases in share price and total shareholder return compared with a peer group, all targets being measured over a three year period. At the date of grant the market price of shares was 9.5p, which is also the exercise price. In calculating the fair value of the options, expected volatility in the share price was assumed to be 56%, the average life of the options was assumed to be three years and a risk-free rate of interest was assumed to be 5%. Expected volatility was determined by reference to the historical volatility of the Group's share price between September 2008 and August 2009.

Charge to the income statement

The charge to the income statement comprises:

	2010 £000	2009 £000
Share-based payment charges	**23**	26

6. Expenses and auditors' remuneration

Included in the income statement are the following items:

	2010 £000	2009 £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**	28
All other services	**1**	9
Depreciation and other amounts written off property, plant & equipment:		
Owned	**244**	224
Leased	**16**	16
Amortisation of acquisition-related intangible assets	**1,381**	1,381
Impairment of goodwill	**–**	1,499
Amortisation of development costs	**114**	108
Cost of inventory recognised as an expense	**8,366**	6,868
Rentals payable under plant and machinery operating leases	**49**	34
Leasehold property rentals	**526**	602

The audit fee relating to the parent company is borne by a subsidiary undertaking.

There were no exceptional costs charged to the operating result in 2010. Exceptional costs charged to the operating result in 2009 represent the cost of effecting a cost reduction programme during the year.

Notes to the consolidated financial statements

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7. Personnel expenses

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

	2010 number	2009 number
Technical	**215**	228
Sales and marketing	**33**	32
Administrative	**29**	32
	277	292

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

	2010 £000	2009 £000
Wages and salaries	**9,404**	9,646
Social security costs	**1,026**	1,030
Contributions to defined contribution pension plans	**299**	295
Share-based payment expense	**23**	26
	10,752	10,997

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

	Salary or fees £000	Car allowance £000	In lieu of pension £000	Salary deferred in 2009 £000	Bonus £000	Payments to defined contribution pension £000	Benefits in kind £000	**Total 2010 £000**	Total 2009 £000
Executive directors									
Christopher Winn	212	21	17	123	—	—	9	**382**	160
Adrian Frost	120	11	—	—	23	18	3	**175**	144
David O'Byrne (resigned 1 March 2009)	—	—	—	—	—	—	—	**—**	44
Non-executive directors									
David Gutteridge	30	—	—	—	—	—	—	**30**	30
Philip Kelly	30	—	—	—	—	—	—	**30**	30
John Paterson	30	—	—	—	—	—	—	**30**	30
	422	**32**	**17**	**123**	**23**	**18**	**12**	**647**	**438**

Christopher Winn deferred £123,000 of salary due in the year to 30 September 2009. The Remuneration Committee agreed to pay this salary in the year to 30 September 2010, in addition to salary to which Mr Winn was contractually entitled, having taken account of the improved financial performance of the Group.

Adrian Frost received a bonus calculated as a fraction of the rate of utilisation of tax losses. No other directors participated in the bonus scheme.

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

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

	2010 £000	2009 £000
Salaries, including bonuses	**1,233**	960
Benefits in kind	**28**	23
Pension contributions	**42**	29
Share-based payment charge	**21**	26
	1,324	1,038

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

8. Finance income

	2010 £000	2009 £000
Expected return on defined benefit pension scheme assets	**391**	392
Other interest	**—**	13
	391	405

9. Finance expenses

	2010 £000	2009 £000
Interest on bank overdrafts and loans	**1,016**	812
Interest on defined benefit pension scheme obligations	**421**	408
Loan arrangement fees	**141**	308
Other interest	**—**	9
	1,578	1,537

10. Taxation

	2010 £000	2009 £000
Current tax expense		
UK corporation tax for the current year	**—**	—
Overseas corporation tax for the current year	**11**	—
Relating to prior periods	**(117)**	(146)
Total current tax	**(106)**	(146)
Deferred tax		
Deferred tax for the current year	**185**	(692)
Relating to prior periods	**124**	(3)
Relating to change in rate of tax	**31**	—
Total deferred tax	**340**	(695)
Taxation charged /(credited) to the income statement	**234**	(841)

10. Taxation continued

Reconciliation of effective tax rate

The current consolidated tax charge for the period is greater (2009: credit greater) than the standard rate of corporation tax in the UK of 28%. The differences are explained below.

	2010 £000	2009 £000
Profit/(loss) before taxation	506	(2,026)
Tax using the UK corporation tax rate of 28% (2009: 28%)	142	(567)
Effects of:		
Expenses not deductible for tax purposes	70	497
Utilisation of losses not previously recognised	(16)	(821)
Under/(over) provision in previous years	7	(149)
Losses not utilised in year	–	202
Change in tax rate	31	–
Change in temporary differences	–	(3)
Total tax in income statement	234	(841)

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

	2010 £000	2009 £000
Tax losses not recognised as future economic benefit is uncertain	1,890	2,340

11. Dividends

	2010 £000	2009 £000
Interim dividend of 0.25p per share (2009: 0.20p)	108	87
Final dividend relating to previous financial year of 0.20p per share (2009: 0.20p)	87	87
Total dividend for the financial year	195	174

12. Earnings per share

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

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

Earnings:	2010 £000	2009 £000
Result for the year from continuing operations	272	(1,185)
Amortisation of acquisition-related intangible assets	1,381	1,381
Impairment charge	–	1,499
Share-based payment charges	23	26
Adjusted profit for the year	1,676	1,721

Number of shares:	2010 number	2009 number
In issue at the start of the year	**43,383,946**	43,383,946
Effect of shares issued in the year	**—**	—
Weighted average number of shares at year end	**43,383,946**	43,383,946
Effect of share options	**3,038,637**	1,780,258
Weighted average number of shares (diluted) at year end	**46,422,583**	45,164,204

	2010 pence	2009 pence
Earnings/(loss) per share:		
Basic	**0.6**	(2.7)
Diluted	**0.6**	(2.7)
Adjusted earnings per share:		
Basic	**3.9**	4.0
Diluted	**3.6**	3.8

There is no dilution to the basic loss per share in 2009 owing to a loss for the year being reported.

13. Property, plant and equipment

	Short leasehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 October 2008	487	681	1,168
Additions	26	103	129
Balance at 30 September 2009	513	784	1,297
Additions	—	199	199
Disposals	(380)	(401)	(781)
Balance at 30 September 2010	133	582	715
Depreciation			
Balance at 1 October 2008	225	341	566
Charge for the year	54	186	240
Balance at 30 September 2009	279	527	806
Charge for the year	106	154	260
Disposals	(380)	(401)	(781)
Balance at 30 September 2010	5	280	285
Net book value			
At 30 September 2009	234	257	491
At 30 September 2010	**128**	**302**	**430**

Leased plant and machinery
At 30 September 2010, the net carrying amount of leased plant and machinery was £11,434 (2009: £27,434).

Notes to the consolidated financial statements

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14. Intangible assets

	Goodwill £000	Intellectual property £000	Customer relationships £000	Distributor agreements £000	Development costs* £000	Total £000
Cost						
Balance at 1 October 2008	32,296	1,782	2,714	3,468	651	40,911
Other acquisitions:						
internally developed	—	—	—	—	92	92
Balance at 30 September 2009	32,296	1,782	2,714	3,468	743	41,003
Other acquisitions:						
internally developed	—	—	—	—	152	152
Balance at 30 September 2010	32,296	1,782	2,714	3,468	895	41,155
Amortisation and impairment						
Balance at 1 October 2008	889	726	958	741	361	3,675
Amortisation for the year	—	302	385	694	108	1,489
Impairment charge	1,499	—	—	—	—	1,499
Balance at 30 September 2009	2,388	1,028	1,343	1,435	469	6,663
Amortisation for the year	—	302	385	694	114	1,495
Balance at 30 September 2010	2,388	1,330	1,728	2,129	583	8,158
Net carrying value						
Balance at 30 September 2009	29,908	754	1,371	2,033	274	34,340
Balance at 30 September 2010	**29,908**	**452**	**986**	**1,339**	**312**	**32,997**

* Development costs are internally generated. All developments are available for use and are being amortised.

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

	2010 £000	2009 £000
Administrative expenses	**1,495**	2,988

Amortisation and impairment

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

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

	2010 £000	2009 £000
Manufacturing	**11,051**	11,051
Multi-channel	**18,857**	18,857
Goodwill	**29,908**	29,908

The Group tests goodwill annually for impairment, or more frequently if an event occurs to warrant a review. The recoverable amounts attributed to each CGU are based on value in use calculations. The key assumptions made in undertaking the value in use calculations are set out below. Budgeted profit and cash flow forecasts for the financial year ending 30 September 2011 were extrapolated for periods of between ten and thirteen years (based on the average length of customer relationship) and used as the basis of the calculations.

Sector growth rate assumptions used in the impairment review:
Manufacturing: 0%–2% operating profit growth based on management estimates of growth rates and achievable efficiency improvements.
Multi-Channel: 0%–5% operating profit growth based on independent estimates of industry specific growth rates where available, and previous experience where not.

Discount rate assumptions based on management estimates of the internal cost of capital likely to apply over the expected useful economic life of the goodwill and management's view of the risk associated with each sector:
Manufacturing: 8%
Multi-Channel: 12%

In light of improvements in trading performance experienced over the last 12–18 months, the directors have formulated profit and cash flow forecasts for the financial year ending 30 September 2011 on the basis of the growth rates set out above. The directors have sensitised the profit and cash flow forecast relating to both the manufacturing and multi-channel CGUs. The performance of the manufacturing CGU would need to fall by 5.75% to trigger an impairment charge. This is not expected to happen as management are able to take action to match the cost base of the division with gross margins achieved. The performance of the multi-channel CGU would require an 11% reduction before an impairment charge was required.

15. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

	Assets		**Liabilities**		**Net**	
	2010 £000	2009 £000	**2010 £000**	2009 £000	**2010 £000**	2009 £000
Property, plant and equipment	**306**	291	**–**	–	**306**	291
Intangible assets	**–**	–	**(759)**	(1,178)	**(759)**	(1,178)
Share-based payment expense	**30**	155	**–**	–	**30**	155
Trade and other payables	**152**	107	**–**	–	**152**	107
Employee benefits	**1,020**	515	**–**	–	**1,020**	515
Tax losses	**213**	806	**–**	–	**213**	806
	1,721	1,874	**(759)**	(1,178)	**962**	696

Movement in deferred tax for the year ended 30 September 2010

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

Notes to the consolidated financial statements
continued

15. Deferred tax assets and liabilities continued

Movement in deferred tax for the year ended 30 September 2009

	As at 30 September 2008 £000	Income statement £000	Statement of comprehensive income £000	As at 30 September 2009 £000
Property, plant and equipment	245	46	—	291
Intangible assets	(1,500)	322	—	(1,178)
Share-based payment expense	151	4	—	155
Trade and other payables	(104)	211	—	107
Employee benefits	(48)	(59)	622	515
Tax losses	637	169	—	806
	(619)	693	622	696

A deferred tax asset has been recognised in respect of tax losses reasonably expected to be utilised in the financial year ended 30 September 2011. The amount of the asset recognised has been quantified by reference to forecasts of taxable profits expected to arise. Expenses not allowable in calculating taxable profit, such as amortisation and impairment charges relating to goodwill, are ignored in assessing the forecast level of taxable profit.

A deferred tax asset of £1,890,000 (2009: £2,340,000) in respect of tax losses has not been recognised, as its future economic benefit is uncertain.

The rate of UK corporation tax is due to change during the financial year ending 30 September 2011. The rate at which deferred tax assets will be utilised has therefore been adjusted, resulting in a charge to the income statement of £31,000 (2009: £nil).

16. Trade and other receivables

	2010 £000	2009 £000
Trade receivables	**5,811**	4,543
Prepayments and accrued income	**1,858**	1,628
	7,669	6,171

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

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

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

Of the total trade receivables shown above, £1,586,000 (2009: £1,395,000) are past due but not impaired. An analysis of these trade receivables is set out below:

	2010 £000	2009 £000
0–30 days overdue	1,104	1,043
30–60 days overdue	129	166
60–90 days overdue	122	124
90+ days overdue	231	62
Total	1,586	1,395
Movement in impairment provisions:		
Balance at the beginning of the year	13	102
Impairment losses recognised	28	106
Amounts written off as uncollectable	(30)	(195)
Amounts recovered during the year	(3)	—
Balance at the end of the year	8	13

17. Loans and other borrowings

	2010 £000	2009 £000
Current liabilities:		
Secured bank loans	1,635	1,259
Bank overdraft	—	401
Current portion of obligations under finance leases	9	12
	1,644	1,672
Non-current liabilities:		
Secured bank loans	6,440	8,277
Obligations under finance leases	—	9
	6,440	8,286

Secured bank loans totalling £8,075,000 have been advanced by Royal Bank of Scotland under a facility expiring in June 2014. The loans have been advanced as three equal tranches: tranche A is repayable in quarterly instalments ending in June 2013, tranche B is repayable in quarterly instalments ending in June 2014 and tranche C is repayable in June 2014. The carrying value of loans and other borrowings is not materially different from fair value.

Royal Bank of Scotland 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 and is payable quarterly. An additional 5% interest is charged on the tranche C loan and is capitalised and added to the debt principal quarterly. The Group has entered into an interest rate hedge, the terms of which vary over the period to June 2014. The effective rate of LIBOR payable over the duration of the hedge is expected to be approximately 4.4%.

Notes to the consolidated financial statements
continued

18. Other interest-bearing loans and borrowings

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2010 £000	**Interest 2010 £000**	**Principal 2010 £000**	Minimum lease payments 2009 £000	Interest 2009 £000	Principal 2009 £000
Less than one year	**10**	**1**	**9**	14	2	12
Between one and five years	**–**	**–**	**–**	10	1	9
	10	**1**	**9**	24	3	21

19. Trade and other payables

	2010 £000	2009 £000
Trade payables	**2,431**	1,886
Other taxation and social security	**1,040**	809
Accruals and customer deposits	**1,572**	1,002
	5,043	3,697

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

20. Share capital

	2010 number '000	2009 number '000
Authorised		
Equity: Ordinary shares of 10 pence each	**53,500**	53,500

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

21. Capital and reserves

Reconciliation of movements in capital and reserves

Movements in capital and reserves are set out in the Consolidated statement of changes in equity on page 23.

The aggregate amount of current and deferred tax relating to items that are charged or credited to equity is a credit of £154,000 (2009: a debit of £452,000).

Court approval to the re-designation of a balance of £11,000,000 on the share premium account as a distributable reserve was received on 31 March 2010.

22. Financial instruments disclosure

Capital risk management

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

The Group manages its capital through the optimisation of the debt and equity balance and by pricing products and services commensurate with the level of risk. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated statement of changes in equity on page 23.

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

The gearing ratio at the year end is as follows:

	2010 £000	2009 £000
Debt	**8,084**	9,958
EBITDA	**3,467**	3,111
Debt to earnings ratio	**2.33**	3.20

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

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

Categories of financial assets and financial liabilities

The Group held the following categories of financial instruments:

	2010 £000	2009 £000
Financial assets		
Loans and receivables (including trade and other receivables, cash and cash equivalents)	**7,917**	5,730
Financial liabilities		
Fair value through profit and loss (FVTPL)	**485**	489
Trade payables and accruals — held at amortised cost	**3,725**	2,888
Borrowings at amortised cost	**8,084**	9,958
	12,294	13,335

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

22. Financial instruments disclosure continued

Liquidity risk management

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

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

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

	Current		Non-current	
2009	Within 6 months £000	6 to 12 months £000	1 to 2 years £000	2 to 5 years £000
Bank overdraft and loans	879	1,229	2,323	7,853
Finance lease obligations	7	7	10	—
Trade and other payables	2,888	—	—	—
	3,774	1,236	2,333	7,853

The Group's exposure to derivative financial instruments is limited to interest rate swaps for fixed terms that match the duration of the Group's term debt facilities. The derivative financial instruments expire on 30 June 2014. A total credit of £4,000 (2009: charge of £561,000) has been recognised in the income statement in respect of derivative financial instruments.

Interest rate sensitivity analysis

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

Interest rate swap contracts

The Group adopted the amendments to IFRS 7 Improving Disclosures about Financial Instruments effective from 1 January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position. In the first year of application comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for the 30 September 2010 year end.

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

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

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

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

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

The Group has entered into two swap contracts. A 'cap and collar' interest rate swap whereby the LIBOR rate is allowed to vary only between pre-determined levels ends in September 2011. Approximately £3m of term debt is subject to this arrangement with the principal amount reducing by approximately £250,000 per quarter. A further £5m of term debt is subject to a fixed rate swap. The principal sum subject to this arrangement also reduces on a quarterly basis, by an amount slightly in excess of the scheduled capital repayments, until June 2014.

At 30 September 2010 the fair value of interest rate swaps was recorded in the Consolidated statement of financial position as a liability of £485,000 (2009: £489,000).

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

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

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

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

Credit risk management
The Group's credit risk is primarily attributable to its trade receivables. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the Consolidated statement of financial position are net of allowances for doubtful debts, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The credit risk on liquid funds is minimized because the counterparties are UK banks with high credit-ratings assigned by international credit-rating agencies.

Management of other risks
The Group's policies on interest rate and liquidity risk are described on pages 43 and 44.

Notes to the consolidated financial statements
continued

23. Contingent liabilities
Each company within the Group has guaranteed the bank facilities of its fellow subsidiary companies. Bank facilities are also secured by fixed and floating charges over the whole of the Group's property, assets and undertakings. Total bank borrowings at 30 September 2010 amounted to £8,075,000 (2009: £9,937,000) net of arrangement costs.

24. Commitments
There were no capital commitments existing at 30 September 2010 or 30 September 2009.

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

	2010		2009	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Payable:				
Within one year	**467**	**24**	552	35
In the second to fifth years inclusive	**1,304**	**48**	1,492	55
Over five years	**3,195**	**—**	3,447	—
	4,966	**72**	5,491	90

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

25. Pension schemes
The Group operates three defined contribution pension schemes. The pension cost charge for the year relating to these schemes was £299,000 (2009: £295,000). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

A wholly owned subsidiary undertaking, Sanderson Limited, contributes to one defined benefit pension scheme. The scheme is now funded solely by employer contributions as it is closed to future accrual and as a result has no contributing members. The latest actuarial valuation of the scheme, as at 1 October 2008, showed the scheme to have a deficit of £3.78m. Sanderson Limited is now responsible for funding 75% of this deficit and an unrelated company funds the remaining 25%. The valuation was performed by the scheme actuary, who is independent of the Group. The valuation is based on the defined accrued benefit method, which is considered appropriate for schemes in which benefit accrual has ceased.

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

	2010	2009
Inflation	**3.15%**	3.25%
Pension revaluation in deferment	**3.15%**	3.25%
Pension escalation in payment	**3.15%**	3.25%
Discount rate	**5.00%**	5.60%
Expected rate of returns on scheme assets:		
— Unitised with profits	**5.75%**	5.75%
— Equities	**8.00%**	8.00%
— Bonds and gilts	**5.50%**	5.50%
— Cash	**5.00%**	5.00%
Mortality table	**PMA92 (2020) & PFA92 (2020) rated down 3 years**	PMA92 (2020) & PFA92 (2020) rated down 3 years

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

	2010 £000	2009 £000
Included within operating profit:		
Current service cost	(4)	(4)
Included within interest receivable:		
Expected return on scheme assets	391	392
Included within interest payable:		
Interest cost on scheme liabilities	(421)	(408)

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

	2010 £000	2009 £000
Actual return on scheme assets	560	(216)
Expected return on scheme assets	(391)	(392)
Surplus/(deficit)	169	(608)
Experience gains or losses arising on the scheme liabilities	(40)	(171)
Effect of changes in actuarial assumptions	(2,292)	(1,444)
Actuarial loss recognised in the statement of total recognised gains and losses	(2,163)	(2,223)

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

	2010 £000	2009 £000
Cumulative actuarial (loss)/gain at 1 October	(2,175)	48
Recognised during the year	(2,163)	(2,223)
Cumulative actuarial losses at 30 September	(4,338)	(2,175)

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

	2010 £000	2009 £000
Pension value of defined benefit obligation	(10,466)	(7,614)
Fair value of scheme assets	6,687	5,775
Deficit in the scheme	(3,779)	(1,839)
Deferred taxation on above	1,020	515
Net pension liability	(2,759)	(1,324)

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

	2010 £000	2009 £000
Unitised with-profits fund	2,222	2,576
Legal & General Consensus Fund	3,556	2,962
Cash deposits	909	237
Closing fair value of scheme assets	6,687	5,775

25. Pension schemes continued

The assets of the scheme are principally invested in a unitised with-profits fund and Legal & General's Consensus Fund. Changes in the Group's share of the fair value of the scheme's assets, before taxation:

	2010 £000	2009 £000
Opening fair value of scheme assets at 1 October	5,775	6,235
Expected return	391	392
Actuarial gains/(losses)	169	(608)
Benefit payments made	94	(478)
Contributions paid	258	234
Closing fair value of scheme assets at 30 September	6,687	5,775

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

	2010 £000	2009 £000
Opening defined benefit obligation at 1 October	(7,614)	(6,065)
Current service cost	(4)	(4)
Interest cost	(421)	(408)
Benefit payments made	(94)	478
Actuarial (losses)/gains	(2,333)	(1,615)
Closing defined benefit obligation at 30 September	(10,466)	(7,614)

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

	2010	2009
Difference between the expected and actual return on the scheme assets:		
— Amount (£000)	169	(608)
— Percentage of scheme assets	2.5	10.5
Experience gains and losses on scheme liabilities		
— Amount (£000)	(40)	(171)
— Percentage of scheme assets	0.01	2.9
Total actuarial loss in the statement of comprehensive income		
— Amount (£000)	(2,163)	(2,223)
— Percentage of scheme assets	32.3	38.5

Total committed contributions to the defined benefit schemes for the financial year ending 30 September 2011 will amount to £275,000.

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

We have audited the parent company financial statements of Sanderson Group plc for the year ended 30 September 2010 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities in respect of the Directors' report and the financial statements set out on page 18, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Sanderson Group plc for the year ended 30 September 2010.

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
30 November 2010

Company balance sheet
at 30 September 2010

	Note	2010 £000	2009 £000
Fixed assets			
Investments	28	**30,215**	36,494
Intangible assets	29	**116**	160
		30,331	36,654
Current assets			
Debtors	30	**11,231**	2,187
Creditors: amounts falling due within one year	31	**(4,268)**	(2,323)
Net current assets/(liabilities)		**6,963**	(136)
Total assets less current liabilities		**37,294**	36,518
Creditors: amounts falling due after more than one year	32	**(14,311)**	(13,200)
Net assets		**22,983**	23,318
Capital and reserves			
Called up share capital	33	**4,338**	4,338
Share premium account	34	**4,178**	15,178
Share-based payments reserve	34	**1,656**	1,633
Profit and loss account	34	**12,811**	2,169
Equity shareholders' funds	36	**22,983**	23,318

The balance sheet was approved by the Board of directors on 30 November 2010 and signed on its behalf by:

Christopher Winn
Director

Company Registration Number
4968444

Notes to the Company balance sheet

Basis of preparation

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

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

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

Investments

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

Share-based payments

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

The fair value of options to purchase shares in the Company that have been issued to employees of subsidiary companies is recognised as an additional cost of investment by the parent company. An equal amount is credited to a share-based payments reserve. This treatment is in accordance with UITF 44 and FRS 20: Share-Based Payments.

Taxation

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

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

Personnel expenses

The Company employed three non-executive directors (2009: three non-executives). Fees paid in respect of these appointments amounted to £90,133 (2009: £90,133). Details of the remuneration of executive directors, paid by subsidiary companies, is given in note 7 to the accounts.

Financial instruments

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

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

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

Notes to the Company balance sheet
continued

26. Employee share option schemes

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

None of the options have been granted to employees of the Company. The Company has adopted UITF 44 and FRS 20 in accounting for options issued to employees of subsidiary companies.

27. Dividends

	2010 £000	2009 £000
Interim dividend of 0.25p per share (2009: 0.20p)	**108**	87
Final dividend relating to previous financial year of 0.20p per share (2009: 0.20p)	**87**	87
Total dividend for the financial year	**195**	174

28. Fixed asset investments

	Shares in Group undertakings £000
Cost and net book value	
At beginning of year	36,494
Capital distribution received from subsidiary	(6,302)
Fair value of share options granted to employees of subsidiaries	23
At 30 September 2010	**30,215**

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

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

* Shareholding held indirectly.

29. Intangible assets

	Intellectual property £000
Cost	
At beginning and end of year	217
Amortisation	
At beginning of year	57
Amortisation in the period	44
At end of year	101
Net carrying value	
At 30 September 2009	160
At 30 September 2010	**116**

30. Debtors

	2010 £000	2009 £000
Prepayments and accrued income	**3**	3
Amounts due from subsidiary undertakings	**10,706**	1,715
Corporation tax	**373**	—
Deferred tax	**4**	—
Group relief receivable	**145**	469
	11,231	2,187

31. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Bank loans and overdraft	**2,244**	2,170
Amounts owed to subsidiary undertakings	**2,000**	—
Accruals	**24**	153
	4,268	2,323

Secured bank loans totalling £8,075,000 have been advanced by Royal Bank of Scotland under a facility expiring in June 2014. The loans have been advanced as three equal tranches: tranche A is repayable in quarterly instalments commencing December 2009 and ending in June 2013, tranche B is repayable in quarterly instalments commencing June 2010 and ending in June 2014 and tranche C is repayable in June 2014.

Royal Bank of Scotland 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 and is payable quarterly. An additional 5% interest is charged on the tranche C loan and is capitalised and added to the debt principal quarterly.

The Group has entered into an interest rate hedge the terms of which vary over the period to June 2014. The effective rate of LIBOR payable over the duration of the hedge is expected to be approximately 4.4%.

Notes to the Company balance sheet
continued

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

	2010 £000	2009 £000
Bank loan (note 31)	6,440	8,277
Amount due to subsidiary undertakings	7,871	4,923
	14,311	13,200

Analysis of bank loans and overdraft:

	2010 £000	2009 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	2,244	2,170
Between one and two years	1,635	1,635
Between two and five years	4,805	6,642
	8,684	10,447

33. Called up share capital

	2010 number '000	2009 number '000
Authorised		
Equity: Ordinary shares of 10 pence each	53,500	53,500

	£000	£000
Allotted, called up and fully paid		
Equity: Ordinary shares of 10 pence each	4,338	4,338

34. Reserves

	Share-based payment reserves £000	Profit and loss account £000	Share premium account £000
At beginning of year	1,633	2,169	15,178
Retained result for the year	—	(163)	—
Fair value of share options granted to employees of subsidiaries	23	—	—
Court approved capital reduction	—	11,000	(11,000)
Dividends paid in year	—	(195)	—
At end of year	**1,656**	**12,811**	**4,178**

Court approval to the re-designation of a balance of £11,000,000 on the share premium account as a distributable reserve was received on 31 March 2010.

35. 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 2010 amounted to £8,075,000 (2009: £9,536,000) net of arrangement costs.

36. Reconciliations of movements in shareholders' funds

	2010 £000	2009 £000
(Loss)/profit for the financial year	**(163)**	2,495
Dividends paid	**(195)**	(174)
Retained (loss)/profit for the year	**(358)**	2,321
Fair value of share options granted to employees of subsidiaries	**23**	26
Net (reduction in)/addition to equity shareholders' funds	**(335)**	2,347
Opening equity shareholders' funds	**23,318**	20,971
Closing equity shareholders' funds	**22,983**	23,318

Notes

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