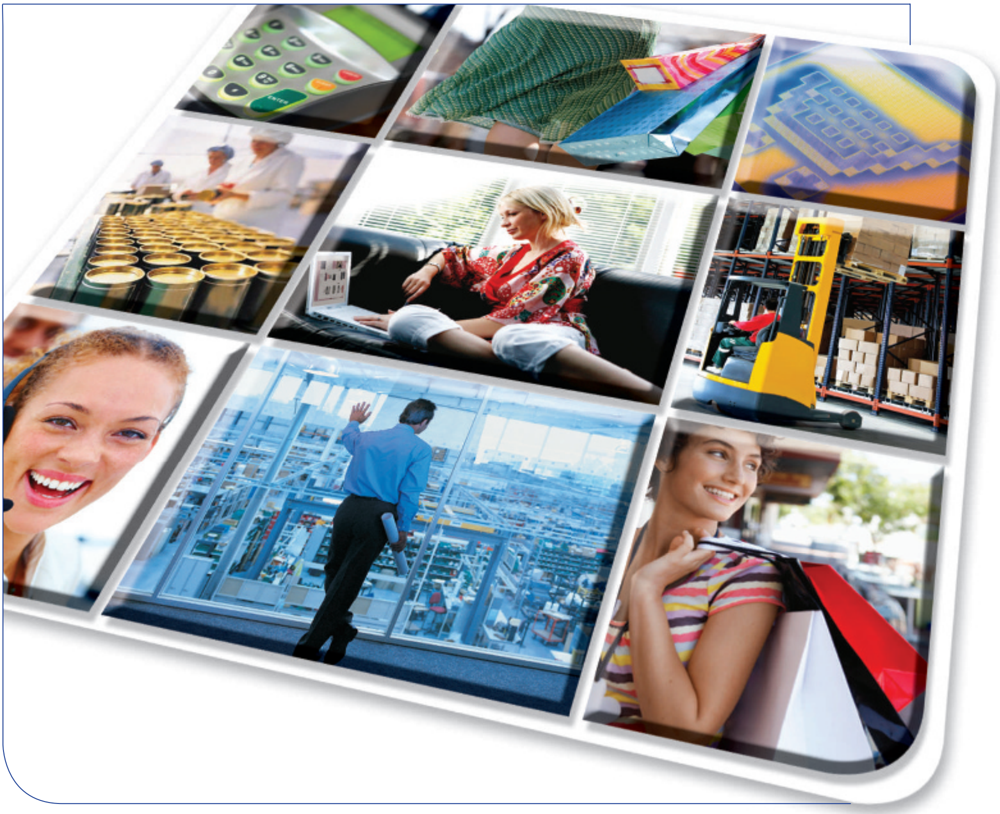
SANDERSON GROUP PLC

Interim Report

for the six months to 31 March 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.

Contents

SANDERSON GROUP PLC

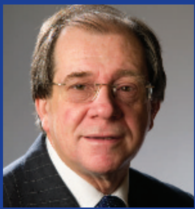
Key points

- Revenue of £13.3m (2009: £13.0m)
- *Adjusted operating profit of £1.4m (2009: £1.1m)
- Profit from operating activities of £0.7m (2009: loss of £1.1m)
- *Adjusted earnings per share of 1.7p (2009: 0.5p)
- Basic earnings per share of 0.01p (2009: loss per share of 4.6p)
- Interim dividend per share of 0.25p (2009: 0.2p)
- Cash generated from operations of £1.8m (2009: £1.5m)
- Net debt at 31 March 2010 of £9.0m (2009: £9.5m)
- Order book up by more than 50% to £3.0m when compared with the 30 September 2009 balance of £1.9m

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

"The Group's competitive market position has been improved by new product introductions, the delivery of a cost-effective, quality service, as well as by increased investment in sales and marketing."

Chairman's statement



Christopher Winn

"The Group has built up an improved level of business momentum since the late summer of 2009. However, we are mindful that the general economy is still sluggish and moving only slowly out of recession. Many of the Group's customers are continuing to face tough trading conditions and whilst the strong order book at the end of March provides a level of confidence for the Group to achieve a good trading result for the full financial year to 30 September 2010, the Board remains cautious in its outlook."

Introduction

The trading results for the six month period to 31 March 2010 show revenue of £13.3m (2009: £13.0m). Operating profit before the amortisation of acquisition-related intangibles and before the charge in respect of share-based payments improved to £1.4m (2009: £1.1m).

Whilst the Group's trading has continued to be affected by general economic conditions in the UK, reduced operating costs and an improvement in the Group's competitive market position have resulted in a continued recovery from the 'low' of the previous financial year, ending 30 September 2009.

The improved business momentum, experienced from the late summer of 2009 has continued into the current year and increased order intake has resulted in a larger order book at 31 March 2010. We expect the benefit of this increased order intake to be reflected in the result for the second half year, during which many of the projects are scheduled for implementation and delivery.

The Group has continued to manage working capital efficiently and in a prudent manner. Cash generated from operations in the six months to 31 March 2010 amounted to £1.8m (2009: £1.5m). This continued strong cash generation has facilitated a further reduction in bank debt, with net debt at 31 March 2010 of £9.0m (2009: £9.5m). This compares with net debt of £9.9m at 30 September 2009 and a peak of £12.5m at 31 March 2008. Reducing net debt levels remains a key goal.

Business review

Sanderson provides a wide range of software solutions and services to customers in the multi-channel retail and manufacturing markets. These solutions primarily comprise of the Group's own proprietary software often integrated with other market-leading products, which are installed, supported and serviced by Sanderson staff. The new product and service suites of Business Assurance in retail markets and Factory Automation in manufacturing markets, introduced towards the end of the previous financial year, have continued to gain traction. The introduction, in March 2010, of solutions based on the latest technologies in the areas of etailing and ecommerce, have further enhanced the range of solutions supplied by the Group.

A cornerstone of the Sanderson business model is the annually pre-contracted recurring revenues consisting of software licences, support services and managed services. In the period to 31 March 2010, recurring revenues of £6.7m (2009: £6.8m) represented 51% of total revenues (2009: 54%).

Notwithstanding slow trading conditions in the UK economy, the Group has continued to build a better level of trading momentum. The Group's competitive market position has been improved by new product introductions, the delivery of a cost-effective, quality service, as well as by increased investment in sales and marketing.

In terms of existing customers, Sanderson has continued to focus on supplying customers with value for money solutions offering a strong return on investment. Enhancements to existing systems are targeted at providing customers with tangible business benefits such as cost savings and incremental efficiencies. Developments have also addressed the continuing, and increasing, need for regulatory and legislative compliance, such as the requirements of the Payment Card Industry ('PCI'). The Group has joined the PCI Security Standards Council as a 'Participating Organization'.

As reported in the AGM statement in March, business from new customers has shown a significant increase. Orders from new customers in the six months to 31 March 2010 totalled £2.1m, comfortably exceeding the aggregate of £1.3m achieved in the whole of the previous financial year to 30 September 2009.

Total order intake was strong at £7.5m (six months to 31 March 2009: £7.0m). The order book at 31 March 2010 was over 50% higher than the level at the end of the previous financial

PCI Security Standards Council™

PARTICIPATING ORGANIZATION

year to 30 September 2009. The order book was £3.0m at 31 March 2010, compared with £1.9m at 30 September 2009. This provides the Group with a level of confidence for a satisfactory trading performance for the full year, with much of the increased order book scheduled for delivery by the end of September 2010.

Review of multi-channel retail

The Group provides end-to-end and comprehensive solutions to businesses operating in retail, mail order, fulfilment and wholesale distribution markets, and increasingly, to those with an online sales presence. Revenues derived from multi-channel retail operations were £10.2m (2009: £10m). Activity levels have generally improved and the lower end of the retail sector, which has been a very sluggish market, has shown some signs of recovery.

A total of eleven new customers were gained in the period (2009: six new customers) and included Hamleys, Aquascutum, David Austin Roses and JoJo Maman Bébé. The average value of new customer contracts was £156k compared with £60k in the prior year. Additionally, large orders were gained from a number of existing customers, including The Factory Shop, Fenwick, Lakeland and English Heritage.

Order intake was much improved at £6.4m for the period (2009 full year: £10.6m) and the order book was strong at 31 March 2010 at £2.6m compared with £1.4m at 30 September 2009. Most of these orders will be delivered in the second half year.

Review of manufacturing

The Group's manufacturing business covers the provision of comprehensive IT solutions to manufacturers who operate primarily in the engineering, plastics, aerospace, electronics, print and food process sectors. Whilst UK manufacturing has been seriously affected by the recessionary trading conditions, revenues

were slightly improved at £3.1m (2009: £3.0m). The food sector of the market continued its improvement but the most marked recovery in activity was in the area of general manufacturing, especially printing and aerospace.

New customers were gained across the business and included Bromford Industries (aerospace), Piroto Labelling (print), Susan Day Cakes (food, Australia) and Macsween of Edinburgh (food) – four in total, compared with one, in the first six months to 31 March 2009 and three in the full year to 30 September 2009. Recurring revenues, which showed some fall-off compared with the comparative period in 2009, continue to be strong and now account for 58% of total revenue. Gross margin from this revenue stream covers 86% of divisional overheads.

Balance sheet

The reduction in the level of net debt is a primary focus for management and improved trading supported by good cash generation resulted in the level of net debt falling to £9.0m (30 September 2009: £9.9m).

Strategy

The Group's focus 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 and Factory Automation) there are further new developments scheduled for introduction during the second half year. We intend to maintain and to enhance market competitiveness and continue to deliver an improved financial performance, which will ensure the further reduction of net debt.

Dividend

Whilst recognising the need to reduce debt, the Group is committed to improve dividend levels and an interim dividend of 0.25 pence per share (2009: 0.20 pence) will be paid on 20 August 2010 to shareholders on the register at the close of business on 23 July 2010.

Management and staff

The Group Operating Board, which was constituted in October 2008, has been instrumental in delivering an improved and improving business performance. In total, the Group employs around 270 staff, most of whom 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 forbearance, support and commitment in the current challenging business environment.

Outlook

The Group has built up an improved level of business momentum since the late summer of 2009. However, we are mindful that the general economy is still sluggish and moving only slowly out of recession. Many of the Group's customers are continuing to face tough trading conditions and whilst the strong order book at the end of March provides a level of confidence for the Group to achieve a good trading result for the full financial year to 30 September 2010, the Board remains cautious in its outlook.

Christopher Winn
Chairman
17 May 2010

Consolidated income statement

for the six months to 31 March 2010

	Notes	**Unaudited Six months to 31/03/10 £000**	Unaudited Six months to 31/03/09 £000	Audited Year to 30/09/09 £000
Continuing Operations				
Revenue	2	**13,313**	12,956	24,896
Cost of sales		**(4,384)**	(3,723)	(6,868)
Gross profit		**8,929**	9,233	18,028
Other operating expenses		**(8,267)**	(10,380)	(18,361)
Results from operating activities		**662**	(1,147)	(333)
Results from operating activities before amortisation and share-based payment charges	2	**1,376**	1,066	2,763
Amortisation of acquisition-related intangibles		**(690)**	(690)	(1,381)
Impairment of goodwill		**–**	(1,499)	(1,499)
Exceptional operating costs		**–**	–	(190)
Share-based payment charges		**(24)**	(24)	(26)
Results from operating activities		**662**	(1,147)	(333)
Movement in fair value of derivative financial instrument		**(8)**	(576)	(561)
Net finance costs		**(620)**	(397)	(1,132)
Profit/(loss) before tax		**34**	(2,120)	(2,026)
Tax		**(29)**	134	841
Profit/(loss) for the period		**5**	(1,986)	(1,185)
Earnings/(loss) per share				
Continuing operations				
Basic	3	**0.01p**	(4.6p)	(2.7p)
Diluted	3	**0.01p**	(4.6p)	(2.7p)

Consolidated statement of comprehensive income

for the six months to 31 March 2010

	Unaudited Six months to 31/03/10 £000	Unaudited Six months to 31/03/09 £000	Audited Year to 30/09/09 £000
Profit/(loss) for the period	**5**	(1,986)	(1,185)
Other comprehensive income			
Actuarial result on defined benefit pension schemes	**–**	–	(2,223)
Income tax relating to components of other comprehensive income	**–**	–	622
Other comprehensive income, net of tax	**–**	–	(1,601)
Total comprehensive income/(expense) for the period	**5**	(1,986)	(2,786)

Consolidated statement of financial position

at 31 March 2010

	Unaudited As at 31/03/10 £000	Unaudited As at 31/03/09 Restated £000	Audited As at 30/09/09 £000
Non-current assets			
Goodwill	**29,908**	29,908	29,908
Other intangible assets	**3,730**	5,118	4,432
Property, plant & equipment	**456**	529	491
Employee benefits	**–**	275	–
Deferred tax asset	**1,648**	1,013	1,874
	35,742	36,843	36,705
Current assets			
Inventories	**362**	380	361
Trade and other receivables	**7,210**	6,779	6,171
Income tax receivable	**209**	355	506
Cash and cash equivalents	**660**	179	–
	8,441	7,693	7,038
Current liabilities			
Bank overdraft and loans	**(1,636)**	(444)	(1,672)
Trade and other payables	**(4,840)**	(4,782)	(3,697)
Current tax liabilities	**(7)**	(11)	–
Derivative financial instrument	**(497)**	(504)	(489)
Deferred income	**(6,800)**	(7,113)	(6,672)
	(13,780)	(12,854)	(12,530)
Net current liabilities	**(5,339)**	(5,161)	(5,492)
Non-current liabilities			
Deferred income	**–**	(433)	(234)
Deferred tax liabilities	**(974)**	(1,487)	(1,178)
Pension and other employee obligations	**(1,735)**	–	(1,839)
Loans and borrowings	**(8,072)**	(9,212)	(8,286)
	(10,781)	(11,132)	(11,537)
Net assets	**19,622**	20,550	19,676
Equity			
Called-up share capital	**4,338**	4,338	4,338
Share premium	**4,178**	15,178	15,178
Retained earnings	**11,106**	1,034	160
Total equity	**19,622**	20,550	19,676

Consolidated statement of changes in equity

for the six months to 31 March 2010

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2009	**4,338**	**15,178**	**160**	**19,676**
Result for the period	**–**	**–**	**5**	**5**
Dividend paid	**–**	**–**	**(87)**	**(87)**
Share-based payment charge	**–**	**–**	**24**	**24**
Foreign exchange differences	**–**	**–**	**4**	**4**
Capital reconstruction (note 4)	**–**	**(11,000)**	**11,000**	**–**
At 31 March 2010	**4,338**	**4,178**	**11,106**	**19,622**

for the six months to 31 March 2009

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 October 2008 as previously reported	4,338	15,178	3,622	23,138
Prior year adjustment (note 5)	–	–	(515)	(515)
At 1 October 2008 as restated	4,338	15,178	3,107	22,623
Result for the period	–	–	(1,986)	(1,986)
Dividend paid	–	–	(87)	(87)
Share-based payment charge	–	–	24	24
Foreign exchange differences	–	–	(24)	(24)
At 31 March 2009	4,338	15,178	1,034	20,550

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
Result for the period	–	–	(1,185)	(1,185)
Actuarial result on employee benefits	–	–	(2,223)	(2,223)
Deferred tax on above	–	–	622	622
Dividend paid	–	–	(174)	(174)
Share-based payment charge	–	–	26	26
Foreign exchange differences	–	–	(13)	(13)
At 30 September 2009	4,338	15,178	160	19,676

Consolidated statement of cash flows

for the six months to 31 March 2010

	Unaudited Six months to 31/03/10 £000	Unaudited Six months to 31/03/09 £000	Audited Year to 30/09/09 £000
Cash flows from operating activities			
Profit/(loss) for the period	**5**	(1,986)	(1,185)
Adjustments for:			
Depreciation and amortisation	**837**	2,343	3,228
Share-based payment charges	**24**	24	26
Net finance expense	**628**	973	1,693
Income tax expense/(credit)	**29**	(134)	(841)
Operating cash flow before working capital movements	**1,523**	1,220	2,921
Movement in working capital	**274**	244	(813)
Cash generated by operations	**1,797**	1,464	2,108
Payments to defined benefit pension scheme	**(129)**	(117)	(234)
Interest paid	**(718)**	(728)	(1,372)
Income taxes received	**305**	657	653
Net cash from operating activities	**1,255**	1,276	1,155
Investing activities			
Purchases of property, plant & equipment	**(64)**	(60)	(129)
Expenditure on product development	**(35)**	–	(92)
Net cash used in investing activities	**(99)**	(60)	(221)
Financing activities			
Equity dividends paid	**(87)**	(87)	(174)
Repayment of bank borrowing	**–**	(2,000)	(2,200)
Repayment of finance lease principal	**(8)**	(10)	(21)
Net cash used in financing activities	**(95)**	(2,097)	(2,395)
Increase/(decrease) in cash and cash equivalents	**1,061**	(881)	(1,461)
Cash and cash equivalents at start of the period	**(401)**	1,060	1,060
Cash and cash equivalents at end of the period	**660**	179	(401)

Notes to the interim results

1 Basis of preparation

The Group's interim results for the six month period ended 31 March 2010 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the EU and effective, or expected to be adopted and effective, at 30 September 2010. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 'Interim Financial Reporting'.

These interim results do not constitute full statutory accounts within the meaning of section 434(5) of the Companies Act 2006 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 14 May 2010.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of financial instruments. The statutory accounts for the year ended 30 September 2009, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditors' Report and did not contain a statement under either Section 498(2) or (3) of the Companies Act 2006.

2 Segmental reporting

The Group is managed as two separate divisions, manufacturing and multi-channel retail. Substantially all revenue is generated within the UK.

	Manufacturing			Multi-channel retail			Total		
	Six months 31/03/10 £000	Six months 31/03/09 £000	Year ended 30/09/09 £000	**Six months 31/03/10 £000**	Six months 31/03/09 £000	Year ended 30/09/09 £000	**Six months 31/03/10 £000**	Six months 31/03/09 £000	Year ended 30/09/09 £000
Revenue	**3,098**	2,974	5,733	**10,215**	9,982	19,163	**13,313**	12,956	24,896
Operating profit*	**536**	401	758	**840**	665	2,005	**1,376**	1,066	2,763
Amortisation†	**–**	–	–	**(690)**	(690)	(1,381)	**(690)**	(690)	(1,381)
Impairment of goodwill	**–**	(1,499)	(1,499)	**–**	–	–	**–**	(1,499)	(1,499)
Exceptional operating costs	**–**	–	(44)	**–**	–	(146)	**–**	–	(190)
Share-based payment charges	**–**	–	–	**(24)**	(24)	(26)	**(24)**	(24)	(26)
Operating profit/(loss)	**536**	(1,098)	(785)	**126**	(49)	452	**662**	(1,147)	(333)
Net finance expense							**(628)**	(973)	(1,693)
Profit/(loss) before tax							**34**	(2,120)	(2,026)

*Stated before amortisation of acquisition-related intangibles and share-based payment charges.
† Amortisation of acquisition-related intangibles.

Notes to the interim results *continued*

3 Earnings per share

Earnings	Six months to 31/03/10 £000	Six months to 31/03/09 £000	Year to 30/09/09 £000
Profit/(loss) for the period	**5**	(1,986)	(1,185)
Adjusted* profit from continuing operations	**719**	227	1,721
Average number of shares during period	**Number**	Number	Number
In issue at the start of the period	**43,384,000**	43,384,000	43,384,000
Effect of share options	**1,780,000**	1,836,000	1,780,000
Weighted average number of shares (diluted) at period end	**45,164,000**	45,220,000	45,164,000
Earnings per share	**pence**	pence	pence
Continuing – basic	**0.01**	(4.6)	(2.7)
– diluted	**0.01**	(4.6)	(2.7)
Adjusted* – basic	**1.7**	0.5	4.0
– diluted	**1.6**	0.5	3.8

Where the result for the period is a loss, the basic loss per share is not further diluted.

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

4 Capital reconstruction

During the period an application by the Company to reduce its share premium account by £11,000,000 was approved by the Court.

5 Prior year adjustment

Certain prior year balance sheet items have been restated as a result of an adjustment uncovered during a change in internal procedures relating to the calculation of deferred income. Details were reported in the Annual Report and Accounts for the year ended 30 September 2009.

6 Interim report

The Group's interim report will be sent to the Company's shareholders. The report will also be available from the Company's registered office and on the Company's website: www.sanderson.com.

Group information

Company Secretary
Adrian Frost

Registered company number
4968444

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

Nominated Adviser and Broker
Charles Stanley
25 Luke Street
London
EC2A 4AR

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

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

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

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

SANDERSON GROUP PLC

Registered Office
Sanderson House
Manor Road
Coventry
CV1 2GF

Tel: +44 (0) 24 7655 5466
Fax: +44 (0) 24 7625 6705