SANDERSON GROUP PLC

Annual Report and Accounts

for the year ended 30 September 2013

IT solutions driving continual business improvement

2013

About Sanderson

IT solutions driving continual business improvement

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

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

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

Our Business

Our Governance

Our Financials

SANDERSON GROUP PLC

Highlights

Operating profit*

up 9%

to £2.22m
(2012: £2.04m)

Gross margin

up 4%

to 87.6%
(2012: 83.6%)

Total dividend†

up 25%

to 1.5p
(2012: 1.2p)

Financial

- Total revenue of £13.83 million (2012: £13.37 million)
- Pre-contracted recurring revenue of £7.94 million (2012: £7.66 million) accounting for approximately 57.4% of total revenue (2012: 57.3%)
- Increases in multi-channel retail division revenue and operating profits* to £7.23 million (2012: £7.17 million) and £1.28 million (2012: £1.21 million) respectively; increased business from new customers with trend towards bigger orders; five new customers gained
- Increase in manufacturing division revenue to £6.59 million (2012: £6.20 million)
- Gross margins further improved to 87.6% (2012: 83.6%) reflecting increased delivery and installation of proprietary software and other 'owned' services
- Increase in operating profit* to £2.22 million (2012: £2.04 million)
- Profit before tax from continuing operations of £1.94 million (2012: £1.48 million)
- Adjusted, diluted earnings per share from continuing operations, stated before items relating to acquisitions of 4.2 pence (2012: 3.6 pence)
- Net cash at year end of £3.66 million (2012: £4.07 million; 2011: net debt of £6.72 million) after paying £500,000 initial cash consideration on the acquisition of Catan Marketing Limited
- Proposed final dividend per share of 0.85 pence (2012: 0.7 pence), making total for year of 1.5 pence per share (2012: 1.2 pence)

Operational

- Strong trading momentum maintained and complemented by increased levels of business from new customers
- Order book stood at £1.94 million at year end (2012: £1.89 million; 2011: £1.35 million)
- Manufacturing division added nine new customers during the year and has a very strong order book
- Further investment in sales and marketing capability made
- Two acquisitions completed, one after the year end; Catan Marketing Limited acquired in August for up to £644,660 cash and One iota Limited acquired in October for up to £5.43 million
- Continued investment in proprietary solutions using mobile technologies complemented by recent acquisition of One iota Limited
- Successful Share Placing at 55 pence per share in October raised £3.50 million (before costs)

* Stated before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related costs
† For the financial year ended 30 September 2013

At a glance

SANDERSON GROUP PLC

Sanderson Group plc is a well-established and profitable software and IT services business specialising in the multi-channel retail and manufacturing markets. Operating primarily in the UK and Ireland, the Group provides its customers with enterprise systems designed to help them run their businesses efficiently and profitably.

- A robust and resilient business
- 444 customers and 185 employees
- IT solutions provider with extensive software IPR & expert knowledge of target markets
- Strong market position driven by innovation
- Substantial recurring revenues
- Long-term customer relationships built on high quality service & support

Manufacturing

Proven solutions for manufacturing and food & drink processing

Sanderson has been helping UK manufacturers succeed with IT for 30 years, delivering proven software and long-term value. Our latest business systems, Enterprise Resource Planning (ERP) software and cloud-based solutions, support many sectors and types of manufacturing and are specifically designed for the markets they address – discrete manufacturing, food and drink processing, print and distribution. Our range of Green IT and Factory and Warehouse Automation solutions improve efficiency in manufacturing and bring many cost saving benefits to customers.

Customer Story

COOK Food

Award winning manufacturer and retailer COOK Trading, the UK's premier producer of gourmet ready meals, selected Sanderson as a strategic partner within a comprehensive business systems project to integrate and optimise their operations across sourcing, production and multi-channel distribution. Based in Kent, the rapidly growing COOK food business gains operational efficiency and significant benefits by replacing a variety of disparate systems with Sanderson software, technology and consulting to accelerate its development even further.

Multi-Channel Retail, Ecommerce and Wholesale Solutions

Helping multi-channel businesses excel

As a long-standing supplier of software and services to retail, mail order catalogue, fulfilment, wholesale and online businesses, Sanderson has a unique understanding of multi-channel sales. We offer a comprehensive range of IT solutions to meet the needs of organisations operating in this sector. Sanderson provides integrated ecommerce systems which underpin online operations, and is a major provider of IT solutions to the delivered wholesale and cash and carry industry. With systems that are flexible and capable of growing as business requirements change, we deliver proven solutions which help our customers achieve return on their investment.

Customer Story

JW Filshill

Glasgow-based JW Filshill was established as a confectionery manufacturer in 1875, but diversified in the mid 20th century and is now a major wholesale and cash and carry operation with turnover in excess of £170 million. A longstanding partnership with Sanderson has become vital to the strategic direction of the business. It is a relationship that delivers substantial financial benefits. The company uses the Sanderson wholesale system to deliver ongoing improvements in its business and operational processes. The latest projects have seen the introduction of sophisticated voice-directed picking in the warehouse and a vehicle routing system which could save Filshill as much as £250,000 a year. The company says it is impossible to imagine how Filshill would run without Sanderson.

Customer Story

Topgrade Sportswear

Part of JD Sports, Topgrade is a leading retailer and wholesaler of branded sportswear and fashionwear. Topgrade selected the Sanderson multi-channel system to support both its wholesale operation and its 'Get the Label' online business which, carrying 4,000 lines and shipping to 58 countries, is experiencing significant growth. The Sanderson system processes and fulfils all sales, streamlining operations to increase the number of orders dispatched, provide faster delivery and enhance customer service. It also provides real-time stock information and expands Topgrade's sales and marketing capability by consolidating data from all sales channels to underpin its multi-channel strategy. "Our investment with Sanderson forms an integral part of our growth strategy. The system allows us to manage multiple businesses whilst generating company-wide efficiencies".

Chairman's statement

Christopher Winn

"Against a challenging UK economic backdrop, the Group's trading results have produced increased revenue, gross margin and operating profit, together with a high level of pre-contracted recurring revenue. The value of the order book at the year end has provided a solid platform from which to make further progress in the current year. Sanderson has continued to generate cash, allowing the Board to maintain its progressive dividend policy and two acquisitions, completed either side of the year end, provide the Group with significant growth opportunities."

Introduction
Sanderson provides a comprehensive and constantly developing range of modern software solutions together with associated services to businesses in the multi-channel retail and manufacturing markets. The Group's business model has been developed whereby solutions primarily comprising Sanderson proprietary software (sometimes integrated with other market leading products) are marketed, sold under licence, delivered, supported and serviced by expert Sanderson staff. The Group has been able to deliver a consistent and reliable quality of service which has ensured the development of long-term relationships with customers.

Financial results
The Group's trading results for the year ended 30 September 2013 ('the period') show revenue of £13.83 million (2012: £13.37 million), further improvement in gross margin to 87.6% (2012: 83.6%) as a result of increased emphasis on higher margin Sanderson proprietary software, delivered and installed by our own staff and operating profit before amortisation of acquisition-related intangibles, acquisition costs and share-based payment charges ('operating profit') of £2.22 million (2012: £2.04 million). The value of the order book at period end was £1.94 million (2012: £1.89 million, 2011: £1.35 million), providing a solid platform from which to make further progress in the current financial year.

After paying £500,000 of initial consideration relating to the acquisition of Catan Marketing Limited in the period, the net cash balance at 30 September 2013 was £3.66 million (2012: £4.07 million).

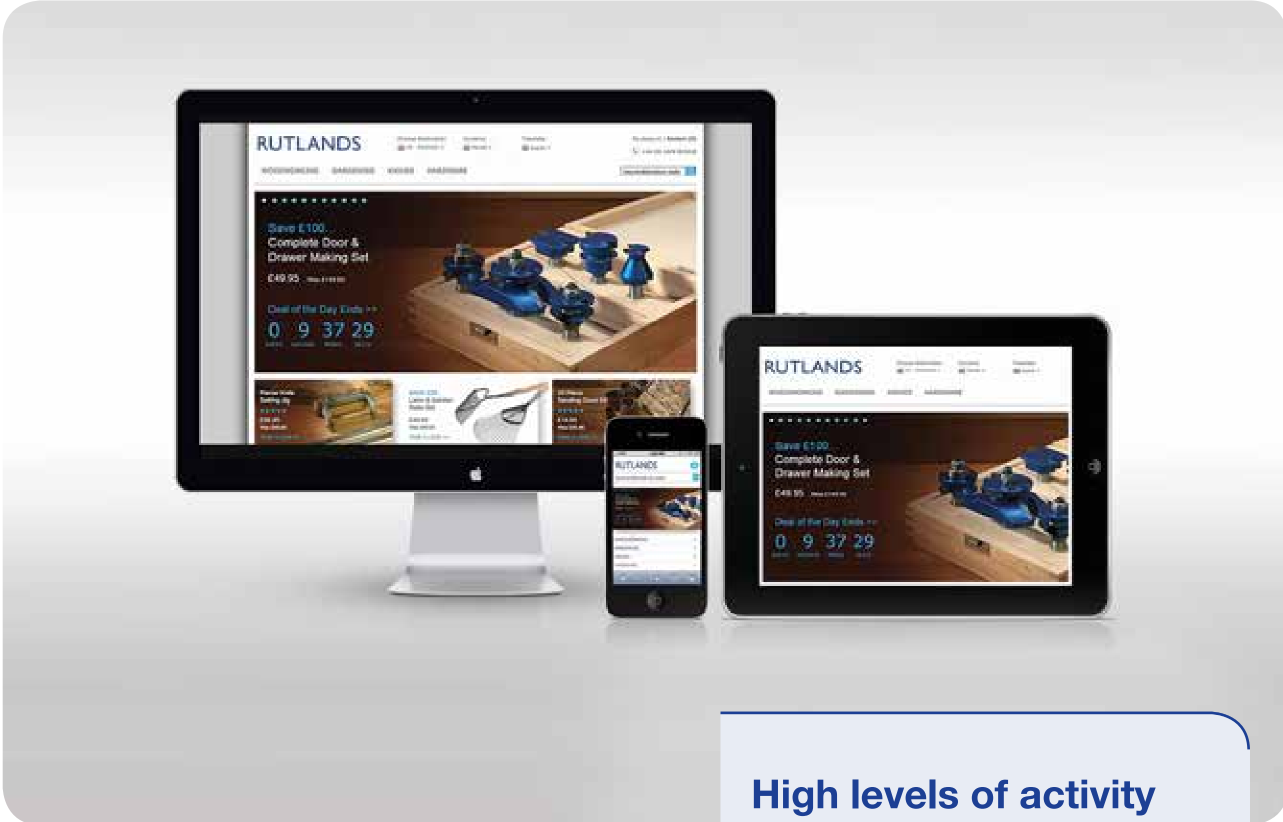
Dividend
The Group has continued to generate cash, enabling the Board to maintain its progressive dividend policy whilst continuing to invest in and to develop the Group's businesses. Subject to the approval of shareholders at the Annual General Meeting, which is scheduled to be held on 28 February 2014, the Board is proposing a final dividend of 0.85 pence per ordinary share, making a total of 1.50 pence for the year, representing a 25% increase compared with the total dividend of 1.20 pence in 2012. The final dividend, if approved, will be paid on 28 March 2014 to shareholders on the register at the close of business on 7 March 2014. The Board intends to continue to pay a progressive dividend based upon the trading and strong cash generation of the Sanderson business.

Business review
Sanderson is an established provider of software and services to the multi-channel retail and manufacturing markets. With the emergence of the multi-channel retail division as the larger part of the Group's operations so the second half of the financial year now contributes a larger proportion of annual operating profit. This is partly due to the importance of the September to January trading period for customers who operate in the market areas of 'online sales, ecommerce and catalogue sales' ('ecommerce') and as a consequence, many IT investment decisions are not generally considered before February of each year. The Group's growing number of food and drink processing customers also experience the same 'busy' period. As a result, the second half of the financial year to 30 September, produced an additional £239,000 of operating profit compared with the first half year to 31 March.

Pre-contracted recurring revenues are a cornerstone of the Sanderson business and provide the Board with good visibility of future earnings. Sanderson software is licensed to customers, typically on annual contracts and this recurring software licence revenue stream is augmented by consultancy, support and maintenance services. In the period to 30 September 2013, pre-contracted recurring revenues were £7.94 million representing 57% of total revenues (2012: £7.66 million and 57%). The gross margin from recurring revenues covered 73% of Group overheads (2012: 76%).

The Group continued to invest in its products and services and has made further investment in the delivery and services capabilities of the Group's ecommerce businesses, as well as the business which focuses on the food and drink processing sector. Since 2010, the investment in the Group's sales and marketing activities has been increased by over 10% per annum.

During the period, 14 new customers were gained (2012: 15 new customers) at an average initial contract value of £119,000 (2012: £99,000). The value of orders from new customers grew again with the total increasing to £1.67 million (2012: £1.49 million, 2011: £1.33 million). The annual growth rate being achieved in the ecommerce market continues to be in excess of 10% and this growth, which is being further fuelled by mobile commerce (ecommerce via mobile devices) is expected to continue to provide growth opportunities in the mid-term. The food and drink processing sector within the UK is growing, as is the Group's own business which addresses this market.



High levels of activity have been experienced from providing mobile commerce solutions

Sanderson products are continually developed to offer both prospective and existing customers, the opportunity to achieve cost savings and to make business efficiencies utilising the latest technologies. 'Value for money' propositions which demonstrate a good return on investment case are key considerations for UK commercial businesses. Consistent high quality service and support is also an important factor in retaining customers and building long-term relationships. In August 2013, one of the Group's longstanding customers (since 2000), placed an extension order, worth over £190,000, for the deployment of Sanderson software into a number of its subsidiary businesses including Zambia, Botswana, Namibia, Nigeria and Ghana.

The increased emphasis on higher margin Sanderson proprietary software, delivered and installed by our own staff, has resulted in the further improvement of gross margin to 87.6% in the period, compared with 83.6% in the year ending 30 September 2012 and 82.3% in the previous year, ending 30 September 2011.

Review of multi-channel retail

Sanderson provides comprehensive IT solutions to businesses operating in the ecommerce sector, wholesale distribution, cash and carry and retail stores. High levels of activity have been experienced from providing mobile commerce solutions, incorporating the latest 'responsive' web technologies that optimise customers' websites enabling them to adapt to whatever device is being used for optimal viewing, seamless navigation and increased sales.

Mobile
SOLUTIONS

"The Sanderson Board intends to pursue a growth strategy based upon a conservative financing policy with a strong balance sheet and cash in the bank at its core. The Group will continue to invest across all of its businesses, with particular emphasis on further developing a range of solutions for ecommerce as well as for the food and drink processing sector, while mobile commerce solutions are being developed across all of the Group's target markets."

Revenue in the period was £7.23 million (2012: £7.17 million) and whilst there was continued strong growth in ecommerce businesses, very much reflecting market trends, there was a decline in the Group's business focused on traditional mail order fulfilment. Completion of a planned investment in the infrastructure and capability of the Group's ecommerce business resulted in operating profit growth being limited to 6% to £1.28 million (2012: £1.21 million). Revenue from customers operating in the ecommerce market grew to £2.62 million (2012: £2.40 million, 2011: £2.09 million). Gross margin improved to 87.6% (2012: 83.7%). Five new customers were gained in the period compared with nine in the previous year. The increased level of new customer business has continued with a large order from a new customer, worth almost £250,000, gained at the start of the current financial year. Sales prospects are strong and it is expected that the investment made in the year ending 30 September 2013 will contribute to faster progress in the coming year.

Review of manufacturing

The part of the Group's business which addresses the general UK manufacturing market experienced a tougher trading environment than in the previous year, whereas the business focused on the food and drink processing sector, benefiting from investment made over the last two years, made very good progress and drove overall growth for the manufacturing division. The size of the UK food and drink processing market is growing and there is an increase in the number of small and medium businesses in this sector. The need for traceability through the food and drink distribution, production and supply chain, combined with a continued drive to reduce operational costs has provided the Group with a good opportunity in this market. The Sanderson food and drink processing business now represents 49% of the Group's manufacturing business (2012: 44%, 2011: 39%).

Full year revenue was £6.59 million (2012: £6.20 million) and operating profit was £932,000 (2012: £831,000). Overall order intake was £3.10 million (2012: £2.74 million).

Nine new customers were gained in the period (2012: six new customers) including Broder Metals Group, COOK Trading Limited, Kolak Snack Foods and Virani Food Products. The order book is strong and at the period end stood at over £1.24 million (2012: £870,000) with very good sales prospects.

Acquisition

On 12 August 2013, the Group acquired Catan Marketing Limited, trading as PRIAM, for a maximum consideration of £644,660. PRIAM had revenues of £875,000 in the year to 31 August 2012, employs 14 staff and is based in Rugby. PRIAM achieved £147,000 of revenue in the period from its acquisition and contributed £6,000 of operating profit. During the current financial year, management plan to integrate PRIAM into the Group's multi-channel retail division and to invest in the sales and marketing capability of the business.

Post Period End Events – Acquisition

In October, the Group acquired One iota Limited for a maximum consideration of £5.43 million, made up of initial consideration of £3.13 million and deferred consideration of up to £2.30 million depending on the trading performance of business in the three years to 30 September 2016. The One iota business is experienced in cloud-based multi-channel solutions and the One iota MESH platform integrates a retailer's back-office and existing systems with mobile, tablet and in-store sales channels. In the year to 31 January 2013, One iota produced revenues of £665,000 and profit (before taxation) of £195,000. One iota offers, in its own right, a significant growth opportunity in the rapidly expanding mobile retail solutions market as well as a synergistic opportunity to accelerate further the development of Sanderson into the provision of integrated mobile solutions.

Post Period End Events – Share Placing

The Sanderson Board remains committed to pursuing a growth strategy based upon a conservative financing policy with a strong balance sheet and cash in the bank at its core.

On 28 October 2013, the Group successfully completed the raising of £3.50 million before costs by way of a placing of 6,363,636 new ordinary shares, issued at 55 pence per share. The total issued share capital of the Group is now 51,479,218 ordinary shares.

After the Acquisitions and the Share Placing, the cash balance as at 22 November was in excess of £4.50 million.

The Group's business focused on the food and drink processing sector made very good progress

Management and staff
Sanderson now employs approximately 185 staff, who have a high level of experience and expertise in the market sectors which the Group addresses. Over the last 15 months, management has looked to recruit graduates and, more recently, has been working with Local Enterprise Partnerships to recruit school leavers. On behalf of the Board, I would like to thank everyone for their hard work, support and dedication to the development of Sanderson over the period of recovery and business transition since 2009 and now into a period of planned sustainable growth.

Strategy
The Board's strategy is to achieve growth by continuing to build upon the Group's businesses operating within the multi-channel retail and manufacturing markets. Sanderson is a provider of modern and proven software solutions which continue to provide customers with opportunities to gain competitive advantage and to effect cost saving efficiencies. Our goal is to achieve growth, build value and thereby improve shareholder returns. Whilst the Group will continue to invest across all of its businesses, particular emphasis will be placed on developing further the range of solutions for ecommerce businesses, as well as for the food and drink processing sector. Mobile commerce solutions are being developed across all of the Group's target markets.

Selective acquisition opportunities will continue to be considered to augment organic growth. However, in the short-term, management intends to focus on delivering 'on target' results and on making the PRIAM and One iota acquisitions successful.

Outlook
Whilst the Board is keen to pursue the continued development of Sanderson, the economic environment, though showing some signs of improvement, is still challenging and accordingly the Board continues to adopt a cautious approach. However, the Group's strong order book, improved market position and the two recent acquisitions provide the Board with an expectation that Sanderson will achieve significant progress during the current financial year ending 30 September 2014.

Christopher Winn
Chairman
25 November 2013

Strategic report

Adrian Frost

"The Board believes strategic objectives regarding the development of existing businesses and complementary acquisitions are achievable whilst maintaining a strong balance sheet founded on positive cash balances. Our goal is to achieve growth, build value and thereby improve shareholder returns."

Trading results

The Group's strategy is to achieve growth by continuing to build upon and to further develop the Group's businesses operating within the multi-channel retail and manufacturing markets. Organic growth is to be augmented by complementary acquisitions, whilst retaining a strong balance sheet including positive cash balances.

Sanderson has made good progress during the year. Revenue has increased by 3% to £13.83 million (2012: £13.37 million) and operating profit before amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related costs ('operating profit') increased by almost 9% to £2.22 million (2012: £2.04 million). Two acquisitions have recently been completed, firstly Catan Marketing Limited in August 2013 and One iota Limited just after the financial year end on 7 October 2013. A more detailed review of the financial year and the acquisitions is provided in the Chairman's statement.

Presentation of the results in the Consolidated income statement has been expanded to show the effect of amortisation of acquisition-related intangibles, share-based payment charges and acquisition-related costs. The Group's operating profit stated before these items is considered to be a more representative comparison of trading performance and therefore more meaningful to the reader.

Statement of financial position

As referred to above, the Group intends to retain a strong balance sheet based on a positive cash balance. At the year end a net cash balance of £3.66 million was reported (2012: £4.07 million). The year end cash balance was influenced by a number of customers delaying payment of amounts due into October, a factor that had not affected the prior year. The Group collected in excess of £500,000 in the first week of the new financial year. Cash generated from operating activities amounted to £1.71 million (2012: £2.02 million).

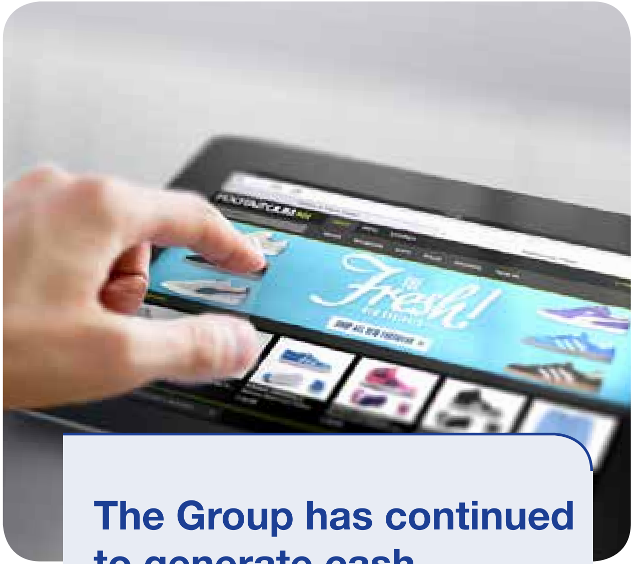
Subsequent to the year end the Group completed the acquisition of One iota Limited for initial consideration of £3.13 million, of which £2.38 million was settled in cash and the balance by the issue of 1,314,636 ordinary shares. Deferred consideration of £2.30 million is payable over the next three years, £2.00 million of which is dependent upon One iota Limited meeting certain performance targets set, in part, to ensure the acquired business generates substantially all of the cash required to fund the consideration payments. To ensure the strength of the balance sheet was not unduly affected by the acquisition, on 28 October 2013 the Group successfully raised £3.50 million before costs by way of a placing of 6,363,636 new ordinary shares, issued at 55 pence per share. At 22 November 2013, cash balances were in excess of £4.50 million.

The Group continues to invest in product development to ensure the solutions marketed by Sanderson remain modern and competitive, whilst at the same time adopting a conservative accounting policy in respect of the treatment of such development expenditure that ensures a significant proportion of the annual development spend is expensed in line with revenues generated. During the year expenditure totalling £1.51 million (2012: £1.50 million) was incurred, of which £1.26 million (2012: £1.29 million) was expensed to operating profit.

The Group is responsible for a defined benefit pension scheme which is currently in deficit. During the year the Group paid regular monthly contributions totalling £360,000 together with an additional one-off contribution of £317,000. At the year end the scheme deficit had reduced to £4.17 million (2012: £4.51 million). The deficit continues to be affected by historically low discount rates and rates of interest. Notwithstanding this fact, the Group is seeking to proactively manage the deficit over the medium-term in line with the remaining working lives of the majority of the scheme's members.

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. At 22 November 2013, cash balances were in excess of £4.50 million. The Board has reviewed the Group's medium-term strategy and concluded that key strategic developments were achievable whilst retaining a positive cash balance.



The Group has continued to generate cash enabling the Board to maintain its progressive dividend policy

Key performance indicators ('KPIs')

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

Indicator	2013	2012
Revenue per employee	£89,800	£91,600
Operating profit as a percentage of revenue	16.0%	15.2%
Order intake	£5.87m	£6.85m
Debtors over 60 days as percentage of total debtors	7.8%	11.3%
Dividend cover	2.8	3.0

Revenue per employee is used as a broad measure of efficiency. The Group has set a target of £100,000 for revenue per employee. The ratio has fallen this year as a result of the Group's graduate intake programme, with individuals joining under this initiative not expected to be fully productive until the second year of employment at the earliest. Sanderson has further committed to the ongoing development of its workforce by introducing an apprenticeship scheme, the first intake of which joined in November 2013. As a result, the revenue per employee measure is expected to remain below the target in the short-term. Management believes the graduate intake and apprenticeship schemes are in the best interests of the business and will enable the target to be met in the medium-term.

Operating profit as a percentage of revenue is affected by a number of factors including the relative proportion of licence revenue recorded in the period and the net movement on capitalised development costs. The ratio has continued to improve with the increased focus on the sale of proprietary software.

The regular monitoring of order intake is an important indicator of likely trading performance in the short-term as well as providing an indication as to confidence levels within the customer community.

Whilst the figures presented above show annual order intake, management monitors this measure on a monthly basis. The measure is monitored in conjunction with the value of the order book as a strong order book enables the Group to continue to trade profitably when a temporary downturn in order intake is experienced. Order intake declined during the early part of the year ended 30 September 2013, with an increase in momentum experienced in the second half of the year as economic indicators improved.

The percentage of debtors over 60 days old has fallen below the target level of 10%. Good progress has been made in addressing issues that have previously prevented certain customers from settling invoices as they fall due.

Dividend cover compares adjusted diluted earnings per share to the dividend per share declared for the financial year, which is subject to approval at the Annual General Meeting due to be held in February 2014. The Board intends to pursue a progressive dividend policy as trading results continue to improve. The dividend cover measure provides an indication as to the proportion of overall earnings paid as dividends.

Strategic report continued

> "The Group continues to invest in product development to ensure the solutions marketed by Sanderson remain modern and competitive. During the year expenditure totalling £1.51 million was incurred on product development activities."

Principal risks

Risk management is an important part of the management process throughout the Group. Regular reviews are undertaken to assess the nature of risks faced, the magnitude of the risk presented to business performance and the manner in which the risk may be mitigated. Where controls are in place, their adequacy is regularly monitored.

The risks considered to be particularly important at the current time are set out below:

Economic

Potential impact: As a supplier to the multi-channel retail and manufacturing markets a further worsening of the economic climate affecting these sectors may lead to a reduced spend on IT systems and services by customers and prospective customers.

Mitigation: The Group strives to offer solutions that provide a demonstrable return on investment for both existing as well as new customers, as a strategy to capture more of our customers' budgeted IT spend. Forward looking indicators such as order intake are regularly reviewed to identify potential deterioration in market conditions.

Product development

Potential impact: The Group operates in dynamic markets and must ensure the solutions it offers remain competitive. Failure to do so may lead to a loss of business with customers and prospective customers obtaining more relevant solutions from elsewhere.

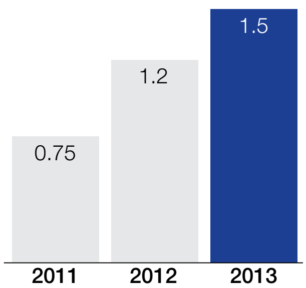
Mitigation: Sanderson regularly discusses business requirements with customers and prospective customers. Approximately 75% of product development is in response to specific requirements, ensuring new product offerings accurately reflect the needs of the markets served. Factory Automation and Mobile applications are examples of development undertaken to remain competitive.

People

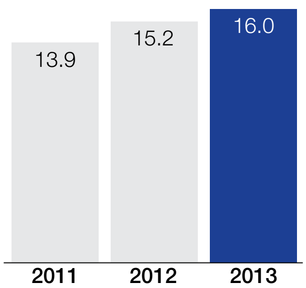
Potential impact: An experienced and knowledgeable workforce is required to develop technically complex products and to deliver the services required to enable customers to deploy Sanderson solutions in their businesses. The market for skilled staff remains competitive and a failure to recruit and retain experienced staff could impact on the Group's ability to develop and deliver solutions.

Mitigation: Providing existing staff with relevant training and career progression opportunities is a key priority for the business. Recruiting and developing new employees, when required, is undertaken by experienced staff to ensure the correct calibre of individual is identified.

Dividend for the financial year
Pence



Operating profit* as a percentage of revenue
%



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

Reputational
Potential impact: The quality of references obtained from existing users of Sanderson software is an important part of the decision making process for a potential customer seeking to appoint Sanderson as a new supplier. Similarly, existing customers are more likely to extend the use of current solutions and purchase new products when they are confident solutions will be delivered on time and to budget. Poor performance or the provision of sub-standard products may therefore result in customer disputes as well as a negative impact on solution sales.

Mitigation: Sanderson strives to maintain its reputation as a supplier of highly functional, value for money solutions. Quality control is an important part of the product development process and senior staff are involved in managing project delivery to ensure, wherever possible, solutions are delivered on time and to budget.

Financial
Potential impact: Inaccurate financial information may result in sub-optimal decisions being taken by management and staff. Inadequate internal controls may fail to prevent the Group suffering a financial loss.

Mitigation: The systems of internal controls deployed within the Group are designed to prevent financial loss. Controls are strongest in areas where management considers the potential exposure to the Group of material loss to be at its greatest, such as contract management and credit control. The adequacy and effectiveness of internal controls are reviewed regularly.

Acquisition risk
Potential impact: The Group will consider acquisitions as part of its overall growth strategy. Acquisitions may not always realise the benefits expected at the time of completion.

Mitigation: Due diligence appropriate to the size and nature of the acquisition will be undertaken and warranties and indemnities will be sought from vendors wherever possible. An integration plan will be formulated as part of the due diligence process and executed as rapidly as is appropriate to the nature of the business acquired.

By order of the Board

Adrian Frost
Secretary
Sanderson Group plc
Sanderson House
Manor Road
Coventry
CV1 2GF
25 November 2013

Board of directors

Christopher Winn
Chairman
Aged 63. Following graduation from Nottingham University (BA Honours in History), Christopher worked for British Olivetti until 1974 when he joined the ACT Group — ACT Group became the second UK IT company to be listed on the London Stock Exchange in 1979. He served on the Group plc Board between 1983 and 1994, undertaking a number of senior roles and in 1995, he joined the former Sanderson Group, becoming Group Chief Executive later in that year. In 1999, Christopher led a management buyout or 'take private' of the former Sanderson Group with the support and backing of the Alchemy Plan. Following restructuring and the demerger of the original Group, the business which was focused primarily on UK commercial markets and which retained the Sanderson Group name, gained admission to the London Stock Exchange AIM market in December 2004.

Adrian Frost BA, ACA
Finance Director
Aged 46. A graduate of Sheffield University, Adrian qualified as a Chartered Accountant whilst working for RSM Robson Rhodes. In 1996, he joined Hadley Industries plc as Group Financial Controller. Adrian joined Sanderson in 2000, shortly after the management buyout, and worked closely with the Board in restructuring the former Group into three separate businesses — Sanderson, Civica and Talgentra. Adrian was appointed Finance Director of Talgentra following the formal demerger of the Group, and rejoined Sanderson Group plc in May 2005, as Group Finance Director.

Ian Newcombe
Director
Aged 58. Ian was appointed to the Board on 3 January 2013. Ian has over 30 years' experience in software and IT services. Beginning his career in electronics, he moved into the computer industry in 1979 when he joined ACT Group plc where, as a local board member, he helped establish an international IT support and software services business. In 1996 Ian joined Mitsubishi Electric of Japan and as International Project Director, he was instrumental in the formation of an ISP (Internet Service Provider) and online financial services business, successfully launching a range of innovative projects in the UK and Europe. In 1999, he was appointed Consulting Director of Talgentra Limited, where he developed a new consulting services business which rapidly expanded overseas. In 2005 Ian became Managing Director of what is now the enlarged multi-channel retail division of Sanderson and has since driven the growth of the division.

Philip Kelly
Non-Executive Director
Aged 61. Philip Kelly is a Non-Executive Director of several companies in the software and related services sector. He has over 25 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 is Chairman of the Remuneration Committee.

John Paterson
Non-Executive Director
Aged 67. 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. John is Chairman of the Audit Committee.

Group information

Company Secretary
Adrian Frost

Registered company number
4968444

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

Nominated advisor and broker
Charles Stanley Securities
131 Finsbury Pavement
London
EC2A 1NT

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

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

Auditor to the Company
Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

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

Senior management team

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

Executive directors (biographies on page 12)

Christopher Winn 1
Chairman

Adrian Frost 2
Finance Director

Ian Newcombe 3
Managing Director Multi-Channel Retail Division

Senior directors

Paul Bywater 4
Managing Director Production & Print
Paul graduated with a first class honours degree in production engineering and business studies. Paul joined Sanderson in 1986 and has held a number of positions at Sanderson including Analyst Programmer, Support Manager, Manufacturing Consultant, Systems Director, Development Director, and Product Strategy Director. Paul became Managing Director of the Production & Print business in 2009.

Roger Stares 5
Managing Director Food & Drink
Roger qualified in electrical engineering with Newman Industries then moved into its IT department, which was acquired by Sanderson in 1987. Roger has been instrumental in the design and development of the Group's food & drink solution with over 25 years' experience supplying IT to the food & drink sector. Whilst at Sanderson, Roger has held the positions of Technical Director and Director & General Manager. In 2007, Roger became Managing Director of the Sanderson Food & Drink business.

Paul Davis 6
Managing Director Mail Order
Paul's involvement in the IT industry spans nearly 30 years. He started his career at British Olivetti and then moved to systems house Marchant Computers, which was acquired by Sanderson in 1995. Paul has held a number of roles within the Group. His expertise lies in the day-to-day integration and management of acquisitions, business development, sales and account management. Paul has managed large accounts such as Thorntons and MandM Direct, one of the UK's largest and most successful online clothing retailers.

Kate Simpson 7
Head of Marketing
An LLB (Hons) graduate in Law, Kate started her working life at the BBC before spending seven years at Mitsubishi Electric and in 1999 joined Sanderson as Marketing Manager for the Commercial Systems business (now Civica). In 2003, Kate took up her current role within the Group, and has assisted in the adoption of a more market-focused approach and, more recently, in ensuring the effectiveness of the increased investment in sales and marketing.

2013 colleague career achievement awards

The Sanderson career achievement awards recognise the hard work, dedication and professionalism shown by our colleagues. An annual event, the awards celebrate just some of the many staff who have made a particularly positive contribution to Sanderson during their careers.

Steve Richards
Development Team Leader
With a degree in Computer Science from Leeds University, Steve joined Sanderson in 1996 as a developer on a graduate scheme. Promoted in 2012 to Development Team Leader working in the part of the Sanderson business that addresses the online sales, ecommerce and catalogue sector, Steve manages a team of developers and provides technical solutions for customers. Steve and his team have recently implemented an 'agile' approach to software development which has significantly improved the productivity of the team.

Steven Woolfrey
Product Analyst
Steven joined Sanderson in 2004 and now holds the position of Product Analyst. He has played a major role in the development of the market-leading Factory and Warehouse Automation solutions. In addition to development work, he also supports customers 'on-site' with testing and implementation processes. He is hard working and totally dedicated to his job.

Sazia Akhtar
Senior Support Analyst
Sazia graduated from the University of Ulster in 1996 with a degree in Computer Science. After five years working in a busy public sector helpdesk, where she had progressed to Team Manager, she joined the Sanderson wholesale support team in 2001. With 12 years of wholesale distribution experience, her comprehensive product knowledge and understanding of the wholesale trade combined with her unassuming and empathetic manner, Sazia is very popular with both customers and co-workers.

Paul Tay
Analyst Programmer
Paul has a BA in English and Philosophy and has been with Sanderson since June 1998. During his time with the Group, Paul has been the main analyst for a number of our customers including Import Services, the UK's leading port-centric retail supply chain logistics company, HSL, the comfort furniture retailer and Machine Mart, Britain's number one specialist supplier of power tools and machinery. Paul is hard working, conscientious, punctual and always willing to help others.

Mark Emerton
Customer Services Manager
Mark began his career at Sanderson 25 years ago as a trainee programmer and progressed through programming and analyst roles before becoming Customer Services Manager, a position which he has held for the last 14 years. Mark has a very 'hands on' approach and is highly respected by his colleagues and customers alike. Seen as a fountain of knowledge, his understanding of the manufacturing industry and of Sanderson products and their application is excellent.

Sarah Taylor
Senior Marketing Manager
Sarah has a BA Hons degree in Business Studies and a Post Graduate Diploma from the Chartered Institute of Marketing and joined Sanderson in 2004. Sarah now heads up the marketing for the fast growing multi-channel retail division of Sanderson. Her marketing stewardship has seen the multi-channel solutions business grow and develop. Sarah is responsible for all Sanderson marketing campaigns, the Group's presence at leading events, and marketing to customers as well as to new business prospects, with our highly successful series of Customer Forums. Efficient and organised, Sarah always tackles her work with great gusto, and doesn't leave until the job is done.

Governance statement

As the Company's shares are traded on AIM, the Company has not complied with the UK Corporate Governance Code ('the Code') nor is it required to. However, the Company is committed to high standards of corporate governance and draws upon best practice available, including those aspects of the Code considered appropriate.

Board of directors

The Board is broadly balanced with three executive and two 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 executive directors and senior management team.

Board committees

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

The Audit Committee is chaired by John Paterson, and meets at least twice a year with the executive directors and representatives of the external auditor 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 auditor together with their scope of work and consideration of their findings, and the review of internal controls.

The Remuneration Committee is chaired by Philip Kelly, 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.

Shareholder communication

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

Funding

At the financial year end the Group reported cash balances of £3.66 million. The Group completed an acquisition and a placing of shares subsequent to the year end, following which the cash balance was in excess of £4.00 million. The Group's medium-term strategy is to maintain a strong balance sheet with positive cash balances. The Board believes strategic objectives regarding the development of existing businesses and complementary acquisitions are achievable whilst retaining a positive cash balance. The Group remains profitable and cash generative. Accordingly, the directors have prepared the accounts on a going concern basis.

Directors' remuneration

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 two non-executive directors and is chaired by Philip Kelly.

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 8 to the accounts. Details of options to purchase ordinary shares in the Company that have been granted to directors of the Company are set out below:

	In issue at year end	Financial year issued	Exercise price	Performance conditions	Earliest exercise date	Expiry date
Christopher Winn	199,980	2005	54.25p	Yes	01.10.2007	30.09.2014
Christopher Winn	910,972	2005	50p	Yes	01.10.2007	15.12.2014
Christopher Winn	910,972	2005	£1*	Yes	01.10.2007	15.12.2014
Adrian Frost	175,421	2005	57p	Yes	01.10.2007	30.09.2014
Adrian Frost	215,579	2005	56p	Yes	01.10.2007	15.12.2014
Adrian Frost	215,579	2005	£1*	Yes	01.10.2007	15.12.2014
Adrian Frost	100,000	2009	9.5p	Yes	03.08.2012	03.08.2017
Ian Newcombe	112,500	2009	9.5p	Yes	03.08.2012	03.08.2017
Ian Newcombe	300,000	2010	23p	Yes	21.05.2013	21.05.2017
Ian Newcombe	75,000	2011	27p	No	05.04.2014	05.01.2021
Ian Newcombe	118,750	2011	30p	No	29.06.2014	29.06.2018
Ian Newcombe	31,250	2011	30p	No	29.06.2014	29.06.2018
Ian Newcombe	200,000	2013	45.75p	No	27.11.2015	27.11.2019

The options in respect of Mr Winn were awarded on admission to AIM on 16 December 2004. With the exception of the 2009 options, the options in respect of Mr Frost were awarded on 27 May 2005 following his appointment to the Board. Options with an exercise price of £1 per each occasion of exercise (identified by * in the table above) were granted under a Long Term Incentive Plan ('LTIP').

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.

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2013.

Business review

A comprehensive analysis of the Group's development and performance is contained in the Chairman's statement and Strategic report. Information on the financial risk management strategy of the Group and of the exposure of the Group to currency risk, interest rate risk, credit risk and liquidity risk is set out in note 24 to the accounts.

Dividend

A final dividend of 0.70 pence per share was paid on 29 March 2013 (2012: 0.45 pence) relating to the financial year ended 30 September 2012. An interim dividend of 0.65 pence per ordinary share was paid on 16 August 2013 (2012: 0.50 pence per share) in respect of the financial year ended 30 September 2013. The directors propose the payment of a final dividend in respect of the year ended 30 September 2013 of 0.85 pence per ordinary share. The final dividend is subject to shareholder approval at the Annual General Meeting on 28 February 2014 and, if approved, will be paid on 28 March 2014 to shareholders on the register at the close of business on 7 March 2014.

Employees

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

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

Directors and directors' interests

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

	Interest at end of year	Interest at start of year
Ordinary shares of 10 pence		
Christopher Winn	12,745,000	12,745,000
Adrian Frost	61,000	61,000
Ian Newcombe†	—	—
Philip Kelly*	50,000	50,000
John Paterson*	90,000	90,000

† Ian Newcombe was appointed to the Board on 3 January 2013. His interest in the ordinary shares of the Company stated above is at the date of his appointment rather than at the start of the year.
* Denotes non-executive directors.

David Gutteridge served as a non-executive director from 1 October 2012 until his resignation on 3 January 2013.

Details of options to purchase ordinary shares in the Company granted to the executive directors are set out in the Governance statement.

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

Substantial shareholdings

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

	Number of shares	%
Christopher Winn	12,745,000	24.76
Hargreave Hale & Co	6,240,907	12.12
ISIS Ep LLP	4,818,257	9.36
AXA Framlington Investment Management	2,750,000	5.34
Miton Diverse Income Trust	2,175,783	4.23
Unicorn Asset Management	1,767,472	3.43

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.

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare Group and parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for the period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS 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.

Directors' report continued

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

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

Auditor

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

By order of the Board

Adrian Frost
Secretary
Sanderson Group plc
Sanderson House,
Manor Road
Coventry
CV1 2GF
25 November 2013

Independent auditor's report to the members of Sanderson Group plc

We have audited the Group financial statements of Sanderson Group plc for the year ended 30 September 2013 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on pages 19 and 20, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent company financial statements of Sanderson Group plc for the year ended 30 September 2013.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
25 November 2013

Consolidated income statement

for the year ended 30 September 2013

	Note	Continuing operations £000	Relating to acquisitions £000	**Total 2013 £000**	Total 2012 £000
Revenue	4	13,681	147	**13,828**	13,374
Cost of sales		(1,684)	(27)	**(1,711)**	(2,188)
Gross profit		11,997	120	**12,117**	11,186
Technical and development costs		(5,239)	(65)	**(5,304)**	(4,989)
Administrative and establishment expenses		(2,975)	(209)	**(3,184)**	(2,912)
Sales and marketing costs		(1,657)	—	**(1,657)**	(1,379)
Results from operating activities		2,126	(154)	**1,972**	1,906
Results from operating activities before adjustments in respect of the following:	7	2,209	6	**2,215**	2,038
Amortisation of acquisition-related intangibles		—	(66)	**(66)**	(67)
Acquisition-related costs		—	(94)	**(94)**	—
Share-based payment charges	6	(83)	—	**(83)**	(65)
Results from operating activities		2,126	(154)	**1,972**	1,906
Finance income	9	489	—	**489**	465
Finance expenses	10	(518)	—	**(518)**	(679)
Exceptional finance expense		—	—	**—**	(227)
Movement in fair value of derivative financial instrument		—	—	**—**	16
Profit/(loss) before taxation		2,097	(154)	**1,943**	1,481
Taxation	11	(251)	(1)	**(252)**	(185)
Profit/(loss) for the year		1,846	(155)	**1,691**	1,296
Profit on discontinued operations, net of tax	5	—	—	**—**	1,110
Profit/(loss) for the year attributable to equity holders of the parent		1,846	(155)	**1,691**	2,406
Earnings per share					
From continuing operations					
Basic earnings per share	13	4.2p	(0.3p)	**3.9p**	3.0p
Diluted earnings per share	13	4.0p	(0.3p)	**3.7p**	2.8p
From discontinued operations					
Basic earnings per share	13	—	—	**—**	2.5p
Diluted earnings per share	13	—	—	**—**	2.4p
From profit attributable to the owners of the parent undertaking during the year					
Basic earnings per share	13	4.2p	(0.3p)	**3.9p**	5.5p
Diluted earnings per share	13	4.0p	(0.3p)	**3.7p**	5.2p

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

Consolidated statement of comprehensive income

for the year ended 30 September 2013

	Note	2013 £000	2012 £000
Profit for the year		**1,691**	2,406
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss			
Defined benefit pension plan actuarial losses	28	**(225)**	(740)
Deferred taxation effect of defined benefit pension plan items	17	**53**	185
		(172)	(555)
Items that will subsequently be reclassified to profit or loss			
Change in fair value of available for sale financial asset		**74**	—
Foreign exchange translation differences		**(32)**	—
Total comprehensive income attributable to equity holders of the parent		**1,561**	1,851

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

Consolidated statement of financial position

at 30 September 2013

	Notes	2013 £000	2012 £000
Non-current assets			
Property, plant and equipment	14	**307**	372
Intangible assets	15	**23,194**	22,404
Deferred tax assets	17	**1,388**	1,567
		24,889	24,343
Current assets			
Inventories		**–**	9
Trade and other receivables	18	**3,371**	3,594
Other short-term financial assets	19	**205**	131
Cash and cash equivalents		**3,662**	4,066
		7,238	7,800
Current liabilities			
Trade and other payables	21	**(2,746)**	(2,872)
Deferred consideration	20	**(145)**	–
Income tax payable		**(5)**	(9)
Deferred income		**(3,886)**	(4,599)
		(6,782)	(7,480)
Net current assets		**456**	320
Total assets less current liabilities		**25,345**	24,663
Non-current liabilities			
Pension obligations	28	**(4,174)**	(4,512)
Deferred tax liabilities	17	**(272)**	(121)
		(4,446)	(4,633)
Net assets		**20,899**	20,030
Equity attributable to equity holders of the parent company			
Share capital	22	**4,380**	4,352
Share premium		**4,302**	4,205
Available for sale reserve		**74**	–
Foreign exchange reserve		**(32)**	–
Retained earnings		**12,175**	11,473
Total equity		**20,899**	20,030

These financial statements were approved and authorised for issue by the Board of directors on 25 November 2013 and were signed on its behalf by:

Christopher Winn
Director

Company Registration Number
4968444

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

Consolidated statement of changes in equity

for the year ended 30 September 2013

	Share capital £000	Share premium £000	Available for sale reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
At 1 October 2012	**4,352**	**4,205**	**–**	**–**	**11,473**	**20,030**
Exercise of share options	**28**	**97**	**–**	**–**	**(110)**	**15**
Dividend paid	**–**	**–**	**–**	**–**	**(590)**	**(590)**
Settlement of share options	**–**	**–**	**–**	**–**	**(200)**	**(200)**
Share-based payment charge	**–**	**–**	**–**	**–**	**83**	**83**
Transactions with owners	**28**	**97**	**–**	**–**	**(817)**	**(692)**
Profit for the year	**–**	**–**	**–**	**–**	**1,691**	**1,691**
Other comprehensive income:						
Actuarial result on employee benefits	**–**	**–**	**–**	**–**	**(225)**	**(225)**
Deferred tax on above	**–**	**–**	**–**	**–**	**53**	**53**
Foreign exchange translation differences	**–**	**–**	**–**	**(32)**	**–**	**(32)**
Change in fair value of available for sale financial asset	**–**	**–**	**74**	**–**	**–**	**74**
Total comprehensive income	**–**	**–**	**74**	**(32)**	**1,519**	**1,561**
At 30 September 2013	**4,380**	**4,302**	**74**	**(32)**	**12,175**	**20,899**

for the year ended 30 September 2012

	Share capital £000	Share premium £000	Available for sale reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total equity £000
At 1 October 2011	4,338	4,178	–	–	9,959	18,475
Exercise of share options	14	27	–	–	(41)	–
Dividend paid	–	–	–	–	(413)	(413)
Share-based payment charge						
– continuing operations	–	–	–	–	65	65
– discontinued operation	–	–	–	–	52	52
Transactions with owners	14	27	–	–	(337)	(296)
Profit for the year	–	–	–	–	2,406	2,406
Other comprehensive income:						
Actuarial result on employee benefits	–	–	–	–	(740)	(740)
Deferred tax on above	–	–	–	–	185	185
Total comprehensive income	–	–	–	–	1,851	1,851
At 30 September 2012	4,352	4,205	–	–	11,473	20,030

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

Consolidated statement of cash flows

for the year ended 30 September 2013

	2013 £000	2012 £000
Cash flows from operating activities		
Profit for the year after taxation including discontinued operations	**1,691**	2,406
Adjustments for:		
Amortisation of intangible assets; continuing operations	**237**	176
Depreciation; continuing operations	**124**	75
Share-based payment charge; continuing operations	**83**	65
Post tax profit on discontinued operations	**–**	(1,110)
Net finance expense	**29**	441
Movement in fair value of derivative financial instrument	**–**	(16)
Income tax charge	**252**	185
Operating cash flow before changes in working capital	**2,416**	2,222
Movement in trade and other receivables	**383**	(666)
Movement in inventories	**9**	26
Movement in trade and other payables	**(1,100)**	434
Cash generated from continuing operations	**1,708**	2,016
Discontinued operations – operating cash flow	**–**	(356)
Payments to defined benefit pension scheme	**(677)**	(315)
Interest paid	**–**	(703)
Income tax received	**–**	377
Net cash flow from operating activities	**1,031**	1,019
Cash flow from investing activities		
Purchase of property, plant and equipment	**(45)**	(194)
Purchase of investment held for resale (note 19)	**–**	(131)
Acquisition of trade and assets, net of cash acquired	**–**	(173)
Acquisition of subsidiary undertaking, net of cash acquired (note 16)	**(440)**	–
Dividend received	**20**	2
Bank interest received	**54**	–
Disposal of discontinued operations, net of cash disposed (note 5)	**–**	11,064
Discontinued operations — investing cash flows	**–**	(140)
Development expenditure capitalised	**(249)**	(187)
Net cash flow from investing activities	**(660)**	10,241
Cash flow from financing activities		
Repayment of bank borrowing	**–**	(7,400)
Issue of shares	**15**	–
Settlement of share options	**(200)**	–
Equity dividends paid	**(590)**	(413)
Net cash flow from financing activities	**(775)**	(7,813)
Net (decrease)/increase in cash and cash equivalents	**(404)**	3,447
Cash and cash equivalents at beginning of year	**4,066**	619
Cash and cash equivalents at the end of the year	**3,662**	4,066

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

Notes to the consolidated financial statements

forming part of the financial statements

1. Reporting entity

Sanderson Group plc is a company domiciled in the United Kingdom. The address of the Company's registered office is Sanderson House, Manor Road, Coventry, CV1 2GF. The consolidated financial statements for the year ended 30 September 2013 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 Companies Act 2006 that applies to companies reporting under IFRS and IFRIC interpretations.

The Company has elected to prepare its parent company financial statements in accordance with IFRS as adopted by the European Union. These parent company financial statements appear after the notes to the consolidated financial statements.

The Group financial statements have been prepared on a going concern basis. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance that may arise as a result of current economic conditions and other risks faced by the Group, show that the Group should remain profitable and cash generative. At the financial year end the Group reported cash balances of £3.66 million. The Group completed an acquisition and a placing of shares subsequent to the year end, following which the cash balance was in excess of £4.00 million. The Group's medium-term strategy is to maintain a strong balance sheet with positive cash balances. The Board believes strategic objectives regarding the development of existing businesses and complementary acquisitions are achievable whilst retaining a positive cash balance.

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgements

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

Estimates

Note 15: Measurement of intangible assets: In testing for impairment of intangible assets, management has made certain assumptions concerning the future development of the business that are consistent with the annual budget and business plan. Should these assumptions regarding the growth in profitability be unfounded then it is possible that intangible assets included in the statement of financial position could be impaired. Management is confident that this will not be the case. The Group has a history of retaining customers, with the average length of customer relationships in excess of ten years. The time and resources required by organisations to change enterprise systems is significant and therefore discourages change. The Group therefore believes the existing business will continue to generate revenues, profits and positive cash flows for many years. Accordingly, when assessing the recoverable value attributable to goodwill and other intangible assets, management has estimated cash flows attributable to existing businesses and extrapolated forward budgets for the financial year ending 30 September 2014 in line with the average length of customer relationships. The results of this review are disclosed in note 15.

Note 16: Acquisitions: In attributing value to intangible assets arising on acquisition, management has made certain assumptions in terms of cash flows attributable to intellectual property and customer relationships. The key assumptions relate to the trading performance of the acquired business and discount rates applied to calculate the present value of future cash flows. The directors consider the resulting valuations to be reasonable approximations as to the value of the intangibles acquired.

Note 18: Measurement of trade receivables: Management assesses the likely recoverability of amounts invoiced to customers on the basis of the creditworthiness of customers and the age of debts at the period end. The directors consider the carrying amount of trade receivables approximates to their fair value.

2. Basis of preparation continued

Use of estimates and judgements continued

Note 28: Measurement of defined benefit pension obligations: The Group's interests in a defined benefit pension scheme have been accounted for in accordance with IAS 19 'Employee Benefits'. The main area of judgement is the valuation of pension scheme liabilities, which represent the net present value of future pension obligations. These calculations are performed by the scheme actuary, with whom the directors have agreed the underlying assumptions to be applied. The key assumptions are rates of increases in pension benefits, mortality rates, inflation and the discount rate applied to produce the net present value. The discount rate is derived from market rates on AA corporate bonds at the year end date. A defined benefit pension scheme asset is recognised where the scheme rules give the Group an unconditional right to realise the benefit of the asset at some point in the future, or on settlement of the scheme.

Judgements

Note 15: Intangible assets: Development expenditure is recognised on the statement of financial position when certain criteria are met, as described more fully in the accounting policy on the treatment of research and development expenditure. Management uses its judgement in assessing development projects against the criteria.

Note 17: Deferred tax: The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties

3. Accounting policies

Adopted IFRS not yet applied

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective and have not been applied early by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement, once adopted by the EU:

- IFRS 9 Financial Instruments (effective 1 January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1 January 2014)
- IFRS 11 Joint Arrangements (effective 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 19 Employee Benefits (Revised June 2011) (effective 1 January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1 January 2014)
- IAS 28 (Revised), Investments in Associates and Joint Ventures (effective 1 January 2013)
- Deferred Tax: Recovery of Underlying Assets; Amendments to IAS 12 Income Taxes (effective 1 January 2013)
- Disclosures — Offsetting Financial Assets and Liabilities; Amendments to IFRS 7 (effective 1 January 2013)
- Offsetting Financial Assets and Financial Liabilities; Amendments to IAS 32 (effective 1 January 2014)
- Mandatory Effective Date & Transition Disclosures; Amendments to IFRS 9 & IFRS 7 (effective 1 January 2015)
- Government Loans — Amendments to IFRS 1 (effective 1 January 2013)
- Annual Improvements 2009—2011 Cycle (effective 1 January 2013)
- Transition Guidance — Amendments to IFRS 10, IFRS 11 & IFRS 12 (effective 1 January 2014)
- Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36 (effective 1 January 2014)

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

Basis of consolidation

The consolidated financial information comprises a consolidation of the accounts of the Company and its subsidiary undertakings at the statement of financial position date. The results of subsidiary undertakings acquired during the financial year are included from the date of acquisition. The results of subsidiary undertakings disposed of during the year are included up to the date of disposal, with the trading result and profit or loss on disposal combined and reported in the income statement under the heading 'Profit on Discontinued Operations'. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

Property, plant and equipment

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

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

The annual rates used are:

leasehold improvements	over life of the property lease, which vary between 3 and 50 years
plant and equipment	15%—33⅓%

Inventories

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

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

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

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

Accounting for financial assets

The Group has financial assets in the following categories:

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

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

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

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

Available for sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets comprise listed securities and are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the AFS reserve within equity, except dividend income is recognised in profit or loss.

Accounting for financial liabilities

The Group's financial liabilities include trade and other payables which, subsequent to initial recognition at fair value, are measured at amortised cost using the effective interest rate method.

3. Accounting policies continued

Derivative financial instruments

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

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

Cash and cash equivalents

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

Equity instruments

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

Share premium includes any premium received on the issue of share capital. Transaction costs associated with the issuing of shares are deducted from share premium, net of any related tax benefits. Retained earnings includes all current and prior period retained profits and losses.

Foreign currency

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

Discontinued operations

Any profit or loss arising from the sale of discontinued operations is presented as part of a single line item, profit or loss from discontinued operations for both the current year and prior year, resulting in a restatement of prior year figures in the year of discontinuance.

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.

Revenue

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

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.

Initial 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. If any conditionality exists, licence fees are recognised when the conditions have been met. Revenue from the provision of professional services including support, maintenance, training and consultancy services is recognised as the services are performed. Hardware sales are recognised on delivery. Annual licence, 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 transferred 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. Where contingent consideration arises on acquisition as a result of performance targets it is recognised at discounted value, taking into account the probability of the contingent events occurring. The carrying value of goodwill relating to subsidiaries disposed of is deducted from sale proceeds in arriving at reported profit or loss on disposal. Goodwill is not amortised but is tested annually for impairment.

Dividends

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

Borrowing costs

Arrangement fees and other costs incurred directly as a result of borrowing arrangements are amortised over the committed period of the borrowing to which they relate. Where borrowings are repaid in advance of the committed period, unamortised arrangement fees are expensed in the income statement at the date of repayment.

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 in the Consolidated statement of financial position if all of the following conditions are met:

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

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

Other intangible assets

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

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

Intellectual property rights	3–5 years
Customer relationships	3–5 years
Distributor agreements	the unexpired period of the agreement

Impairment

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

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

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

3. Accounting policies continued

Pension benefits

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

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

Share-based payments

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

Segmental reporting

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

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

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

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

Taxation

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity. Current income tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods that remain unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided those rates are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be able to be utilised against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full, deferred tax assets and liabilities are offset only when the Group has a right and intention to set off current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognised as a component of tax income or expense in profit or loss, except where they relate to items that are recognised in other comprehensive income or directly in equity, in which case the related deferred tax is also recognised in other comprehensive income or equity, respectively.

4. Segmental reporting

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

	Manufacturing		Multi-Channel		Total	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Revenue – external customers	**6,594**	6,201	**7,234**	7,173	**13,828**	13,374
Cost of sales	**(817)**	(1,019)	**(894)**	(1,169)	**(1,711)**	(2,188)
Gross profit	**5,777**	5,182	**6,340**	6,004	**12,117**	11,186
Depreciation charged†	**(85)**	(56)	**(39)**	(31)	**(124)**	(87)
Operating profit before adjustments	**932**	831	**1,283**	1,207	**2,215**	2,038
Amortisation*	**(53)**	(24)	**(13)**	(43)	**(66)**	(67)
Acquisition-related costs	**—**	—	**(94)**	—	**(94)**	—
Share-based payment charges	**(31)**	(7)	**(52)**	(58)	**(83)**	(65)
Result from operating activities	**848**	800	**1,124**	1,106	**1,972**	1,906
Net finance expense					**(29)**	(425)
Taxation					**(252)**	(185)
Result on discontinued activity net of tax					**—**	1,110
Profit attributable to equity holders					**1,691**	2,406

* Amortisation of acquisition-related intangibles.
† Depreciation charged to operating profit.

Revenue, operating profit and profit before tax shown above in respect of the year ended 30 September 2012 show continuing operations only. The CODM uses both gross profit and operating profit measures in assessing the performance of the Group's divisions. The Group disposed of its subsidiary undertaking Sanderson RBS Limited on 20 January 2012 (see note 5). The discontinued operation contributed no revenue or operating profit in the period (2012: £3.53 million revenue, £500,000 operating loss stated after amortisation of acquisition-related intangibles and shared-based payment charges).

Analysis of items contained within the statement of financial position

	Manufacturing		Multi-Channel		Total	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Property, plant and equipment	**160**	222	**147**	150	**307**	372
Intangible assets	**11,602**	11,693	**11,592**	10,711	**23,194**	22,404
Deferred tax assets	**978**	1,197	**155**	197	**1,133**	1,394
Inventory	**—**	3	**—**	6	**—**	9
Cash and cash equivalents	**2,024**	753	**3,478**	1,726	**5,502**	2,479
Trade and other receivables	**1,688**	1,478	**1,683**	2,116	**3,371**	3,594
Total assets	**16,452**	15,346	**17,055**	14,906	**33,507**	30,252
Trade and other payables	**(1,165)**	(1,055)	**(1,581)**	(1,817)	**(2,746)**	(2,872)
Deferred income	**(1,966)**	(2,188)	**(1,920)**	(2,411)	**(3,886)**	(4,599)
Income tax	**(5)**	(9)	**—**	—	**(5)**	(9)
Deferred taxation	**(38)**	(38)	**—**	—	**(38)**	(38)
Deferred consideration	**—**	—	**(145)**	—	**(145)**	—
Pension obligations	**(4,174)**	(4,512)	**—**	—	**(4,174)**	(4,512)
Total liabilities	**(7,348)**	(7,802)	**(3,646)**	(4,228)	**(10,994)**	(12,030)
Allocated net assets	**9,104**	7,544	**13,409**	10,678	**22,513**	18,222
Other unallocated assets and liabilities					**(1,614)**	1,808
Net assets					**20,899**	20,030

4. Segmental reporting continued

The Group's assets are held in the United Kingdom. No one customer accounts for more than 10% of the sales of either division. Included within other unallocated assets and liabilities are net overdrawn cash balances totalling £1.84 million (2012: cash balances of £1.59 million) and deferred tax balances in respect of certain shared operations. Amounts in respect of shared operations cannot be allocated between operating divisions.

Additions to property, plant and equipment during the year amounted to £45,000 (2012: £310,000). A total of £21,000 (2012: £175,000) were attributable to the manufacturing division, with £24,000 (2012: £135,000) incurred by the multi-channel retail division. In 2012, Sanderson RBS Limited accounted for £90,000 of additions.

5. Discontinued operations

The Group disposed of its subsidiary undertaking Sanderson RBS Limited on 20 January 2012. The Consolidated income statement for the comparative period ended 30 September 2012 reports the results of Sanderson RBS Limited, together with the profit arising on disposal, as a single line item 'Profit on discontinued operations, net of tax'. Earnings per share disclosures and the Consolidated statement of cash flows also present information in respect of the year ended 30 September 2012 relating to Sanderson RBS Limited separately. Further details in respect of the disposal of Sanderson RBS Limited are available in the Annual Report and Accounts for the year ended 30 September 2012.

6. Share-based payments

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

Grant date	Employees entitled	Number of options	Performance conditions	Exercise price (p)	Earliest exercise date	Expiry date
16/12/2004	Management	926,639	Earnings per share growth	50.00	01/10/2007	15/12/2014
16/12/2004	Management	310,013	Earnings per share growth	54.25	01/10/2007	30/09/2014
16/12/2004	Management	1,150,559	TSR* Target	00.00†	01/10/2007	15/12/2014
27/05/2005	Management	215,579	Earnings per share growth	56.00	01/10/2007	15/12/2014
27/05/2005	Management	175,421	Earnings per share growth	57.00	01/10/2007	30/09/2014
27/05/2005	Management	215,579	TSR* Target	00.00†	01/10/2007	15/12/2014
04/08/2009	Management	262,500	††	09.50	03/08/2012	03/08/2016
21/05/2010	Management	450,000	††	23.00	21/05/2013	21/05/2017
05/01/2011	Management	285,000		27.50	05/04/2014	05/01/2021
29/06/2011	Management	230,000		30.00	29/06/2014	29/06/2018
29/06/2011	Management	25,000	#	30.00	29/06/2014	29/06/2015
27/11/2012	Management	200,000		45.75	27/11/2015	27/11/2019
18/12/2012	Management	110,000		49.00	18/12/2015	18/12/2019
		4,556,290				

* Total shareholder return.

† Options granted under the LTIP have a total exercise price of £1 on each occasion of exercise. Challenging targets were set in respect of total shareholder return compared to a group of comparator companies. During 2012 the expiry date of the options was extended to 15 December 2014. The incremental fair value arising on the extension has been estimated as 0.09 pence per share.

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

Holders of the options identified were employed by Sanderson RBS Limited on the date of its disposal by the Group. In accordance with the rules of the option agreements, the latest expiry date has been shortened to the first anniversary of the exercise date.

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

	2013 Weighted average exercise price	2013 Number of options (number)	2012 Weighted average exercise price	2012 Number of options (number)
Outstanding at start of year	**24.9p**	**5,221,290**	23.8p	6,355,790
Granted during the year	**46.9p**	**310,000**	—	—
Exercised during the year	**(5.2)p**	**(275,000)**	0.0p	(142,000)
Forfeited during the year	**(21.1)p**	**(700,000)**	(20.9)p	(992,500)
Outstanding at end of the year	**28.2p**	**4,556,290**	24.9p	5,221,290
Exercisable at end of the year	**26.5p**	**3,706,290**	24.8p	3,531,290

Options exercised during the year included 125,000 in respect of the LTIP scheme and 150,000 issued pursuant to the unapproved plan. A total exercise price of £1 was paid in respect of the LTIP options at the date of exercise, when the market price of a share was 47 pence. An exercise price of 9.5 pence per share was paid in respect of the unapproved options, when the market price of a share was 38.5 pence.

Share options were settled during the year in exchange for a payment made by the Company amounting to the difference between the share price and option exercise price on the date of settlement. The transaction has been treated as a modification to the original option and the payment charged against equity. National insurance paid in respect of the payment has been expensed.

Options outstanding at 30 September 2013 have exercise prices in the ranges 0.0 pence to 57.0 pence per share. The weighted average contractual life of the options is 2.2 years (2012: 2.9 years).

On 30 September 2013 the closing share price of Sanderson Group plc was 57.5 pence. During the year ending on that date the closing share price varied in the range 38.5 pence to 58.0 pence.

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, together with the assumptions used in determining the fair value are summarised below. No options were granted in the preceding period.

	November 2012	December 2012
Weighted average share price at date of grant (pence)	46.0	49.0
Weighted average exercise price (pence)	46.0	49.0
Weighted average contractual life (years)	3.5	3.5
Weighted average expected volatility	55%	55%
Weighted average expected dividend yield	2.6%	2.4%
Weighted average risk free interest rate	4.2%	4.2%
Weighted average fair value of options granted (pence)	17.0	19.0

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

Charge to the income statement

The charge to the income statement comprises:

	2013 £000	2012 £000
Share-based payment charges	**83**	65

The share-based payment charged against profit arising on discontinued operations amounted to £nil (2012: £52,000).

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7. Expenses and auditor's remuneration

Included in the income statement are the following items:

	2013 £000	2012 £000
Auditor's 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	**41**	33
Taxation advice	**26**	18
Depreciation and other amounts written off property, plant & equipment:		
Owned, in respect of continuing activities	**124**	87
Amortisation of acquisition-related intangible assets; continuing activities	**66**	67
Amortisation of development costs; continuing activities	**171**	109
Aggregate charge against income in respect of research and development	**1,252**	1,292
Cost of inventory recognised as an expense	**1,711**	2,188
Rentals payable under plant and machinery operating leases	**19**	24
Leasehold property rentals	**273**	419

The aggregate charge in respect of research and development represents the total cost incurred during the year, less amounts capitalised in accordance with IAS 38: Intangible Assets. Cost of inventory represents the cost of third party products provided to customers in conjunction with the Group's own proprietary software and services.

8. Personnel expenses

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

	2013 number	2012 number
Technical	**113**	108
Sales and marketing	**22**	19
Administrative	**19**	19
	154	146

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

	2013 £000	2012 £000
Wages and salaries	**6,287**	5,943
Social security costs	**677**	629
Contributions to defined contribution pension plans	**382**	364
Share-based payment charge	**83**	65
	7,429	7,001

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

	Salary or fees £000	Bonus £000	Payments to defined contribution pension £000	Benefits in kind £000	Total 2013 £000	Total 2012 £000
Executive directors						
Christopher Winn	271	126	—	9	**406**	408
Adrian Frost	136	55	30	4	**225**	215
Ian Newcombe*	108	10	8	4	**130**	—
Non-executive directors						
David Gutteridge*	8	—	—	—	**8**	31
Philip Kelly	31	—	—	—	**31**	31
John Paterson	31	—	—	—	**31**	31
	585	191	38	17	**831**	716

* Figures in respect of Ian Newcombe cover the period from his appointment on 3 January 2013 to 30 September 2013. Figures in respect of David Gutteridge cover the period from 1 October 2012 to his resignation on 3 January 2013.

Salaries paid to the executive directors include car allowances to compensate for the use of personal vehicles on Company business. Mr Winn's salary also includes an amount paid in lieu of Company pension contributions.

The executive directors' bonuses are payable when targets in respect of Group operating profit, set by the Remuneration Committee, are achieved. Bonuses are settled in cash. Bonuses for the year ending 30 September 2014 will be based on targets in respect of Group operating profit.

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

The following table provides details of remuneration paid to key management personnel during the year. For purposes of this disclosure, key management personnel are defined as the executive directors, members of the senior management team and the non-executive directors (8 individuals).

	2013 £000	2012 £000
Salaries or fees, including bonuses and employer's national insurance	**1,159**	1,220
Benefits in kind	**32**	33
Pension contributions	**54**	42
Share-based payment charge	**57**	54
	1,302	1,349

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

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

9. Finance income

	2013 £000	2012 £000
Expected return on defined benefit pension scheme assets	**415**	463
Bank interest received	**54**	–
Dividend received	**20**	2
	489	465

10. Finance expenses

	2013 £000	2012 £000
Interest on bank overdrafts and loans	**–**	127
Interest on defined benefit pension scheme obligations	**518**	552
	518	679

In addition to the amounts disclosed above, the Group incurred an exceptional finance expense in 2012 amounting to £227,000. No such expense was incurred in 2013. The expense represents costs incurred in the early repayment of bank borrowings together with the write-off of the unamortised portion of arrangement fees in respect of the facilities repaid.

Notes to the consolidated financial statements
continued

11. Taxation

	2013 £000	2012 £000
Current tax expense		
UK corporation tax for the current year	—	—
Overseas corporation tax for the current year	(3)	4
Relating to prior periods	(20)	(23)
Total current tax	(23)	(19)
Deferred tax		
Deferred tax for the current year	168	256
Relating to prior periods	(61)	(171)
Relating to change in rate of tax	168	119
Total deferred tax	275	204
Taxation charged to the income statement	252	185

Reconciliation of effective tax rate

The current consolidated tax charge for the period is lower (2012: lower) than the average standard rate of corporation tax in the UK during the period of 23.5%. The differences are explained below.

	2013 £000	2012 £000
Profit before taxation — continuing operations	1,943	1,481
Tax using the average UK Corporation tax rate of 23.5% (2012: 25%)	457	370
Effects of:		
Expenses not deductible for tax purposes	56	224
Utilisation of losses not previously recognised	(348)	(334)
Over provision in previous years	(81)	(194)
Change in tax rate	168	119
Total tax in income statement	252	185

12. Dividends

	2013 £000	2012 £000
Interim dividend of 0.65p per share (2012: 0.50p)	285	217
Final dividend relating to previous financial year of 0.70p per share (2012: 0.45p)	305	196
Total dividend for the financial year	590	413

A final dividend of 0.85 pence per ordinary share in respect of the financial year ended 30 September 2013 will be proposed at the Annual General Meeting of the Company, expected to be held on 28 February 2014. If approved by shareholders, the total final dividend payment will amount to £437,573.

13. Earnings per share

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

Earnings:	2013 £000	2012 £000
Result for the year from continuing operations	1,846	1,296
Amortisation of acquisition-related intangibles	–	67
Share-based payment charges	83	65
Exceptional finance costs	–	227
Adjusted profit for the year from continuing operations	1,929	1,655
Result for the year relating to acquisitions	(155)	–
Acquisition-related costs	94	–
Amortisation of acquisition-related intangibles	66	–
Adjusted profit for the year relating to acquisitions	5	–
Result for the year relating from discontinued operations	–	1,110
Amortisation of acquisition-related intangibles	–	270
Share-based payment charges	–	52
Adjusted profit for the year from discontinued operations	–	1,432

Number of shares:	2013 number	2012 number
In issue at the start of the year	43,525,946	43,383,946
Effect of shares issued in the year	205,907	129,940
Weighted average number of shares at year end	43,731,853	43,513,886
Effect of share options	2,385,565	3,021,787
Weighted average number of shares (diluted)	46,117,418	46,535,673

Earnings per share:	2013 pence	2012 pence
From continuing operations:		
Basic	3.9	3.0
Diluted	3.7	2.8
From discontinued operations:		
Basic	–	2.5
Diluted	–	2.4
Total attributable to equity holders of the parent undertaking:		
Basic	3.9	5.5
Diluted	3.7	5.2
Earnings per share, adjusted, from continuing operations:		
Basic	4.4	3.8
Diluted	4.2	3.6

Subsequent to the year end, ordinary shares were issued pursuant to the acquisition of One iota Limited and a placing. As a result, the total number of ordinary shares in issue at the date of this report is 51,479,218. Further details are provided in note 27. Had the ordinary shares been issued at the start of the year, the earnings per share reported above would have been reduced. However, the results for the year would have been affected by the result of the subsidiary acquired and the use to which the placing proceeds may have been put.

14. Property, plant and equipment

	Leasehold improvements £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 October 2011	440	735	1,175
Reclassification	101	(101)	—
Additions	130	180	310
Additions as part of trade and asset acquisition	—	6	6
Disposals as part of discontinued activity	(482)	(394)	(876)
Balance at 30 September 2012	189	426	615
Additions	2	43	45
Additions as part of acquisition of subsidiary undertaking	—	14	14
Disposals	—	(15)	(15)
Balance at 30 September 2013	191	468	659
Depreciation			
Balance at 1 October 2011	34	395	429
Charge for the year	25	95	120
Disposed as part of discontinued activity	(82)	(224)	(306)
Reclassification	68	(68)	—
Balance at 30 September 2012	45	198	243
Charge for the year	26	98	124
Disposals	—	(15)	(15)
Reclassification	5	(5)	—
Balance at 30 September 2013	76	276	352
Net book value			
At 30 September 2012	144	228	372
At 30 September 2013	**115**	**192**	**307**

15. Intangible assets

	Goodwill £000	Intellectual property £000	Customer relationships £000	Distributor agreements £000	Development costs* £000	Total £000
Cost						
Balance at 1 October 2011	32,296	1,782	2,714	3,468	1,194	41,454
Acquired	40	146	121	—	—	307
Disposal (note 5)	(9,124)	(932)	(2,581)	(3,468)	(381)	(16,486)
Internally developed	—	—	—	—	211	211
Balance at 30 September 2012	23,212	996	254	—	1,024	25,486
Acquired (note 16)	310	226	242	—	—	778
Internally developed	—	—	—	—	249	249
Balance at 30 September 2013	23,522	1,222	496	—	1,273	26,513
Amortisation and impairment						
Balance at 1 October 2011	2,388	1,574	1,975	2,806	645	9,388
Disposal (note 5)	(889)	(773)	(1,885)	(3,027)	(178)	(6,752)
Amortisation for the year	—	62	54	221	109	446
Balance at 30 September 2012	1,499	863	144	—	576	3,082
Amortisation for the year	—	35	31	—	171	237
Balance at 30 September 2013	1,499	898	175	—	747	3,319
Net carrying value						
Balance at 30 September 2012	21,713	133	110	—	448	22,404
Balance at 30 September 2013	**22,023**	**324**	**321**	**—**	**526**	**23,194**

* Development costs are internally generated.

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

	2013 £000	2012 £000
Administrative and establishment expenses	**237**	176
Profit on discontinued operations, net of tax	**–**	270
	237	446

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 asset is expected to remain separately identifiable and cash generative. This is typically between three and five years. Intellectual property and customer relationship assets have between three and five years' unamortised economic life. In the case of development costs, amortisation is charged over the period during which the development is expected to generate revenue.

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

	2013 £000	2012 £000
Manufacturing	**11,091**	11,091
Multi-channel retail	**10,932**	10,622
Goodwill	**22,023**	21,713

The Group tests goodwill annually for impairment, or more frequently if an event occurs to warrant a review. The recoverable amounts attributed to each CGU are based on value in use calculations. The key assumptions made in undertaking the value in use calculations involve estimating operating profit growth rates and are set out below. Budgeted profit and cash flow forecasts for the financial year ending 30 September 2014 have been extrapolated for periods of between ten and twelve years (based on the average length of customer relationship) and used as the basis of the calculations.

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

Multi-channel retail CGU: 3% operating profit growth from operating in a market exhibiting growth rates in excess of this figure. Based on independent estimates of industry specific growth rates where available and previous experience where not. Independent estimates suggest the ecommerce economy is likely to grow at 5-10% per annum in the short to medium-term.

Discount rate assumptions are based on management estimates of the internal cost of capital likely to apply over the expected useful economic life of the goodwill and management's view of the risk associated with each CGU. A discount rate of 8% has been applied to the manufacturing CGU, whereas 10% has been applied to the multi-channel retail CGU.

The directors have formulated profit and cash flow forecasts for the financial year ending 30 September 2014 on the basis of the growth rates set out above. The value in use of the goodwill of the manufacturing CGU exceeds the carrying value by £2.40 million. The value in use of the goodwill of the multi-channel retail CGU exceeds the carrying value by £4.60 million. In the event that economic conditions worsen and growth in revenue and gross margin is not achievable, the directors are of the view that judicious management of the Group's cost base will enable the profit growth targets to be achieved. The directors have sensitised the profit and cash flow forecast relating to both CGUs. The manufacturing CGU profit forecast would need to fall by 18% to trigger an impairment charge. In the case of the multi-channel retail CGU a profit reduction of 28% would be required.

16. Acquisitions

On 12 August 2013 the Group acquired the entire issued ordinary share capital of Catan Marketing Limited for cash consideration. The business develops and supplies ecommerce software and related services under the PRIAM trading name. In the period from acquisition to 30 September 2013 the business contributed revenue of £147,000 and a £6,000 operating profit before amortisation of acquisition-related intangibles, share-based payment charges, acquisition-related costs and taxation. If the acquisition had occurred on 1 October 2012, Group revenue would have been £872,000 higher and Group operating profit £10,000 higher. These figures are based on the assumption that fair value adjustments arising on acquisition would have been the same had the acquisition completed on 1 October 2012.

Notes to the consolidated financial statements
continued

16. Acquisitions continued

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	14	—	14
Intangible assets	—	468	468
Trade and other receivables	178	(17)	161
Trade and other payables	(191)	(69)	(260)
Deferred taxation	—	(108)	(108)
Net identifiable assets and liabilities	1	274	275
Goodwill on acquisition			310
			585
Cash consideration paid at completion, net of cash balances			440
Deferred cash consideration, paid 4 October 2013			50
Deferred contingent cash consideration			95
Net consideration payable			585

The fair value adjustments relate to the recognition of intangible assets in accordance with IFRS 3: Business Combinations, adjustments to deferred income to apply the Group's accounting policy to amounts billed prior to acquisition and adjustments to the accounting for costs relating to deferred income to match the treatment adopted in respect of the income. Fair values have been determined on a provisional basis.

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 adopted an income basis with estimated future cash flows discounted at a rate of 12% per annum.

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

Deferred contingent cash consideration is payable by reference to revenue generated by the acquired entity in the 12 month period ending on 31 August 2014. The maximum amount payable will be £95,000 should revenue exceed £895,000 and management expects this amount to be paid. The deferred conditional consideration is payable within 10 days of the amount being agreed and it is envisaged the payment will be made in September 2014. As the payment date is within 12 months of the year end, the amount payable has not been discounted.

Acquisition costs of £94,000 (2012: £nil) have been charged against operating profit and are included in administrative expenses.

17. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Property, plant and equipment	**178**	182	**—**	—	**178**	182
Intangible assets	**—**	—	**(162)**	(121)	**(162)**	(121)
Share-based payment expense	**29**	26	**—**	—	**29**	26
Trade and other payables	**96**	33	**(110)**	—	**(14)**	33
Employee benefits	**835**	1,038	**—**	—	**835**	1,038
Tax losses	**250**	288	**—**	—	**250**	288
	1,388	1,567	**(272)**	(121)	**1,116**	1,446

Movement in deferred tax for the year ended 30 September 2013

	As at 1 October 2012 £000	Income statement £000	Acquisition of subsidiary undertaking £000	Statement of comprehensive income £000	**As at 30 September 2013 £000**
Property, plant and equipment	182	(4)	—	—	**178**
Intangible assets	(121)	67	(108)	—	**(162)**
Share-based payment expense	26	3	—	—	**29**
Trade and other payables	33	(47)	—	—	**(14)**
Employee benefits	1,038	(256)	—	53	**835**
Tax losses	288	(38)	—	—	**250**
	1,446	(275)	(108)	53	**1,116**

Movement in deferred tax for the year ended 30 September 2012

	As at 1 October 2011 £000	Income statement £000	Disposal of subsidiary £000	Acquisition of trade and assets £000	Statement of comprehensive income £000	As at 30 September 2012 £000
Property, plant and equipment	318	(2)	(134)	—	—	182
Intangible assets	(439)	(9)	391	(64)	—	(121)
Share-based payment expense	40	13	(27)	—	—	26
Trade and other payables	60	(151)	126	(2)	—	33
Employee benefits	998	(145)	—	—	185	1,038
Tax losses	198	90	—	—	—	288
	1,175	(204)	356	(66)	185	1,446

A deferred tax asset has been recognised in respect of tax losses reasonably expected to be utilised in the financial year ending 30 September 2014. The amount of the asset recognised has been quantified by reference to forecasts of taxable profits expected to arise. Expenses not allowable in calculating taxable profit, such as amortisation, are ignored in assessing the forecast level of taxable profit.

A deferred tax asset of £364,000 (2012: £677,000) in respect of tax losses has not been recognised, as its future economic benefit is uncertain. The gross value of losses in respect of which the unrecognised deferred tax asset relates is £1.80 million (2012: £2.90 million).

The rate of UK corporation tax is due to change during the financial year ending 30 September 2014. The rate at which deferred tax assets will be utilised has therefore been adjusted, resulting in a charge to the income statement of £168,000 (2012: £119,000).

18. Trade and other receivables

	2013 £000	2012 £000
Trade receivables	**2,412**	3,010
Prepayments and accrued income	**959**	584
	3,371	3,594

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

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

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

18. Trade and other receivables continued

Of the total trade receivables shown above, £498,000 (2012: £873,000) are past due but not impaired. An analysis of these trade receivables is set out below:

	2013 £000	2012 £000
0–30 days overdue	311	536
30–60 days overdue	95	196
60–90 days overdue	31	34
90+ days overdue	61	107
Total	498	873
Movement in impairment provisions:		
Balance at the beginning of the year	7	34
Impairment losses recognised	55	7
Amounts written off as uncollectable	(47)	(9)
Amounts relating to discontinued activity	—	(25)
Balance at the end of the year	15	7

19. Other short-term financial assets

Available for sale financial assets

The Group has invested in the ordinary share capital of an unrelated company whose shares are traded on the London Stock Exchange. The shareholding represents less than 3% of the total issued share capital of the company and is recorded at market value.

20. Deferred consideration

	2013 £000	2012 £000
Current liabilities		
Arising on the acquisition of Catan Marketing Limited (note 16)		
Unconditional deferred consideration	50	—
Conditional deferred consideration	95	—
	145	—

21. Trade and other payables

	2013 £000	2012 £000
Trade payables	589	717
Other taxation and social security	614	656
Accruals and customer deposits	1,543	1,499
	2,746	2,872

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

22. Share capital

	2013 number '000	2012 number '000
Authorised		
Equity: 535,000,000 Ordinary shares of 10 pence each	53,500	53,500
	£000	**£000**
Allotted, called up and fully paid		
At 1 October 2012: Equity — 43,525,946 Ordinary shares of 10 pence each	4,352	4,338
Issued during the year	28	14
At 30 September 2013: Equity — 43,800,946 Ordinary shares of 10 pence each	4,380	4,352

150,000 ordinary shares of 10 pence each were issued on 22 October 2012 pursuant to the exercise of an option agreement on 15 October 2012. Consideration of 10 pence per share was paid. The market value of a share at the close of trading on the day prior to the exercise of the option was 38.5 pence.

125,000 ordinary shares of 10 pence each were issued on 26 March 2013 pursuant to the exercise of an option agreement. Consideration of 54 pence per share was paid, being the market value of a share at the close of trading on the day prior to issue.

Subsequent to the year end, 1,314,636 ordinary shares of 10 pence each were issued fully paid on 7 October 2013 as part of the consideration paid to the vendors of One iota Limited. Further details relating to the acquisition of One iota Limited are set out in note 27. Also subsequent to the year end, 6,363,636 ordinary shares of 10 pence each were issued on 28 October 2013 at a price of 55 pence per share pursuant to a placing which raised £3.50 million before costs. The total issued share capital at the date of this Report is therefore 51,479,218 ordinary shares of 10 pence each.

23. Capital and reserves

Reconciliation of movements in capital and reserves

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

The accumulated amount of current and deferred tax relating to items that are charged or credited directly to equity is a credit of £508,000 (2012: a credit of £455,000).

24. Financial instruments disclosure

Capital risk management

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

The Group manages its capital through the optimisation of the debt and equity balance and by pricing products and services commensurate with the level of risk. The capital structure of the Group currently consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated statement of changes in equity. The Group's Audit Committee reviews the capital structure as part of its risk analysis. As part of this review, the Committee considers the cost of capital and the risks associated with each class of capital.

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

Categories of financial assets and financial liabilities

The Group held the following categories of financial instruments:

	2013 £000	2012 £000
Financial assets		
Loans and receivables (including trade and other receivables, cash and cash equivalents)	**6,074**	7,076
Available for sale assets	**205**	131
	6,279	7,207
Financial liabilities held at amortised cost		
Trade payables and accruals	**2,132**	2,216
Deferred consideration	**145**	—
	2,277	2,216

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

Market risk management

The Group is exposed to price risk in respect of its investment in the listed equity securities of an unrelated company whose shares are traded on the London Stock Exchange. For the listed equity securities, an average volatility of 6.7% has been observed since the year end to November 2013. The volatility figure is considered to be a suitable basis for estimating how profit or loss and equity would have been affected by changes in market risk that were reasonably possible at the reporting date. If the quoted stock price for these securities increased or decreased by that amount, other comprehensive income and equity would have changed by £13,000. The listed securities are classified as available for sale ('AFS') assets therefore, no effect on profit or loss would have occurred.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilised in the Group's favour.

Liquidity risk management

The Group manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring both forecast as well as actual cash flows to enable matching of the maturity profiles of financial assets and liabilities. Sufficient cash is retained to service short-term financing needs.

24. Financial instruments disclosure continued

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities. The table includes principal only cash flows in respect of trade and other payables.

	Current		Non-current	
2013	**Within 6 months £000**	**6 to 12 months £000**	**1 to 2 years £000**	**2 to 5 years £000**
Trade payables and accruals	**2,132**	**—**	**—**	**—**
Deferred consideration	**50**	**95**	**—**	**—**
Trade and other payables	**2,182**	**95**	**—**	**—**

	Current		Non-current	
2012	Within 6 months £000	6 to 12 months £000	1 to 2 years £000	2 to 5 years £000
Trade and other payables	2,216	—	—	—

Interest rate sensitivity analysis

At the year end date there was no material exposure to movements in interest rates as the Group reported a cash balance in excess of £3.00 million.

Other financial assets and liabilities

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

The financial assets and liabilities measured at fair value in the statement of financial position at 30 September 2013 are available for sale financial assets which are in level 1.

Foreign currency risk management

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

Credit risk management

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

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

Management of other risks

The Group's policies on interest rate and liquidity risk are described above.

25. Contingent liabilities

Each company within the Group has guaranteed the bank facilities of its fellow subsidiary companies. Bank facilities available to each subsidiary are secured by fixed and floating charges over the whole of the Group's property, assets and undertakings.
At 30 September 2013 the Group held net cash balances of £3.66 million. Two subsidiary companies reported overdrafts totalling £2.84 million.

26. Commitments

Capital commitments, approved by the Board and existing at 30 September 2013, amounted to £nil (2012: £nil).

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

	2013		2012	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Payable:				
Within one year	**275**	**21**	236	21
In the second to fifth years inclusive	**569**	**17**	770	11
Over five years	**2,830**	**—**	2,888	—
	3,674	**38**	3,894	32

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

27. Events subsequent to the year end

Acquisition

On 7 October 2013 the Group acquired the entire issued ordinary share capital of One iota Limited for a maximum aggregate consideration of £5.43 million. Cash consideration of £2.38 million was paid at completion and a further £750,000 of consideration was satisfied at completion by the issue of 1,314,636 ordinary shares at a price of 57.05 pence. Deferred consideration of £300,000 will be paid unconditionally in six equal instalments of £50,000 over the three year period immediately following completion. Further conditional deferred consideration of up to £2.00 million will be payable subject to One iota achieving certain performance targets over the three years ending 30 September 2016. Having applied a discount rate of 8% to future cash flows, management has estimated the fair value of consideration to amount to £4.75 million net of cash balances acquired, of which £750,000 has been satisfied by the issue of shares at completion and the remainder has been or will be satisfied in cash.

The business provides cloud-based, multi-channel solutions via new mobile, tablet and in-store devices. For the year ended 31 January 2013, One iota had unaudited turnover of £665,000 (2012: £502,000) and profit before taxation of £195,000 (2012: £158,000). At 31 January 2013, One iota's net assets were £848,000. For the eight months ended 30 September 2013, One iota had unaudited turnover of £707,000 and profit before taxation of £245,000.

It is estimated that 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	18	—	18
Intangible assets	639	—	639
Trade and other receivables	259	—	259
Trade and other payables	(224)	—	(224)
Deferred taxation	—	—	—
Net identifiable assets and liabilities	692	—	692
Goodwill on acquisition			4,053
			4,745
Cash consideration paid at completion, net of cash balances			2,046
Issue of 1,314,636 ordinary shares of 10p, fully paid, at completion			750
Deferred cash consideration payable by instalments			263
Deferred contingent cash consideration			1,686
Net discounted consideration payable			4,745

Deferred consideration of £300,000 is payable unconditionally in six equal instalments of £50,000 over the three year period immediately following completion. Further conditional deferred consideration of up to £2.00 million is payable in three instalments in December 2014, December 2015 and December 2016 subject to One iota achieving certain performance targets over the three years ending 30 September 2016. The deferred consideration shown in the table above has been discounted to present value in accordance with IAS 39 using a discount rate of 8%.

27. Events subsequent to the year end continued

Acquisition continued

Fair value adjustments are expected to be made to bring the accounting policies of One iota Limited in line with those of the Group, as well as to recognise the following intangible assets arising on acquisition:

- Proprietary technology
- Customer relationships
- Trade names

Due to the proximity of the completion of the acquisition to the date of the Annual Report, management is not yet in a position to estimate the quantum of the fair value adjustments. Management believes customer relationships have a useful economic life of ten years, whilst the useful economic life of other intangible assets is believed to be five years in their current form. Management intends to recognise the intangible assets over these periods.

Acquisition costs of approximately £125,000 have been incurred and will be expensed in the income statement for the period ending 30 September 2014.

Placing

On 7 October 2013 the Company announced its intention to raise £3.50 million before expenses (£3.32 million after expenses) by way of a placing of 6,363,636 ordinary shares of 10 pence nominal value at a price of 55 pence per share. The shares were admitted to trading on 28 October 2013, following the approval of shareholders at a General Meeting of the Company held on 25 October 2013, and rank *pari passu* with the existing ordinary shares.

As a result of the placing and the acquisition, the total number of ordinary shares in issue at the date of this Annual Report is 51,479,218. The share capital account will have increased by £767,827 since 30 September 2013 and the share premium account by £3,482,172.

28. Pension schemes

The Group operates a defined contribution pension scheme. The pension cost charge for the year relating to this scheme was £382,000 (2012: £364,000). There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

A wholly owned subsidiary undertaking, Sanderson Limited, contributes to one defined benefit pension scheme. The scheme is now funded solely by employer contributions as it is closed to future accrual and as a result has no contributing members. The latest actuarial valuation of the scheme, as at 1 April 2011, showed the scheme to have a deficit of £3.97 million. Sanderson Limited is now responsible for funding 75% of this deficit and an unrelated company funds the remaining 25%. The valuation was performed by the scheme actuary, who is independent of the Group. The valuation is based on the defined accrued benefit method, which is considered appropriate for schemes in which benefit accrual has ceased. The present value of defined benefit obligations as quantified using the defined accrued benefit method does not differ materially from the valuation that would arise using the projected unit credit method.

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

	2013 %	2012 %
Inflation — RPI	**3.2**	2.6
Inflation — CPI	**2.4**	2.0
Pension revaluation in deferment	**3.2**	2.6
Pension escalation in payment	**3.2**	2.6
Discount rate	**4.3**	4.25

Expected percentage long-term rates of return on the main assets classes, net of expenses, set by management having regard to actuarial advice and the relevant indices were:

— Unitised with profits	**4.75**	5.0
— Equities	**7.0**	8.0
— Bonds and gilts	**4.0**	3.5
— Cash	**1.5**	1.5

PCMA00 and PCFA00 mortality tables have been used in both years, with long cohort improvements of at least 1% for males and 0.5% for females. A male member retiring at 30 September 2013 is assumed to have a life expectancy of 24.2 years (2012: 24.1), a female member 26.1 years (2012: 26.0). A male member retiring in 20 years is assumed to have a life expectancy from their retirement date of 26.2 years (2012: 26.1) and a female member 27.3 years (2012: 27.2).

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

	2013 £000	2012 £000
Included within operating profit:		
Current service cost	**(12)**	(4)
Included within finance income:		
Expected return on scheme assets	**415**	463
Included within finance expense:		
Interest cost on scheme liabilities	**(518)**	(552)

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

	2013 £000	2012 £000
Actual return on scheme assets	**809**	480
Expected return on scheme assets	**(415)**	(463)
	394	17
Experience gains or losses arising on the scheme liabilities	**(14)**	103
Effect of changes in actuarial assumptions	**(605)**	(860)
Actuarial loss recognised in the statement of comprehensive income	**(225)**	(740)

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

	2013 £000	2012 £000
Cumulative actuarial loss at 1 October	**(5,507)**	(4,767)
Recognised during the year	**(225)**	(740)
Cumulative actuarial losses at 30 September	**(5,732)**	(5,507)

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

	2013 £000	2012 £000
Fair value of defined benefit obligation	**(13,205)**	(12,227)
Fair value of scheme assets	**9,031**	7,715
Deficit in the scheme	**(4,174)**	(4,512)
Deferred taxation on above	**835**	1,038
Net pension liability	**(3,339)**	(3,474)

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

	2013 £000	2012 £000
Unitised with-profits fund	**414**	946
Legal & General Consensus Fund	**6,097**	4,323
Cash deposits	**2,520**	2,446
Closing fair value of scheme assets	**9,031**	7,715

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

	2013 £000	2012 £000
Opening fair value of scheme assets at 1 October	**7,715**	7,106
Expected return	**415**	463
Actuarial gains	**395**	17
Benefit payments made	**(171)**	(186)
Contributions paid	**677**	315
Closing fair value of scheme assets at 30 September	**9,031**	7,715

28. Pension schemes continued

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

	2013 £000	2012 £000
Opening defined benefit obligation at 1 October	**(12,227)**	(11,100)
Current service cost	**(12)**	(4)
Interest cost	**(518)**	(552)
Benefit payments made	**171**	186
Actuarial losses	**(619)**	(757)
Closing defined benefit obligation at 30 September	**(13,205)**	(12,227)

An analysis of the Group's share of the scheme's assets by investment type is provided below:

	2013 %	2012 %
Equities	**52**	45
Bonds and gilts	**9**	9
Unitised with profit fund	**4**	12
Cash	**35**	34
	100	100

Total committed contributions to the defined benefit scheme for the financial year ending 30 September 2014 amount to £360,000 in respect of agreed monthly contributions.

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

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Present value of defined benefit obligation	**(13,205)**	(12,227)	(11,100)	(10,466)	(7,614)
Fair value of scheme assets	**9,031**	7,715	7,106	6,687	5,775
Deficit in the scheme	**(4,174)**	(4,512)	(3,994)	(3,779)	(1,839)
Experience adjustments on the scheme liabilities	**(619)**	(757)	(111)	(2,333)	(1,615)
Experience adjustments on the scheme assets	**394**	17	318	169	(608)

Independent auditor's report to the members of Sanderson Group plc

We have audited the parent company financial statements of Sanderson Group plc for the year ended 30 September 2013 which comprise the statement of financial position, statement of cash flows and statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on pages 19 and 20, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2013;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Sanderson Group plc for the year ended 30 September 2013.

David White
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
25 November 2013

Company statement of financial position

at 30 September 2013

	Note	2013 £000	2012 £000
Non-current assets			
Investments	32	**23,042**	22,977
Deferred tax asset	33	**156**	110
Intangible assets	34	**—**	—
		23,198	23,087
Current assets			
Trade and other receivables	35	**22**	5
Income tax		**185**	77
Other short-term financial assets		**205**	131
Cash and cash equivalents		**1,000**	1,510
		1,412	1,723
Current liabilities			
Bank overdraft	38	**(224)**	—
Trade and other payables	36	**(25)**	(32)
		(249)	(32)
Net current assets		**1,163**	1,691
Total assets less current liabilities		**24,361**	24,778
Non-current liabilities			
Trade and other payables	36	**(6,893)**	(6,869)
Net assets		**17,468**	17,909
Equity attributable to the equity holders of the Company			
Called up share capital	37	**4,380**	4,352
Share premium account		**4,302**	4,205
Available for sale reserve		**74**	—
Retained earnings		**8,712**	9,352
Total equity		**17,468**	17,909

The Company statement of financial position was approved and authorised for issue by the Board of directors on 25 November 2013 and signed on its behalf by:

Christopher Winn
Director

Company Registration Number
4968444

Company statement of cash flows

for the year ended 30 September 2013

	2013 £000	2012 £000
Cash flows from operating activities		
Profit/(loss) for the year after taxation	**177**	(4,856)
Adjustments for:		
Amortisation of intangible assets	**—**	72
Share-based payment charge	**18**	117
Impairment of investments	**—**	4,754
Net finance expense	**(68)**	338
Income tax	**(360)**	(164)
Operating cash flow before changes in working capital	**(233)**	261
Movement in trade and other receivables	**(17)**	7,568
Movement in trade and other payables	**223**	2,508
Cash generated from continuing operations	**(27)**	10,337
Interest paid	**—**	(703)
Income tax received	**—**	452
Net cash flow from operating activities	**(27)**	10,086
Cash flow from investing activities		
Purchase of investment held for resale (note 19)	**—**	(131)
Bank interest received	**48**	—
Dividend received	**20**	2
Net cash flow from investing activities	**68**	(129)
Cash flow from financing activities		
Repayment of bank borrowing	**—**	(7,400)
Issue of shares	**15**	—
Settlement of share options	**(200)**	—
Equity dividends paid	**(590)**	(413)
Net cash flow from financing activities	**(775)**	(7,813)
Net (decrease)/increase in cash and cash equivalents	**(734)**	2,144
Cash and cash equivalents at beginning of year	**1,510**	(634)
Cash and cash equivalents at the end of the year	**776**	1,510

Company statement of changes in equity

for the year ended 30 September 2013

	Share capital £000	Share premium £000	Available for sale reserve £000	Retained earnings £000	Total equity £000
At 1 October 2012	4,352	4,205	—	9,352	17,909
Shares issued	28	97	—	(110)	15
Dividend paid	—	—	—	(590)	(590)
Settlement of share options	—	—	—	(200)	(200)
Share-based payment charge	—	—	—	83	83
Transactions with owners	28	97	—	(817)	(692)
Profit for the year	—	—	—	177	177
Other comprehensive income:					
Change in fair value of available for sale asset	—	—	74	—	74
At 30 September 2013	**4,380**	**4,302**	**74**	**8,712**	**17,468**

for the year ended 30 September 2012

	Share capital £000	Share premium £000	Available for sale reserve £000	Retained earnings £000	Total equity £000
At 1 October 2011	4,338	4,178	—	14,545	23,061
Shares issued	14	27	—	(41)	—
Dividend paid	—	—	—	(413)	(413)
Share-based payment charge:					
– continuing operations	—	—	—	65	65
– discontinued operation	—	—	—	52	52
Transactions with owners	14	27	—	(337)	(296)
Loss for the year	—	—	—	(4,856)	(4,856)
At 30 September 2012	4,352	4,205	—	9,352	17,909

Notes to the Company financial statements

29. 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 2006. The financial statements of the Company have been prepared and approved by the directors in accordance with International Reporting Financial Standards ('IFRS') as adopted by the European Union. For the purposes of the financial statements of the Company, the date of transition to IFRS was 1 October 2010.

A separate income statement dealing with the results of the Company only has not been presented, as permitted by Section 408 of the Companies Act 2006.

Investments

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

Share-based payments

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

The fair value of options to purchase shares in the Company that have been issued to employees of subsidiary companies is recognised as an additional cost of investment by the parent company. An equal amount is credited to a share-based payments reserve.

Taxation

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

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

Personnel expenses

The Company employed three non-executive directors during the course of the year (2012: three non-executives). David Gutteridge served as a director from 1 October 2012 until his resignation on 3 January 2013. John Paterson and Philip Kelly served throughout the year. Fees paid in respect of these appointments amounted to £70,300 (2012: £93,600). Details of the remuneration of executive directors, paid by subsidiary companies, is given in note 8 to the accounts.

Accounting for financial assets

The Company has financial assets in the following categories:

- loans and receivables
- available for sale (AFS) financial assets

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

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

Notes to the Company financial statements
continued

29. Accounting policies continued

Accounting for financial assets continued

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

Accounting for financial liabilities

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

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

Derivative financial instruments

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

Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists.

Cash and cash equivalents

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

Equity instruments

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

Share premium includes any premium received on the issue of share capital. Transaction costs associated with the issuing of shares are deducted from share premium, net of any related tax benefits. Retained earnings includes all current and prior period retained profits and losses.

30. Employee share option schemes

The Company granted options over its shares to directors and senior managers of subsidiary companies in the year ended 30 September 2005 pursuant to an HMRC approved enterprise management incentive plan (EMI), an unapproved share option plan, a Company Share Option Plan ('CSOP') and an LTIP. Options over 1,025,000 shares were granted in the year to 30 September 2009, options over a further 1,050,000 shares were granted in the year to 30 September 2010, options over 960,000 shares were granted in the year to 30 September 2011 and options over 240,000 shares were granted in the year ended 30 September 2013. In all cases the awards were pursuant to the unapproved share option plan. Options over a further 70,000 shares were granted pursuant to the CSOP in the year ended 30 September 2013.

None of the options have been granted to employees of the Company. The Company has adopted IFRS 2 in accounting for options issued to employees of subsidiary companies. Further details are provided in note 6 to the Group accounts.

31. Dividends

	2013 £000	2012 £000
Interim dividend of 0.65p per share (2012: 0.50p)	**285**	217
Final dividend relating to previous financial year of 0.70p per share (2012: 0.45p)	**305**	196
Total dividend for the financial year	**590**	413

A final dividend of 0.85 pence per ordinary share in respect of the financial year ended 30 September 2013 will be proposed at the Annual General Meeting of the Company, expected to be held on 28 February 2014. If approved by shareholders, the total final dividend payment will amount to £437,573.

32. Non-current asset investments

	Shares in Group undertakings £000
Cost	
At 1 October 2011	30,262
Fair value of share options granted to employees of subsidiaries	117
Disposals	(2,648)
At 30 September 2012	27,731
Fair value of share options granted to employees of subsidiaries	65
At 30 September 2013	27,796
Impairments	
At 1 October 2011, 30 September 2012 and 30 September 2013	(4,754)
Net book value	
At 30 September 2012	22,977
At 30 September 2013	**23,042**

The principal subsidiary undertakings of Sanderson Group plc are Sanderson Limited, Catan Marketing Limited (both held indirectly), Sanderson Multi-Channel Solutions Limited and Sonarsend Limited. In all cases the companies are incorporated in England & Wales, develop and supply IT products and services as their primary activity and the Group holds 100% of the issued share capital.

The impairment charge has been recognised in respect of a dormant, intermediate holding company to reduce investment cost to the net asset value of the company.

33. Deferred taxation

Recognised deferred tax assets

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

	2013 £000	2012 £000
Share-based payment expense	**9**	4
Tax losses	**147**	106
	156	110

Movement in deferred tax

	As at 1 October 2011 £000	Income statement £000	As at 30 September 2012 £000	Income statement £000	**As as 30 September 2013 £000**
Share-based payment expense	4	—	4	5	**9**
Tax losses	102	4	106	41	**147**
	106	4	110	46	**156**

A deferred tax asset has been recognised in respect of tax losses reasonably expected to be utilised in the financial year ending 30 September 2014. The amount of the asset recognised has been quantified by reference to forecasts of taxable profits expected to arise. Expenses not allowable in calculating taxable profit, such as amortisation are ignored in assessing the forecast level of taxable profit.

A deferred tax asset of £79,000 (2012: £287,000) in respect of tax losses has not been recognised, as its future economic benefit is uncertain. The gross value of losses in respect of which the unrecognised deferred tax asset relates is £395,000 (2012: £1,248,000).

The rate of UK corporation tax is due to change during the financial year ending 30 September 2013. The rate at which deferred tax assets will be utilised has therefore been adjusted, resulting in a charge to the income statement of £23,000 (2012: £9,000).

Notes to the Company financial statements
continued

34. Intangible assets

	Intellectual property £000
Cost	
At 1 October 2011	217
Disposals	(217)
At 30 September 2012 & 30 September 2013	—
Amortisation	
At 1 October 2011	145
Amortisation in the period	72
Disposals	(217)
At 30 September 2012 & 30 September 2013	—
Net carrying value	
At 30 September 2012	—
At 30 September 2013	**—**

35. Trade and other receivables

	2013 £000	2012 £000
Prepayments	**22**	5

36. Trade and other payables

	2013 £000	2012 £000
Current liabilities		
Accruals	**25**	32
Non-current liabilities		
Amounts due to subsidiary undertakings	**6,893**	6,869

37. Called up share capital

	2013 number '000	2012 number '000
Authorised		
Equity: 535,000,000 Ordinary shares of 10 pence each	**53,500**	53,500
	£000	£000
Allotted, called up and fully paid		£000
At 1 October 2012: Equity — 43,525,946 Ordinary shares of 10 pence each	**4,352**	4,338
Issued during the year	**28**	14
At 30 September 2013: Equity — 43,800,946 Ordinary shares of 10 pence each	**4,380**	4,352

150,000 ordinary shares of 10 pence each were issued on 22 October 2012 pursuant to the exercise of an option agreement on 15 October 2012. Consideration of 10 pence per share was paid. The market value of a share at the close of trading on the day prior to the exercise of the option was 38.5 pence.

125,000 ordinary shares of 10 pence each were issued on 26 March 2013 pursuant to the exercise of an option agreement. Consideration of 54 pence per share was paid, being the market value of a share at the close of trading on the day prior to issue.

Subsequent to the year end, 1,314,636 ordinary shares of 10 pence each were issued fully paid on 7 October 2013 as part of the consideration paid to the vendors of One iota Limited. Further details relating to the acquisition of One iota Limited are set out in note 27. Also subsequent to the year end, 6,363,636 ordinary shares of 10 pence each were issued on 28 October 2013 at a price of 55 pence per share pursuant to a placing which raised £3.50 million before costs. The total issued share capital at the date of this Report is therefore 51,479,218 ordinary shares of 10 pence each.

38. Contingent liabilities

Each company within the Group has guaranteed the bank facilities of its fellow subsidiary companies. Bank facilities available to each subsidiary are secured by fixed and floating charges over the whole of the Group's property, assets and undertakings. At 30 September 2013 the Group held net cash balances of £3.66 million. Two subsidiary companies reported overdrafts totalling £2.84 million.

Shareholder notes

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