SANDERSON GROUP PLC

Interim Report 2008

Interim Results for the period ended 31 March 2008

Chairman's statement

Introduction

The trading results for the six month period to 31 March 2008 show revenue from continuing operations of £13.0m (2007: £8.1m). Operating profit from continuing operations before the amortisation of acquisition related intangibles and before the charge in respect of share based payments amounted to £2.0m (2007: £1.4m). Profit after tax from continuing operations was £0.8m (2007: £0.5m).

The acquisition of Retail Business Solutions Group ('RBS') in September 2007 was a significant development for the Group, firmly establishing Sanderson as a credible supplier to all aspects of the multi-channel retail market and contributing to the further growth of the Group.

As experienced in previous years, we expect a stronger trading performance in the second half year and current levels of interest in the Group's solutions support this view.

Trading result - continuing operations

	Unaudited Six months to 31 March 2008 £000	Unaudited Six months to 31 March 2007 £000
Revenue	**13,001**	8,125
Cost of sales	**(3,443)**	(1,459)
Gross profit	**9,558**	6,666
Other operating expenses	**(7,590)**	(5,252)
Adjusted operating profit*	**1,968**	1,414
Amortisation of acquisition related intangibles	**(524)**	(314)
Share based payment charges	**(25)**	(318)
Results from continuing operating activities	**1,419**	782
Net finance costs	**(454)**	(128)
Profit before tax	**965**	654
Tax	**(139)**	(114)
Profit for the period from continuing operations	**826**	540

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

Chairman's statement (continued)

Business review

The Group develops and supplies market-specific software and services to the multi-channel retail and manufacturing markets in the UK. The profile of the Group has changed following the acquisitions which were completed in the previous financial year. As a result 74% (2007: 60%) of revenue in the current period was derived from multi-channel retail activities.

The Group places a high emphasis on supplying its own software products and on delivering all services through its experienced workforce. In the period, 80% (2007: 88%) of gross profit has been generated from the sale of the Group's own software and services. This enables the Group to offer a high quality, responsive service to customers, whilst retaining complete control of product development.

The acquisition of RBS has provided the Group with the ability to supply specialist solutions to large retailers, albeit with greater use of third party products. As a result, gross profit as a percentage of revenue reduced to 74% though gross profit, in monetary terms, increased by 43%.

Review of multi-channel retail

The Group provides end-to-end business solutions to general retailers as well as to companies with a specific focus on online trading, mail order and call centres. The Group's success within the wholesale and distribution market continues and a major new customer was acquired subsequent to the period end. The Group's ability to sell solutions and services to large retailers provides an exciting opportunity to sell additional Sanderson products to a new area of the retail market.

Notwithstanding the well-publicised uncertain economic outlook faced by some large 'high street' retailers, the Group is experiencing strong levels of activity. There is active interest from smaller general retailers and from businesses, which generate a significant amount of sales through online trading. High activity levels are prevalent in both the existing customer base as well as amongst potential new customers.

Twelve new clients were gained in the period, including Choice Discount, Badger Office Supplies, Pakeezah and The Children's Society. This compares with nine new customers gained in the comparative period last year. In addition, large orders were secured from English Heritage and Tie Rack. Subsequent to the period end, the Group has secured a contract, worth in excess of £1m, from a large retailer. This new system is expected to be installed during the current financial year.

We announced recently that RBS has been renamed Sanderson RBS Limited and this will bring all of the Group's products and services together under the well-known Sanderson brand. Whilst the renaming may be the first public sign of change, the integration of the business into the Group is nearing completion, ahead of schedule.

Review of manufacturing

The Group's manufacturing business covers the provision of IT solutions to manufacturers who operate primarily in the engineering, plastics, electronics, furniture, automobile parts, print and food process sectors. As was reported in December 2007, the manufacturing division finished the last financial year with a strong trading performance and this has continued into the current financial year. Three significant new clients have been gained in the period; Accuracy International, Valley Foods and Patak's Breads. No new clients were gained in the comparable period last year. Revenues grew slightly and improved margins helped to increase operating profit by more than 50%.

Chairman's statement (continued)

Balance sheet

The Group's business model is such that over 50% of revenue is derived from annual software licences and support and maintenance services. These recurring revenues are annually contracted and normally invoiced in advance, typically on the anniversary of the original system installation. Deferred income resulting from these revenues has grown by 27% compared to 31 March 2007, a welcome increase in this key measure.

Three significant payments in respect of recurring revenues which had been anticipated at the end of March, were actually received after the period end in mid-April. This adversely affected both the cash balance and conversion rate of operating profit to cash reported at the period end. The value of cash receipts for the month of April was a record for the Group and this is expected to be reflected in the performance in the second half of the current financial year.

Gross bank debt at 31 March 2008 was £12.5m (2007: £3.6m prior to the acquisition of RBS). At 30 September 2007 gross debt amounted to £12.6m. During the period the Group paid deferred cash consideration of £500,000 in respect of the acquisition of Sanderson Retail Systems Limited in 2006. This deferred consideration payment was made from cash generated by the Group. An overall reduction in debt levels is expected in future periods.

Strategy

The Group has developed a robust business model which generates over half of revenues from annual, pre-contracted, software licence, support and maintenance revenues. A large client base has been established such that gross profit generated from these recurring revenue sources covers around 70% of the Group's salary costs and overheads.

The Group strategy is to build on the strengths of this business model by refining its scope and application within the existing Group and by selectively acquiring businesses where the introduction of the model will deliver improved financial performance. A number of acquisition opportunities continue to be developed.

Dividend

By ensuring that the Sanderson business model continues to deliver high levels of profit and cash the Group is able to adopt a progressive dividend policy for the benefit of all shareholders. We are pleased to announce an increased interim dividend of 1.20 pence per ordinary share (2007: 1.15 pence per share), which will be paid on 15 August 2008 to shareholders on the register at the close of business on 18 July 2008.

Staff

We would like to thank our colleagues for their continued commitment, expertise and dedication in working with our customers and partners to successfully develop the Group.

Outlook

Our focus on all aspects of multi-channel retail markets, including the active and growing online trading sector, provides a level of protection from the uncertain market conditions currently affecting some larger retailers. The comprehensive range of Sanderson products which offer demonstrable return on investment to existing and prospective customers gives the Board the confidence that the Group is well placed to deliver both organic and acquisition-led growth. The Board anticipates a satisfactory trading outcome to the current financial year.

Christopher Winn
Chairman
12 June 2008

Consolidated income statement

	Notes	Unaudited Six months to 31 March 2008 £000	Unaudited Six months to 31 March 2007 £000	Audited Year to 30 September 2007 £000
Continuing Operations				
Revenue	2	**13,001**	8,125	18,165
Cost of sales		**(3,443)**	(1,459)	(3,448)
Gross profit		**9,558**	6,666	14,717
Other operating expenses		**(8,139)**	(5,884)	(12,458)
Results from operating activities		**1,419**	782	2,259
Results from operating activities before amortisation and share based payment charges	2	**1,968**	1,414	3,466
Amortisation of acquisition related intangibles		**(524)**	(314)	(621)
Share based payment charges		**(25)**	(318)	(586)
Results from operating activities		**1,419**	782	2,259
Net finance costs		**(454)**	(128)	(324)
Profit before tax		**965**	654	1,935
Tax	3	**(139)**	(114)	(589)
Profit for the period from continuing operations		**826**	540	1,346
Discontinued Operations				
Loss for the period from discontinued operations		**-**	(385)	(385)
Profit for the period		**826**	155	961
Earnings per share				
From continuing operations				
Basic	4	**1.9p**	1.3p	3.2p
Diluted	4	**1.8p**	1.2p	3.0p
From continuing and discontinued operations				
Basic	4	**1.9p**	0.4p	2.3p
Diluted	4	**1.8p**	0.4p	2.1p

Consolidated statement of recognised income and expense

	Unaudited Six months to 31 March 2008 £000	Unaudited Six months to 31 March 2007 £000	Audited Year to 30 September 2007 £000
Actuarial gains on defined benefit pension schemes	**-**	-	1,742
Tax on items taken directly to equity	**-**	-	(523)
Profit for the period	**826**	155	961
Total recognised income and expense for the period	**826**	155	2,180

Consolidated balance sheet

	Unaudited As at 31 March 2008 £000	Unaudited As at 31 March 2007 £000	Audited As at 30 September 2007 £000
Non-current assets			
Goodwill	**33,594**	25,256	33,519
Other intangible assets	**6,761**	3,093	7,315
Property, plant and equipment	**561**	528	589
Employee benefits	**144**	-	9
Deferred tax asset	**-**	384	-
	41,060	29,261	41,432
Current assets			
Inventories	**362**	209	392
Trade and other receivables	**7,487**	4,941	8,180
Income tax receivable	**95**	234	-
Derivative financial instrument	**119**	-	-
Cash and cash equivalents	**68**	235	935
	8,131	5,619	9,507
Current liabilities			
Bank overdraft and loans	**(2,000)**	(528)	(2,023)
Trade and other payables	**(4,731)**	(3,241)	(5,779)
Deferred contingent consideration	**(1,442)**	(725)	(1,888)
Current tax liabilities	**(711)**	-	(622)
Deferred income	**(6,002)**	(4,228)	(6,153)
	(14,886)	(8,722)	(16,465)
Net current liabilities	**(6,755)**	(3,103)	(6,958)
Non-current liabilities			
Employee benefits	-	(1,825)	-
Deferred income	-	(490)	-
Deferred tax liabilities	**(1,058)**	-	(1,316)
Loans and borrowings	**(10,526)**	(3,319)	(10,616)
	(11,584)	(5,634)	(11,932)
Net assets	**22,721**	20,524	22,542
Share capital	**4,328**	4,181	4,228
Share premium	**15,153**	14,578	14,758
Shares to be issued	**-**	495	495
Retained earnings	**3,240**	1,270	3,061
Total equity	**22,721**	20,524	22,542

Consolidated cash flow statement

	Notes	Unaudited Six months to 31 March 2008 £000	Unaudited Six months to 31 March 2007 £000	Audited Year to 30 September 2007 £000
Net cash from operating activities	6	**617**	760	2,300
Investing activities				
Purchases of property, plant and equipment		**(103)**	(30)	(100)
Expenditure on product development		**-**	(67)	(69)
Acquisition of subsidiary net of cash acquired		**(575)**	-	(9,048)
Purchase of trade and assets		**-**	(1,162)	(1,142)
Purchase of intellectual property		**-**	-	(50)
Net cash used in investing activities		**(678)**	(1,259)	(10,409)
Financing activities				
Equity dividends paid		**(671)**	(625)	(1,110)
Proceeds from bank borrowing, net of costs		**-**	1,162	10,219
Repayment of bank borrowing		**(125)**	(250)	(500)
Repayment of finance lease principal		**(10)**	(16)	(28)
Net cash (used in) / from financing activities		**(806)**	271	8,581
(Decrease) / increase in cash and cash equivalents		**(867)**	(228)	472
Cash and cash equivalents at start of the period		**935**	463	463
Cash and cash equivalents at end of the period		**68**	235	935

Notes to the interim results

1. Basis of preparation

The Group's interim results for the six month period ended 31 March 2008 are prepared in accordance with the Group's accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ('IFRS') as adopted by the EU and effective, or expected to be adopted and effective, at 30 September 2008. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 'Interim financial reporting'.

These interim results do not constitute full statutory accounts within the meaning of section 240(5) of the Companies Act 1985 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 12 June 2008.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of financial instruments. The accounting policies used in the interim financial statements are consistent with IFRS and those which will be adopted in the preparation of the Group's annual report and financial statements for the year ended 30 September 2008. The statutory accounts for the year ended 30 September 2007, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditors' Report and did not contain a statement under either Section 237(2) or (3) of the Companies Act 1985.

2. Segmental reporting

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

	Manufacturing			**Multi-channel retail**			**Total**		
	Six months 31/03/08 £000	Six months 31/03/07 £000	Year ended 30/09/07 £000	**Six months 31/03/08 £000**	Six months 31/03/07 £000	Year ended 30/09/07 £000	**Six months 31/03/08 £000**	Six months 31/03/07 £000	Year ended 30/09/07 £000
Revenue	**3,319**	3,270	6,673	**9,682**	4,855	11,492	**13,001**	8,125	18,165
Operating profit*	**601**	352	976	**1,367**	1,062	2,490	**1,968**	1,414	3,466
Amortisation**							**(524)**	(314)	(621)
Share based payment charges							**(25)**	(318)	(586)
Operating profit							**1,419**	782	2,259
Net finance expense							**(454)**	(128)	(324)
Profit before tax							**965**	654	1,935

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

** Amortisation of acquisition related intangibles.

Notes to the interim results (continued)

3. Taxation

	Six months to 31 March 2008 £000	Six months to 31 March 2007 £000	Year to 30 September 2007 £000
Recognised in the income statement in respect of continuing operations:			
Current tax expense			
UK corporation tax for the current period	**396**	290	841
Relating to prior periods	**-**	-	25
Total current tax	**396**	290	866
Deferred tax			
Deferred tax for the current period	**(139)**	(176)	(277)
Relating to prior periods	**(118)**	-	-
Total deferred tax	**(257)**	(176)	(277)
Taxation charge in respect of continuing operations	**139**	114	589
Recognised in the income statement in respect of discontinued operations:			
UK corporation tax for the current period	**-**	(165)	(165)
Total taxation charged / (credited) to the income statement	**139**	(51)	424

Notes to the interim results (continued)

4. Earnings per share

	Six months to 31 March 2008 £000	Six months to 31 March 2007 £000	Year to 30 September 2007 £000
Earnings			
Continuing	**826**	540	1,346
Continuing and discontinued	**826**	155	941
Average number of shares during period	No. '000	No. '000	No. '000
In issue at the start of the period	**42,282**	41,813	41,813
Effect of shares issued in the period	**330**	-	21
Weighted average number of shares at period end	**42,612**	41,813	41,834
Effect of share options	**1,939**	1,939	1,947
Effect of deferred consideration	**670**	1,000	1,000
Weighted average number of shares (diluted) at period end	**45,221**	44,752	44,781
Earnings per share	pence	pence	pence
Continuing – basic	**1.9**	1.3	3.2
– diluted	**1.8**	1.2	3.0
Continuing and discontinued – basic	**1.9**	0.4	2.3
– diluted	**1.8**	0.4	2.1

5. Equity dividends

	Six months to 31 March 2008 £000	Six months to 31 March 2007 £000	Year to 30 September 2007 £000
Interim dividend	**-**	-	483
Final dividend	**671**	625	627
Total dividend paid in period	**671**	625	1,110

An interim dividend of 1.20 pence (2007: 1.15 pence) per ordinary 10 pence share will be paid on 15 August 2008.

Notes to the interim results (continued)

6. Net cash from operating activities

	Six months to 31 March 2008 £000	Six months to 31 March 2007 £000	Year to 30 September 2007 £000
Profit for the period	**826**	155	961
Adjustments for:			
Depreciation and amortisation	**685**	472	978
Share based payment charges	**25**	318	586
Net finance expense	**454**	128	324
Income tax expense / (credit)	**139**	(51)	424
Operating cash flow before working capital movements	**2,129**	1,022	3,273
(Increase) / decrease in working capital	**(712)**	30	(219)
Cash generated by operations	**1,417**	1,052	3,054
Additional pension payment	**(117)**	(41)	(134)
Interest paid	**(306)**	(88)	(260)
Income taxes paid	**(377)**	(163)	(360)
Net cash from operating activities	**617**	760	2,300

Independent review report to Sanderson Group plc

Introduction
We have been engaged by the company to review the financial information in the half-yearly financial report for the six months ended 31 March 2008 which comprises the consolidated income statement, consolidated balance sheet, consolidated cash flow statement and notes 1 to 6. We have read the other information contained in the half-yearly financial report which comprises only the Chairman's statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the financial information.

This report is made solely to the company in accordance with guidance contained in ISRE (UK and Ireland) 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Our review work has been undertaken so that we might state to the company those matters we are required to state to them in a review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with the basis of preparation.

Our responsibility
Our responsibility is to express to the group a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review
We conducted our review in accordance with International Standards on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Accounting Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent review report to Sanderson Group plc (continued)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the six months ended 31 March 2008 is not prepared in all material respects, in accordance with the basis of preparation described in note 1.

Grant Thornton UK LLP
Chartered Accountants
Birmingham, England
12 June 2008

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