SANDERSON GROUP PLC

Annual Report and Accounts

for the year ended 30 September 2008

IT solutions driving continual business improvement

2008

About Sanderson Group plc

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 clients achieve rapid return on their investment in IT.

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

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

Contents

SANDERSON GROUP PLC

Highlights

Financial

- Revenue up 52% to £27.55m (2007: £18.17m)
- Adjusted* result from operating activities up 17% to £4.07m (2007: £3.47m)
- Result from operating activities £1.75m (2007: £2.26m)
- Adjusted* basic earnings per share from continuing operations up 57% to 9.6p (2007: 6.1p)
- Basic earnings per share from continuing operations up 31% to 4.2p (2007: 3.2p)
- Cash generated from operations up 66% to £4.86m (2007: £2.92m)
- Net debt reduced by £1.04m

Revenue
up 52%
to £27.55m
(2007: £18.17m)

Adjusted operating profit*
up 17%
to £4.07m
(2007: £3.47m)

Operational

- 25 new clients gained, including the Fenwick group of department and fashion stores
- Five orders for a significant new entry-level e-commerce product, launched to capitalise on the online sales market which continues to grow
- Further integration of acquired businesses, including rebranding of Retail Business Solutions Ltd as Sanderson RBS Limited, enhancing opportunities for cross-selling
- Formation of operating board to drive business development and maximize opportunities within the customer base
- Increasing revenues from managed services, including contracts from Blacks Leisure and Paperchase

Basic EPS
(continuing operations)
up 31%
to 4.2p
(2007: 3.2p)

Adjusted Basic EPS*
(continuing operations)
up 57%
to 9.6p
(2007: 6.1p)

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

At a glance

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 the general market conditions prevailing

Multi-Channel Retail

Helping multi-channel businesses excel

Retail solutions

E-commerce solutions

Mail order and fulfilment solutions

Wholesale distribution solutions

The Internet is transforming the way businesses and consumers buy. Customers are now more demanding and sophisticated. They choose where to browse and where to buy, and increasingly expect integration between the channels they use.

Simply offering multiple channels isn't enough to retain and win customers today. Achieving seamless integration is the ultimate goal, and businesses that succeed will be the ones that differentiate and prosper in these challenging times.

Sanderson has a unique understanding of multi-channel sales. We are an established supplier of IT solutions to businesses operating in retail, mail order, e-commerce, fulfilment and wholesale distribution.

We offer a broad range of solutions, from retail systems covering in-store and head office environments, to distance selling and information management. We help organisations operate with greater efficiency, integrating and managing business whichever channel is used.

"Their solutions have helped us to significantly improve our in-store systems. Their innovative and flexible approach to IT has provided Comet with a reliable platform on which to adapt to meet the changing needs of the market."

Comet Group plc

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 Company 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.

SANDERSON GROUP PLC

Manufacturing

Proven solutions for business success

Discrete manufacturing

Food and process manufacturing

Print

In today's highly competitive, global marketplace, manufacturers are increasingly looking at technology solutions to generate cost savings and achieve competitive advantage.

Typical challenges faced include improving internal information processes, planning product lifecycles, driving innovation and increasing supply chain efficiency. Key to achieving success in these areas is effective communication of accurate business information.

Sanderson manufacturing solutions offer extensive functionality to help manufacturers address specific challenges ranging from production costs, quality control, planning and scheduling, and supply chain, to dynamic market conditions, industry legislation and changing customer requirements.

As a supplier of software solutions for over 25 years, Sanderson has outstanding knowledge of the manufacturing market and associated industries.

"Witwood's production planning process used to be very dependent on the experience and knowledge of individual managers. Sanderson's MRP module has allowed us to build this experience and knowledge into a 'best practice' system that delivers consistent results every time."

Witwood Food Products

Chairman's statement

Christopher Winn

" These results reflect a full year contribution from the multi-channel retail businesses acquired in the previous financial year, together with a strong trading performance from the manufacturing business.

The Group has a resilient business model with approximately half of total revenue derived from pre-contracted licence and support fees. Sanderson is experiencing continued growth in sales of online trading solutions and the existing customer base should provide opportunities to significantly increase cross-selling of its products and services. Notwithstanding the current challenging economic climate and market conditions in the retail sector, trading in the current financial year is in line with management's expectations and five new customers have been acquired in the first quarter."

Introduction

The results for the year to 30 September 2008 show that revenue has grown by 52% to £27.55m and that adjusted operating profit has grown by 17% to £4.07m. These results reflect a full year contribution from the multi-channel retail businesses acquired in the previous financial year, together with a strong trading performance from the manufacturing business.

The Group continues to see benefits from a business model that generates approximately 50% of revenue from annual software licences and support. Notwithstanding the resilience afforded by this level of recurring revenue, we continue to seek opportunities to deliver further improvements to the business model.

Cash generation has been a major focus of the Group during the year. Cash generated from operating activities represented 120% of adjusted operating profit. Furthermore, the operating structure of the Group has been reorganised to provide a more tax efficient arrangement, which will result in a considerable reduction in the rate of tax paid by the Group for at least the next three years. The new operating structure, together with the continued strong cash generation delivered by the business, should enable the Group to considerably reduce its debt levels.

The Group's management structure now includes an operating board which is made up of the three executive directors and the managing directors of the multi-channel retail and manufacturing businesses. The operating board will meet every month and will focus both on business development as well as maximising opportunities within the existing customer base and the wider multi-channel retail and manufacturing markets.

Financial results

Group revenue for the year increased by 52% to £27.55m from £18.17m last year. Adjusted operating profit rose by 17% to £4.07m from £3.47m achieved last year. The value of recurring revenues continued to grow, contributing £13.45m in 2008 (2007: £9.49m).

> "We can see every customer's history throughout the organisation, whether they bought via the web, from a shop or by mail order."
> **OKA Direct**

Profit before taxation has reduced in the year to £0.90m from £1.94m in 2007. This reduction is due to an increased amortisation charge in respect of acquisition-related intangible assets and an increase in net finance expense as a result of the additional bank borrowings drawn to fund the previous year's acquisitions. The profit contribution during the year from the acquired businesses was earnings enhancing, more than covering the incremental finance expense arising from borrowings incurred to fund their acquisition.

The Group has reported a tax credit of £0.94m in 2008, compared to a tax charge of £0.59m in 2007. The tax credit has resulted from a detailed review of the Group's tax status and in particular unutilised tax losses brought forward from prior years. Changes to the treatment of financing inter-group loans and the ownership of Group intellectual property rights have enabled tax losses to be utilised. Computations in respect of the 2006 and 2007 financial years have been resubmitted and the reduction in tax liabilities thereby arising is reflected in the credit to the consolidated income statement reported in 2008. It is envisaged that remaining losses will continue to be utilised for at least another three years.

Net debt has been reduced to £10.66m (2007: £11.70m) with £500,000 of deferred consideration having been paid during the year. This reduction in debt has been possible as a result of strong profit to cash conversion performance. Net debt at the year end represents less than 2.4 times EBITDA. This has not, in the past, been an inappropriate ratio for a cash generative business, but the Board has set a target for net debt to represent around 2 times EBITDA at 30 September 2009.

Dividend

Since the Group acquired the multi-channel retail businesses in the previous financial year, there has been a well-publicised change in the availability of debt for the financing of commercial transactions. In addition, the market's attitude towards financial gearing has changed significantly, especially against the backdrop of the uncertainty in the general economy.

The Board has considered very carefully the need to deliver a progressive dividend whilst planning a reduction in debt levels. The Board has therefore decided to adopt a more prudent approach to financing and to rebase the dividend level in line with the current share price. Going forward, cash resources will be focused on reducing the overall level of Group debt.

Subject to approval at the Annual General Meeting of Shareholders, expected to be held on 26 February 2009, a final dividend of 0.2 pence per ordinary share is proposed and will be paid on 27 March 2009 to shareholders on the register at the close of business on 6 March 2009.

The Group's trading performance in the first quarter of the new financial year is currently in line with both management's expectations and last year. Assuming no further deterioration in the general economy, the Board intends to adopt a progressive dividend policy, albeit starting from a lower base and would expect to deliver an increase on the 1.4 pence that will have been paid in respect of the financial year ended 30 September 2008.

Business review

Sanderson provides a wide range of software solutions to the multi-channel retail and manufacturing sectors. These solutions consist mainly of the Group's own software together with leading third party products, which are installed and supported directly by Sanderson staff.

The Group has a proven business model which generates a significant proportion of revenue from annual software licences and support services. These recurring revenues amounted to £13.45m of revenue in the year to 30 September 2008, representing 49% of total revenue (2007: £9.49m, 52% of revenue). Continuing to build the value of recurring revenues remains a key Group objective.

New business has increased from 8% to 13% of total revenue with a number of significant new customers added during the year.

Review of multi-channel retail business

The Group generated 76% of its revenue from the multi-channel retail sector. New customers gained during the year included Fenwick which, when combined with existing customers such as Harrods, firmly establishes Sanderson as the leading provider of point-of-sale solutions to UK department stores.

The Group provides a range of software-based solutions to key sectors of the retail market, including enterprise-wide systems for wholesalers and online trading businesses. This diversification should provide the Group with a level of protection from the economic uncertainty affecting UK high street retailers.

During the year we expanded both the range and the scope of our multi-channel retail product offerings, which now provide solutions across the multi-channel retail market. Our initial success in cross-selling these solutions within our customer base is an encouraging sign and the growth of this revenue stream is a key objective for the Group in the new financial year.

Review of manufacturing business

Our manufacturing business accounted for 24% of revenue in the year to 30 September 2008. Whilst revenue reduced by 3% to £6.49m, operating profit in this business increased by 29% to £1.26m as a result of improved margins, both from delivering our own software and services, as well as prudent control of costs.

New customers gained during the year included Accuracy International and Valley Group, both of which were won in a competitive marketplace and provide evidence of the strength of our product offering. We also achieved further sales of our business intelligence and data collection solutions. These are examples of ways in which we are able to provide existing customers with tools to drive efficiency savings within their organisations by building on their existing IT investment.

Multi-channel revenue **up 83%**

to £21.06m
(2007: £11.49m)

83% of gross profit derived from the sale of our own software & services

Revenue per employee **up 20%**

to £90,000
(2007: £75,000)

Strategy

In these challenging times we are acutely aware of the risk associated with high levels of debt. Sanderson remains extremely cash generative and our short-term strategy is to reduce debt levels as quickly as trading conditions will allow. In the medium term we believe that the Group is well positioned to benefit from its exposure to both the retail and manufacturing markets, as economic conditions improve and customers make further investment in Sanderson solutions to drive continual business improvement.

Staff

Sanderson continues to employ staff with high levels of industry-specific knowledge, who are committed to delivering quality solutions to our customers. We would like to thank all our colleagues for their continued dedication in working with customers and business partners.

Outlook

The Group has a resilient business model with approximately half of total revenue derived from pre-contracted licence and support fees. Sanderson is experiencing continued growth in sales of online trading solutions and the existing customer base should provide opportunities to significantly increase cross-selling of its products and services. Notwithstanding the current challenging economic climate and market conditions in the retail sector, trading in the current financial year is in line with management's expectations and five new customers have been acquired in the first quarter.

Christopher Winn
Executive Chairman
8 December 2008

Financial review

" This has been another year of progress for Sanderson. The integration of the previous year's acquisitions is substantially complete and their full year contribution to trading results has enabled the Group to report growth in both revenue and operating profit. The fundamentals of our business remain in place with high profit margins and consistently strong cash generation."

Adrian Frost
Finance Director

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

The consolidated income statement presented on page 24 has adopted a columnar format to highlight the trading performance of the Group prior to adjustment for amortisation and impairment of intangible assets.

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.

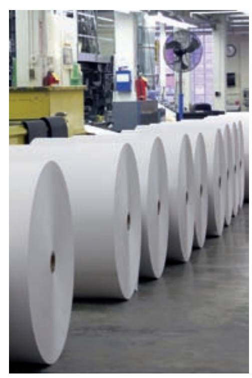
Principal risks
Risk management is an important part of the management process throughout the Group, and therefore systems of internal controls have been developed to address the principal risks. A policy of continuous improvement has been adopted when assessing the adequacy of internal controls by means 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 the intangible assets acquired with acquisitions, the intellectual property developed by the Group and its employees. The Group's quality procedures ensure software products remain up-to-date and reliable. The market for skilled staff is competitive. Recruiting, retaining, developing and motivating staff remains a constant challenge.
- **Liquidity** The Group's exposure to liquidity risk arises as a result of bank loans drawn to fund previous acquisitions. The majority of such loans are term facilities with scheduled repayments that are factored into the Group's trading and cash forecasts. A minority amount of the Group's borrowings is in the form of a revolving credit facility

Cash generated from operations **up 68%**

to £4.90m
(2007: £2.92m)



Multi-channel retail business accounted for 76% of Group revenue

which, at the time of drawdown, was considered an appropriate structure under which the Group could make additional capital repayments in a flexible and cost-effective manner. The Group has included the repayment of a significant proportion of this facility in trading and cash forecasts for the financial year ending 30 September 2009. The current 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, as well as over the continuing availability of bank finance beyond the committed period.

The Group's trading and cash forecasts take account of possible changes in trading performance and show the Group will be able to operate within the existing facilities. In the event that trading conditions deteriorate, the Group may need to reconsider the level of dividends paid to shareholders. The Group has held discussions with its bankers about its future facility requirements and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

- **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	2008	2007
Revenue per employee (excluding discontinued operations)	**£90,000**	£75,000
Operating profit* per employee (excluding discontinued operations)	**£13,300**	£14,300
Total indirect cost per employee*	**£50,700**	£46,500
Debtors over 60 days as a percentage of total debtors	**8.1%**	14.5%

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

Net debt
down
10%

to £10.66m
(2007: £11.70m)

The Group continues to increase its revenue per head measure, and views £100,000 as a challenging but achievable target. Entry into the larger retail market has provided opportunities to win bigger contracts, benefiting this measure.

Operating profit per head has decreased during the year. In selling to the larger retail market, the Group provides a solution comprising our own services together with elements of third party software and services. As a result, margin derived from such solution sales is lower than the margin traditionally achieved when selling into the smaller retail and manufacturing markets.

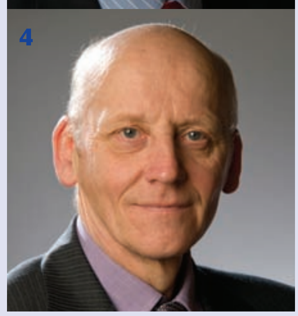
Indirect costs per employee have risen for a number of reasons, including the presence of proportionately more senior staff in the Group following last year's acquisitions, and an increased spend on sales and marketing activities.

The percentage of debtors over 60 days old has reduced. This reflects well on the quality of our software products, our credit control staff and implementation teams, who strive to ensure solutions are delivered on time and within budget.

Adrian Frost
Finance Director
8 December 2008

Average length of customer relationship in excess of 10 years

Board of directors



1. Christopher Winn

Executive Chairman

Aged 58. After graduating from Nottingham University, Christopher Winn worked at British Olivetti. In 1974 he joined Applied Computer Techniques which later became ACT Group plc (the second UK IT company floated on the London Stock Exchange in 1979). He served on the ACT Group Board between 1983 and 1994 and undertook a number of senior roles. In 1995 he joined the former Sanderson Group and became Group Chief Executive. By 1999 turnover had risen to £100m and in December of that year he led a management buyout of the former Group backed by the Alchemy Plan. Following the take private, the Group was restructured and demerged, with the business which focused primarily on UK commercial markets retaining the name Sanderson Group. Christopher led the IPO of this Group in December 2004.

2. David O'Byrne

Managing Director

Aged 55. David O'Byrne has over 35 years' experience in the software and IT services sector. His early career was spent in a number of senior managerial roles in commercial and software companies. He joined the former Sanderson Group in 1986 to form their Local Government business, was appointed Managing Director of the public sector business in 1994 and managed the rapid growth of this business prior to his appointment as Managing Director of Sanderson in April 2002.

3. Adrian Frost, BA, ACA

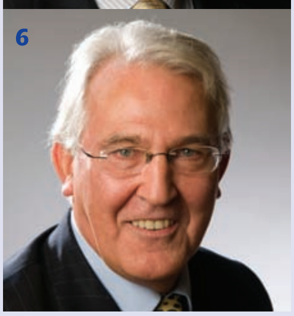
Finance Director

Aged 41. A graduate of Sheffield University, Adrian qualified as a Chartered Accountant whilst working for RSM Robson Rhodes. He joined Hadley Industries plc as Group Financial Controller in 1996 and moved to Sanderson in 2000, shortly after the management buyout, working 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.

4. David Gutteridge

Non-Executive Director

Aged 57. David Gutteridge is currently Chairman of Tinglobal Limited, an IT infrastructure solutions provider, and acts as an independent consultant involved in strategic business development and corporate transactions. David is a member of the Chartered Institute of Management Accountants. He was co-founder of Financial Objects plc in 1995 and, as Finance Director and then Chief Operating Officer, led several acquisitions and the full listing on the London Stock Exchange in 1998. Prior to this he held a number of senior financial and commercial roles at ACT Group plc, Seiko Epson Ltd and Logica plc. David is the senior independent non-executive director.



5. Philip Kelly

Non-Executive Director

Aged 56. 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.

6. John Paterson

Non-Executive Director

Aged 62. 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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Auditors to the Company
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Enterprise House
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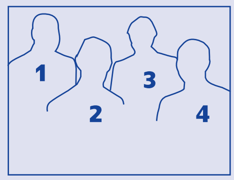
B3 2HJ

SANDERSON GROUP PLC

Operating board

The Group's management structure now includes an operating board comprising the senior management of the multi-channel retail and manufacturing divisions together with the executive directors. The operating board will focus on both business development and maximising opportunities within the existing customer base.



1. 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 10 years with Dixons Stores Group (DSG). Early roles concentrated on improving professional services offerings and he was promoted to Operations Director 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 and continues to promote the managed service offering and reinforce our position as a top tier solution provider.

2. 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 ISP (Internet service provider) 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, now an Experian plc company, 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.

3. Steve Watson

Deputy Chairman Sanderson Retail Division

After graduating from the University of Bristol with a degree in modern languages, 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.

4. Steve Shakespeare

Managing Director Manufacturing Division

Steve has gained over 25 years' experience in the software and IT services sector. Having held senior management positions in Sorbus, Apricot and the ACT Group, he joined Sanderson in 1994 as National Services Manager. Steve has fulfilled senior management and director roles throughout the Group, building and developing services teams in the public sector business and latterly running the manufacturing division, a post he has held since the demerger in 2003.

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 on a daily basis.

Vishal Patel

Professional Services Manager, Retail

A graduate of Stafford University, Vishal joined in 1997 having previously held positions with Barclaycard and CSC. Having gained extensive knowledge of IT and retail systems, Vishal was promoted to Retail Development Manager in 2002, responsible for product development and management of our third party retail solution providers. He was appointed to the role of Retail Professional Services Manager in 2008, when he assumed additional responsibilities for the project management and consultancy departments. Vishal continues to focus on the expansion of our product portfolio, integration of Group products and delivering improvements to the QA and services functions.

Tracey Walker

Head of 1st Level Support, Retail

Tracey joined the retail support team as a 1st Level Support Operative in February 2000 having gained 6 years' retail experience working for a number of UK retailers. She was appointed Head of 1st Level Retail Support in 2002, having previously held the position of Senior Help Desk Operative. Her exposure to front line retail and experience as a Store Manager means that Tracey is sympathetic to the pressures encountered by store personnel and understands retail business process. She has been instrumental in the department's restructure, and its increased focus on providing a proactive service as well as the introduction of improved call logging and management procedures

Semir Shewayish

Development Director, Food and Process Manufacturing

Semir has extensive experience of software development. After graduating from the University of Wolverhampton in 1987 with a degree in computer science, his early roles were in developing software for local government and, as senior analyst/developer at McDonnell Douglas Information Systems, in pension administration systems. He joined Sanderson in 1997 as a member of the food and process manufacturing development team. Semir was promoted to Development Manager and then in 2007 became Development Director for the food and process manufacturing business. In this role he is responsible for management of the software team and new product development, evaluating and integrating new technologies to deliver increased value to our customers.

Jason Colbridge

Account Executive, Multi-Channel Retail

Jason graduated from Coventry University in 1997 with a degree in Information Design. His early career focused on multimedia and web design, before he moved into IT consultative sales in 2000. He spent two years working for a NASDAQ listed Internet solutions business, which served a broad range of organisations including retail, manufacturing and service-based companies. The company's product set included e-commerce, brochure sites, hosting and search engine optimisation services. Jason then worked for a company which specialised in social networking sites for Universities and public bodies. Jason joined Sanderson in 2005, where as an Account Executive in our multi-channel solutions business, his experience of Internet technologies and new media is invaluable.

SANDERSON GROUP PLC

Corporate governance statement

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

Board of directors

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

The Board meets on a monthly basis and retains full and effective control of the Group. Additional meetings are arranged as appropriate to consider Group strategy, acquisition and disposal strategies, internal controls and risk analysis, and the annual budget. Day-to-day management of the Group is delegated to the management team, which comprises the executive directors, 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 Remuneration Committee is chaired by John Paterson, and is referred to below.

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

Directors' remuneration

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

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

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

Details of directors' remuneration are provided in note 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

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

Directors' report

The directors present their report and the audited financial statements for the year ended 30 September 2008.

International Financial Reporting Standards

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

Principal activities

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

Business review

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

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

Dividend

A final dividend of 1.55 pence per share was paid on 14 March 2008 (2007: 1.50 pence) relating to the financial year ended 30 September 2007. An interim dividend of 1.20 pence per ordinary share was paid on 15 August 2008 (2007: 1.15 pence per share) in respect of the financial year ended 30 September 2008. The directors propose the payment of a final dividend of 0.20 pence per ordinary share. The final dividend is subject to shareholder approval at the Annual General Meeting on 26 February 2009 and, if approved, will be paid on 27 March 2009 to shareholders on the register at the close of business on 6 March 2009.

Directors and directors' interests

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

	Interest at end of year	**Interest at start of year**
	Ordinary shares of 10 pence	Ordinary shares of 10 pence
Christopher Winn	1,623,199	1,598,199*
David Andrew O'Byrne	232,754	232,754
Adrian David Frost	26,000	21,000
Philip Edward Kelly †	20,000	20,000
David James Gutteridge †	100,000	100,000
John Clement Mackenzie Paterson †	90,000	90,000

* Christopher Winn acquired a beneficial interest in 500,000 ordinary shares on 16 September 2007 on settlement terms that resulted in the shareholder register being updated subsequent to the year end. The interest at the start of the year shown above includes these shares..

† Denotes non-executive directors.

The following options to purchase ordinary shares in the Company were granted during the year ended 30 September 2005:

	In issue at year end	Exercise price	Performance conditions	Earliest exercise date	Expiry date
Christopher Winn	199,980	54.25p	Yes	01.10.2007	30.09.2014
Christopher Winn	910,972	50p	Yes	01.10.2007	15.12.2014
Christopher Winn	910,972	£1*	Yes	01.10.2007	15.12.2011
Christopher Winn	15,791	60p	No	01.07.2008	31.12.2008
David Andrew O'Byrne	199,980	54.25p	Yes	01.10.2007	30.09.2014
David Andrew O'Byrne	506,587	50p	Yes	01.10.2007	15.12.2014
David Andrew O'Byrne	506,587	£1*	Yes	01.10.2007	15.12.2011
David Andrew O'Byrne	15,791	60p	No	01.07.2008	31.12.2008
Adrian David Frost	175,421	57p	Yes	01.10.2007	30.09.2014
Adrian David Frost	215,579	56p	Yes	01.10.2007	15.12.2014
Adrian David Frost	215,579	£1*	Yes	01.10.2007	15.12.2011
Adrian David Frost	15,791	60p	No	01.07.2008	31.12.2008

* 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 above options are exercisable.

Messrs Winn, O'Byrne and Frost were each granted options over 15,791 ordinary shares pursuant to the Group's Save As You Earn scheme. All such options had lapsed by the date of this report.

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

No new options were granted to directors in the current financial year.

Directors' report
continued

Substantial shareholdings

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

	Number of shares	%
Alchemy Partners Nominees Ltd	11,298,995	26.0
Framlington Monthly Income Fund	3,296,303	7.6
ISIS	3,000,075	6.9
Polar Capital Managed Funds	2,000,000	4.6
BFS Small Companies Div Trust	2,000,000	4.6
Marlborough UK Equity Growth	1,725,000	4.0
Christopher Winn	1,623,199	3.7
Shires Smaller Companies plc	1,500,000	3.5

Employees

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

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

Policy and practice on payment of creditors

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

At the year end, the Company had no trade creditors (2007: nil).

Research and development

The Group undertakes a continuous programme of development expenditure, both as part of a long-term development programme and in response to specific customer or market requirements. Development expenditure is capitalised only when the end product is technically and commercially feasible and when sufficient resource is available to complete the development. All other development expenditure, including projects on which revenue of an amount equal to or greater than the cost of development has been generated in the same period as that in which the cost is incurred, is recognised in the income statement as an expense.

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

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. The directors have elected to prepare the Group financial statements in accordance with IFRS and the parent company financial statements in accordance with UK accounting standards.

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Auditors

Grant Thornton UK LLP are willing to continue in office and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Adrian Frost
Secretary

Sanderson House
Manor Road
Coventry
CV1 2GF
16 January 2009

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

We have audited the Group financial statements of Sanderson Group plc which comprise the consolidated income statement, consolidated statement of recognised income and expense, consolidated balance sheet, consolidated cash flow statement and notes thereto. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Sanderson Group plc for the year ended 30 September 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of affairs of the Group as at 30 September 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Grant Thornton UK LLP

Chartered Accountants and Registered Auditors
Birmingham
England
16 January 2009

Consolidated income statement

for the year ended 30 September 2008

	Note	Before amortisation and impairment of intangible assets £000	Amortisation and impairment of intangible assets £000	**Total 2008 £000**	Total 2007 £000
Revenue	3,4	27,554	–	**27,554**	18,165
Cost of sales		(8,007)	–	**(8,007)**	(3,448)
Gross profit		19,547	–	**19,547**	14,717
Technical and development costs		(9,441)	–	**(9,441)**	(6,714)
Administrative expenses		(3,784)	(2,270)	**(6,054)**	(4,212)
Sales and marketing costs		(2,300)	–	**(2,300)**	(1,532)
Results from operating activities	6	4,022	(2,270)	**1,752**	2,259
Results from operating activities before adjustments in respect of the following:		4,070	–	**4,070**	3,466
Amortisation of acquisition related intangibles		–	(1,381)	**(1,381)**	(621)
Impairment of goodwill		–	(889)	**(889)**	–
Share-based payment charges	5	(48)	–	**(48)**	(586)
Results from operating activities		4,022	(2,270)	**1,752**	2,259
Finance income	8	564	–	**564**	371
Finance expenses	9	(1,415)	–	**(1,415)**	(695)
Profit before tax		3,171	(2,270)	**901**	1,935
Taxation	10	942	–	**942**	(589)
Profit for the period from continuing operations		4,113	(2,270)	**1,843**	1,346
Discontinued operations					
Loss for the period from discontinued operations	11	–	–	**–**	(385)
Profit for the year attributable to equity holders of the parent	23	4,113	(2,270)	**1,843**	961
Earnings per share					
From continuing operations					
Basic earnings per share	13			**4.2p**	3.2p
Diluted earnings per share	13			**4.1p**	3.0p
From continuing and discontinued operations					
Basic earnings per share	13			**4.2p**	2.3p
Diluted earnings per share	13			**4.1p**	2.1p

Consolidated statement of recognised income and expense

for the year ended 30 September 2008

	Note	2008 £000	2007 £000
Defined benefit pension plan actuarial (losses)/gains	27	**(103)**	1,742
Deferred taxation effect of defined benefit pension plan items	16	**29**	(523)
Net (expense)/income recognised directly in equity		**(74)**	1,219
Profit for the year		**1,843**	961
Total recognised income attributable to equity holders of the parent		**1,769**	2,180

Consolidated balance sheet

at 30 September 2008

	Note	2008 £000	2007 £000
Non-current assets			
Property, plant and equipment	14	**602**	589
Intangible assets	15	**37,236**	40,834
Pension and other employee obligations	27	**170**	9
Deferred tax assets	16	**1,046**	805
		39,054	42,237
Current assets			
Inventories		**397**	392
Trade and other receivables	17	**6,920**	8,180
Income tax receivable		**791**	–
Derivative financial instrument		**72**	–
Cash and cash equivalents		**1,060**	935
		9,240	9,507
Current liabilities			
Bank loans and borrowings	18	**(2,170)**	(2,023)
Trade and other payables	21	**(4,565)**	(5,779)
Income tax payable		**–**	(622)
Deferred contingent consideration	20	**–**	(1,888)
Deferred income		**(6,500)**	(6,153)
		(13,235)	(16,465)
Net current liabilities		**(3,995)**	(6,958)
Total assets less current liabilities		**35,059**	35,279
Non-current liabilities			
Loans and borrowings	18	**(9,554)**	(10,616)
Deferred income		**(702)**	–
Deferred tax liabilities	16	**(1,665)**	(2,121)
		(11,921)	(12,737)
Net assets		**23,138**	22,542
Equity attributable to equity holders of the Company			
Share capital	22	**4,338**	4,228
Share premium	23	**15,178**	14,758
Shares to be issued	23	**–**	495
Retained earnings	23	**3,622**	3,061
Total equity	23	**23,138**	22,542

These financial statements were approved by the Board of directors on 16 January 2009 and were signed on its behalf by:

Christopher Winn
Director

Consolidated cash flow statement

for the year ended 30 September 2008

	Note	2008 £000	2007 £000
Cash flows from operating activities			
Profit for the period		**1,843**	961
Adjustments for:			
Amortisation and impairment of intangible assets		**2,425**	736
Depreciation		**267**	242
Share-based payment expense		**48**	586
Net finance expense		**851**	324
Income tax		**(942)**	424
Operating cash flow before changes in working capital and provisions		**4,492**	3,273
Movement in trade and other receivables		**1,287**	(1,536)
Movement in inventories		**(5)**	(1)
Movement in trade and other payables		**(685)**	1,318
Payments to employee benefit plan		**(234)**	(134)
Cash generated from operations		**4,855**	2,920
Interest paid		**(605)**	(260)
Income tax paid		**(1,139)**	(360)
Net cash flow from operating activities		**3,111**	2,300
Cash flow from investing activities			
Purchase of plant and equipment		**(247)**	(100)
Development expenditure capitalised		**(50)**	(69)
Purchase of intellectual property		**–**	(50)
Purchase of trade and assets		**–**	(1,142)
Acquisition of subsidiary, net of cash balances acquired		**(500)**	(9,048)
Net cash flow from investing activities		**(797)**	(10,409)
Cash flow from financing activities			
Proceeds from bank borrowing, net of arrangement costs		**–**	10,219
Repayment of bank borrowing		**(975)**	(500)
Repayment of finance lease principal		**(22)**	(28)
Equity dividends paid	12	**(1,192)**	(1,110)
Net cash flow from financing activities		**(2,189)**	8,581
Net increase in cash and cash equivalents		**125**	472
Cash and cash equivalents at beginning of year		**935**	463
Cash and cash equivalents at the end of the year		**1,060**	935

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 2008 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.

A new standard, IFRS 7 Financial Instruments: Disclosures is now mandatory and has been adopted by the Group in these financial statements. The standard replaces rules previously set out in IAS 32 Financial Instruments: Presentation and Disclosures. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. The first time adoption of IFRS 7 has not resulted in any prior period adjustments to cash flow, net income or balance sheet values.

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 15: 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 2008/9 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 payments. These calculations are performed by the scheme actuary, with whom the directors have agreed the underlying assumptions to be applied. The key assumptions are rates of increases in pension benefits, mortality rates, inflation and the discount rate applied to produce the net present value. The discount rate is derived from market rates on AA corporate bonds at the balance sheet date. 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 17: 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.

On acquisition, the assets, and 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 inter-group balances and transactions including unrealised profits arising from inter-group transactions, are eliminated fully on consolidation.

3 Accounting policies continued

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, machinery, fixtures and fittings — 15%–33$^{1}/_{3}$%

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. The only item within the fair value through profit or loss category are derivative instruments.

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

Financial liabilities are initially recognised at fair value, 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".

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.

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.

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.

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. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which an asset can be utilised.

Revenue

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

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

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

Goodwill

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

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

3 Accounting policies continued

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

Research and development expenditure

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

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

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

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 life.

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

Impairment

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

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

An impairment loss is recognised whenever the carrying amount of an asset of 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 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.

Dividends

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

4 Segmental reporting

The Group is managed as two separate divisions, 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	
	2008	2007	**2008**	2007	**2008**	2007
	£000	£000	**£000**	£000	**£000**	£000
Revenue	**6,489**	6,673	**21,065**	11,492	**27,554**	18,165
Operating profit before amortisation, impairment and share-based payment charges	**1,255**	976	**2,815**	2,490	**4,070**	3,466
Amortisation of acquisition related intangibles	**–**	–	**(1,381)**	(621)	**(1,381)**	(621)
Impairment of goodwill	**–**	–	**(889)**	–	**(889)**	–
Share-based payment charges					**(48)**	(586)
Operating profit					**1,752**	2,259
Net finance expense					**(851)**	(324)
Profit before taxation					**901**	1,935
Property, plant and equipment	**256**	280	**346**	309	**602**	589
Intangible assets	**12,550**	12,550	**24,686**	28,284	**37,236**	40,834
Inventory	**48**	68	**349**	324	**397**	392
Trade and other receivables	**1,354**	1,733	**5,566**	6,447	**6,920**	8,180
	14,208	14,631	**30,947**	35,364	**45,155**	49,995
Other unallocated assets and liabilities					**(22,017)**	(27,453)
Net assets					**23,138**	22,542

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

Subsequent to the year end the Group undertook a restructuring whereby certain legal entities within the Group transferred trades to fellow subsidiary undertakings. As part of this process the directors undertook an internal valuation of the manufacturing and multi-channel businesses previously operated within the legal entity Sanderson Limited. As a result, the allocation of intangible assets previously shown as relating to the manufacturing division was reassessed. 2007 figures have been restated accordingly.

5 Share-based payments

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

Grant date	Employees entitled	Number of options	Performance conditions	Exercise price (p)	Earliest exercise date	Expiry date
16/12/2004	Management	1,785,728	Earnings per share growth	50.00	01/10/2007	15/12/2014
16/12/2004	Management	1,262,952	Earnings per share growth	54.25	01/10/2007	30/09/2014
16/12/2004	Management	1,723,060	TSR Target	00.00*	01/10/2007	15/12/2011
27/05/2005	Management	215,579	Earnings per share growth	56.00	01/10/2007	15/12/2014
27/05/2005	Management	250,421	Earnings per share growth	57.00	01/10/2007	30/09/2014
27/05/2005	Management	215,579	TSR Target	00.00*	01/10/2007	15/12/2011
01/07/2005	Employees	678,373	No performance conditions	60.00	01/07/2008	31/12/2008
14/09/2007	Management	600,000	Profit before tax target	48.50	01/10/2010	13/09/2017
		6,731,692				

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

5 Share-based payments continued

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

	2008 Weighted average exercise price	2008 Number of options (number)	2007 Weighted average exercise price	2007 Number of options (number)
Outstanding at start of year	**35.3p**	**6,466,205**	35.4p	6,000,118
Granted during the year	**–**	**–**	48.5p	600,000
Forfeited during the year	**(55.0p)**	**(900,875)**	(60.0p)	(133,913)
Exercised during the year	**–**	**(102,202)**	–	–
Outstanding at end of the year	**34.0p**	**5,463,128**	35.3p	6,466,205
Exercisable at end of the year	**34.0p**	**5,463,128**	–	–

Of the options forfeited during the year, 184,313 relate to the EMI scheme, and 300,000 to the unapproved share option plan, all such forfeitures arising on the resignation of option holders. 416,562 SAYE options were forfeited during the year due to the market price being below the option exercise price on the earliest exercise date. In 2007, 133,913 options held under the SAYE were forfeited on the resignation of the option holders.

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 above options are exercisable.

Options outstanding at 30 September 2008 have exercise prices in the ranges 0.0p to 60.0p per share. The weighted average contractual life of the options is 6.7 years (2007: 7.7 years). During the year ended 30 September 2008 options over 102,202 ordinary shares were exercised when the market price of such shares was 36.5 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 2007:

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

Granted in the year to 30 September 2008:

No options granted.

Charge to the income statement

The charge to the income statement comprises:

	2008 £000	2007 £000
Share-based payment charges	**44**	541
Provision for NI contributions	**4**	45
	48	586

6 Expenses and auditors' remuneration

Included in the income statement are the following items:

	2008 £000	2007 £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	**35**	52
Due diligence fees	**–**	87
All other services	**10**	3
Depreciation and other amounts written off tangible fixed assets:		
Owned	**260**	207
Leased	**7**	35
Amortisation of acquisition related intangible assets	**1,381**	621
Impairment of goodwill	**889**	–
Amortisation of development costs	**155**	115
Cost of inventory recognised as an expense	**7,500**	3,310
Rentals payable under plant and machinery operating leases	**14**	12
Leasehold property rentals	**555**	494

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

7 Personnel expenses

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

	2008 number	2007 number
Technical	**240**	187
Sales and marketing	**36**	30
Administrative	**30**	25
	306	242

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

	2008 £000	2007 £000
Wages and salaries	**10,045**	7,642
Social security costs	**1,158**	825
Contributions to defined contribution pension plans	**304**	222
Share-based payment expense	**48**	586
	11,555	9,275

7 Personnel expenses continued

The Company employed three non-executive directors (2007: three non-executives). Fees paid in respect of these appointments amounted to £82,331 (2007: £79,650).

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.

	2008 £000	2007 £000
Salaries, including bonuses	**493**	491
Benefits in kind	**8**	9
Pension contributions — defined contribution schemes	**28**	42
Share-based payment expense	**–**	418
	529	960

The executive directors are provided with life assurance, permanent health insurance and private medical insurance. The cost to the Company is reflected in the value of benefits in kind disclosed above. Contracts of employment for executive directors include mutual notice periods of twelve months. During the year, the directors of Sanderson Group plc were the only key management personnel as defined by IAS 24: 'Related Party Disclosures'.

The aggregate of emoluments payable under service contracts and amounts receivable under long-term incentive schemes of the highest paid director was £238,000 (2007: £231,000) including benefits in kind. The Company did not make pension contributions on behalf of the highest paid director (2007: £nil). The share-based payment charge in respect of the highest paid director amounted to £nil (2007: £216,000).

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

8 Finance income

	Continuing operations		**Discontinued operations**		**Total**	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Expected return on defined benefit pension scheme assets	**438**	371	**–**	–	**438**	371
Derivative financial instrument fair value adjustment	**72**	–	**–**	–	**72**	–
Other interest	**54**	–	**–**	–	**54**	–
	564	371	**–**	–	**564**	371

9 Finance expenses

	Continuing operations		**Discontinued operations**		**Total**	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Interest on bank overdrafts	**1,011**	260	**–**	–	**1,011**	260
Interest on defined benefit pension scheme obligations	**404**	399	**–**	–	**404**	399
Discount on deferred contingent cash consideration	**–**	36	**–**	–	**–**	36
	1,415	695	**–**	–	**1,415**	695

10 Taxation

	Continuing operations		Discontinued operations		Total	
	2008	2007	**2008**	2007	**2008**	2007
	£000	£000	**£000**	£000	**£000**	£000
Current tax expense						
UK corporation tax for the current year	**299**	841	**–**	(165)	**299**	676
Relating to prior periods	**(573)**	25	**–**	–	**(573)**	25
Total current tax	**(274)**	866	**–**	(165)	**(274)**	701
Deferred tax						
Deferred tax for the current year	**(480)**	(277)	**–**	–	**(480)**	(277)
Relating to prior periods	**(100)**	–	**–**	–	**(100)**	–
Relating to change in rate of tax	**(88)**	–	**–**	–	**(88)**	–
Total deferred tax	**(668)**	(277)	**–**	–	**(668)**	(277)
Taxation (credited)/charged to the income statement	**(942)**	589	**–**	(165)	**(942)**	424

Reconciliation of effective tax rate

The current consolidated tax charge for the period is lower (2007: higher) than the standard rate of corporation tax in the UK of 29%. The differences are explained below.

	2008	2007
	£000	£000
Profit before tax:		
Continuing operations	**901**	1,935
Discontinued operations	**–**	(550)
	901	1,385
Tax using the UK Corporation tax rate of 29% (2007: 30%)	**261**	416
Effects of:		
Expenses not deductible for tax purposes	**312**	97
Expenses not reported in income statement	**231**	–
Utilisation of losses not previously recognised	**(428)**	–
Recognition of loss utilisation anticipated in future periods	**(633)**	–
(Over)/under provision in previous years	**(673)**	25
Losses not utilised in year	**5**	(114)
Change in temporary differences	**(17)**	–
Total tax in income statement	**(942)**	424

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.

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

	2008	2007
	£000	£000
Tax losses, not recognised as future economic benefit is uncertain	**2,372**	3,323

Notes to the consolidated financial statements
continued

11 Discontinued operations

In 2008 all activities were continuing.

The discontinued operation in 2007 followed a strategic review of products aimed at the mid-tier mail order and e-commerce market, as a result of which a decision was taken to rationalise development costs and discontinue further development of an existing product.

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

	2007 £000
Revenue	67
Expenses	(617)
Loss before tax	(550)
Attributable tax credit	165
Net loss attributable to discontinued operations	(385)

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

12 Dividends

	2008 £000	2007 £000
Interim dividend of 1.20p per share (2007: 1.15p)	**521**	483
Final dividend relating to previous financial year of 1.55p per share (2007: 1.50p)	**671**	627
Total dividend for the financial year	**1,192**	1,110

13 Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit after tax for the year by the weighted average number of ordinary shares at the end of the year and the diluted weighted average number of ordinary shares at the end of the year respectively. The basic and diluted earnings per share is also stated for earnings attributable to continuing and discontinued operations. In order to better demonstrate the performance of the Group, an adjusted earnings per share calculation has been presented 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.

From continuing and discontinued operations

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

Earnings:	**2008 £000**	2007 £000
Profit for the year	**1,843**	961
Result attributable to discontinued operations	**–**	385
Profit for the year from continuing operations	**1,843**	1,346
Amortisation of acquisition related intangible assets	**1,381**	621
Impairment charge	**889**	–
Share-based payment charges	**48**	586
Adjusted profit from continuing operations for the year	**4,161**	2,553

Number of shares:	2008 number	2007 number
In issue at the start of the year	**42,281,744**	41,813,482
Effect of shares issued in the year	**1,102,202**	20,583
Weighted average number of shares at year end	**43,383,946**	41,834,065
Effect of share options	**1,836,427**	1,946,775
Effect of deferred consideration shares	**–**	1,000,000
Weighted average number of shares (diluted) at year end	**45,220,373**	44,780,840

	2008 (pence)	2007 (pence)
Earnings per share:		
Basic	**4.2**	2.3
Diluted	**4.1**	2.1
Earnings per share attributable to continuing operations:		
Basic	**4.2**	3.2
Diluted	**4.1**	3.0
Adjusted earnings per share attributable to continuing operations:		
Basic	**9.6**	6.1
Diluted	**9.2**	5.7
Earnings per share attributable to discontinued operations:		
Basic	**–**	(0.9)
Diluted	**–**	(0.9)

14 Property, plant and equipment

	Short leasehold land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 October 2006	374	2,255	2,629
Acquired with subsidiary undertaking	–	143	143
Additions	62	41	103
Disposals	–	(1,987)	(1,987)
Balance at 30 September 2007	436	452	888
Additions	51	229	280
Balance at 30 September 2008	487	681	1,168
Depreciation			
Balance at 1 October 2006	100	1,944	2,044
Charge for the year	74	168	242
Disposals	–	(1,987)	(1,987)
Balance at 30 September 2007	174	125	299
Charge for period	51	216	267
Balance at 30 September 2008	225	341	566
Net book value			
At 30 September 2007	262	327	589
At 30 September 2008	**262**	**340**	**602**

Leased plant and machinery

At 30 September 2008, the net carrying amount of leased plant and machinery was £43,434 (2007: £34,400).

15 Intangible assets

	Goodwill £000	Intellectual property £000	Customer relationships £000	Distributor agreements £000	Development costs* £000	Total £000
Cost						
Balance at 1 October 2006	24,624	902	1,357	150	532	27,565
Business combination						
— Retail Business Solutions Group Limited	7,972	280	1,224	3,318	–	12,794
Other acquisitions						
— Elucid trade and assets	722	600	133	–	–	1,455
Other acquisitions						
— Internally developed	–	–	–	–	69	69
Adjustments to previously reported estimates	201	–	–	–	–	201
Balance at 30 September 2007	33,519	1,782	2,714	3,468	601	42,084
Adjustment to previously reported estimates	(1,223)	–	–	–	–	(1,223)
Other acquisitions						
— Internally developed	–	–	–	–	50	50
Balance at 30 September 2008	32,296	1,782	2,714	3,468	651	40,911
Amortisation and impairment						
Balance at 1 October 2006	–	147	259	17	91	514
Amortisation for the year	–	277	314	30	115	736
Balance at 30 September 2007	–	424	573	47	206	1,250
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
Net carrying value						
Balance at 30 September 2007	33,519	1,358	2,141	3,421	395	40,834
Balance at 30 September 2008	**31,407**	**1,056**	**1,756**	**2,727**	**290**	**37,236**

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

Adjustments to previously reported estimates 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:

	2008 £000	2007 £000
Administrative expenses	**2,425**	736

15 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 two and nine years unamortised economic life. Distributor agreements have between two and four 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:

	2008 £000	2007 £000
Manufacturing	**12,550**	12,550
Multi-Channel	**18,857**	20,969
Goodwill	**31,407**	33,519

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 2009 were extrapolated for periods of between nine and fourteen years and used as the basis of the calculations.

Sector growth rate assumptions used in the impairment review:
Manufacturing: 3% operating profit growth based on management estimates of 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%–14%.

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 ended 30 September 2009. This has in turn resulted in an impairment charge being made against the carrying value of goodwill attributable to the Multi-Channel CGU. The directors have sensitised the profit and cash flow forecast relating to the Manufacturing CGU, reducing operating profit and cash flow by 5%. This does not result in the need for an impairment charge.

16 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	
	2008	2007	**2008**	2007	**2008**	2007
	£000	£000	**£000**	£000	**£000**	£000
Property, plant and equipment	**245**	266	**–**	–	**245**	266
Intangible assets	**–**	–	**(1,500)**	(2,118)	**(1,500)**	(2,118)
Share-based payment expense	**151**	470	**–**	–	**151**	470
Trade and other payables	**13**	69	**(117)**	–	**(104)**	69
Employee benefits	**–**	–	**(48)**	(3)	**(48)**	(3)
Tax losses	**637**	–	**–**	–	**637**	–
	1,046	805	**(1,665)**	(2,121)	**(619)**	(1,316)

Movement in deferred tax for the year ended 30 September 2008

	As at 30 September 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)**

Movement in deferred tax for the year ended 30 September 2007

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

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

	2008 £000	2007 £000
Tax losses, not recognised as future economic benefit is uncertain	**2,372**	3,323

17 Trade and other receivables

	2008 £000	2007 £000
Trade receivables	**5,278**	6,940
Prepayments and accrued income	**1,642**	1,240
	6,920	8,180

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 an extremely 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, £1,268,000 (2007: £1,657,000) are past due but not impaired. An analysis of these trade receivables is as follows:

	2008 £000	2007 £000
0–30 days overdue	**740**	682
30–60 days overdue	**193**	200
60–90 days overdue	**60**	246
90+ days overdue	**275**	529
Total	**1,268**	1,657

Movement in impairment provisions:

	2008 £000	2007 £000
Balance at the beginning of the period	**67**	62
Impairment losses recognised	**104**	60
Amounts written off as uncollectible	**(9)**	(8)
Amounts recovered during the year	**(60)**	(52)
Acquired with subsidiary	**–**	5
	102	67

18 Loans and other borrowings

	2008 £000	2007 £000
Current liabilities:		
Secured bank loans	**2,150**	2,000
Current portion of obligations under finance leases	**20**	23
	2,170	2,023
Non-current liabilities:		
Secured bank loans	**9,533**	10,609
Obligations under finance leases	**21**	7
	9,554	10,616

£9,533,000 of secured bank loans are repayable by increasing quarterly instalments over a three year period, with a residual balance scheduled to be repaid at the end of this period. £2,150,000 of bank loans currently held on revolving facilities are due to be reviewed at 30 June 2009. The carrying value of loans and other borrowings is not materially different from fair value.

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

The Group reviews its interest rate exposure whenever a material drawdown or repayment of debt takes place and enters into hedging arrangements where suitable solutions are available and where a cost-benefit analysis is considered to be balanced in the Group's favour.

19 Other interest-bearing loans and borrowings

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2008 £000	Interest 2008 £000	Principal 2008 £000	Minimum lease payments 2007 £000	Interest 2007 £000	Principal 2007 £000
Less than one year	**23**	**3**	**20**	26	3	23
Between one and five years	**24**	**3**	**21**	8	1	7
	47	**6**	**41**	34	4	30

20 Deferred contingent consideration

	2008 £000	2007 £000
Arising on acquisition of Sanderson Retail Systems Limited	**500**	500
Arising on acquisition of Retail Business Solutions Group Limited	**1,500**	1,500
Paid during the year	**(500)**	–
Released due to performance targets not being met	**(1,500)**	–
Net discount brought forward	**(112)**	(36)
Discount arising on deferred contingent consideration committed in the year	**–**	(112)
Discount relating to released deferred contingent consideration	**112**	–
Amortisation of discount in period	**–**	36
	–	1,888
Analysed as follows:		
Current liabilities	**–**	1,888
Non-current liabilities	**–**	–
	–	1,888

Notes to the consolidated financial statements
continued

21 Trade and other payables

	2008 £000	2007 £000
Trade payables	**1,798**	2,280
Other taxation and social security	**1,777**	1,404
Accruals	**990**	2,095
	4,565	5,779

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

22 Share capital

	2008 number '000	2007 number '000
Authorised		
Equity: Ordinary shares of 10 pence each	**53,500**	53,500
Allotted, called up and fully paid	**£000**	£000
Equity: Ordinary shares of 10 pence each	**4,338**	4,228

1,000,000 ordinary shares were issued in January 2008 to satisfy deferred consideration included in the acquisition price of Sanderson Retail Systems Limited (acquired on 22 February 2006).

102,202 ordinary shares were issued pursuant to the exercise of options held by an ex-employee of the Group.

23 Capital and reserves

Reconciliation of movements in capital and reserves

	Attributable to equity holders of parent				
	Share capital £000	**Share premium £000**	**Shares to be issued £000**	**Retained earnings £000**	**Total equity £000**
At 1 October 2006	4,181	14,578	495	1,452	20,706
Actuarial results on employee benefits	–	–	–	1,742	1,742
Deferred taxation on above	–	–	–	(523)	(523)
Dividends paid	–	–	–	(1,110)	(1,110)
Share-based payment charges, net of National Insurance	–	–	–	539	539
Issue of share capital	47	180	–	–	227
Result for the period	–	–	–	961	961
At 30 September 2007	4,228	14,758	495	3,061	22,542
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**	**–**	**3,622**	**23,138**

The aggregate amount of current and deferred tax relating to items that are charged or credited to equity is £1,074,000 (2007: £1,103,000).

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 commensurately with the level of risk. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 23.

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:

	2008 £000	2007 £000
Debt	**11,724**	12,639
EBITDA	**4,492**	3,823
Debt to earnings ratio	**2.61**	3.30

Debt is defined as long and short-term borrowing as detailed in note 18.

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:

	2008 £000	2007 £000
Financial assets		
Fair value through profit and loss (FVTPL)		
Derivative instrument — interest rate swap not recognised for hedge accounting	**72**	–
Loans and receivables (including trade and other receivables, cash and cash equivalents)	**6,338**	7,875
	6,410	7,875
Financial liabilities		
Fair value through profit and loss (FVTPL)	**–**	—
Trade payables and accruals — held at amortised cost	**2,788**	4,375
Borrowings at amortised cost	**11,724**	12,639
	14,512	17,014

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

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 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.

24 Financial instruments disclosure continued

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 on to customers.

Credit risk management

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

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**	
2008	**Within 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**
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**

	Current		Non-current	
2007	Within 6 months	6 to 12 months	1 to 2 years	2 to 5 years
Bank overdraft and loans	431	1,178	3,151	5,943
Finance lease obligations	18	8	8	–
Trade and other payables	4,375	–	–	–
	4,824	1,186	3,159	5,943

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 term loan is repayable by way of increasing quarterly amounts until 30 September 2011, with a residual balance due to remain unamortised.

The Group's exposure to derivative financial instruments is limited to an interest rate swap for a fixed term that matches the duration of the Group's term debt facilities. This derivative financial instrument expires on 30 September 2011. A total of £72,000 (2007: £nil) has been recognised in the income statement in respect of derivative financial instruments.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined on the basis of exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's profit for the year ended 30 September 2008 would decrease/increase by £128,000 (2007 decrease/increase by £38,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. The Group's sensitivity to interest rates has increased during the current period due to the increased level of debt taken on subsequent to the acquisition of subsidiaries in 2007.

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 a 'cap and collar' interest rate swap whereby the LIBOR rate is allowed to vary only between pre-determined levels. Approximately half the Group's term debt is subject to this arrangement with the principal amount reducing in line with capital repayment over the remaining three years of the term loan.

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 2008 amounted to £11,683,000 (2007: £12,609,000) net of arrangement costs.

26 Commitments

There were no capital commitments existing at 30 September 2008 or 30 September 2007.

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

	2008		2007	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Payable:				
Within one year	**544**	**17**	556	10
In the second to fifth years inclusive	**1,490**	**7**	1,714	16
Over five years	**3,695**	**–**	4,002	–
	5,729	**24**	6,272	26

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 £304,000 (2007: £222,000). 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 £2.8m. This figure does not take account of a one-off contribution of £750,000 paid by a previously connected employer. 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 2008	Valuation 30 September 2007
Inflation	**3.6%**	3.25%
Pension revaluation in deferment	**3.6%**	3.25%
Pension escalation in payment	**3.6%**	3.25%
Discount rate	**7.0%**	6.00%
Investment returns — unitised with profits	**5.75%**	5.75%
Investment returns — equities	**8.0%**	8.00%
Investment returns — bonds and gilts	**5.5%**	5.50%
Investment returns — cash	**5.00%**	5.00%
Mortality table	**PMA92 (2020)**	PMA92 (2020)
	& PFA92 (2020)	& PFA92 (2020)
	rated down	rated down
	3 years	3 years

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:

	2008 £000	2007 £000
Fair value of scheme assets	**6,235**	6,890
Fair value of scheme liabilities	**(6,065)**	(6,881)
Surplus	**170**	9

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

	2008 £000	2007 £000
Included within operating profit:		
Current service cost	**(4)**	(4)
Included within finance income:		
Expected return on scheme assets	**438**	371
Included within finance expense:		
Interest cost on scheme liabilities	**(404)**	(399)

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

	2008 £000	2007 £000
Actual return on scheme assets	**(549)**	750
Expected return on scheme assets	**(438)**	(371)
	(987)	379
Experience gains or losses arising on the scheme liabilities	**(28)**	148
Effect of changes in actuarial assumptions	**912**	1,215
Actuarial gain recognised in the statement of recognised income and expense	**(103)**	1,742

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

	2008 £000	2007 £000
Opening defined benefit obligation	**(6,881)**	(6,858)
Current service cost	**(4)**	(4)
Interest cost	**(404)**	(399)
Benefit payments made	**340**	186
Actuarial gains	**884**	194
Closing defined benefit obligation	**(6,065)**	(6,881)

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

	2008 £000	2007 £000
Unitised with-profits fund	**3,554**	3,748
Legal & General Consensus Fund	**2,507**	2,524
Cash deposits	**174**	618
	6,235	6,890

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

	2008 £000	2007 £000
Opening fair value of scheme assets	**6,890**	5,009
Expected return	**438**	371
Actuarial (losses)/ gains specific to opening assets	**(987)**	379
Other movements in the year	**–**	1,183
Benefit payments made	**(340)**	(186)
Contributions paid	**234**	134
Closing fair value of scheme assets	**6,235**	6,890

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

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

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

Total contributions to the defined benefit schemes for the financial year ending 30 September 2009 as agreed with the scheme actuary will amount to £234,000.

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

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

We have reported separately on the Group financial statements of Sanderson Group plc for the year ended 30 September 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 30 September 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
Birmingham
England
16 January 2009

Company balance sheet

At 30 September 2008

	Note	2008 £000	2007 £000
Fixed assets			
Investments	31	**37,600**	39,052
Intangible assets	32	**204**	–
		37,804	39,052
Current assets			
Debtors	33	**2,620**	3,273
Creditors: amounts falling due within one year	34	**(4,345)**	(5,395)
Net current liabilities		**(1,725)**	(2,122)
Total assets less current liabilities		**36,079**	36,930
Creditors: amounts falling due after more than one year	35	**(15,108)**	(15,608)
Net assets		**20,971**	21,322
Capital and reserves			
Called up share capital	36	**4,338**	4,228
Shares to be issued	37	**–**	495
Share premium account	37	**15,178**	14,758
Other reserves	37	**1,607**	1,559
Profit and loss account	37	**(152)**	282
Equity shareholders' funds	39	**20,971**	21,322

The balance sheet was approved by the Board of directors on 16 January 2009 and signed on its behalf by:

Christopher Winn
Director

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 1985. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

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

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

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 ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as fair value is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting. Deferred taxation is recognised over the vesting period 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 period except to the extent that it is attributable to a gain or loss that is or has been recognised directly in the statement of total recognised gains and losses.

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

Notes to the Company balance sheet
continued

28 Personnel expenses

The Company employed three non-executive directors (2007: three non-executives). Fees paid in respect of these appointments amounted to £82,331 (2007: £79,650). Details of the remuneration of executive directors, paid by subsidiary companies, is given in note 7 to the Annual Report.

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 a further 600,000 shares were granted in the year to 30 September 2007.

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

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

30 Dividends

	2008	2007
	£000	£000
Interim dividend of 1.20p per share (2007: 1.15p)	**521**	483
Final dividend relating to previous financial year of 1.55p per share (2007: 1.50p)	**671**	627
Total dividend for the financial year	**1,192**	1,110

31 Fixed asset investments

	Shares in Group undertakings £000
Cost and net book value	
At beginning of year	39,052
Reduction in value of consideration for previous acquisition	(1,500)
Fair value of share options granted to employees of subsidiaries	48
At 30 September 2008	**37,600**

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

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

* Shareholding held indirectly.

32 Intangible assets

	Intellectual property £000
Company	
Cost	
At beginning of year	–
Acquired from subsidiary	217
	217
Amortisation	
At beginning of year	–
Amortisation in the period	13
	13
Net carrying value	
At 30 September 2007	–
At 30 September 2008	**204**

33 Debtors

	2008 £000	2007 £000
Prepayments and accrued income	**18**	3
Deferred taxation	**–**	332
Amounts due from subsidiary undertakings	**2,408**	2,813
Group relief receivable	**194**	125
	2,620	3,273

34 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Bank loans and overdraft	**3,923**	2,746
Accruals	**422**	649
Deferred consideration	**–**	2,000
	4,345	5,395

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

Of the £2,000,000 deferred consideration outstanding at 30 September 2007, £500,000 has been paid during the year and £1,500,000 has been reversed as the conditions attached to its payment have not been met.

Notes to the Company balance sheet
continued

35 Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Bank loan	**9,549**	10,629
Amount due to subsidiary undertakings	**5,559**	4,979
	15,108	15,608

Analysis of bank loans and overdraft:

	2008 £000	2007 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	**3,923**	2,746
Between one and two years	**2,275**	2,150
Between two and five years	**7,274**	8,479
	13,472	13,375

36 Called up share capital

	2008 number '000	2007 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**	4,228

1,000,000 ordinary shares were issued in January 2008 to satisfy deferred consideration included in the acquisition price of Sanderson Retail Systems Limited (acquired on 22 February 2006).

102,202 ordinary shares were issued pursuant to the exercise of options held by an ex-employee of the Group.

37 Reserves

	Other reserves £000	Profit and loss account £000	Shares to be issued £000	Share premium account £000
At beginning of year	1,559	282	495	14,758
Issue of share capital	–	(35)	(495)	420
Retained result for the year	–	793	–	–
Fair value of share options granted to employees of subsidiaries	48	–	–	–
Dividends paid in year	–	(1,192)	–	–
At end of year	**1,607**	**(152)**	**–**	**15,178**

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 2008 amounted £11,683,000 (2007: £12,609,000) net of arrangement costs.

39 Reconciliations of movements in shareholders' funds

	2008 **£000**	2007 £000
Profit for the financial year	**793**	1,099
Dividends paid	**(1,192)**	(1,110)
Retained loss for the year	**(399)**	(11)
Fair value of share options granted to employees of subsidiaries	**48**	540
Issue of share capital	**–**	227
Net (reduction in)/addition to shareholders' funds	**(351)**	756
Opening shareholders' funds	**21,322**	20,566
Closing shareholders' funds	**20,971**	21,322

Notes

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