SANDERSON GROUP PLC

Annual Report and Accounts
for the year ended 30 September 2009

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IT solutions driving continual business improvement

2009

About Sanderson

IT solutions driving continual business improvement

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

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

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

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

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SANDERSON GROUP PLC

Highlights

Financial

- Revenues of £24.90m (2008: £27.55m)
- *Adjusted operating profit of £2.76m (2008: £4.07m)
- *Adjusted basic earnings per share of 4.00p (2008: 9.60p)
- Operating loss of £0.33m (2008: £1.75m profit)
- Basic loss per share of 2.70p (2008: 4.20p earnings)
- Net debt reduced by £0.71m to £9.96m
- Proposed final dividend of 0.20p per share (2008: 0.20p) making total dividend for the year of 0.40p (2008: 1.40p)

Operational

- Further increase in recurring revenues, now representing 55% of total revenues (2008: 49%)
- Annualised reduction in cost base of approximately 10% implemented during year
- 26 new customers during year including Kurt Geiger, Boot Tree and Transair
- Major contracts from existing customers including Wilkinson, The Garden Centre Group (formerly Wyevale Garden Centres) and Lakeland
- Multi-channel retail business has developed and introduced “Business Assurance Services” targeting payment card industry compliance and anti-fraud products and services
- The manufacturing business has developed a suite of products and services which are marketed under the “Factory Automation” banner

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

At a glance

Sanderson

SANDERSON GROUP PLC

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

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

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

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

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

Manufacturing

Proven solutions for manufacturing and food & drink processing

Sanderson has been helping UK manufacturers succeed with their IT systems for over 25 years. Our expertise is in delivering proven software and long-term value. Industry established, our modern business systems support many sectors and types of manufacturing and are specifically designed for the markets they address — discrete manufacturing, food processing, print and distribution. A recent addition to our product range is our suite of 'factory automation' solutions which improve efficiency in manufacturing processes, bringing many cost saving benefits to customers.

Customers include:

Case Study: PROTEX

Protex

Protex Fasteners manufacture the world's largest range of adjustable fasteners and catches. Howard Cooke, Managing Director, explains how Sanderson and the Unity ERP software has continued to enhance their operations:

A valuable long-term ERP partner:
"We have been a Sanderson customer for 15 years and their expertise is integral to our business. In 2000 we looked at competitors before upgrading to Unity and couldn't find any that rivalled either the Sanderson software or their expertise. Our ability to manage operations has improved dramatically thanks to their dynamic IT and support services."

Multi-Channel Retail

Helping multi-channel businesses excel

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

Retail Solutions

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

Customers include:

Harrods, Lakeland, Ryman, Selfridges&Co, English Heritage, Jaeger

Case Study:

Tottenham Hotspur Football Club
When Tottenham Hotspur Football Club implemented the Retail-J software solution, the system immediately transformed the club's retail business and provided greater accuracy, visibility and availability of data. "When you have 4,000 people going through one store in the space of an hour and a half, you need to know what products are selling and get that stock back on the shelves as soon as the match is over." The club has continued to thrive with the system, driving new functionality additions, and now has a leading edge, up-to-the-minute solution that will support the retail operation for many years to come.

Multi-Channel, E-Commerce and Wholesale Solutions

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

Customers include:

OKA, Aspinal of London, Thorntons, Nisa Today's, Scotts of Stow

Case Study:

MandMDirect is the UK's leading online and mail order retailer of discounted lifestyle, fashion and sports apparel and footwear. The company employs around 450 staff and specialises in selling end-of-line clearance stock from major brands which customers can order via web, post or phone. Today MandMDirect boasts an annual turnover in excess of £100m. "By using a Sanderson system we can manage our selling operation more cost-effectively and productively. The solution is a key factor in achieving the kind of service levels and customer retention on which our success is based."

Business Assurance Services

A suite of services designed to protect businesses from system failures, reduce cost of ownership and increase return on IT investment. They ensure IT infrastructures are run with optimal performance and monitored for threats or potential failure. Identified issues are rectified promptly and effectively to maintain trading and improve the customer experience.

Customers include:

Wilkinson, The Garden Centre Group, Tottenham Hotspur, TieRack, French Connection

Case Study:

Wilkinson
With over 330 stores in the UK, Wilkinson operates a combined total of 3,200 EPoS (Electronic Point of Sale) terminals which together process one million transactions on an average day. With such a high volume of retail sales, Wilkinson is increasingly reliant on its systems working throughout each stage of the transaction process. Sanderson not only provides the EPoS system to Wilkinson, but also delivers a complete business assurance service for IT systems in store, back office and head office.

Chairman's statement

"Trading conditions in 2009 were undoubtedly difficult, particularly during the first half of the financial year. However whilst we reduced our cost base and improved efficiencies, we continued to develop both our sales effort and our portfolio of products and services for our clients. Supported by a noticeable upturn in business activity and order intake, these efforts produced a marked and welcome increase in profit in the second half."

Christopher Winn

Introduction

The results for the year to 30 September 2009 show revenues of £24.90m (2008: £27.55m). Operating profit, before the amortisation of acquisition-related intangibles, exceptional costs, impairment of goodwill and before the charge in respect of share-based payments, amounted to £2.76m (2008: £4.07m).

The Group's trading performance has been affected by challenging market conditions resulting from the general economic recession, particularly during the first half of the financial year. However, efficiency measures and cost savings implemented towards the end of the first half, combined with a noticeable upturn in the level of business activity in the late summer (in stark contrast to the upheaval in the financial markets at the end of the prior financial year), have resulted in a marked and welcome increase in profit in the second half of the year compared with the first half. The improved levels of business activity and increased sales order intake have continued into the current financial year, albeit underlying economic conditions undoubtedly remain challenging.

The Group has reported a number of non-cash charges in the period, resulting in an after tax loss of £1.18m (2008: profit of £1.84m). In addition to the annual amortisation charge of £1.38m in respect of acquisition-related intangibles, an impairment charge of £1.50m against the value of goodwill attributable to the manufacturing division has been recognised in the income statement. This charge arises from the reduced levels of profitability being reported by that business. A further one-off charge of £0.56m in respect of a movement in the fair value of the Group's interest rate hedging arrangement, arising from the reduction in base rates to an historic low, is included in finance expenses.

As previously reported, the Group signed a new term debt facility agreement in July 2009. This agreement extends the period over which bank debt is being repaid, to June 2014.

Business review

Sanderson provides a wide range of software solutions to the multi-channel retail and manufacturing markets. These solutions comprise primarily the Group's proprietary software often integrated with other market-leading products, which are installed, supported and serviced by Sanderson staff.

The Group has a proven business model which generates a significant proportion of revenue from annual software licences, managed services and support services. These recurring revenues amounted to £13.56m of revenue in the year to 30 September 2009, representing 55% of total revenue (2008: £13.45m, 49% of revenue). Building the aggregate value of recurring revenues remains a key Group objective.

Increasing demand from retail customers for our Business Assurance service offering

55% of revenue derived from annual, pre-contracted ('recurring') sources

The recession in the UK economy has resulted in both existing, as well as, prospective customers reducing or postponing capital investment decisions. Discretionary expenditure by existing customers has been focused on either enhancing the performance of their current IT systems in order to deliver tangible business benefits through cost savings and increased efficiencies, or upon items of essential spend such as the need to ensure legislative or regulatory compliance. The Group is well placed to assist its customers with these requirements. Additional new products and services have been developed and introduced in order to maximise these opportunities.

The Group has continued to win new customers, against a backdrop of low levels of business confidence where there were fewer large new opportunities during the year. However, towards the end of the summer, there was an improvement in the level of sales activity, both in terms of the number and value of new orders being received, as well as in the general level of activity from prospective new customers. This upturn, albeit fragile, has continued into the current financial year.

Sales and marketing efforts have been increased, focusing on existing customer account management whilst continuing to compete and to win new customers. A suite of products and services is being developed and marketed under the 'Factory Automation' banner by the manufacturing business and a number of early successes have been achieved. Similarly, the multi-channel retail business has developed and introduced 'Business Assurance Services' based around managed services, payment card industry (PCI) compliance and anti-fraud products and services. The Group is also developing further products and services during the current financial year, strengthening our competitive position in target markets.

During the first half year, prior to 31 March 2009, an efficiency and cost reduction programme was implemented and this resulted in an annualised reduction in the cost base of approximately 10%.

Review of multi-channel retail

The Group provides end-to-end and comprehensive solutions to businesses operating in retail, mail order, fulfilment and wholesale distribution, and, increasingly, to those with an online sales presence. Revenues derived from multi-channel retail operations were £19.16m (2008: £21.06m). Activity levels from the larger existing retail customers have been high, especially in the areas of fraud prevention and PCI compliance. The lower end of the retail sector, including charities, has been less active but at the end of the financial year a large number of smaller orders were received.

A total of 23 new customers were gained during the year including Kurt Geiger, Boot Tree and Transair. Large projects were gained from a number of existing clients, including Wilkinson, The Garden Centre Group (formerly Wyevale Garden Centres) and Lakeland.

The current year has started well with a number of new customer contracts having already been gained.

Chairman's statement continued

"Our outlook remains cautious, but we believe that the Group's significant presence in its core markets, together with the increasing sales and marketing momentum and further development of new products and services, places the Group in a good position to weather the economic storm and to prosper as market conditions stabilise and improve."
Christopher Winn

Review of manufacturing

The Group's manufacturing business covers the provision of solutions to manufacturers who operate primarily in the engineering, plastics, electronics, furniture, aerospace, print and food process sectors. The engineering and print sectors of manufacturing have experienced very tough market conditions during the current recession. The Group's food and process business had a disappointing start to the current year up to February, when sales activity increased markedly. This improved level of activity was sustained throughout the period and has continued into the new financial year.

Three new customers were gained in the year compared with five in the previous year. The Factory Automation suite of products and services places the Group's manufacturing business in a better position to benefit from any improvement in the economy. Within the manufacturing business, another successful year for the growing food and process unit is anticipated.

Annual pre-contracted recurring revenues now account for 66% of total sales. Gross margin generated from this revenue stream covers approximately 81% of the operating expenses of the division.

Successful launch of 'factory automation' suite of products for manufacturing customers

Balance sheet

The Group continues to focus on reducing debt levels. Net debt at 30 September 2009 had reduced by £700,000 when compared with the position at the end of the previous financial year. Term debt has been reduced from £11.68m to £9.54m at 30 September 2009. Notably, the Group's banking facility was renegotiated in July with capital repayments realigned with the current levels of trading and cash generation. This has enabled the Group's working capital position to be normalised as well as providing sufficient headroom for further investment in the business and a return to the Board's progressive dividend policy as trading conditions improve. Notwithstanding this fact, the ongoing reduction of debt levels remains a key focus of the Group.

Development costs associated with the new product initiatives referred to earlier in this statement have been capitalised, though our prudent approach to such costs has resulted in the overall value of development costs carried on the balance sheet continuing to fall.

Dividend

As noted above, the Board continues to seek to prioritise further reductions in debt levels. Subject to approval at the Annual General Meeting of shareholders, expected to be held on 11 March 2010, a final dividend of 0.20 pence per ordinary share is proposed and will be paid on 26 March 2010 to shareholders on the register at the close of business on 26 February 2010.

Strategy

We believe that our focus on core markets and the continuing development of solutions relevant to customers operating in these markets will deliver improved financial performance and enhanced shareholder value. A key short-term goal includes the reduction in debt levels as quickly as trading conditions allow.

Staff

The Group continues to employ staff with high levels of specialist market and technical knowledge, who are committed to delivering quality solutions to our customers. I would like to thank all of my colleagues for their continued dedication in working with customers and partners, to deliver a high level of service against the background of challenging economic conditions.

Outlook

The financial year ended 30 September 2009, has been a difficult trading year against the backdrop of a continuing economic recession in the UK economy. The first half year to 31 March 2009 was particularly tough, with diminishing levels of economic activity affecting the Group's customers and prospective customers. However, whilst we reduced our cost base, we still continued to develop both our sales effort and our portfolio of products and services to our clients.

The improvement in the level of business activity experienced in the late summer, together with the anticipated slow recovery from the economic recession, provides some encouragement at the start of the new financial year. Our outlook remains cautious, but we believe that the Group's significant presence in its core markets, together with the increasing sales and marketing momentum and further development of new products and services, places the Group in a good position to weather the economic storm and to prosper as market conditions stabilise and improve.

Christopher Winn
Chairman
7 December 2009

Financial review

Adrian Frost

"Against the backdrop of a severe economic recession and unprecedented turbulence in the financial markets, the start to the 2009 financial year was challenging for Sanderson as it was for many of our customers. In the second half year, our bank facilities were successfully renegotiated with the repayment period being extended to 2014. Debt repayment and covenant schedules have been reset at levels which are more commensurate with current economic conditions in the wider UK economy. The reduction in bank debt and the growth of the Group's profits remain key goals for management."

Results

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

Treasury

The Group manages its treasury function as part of the central finance department. Substantially all of the Group's operations are UK based, and as such there is no significant exposure to foreign currencies and associated exchange rate fluctuations. All borrowing facilities are negotiated, approved and managed centrally. Interest rate hedging arrangements are used to provide protection against significant interest rate fluctuations.

What our customers have to say about us . . .

"Sanderson guided us through the entire installation, offering 24/7 support, which is vital when managing such a major technology roll-out."

HOTEL Chocolat.

Principal risks

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

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

- **Strategic** The Group operates in a dynamic market and constantly seeks to ensure the solutions it offers to customers are competitive.
- **Economic** As a supplier to the retail and manufacturing markets, a further worsening of the economic climate affecting these sectors may lead to a reducing spend on IT systems and services by customers and prospective customers.
- **Operational** The Group's most significant assets are its employees, intellectual property in solutions developed internally and intangible assets arising on acquisition of subsidiaries. The Group's quality procedures ensure software products remain reliable and of high quality. The market for skilled staff is competitive. Recruiting, retaining, developing and motivating staff remain a constant challenge.
- **Liquidity** The Group's exposure to liquidity risk arises as a result of bank loans drawn to fund previous acquisitions. The loans are term facilities with scheduled repayments that are factored into the Group's trading and cash forecasts. Economic conditions create uncertainty, particularly over the level of demand for the Group's solutions with potential implications on actual levels of revenue and cash generation. The Group's trading and cash forecasts take account of possible changes in trading performance and demonstrate the Group will be able to operate within the existing facilities.
- **Financial** The systems of internal control deployed within the Group are designed to prevent financial loss. Controls are strongest in areas where management consider the potential exposure of the Group to material loss to be at its greatest, such as contract management and credit control.

Key performance indicators ('KPIs')

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

Indicator	2009	2008
Revenue per employee	**£85,200**	£90,000
Operating profit* per employee	**£9,500**	£13,300
Debtors over 60 days as percentage of total debtors	**7.7%**	8.1%

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

What our customers have to say about us . . .

"We were impressed with Sanderson and their wealth of experience in supplying and implementing retail solutions, a close working relationship was quickly established with Sanderson and we found their honesty during our decision making process very refreshing."

Fenwick

The year ended 30 September 2009 has been a difficult one against a backdrop of a severe economic recession and unprecedented turbulence in the financial markets. Both factors have impacted on the propensity of customers and prospective customers to invest capital sums in new projects. This challenging environment has resulted in reductions to revenue per employee and operating profit per employee ratios. Recent improvements in activity levels should lead to increases in these ratios being reported in 2010.

A further reduction in the percentage of debtors over 60 days old has been reported. This shows the result of strong account management practices, with solutions being delivered on time and to budget wherever possible.

Adrian Frost
Finance Director
7 December 2009

Board of directors

Christopher Winn
Chairman

Aged 59. Educated at Queen Elizabeth School, Kirkby Lonsdale and Nottingham University, Christopher worked for British Olivetti until 1974 when he joined the ACT Group - ACT Group became the second UK, IT company to be listed on the London Stock Exchange in 1979. He served on the Group plc Board between 1983 and 1994, undertaking a number of senior roles and in 1995, he joined the former Sanderson Group, becoming Group Chief Executive later in that year. In 1999, he led a management buyout or 'take private' of the former Sanderson Group with the support and backing of the Alchemy Plan. Following restructuring and the demerger of the original Group, the business which was focused primarily on UK commercial markets and which retained the Sanderson Group name, gained admission to the London Stock Exchange AIM market in December 2004.

Adrian Frost BA, ACA
Finance Director

Aged 42. A graduate of Sheffield University, Adrian qualified as a Chartered Accountant whilst working for RSM Robson Rhodes. In 1996 he joined Hadley Industries plc as Group Financial Controller. Adrian joined Sanderson in 2000, shortly after the management buyout, and worked closely with the Board in restructuring the former Group into three separate businesses — Sanderson, Civica and Talgentra. Adrian was appointed Finance Director of Talgentra following the formal demerger of the Group, and rejoined Sanderson Group plc in May 2005.

David Gutteridge
Non-Executive Director

Aged 58. David is currently Chairman of Tinglobal Limited, an IT infrastructure and support solutions provider, and a Non-Executive Director at AIM listed Cyan Technology plc, a fabless semiconductor company developing configurable low power microcontrollers. David acts as an independent consultant involved in strategic business development and corporate transactions. He is a member of the Chartered Institute of Management Accountants. He was co-founder of Financial Objects plc in 1995 and, as Finance Director and then Chief Operating Officer, led several acquisitions and the full listing on the London Stock Exchange in 1998. Prior to this he held a number of senior financial and commercial roles at ACT Group plc, Seiko Epson Ltd and Logica plc. David is the senior independent non-executive director of Sanderson Group plc.

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Philip Kelly
Non-Executive Director

Aged 57. Philip Kelly is a Non-Executive Director of Radius Solutions (UK) Limited (formerly a wholly owned subsidiary of Radius plc, which was taken private with funding from the Alchemy Plan in 1998). He is also a Non-Executive Director of Coalition Holdings Limited, a provider of technical and desktop services. He has over 20 years' experience as the Chief Executive of private and publicly quoted software companies supplying the commercial and public sectors in the UK, Europe and the USA. Philip had previously worked for Digital Equipment and 3i Consultants.

John Paterson
Non-Executive Director

Aged 63. 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.

Group information

Company Secretary
Adrian Frost

Registered company number
4968444

Registered and head office
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CV1 2GF

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Auditors to the Company
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Financial PR
Winningtons
St Brandons House
29 Great George Street
Bristol
BS1 5QT

Operating board

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

Executive directors (biographies on page 10)

Christopher Winn
Chairman

Adrian Frost
Finance Director

Senior directors

David Mahoney

Managing Director, Sanderson RBS

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

Ian Newcombe

Managing Director, Multi-Channel Solutions

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

David O'Byrne

Group Projects Director

David has over 35 years' experience in the software and IT services sector. His early career was spent in a number of senior technical and managerial roles in commercial and software companies. He joined the former Sanderson Group in 1986 to form their local government business, was appointed Managing Director of the public sector business in 1994 and managed the rapid growth of this business prior to his appointment as Managing Director of Sanderson Group plc in April 2002. David stepped down from the main Board in 2009 to focus on Group projects. David works on a part-time basis.

Steve Watson

Deputy Chairman, Sanderson Retail Division

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

Employees

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

Paul Bywater

Managing Director, Production & Print

Paul has wide-ranging experience of manufacturing. He began his career as an engineering apprentice, then draughtsman and production engineer, before studying for a degree in production engineering and business studies. Graduating with a first class honours degree from Sheffield, he embarked upon a career in IT. He started working with manufacturing ERP systems and successfully managed an ERP implementation before joining Sanderson in 1986. Paul has held a number of positions at Sanderson including Analyst Programmer, Support Manager, Manufacturing Consultant, Systems Director, Development Director, and Product Strategy Director. Promoted to Managing Director of the Production & Print business in 2009, Paul's vast knowledge of manufacturing IT is invaluable.

Jackie Taylor

Sales Director, Wholesale Distribution Solutions

Jackie has been working with wholesale businesses for over twenty years. After an initial career in accounting, Jackie became FD of a cash and carry and delivered wholesaler – the first UK customer of what is now, Swords, the Sanderson wholesale solution. Having built up the business to employ 50 people and have a 50,000sq ft depot, the wholesaler was sold and Jackie was recruited to form the UK operation of the company which developed Swords. This business was acquired by Sanderson in 1996. Jackie's experience of running a wholesale business gives her in-depth understanding of the demands of the market and she has been instrumental in growing the Sanderson solution into the market-leading software for the wholesale industry it is today.

Nicholas Boyce

Head of Managed Services, Retail

After completing an electronic engineering apprenticeship with Rolls-Royce, Nicholas spent time in retail and technical sales before moving into the administration of IT systems. There he was involved in the selection and implementation of new business management software. This gave him extensive experience as a user of software support services. He joined Retail Business Solutions (Sanderson RBS) in 2001 as a Support Analyst. Following a spell as a Team Leader, he was promoted to Head of 2nd Level Support in 2008. In September 2009, Nicholas became Head of Managed Services in recognition of his, and his team's, contribution to the significant success Sanderson has had in expanding its managed services business.

Kate Simpson

Business Development Manager

An LLB (Hons) graduate in Law, Kate started her working life at the BBC. She moved into marketing spending seven years at Mitsubishi Electric where she managed the company's PC advertising and the successful PR launch of Apricot computers as a consumer brand in retail. Kate joined Sanderson in 1999 as Marketing Manager for IT Services and Licensing. In 2001, she moved to Tallyman (now part of Experian) where as Head of Marketing and a member of the company's management team, she helped establish it as the market leader in credit collections software. Rejoining Sanderson in 2003, Kate has been instrumental in the Company adopting a more market-focused approach, and is now responsible for corporate communications and business development projects.

Corporate governance statement

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

Board of directors

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

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

Board committees

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

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

The Nominations Committee is chaired by Christopher Winn and also comprises the non-executive directors. The Committee 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.

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

Directors' remuneration

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

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

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

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

Internal control

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

Shareholder communication

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

Going concern

As disclosed in note 17, bank loans and other borrowings amounted to £9,958,000 at 30 September 2009. Bank loans have been advanced under a committed facility that extends to 30 June 2014, the terms of these loans having been renegotiated during the year. Day-to-day working capital requirements are met by an overdraft facility that is repayable on demand.

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 the other principal risks faced by the Group as set out in the Financial review, indicate that the Group should be able to operate within the level of its current facility. The forecasts used in renegotiating banking facilities were formulated in April and May 2009, against the background of a challenging trading environment in the first half of the financial year. Since this date the Group has traded in line with these forecasts. Recent improvements in activity levels would suggest the Group will be able to continue to trade in line with, or ahead of, these forecasts. Accordingly, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the accounts.

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2009.

International Financial Reporting Standards

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

Principal activities

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

Business review

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

Information on the financial risk management strategy of the Group and of the exposure of the Group to currency risk, interest rate risk and liquidity risk is set out in note 24 to the accounts.

Dividend

A final dividend of 0.20 pence per share was paid on 27 March 2009 (2008: 1.55 pence) relating to the financial year ended 30 September 2008. An interim dividend of 0.20 pence per ordinary share was paid on 21 August 2009 (2008: 1.20 pence per share) in respect of the financial year ended 30 September 2009. The directors propose the payment of a final dividend in respect of the year ended 30 September 2009 of 0.20 pence per ordinary share. The final dividend is subject to shareholder approval at the Annual General Meeting on 11 March 2010 and, if approved, will be paid on 26 March 2010 to shareholders on the register at the close of business on 26 February 2010.

The directors intend to put certain resolutions to the shareholders at an Extraordinary General Meeting to be held immediately after the Annual General Meeting. The resolutions will seek permission to convert some of the share premium account of the Company to a distributable reserve and to rectify a technical breach of the Companies Act 2006 in relation to the dividend payments made in the 2009 calendar year. Further details are provided in note 11 to the financial statements.

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

Directors and directors' interests

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

	Interest at end of year	**Interest at start of year**
	Ordinary shares of 10 pence	Ordinary shares of 10 pence
Christopher Winn	2,238,199	1,623,199
Adrian Frost	61,000	26,000
Philip Kelly*	20,000	20,000
David Gutteridge*	125,000	100,000
John Paterson*	90,000	90,000

* Denotes non-executive director.

Mr David O'Byrne served as a director of the Company from its incorporation in 2003 until his resignation on 1 March 2009.

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

	In issue at year end	Exercise price	Performance conditions	Earliest exercise date	Expiry date
During the financial year ended 30 September 2005:					
Christopher Winn	199,980	54.25p	Yes	01/10/2007	30/09/2014
Christopher Winn	910,972	50.00p	Yes	01/10/2007	15/12/2014
Christopher Winn	910,972	£1†	Yes	01/10/2007	15/12/2011
Adrian Frost	175,421	57.00p	Yes	01/10/2007	30/09/2014
Adrian Frost	215,579	56.00p	Yes	01/10/2007	15/12/2014
Adrian Frost	215,579	£1†	Yes	01/10/2007	15/12/2011
During the financial year ended 30 September 2009:					
Adrian Frost	200,000	9.50p	Yes	03/08/2012	03/08/2017

† Total amount payable on each occasion of exercise

Notes relating to options to purchase ordinary shares

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

Messrs Winn and Frost were each granted options over 15,791 ordinary shares at an exercise price of 60 pence per share pursuant to the Group's Save As You Earn scheme. During the year the options held by Mr Winn were allowed to lapse. The options held by Mr Frost lapsed during the previous financial year.

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

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

Substantial shareholdings

The Company has been advised of the following notifiable interests in more than 3% of its ordinary share capital, as at 28 January 2010.

	Number of shares	%
Alchemy Partners Nominees Ltd	11,298,995	26.0
AXA Framlington Monthly Income Fund	3,296,303	7.6
ISIS Ep LLP	3,000,075	6.9
Christopher Winn	2,238,199	5.2
Marlborough Special Situations Fund	2,165,000	5.0
Chelverton Small Companies Dividend Trust	2,000,000	4.6
Polar Capital Technology Trust	1,900,000	4.4
Unicorn Asset Management	1,540,200	3.5

Policy and practice on payment of creditors

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

At the year end, the Company had no trade creditors (2008: nil).

Directors' report continued

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

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

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

In so far as each of the directors is aware:

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

Auditors

Grant Thornton UK LLP are willing to continue in office. In accordance with s485(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
28 January 2010

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

We have audited the Group financial statements of Sanderson Group plc for the year ended 30 September 2009 which comprise the consolidated income statement, consolidated statement of recognised income and expense, consolidated balance sheet, consolidated cash flow statement and notes thereto. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Sections 495 and 496 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 directors' responsibilities statement set out on page 18, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 September 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Separate opinion in relation to IFRS

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

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

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the parent company financial statements of Sanderson Group plc for the year ended 30 September 2009.

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

Consolidated income statement

for the year ended 30 September 2009

	Note	Before amortisation and impairment of intangible assets £000	Amortisation and impairment of intangible assets £000	Total 2009 £000	Total 2008 £000
Revenue	4	24,896	–	**24,896**	27,554
Cost of sales		(6,868)	–	**(6,868)**	(8,007)
Gross profit		18,028	–	**18,028**	19,547
Technical and development costs		(8,789)	–	**(8,789)**	(9,441)
Administrative and establishment expenses		(4,395)	(2,880)	**(7,275)**	(6,054)
Sales and marketing costs		(2,297)	–	**(2,297)**	(2,300)
Results from operating activities		2,547	(2,880)	**(333)**	1,752
Results from operating activities before adjustments in respect of the following:	6	2,763	–	**2,763**	4,070
Amortisation of acquisition-related intangibles		–	(1,381)	**(1,381)**	(1,381)
Exceptional operating costs	6	(190)	–	**(190)**	–
Impairment of goodwill		–	(1,499)	**(1,499)**	(889)
Share-based payment charges	5	(26)	–	**(26)**	(48)
Results from operating activities	4	2,547	(2,880)	**(333)**	1,752
Finance income	8	405	–	**405**	492
Finance expenses	9	(1,537)	–	**(1,537)**	(1,415)
Movement in fair value of derivative financial instrument		(561)	–	**(561)**	72
Profit/(loss) before tax		854	(2,880)	**(2,026)**	901
Taxation	10	841	–	**841**	942
Profit/(loss) for the year attributable to equity holders of the parent		1,695	(2,880)	**(1,185)**	1,843
(Loss)/earnings per share					
From continuing operations					
Basic (loss)/earnings per share	12			**(2.70p)**	4.20p
Diluted (loss)/earnings per share	12			**(2.70p)**	4.10p

Consolidated statement of recognised income and expense

for the year ended 30 September 2009

	Note	2009 £000	Restated 2008 £000
Defined benefit pension plan actuarial losses	27	**(2,223)**	(103)
Deferred taxation effect of defined benefit pension plan items	15	**622**	29
Net expense recognised directly in equity		**(1,601)**	(74)
Result for the year		**(1,185)**	1,843
Prior year adjustment (note 23)		**–**	(515)
Total recognised (expense)/income attributable to equity holders of the parent		**(2,786)**	1,254

Consolidated balance sheet

at 30 September 2009

	Notes	2009 £000	Restated 2008 £000
Non-current assets			
Property, plant and equipment	13	**491**	602
Intangible assets	14	**34,340**	37,236
Pension and other employee obligations	27	**–**	170
Deferred tax assets	15	**1,874**	1,046
		36,705	39,054
Current assets			
Inventories		**361**	397
Trade and other receivables	16	**6,171**	6,920
Income tax receivable		**506**	1,012
Derivative financial instrument	24	**–**	72
Cash and cash equivalents		**–**	1,060
		7,038	9,461
Current liabilities			
Bank loans and borrowings	17	**(1,672)**	(2,170)
Trade and other payables	20	**(3,697)**	(4,565)
Derivative financial instrument	24	**(489)**	–
Deferred income		**(6,672)**	(7,236)
		(12,530)	(13,971)
Net current liabilities		**(5,492)**	(4,510)
Total assets less current liabilities		**31,213**	34,544
Non-current liabilities			
Loans and borrowings	17	**(8,286)**	(9,554)
Pension and other employee obligations	27	**(1,839)**	–
Deferred income		**(234)**	(702)
Deferred tax liabilities	15	**(1,178)**	(1,665)
		(11,537)	(11,921)
Net assets		**19,676**	22,623
Equity attributable to equity holders of the Company			
Share capital	21	**4,338**	4,338
Share premium	22	**15,178**	15,178
Retained earnings	22	**160**	3,107
Total equity		**19,676**	22,623

These financial statements were approved by the Board of directors on 28 January 2010 and were signed on its behalf by:

Christopher Winn
Director

Company Registration Number
4968444

Consolidated cash flow statement

for the year ended 30 September 2009

	Note	2009 £000	2008 £000
Cash flows from operating activities			
Result for the period		**(1,185)**	1,843
Adjustments for:			
Amortisation and impairment of intangible assets		**2,988**	2,425
Depreciation		**240**	267
Share-based payment expense		**26**	48
Net finance expense		**1,693**	851
Income tax		**(841)**	(942)
Operating cash flow before changes in working capital and provisions		**2,921**	4,492
Movement in trade and other receivables		**762**	1,287
Movement in inventories		**36**	(5)
Movement in trade and other payables		**(1,611)**	(685)
Payments to employee benefit plan		**(234)**	(234)
Cash generated from operations		**1,874**	4,855
Interest paid		**(1,372)**	(605)
Income tax paid		**653**	(1,139)
Net cash flow from operating activities		**1,155**	3,111
Cash flow from investing activities			
Purchase of plant and equipment		**(129)**	(247)
Development expenditure capitalised		**(92)**	(50)
Acquisition of subsidiary, net of cash balances acquired		**–**	(500)
Net cash flow from investing activities		**(221)**	(797)
Cash flow from financing activities			
Repayment of bank borrowing		**(2,200)**	(975)
Repayment of finance lease principal		**(21)**	(22)
Equity dividends paid	11	**(174)**	(1,192)
Net cash flow from financing activities		**(2,395)**	(2,189)
Net (decrease)/increase in cash and cash equivalents		**(1,461)**	125
Cash and cash equivalents at beginning of year		**1,060**	935
Cash and cash equivalents at the end of the year		**(401)**	1,060

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 2009 comprise the results of the Company and its subsidiary undertakings (together referred to as the Group). The Group is primarily involved in the development and supply of IT software and services. The Company's shares are traded on the Alternative Investment Market of the London Stock Exchange.

2 Basis of preparation

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

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

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

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

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgements

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

Note 14: Measurement of intangible assets. In testing for impairment of goodwill, management have made certain assumptions concerning the future development of the business that are consistent with the annual budget and business plan. Should these assumptions regarding the growth in profitability be unfounded then it is possible that goodwill included in the balance sheet could be impaired. Management are confident that this will not be the case. The Group has a history of retaining customers, with the average length of customer relationship in excess of ten years. The time and resources required by organisations to change enterprise systems is significant and therefore discourages change. The Group therefore believes the existing business will continue to generate revenues for many years. Accordingly, when assessing the recoverable value attributable to goodwill, management have estimated cash flows attributable to existing businesses and extrapolated forward 2009/10 budgets in line with the average length of customer relationships.

Note 27: 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 balance sheet 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.

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

In addition, when acquisitions of subsidiary companies occur, intangible assets acquired are accounted for in accordance with IFRS 3 'Business Combinations' and IAS 38 'Intangible Assets'. The main area of judgement is the valuation of separable identifiable intangible assets acquired. These calculations have been performed by an external valuer with whom the directors have agreed the underlying assumptions to be applied. The key assumptions are the identifiable intangible assets acquired, forecast future cash flows and the discount rate.

3 Accounting policies

Adopted IFRS not yet applied

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

- IAS 1 Presentation of Financial Statements (Revised 2007)
- IAS 23 Borrowing Costs (Revised 2007)
- Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008)
- Amendment to IFRS 2 Share-Based Payment — Vesting Conditions and Cancellations
- IFRS 3 Business Combinations (Revised 2008)
- IFRS 8 Operating Segments

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

- IFRIC 14 & IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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 except for IAS 1 (Revised), IFRS 3 (Revised) and IFRS 8. The amendment to IAS 1 affects the presentation of other changes in equity and introduces a statement of comprehensive income. The Group will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Group's financial statements. IFRS 3 Business Combinations (Revised 2008) will apply to any future business combinations that the Group may undertake once it is in force. The Group has no plans to adopt the revised standard in advance of its mandatory implementation date. IFRS 8 may require the Group to give additional segment disclosures when it comes into effect for periods commencing on or after 1 January 2009.

Basis of consolidation

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

3 Accounting policies continued

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary undertaking are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The financial effects of discontinued operations are presented in the income statement when a component of the entity has been or will be disposed of which represents a separate major line of business or geographical area of operations. The gain or loss arising on the disposal of a business is determined as the difference between the disposal proceeds and the carrying amount of the business and is included within the profit or loss attributable to discontinued operations.

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

Property, plant and equipment

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

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

The annual rates used are:

- leasehold buildings — over life of the lease
- plant and equipment — 15%–33$\frac{1}{3}$%

Leases

Assets financed by leasing arrangements, which give rights approximating to ownership, are treated as if they had been purchased outright and are capitalised and depreciated over the shorter of the estimated useful life of the assets and the period of the leases. The capital element of future rentals is treated as a liability and the interest element is charged against profits in proportion to the balances outstanding. The rental costs of all other leased assets are charged against profits on a straight-line basis over the lease term.

Inventories

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

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

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

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

Accounting for financial assets

The Group has financial assets in the following categories:

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

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expense is recognised in profit or loss or directly in equity. 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 balance sheet 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 Group's financial liabilities include borrowings and trade and other payables (including finance lease liabilities), which are measured at amortised cost using the effective interest rate method.

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

Derivative financial instruments

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

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

Cash and cash equivalents

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

3 Accounting policies continued

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.

Foreign currency

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

Taxation

Tax on the result for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

Revenue

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

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

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

Goodwill

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

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

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

Dividends

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

Borrowing costs

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

Research and development expenditure

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

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

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

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

Other intangible assets

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

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

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

Impairment

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

3 Accounting policies continued

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

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

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

Pension benefits

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

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the 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 fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting. Deferred taxation is recognised over the vesting period.

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.

	Manufacturing		Multi-Channel		Total	
	2009	2008	**2009**	2008	**2009**	2008
	£000	£000	**£000**	£000	**£000**	£000
Revenue	**5,733**	6,489	**19,163**	21,065	**24,896**	27,554
Operating profit before amortisation, impairment and share-based payment charges	**758**	1,255	**2,005**	2,815	**2,763**	4,070
Amortisation of acquisition-related intangibles	**–**	–	**(1,381)**	(1,381)	**(1,381)**	(1,381)
Impairment of goodwill	**(1,499)**	–	**–**	(889)	**(1,499)**	(889)
Exceptional operating costs	**(44)**	–	**(146)**	–	**(190)**	–
Share-based payment charges					**(26)**	(48)
Operating (loss)/profit					**(333)**	1,752
Net finance expense					**(1,693)**	(851)
(Loss)/profit before taxation					**(2,026)**	901
Property, plant and equipment	**198**	256	**293**	346	**491**	602
Intangible assets	**11,051**	12,550	**23,289**	24,686	**34,340**	37,236
Inventory	**37**	48	**324**	349	**361**	397
Cash and cash equivalents	**–**	–	**92**	–	**92**	–
Trade and other receivables	**1,263**	1,354	**4,908**	5,566	**6,171**	6,920
Total assets	**12,549**	14,208	**28,906**	30,947	**41,455**	45,155
Bank overdraft	**(493)**	–	**–**	–	**(493)**	–
Trade and other payables	**(659)**	–	**(3,038)**	–	**(3,697)**	–
Deferred income	**(2,059)**	–	**(4,851)**	–	**(6,910)**	–
Total liabilities	**(3,211)**	–	**(7,889)**	–	**(11,100)**	–
Allocated net assets	**9,338**	14,208	**21,017**	30,947	**30,355**	45,155
Other unallocated assets and liabilities					**(10,679)**	(22,532)
Net assets					**19,676**	22,623

Additions to property, plant and equipment incurred by the manufacturing division during the year amounted to £31,000 (2008: £83,000) and depreciation of such assets amounted to £89,000 (2008: £98,000). Additions to property, plant and equipment incurred by the multi-channel division during the year amounted to £98,000 (2008: £197,000) and depreciation of such assets amounted to £151,000 (2008: £169,000).

Subsequent to the 2008 year end the Group undertook a restructuring whereby certain legal entities within the Group transferred trades to fellow subsidiary undertakings. This has enabled additional segmental disclosure of certain assets and liabilities at 30 September 2009, comparative figures for which were not available due to the sharing of certain functions such as cash management and procurement within one legal entity in prior periods.

5 Share-based payments

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

Grant date	Employees entitled	Number of options	Performance conditions†	Exercise price (p)	Earliest exercise date	Expiry date
16/12/2004	Management	1,566,762	EPS growth	50.00	01/10/2007	15/12/2014
16/12/2004	Management	764,326	EPS growth	54.25	01/10/2007	30/09/2014
16/12/2004	Management	1,417,559	TSR target	00.00*	01/10/2007	15/12/2011
27/05/2005	Management	215,579	EPS growth	56.00	01/10/2007	15/12/2014
27/05/2005	Management	250,421	EPS growth	57.00	01/10/2007	30/09/2014
27/05/2005	Management	215,579	TSR target	00.00*	01/10/2007	15/12/2011
04/08/2009	Management	925,000	Operating profit, EPS growth and TSR targets	09.50	03/08/2012	03/08/2016
		5,355,226				

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

† EPS growth refers to the earnings per share reported by the Group. TSR refers to total shareholder return.

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

	2009 Weighted average exercise price	**2009 Number of options (number)**	2008 Weighted average exercise price	2008 Number of options (number)
Outstanding at start of year	**34.00p**	**5,463,128**	35.30p	6,466,205
Granted during the year	**9.50p**	**925,000**	–	–
Forfeited during the year	**(41.50p)**	**(1,032,902)**	(55.00p)	(900,875)
Exercised during the year	**–**	**–**	0.00p	(102,202)
Outstanding at end of the year	**28.90p**	**5,355,226**	34.00p	5,463,128
Exercisable at end of the year	**33.00p**	**4,430,226**	34.00p	5,463,128

Of the options forfeited during the year 214,313 relate to the EMI scheme, 218,966 to the unapproved share option plan and 203,299 to the LTIP, all such forfeitures arising on the resignation of option holders. 96,324 options previously granted under an Inland Revenue approved Save As You Earn (SAYE) scheme were forfeited during the year at the end of the option exercise period. In addition, 300,000 options previously issued under the unapproved share option plan lapsed as targets in respect of profit before tax for the period to 30 September 2008 were not met.

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

No options were exercised during the year ended 30 September 2009. Options outstanding at 30 September 2009 have exercise prices in the ranges 0.00p to 57.00p per share. The weighted average contractual life of the options is 6.4 years (2008: 6.7 years). During the year ended 30 September 2008 options over 102,202 ordinary shares were exercised when the market price of such shares was 36.50 pence per share.

Fair value assumptions of share-based payments

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

Granted in the year to 30 September 2009:

Options over 925,000 shares were granted on 4 August 2009, to members of the operating board with performance targets based on the profitability of the Group, percentage increases in share price and total shareholder return compared with a peer group, all targets being measured over a three year period. At the date of grant the market price of shares was 9.50p, which is also the exercise price. In calculating the fair value of the options, the average life of the options was assumed to be seven years and a risk-free rate of interest was assumed to be 5%. Expected volatility of 56% was determined by reference to the historical volatility of the Group's share price between September 2008 and August 2009.

Granted in the year to 30 September 2008:

No options granted.

Charge to the income statement

The charge to the income statement comprises:

	2009 £000	2008 £000
Share-based payment charges	**26**	44
Provision for NI contributions	**–**	4
	26	48

6 Expenses and auditors' remuneration

Included in the income statement are the following items:

	2009 £000	2008 £000
Auditors' remuneration:		
Audit of these financial statements	**10**	10
Amounts received by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**28**	35
All other services	**9**	10
Depreciation and other amounts written off property, plant and equipment:		
Owned	**224**	260
Leased	**16**	7
Amortisation of acquisition-related intangible assets	**1,381**	1,381
Impairment of goodwill	**1,499**	889
Amortisation of development costs	**108**	155
Cost of inventory recognised as an expense	**6,900**	7,500
Rentals payable under plant and machinery operating leases	**34**	14
Leasehold property rentals	**602**	555

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

Exceptional costs charged to the operating result in 2009 represent the cost of effecting a cost reduction programme during the year (2008: £nil).

7 Personnel expenses

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

	2009 number	2008 number
Technical	**228**	240
Sales and marketing	**32**	36
Administrative	**32**	30
	292	306

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

	2009 £000	2008 £000
Wages and salaries	**9,646**	10,045
Social security costs	**1,030**	1,158
Contributions to defined contribution pension plans	**295**	304
Share-based payment expense	**26**	48
	10,997	11,555

The Company employed three non-executive directors (2008: three non-executives). Fees paid in respect of these appointments amounted to £90,133 (2008: £82,331).

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

	2009 £000	2008 £000
Salaries, including bonuses	**317**	493
Benefits in kind	**14**	8
Pension contributions — defined contribution schemes	**17**	28
	348	529

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 twelve months.

In accordance with IAS 24, 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 members of the operating board. No information has been included in respect of the 2008 financial year as the operating board had not been formed. Key management personnel prior to the formation of the operating board were considered to be the executive directors of Sanderson Group plc.

	2009 £000	2008 £000
Salaries, including bonuses	870	–
Benefits in kind	23	–
Pension contributions — defined contribution schemes	29	–
Share-based payment charge	26	–
	948	–

The aggregate of emoluments payable under service contracts and amounts receivable under long-term incentive schemes of the highest paid director was £160,000 (2008: £238,000) including benefits in kind. The Group did not make pension contributions on behalf of the highest paid director (2008: £nil). There was no share-based payment charge in respect of the highest paid director (2008: £nil).

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

8 Finance income

	2009 £000	2008 £000
Expected return on defined benefit pension scheme assets	392	438
Other interest	13	54
	405	492

9 Finance expenses

	2009 £000	2008 £000
Interest on bank overdrafts and loans	812	1,011
Interest on defined benefit pension scheme obligations	408	404
Loan arrangement fees	308	–
Other interest	9	–
	1,537	1,415

10 Taxation

	2009 £000	2008 £000
Current tax expense		
UK corporation tax for the current year	–	299
Relating to prior periods	(146)	(573)
Total current tax	(146)	(274)
Deferred tax		
Deferred tax for the current year	(692)	(480)
Relating to prior periods	(3)	(100)
Relating to change in rate of tax	–	(88)
Total deferred tax	(695)	(668)
Taxation credited to the income statement	(841)	(942)

Reconciliation of effective tax rate

The current consolidated tax credit for the period is greater (2008: greater) than the standard rate of corporation tax in the UK of 28%. The differences are explained below.

	2009 £000	2008 £000
(Loss)/profit before tax:		
Continuing operations	(2,026)	901
Tax using the UK corporation tax rate of 28% (2008: 29%)	(567)	261
Effects of:		
Expenses not deductible for tax purposes	497	312
Expenses not reported in income statement	–	231
Utilisation of losses not previously recognised	(822)	(428)
Recognition of loss utilisation anticipated in future periods	–	(633)
Over provision in previous years	(148)	(673)
Losses not utilised in year	202	5
Change in temporary differences	(3)	(17)
Total tax in income statement	(841)	(942)

The overprovision for income tax in previous years has arisen as a result of the utilisation of brought forward tax losses not previously recognised as an asset due to uncertainties over their availability and the timing of their recovery.

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

	2009 £000	2008 £000
Tax losses not recognised as future economic benefit is uncertain	2,340	2,372

11 Dividends

	2009 £000	2008 £000
Interim dividend of 0.20p per share (2008: 1.20p)	87	521
Final dividend relating to previous financial year of 0.20p per share (2008: 1.55p)	87	671
Total dividend for the financial year	174	1,192

It has recently come to the attention of the directors that there has been a technical breach of the Companies Act 2006 the impact of which is that dividends paid in the calendar year 2009 totalling £174,000 have been paid unlawfully. The breach has arisen due to the fact that the last set of relevant accounts, approved by shareholders at the Annual General Meeting of the Company held on 26 February 2009, did not show the Company as having sufficient distributable reserves to support payment of the dividends. Management accounts produced prior to the dividend payments being made did show sufficient distributable reserves, but these accounts were not filed at Companies House, giving rise to the technical breach.

The Company has been advised by its legal advisors that this matter can be rectified by shareholders passing a resolution to ratify and confirm the appropriation of profits to the payment of the 2008 final dividend and the 2009 interim dividend and to waive any rights of the Company against the shareholders who received the dividends.

As a result of changes made to the Group structure during the financial year ended 30 September 2009, adjustments made to amounts previously recognised as goodwill and investments by subsidiary undertakings have prevented certain subsidiary undertakings from appropriating operating profits to the Company. The Company intends to seek shareholder approval to cancel a proportion of the share premium account, thereby creating additional distributable reserves and removing the need to appropriate distributable reserves from subsidiary undertakings on an annual basis.

Resolutions to approve the cancellation of part of the share premium account and to ratify and confirm the appropriation of profits to the payment of the 2008 final dividend and the 2009 interim dividend will be put to shareholders at an Extraordinary General Meeting of the Company to be held immediately after the Annual General Meeting of the Company on 11 March 2010.

12 Earnings per share

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

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

Earnings:	2009 £000	2008 £000
Result for the year from continuing operations	(1,185)	1,843
Amortisation of acquisition-related intangible assets	1,381	1,381
Impairment charge	1,499	889
Share-based payment charges	26	48
Adjusted profit for the year	1,721	4,161

Notes to the consolidated financial statements
continued

12 Earnings per share continued

Number of shares:	2009 number	2008 number
In issue at the start of the year	**43,383,946**	42,281,744
Effect of shares issued in the year	**–**	1,102,202
Weighted average number of shares at year end	**43,383,946**	43,383,946
Effect of share options	**1,780,258**	1,836,427
Weighted average number of shares (diluted) at year end	**45,164,204**	45,220,373

	2009 (pence)	2008 (pence)
(Loss)/earnings per share:		
Basic	**(2.70)**	4.20
Diluted	**(2.70)**	4.10
Adjusted earnings per share:		
Basic	**4.00**	9.60
Diluted	**3.80**	9.20

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

13 Property, plant and equipment

	Short leasehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 October 2007	436	452	888
Additions	51	229	280
Balance at 30 September 2008	487	681	1,168
Additions	26	103	129
Balance at 30 September 2009	513	784	1,297
Depreciation			
Balance at 1 October 2007	174	125	299
Charge for the year	51	216	267
Balance at 30 September 2008	225	341	566
Charge for the year	54	186	240
Balance at 30 September 2009	279	527	806
Net book value			
At 30 September 2008	262	340	602
At 30 September 2009	**234**	**257**	**491**

Leased plant and machinery

At 30 September 2009, the net carrying amount of leased plant and machinery was £27,434 (2008: £43,434).

14 Intangible assets

	Goodwill £000	Intellectual property £000	Customer relationships £000	Distributor agreements £000	Development costs* £000	Total £000
Cost						
Balance at 1 October 2007	33,519	1,782	2,714	3,468	601	42,084
Other acquisitions:						
internally developed	–	–	–	–	50	50
Adjustments to previously reported estimates	(1,223)	–	–	–	–	(1,223)
Balance at 30 September 2008	32,296	1,782	2,714	3,468	651	40,911
Other acquisitions:						
internally developed	–	–	–	–	92	92
Balance at 30 September 2009	32,296	1,782	2,714	3,468	743	41,003
Amortisation and impairment						
Balance at 1 October 2007	–	424	573	47	206	1,250
Amortisation for the year	–	302	385	694	155	1,536
Impairment charge	889	–	–	–	–	889
Balance at 30 September 2008	889	726	958	741	361	3,675
Amortisation for the year	–	302	385	694	108	1,489
Impairment charge	1,499	–	–	–	–	1,499
Balance at 30 September 2009	2,388	1,028	1,343	1,435	469	6,663
Net carrying value						
Balance at 30 September 2008	31,407	1,056	1,756	2,727	290	37,236
Balance at 30 September 2009	**29,908**	**754**	**1,371**	**2,033**	**274**	**34,340**

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

Adjustments to previously reported estimates in the comparative period represent an adjustment to deferred consideration relating to Retail Business Solutions and the inclusion of costs relating to an onerous contract existing at the acquisition date.

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

	2009 £000	2008 £000
Administrative expenses	**2,988**	2,425

14 Intangible assets continued

Amortisation and impairment

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

	2009 £000	2008 £000
Manufacturing	**11,051**	12,550
Multi-Channel	**18,857**	18,857
Goodwill	**29,908**	31,407

The Group tests goodwill annually for impairment, or more frequently if an event occurs to warrant a review. The recoverable amounts attributed to each CGU are based on value in use calculations. The key assumptions made in undertaking the value in use calculations are set out below. Budgeted profit and cash flow forecasts for the financial year ending 30 September 2010 were extrapolated for periods of between ten and thirteen years and used as the basis of the calculations.

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

Discount rate assumptions based on the internal cost of capital and management view of the risk associated with each sector.
Manufacturing: 10%.
Multi-Channel: 12%.

The current economic climate has led to the directors forming a conservative view when formulating budgeted profit and cash flow forecasts for the financial year ending 30 September 2010. This has in turn resulted in an impairment charge being made against the carrying value of goodwill attributable to the Manufacturing CGU. The directors have sensitised the profit and cash flow forecast relating to the Multi-Channel CGU, reducing operating profit and cash flow by 5%. This would result in the need for a further impairment charge of approximately £270,000.

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2009	2008	**2009**	2008	**2009**	2008
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**291**	245	**–**	–	**291**	245
Intangible assets	**–**	–	**(1,178)**	(1,500)	**(1,178)**	(1,500)
Share-based payment expense	**155**	151	**–**	–	**155**	151
Trade and other payables	**107**	13	**–**	(117)	**107**	(104)
Employee benefits	**515**	–	**–**	(48)	**515**	(48)
Tax losses	**806**	637	**–**	–	**806**	637
	1,874	1,046	**(1,178)**	(1,665)	**696**	(619)

Movement in deferred tax for the year ended 30 September 2009

	As at 1 October 2008 £000	Income statement £000	Statement of recognised income and expense £000	**As at 30 September 2009 £000**
Property, plant and equipment	245	46	–	**291**
Intangible assets	(1,500)	322	–	**(1,178)**
Share-based payment expense	151	4	–	**155**
Trade and other payables	(104)	211	–	**107**
Employee benefits	(48)	(59)	622	**515**
Tax losses	637	169	–	**806**
	(619)	695	622	**696**

Movement in deferred tax for the year ended 30 September 2008

	As at 1 October 2007 £000	Income statement £000	Statement of recognised income and expense £000	As at 30 September 2008 £000
Property, plant and equipment	266	(21)	–	245
Intangible assets	(2,118)	618	–	(1,500)
Share-based payment expense	470	(319)	–	151
Trade and other payables	69	(173)	–	(104)
Employee benefits	(3)	(74)	29	(48)
Tax losses	–	637	–	637
	(1,316)	668	29	(619)

15 Deferred tax assets and liabilities continued

A deferred tax asset has been recognised in respect of tax losses reasonably expected to be utilised in the financial year ended 30 September 2010. The amount of the asset recognised has been quantified by reference to forecasts of taxable profits expected to arise. Expenses not allowable in calculating taxable profit, such as amortisation and impairment charges relating to goodwill are ignored in assessing the forecast level of taxable profit.

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

	2009 £000	2008 £000
Tax losses	**2,340**	2,372

16 Trade and other receivables

	2009 £000	2008 £000
Trade receivables	**4,543**	5,278
Prepayments and accrued income	**1,628**	1,642
	6,171	6,920

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

The Group invoices all pre-contracted recurring revenues up to six weeks before the renewal date. Payment terms require the invoices to be paid by the renewal date. Such invoices are only shown as overdue when the invoice remains outstanding after the renewal date has passed.

Unless specific agreement has been reached with individual customers, all other invoices are due 30 days after the date of the invoice. The Group's terms and conditions of sale permit the Group to charge interest, at 4% above bank base rates, on all invoices that remain unpaid 30 days after their due date.

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

Of the total trade receivables shown above, £1,395,000 (2008: £1,268,000) are past due but not impaired. An analysis of these trade receivables is as follows:

	2009 £000	2008 £000
0–30 days overdue	**1,043**	740
30–60 days overdue	**166**	193
60–90 days overdue	**124**	60
90+ days overdue	**62**	275
Total	**1,395**	1,268

Movement in impairment provisions:	2009 £000	2008 £000
Balance at the beginning of the year	102	67
Impairment losses recognised	106	104
Amounts written off as uncollectable	(195)	(9)
Amounts recovered during the year	–	(60)
Balance at the end of the year	13	102

17 Loans and other borrowings

	2009 £000	2008 £000
Current liabilities:		
Secured bank loans	1,259	2,150
Bank overdraft	401	–
Current portion of obligations under finance leases	12	20
	1,672	2,170
Non-current liabilities:		
Secured bank loans	8,277	9,533
Obligations under finance leases	9	21
	8,286	9,554

Secured bank loans totalling £9,708,000 have been advanced by Royal Bank of Scotland under a facility expiring in June 2014. The loans have been advanced as three equal tranches: tranche A is repayable in quarterly instalments commencing December 2009 and ending in June 2013; tranche B is repayable in quarterly instalments commencing June 2010 and ending in June 2014; and tranche C is repayable in June 2014. The carrying value of loans and other borrowings is not materially different from fair value.

Royal Bank of Scotland plc holds fixed and floating charges over the whole of the Group's undertakings, property and assets. Interest on borrowings is charged at LIBOR plus a percentage that varies by reference to the Group's gearing and is payable quarterly. An additional 5% interest is charged on the tranche C loan and is capitalised and added to the debt principal quarterly.

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

18 Other interest-bearing loans and borrowings

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2009 £000	Interest 2009 £000	Principal 2009 £000	Minimum lease payments 2008 £000	Interest 2008 £000	Principal 2008 £000
Less than one year	14	2	12	23	3	20
Between one and five years	10	1	9	24	3	21
	24	3	21	47	6	41

19 Deferred contingent consideration

	2009 £000	2008 £000
Arising on acquisition of Sanderson Retail Systems Limited	–	500
Arising on acquisition of Retail Business Solutions Group Limited	–	1,500
Paid during the year	–	(500)
Released due to performance targets not being met	–	(1,500)
Net discount brought forward	–	(112)
Discount relating to released deferred contingent consideration	–	112
	–	–

20 Trade and other payables

	2009 £000	2008 £000
Trade payables	1,886	1,798
Other taxation and social security	809	1,777
Accruals	1,002	990
	3,697	4,565

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.

21 Share capital

	2009 number '000	2008 number '000
Authorised		
Equity: Ordinary shares of 10 pence each	53,500	53,500

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

22 Capital and reserves

Reconciliation of movements in capital and reserves

	Attributable to equity holders of parent				
	Share capital £000	Share premium £000	Shares to be issued £000	Retained earnings £000	Total equity £000
At 30 September 2007 as previously reported	4,228	14,758	495	3,061	22,542
Prior year adjustment (note 23)	–	–	–	(515)	(515)
At 30 September 2007 restated	4,228	14,758	495	2,546	22,027
Actuarial results on employee benefits	–	–	–	(103)	(103)
Deferred taxation on above	–	–	–	29	29
Dividends paid	–	–	–	(1,192)	(1,192)
Share-based payment charges, net of national insurance	–	–	–	44	44
Foreign exchange differences	–	–	–	(25)	(25)
Issue of share capital	110	420	(495)	(35)	–
Result for the period	–	–	–	1,843	1,843
At 30 September 2008	4,338	15,178	–	3,107	22,623
Actuarial results on employee benefits	–	–	–	(2,223)	(2,223)
Deferred taxation on above	–	–	–	622	622
Dividends paid	–	–	–	(174)	(174)
Share-based payment charges, net of national insurance	–	–	–	26	26
Foreign exchange differences	–	–	–	(13)	(13)
Result for the period	–	–	–	(1,185)	(1,185)
At 30 September 2009	**4,338**	**15,178**	**–**	**160**	**19,676**

The aggregate amount of current and deferred tax relating to items that are charged or credited to equity is £452,000 (2008: £1,074,000).

23 Prior year adjustment

Prior year balance sheet items have been restated as a result of an error uncovered during a change in internal procedures relating to the calculation of deferred income. The error had resulted in an overstatement of revenue in the periods 2004 to 2007. The net effect of the adjustment has been to reduce accumulated retained earnings at 30 September 2007 by £515,000.

Deferred income has increased by £736,000 to take account of amounts recognised in the income statement which should have been deferred. Income tax receivable has increased by £221,000 as corporation tax paid on the revenue incorrectly recognised is now reclaimable. The net impact is therefore a reduction in accumulated retained earnings at 30 September 2007 by £515,000.

There has been no effect on the income statement reported in either 2009 or 2008.

24 Financial instruments disclosure

Capital risk management

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

The Group manages its capital through the optimisation of the debt and equity balance and by pricing products and services commensurate with the level of risk. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 22.

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

The gearing ratio at the year end is as follows:

	2009 £000	2008 £000
Debt	9,958	11,724
EBITDA	3,111	4,492
Debt to earnings ratio	3.20	2.61

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

The Group is not subject to externally imposed capital requirements, other than the minimum capital requirements and duties regarding serious reduction of capital, as imposed by the Companies Act 1985 on all public limited companies.

Categories of financial assets and financial liabilities

The Group held the following categories of financial instruments:

	2009 £000	2008 £000
Financial assets		
Fair value through profit and loss (FVTPL)	–	72
Loans and receivables (including trade and other receivables, cash and cash equivalents)	5,730	6,338
	5,730	6,410
Financial liabilities		
Fair value through profit and loss (FVTPL)	489	–
Trade payables and accruals — held at amortised cost	2,888	2,788
Borrowings at amortised cost	9,958	11,724
	13,335	14,512

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

Liquidity risk management

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

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

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

	Current		Non-current	
	Within 6 months	6 to12 months	1 to 2 years	2 to 5 years
2008	£000	£000	£000	£000
Bank overdraft and loans	1,649	1,501	3,044	2,898
Finance lease obligations	12	11	14	10
Trade and other payables	2,788	–	–	–
	4,449	1,512	3,058	2,908

The interest rate on the bank loans is a function of LIBOR and a margin measured by reference to the ratio of debt to earnings.

The Group's exposure to derivative financial instruments is limited to interest rate swaps for fixed terms that match the duration of the Group's term debt facilities. The derivative financial instruments expire on 30 June 2014. A total charge of £561,000 (2008: credit of £72,000) has been recognised in the income statement in respect of derivative financial instruments.

Interest rate sensitivity analysis

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

24 Financial instruments disclosure continued

Interest rate swap contracts

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

The Group has entered into two swap contracts. A 'cap and collar' interest rate swap whereby the LIBOR rate is allowed to vary only between pre-determined levels ends in September 2011. Approximately £4m of term debt is subject to this arrangement with the principal amount reducing by approximately £250,000 per quarter. A further £5m of term debt is subject to a fixed rate swap. The principal sum subject to this arrangement also reduces on a quarterly basis, by an amount slightly in excess of the scheduled capital repayments, until June 2014.

At 30 September 2009 the fair value of interest rate swaps was recorded in the balance sheet as a liability of £489,000 (2008: asset of £72,000).

Financial risk management objectives

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

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

Foreign currency risk management

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

Price risk management

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

Credit risk management

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

25 Contingent liabilities

Each company within the Group has guaranteed the bank facilities of its fellow subsidiary companies. Bank facilities are also secured by fixed and floating charges over the whole of the Group's property, assets and undertakings. Total bank borrowings at 30 September 2009 amounted to £9,937,000 (2008: £11,683,000) net of arrangement costs.

26 Commitments

There were no capital commitments existing at 30 September 2009 or 30 September 2008.

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

	2009 Land and buildings £000	**2009** Other £000	2008 Land and buildings £000	2008 Other £000
Payable:				
Within one year	**552**	**35**	544	17
In the second to fifth years inclusive	**1,492**	**55**	1,490	7
Over five years	**3,447**	**–**	3,695	–
	5,491	**90**	5,729	24

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

27 Pension schemes

The Group operates three defined contribution pension schemes in the UK. The pension cost charge for the year relating to these schemes was £295,000 (2008: £304,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

A company within the Group is the principal employer to a defined benefit pension scheme.

The scheme is now funded solely by employer contributions as it is closed to future accrual and as a result has no contributing members. The latest actuarial valuation of the scheme, as at 1 October 2005, showed the scheme to have a deficit of £2.80m. This figure does not take account of a one-off contribution of £750,000 paid subsequent to the valuation date by the previously connected employers. Sanderson Limited is now responsible for funding 75% of this deficit with a previously connected employer responsible for 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 Group has adopted IAS 19 in accounting for the Group's share of the scheme's funding deficit.

IAS 19 disclosures

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

	Valuation 30 September 2009	Valuation 30 September 2008
Inflation	**3.25%**	3.60%
Pension revaluation in deferment	**3.25%**	3.60%
Pension escalation in payment	**3.25%**	3.60%
Discount rate	**5.60%**	7.00%
Investment returns — unitised with profits	**5.75%**	5.75%
Investment returns — equities	**8.00%**	8.00%
Investment returns — bonds and gilts	**5.50%**	5.50%
Investment returns — cash	**3.50%**	5.00%
Mortality table	**PMA92 (2020)**	PMA92 (2020)
	& PFA92 (2020)	& PFA92 (2020)
	rated down	rated down
	3 years	3 years

Notes to the consolidated financial statements

continued

27 Pension schemes continued

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

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

	2009 £000	2008 £000
Fair value of scheme assets	**5,775**	6,235
Fair value of scheme liabilities	**(7,614)**	(6,065)
(Deficit)/surplus	**(1,839)**	170

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

	2009 £000	2008 £000
Included within operating profit:		
Current service cost	**(4)**	(4)
Included within finance income:		
Expected return on scheme assets	**392**	438
Included within finance expense:		
Interest cost on scheme liabilities	**(408)**	(404)

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

	2009 £000	2008 £000
Actual return on scheme assets	**(1,000)**	(1,425)
Expected return on scheme assets	**392**	438
	(608)	(987)
Experience gains or losses arising on the scheme liabilities	**(171)**	(28)
Effect of changes in actuarial assumptions	**(1,444)**	912
Actuarial loss recognised in the statement of recognised income and expense	**(2,223)**	(103)

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

	2009 £000	2008 £000
Opening defined benefit obligation	**(6,065)**	(6,881)
Current service cost	**(4)**	(4)
Interest cost	**(408)**	(404)
Benefit payments made	**478**	340
Actuarial (losses)/gains	**(1,615)**	884
Closing defined benefit obligation	**(7,614)**	(6,065)

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

	2009 £000	2008 £000
Unitised with-profits fund	**2,576**	3,554
Legal & General Consensus Fund	**2,962**	2,507
Cash deposits	**237**	174
	5,775	6,235

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

	2009 £000	2008 £000
Opening fair value of scheme assets	**6,235**	6,890
Expected return	**392**	438
Actuarial losses specific to opening assets	**(608)**	(987)
Benefit payments made	**(478)**	(340)
Contributions paid	**234**	234
Closing fair value of scheme assets	**5,775**	6,235

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

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of defined benefit obligation	**(7,614)**	(6,065)	(6,881)	(6,858)	(7,207)
Fair value of scheme assets	**5,775**	6,235	6,890	5,009	4,727
Surplus/(deficit) in the scheme	**(1,839)**	170	9	(1,849)	(2,480)
Experience adjustments on the scheme liabilities	**(1,615)**	884	194	289	(1,306)
Experience adjustments on the scheme assets	**(608)**	(987)	379	341	254

The Group currently contributes £19,500 per month to the scheme. A new schedule of contributions is currently being negotiated with the Trustee of the scheme.

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

We have audited the parent company financial statements of Sanderson Group plc for the year ended 30 September 2009 which comprise the parent company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Sections 495 and 496 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 directors' responsibilities statement set out on page 18, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of Sanderson Group plc for the year ended 30 September 2009.

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

Company balance sheet

at 30 September 2009

	Note	2009 £000	2008 £000
Fixed assets			
Investments	31	**36,494**	37,600
Intangible assets	32	**160**	204
		36,654	37,804
Current assets			
Debtors	33	**2,187**	2,620
Creditors: amounts falling due within one year	34	**(2,323)**	(4,345)
Net current liabilities		**(136)**	(1,725)
Total assets less current liabilities		**36,518**	36,079
Creditors: amounts falling due after more than one year	35	**(13,200)**	(15,108)
Net assets		**23,318**	20,971
Capital and reserves			
Called up share capital	36	**4,338**	4,338
Share premium account	37	**15,178**	15,178
Share-based payment reserve	37	**1,633**	1,607
Profit and loss account	37	**2,169**	(152)
Equity shareholders' funds	39	**23,318**	20,971

The balance sheet was approved by the Board of directors on 28 January 2010 and signed on its behalf by:

Christopher Winn
Director

Company Registration Number
4968444

Notes to the Company balance sheet

Basis of preparation

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

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

A separate profit and loss account dealing with the results of the Company only has not been presented, as permitted by Section 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 other equity reserves. This treatment is in accordance with UITF 44 and FRS 20: Share-based payments.

Taxation

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

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

28 Personnel expenses

The Company employed three non-executive directors (2008: three non-executives). Fees paid in respect of these appointments amounted to £90,133 (2008: £82,331). Details of the remuneration of executive directors, paid by subsidiary companies, is given in note 7 to the accounts.

29 Employee share option schemes

The Company granted options over its shares to directors and senior managers of subsidiary companies in the year to 30 September 2005 pursuant to an HMRC approved enterprise management incentive plan (EMI), an unapproved share option plan and an LTIP. Options over 600,000 shares were granted in the year to 30 September 2007 and options over 925,000 shares were granted in the year to 30 September 2009. In both cases the awards were pursuant to the unapproved share option plan.

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

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

30 Dividends

	2009	2008
	£000	£000
Interim dividend of 0.20p per share (2008: 1.20p)	**87**	521
Final dividend relating to previous financial year of 0.20p per share (2008: 1.55p)	**87**	671
Total dividend for the financial year	**174**	1,192

31 Fixed asset investments

	Shares in Group undertakings £000
Cost and net book value	
At beginning of year	37,600
Transfer to subsidiary undertaking	(1,132)
Fair value of share options granted to employees of subsidiaries	26
At 30 September 2009	**36,494**

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

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

* Shareholding held indirectly.

Notes to the Company balance sheet
continued

32 Intangible assets

	Intellectual property £000
Cost	
At beginning and end of year	217
Amortisation	
At beginning of year	13
Amortisation in the period	44
At end of year	57
Net carrying value	
At 30 September 2008	204
At 30 September 2009	**160**

33 Debtors

	2009 £000	2008 £000
Prepayments and accrued income	**3**	18
Amounts due from subsidiary undertakings	**1,715**	2,408
Group relief receivable	**469**	194
	2,187	2,620

34 Creditors: amounts falling due within one year

	2009 £000	2008 £000
Bank loans and overdraft	**2,170**	3,923
Accruals	**153**	422
	2,323	4,345

Secured bank loans totalling £9,708,000 have been advanced by Royal Bank of Scotland under a facility expiring in June 2014. The loans have been advanced as three equal tranches: tranche A is repayable in quarterly instalments commencing December 2009 and ending in June 2013; tranche B is repayable in quarterly instalments commencing June 2010 and ending in June 2014; and tranche C is repayable in June 2014.

Royal Bank of Scotland plc holds fixed and floating charges over the whole of the Group's undertakings, property and assets. Interest on borrowings is charged at LIBOR plus a percentage that varies by reference to the Group's gearing and is payable quarterly. An additional 5% interest is charged on the tranche C loan and is capitalised and added to the debt principal quarterly.

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

35 Creditors: amounts falling due after more than one year

	2009 £000	2008 £000
Bank loan (note 34)	8,277	9,549
Amount due to subsidiary undertakings	4,923	5,559
	13,200	15,108

Analysis of bank loans and overdraft:

	2009 £000	2008 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	2,170	3,923
Between one and two years	1,635	2,275
Between two and five years	6,642	7,274
	10,447	13,472

36 Called up share capital

	2009 number '000	2008 number '000
Authorised		
Equity: Ordinary shares of 10 pence each	53,500	53,500

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

37 Reserves

	Share-based payment reserve £000	Profit and loss account £000	Share premium account £000
At beginning of year	1,607	(152)	15,178
Retained result for the year	–	2,495	–
Fair value of share options granted to employees of subsidiaries	26	–	–
Dividends paid in year	–	(174)	–
At end of year	**1,633**	**2,169**	**15,178**

Notes to the Company balance sheet
continued

38 Contingent liabilities

The Company has guaranteed the bank facilities of its subsidiary companies. Bank facilities are also secured by fixed and floating charges over the whole of the Company's property, assets and undertakings. Total bank borrowings at 30 September 2009 amounted to £9,937,000 (2008: £11,683,000) net of arrangement costs.

39 Reconciliations of movements in shareholders' funds

	2009 £000	2008 £000
Profit for the financial year	2,495	793
Dividends paid	(174)	(1,192)
Retained profit/(loss) for the year	2,321	(399)
Fair value of share options granted to employees of subsidiaries	26	48
Net addition to/(reduction in) shareholders' funds	2,347	(351)
Opening shareholders' funds	20,971	21,322
Closing shareholders' funds	23,318	20,971

Notes

Notes

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