SANDERSON GROUP PLC

Annual Report 2007

Contents

IT solutions driving continual business improvement

Sanderson develops and delivers market-specific software and services to the multi-channel retail and manufacturing markets.

Commenting on the results, Chairman, Christopher Winn said:

"This has been a year of significant progress for the Group, with a strong second half year trading performance and two further acquisitions which considerably strengthen the Group's position as a leading supplier to the multi-channel retail market.

Following the acquisitions, the enhanced Sanderson presence in the multi-channel retail market and the expanded range of products and services provides improved opportunities for both cross-selling within the extended customer base and securing new business. The Group is well positioned for further growth."

Christopher Winn
Chairman

Chairman's statement

Introduction

The results for the year to 30 September 2007 show that revenue has grown by 14% to £18.17m, and adjusted operating profit has grown by 6% to £3.47m.

During the year the Group increased its presence in the multi-channel retail market by acquiring the Elucid business in February 2007 and Retail Business Solutions Group Limited (RBS) in September 2007.

The Group now offers solutions across the full range of the multi-channel retail market; from point of sale systems to back office, head office, mail order, e-commerce and fulfilment functions, plus niche sectors such as wholesale distribution. With customers ranging from major high street retailers to start-up mail order businesses, the Group is well placed to benefit from activity levels in this strategic sector.

Financial results

Group sales for the year increased by 14% to £18.17m from £15.90m last year. The increase reflects the growth in the multi-channel retail business, which is expected to account for around three quarters of Group revenues in the year to 30 September 2008.

Adjusted operating profit for the year rose by 6% to £3.47m against £3.28m last year, whilst profit before tax declined from £2.16m to £1.94m as a result of a £0.3m increase in the charge for amortisation of acquisition related intangibles.

The tax charge for the Group was £589,000, (an effective rate of 30.4%), compared with a tax credit of £17,000 in the comparative period. This increase in the tax charge led to the adjusted basic earnings per share falling from 7.6 pence to 6.1 pence. Had the effective rate of 30.4% applied last year, adjusted basic earnings per share would have been 6.0 pence.

Cash balances increased to £935,000 from £463,000 in the comparative period, with over 100% of operating profit from continuing activities being converted to cash. The acquisitions were financed substantially by bank debt and net debt increased to £11.7m (2006: £2.5m) as a result. Whilst this level of debt represents 3.4 times the reported adjusted operating profit for the year, the timing of the Retail Business Solutions acquisition, two weeks before the year end, added in excess of £9m to the year end debt figure but contributed less than £100,000 to operating profit.

As reported in the interim results the Group carried out a strategic review of its products aimed at the mid-tier mail order and e-commerce market, following the acquisition of Elucid. This resulted in a decision to rationalise development costs and discontinue further development of an existing product. The discontinued operation incurred a loss of £385,000 after tax during the year, inclusive of all closure costs. In the comparative period the same operation incurred a loss of £183,000. The 2006 results have been restated to show all revenue and costs relating to this operation as being from discontinued operations.

Dividend

The Board is keen to ensure that shareholders benefit from the trading performance of the Group through a progressive dividend policy. Subject to approval at the Annual General Meeting of Shareholders, expected to be held on 14 February 2008, a final dividend of 1.55 pence per ordinary share is proposed and will be paid on 14 March 2008 to shareholders on the register at the close of business on 22 February 2008. Together with the interim dividend of 1.15 pence per ordinary share, this final dividend represents a total dividend for the year of 2.7 pence, an increase of 4%.

Business review

The Group provides a wide range of software solutions to the multi-channel retail and manufacturing sectors. These solutions consist of our own software together with third party products, which are installed and supported directly by Sanderson staff. This approach ensures a high quality, responsive service is delivered to customers and that the Group can maintain tight control over its operations.

The Group has a proven business model that generates a significant proportion of revenue from annual software licences and support services. These recurring revenues represented £9.43m of revenue in the year to 30 September 2007, some 52% of total revenue (2006: £8.84m, 56% of revenue) and demonstrate the benefits of a large, established customer base. A further £7.31m or 40% of revenue, is generated from the provision of additional products and services to customers (2006: £5.61m, 35%) with new business accounting for the balance of £1.43m (2006: £1.45m).

Review of multi-channel retail business

The multi-channel retail business accounted for 63% of Group revenue in the year to 30 September 2007, with sales of £11.49m representing growth of 35% against the previous year figure of £8.50m. Having been acquired on 14 September 2007, RBS made a small contribution to Group revenue and we anticipate a substantial increase in sales for the multi-channel retail business in the coming year.

Sales to new multi-channel retail clients in the year grew by over 50% compared with the previous year and included new clients such as Group 4 Securicor Sweden and the Royal Botanical Gardens, Kew.

In February 2007, the Group acquired the business and assets of the Elucid multi-channel software business for a consideration of £1.40m. Elucid has a good product offering aimed at the mid-tier mail order and e-commerce market and has over 50 existing customers. Elucid has now been fully integrated and forms an important part of the Sanderson multi-channel retail business, providing sophisticated solutions for our customers.

The Group acquired RBS for up to £14m in cash and shares. RBS, formed in 1988, is a well established provider of solutions to the retail sector, and markets and supports solutions which provide front and back office electronic point of sale systems including the highly successful Retail-J software, together with a full range of IT services. RBS employs 74 people, bringing the total number of employees for the Group to around 300.

With approximately 200 RBS customers throughout the UK and Ireland, including Blacks Leisure, Harrods and French Connection, the combined Sanderson customer base now consists of over 600 retail and multi-channel clients. The enlarged and enhanced Sanderson product and services portfolio should provide good opportunities for cross-selling, and the managed service capability within RBS provides an exciting opportunity to further develop the Group. The success of RBS in gaining new clients, with recent additions including Slater Menswear and Wyevale Garden Centres, is expected to provide further momentum for future growth. The integration of RBS into the wider multi-channel retail business is progressing.

Following the RBS acquisition the Group's profile has changed significantly and we expect around three quarters of revenue to originate within the multi-channel retail business, with the manufacturing business accounting for the balance.

The growth of online sales continues to generate activity within retail, e-commerce and mail order businesses. Increasing security requirements have generated additional revenues for the Group and products and services aimed at exploiting this demand are being marketed to customers and potential new clients.

Review of manufacturing business

The manufacturing business accounted for 37% (£6.68m) of Group revenue in the year to 30 September 2007 (2006: £7.40m, 46%) and continues to provide IT solutions to a large customer base in sectors such as print, food, engineering, plastics, electronics and furniture. Revenue declined when compared to 2006, largely as a result of slow trading reported in the first half of the current year. As anticipated, activity levels and order intake improved in the second half and the business ended the year with a strong trading performance. This is expected to continue into 2008.

There were some notable successes in the print sector, including large orders from Magnadata, Richard Clay and Anstey Wallcoverings. The manufacturing business remains highly profitable, with operating margins in excess of 15% of revenue, and demonstrates the value of the intellectual property software model.

Strategy

Our primary aim is to continue to develop the Group by a combination of organic growth complemented by selective acquisitions. By ensuring that our business model delivers high levels of profit and cash, we are able to pursue a progressive dividend policy for the benefit of shareholders. We continue to consider acquisition opportunities as they are identified, but our primary focus in the coming year is to integrate the recent acquisitions and to deliver the benefits available from this integration.

Staff

The two acquisitions completed during the year have increased employee numbers to just over 300 and we would like to welcome our new employees to the enlarged Group. We would also like to thank our colleagues for their commitment, expertise and continued dedication in working with our customers and partners.

Outlook

We have previously stated our intention 'to accelerate the rate of progress' and the 2007 acquisitions together with the February 2006 acquisition of Retail Systems have nearly doubled the size of the Group.

The second half trading performance of the Group has been strong and we have made a good start to the new financial year. Sanderson is well positioned and has an opportunity to deliver further value in the coming year.

Christopher Winn

Christopher Winn
Chairman
18 December 2007

Financial review

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. The Group is currently in negotiations with a view to selecting a suitable policy to protect against the risk of interest rate fluctuations. It is envisaged such a policy will be in place by 31 December 2007.

Principal risks

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

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

- ***Strategic;*** the Group operates in a dynamic market and constantly seeks to ensure the solutions it offers to customers are competitive.
- ***Operational;*** the Group's most significant assets are the intellectual property it develops and its employees. The Group must ensure software products remain of high quality and reliable. The market for skilled staff is competitive. Recruiting, retaining, developing and motivating staff remain a constant challenge.
- ***Acquisition;*** the Group continues to seek to acquire businesses that complement its existing activities, as well as similar businesses in new markets. Such a strategy has inherent risks in both valuing target businesses and successfully integrating them within the existing Group.
- ***Financial;*** controls exist in the areas of contract management, credit control and pension scheme administration.
- ***Health & Safety;*** the provision of a safe and comfortable working environment is continuously reviewed.

Key performance indicators (KPIs)

The following KPIs are some of the tools used by management to monitor the performance of the operating businesses within the Group:

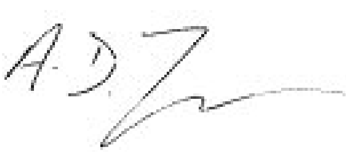
Indicator	**2007**	2006
Revenue per employee (excluding discontinued operations)	**£75,000**	£68,500
Operating profit* per employee (excluding discontinued operations)	**£14,300**	£14,100
Total indirect cost per employee*	**£46,500**	£43,200
Debtors over 60 days as percentage of total debtors	**14.5%**	9.7%
Capitalised development costs as a percentage of annual technical and development costs	**5.9%**	6.8%

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

The Group continues to increase its revenue per head measure and sees £100,000 as a challenging but achievable target. Increases in the cost base arise as we continue to invest in our skilled workforce and, as a result of the increasing size of the Group, mean that operating profit per employee has shown only modest growth during the year.

The percentage of debtors over 60 days old has increased. 1.6% of this increase is attributable to one customer, payment of which was received in October. The remainder of the increase is the result of the debt profile within the businesses acquired during the year and improvements are expected as integration continues.

Capitalised development costs have decreased as a percentage of total technical and development spend in the year, as all major development projects neared completion.



Adrian Frost
Finance Director
18 December 2007

Board of directors

Christopher Winn
Executive Chairman, aged 57

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

David Gutteridge
Non-Executive Director, aged 56

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

David O'Byrne
Managing Director, aged 54

David O'Byrne has over 30 years experience in the software and IT services sector. His early career was spent in a number of senior managerial roles in 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 its rapid growth prior to his appointment as Managing Director of Sanderson in April 2002.

Philip Kelly
Non-Executive Director, aged 55

Philip Kelly is a Non-Executive Director of Radius Solutions (UK) Limited (formerly a wholly owned subsidiary of Radius plc, which was taken private with funding from the Alchemy Plan in 1998). He is also a Non-Executive Director of Coalition Holdings Limited, a provider of technical and desktop services. He has over 20 years' experience as the Chief Executive of private and publicly quoted software companies supplying the commercial and public sectors in the UK, Europe and the USA. Philip had previously worked for Digital Equipment and 3i Consultants. Philip was nominated for appointment to the Board by Alchemy Partners.

Adrian Frost, BA, ACA
Finance Director, aged 40

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

John Paterson
Non-Executive Director, aged 61

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

Corporate governance statement

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

Board of directors

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

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

Board committees

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

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

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

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

Directors' remuneration

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

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

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

Details of directors' remuneration are provided in note 9 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, either as part of the agenda, or more informally after the meeting. Communication with shareholders is seen as an important part of the board's responsibilities and care is taken to ensure that all price sensitive information is made available to all shareholders at the same time.

Going concern

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

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2007.

International Financial Reporting Standards

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

Principal activities

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

Business review

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

Information on the financial risk management strategy of the Group and of the exposure of the Group to currency risk, interest rate risk and liquidity risk is set out in note 27.

Acquisitions

On 14 September 2007, the Group acquired 100% of the issued share capital of Retail Business Solutions Group Limited for a maximum consideration of £13.7m cash and 468,262 ordinary shares, plus related costs. £1,500,000 cash consideration has been deferred and will be paid dependent upon Retail Business Solutions Group Limited meeting certain profit targets in the period between 31 March 2008 and 30 September 2008.

On 9 February 2007, the Group acquired the trade and certain assets of the 'Elucid' business unit previously operated by K3 Business Technology Group plc, for cash consideration of £1.4m.

Dividend

A final dividend of 1.5 pence per share was paid on 9 March 2007 (2006: 1.4 pence) relating to the financial year ended 30 September 2006. An interim dividend of 1.15 pence per ordinary share was paid on 27 July 2007 (2006: 1.1 pence per share) in respect of the financial year ended 30 September 2007. The directors propose the payment of a final dividend of 1.55 pence per ordinary share. The final dividend is subject to shareholder approval at the Annual General Meeting on 14 February 2008 and, if approved, will be paid on 14 March 2008 to shareholders on the register at the close of business on 22 February 2008.

Directors and directors' interests

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

	Interest at end of year	Interest at start of year
	Ordinary shares of 10 pence	Ordinary shares of 10 pence
Christopher Winn	1,598,199#	1,098,199
David Andrew O'Byrne	232,754	212,754
Adrian David Frost	21,000	15,000
Philip Edward Kelly*	20,000	20,000
David James Gutteridge*	100,000	100,000
John Clement Mackenzie Paterson*	90,000	90,000

Christopher Winn acquired a beneficial interest in 500,000 ordinary shares on 16 September 2007 on settlement terms that resulted in the shareholder register being updated subsequent to the year end.

* Denotes non-executive directors.

Directors' report
(continued)

Directors and directors' interests (continued)

No new options were granted to directors in the current financial year. The following options to purchase ordinary shares in the Company were granted during the year ended 30 September 2005:

	In issue at year end	Exercise price	Notes and conditions	Earliest exercise date	Expiry date
Christopher Winn	199,980	54.25p	1	01.10.2007	30.09.2014
Christopher Winn	910,972	50p	2	01.10.2007	15.12.2014
Christopher Winn	910,972	£1*	3	01.10.2007	31.12.2017
Christopher Winn	15,791	60p	4	01.07.2008	31.12.2008
David Andrew O'Byrne	199,980	54.25p	1	01.10.2007	30.09.2014
David Andrew O'Byrne	506,587	50p	2	01.10.2007	15.12.2014
David Andrew O'Byrne	506,587	£1*	3	01.10.2007	31.12.2017
David Andrew O'Byrne	15,791	60p	4	01.07.2008	31.12.2008
Adrian David Frost	175,421	57p	1	01.10.2007	30.09.2014
Adrian David Frost	215,579	56p	2	01.10.2007	15.12.2014
Adrian David Frost	215,579	£1*	3	01.10.2007	31.12.2017
Adrian David Frost	15,791	60p	4	01.07.2008	31.12.2008

* Total amount payable on each occasion of exercise.

Notes and performance conditions

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

The Remuneration Committee have yet to review whether the qualification criteria for the above options were met.

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

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

Substantial shareholdings

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

	Number of shares	%
Alchemy Partners Nominees Ltd	11,298,995	26.72
Framlington Monthly Income Fund	3,296,303	7.80
ISIS	3,000,075	7.10
Marlborough UK Equity Growth	2,555,000	6.04
Polar Capital Managed Funds	2,000,000	4.73
BFS Small Companies Div Trust	2,000,000	4.73
Christopher Winn	1,598,199	3.78
Shires Smaller Companies plc	1,500,000	3.55

Employees

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

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

Policy and practice on payment of creditors

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

At the year end, the Company had no trade creditors (2006: 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 financial statements in accordance with applicable law and regulations. The directors have elected to prepare the Group financial statements in accordance with IFRS and the parent company financial statements in accordance with UK accounting standards.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which 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 1985. 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.

Auditors

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

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

KPMG Audit Plc resigned as auditors in the year and RSM Robson Rhodes LLP (Robson Rhodes) were appointed in their place. RSM Robson Rhodes LLP merged its audit practice with that of Grant Thornton UK LLP (Grant Thornton) with effect from 2 July 2007, with the successor firm being Grant Thornton. Robson Rhodes resigned as auditors on 1 July 2007, creating a casual vacancy which the directors have filled by appointing Grant Thornton.

By order of the board

A. D. F

A D Frost
Secretary

Sanderson House
Manor Road
Coventry
CV1 2GF

18 December 2007

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

We have audited the Group financial statements on pages 12 to 40. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Sanderson Group plc for the year ended 30 September 2007.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of directors' responsibilities.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Chairman's statement and Financial review that is cross referenced from the Business review section of the Directors' report.

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

We read other information contained in the Annual report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' report, the Corporate governance statement, the Chairman's statement and the Financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of affairs of the Group as at 30 September 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

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.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 30 September 2007 and of its profit for the year then ended.

GRANT THORNTON UK LLP

Chartered Accountants and Registered Auditors
Birmingham, England

18 December 2007

Consolidated income statement

for the year ended 30 September 2007

	Note	2007 £000	2006 £000
Revenue	3,4	**18,165**	15,896
Cost of sales		**(3,448)**	(2,591)
Gross profit		**14,717**	13,305
Technical and development costs		**(6,714)**	(6,019)
Administrative expenses		**(4,212)**	(3,590)
Sales and marketing costs		**(1,532)**	(1,379)
Other operating income	6	**-**	119
Results from operating activities	8	**2,259**	2,436
Results from operating activities before adjustments in respect of the following:		**3,466**	3,278
Amortisation of acquisition related intangibles		**(621)**	(319)
Share based payment charges	7	**(586)**	(642)
Other operating income	6	**-**	119
Results from operating activities		**2,259**	2,436
Finance income	10	**371**	288
Finance expenses	11	**(695)**	(563)
Profit before tax		**1,935**	2,161
Taxation	12	**(589)**	17
Profit for the period from continuing operations		**1,346**	2,178
Discontinued operations			
Loss for the period from discontinued operations	13	**(385)**	(183)
Profit for the year attributable to equity holders of the parent	26	**961**	1,995
Earnings per share			
From continuing operations			
Basic earnings per share	15	**3.2p**	5.3p
Diluted earnings per share	15	**3.0p**	4.9p
From continuing and discontinued operations			
Basic earnings per share	15	**2.3p**	4.8p
Diluted earnings per share	15	**2.1p**	4.5p

Consolidated statement of recognised income and expense

for the year ended 30 September 2007

	Note	2007 £000	2006 £000
Defined benefit pension plan actuarial gains	31	**1,742**	630
Deferred taxation effect of defined benefit pension plan items	26	**(523)**	(190)
Net income recognised directly in equity		**1,219**	440
Profit for the year		**961**	1,995
Total recognised income attributable to equity holders of the parent		**2,180**	2,435

Consolidated balance sheet
at 30 September 2007

	Note	2007 £000	2006 £000
Non-current assets			
Property, plant and equipment	16	**589**	585
Intangible assets	17	**40,834**	27,051
Employee benefits	31	**9**	-
Deferred tax assets	18	**-**	488
		41,432	28,124
Current assets			
Inventories		**392**	258
Trade and other receivables	19	**8,180**	4,127
Income tax receivable		**-**	211
Cash and cash equivalents	20	**935**	463
		9,507	5,059
Current liabilities			
Bank loans and borrowings	21	**(2,023)**	(528)
Trade and other payables	24	**(5,779)**	(2,351)
Income tax payable		**(622)**	-
Deferred contingent consideration	23	**(1,888)**	-
Deferred income		**(6,153)**	(4,278)
		(16,465)	(7,157)
Net current liabilities		**(6,958)**	(2,098)
Total assets less current liabilities		**34,474**	26,026
Non-current liabilities			
Loans and borrowings	21	**(10,616)**	(2,420)
Deferred contingent consideration	23	-	(464)
Deferred income		-	(587)
Deferred tax liabilities	18	**(1,316)**	-
Employee benefits	31	-	(1,849)
		(11,932)	(5,320)
Net assets		**22,542**	20,706
Equity attributable to equity holders of the Company			
Share capital	25	**4,228**	4,181
Share premium	26	**14,758**	14,578
Shares to be issued	26	**495**	495
Retained earnings	26	**3,061**	1,452
Total equity	26	**22,542**	20,706

These financial statements were approved by the board of directors on 18 December 2007 and were signed on its behalf by:

D A O'Byrne
Director

Consolidated cash flow statement

for the year ended 30 September 2007

	Note	2007 £000	2006 £000
Cash flows from operating activities			
Profit for the period		**961**	1,995
Adjustments for:			
Amortisation of intangible assets		**736**	360
Depreciation		**242**	160
Share based payment expense		**586**	642
Net finance expense		**324**	275
Income tax expense		**424**	(96)
Profit on disposal of property, plant and equipment		**-**	(119)
Operating cash flow before changes in working capital and provisions		**3,273**	3,217
Movement in trade and other receivables		**(1,536)**	893
Movement in inventories		**(1)**	(51)
Movement in trade and other payables		**1,318**	(1,372)
Payments to employee benefit plan		**(134)**	(80)
Cash generated from operations		**2,920**	2,607
Interest paid		**(260)**	(178)
Income tax paid		**(360)**	(639)
Net cash from operating activities		**2,300**	1,790
Cash flow from investing activities			
Proceeds from sales of property, plant and equipment		**-**	530
Purchase of plant and equipment		**(100)**	(120)
Development expenditure capitalised		**(69)**	(271)
Purchase of intellectual property		**(50)**	(200)
Purchase of trade and assets		**(1,142)**	-
Acquisition of subsidiary, net of cash balances acquired		**(9,048)**	(1,480)
Net cash flow from investing activities		**(10,409)**	(1,541)
Cash flow from financing activities			
Proceeds from bank borrowing, net of arrangement costs		**10,219**	1,375
Repayment of bank borrowing		**(500)**	(625)
Repayment of finance lease principal		**(28)**	(36)
Equity dividends paid		**(1,110)**	(1,024)
Net cash flow from financing activities		**8,581**	(310)
Net increase / (decrease) in cash and cash equivalents	28	**472**	(61)
Cash and cash equivalents at beginning of year		**463**	524
Cash and cash equivalents at the end of the year	28	**935**	463

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 2007 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 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.

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 Group.

Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, 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 judgments that have the most significant impact on the financial statements are described in the following notes:

Note 5: Acquisition of subsidiaries. Intangible assets acquired have been accounted for in accordance with IFRS 3 'Business combinations' and IAS 38 'Intangible assets'. The main area of judgment is the valuation of separable identifiable intangible assets acquired. These calculations have been performed by an external valuer with whom the directors have agreed the underlying assumptions to be applied. The key assumptions are the identifiable intangible assets acquired, forecast future cash flows and the discount rate.

Note 17: 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 balance sheet could be impaired. Management is confident that this will not be the case.

Note 31: 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 judgment is the valuation of pension scheme liabilities, which represent the net present value of future pension payments. These calculations are performed by the scheme actuary, with whom the directors have agreed the underlying assumptions to be applied. The key assumptions are rates of increases in pension benefits, mortality rates, inflation and the discount rate applied to produce the net present value. The discount rate is derived from market rates on AA corporate bonds at the balance sheet date.

Notes to the consolidated financial statements
(continued)

3 Accounting policies

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

- IFRS 7 'Financial instruments: Disclosure' applicable for years commencing on or after 1 January 2007.
- IFRS 8 'Operating segments'
- IFRIC 9 'Reassessment of embedded derivatives'
- IFRIC 10 'Interim financial reporting and impairment'
- IFRIC 12 'Service concession arrangements'
- IFRIC 13 'Customer loyalty programmes'
- IAS 1 'Presentation of financial statements (revised)'

The directors anticipate that the adoption of these standards in future periods will have no material impact on the financial statements of the Group, except for the additional disclosures required by IFRS 7 and IFRS 8 in respect of financial instruments and operating segments.

Basis of consolidation
The Group accounts incorporate the accounts of the Company and all its subsidiaries for the year ended 30 September 2007. The results of subsidiaries acquired or disposed of during the period are included in the Group income statement from or up to the effective date that control passes. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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:

• freehold buildings	2%
• leasehold buildings	over life of the lease
• plant, machinery, fixtures and fittings	15%-33⅓%

No depreciation is charged on freehold land.

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.

3 Accounting policies (continued)

Inventories (continued)
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.

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

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

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

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

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

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

Trade payables
Trade payables are not interest-bearing and are stated at their fair value net of direct issue costs.

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

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

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

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

Notes to the consolidated financial statements
(continued)

3 Accounting policies (continued)

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

Taxation
Tax on the 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 equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which an asset can be utilised.

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

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

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

Goodwill
Goodwill arising on acquisition of subsidiaries and businesses is capitalised as an asset and represents the excess of the fair value of the consideration given over the fair value of the 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.

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

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

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

An internally generated intangible asset arising from the Group’s development activity is recognised on the balance sheet if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- 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.

3 Accounting policies (continued)

Research and development expenditure (continued)
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 lives.

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

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

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

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

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

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 income statement as incurred.

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

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

Share based payments
The share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured 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.

Notes to the consolidated financial statements
(continued)

3 Accounting policies (continued)

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

4 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	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000
Revenue	**6,673**	7,397	**11,492**	8,499	**18,165**	15,896
Operating profit before amortisation of acquisition related intangibles and share based payment charges	**976**	1,229	**2,490**	2,049	**3,466**	3,278
Amortisation of acquisition related intangibles					**(621)**	(319)
Share based payment charges					**(586)**	(642)
Other operating income					**-**	119
Operating profit					**2,259**	2,436
Net finance expense					**(324)**	(275)
Profit before taxation					**1,935**	2,161
Property, plant and equipment	**280**	173	**309**	412	**589**	585
Intangible assets	**8,950**	8,950	**31,884**	18,101	**40,834**	27,051
Stock	**68**	78	**324**	180	**392**	258
Trade and other receivables	**1,733**	1,393	**6,447**	2,734	**8,180**	4,127
	11,031	10,594	**38,964**	21,427	**49,995**	32,021
Other unallocated assets and liabilities					**(27,453)**	(11,315)
Net assets					**22,542**	20,706

A number of manufacturing and multi-channel retail operations are undertaken through one legal entity with certain functions such as cash management and procurement being managed centrally. As a result it is not possible to report cash, bank debt and creditor information by segment.

5 Acquisitions

On 9 February 2007 the Group acquired the trade and certain assets and liabilities of the 'Elucid' business unit from K3 Business Technology Group plc, for cash and deferred cash consideration. The business develops and supplies IT software and related services. In the seven months to 30 September 2007 the business contributed £108,000 profit before taxation.

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

	Pre-acquisition carrying amount £000	Fair value adjustment £000	Recognised value on acquisition £000
Property, plant and equipment	12	-	12
Intangible assets	-	733	733
Trade and other receivables	250	-	250
Trade and other payables	-	(105)	(105)
Deferred taxation	-	(220)	(220)
Net identifiable assets and liabilities	262	408	670
Goodwill on acquisition			722
			1,392
Cash consideration paid at completion			1,112
Deferred cash consideration			250
Costs incurred			30
Total consideration			1,392

The fair value adjustments relate to the recognition of intangible assets and holiday pay in accordance with IFRS 3 'Business combinations', and adjustments to accruals to recognise liabilities identified during the course of the period, net of deferred tax.

Pre-acquisition carrying amounts were determined based on applicable IFRS, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair value of intangible assets, the Group applied a discount rate of 10%-14% to estimated cash flows.

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

Notes to the consolidated financial statements
(continued)

5 Acquisitions (continued)

On 14 September 2007, the Group acquired 100% of the issued share capital of Retail Business Solutions Group Limited for a combination of cash, deferred cash and share based consideration. The company develops and supplies IT services and software. In the seventeen days to 30 September 2007, the company contributed profit of £84,000 before tax.

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

	Pre-acquisition carrying amount £000	Fair value adjustment £000	Recognised value on acquisition £000
Property, plant and equipment	131	-	131
Intangible assets	-	4,822	4,822
Inventories	133	-	133
Cash	3,598	-	3,598
Trade and other receivables	2,468	-	2,468
Trade and other payables	(1,598)	(28)	(1,626)
Income tax payable	(492)	-	(492)
Deferred income	(1,407)	-	(1,407)
Deferred tax liability	108	(1,446)	(1,338)
Net identifiable assets and liabilities	2,941	3,348	6,289
Goodwill on acquisition			7,972
			14,261
Consideration paid:			
– cash			12,273
– shares issued (468,262 ordinary shares of 10 pence)			227
Costs incurred			373
			12,873
Deferred contingent consideration:			
– cash			1,500
Discount on deferred contingent consideration			(112)
Total consideration			14,261

The fair value adjustments relate to the recognition of intangible assets and holiday pay in accordance with IFRS 3 'Business combinations'. The fair value of the shares issued represents the market value at the date of acquisition, net of deferred tax.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the workforce of the acquired business, the expected synergies to be achieved from integrating the business into the Group's operations and the anticipated value of new business the operation will be capable of securing.

The deferred contingent consideration is payable between May 2008 and December 2008, based on the results of Retail Business Solutions Group Limited during a twelve month period ending between March 2008 and September 2008. The maximum provision has been made based on the forecast results of the business.

Pre-acquisition carrying amounts were determined based on applicable IFRS, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair value of intangible assets, the Group applied a discount rate of 10%-14% to estimated cash flows.

If the acquisitions of the Elucid business and Retail Business Solutions Group Limited had taken place on 1 October 2006, the combined Group would have reported revenue of £31,692,000 and profit before tax of £3,627,000 for the financial year ended 30 September 2007.

6 Other operating income

No such income arose during the year (2006: Other income represents the net gain arising on the sale of property, plant and equipment).

7 Share based payments

The Group operates a sharesave scheme, an HMRC approved enterprise management incentive plan, an unapproved share option plan and an LTIP. Details of the total options granted under the schemes are given below:

Grant date	Employees entitled	Number of options	Performance conditions	Exercise price (p)	Earliest exercise date	Expiry date
16/12/2004	Management	1,785,728	Earnings per share growth	50.00	01/10/2007	15/12/2014
16/12/2004	Management	1,262,952	Earnings per share growth	54.25	01/10/2007	30/09/2014
16/12/2004	Management	1,723,060	TSR Target	00.00*	01/10/2007	31/12/2017
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	31/12/2017
01/07/2005	Employees	678,373	No performance conditions	60.00	01/07/2008	31/12/2008
14/09/2007	Management	600,000	Profit before tax target	48.50	01/10/2010	13/09/2017
		6,731,692				

* Options granted under the LTIP have an exercise price of £1 on each occasion of exercise.

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

	Weighted average exercise price 2007 (p)	Number of options 2007 (number)	Weighted average exercise price 2006 (p)	Number of options 2006 (number)
Outstanding at start of year	35.4p	6,000,118	35.8p	6,131,692
Granted during the year	48.5p	600,000	-	-
Forfeited during the year	(60.0p)	(133,913)	(52.4p)	(131,574)
Outstanding at end of the year	35.3p	6,466,205	35.4p	6,000,118
Exercisable at end of the year	-	-	-	-

None of the options granted have, as yet, been exercised. Options outstanding at 30 September 2007 have exercise prices in the ranges 0.0p to 60.0p per share.

The weighted average contractual life of the options is 7.7 years (2006: 6.5 years).

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

Notes to the consolidated financial statements

(continued)

7 Share based payments (continued)

Fair value assumptions of share based payments

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

Granted in the year to 30 September 2006:

No options granted.

Granted in the year to 30 September 2007:

Options over 600,000 shares were granted on 14 September 2007 to senior management of Retail Business Solutions Group Limited, with performance targets based on the profitability of the business over a three year period. At the date of grant the market price of shares was 48.5p, which is also the exercise price. In calculating the fair value of the options, expected volatility in the share price was assumed to be 26%, the average life of the options was assumed to be three years, a 5% dividend was expected and a risk-free rate of interest was assumed to be 5.15%. Expected volatility was determined by reference to the historical volatility of the Group's share price between October 2006 and September 2007.

Charge to the income statement

The charge to the income statement comprises:

	2007 £000	2006 £000
Share based payment charges	**541**	596
Provision for NI contributions	**45**	46
	586	642

8 Expenses and auditors' remuneration

Included in the income statement are the following items:

	2007 £000	2006 £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	**52**	35
Other services relating to taxation	**-**	5
Due diligence fees	**87**	-
All other services	**3**	13
Depreciation and other amounts written off tangible fixed assets:		
Owned	**207**	143
Leased	**35**	17
Amortisation of acquisition related intangible assets	**621**	319
Amortisation of development costs	**115**	41
Rentals payable under plant and machinery operating leases	**12**	10
Leasehold property rentals	**494**	424

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

9 Personnel expenses

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

	2007 No.	2006 No.
Technical	**187**	186
Sales and marketing	**30**	24
Administrative	**25**	22
	242	232

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

	2007 £000	2006 £000
Wages and salaries	**7,642**	7,452
Social security costs	**825**	795
Contributions to defined contribution pension plans	**222**	220
Share based payment expense	**586**	642
	9,275	9,109

The Company employed three non-executive directors (2006: three non-executives). Fees paid in respect of these appointments amounted to £79,650 (2006: £76,000).

None of the executive directors were remunerated by the Company during the year, but by subsidiary companies. Details of their remuneration during the period are given below.

	2007 £000	2006 £000
Salaries, including bonuses	**491**	461
Benefits in kind	**9**	15
Pension contributions – defined contribution schemes	**42**	28
Share based payment expense	**418**	451
	960	955

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

The aggregate of emoluments payable under service contracts and amounts receivable under long term incentive schemes of the highest paid director was £231,000 (2006: £225,000) including benefits in kind. The Company did not make pension contributions on behalf of the highest paid director (2006: £9,000 paid to a money purchase pension scheme on his behalf). The share based payment charge in respect of the highest paid director amounted to £216,000 (2006: £242,000).

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

Notes to the consolidated financial statements

(continued)

10 Finance income

	Continuing operations		Discontinued operations		Total	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000
Expected return on defined benefit pension scheme assets	**371**	288	**-**	-	**371**	288

11 Finance expenses

	Continuing operations		Discontinued operations		Total	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000
Interest on bank overdrafts	**260**	154	**-**	-	**260**	154
Other interest expense	**-**	24	**-**	-	**-**	24
Interest on defined benefit pension scheme obligations	**399**	363	**-**	-	**399**	363
Discount on deferred contingent cash consideration	**36**	22	**-**	-	**36**	22
Total in income statement	**695**	563	**-**	-	**695**	563

12 Taxation

	Continuing operations		Discontinued operations		Total	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000
Current tax expense						
UK corporation tax for the current year	**841**	679	**(165)**	(79)	**676**	600
Relating to prior periods	**25**	(515)	**-**	-	**25**	(515)
Total current tax	**866**	164	**(165)**	(79)	**701**	85
Deferred tax						
Deferred tax for the current year	**(277)**	(154)	**-**	-	**(277)**	(154)
Relating to prior periods	**-**	(27)	**-**	-	**-**	(27)
Total deferred tax	**(277)**	(181)	**-**	-	**(277)**	(181)
Taxation charged / (credited) to the income statement	**589**	(17)	**(165)**	(79)	**424**	(96)

12 Taxation (continued)

Reconciliation of effective tax rate

The current consolidated tax charge for the period is higher (2006: lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below.

	2007 £000	2006 £000
Profit before tax:		
Continuing operations	**1,935**	2,161
Discontinued operations	**(550)**	(262)
	1,385	1,899
Tax using the UK Corporation tax rate of 30% (2006: 30%)	**416**	570
Effects of:		
Expenses not deductible for tax purposes	**97**	47
Tax payable at less than 30%	**-**	(6)
Losses not utilised in year	**(114)**	101
Under / (over) provision in previous years	**25**	(542)
Expenses not reported in income statement	**-**	(170)
Change in temporary differences	**-**	(96)
Total tax in income statement	**424**	(96)

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

13 Discontinued operations

Following the Group's acquisition of the Elucid business a strategic review of products aimed at the mid-tier mail order and e-commerce market was undertaken, and a decision was taken to rationalise development costs and discontinue further development of an existing product.

The results of the discontinued operations which have been included in the consolidated income statement, were as follows:

	2007 £000	2006 £000
Revenue	**67**	253
Expenses	**(617)**	(515)
Loss before tax	**(550)**	(262)
Attributable tax credit	**165**	79
Loss on disposal of discontinued operations	**-**	-
Net loss attributable to discontinued operations	**(385)**	(183)

Operating cash flows attributable to the discontinued operations were not materially different to the loss before tax disclosed above. Other cash flows specific to the discontinued operations cannot be separately identified.

Notes to the consolidated financial statements
(continued)

14 Dividends

	2007 £000	2006 £000
Interim dividend of 1.15p per share (2006: 1.1p)	**483**	452
Final dividend relating to previous financial year of 1.5p per share (2006: 1.4p)	**627**	572
Total dividend for the financial year	**1,110**	1,024

15 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit 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. The basic and diluted earnings per share is also stated for earnings attributable to continuing and discontinued operations. In order to better demonstrate the performance of the Group, an adjusted earnings per share calculation has been presented which adds back items typically adjusted for by users of the accounts. The calculations for earnings and the number of shares relevant to all of the measures of earnings per share described in the foregoing are set out below.

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

Earnings:	2007 £000	2006 £000
Profit for the year	**961**	1,995
Result attributable to discontinued operations	**385**	183
Profit for the year from continuing operations	**1,346**	2,178
Amortisation of acquisition related intangible assets	**621**	319
Share based payment charges	**586**	642
Adjusted profit from continuing operations for the year	**2,553**	3,139

Number of shares:	2007 No.	2006 No.
In issue at the start of the year	**41,813,482**	40,813,482
Effect of shares issued in the year	**20,583**	604,396
Weighted average number of shares at year end	**41,834,065**	41,417,878
Effect of share options	**1,946,775**	1,938,639
Effect of deferred consideration shares	**1,000,000**	1,000,000
Weighted average number of shares (diluted) at year end	**44,780,840**	44,356,517

15 Earnings per share (continued)

	2007 (pence)	2006 (pence)
Earnings per share:		
Basic	**2.3**	4.8
Diluted	**2.1**	4.5
Earnings per share attributable to continuing operations:		
Basic	**3.2**	5.3
Diluted	**3.0**	4.9
Adjusted earnings per share attributable to continuing operations:		
Basic	**6.1**	7.6
Diluted	**5.7**	7.1
Earnings per share attributable to discontinued operations:		
Basic	**(0.9)**	(0.5)
Diluted	**(0.9)**	(0.4)

16 Property, plant and equipment

	Freehold land and buildings £000	Short leasehold land and buildings £000	Plant and equipment £000	Total £000
Cost				
Balance at 1 October 2005	762	350	2,013	3,125
Acquired with subsidiary undertaking	-	-	126	126
Additions	-	-	116	116
Disposals	(738)	-	-	(738)
Reclassification	(24)	24	-	-
Balance at 30 September 2006	-	374	2,255	2,629
Acquired with subsidiary undertakings	-	-	143	143
Additions	-	62	41	103
Disposals	-	-	(1,987)	(1,987)
Balance at 30 September 2007	-	436	452	888
Depreciation				
Balance at 1 October 2005	323	50	1,838	2,211
Charge for the year	4	50	106	160
Disposals	(327)	-	-	(327)
Balance at 30 September 2006	-	100	1,944	2,044
Charge for period	-	74	168	242
Disposals	-	-	(1,987)	(1,987)
Balance at 30 September 2007	-	174	125	299
Net book value				
At 30 September 2006	-	274	311	585
At 30 September 2007	-	262	327	589

Leased plant and machinery

At 30 September 2007, the net carrying amount of leased plant and machinery was £34,400 (2006: £69,000).

Notes to the consolidated financial statements
(continued)

17 Intangible assets

	Goodwill £000	Intellectual property £000	Customer relationships £000	Distributor agreements £000	Development costs* £000	Total £000
Cost						
Balance as at 1 October 2005	23,252	128	183	-	261	23,824
Other acquisitions - externally purchased	-	250	-	-	-	250
Business combination						
– Sanderson Retail Systems Limited	1,372	524	1,174	150	-	3,220
Other acquisitions						
– internally developed	-	-	-	-	271	271
Balance at 30 September 2006	24,624	902	1,357	150	532	27,565
Business combination						
– Retail Business Solutions Group Limited	7,972	280	1,224	3,318	-	12,794
Other acquisitions						
– Elucid trade and assets	722	600	133	-	-	1,455
Other acquisitions						
– Internally developed	-	-	-	-	69	69
Adjustments to previously reported estimates	201	-	-	-	-	201
Balance at 30 September 2007	33,519	1,782	2,714	3,468	601	42,084
Amortisation and impairment						
Balance at 1 October 2005	-	43	61	-	50	154
Amortisation for the year	-	104	198	17	41	360
Balance at 30 September 2006	-	147	259	17	91	514
Amortisation for the year	-	277	314	30	115	736
Balance at 30 September 2007	-	424	573	47	206	1,250
Net carrying value						
Balance at 30 September 2006	24,624	755	1,098	133	441	27,051
Balance at 30 September 2007	**33,519**	**1,358**	**2,141**	**3,421**	**395**	**40,834**

* Development costs are internally generated.

Adjustments to previously reported estimates represent the write-off of trade debtor balances due from customers of Sanderson Retail Systems Limited, in respect of pre-acquisition trading.

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

	2007 £000	2006 £000
Administrative expenses	**736**	360

17 Intangible assets (continued)

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. 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:

	2007 £000	2006 £000
Manufacturing	**8,950**	8,950
Multi-channel retail	**24,569**	15,674
Goodwill	**33,519**	24,624

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 2008 were extrapolated for periods of between nine and fifteen years and used as the basis of the calculations.

Sector growth rate assumptions; 2%-6% based on independent estimates of industry specific growth rates, where available.

Discount rate assumptions; 10%-14% based on the internal cost of capital, and management's view of risks specific to each CGU.

As a result of these calculations, no impairment provisions are considered necessary.

18 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following and are disclosed as non-current assets in the balance sheet:

	Assets		**Liabilities**		**Net**	
	2007 £000	2006 £000	**2007 £000**	2006 £000	**2007 £000**	2006 £000
Property, plant and equipment	**266**	225	**-**	-	**266**	225
Intangible assets	**-**	-	**(2,118)**	(621)	**(2,118)**	(621)
Share based payment expense	**470**	285	**-**	-	**470**	285
Trade and other payables	**69**	45	**-**	-	**69**	45
Employee benefits	**-**	554	**(3)**	-	**(3)**	554
	805	1,109	**(2,121)**	(621)	**(1,316)**	488

Notes to the consolidated financial statements
(continued)

18 Deferred tax assets and liabilities (continued)

Movement in deferred tax for the year ended 30 September 2007

	As at 1 October 2006 £000	Income statement £000	Acquisition of subsidiaries £000	Statement of recognised income and expense £000	As at 30 September 2007 £000
Property, plant and equipment	**225**	**3**	**38**	**-**	**266**
Intangible assets	**(621)**	**169**	**(1,666)**	**-**	**(2,118)**
Share based payment expense	**285**	**185**	**-**	**-**	**470**
Trade and other payables	**45**	**(46)**	**70**	**-**	**69**
Employee benefits	**554**	**(34)**	**-**	**(523)**	**(3)**
	488	**277**	**(1,558)**	**(523)**	**(1,316)**

Movement in deferred tax for the year ended 30 September 2006

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

Deferred tax recognised directly in equity

	2007 £000	2006 £000
Relating to employee benefit schemes	**523**	190

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

	2007 £000	2006 £000
Tax losses, not recognised as future economic benefit is uncertain	**3,323**	4,098

19 Trade and other receivables

	2007 £000	2006 £000
Trade receivables	**6,940**	3,219
Prepayments and accrued income	**1,240**	908
	8,180	4,127

The directors consider that the carrying amount of trade receivables approximates to their fair value.

20 Cash and cash equivalents

	2007 £000	2006 £000
Cash and cash equivalents	**935**	463

21 Loans and other borrowings

	2007 £000	2006 £000
Current liabilities:		
Secured bank loans	**2,000**	500
Current portion of obligations under finance leases	**23**	28
	2,023	528
Non-current liabilities:		
Secured bank loans	**10,609**	2,390
Obligations under finance leases	**7**	30
	10,616	2,420

£9,580,000 of secured bank loans are repayable by increasing quarterly instalments over a four year period. The remainder is scheduled to be repaid at the end of this period. The carrying value of loans and other borrowings is not materially different from fair value.

Bank loans have been advanced by Royal Bank of Scotland plc under a four year term facility that is in place until September 2011. Royal Bank of Scotland plc holds fixed and floating charges over the whole of the Group's undertakings, property and assets. Interest on borrowings is charged at LIBOR plus a percentage that varies by reference to the Group's gearing.

An additional facility has been agreed to fund deferred contingent consideration, with quarterly repayments commencing the quarter after the month of draw down of funds.

Notes to the consolidated financial statements
(continued)

22 Other interest-bearing loans and borrowings

Finance lease liabilities
Finance lease liabilities are payable as follows:

	Minimum lease payments 2007 £000	**Interest 2007 £000**	**Principal 2007 £000**	Minimum lease payments 2006 £000	Interest 2006 £000	Principal 2006 £000
Less than one year	**26**	**3**	**23**	6	1	5
Between one and five years	**8**	**1**	**7**	60	7	53
	34	**4**	**30**	66	8	58

The total finance lease obligations are payable:

	2007 £000	2006 £000
Within one year	**23**	28
After one year	**7**	30
	30	58

The fair value of the Group's lease obligations approximates to their carrying value.

23 Deferred contingent consideration

	2007 £000	2006 £000
Arising on acquisition of Sanderson Retail Systems Limited	**500**	500
Arising on acquisition of Retail Business Solutions Group Limited	**1,500**	-
Net discount brought forward	**(36)**	-
Discount arising on deferred contingent consideration committed in the year	**(112)**	(58)
Amortisation of discount in period	**36**	22
	1,888	464
Analysed as follows:		
Current liabilities	**1,888**	-
Non-current liabilities	**-**	464
	1,888	464

24 Trade and other payables

	2007 £000	2006 £000
Trade payables	**2,280**	674
Other taxation and social security	**1,404**	741
Accruals	**2,095**	936
	5,779	2,351

The directors consider that the carrying amount of trade payables approximates to their fair value.

25 Share capital

	2007 No. '000	2006 No. '000
Authorised		
Equity: Ordinary shares of 10 pence each	**53,500**	53,500
Allotted, called up and fully paid		
Equity: Ordinary shares of 10 pence each	**42,282**	41,813

On 14 September 2007, the Company issued 468,262 ordinary shares of 10 pence each as part of the consideration payable on the acquisition of Retail Business Solutions Group Limited.

1,000,000 shares were included in the acquisition price of Sanderson Retail Systems Limited (acquired on 22 February 2006) as deferred contingent consideration and will be issued in January 2008, the trading targets having been met. These deferred consideration shares were valued at the market price of the shares in issue on 22 February 2006 and are shown in the balance sheet as 'shares to be issued'.

26 Capital and reserves

Reconciliation of movements in capital and reserves

	Attributable to equity holders of parent				
	Share capital £000	Share premium £000	Shares to be issued £000	Retained earnings £000	Total equity £000
At 1 October 2005	4,081	14,183	-	(555)	17,709
Actuarial results on employee benefits	-	-	-	630	630
Deferred taxation on above	-	-	-	(190)	(190)
Dividends paid	-	-	-	(1,024)	(1,024)
Share based payment charges, net of national insurance	-	-	-	596	596
Issue of share capital	100	395	495	-	990
Result for the period	-	-	-	1,995	1,995
At 30 September 2006	4,181	14,578	495	1,452	20,706
Actuarial results on employee benefits	-	-	-	1,742	1,742
Deferred taxation on above	-	-	-	(523)	(523)
Dividends paid	-	-	-	(1,110)	(1,110)
Share based payment charges, net of national insurance	-	-	-	539	539
Issue of share capital	47	180	-	-	227
Result for the period	-	-	-	961	961
At 30 September 2007	**4,228**	**14,758**	**495**	**3,061**	**22,542**

The aggregate amount of current and deferred tax relating to items that are charged or credited to equity is £1,103,000 (2006: £368,000).

Notes to the consolidated financial statements
(continued)

27 Financial instruments disclosure

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

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

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

Interest rate exposure
The Group's credit facilities attract interest at rates based on LIBOR plus a margin dependent upon the Group's gearing. The Group is currently in negotiations with a view to selecting a suitable policy to protect against the risk of interest rate fluctuations. It is envisaged such a policy will be in place by 31 December 2007.

Currency exposure
At 30 September 2007 the Group had no material currency exposure. The Group's financial instruments are materially denominated in sterling.

Available facilities
The Group has overdraft and term debt facilities amounting to £15,651,000 secured on the Group's undertakings, property and assets (2006: £9,089,000). All borrowings are denominated in sterling and have floating interest rate terms.

28 Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less. The carrying amount of these assets equates to their fair value.

29 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 2007 amounted to £12,609,000 (2006: £2,890,000) net of arrangement costs.

30 Commitments

There were no capital commitments existing at 30 September 2007 or 30 September 2006.

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

	2007		2006	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**69**	**5**	16	-
In the second to fifth years inclusive	**346**	**21**	521	-
Over five years	**5,340**	**-**	5,651	-
	5,755	**26**	6,188	-

31 Pension schemes

The Group operates three defined contribution pension schemes in the UK. The pension cost charge for the year relating to these schemes was £222,000 (2006: £220,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

In previous years, a company within the Group has been the principal employer to two defined benefit pension schemes. As part of the demerger of the former Sanderson Group in 2003, a legal agreement was reached under which the fellow subsidiary undertakings, Civica plc and Talgentra Holdings Limited, together with Sanderson Limited, collectively funded both schemes.

During the year ended 30 September 2007 the trustee of the two schemes was approached collectively by the three connected employers to formalise the legal agreement, and this process has now commenced. As a result, Sanderson Limited has agreed to fund a greater proportion of the Sanderson Group Retirement Benefit scheme ('the scheme') in exchange for a full discharge from its contingent obligations to the Pension and Life Assurance Plan of Sanderson Systems Limited ('the Plan'). Sanderson Limited also ceased to act as principal employer to the Plan during the year.

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 2005, showed the scheme to have a deficit of £2.8m. This figure does not take account of a one-off contribution of £750,000 paid by one of the previously connected employers. Sanderson Limited is now responsible for funding 75% of this deficit. 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 Group has adopted IAS 19 in accounting for the Group's share of the scheme's funding deficit.

Notes to the consolidated financial statements

(continued)

31 Pension schemes (continued)

IAS 19 disclosures

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

	Valuation 30 September 2007	Valuation 30 September 2006
Inflation	3.25%	2.9%
Pension revaluation in deferment	3.25%	2.9%
Pension escalation in payment	3.25%	2.9%
Discount rate	6.00%	5.1%
Investment returns – unitised with profits	5.75%	5.75%
Investment returns – equities	8.00%	7.75%
Investment returns – bonds and gilts	5.50%	5.0%
Investment returns – cash	5.00%	4.5%
Mortality table	PMA92 (2020) & PFA92 (2020) rated down 3 years	PMA92 (2020) & PFA92 (2020) rated down 3 years

The expected return on assets is calculated using the assets, market conditions and long term expected rate of interest set at the start of the accounting period.

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

	2007 £000	2006 £000
Fair value of scheme assets	**6,890**	5,009
Fair value of scheme liabilities	**(6,881)**	(6,858)
Surplus / (Deficit)	**9**	(1,849)

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

	2007 £000	2006 £000
Included within operating profit:		
Current service cost	**(4)**	(4)
Included within finance income:		
Expected return on scheme assets	**371**	288
Included within finance expense:		
Interest cost on scheme liabilities	**(399)**	(363)

31 Pension schemes (continued)

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

	2007 £000	2006 £000
Actual return on scheme assets	**750**	629
Expected return on scheme assets	**(371)**	(288)
	379	341
Experience gains or losses arising on the scheme liabilities	**148**	(128)
Effect of changes in actuarial assumptions	**1,215**	417
Actuarial gain recognised in the statement of recognised income and expense	**1,742**	630

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

	2007 £000	2006 £000
Opening defined benefit obligation	**(6,858)**	(7,207)
Current service cost	**(4)**	(4)
Interest cost	**(399)**	(363)
Benefit payments made	**186**	427
Actuarial gains	**194**	289
Closing defined benefit obligation	**(6,881)**	(6,858)

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

	2007 £000	2006 £000
Unitised with-profits fund	**3,748**	3,044
Legal & General Consensus Fund	**2,524**	1,890
Cash deposits	**618**	75
	6,890	5,009

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

	2007 £000	2006 £000
Opening fair value of scheme assets	**5,009**	4,727
Expected return	**371**	288
Actuarial gains specific to opening assets	**379**	341
Other movements in the year	**1,183**	-
Benefit payments made	**(186)**	(427)
Contributions paid	**134**	80
Closing fair value of scheme assets	**6,890**	5,009

Notes to the consolidated financial statements
(continued)

31 Pension schemes (continued)

Other movements reflect the increase in the value of the Group's share of assets of the scheme attributable to the restructuring of the scheme to formalise the separation of the old Sanderson Group.

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

	2007 £000	2006 £000	2005 £000
Present value of defined benefit obligation	**(6,881)**	(6,858)	(7,207)
Fair value of scheme assets	**6,890**	5,009	4,727
Surplus / (deficit) in the scheme	**9**	(1,849)	(2,480)
Experience adjustments on the scheme liabilities	**194**	289	(1,306)
Experience adjustments on the scheme assets	**379**	341	254

Total contributions to the defined benefit schemes for the financial year ending 30 September 2008 as agreed with the scheme actuary will amount to £234,000.

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

We have audited the parent company financial statements comprising the Company balance sheet and accompanying notes. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Sanderson Group plc for the year ended 30 September 2007.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditors' 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 shareholders as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

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

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

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

We read other information contained in the Annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' report, the Corporate governance statement, the Chairman's statement and the Financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 30 September 2007;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

GRANT THORNTON UK LLP

Chartered Accountants and Registered Auditors
Birmingham, England

18 December 2007

Company balance sheet

at 30 September 2007

	Note	2007 £000	2006 Restated £000
Fixed assets			
Investments	36	**39,052**	24,137
Current assets			
Debtors	37	**3,273**	1,655
Current liabilities			
Creditors: amounts falling due within one year	38	**(5,395)**	(1,067)
Net current (liabilities) / assets		**(2,122)**	588
Total assets less current liabilities		**36,930**	24,725
Creditors: amounts falling due after more than one year	39	**(15,608)**	(4,159)
Net assets		**21,322**	20,566
Capital and reserves			
Called up share capital	40	**4,228**	4,181
Shares to be issued	41	**495**	495
Share premium account	41	**14,758**	14,578
Other reserves	41	**1,559**	1,019
Profit and loss account	41	**282**	293
Equity shareholders' funds		**21,322**	20,566

The balance sheet was approved by the board of directors on 18 December 2007 and signed on its behalf by:

D A O'Byrne

Director

Notes to the Company balance sheet

32 Company accounting policies

Basis of preparation
As used in the financial statements and related notes, the term "Company" refers to Sanderson Group plc. The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

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

A separate profit and loss account dealing with the results of the Company only has not been presented, as permitted by Section 230 (4) of the Companies Act 1985.

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

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 share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as 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.

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 other equity reserves. This treatment is in accordance with UITF 44 and FRS 20: Share based payments.

Prior year adjustment
The financial statements for the year ended 30 September 2006 have been restated to reflect the first time adoption of 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 balance sheet date. Current and deferred tax is recognised in the profit and loss account for the period except to the extent that it is attributable to a gain or loss that is or has been recognised directly in the statement of total recognised gains and losses.

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

Notes to the Company balance sheet
(continued)

33 Personnel expenses

The Company employed three non-executive directors (2006: three non-executives). Fees paid in respect of these appointments amounted to £79,650 (2006: £76,000). Details of the remuneration of executive directors, paid by subsidiary companies, is given in note 9 of the Annual report.

34 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, an unapproved share option plan and an LTIP. Options over a further 6,000,000 shares were granted in the year to 30 September 2007.

In addition, a Sharesave plan has been made available to all employees. Options were granted in 2005 subject to a three year savings 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. Comparative figures in respect of the year ended 30 September 2006 have been restated accordingly.

35 Dividends

	2007 £000	2006 £000
Interim dividend of 1.15p per share, (2006: 1.1p)	**483**	452
Final dividend relating to previous financial year of 1.5p per share (2006: 1.4p)	**627**	572
Total dividend for the financial year	**1,110**	1,024

36 Fixed asset investments

	Shares in Group undertakings £000
Company	
Cost	
At beginning of year as previously reported	23,118
Prior year adjustment in respect of UITF 44 (note 34)	1,019
	24,137
Additions – Retail Business Solutions Group Limited	14,375
Fair value of share options granted to employees of subsidiaries	540
At end of year	39,052
Net book value	
At 30 September 2007	39,052
At 30 September 2006 – restated	24,137

36 Fixed asset investments (continued)

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

	Country of incorporation	Principal activity	Class and percentage of shares held
Sonarsend Limited	England & Wales	Development and supply of IT products and services	100%
Sanderson Limited *	England & Wales	Development and supply of IT products and services	100%
Sanderson PCSL Limited	England & Wales	Development and supply of IT products and services	100%
Sanderson Retail Systems Limited *	England & Wales	Development and supply of IT products and services	100%
Retail Business Solutions Group Limited	England & Wales	Development and supply of IT products and services	100%
Sanderson Multi-Channel Solutions Limited	England & Wales	Development and supply of IT products and services	100%

* Shareholding held indirectly.

37 Debtors

	2007 £000	2006 £000
Prepayments and accrued income	**3**	13
Deferred taxation	**332**	285
Amounts due from subsidiary undertakings	**2,813**	1,004
Group relief receivable	**125**	353
	3,273	1,655

38 Creditors: amounts falling due within one year

	2007 £000	2006 Restated £000
Bank loans and overdraft	**2,746**	500
Accruals	**649**	67
Deferred consideration	**2,000**	500
	5,395	1,067

Bank loans have been advanced by Royal Bank of Scotland plc under a four year term facility that is in place until September 2011. Royal Bank of Scotland plc holds fixed and floating charges over the whole of the Group's undertakings, property and assets. Interest on borrowings is charged at LIBOR plus a percentage that varies by reference to the Group's gearing.

Notes to the Company balance sheet
(continued)

39 Creditors: amounts falling due after more than one year

	2007 £000	2006 £000
Bank loan	**10,629**	2,389
Amount due to subsidiary undertakings	**4,979**	1,770
	15,608	4,159

Analysis of debt:

	2007 £000	2006 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	**2,000**	500
Between one and two years	**2,000**	500
Between two and five years	**11,608**	3,159
	15,608	4,159

40 Share capital

	2007 No. '000	2006 No. '000
Authorised		
Equity: Ordinary shares of 10 pence each	**53,500**	53,500

	2007 £000	2006 £000
Allotted, called up and fully paid		
Equity: Ordinary shares of 10 pence each	**4,228**	4,181

On 14 September 2007, the Company issued 468,262 ordinary shares of 10 pence each as part of the consideration payable on the acquisition of Retail Business Solutions Group Limited.

1,000,000 shares were included in the acquisition price of Sanderson Retail Systems Limited (acquired on 22 February 2006) as deferred contingent consideration and will be issued in January 2008, the trading targets having been met. These deferred consideration shares were valued at the market price of the shares in issue on 22 February 2006 and are shown in the balance sheet as 'shares to be issued'.

41 Reserves

Company

	Other reserves £000	Profit and loss account £000	Shares to be issued £000	Share premium account £000
At beginning of year as previously reported	-	213	495	14,578
Prior year adjustment in respect of UITF 44 (note 34)	1,019	80	-	-
At beginning of year – restated	1,019	293	495	14,578
Issue of share capital	-	-	-	180
Retained result for the year	-	1,099	-	-
Fair value of share options granted to employees of subsidiaries	540	-	-	-
Dividends paid in year	-	(1,110)	-	-
At end of year	1,559	282	495	14,758

42 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 2007 amounted to £12,609,000 (2006: £2,890,000) net of arrangement costs.

43 Reconciliations of movements in shareholders' funds

	Company 2007 £000	Company 2006 Restated £000
Profit for the financial year	**1,099**	373
Dividends paid	**(1,110)**	(1,024)
Retained loss for the year	**(11)**	(651)
Reserve transfer in respect of fair value of share options	**540**	596
Issue of share capital	**227**	495
Shares to be issued	**-**	495
Net addition to shareholders' funds	**756**	935
Opening shareholders' funds as previously reported	**20,566**	19,162
Prior year adjustment in respect of UITF 44 (note 34)	**-**	469
Opening shareholders' funds – as restated	**20,566**	19,631
Closing shareholders' funds	**21,322**	20,566

Group information

Company Secretary	Adrian Frost
Registered company number	4968444
Registered and head office	Sanderson House Manor Road Coventry CV1 2GF
Nominated advisor and broker	Arden Partners Arden House 17 Highfield Road Edgbaston Birmingham B15 3DU
Registrar	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen Birmingham B63 3DA
Solicitors to the company	Schofield Sweeney St James House 28 Park Place Leeds LS1 2SP Pinsent Masons 3 Colmore Circus Birmingham B4 6BH
Auditors to the company	Grant Thornton UK LLP Centre City Tower 7 Hill Street Birmingham B5 4UU

SANDERSON GROUP PLC

Sanderson House
Manor Road
Coventry CV1 2GF
Tel: +44 (0) 24 7655 5466
Fax: +44 (0) 24 7625 6705