# SANDERSON GROUP PLC

# Interim Report 2007

**Interim Results for the period ended 31 March 2007**

# Chairman's statement

## Introduction

The trading results for the six month period to 31 March 2007 show revenue from continuing operations of £8.12m (2006: £7.30m). Operating profit from continuing operations before amortisation of acquisition related intangibles and charges in respect of share-based payments, amounted to £1.41m (2006: £1.46m). Statutory profit after tax from continuing operations was £0.54m (2006: £0.69m).

This is the first interim report produced by the Group following the adoption of International Financial Reporting Standards (IFRS) in the Annual Report for the year ended 30 September 2006. As a result, comparative figures included in respect of the period ended 31 March 2006 have been restated. A reconciliation between the comparative figures included and those previously reported is set out in the notes to this report.

## Trading result - continuing operations

| | Unaudited Six months to 31 March 2007 £000 | Unaudited Six months to 31 March 2006 Restated £000 |
|---|---|---|
| Revenue | **8,125** | 7,296 |
| Cost of sales | **(1,459)** | (1,196) |
| **Gross profit** | **6,666** | 6,100 |
| Other operating expenses | **(5,252)** | (4,643) |
| **Adjusted operating profit*** | **1,414** | 1,457 |
| Amortisation of acquisition related intangibles | **(314)** | (80) |
| Share-based payment charges | **(318)** | (316) |
| Other operating income | **-** | 128 |
| **Results from continuing operations** | **782** | 1,189 |
| Net finance costs | **(128)** | (97) |
| **Profit before tax** | **654** | 1,092 |
| Tax | **(114)** | (400) |
| **Profit for the period from continuing operations** | **540** | 692 |

* before amortisation of acquisition-related intangibles, share-based payment charges and non-recurring operating income.

## Business review

The Group develops and supplies market-specific software and services to the multi-channel and manufacturing markets in the UK. In the half year to the end of March 2007, the Group's multi-channel business performed well, whilst the manufacturing business has continued to experience difficult trading conditions.

The Group has established a large client base over many years and has adopted a revenue model based upon retaining and developing clients by continuously offering new products and associated technology with professional services. For the half year ended 31 March 2007, recurring revenue continued to grow and represented 56% of total revenue compared with 55% in the full year ending 30 September 2006. Nine new clients were gained in the half year compared with eleven in the comparative period. Revenue from new clients represented 11% (2006: 5%) of total revenue in the period.

The Group's software products are designed to meet all the operational needs of a broad range of businesses and cover functions such as sales and marketing, finance, human resources, purchasing, production, supply and distribution whilst also addressing specific requirements such as ingredient handling and call centre operations. Sanderson owns and develops the IPR to its software products and licences their use to customers.

## Review of manufacturing

The manufacturing sector accounts for 40% of Group revenue, compared with 60% two years ago. The Group's manufacturing business covers the provision of IT solutions to areas of manufacturing including engineering, plastics, electronics, furniture, automobile parts and printing. Market conditions continue to be challenging with discretionary spend lower than in previous years. Despite this trend, the Group has won a number of contracts from existing clients, including a £400,000 order from Magnadata Limited to upgrade their existing IT system. The second half of the financial year has seen the Group gain a new client, Anstey Wallcoverings, and we anticipate an improved performance from the manufacturing business during the remainder of the year.

## Review of multi-channel sales

Multi-channel sales, which accounts for 60% of Group revenue, addresses the needs of companies who sell goods via retail outlets, online sales, call centres, mail order and distributors. Increasing competition and the rapid growth in online sales have encouraged companies to seek efficiency gains through investment in IT, representing a significant opportunity for the Group. Several new customers were gained during the half year including the Royal Botanical Gardens Kew. The Group continues to develop a number of sales opportunities in what is an active market sector and a good performance in the second half year is anticipated.

## Acquisition

In February 2007, the Group acquired the business and assets of Elucid from K3 Business Technology Group plc for a consideration of £1.40m. Elucid has a strong product offering aimed at the mid-tier mail order and e-commerce market and has over 50 existing customers. Elucid now forms an important part of the Sanderson multi-channel sales business and strengthens our activities in these markets. Elucid made a small contribution to both revenue and operating profit in the period post acquisition.

Following the acquisition, the Group carried out a strategic review of its products aimed at the mid-tier mail order and e-commerce market and decided to rationalise development costs and discontinue further development of an existing product. This discontinued operation incurred a loss of £385,000 after tax in the half year to 31 March 2007 including full provision for closure costs. In the comparative period to 31 March 2006, the discontinued operation incurred a loss of £94,000 after tax.

## Strategy
Our strategy is to develop the Group by a combination of organic growth complemented by selective acquisitions. Our primary aim is to continue to deliver shareholder value through a progressive dividend policy which is made possible by a business model that delivers high levels of profit and cash. We continue to develop a number of acquisition opportunities.

## Balance sheet
In the period, the Group generated cash in excess of 100% of adjusted operating profit from continuing and discontinued operations. This represents a significant improvement compared with the first half, last year. Net debt as at 31 March 2007 was £3.61m (2006: £3.26m). The Group has the debt capacity to pursue additional strategic acquisitions.

The Group balance sheet remains strong, with net debt representing less than 18% of the Group's net assets.

## Pensions
Subsequent to the period end, the Group has finalised negotiations both with the trustee of the two defined benefit pension schemes (of which a subsidiary company is principal employer), as well as with former Group companies Civica plc and Talgentra Holdings Limited. As a result, the Group has been released from all contingent liabilities in respect of one scheme, and has agreed to the other scheme being sectionalised, such that each employer becomes responsible for a defined proportion of the scheme assets and liabilities. We believe that this course of action leaves the Group better placed to address the ongoing funding of the scheme, and provides certainty to the Group's obligations.

## Dividend
In accordance with the Group's progressive dividend policy, we are pleased to announce an increased interim dividend of 1.15 pence per ordinary share (2006: 1.1 pence per share), which will be paid on 27 July 2007 to shareholders on the register at the close of business on 29 June 2007.

## Auditors
As part of a review, the Group invited a number of accountancy firms to present to the board, and after careful consideration RSM Robson Rhodes LLP have been appointed as auditors. We would like to record our thanks and appreciation for the audit and tax team at our previous auditors, KPMG, for their work over the previous seven years.

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

## Outlook
Notwithstanding the continued challenges of business in the manufacturing sector, the multi-channel markets are proving to be very active and rewarding for the Group and overall we anticipate an improved business performance in the second half.

**Christopher Winn**
**Chairman**
***24 May 2007***

# Consolidated income statement

| | Notes | Unaudited Six months to 31 March 2007 £000 | Unaudited Six months to 31 March 2006 Restated £000 | Audited Year to 30 September 2006 £000 |
|---|---|---|---|---|
| **Continuing Operations** | | | | |
| Revenue | | **8,125** | 7,296 | 15,896 |
| Cost of sales | | **(1,459)** | (1,196) | (2,591) |
| **Gross profit** | | **6,666** | 6,100 | 13,305 |
| Other operating expenses | | **(5,884)** | (4,911) | (10,869) |
| **Results from operating activities** | | **782** | 1,189 | 2,436 |
| **Results from operating activities before amortisation, share-based payment charges and non-recurring items** | | **1,414** | 1,457 | 3,278 |
| Amortisation of acquisition related intangibles | | **(314)** | (80) | (319) |
| Share-based payment charges | | **(318)** | (316) | (642) |
| Other operating income | | **-** | 128 | 119 |
| Results from operating activities | | **782** | 1,189 | 2,436 |
| Net finance costs | | **(128)** | (96) | (275) |
| **Profit before tax** | | **654** | 1,093 | 2,161 |
| Tax | 3 | **(114)** | (400) | 17 |
| **Profit for the period from continuing operations** | | **540** | 693 | 2,178 |
| **Discontinued Operations** | | | | |
| Loss for the period from discontinued operations | 2 | **(385)** | (94) | (183) |
| **Profit for the period** | | **155** | 599 | 1,995 |
| **Earnings per share** | | | | |
| From continuing operations | | | | |
| Basic | 5 | **1.29p** | 1.69p | 5.26p |
| Diluted | 5 | **1.21p** | 1.57p | 4.91p |
| From continuing and discontinued operations | | | | |
| Basic | 5 | **0.37p** | 1.46p | 4.81p |
| Diluted | 5 | **0.35p** | 1.36p | 4.50p |

# Consolidated statement of recognised income and expense

| | Unaudited Six months to 31 March 2007 £000 | Unaudited Six months to 31 March 2006 Restated £000 | Audited Year to 30 September 2006 £000 |
|---|---|---|---|
| Actuarial gains on defined benefit pension schemes | **-** | - | 630 |
| Tax on items taken directly to equity | **-** | - | (190) |
| Profit for the period | **155** | 599 | 1,995 |
| Total recognised income and expense for the period | **155** | 599 | 2,435 |

# Consolidated balance sheet

| | Notes | Unaudited As at 31 March 2007 £000 | Unaudited As at 31 March 2006 Restated £000 | Audited As at 30 September 2006 £000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | | **25,256** | 24,624 | 24,624 |
| Other intangible assets | | **3,093** | 2,356 | 2,427 |
| Property, plant and equipment | | **528** | 637 | 585 |
| Deferred tax asset | | **384** | 493 | 488 |
| | | **29,261** | 28,110 | 28,124 |
| **Current assets** | | | | |
| Inventories | | **209** | 409 | 258 |
| Trade and other receivables | | **4,941** | 6,332 | 4,127 |
| Income tax receivable | | **234** | - | 211 |
| Cash and cash equivalents | | **235** | 413 | 463 |
| | | **5,619** | 7,154 | 5,059 |
| **Total assets** | | **34,880** | 35,264 | 33,183 |
| **Current liabilities** | | | | |
| Bank overdraft and loans | | **(528)** | (979) | (528) |
| Trade and other payables | | **(3,241)** | (3,869) | (2,351) |
| Deferred contingent consideration | | **(725)** | - | - |
| Current tax liabilities | | **-** | (397) | - |
| Deferred income | | **(4,228)** | (4,713) | (4,278) |
| | | **(8,722)** | (9,958) | (7,157) |
| **Net current liabilities** | | **(3,103)** | (2,804) | (2,098) |
| **Non-current liabilities** | | | | |
| Retirement benefit obligation | | **(1,825)** | (2,463) | (1,849) |
| Deferred contingent consideration | | **-** | (453) | (464) |
| Deferred income | | **(490)** | (684) | (587) |
| Loans and borrowings | | **(3,319)** | (2,690) | (2,420) |
| | | **(5,634)** | (6,290) | (5,320) |
| **Total liabilities** | | **(14,356)** | (16,248) | (12,477) |
| **Net assets** | | **20,524** | 19,016 | 20,706 |
| **Equity** | | | | |
| Called-up share capital | | **4,181** | 4,181 | 4,181 |
| Share premium | | **14,578** | 14,578 | 14,578 |
| Shares to be issued | | **495** | 495 | 495 |
| Retained earnings | 8 | **1,270** | (238) | 1,452 |
| **Total equity** | | **20,524** | 19,016 | 20,706 |

# Consolidated cash flow statement

| | Notes | Unaudited Six months to 31 March 2007 £000 | Unaudited Six months to 31 March 2006 Restated £000 | Audited Year to 30 September 2006 £000 |
|---|---|---|---|---|
| **Net cash from operating activities** | 9 | **760** | 536 | 1,790 |
| **Investing activities** | | | | |
| Purchases of property, plant and equipment | | **(30)** | (62) | (120) |
| Expenditure on product development | | **(67)** | (111) | (271) |
| Purchase of shares in subsidiary undertaking | | **-** | (1,480) | (1,480) |
| Purchase of trade and assets | | **(1,162)** | - | - |
| Purchase of intellectual property | | **-** | (200) | (200) |
| Disposal proceeds of property, plant and equipment | | **-** | 539 | 530 |
| **Net cash used in investing activities** | | **(1,259)** | (1,314) | (1,541) |
| **Financing activities** | | | | |
| Equity dividends paid | 6 | **(625)** | (575) | (1,024) |
| Proceeds from bank borrowing | | **1,162** | 1,375 | 1,375 |
| Repayment of bank borrowing | | **(250)** | (125) | (625) |
| Repayment of finance lease principal | | **(16)** | (8) | (36) |
| **Net cash received from / (used in) financing activities** | | **271** | 667 | (310) |
| **Decrease in cash and cash equivalents** | | **(228)** | (111) | (61) |
| **Cash and cash equivalents at start of the period** | | **463** | 524 | 524 |
| **Cash and cash equivalents at end of the period** | | **235** | 413 | 463 |

# Notes to the consolidated financial statements

## 1. Significant accounting polices

### a) Basis of preparation

The Group adopted International Financial Reporting Standards (IFRS) during the second half of the 2006 financial year, and reported the results for the year ended 30 September 2006 under IFRS. The accounting policies applied in the preparation of this financial information are consistent with those adopted in the statutory accounts for the year ended 30 September 2006. Certain significant accounting policies are clarified below, and the full accounting policies of the Group are set out in the last Annual Report.

The comparative data for the six months to 31 March 2006 has been restated and reconciliations are included in the notes to explain the changes from UK GAAP.

The financial information set out within this statement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

The statutory accounts for the year ended 30 September 2006, which have been delivered to the Registrar of Companies, carry an unqualified report by the auditors and do not contain a statement under Section 237 (2) or section 237 (3) of the Companies Act 1985.

Copies of this Statement are being sent to Shareholders. Further copies are available from the Company Secretary.

### b) Basis of consolidation

The financial statements of the Group consolidate the financial statements of Sanderson Group plc and all its subsidiaries. Subsidiaries are entities controlled by the Company. The results of subsidiaries and businesses are included in the consolidated financial statements from the date on which control commences and until that date on which control ceases.

In respect of acquisitions since 1 October 2004, goodwill arising on consolidation represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired entity at the date of acquisition. For acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. Goodwill is recognised as an asset and assessed for impairment at least annually. Impairment is assessed by comparing the goodwill with the discounted cash flows projected for the acquired entity, using a discount rate that management estimate to be the risk adjusted average cost of capital for that entity.

### c) Research and development

Research expenditure is written off as incurred. Development expenditure is written off as incurred unless the development is for a new or substantially improved product which is both technically and commercially viable. Development costs satisfying these criteria are capitalised and amortised over their useful economic life or three years, whichever is the shorter.

# Notes to the consolidated financial statements (continued)

## 1. Significant accounting polices (continued)

### d) Property, plant and equipment

Property, plant and equipment are shown at historical cost, less any provision for impairment in value. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, except freehold land which is not depreciated, as follows:

Freehold buildings – 2%

Leasehold buildings – over the life of the lease

Plant, machinery, fixtures and fittings – 15% - 33.3%

### e) Impairment of non-current assets

All non-current assets are assessed annually for indications of impairment. Where impairment is likely, the fair value is measured and any impairment loss is charged to the income statement.

### f) 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 costs of completion and the estimated costs necessary to make the sale.

### g) Taxation

The tax charge for the period includes the charge for tax currently payable and deferred taxation. The current tax charge represents the estimated amount due that arises from the operations of the Group in the financial period and after making adjustments in respect of prior years.

Deferred tax is recognised in respect of all differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except where the temporary difference arises from goodwill or from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit.

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

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

# Notes to the consolidated financial statements (continued)

## 1. Significant accounting polices (continued)

### h) Revenue

Revenue comprises the value of sales of licences, support and maintenance contracts and 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, training and consultancy services, the consideration received is allocated to the components of the arrangement on a 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 contractual 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.

### i) Employee benefits

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

The Group's net obligation in respect of its defined benefit pension plan is calculated by estimating the amount of future benefits payable to members, discounted to present value, and deducting the fair value of the plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Actuarial gains or losses are included in the consolidated Statement of Recognised Income and Expense. Current and past service costs, curtailments and settlements are recognised within operating profit. Returns on scheme assets and interest on obligations are recognised as a component of financing costs.

Share-based incentive arrangements are provided to employees under the Group's share option schemes. Share-based arrangements put in place since 7 November 2002 are valued at the date of grant and charged to operating profit over the vesting period of the scheme. Options are valued using an appropriate pricing model. The annual charge is modified to take account of shares forfeited by employees who leave during the vesting period.

### j) Leased assets

Leasing agreements that transfer substantially all the risks and rewards of ownership to the Group are classified as Finance Leases. Assets financed by a Finance Lease are accounted for as if they had been purchased outright, with the corresponding liability to the leasing company included as an obligation. The rentals payable are apportioned between interest, which is charged to the income statement, and capital, which reduces the outstanding obligation. All other leases are classified as Operating Leases and lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

# Notes to the consolidated financial statements (continued)

## 1. Significant accounting polices (continued)

### k) Financial instruments and hedging

Trade receivables and trade payables do not carry any interest and are stated at nominal value. Bank overdraft and loans are interest bearing and interest is accounted for on an accruals basis. The Group does not use derivative financial instruments to hedge its exposure to interest rate or currency risk.

## 2. Discontinued operation

Following a strategic review, the Group has decided to focus its development activity and product marketing at the mid-tier mail order market around the recently acquired Elucid product. This has necessitated the discontinuance of the activities previously undertaken by the Group in this area prior to the acquisition of Elucid.

The results of this business activity, classified in the consolidated income statement as discontinued operations, were as follows:

| | Six months to 31 March 2007 £000 | Six months to 31 March 2006 £000 | Year to 30 September 2006 £000 |
|---|---|---|---|
| Revenue | **69** | 139 | 253 |
| Expenses | **(619)** | (273) | (515) |
| Loss before tax | **(550)** | (134) | (262) |
| Tax | **165** | 40 | 79 |
| Loss for the period | **(385)** | (94) | (183) |

The business that has been discontinued was run as part of a larger business unit within a Group subsidiary. As a result, it is not practical to separately report the cash flows associated with the discontinued activity, but they are not anticipated as being materially different from the trading results shown above, with the exception of certain provisions made for the discontinuance. The cash effect of these provisions will be reported in the second half of the current financial year.

# Notes to the consolidated financial statements (continued)

## 3. Taxation

| | Six months to 31 March 2007 £000 | Six months to 31 March 2006 Restated £000 | Year to 30 September 2006 £000 |
|---|---|---|---|
| *Recognised in the income statement in respect of continuing operations:* | | | |
| **Current tax expense** | | | |
| UK corporation tax for the current period | **290** | 400 | 679 |
| Relating to prior periods | **-** | - | (515) |
| Total current tax | **290** | 400 | 164 |
| **Deferred tax** | | | |
| Deferred tax for the current period | **(176)** | - | (154) |
| Relating to prior periods | **-** | - | (27) |
| Total deferred tax | **(176)** | - | (181) |
| Taxation charge / (credit) in respect of continuing operations | **114** | 400 | (17) |
| *Recognised in the income statement in respect of discontinued operations:* | | | |
| UK corporation tax for the current period | **(150)** | (40) | (79) |
| Deferred tax for the current period | **(15)** | - | - |
| **Total taxation (credited) / charged to the income statement** | **(51)** | 360 | (96) |

# Notes to the consolidated financial statements (continued)

## 3. Taxation (continued)

*Reconciliation of the effective tax rate:*

The current consolidated tax charge on continuing operations for the period differs from the standard rate of corporation tax in the UK of 30%. The differences are explained below.

| | Six months to 31 March 2007 £000 | Six months to 31 March 2006 Restated £000 | Year to 30 September 2006 £000 |
|---|---|---|---|
| Profit before tax – continuing operations | **654** | 1,093 | 2,161 |
| Tax using the UK corporation tax rate of 30% | **196** | 328 | 648 |
| **Effects of:** | | | |
| Expenses not deductible for tax purposes | **49** | 25 | 47 |
| Tax payable at less than 30% | **-** | - | (6) |
| Losses not utilised in the period arising | **(101)** | - | 101 |
| Overprovision in prior periods | **-** | - | (542) |
| Expenses not reported in the income statement | **-** | - | (170) |
| Change in temporary differences | **(30)** | 47 | (95) |
| Total tax in the income statement in respect of continuing operations | **114** | 400 | (17) |

## 4. Segmental reporting

Whilst it is possible for the Group to analyse revenue by reference to the markets in which customers operate, the businesses within the Group are not managed in this way, such that cost information and assets and liabilities cannot be reported by markets. Consequently, the operations of the Group are regarded as a single business segment. Substantially all of the Group's revenue originates from the UK. Revenue by destination is not materially different from revenue by origin.

# Notes to the consolidated financial statements (continued)

## 5. Earnings per share

| | Six months to 31 March 2007 £000 | Six months to 31 March 2006 Restated £000 | Year to 30 September 2006 £000 |
|---|---|---|---|
| **Earnings** | | | |
| Continuing | **540** | 693 | 2,178 |
| Continuing and discontinued | **155** | 599 | 1,995 |
| | No. '000 | No. '000 | No. '000 |
| **Average number of shares during period** | | | |
| In issue at the start of the period | **41,813** | 40,814 | 40,814 |
| Effect of shares issued in the period | **-** | 204 | 604 |
| Weighted average number of shares at period end | **41,813** | 41,018 | 41,418 |
| Effect of share options | **1,939** | 2,070 | 1,939 |
| Effect of deferred consideration | **1,000** | 1,000 | 1,000 |
| Weighted average number of shares (diluted) at period end | **44,752** | 44,088 | 44,357 |
| | pence | pence | pence |
| **Earnings per share** | | | |
| Continuing – basic | **1.29** | 1.69 | 5.26 |
| – diluted | **1.21** | 1.57 | 4.91 |
| Continuing and discontinued – basic | **0.37** | 1.46 | 4.81 |
| – diluted | **0.35** | 1.36 | 4.50 |

# Notes to the consolidated financial statements (continued)

## 6. Equity dividends

| | Six months to 31 March 2007 £000 | Six months to 31 March 2006 Restated £000 | Year to 30 September 2006 £000 |
|---|---|---|---|
| Interim dividend | **-** | - | 449 |
| Final dividend | **625** | 575 | 575 |
| Total dividend paid in period | **625** | 575 | 1,024 |

An interim dividend of 1.15 pence (2006: 1.10 pence) per ordinary 10 pence share will be paid on 27 July 2007.

## 7. Acquisition

On 1 February 2007 the Group acquired the trade and certain assets of Elucid for consideration of £1,400,000, which comprised cash payable on completion of £1,100,000, deferred cash consideration of £250,000 and costs of acquisition amounting to £50,000. Provisional goodwill and other intangible assets arising as a result of the acquisition amount to £1,150,000.

## 8. Reserves

| | As at 31 March 2007 £000 | As at 31 March 2006 Restated £000 | As at 30 September 2006 £000 |
|---|---|---|---|
| **Retained earnings** | | | |
| Balance at beginning of the period | **1,452** | (555) | (555) |
| Actuarial gains on employee benefits | **-** | - | 630 |
| Deferred taxation | **-** | - | (190) |
| Dividends paid (note 6) | **(625)** | (575) | (1,024) |
| Credit to equity for share-based payments | **288** | 293 | 596 |
| Result for the period | **155** | 599 | 1,995 |
| Balance at end of the period | **1,270** | (238) | 1,452 |

# Notes to the consolidated financial statements (continued)

## 9. Net cash from operating activities

| | Six months to 31 March 2007 £000 | Six months to 31 March 2006 Restated £000 | Year to 30 September 2006 £000 |
|---|---|---|---|
| Profit for the period from continuing operations | **540** | 693 | 2,178 |
| Loss for the period from discontinued operations | **(385)** | (94) | (183) |
| *Adjustments for:* | | | |
| Depreciation and amortisation | **472** | 159 | 479 |
| Share-based payment charges | **318** | 316 | 642 |
| Net finance expense | **128** | 97 | 275 |
| Income tax (credit)/expense | **(51)** | 360 | (96) |
| Profit on disposal of property, plant and equipment | **-** | (128) | (119) |
| **Operating cash flow before working capital movements** | **1,022** | 1,403 | 3,176 |
| Decrease / (increase) in working capital | **30** | (308) | (489) |
| **Cash generated by operations** | **1,052** | 1,095 | 2,687 |
| Additional pension payment | **(41)** | (40) | (80) |
| Interest paid | **(88)** | (109) | (178) |
| Income taxes paid | **(163)** | (410) | (639) |
| **Net cash from operating activities** | **760** | 536 | 1,790 |

## 10. Reconciliation of movement in net debt

| | At start of period £000 | Cash flow £000 | Non-cash movements £000 | At end of period £000 |
|---|---|---|---|---|
| Cash | 463 | (228) | - | 235 |
| Bank loan: | | | | |
| Within one year | (500) | - | - | (500) |
| After one year | (2,390) | (912) | (3) | (3,305) |
| Obligations under finance leases | (58) | 16 | - | (42) |
| **Net debt** | (2,485) | (1,124) | (3) | (3,612) |

# Notes to the consolidated financial statements (continued)

## 11. Explanation of transition to IFRS

In restating the comparative information in respect of the income statement for the six months ended 31 March 2006 and the balance sheet on that date, to comply with the accounting policies adopted in the last Annual Report, certain changes have been made and are described below.

IFRS 2 ‘Share-based payments’ requires the fair value of providing employee share ownership plans to be charged to the income statement over the estimated life of the share ownership plans. Under UK GAAP such charges were restricted to one specific share ownership plan, namely the long term incentive plan (LTIP).

IFRS 3 ‘Business combinations’ requires goodwill to be capitalised and subjected to an annual impairment test rather than amortised over its estimated useful life as required by UK GAAP. The standard also requires separable, identifiable, intangible assets arising on acquisition to be capitalised at fair value and amortised over their estimated useful economic lives. In addition, deferred contingent consideration in respect of previous acquisitions has been reassessed.

IAS 10 ‘Events after the balance sheet date’ requires dividends to be recorded in the period in which they are approved or paid. Under UK GAAP, dividends were adjusted for as a post balance sheet event.

IAS 12 ‘Income taxes’ requires that deferred taxation be provided in respect of the share-based payment charges and acquisition related intangible assets.

IAS 19 ‘Employee benefits’ requires recognition of pension scheme deficits on the balance sheet and service costs, interest costs and expected returns on scheme assets to be charged to the income statement. Under FRS 17, defined benefit scheme liabilities were presented net of deferred tax on the balance sheet. In accordance with IAS 19 the pension liability has been presented gross. Provision has also been made for holidays earned but not yet taken.

IFRS 5 ‘Discontinuing operations’ requires the attributable revenues and costs associated with the operation to be shown as a single line on the face of the income statement, net of any related tax charge or credit. The decision to discontinue the operation in question was taken during the current period, and comparative figures have been restated accordingly.

IAS 38 ‘Intangible assets’ requires that development expenditure meeting certain criteria be capitalised and amortised over its useful economic life. Under UK GAAP, all such development expenditure was expensed as incurred.

# Notes to the consolidated financial statements (continued)

## 11. Explanation of transition to IFRS (continued)

### Reconciliation of UK GAAP profit to IFRS profit: Six months to March 2006

| | UK GAAP £000 | IFRS 2 £000 | IFRS 3 £000 | IFRS 5 £000 | IAS 38 £000 | Restated IFRS £000 |
|---|---|---|---|---|---|---|
| **Continuing Operations** | | | | | | |
| Revenue | 7,435 | - | - | (139) | - | 7,296 |
| Cost of sales | (1,204) | - | - | 8 | - | (1,196) |
| **Gross profit** | 6,231 | - | - | (131) | - | 6,100 |
| Other operating expenses | (5,980) | (112) | 698 | 265 | 90 | (5,039) |
| Profit on disposal of assets | 128 | - | - | - | - | 128 |
| Finance costs | (96) | - | - | - | - | (96) |
| **Profit before tax** | 283 | (112) | 698 | 134 | 90 | 1,093 |
| Tax | (360) | - | - | (40) | - | (400) |
| **(Loss)/profit for the period from continuing operations** | (77) | (112) | 698 | 94 | 90 | 693 |
| **Discontinued Operations** | | | | | | |
| Loss for the period from discontinued operations | - | - | - | (94) | - | (94) |
| **Loss for the period from discontinued operations** | - | - | - | (94) | - | (94) |

# Notes to the consolidated financial statements (continued)

## 11. Explanation of transition to IFRS (continued)

## Reconciliation of equity: At 31 March 2006

| | UK GAAP £000 | IFRS 3 £000 | IAS 12 £000 | IAS 19 £000 | IAS 38 £000 | Restated IFRS £000 |
|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | |
| Intangible assets | 24,933 | 1,099 | 647 | - | 301 | 26,980 |
| Property, plant and equipment | 637 | - | - | - | - | 637 |
| Deferred tax asset | 400 | - | (647) | 740 | - | 493 |
| **Current assets** | | | | | | |
| Inventories | 409 | - | - | - | - | 409 |
| Trade and other receivables | 6,332 | - | - | - | - | 6,332 |
| Cash and cash equivalents | 413 | - | - | - | - | 413 |
| **Total assets** | 33,124 | 1,099 | - | 740 | 301 | 35,264 |
| **Current liabilities** | | | | | | |
| Trade and other payables | (8,376) | - | - | (206) | - | (8,582) |
| Current tax liabilities | (397) | - | - | - | - | (397) |
| Bank overdraft and loans | (979) | - | - | - | - | (979) |
| **Non-current liabilities** | | | | | | |
| Deferred income | (684) | - | - | - | - | (684) |
| Retirement benefit obligation | (1,723) | - | - | (740) | - | (2,463) |
| Deferred contingent consideration | (1,203) | 750 | - | - | - | (453) |
| Bank loans and borrowings | (2,690) | - | - | - | - | (2,690) |
| **Total liabilities** | (16,052) | 750 | - | (946) | - | (16,248) |
| **Net assets** | 17,072 | 1,849 | - | (206) | 301 | 19,016 |
| **Equity** | | | | | | |
| Called-up share capital | 4,181 | - | - | - | - | 4,181 |
| Share premium | 14,578 | - | - | - | - | 14,578 |
| Capital redemption reserve | 495 | - | - | - | - | 495 |
| Profit and loss account | (2,182) | 1,849 | - | (206) | 301 | (238) |
| **Total equity** | 17,072 | 1,849 | - | (206) | 301 | 19,016 |

# Independent review report to Sanderson Group plc

## Introduction
We have been instructed by the company to review the financial information set out on pages 1 to 19. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. This report is made solely to the company, having regard to guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our work, for this report, or for the conclusions we have formed.

## Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules. The directors are also responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those which will be adopted in the annual accounts, having regard to the accounting standards applicable to such accounts.

## Review work performed
We conducted our review having regard to guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

## Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 March 2007.

**RSM Robson Rhodes LLP**
**Chartered Accountants**
**Birmingham, England**
***24 May 2007***

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