

SANDERSON GROUP PLC

Interim Results for the period ended 31 March 2006

CHAIRMAN'S STATEMENT

Introduction

The trading results for the six months to 31 March 2006 show turnover of £7.435 million and operating profit of £251,000. Operating profit before amortisation, exceptional items and LTIP charges amounted to £1.233 million.

Trading Results

The trading results for the six months to 31 March 2006 are summarised below:

	Six months to 31 March 2006 (unaudited) £000	Six months to 31 March 2005 (unaudited) £000
Turnover	7,435	7,897
Cost of sales	(1,204)	(1,774)
Gross profit	6,231	6,123
Administrative expenses	(4,998)	(4,806)
Adjusted operating profit*	1,233	1,317
Amortisation, LTIP charges & exceptional administrative expenses	(982)	(1,695)
Operating profit / (loss)	251	(378)
Profit on disposal of fixed assets	128	-
Bank interest payable	(69)	(119)
Non-recurring interest	-	(504)
Other finance costs	(27)	(23)
Profit / (loss) on ordinary activities before taxation	283	(1,024)
Adjusted earnings per share – basic*	2.21p	1.62p#
Adjusted earnings per share – diluted*	2.11p	1.56p#

* Before amortisation, exceptional administrative expenses and LTIP charges.

Adjusted to remove the effect of pre-admission share structure.

The absence of exceptional, non-recurring costs relating to the period prior to the Group's admission to AIM in December 2004 has enabled the Group to report a profit before taxation which compares favourably with the comparative period, in which exceptional non-recurring costs were reported.

The Group disposed of its surplus property at Huntingdon during the period, generating a profit on disposal of £128,000.

Dividends

An interim dividend of 1.1 pence per ordinary share is being declared and will be paid on 14 July 2006 to shareholders on the register at the close of business on 16 June 2006.

Acquisition

In February 2006, the Group acquired Megabyte Limited for a maximum consideration of £2.5 million. The business now trades as Sanderson Retail Systems Limited and the marketing of the Sanderson brand in the retail sector is expected to generate additional business opportunities. In the five weeks since acquisition trading was slightly above expectations and contributed 6% to the Group's turnover. Sanderson Retail Systems complements the activities of existing Sanderson businesses, particularly Sanderson PCSL, Mail Order and Wholesale Distribution and a number of cross-selling opportunities are actively being developed.

Balance Sheet

The profile of the balance sheet has changed as a result of the acquisition of Sanderson Retail Systems in February with stock, debtors and deferred income increasing as a direct result. We are confident that, once fully integrated, improved cash generation will be achieved from this business.

With net debt of £3.2m, the Group has the capacity to pursue additional strategic acquisitions.

Business Review

Towards the end of the last financial year ended 30 September 2005, the Group experienced a slowdown in the level of discretionary spend from some of its clients, most markedly, in the manufacturing sector. This slowdown in spending from the Group's manufacturing clients has continued into the current year, however after a slow first quarter up to the end of December, overall activity levels have been good and trading in the second quarter has been slightly ahead of the comparative quarter last year.

Whilst the level of turnover is slightly lower (6%) than the comparative period last year, gross margin has increased by over 6% to 84%, reflecting a favourable turnover mix with more Sanderson owned IPR and services being provided.

The Group has built up 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, together with professional services. These provide clients with a good return on investment. Historically, more than 50% of turnover arises from recurring licence, support and maintenance contracts, with a further 40% of turnover being derived from additional products and services to existing clients and the balance is derived from new customers.

For the period to 31 March 2006, recurring revenues continued to increase and represented 56% of Group turnover. Eight new clients were gained in the period, compared with five in the comparative period last year, though the average order value was lower at just over £70,000.

Approximately 76% of the Group's turnover was generated from the sale of software products, with the remaining 24% represented by the provision of associated consultancy services. These figures remain unchanged from the previous period.

The Group's software products are designed to meet all the operational needs of a broad range of businesses and cover functions common to all customers, from sales and marketing through to 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.

Customers who contract for a new or upgraded system also contract for consultancy services. These cover the provision of experienced Sanderson personnel who assist in the set-up, installation and implementation of the software as well as the provision of general IT advice. Customers also make annual payments for ongoing technical support and maintenance services.

Markets

The acquisitions of Sanderson Retail Systems and PCSL in the last twelve months have provided the opportunity to reposition the Group, which now addresses two principal market sectors.

Multi-Channel Sales incorporates Wholesale Distribution (including cash and carry), Mail Order and the Retail Sector. The recent acquisitions have considerably strengthened our position in this market sector and this is now the largest part of the Group. New contracts were won with Thompson & Morgan, Folio Society, Homeserve and Echo amongst others. Multi-Channel Sales accounted for 51% of Group turnover in the period compared with 40% in the comparative period last year.

Manufacturing covers the provision of solutions to the engineering, plastics, electronics, furniture, automobile parts and print markets, as well as specialist solutions for the food industry. Though trading was generally slow in this market sector, a number of new contracts were won during the period. Manufacturing accounted for 49% of Group turnover in the period compared with 60% in the comparative period last year.

Strategy

The Group strategy is to build on its leading market position as a specialist provider of software and IT services by a combination of organic growth and selective acquisitions to enhance the size, profitability and earnings of the Group.

Staff

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

Outlook

The Group has been strengthened by the two acquisitions which have been made in the last year and further acquisition opportunities are being actively developed. The Board is encouraged by the trading performance of the Group in the second quarter to 31 March 2006, and there is a strong pipeline of sales prospects entering the second half year, some of which have already been converted into firm orders.

The Board anticipates a satisfactory outcome for the current year.

Christopher Winn
Chairman
4 May 2006

CONSOLIDATED PROFIT & LOSS ACCOUNT
for the six months ended 31 March 2006

	Notes	Continuing operations 31 March 2006 (unaudited) £000	Acquisitions 31 March 2006 (unaudited) £000	Group 31 March 2006 (unaudited) £000	Group 31 March 2005 (unaudited) Restated £000	Group Year ended 30 September 2005 (audited) Restated £000
Turnover		6,952	483	7,435	7,897	15,460
Cost of sales		(1,088)	(116)	(1,204)	(1,774)	(3,123)
Gross profit		5,864	367	6,231	6,123	12,337
Administrative expenses		(5,691)	(289)	(5,980)	(6,506)	(12,156)
Operating profit before amortisation, exceptional items and LTIP charges		1,155	78	1,233	1,317	2,822
LTIP charges	2	(204)	-	(204)	(102)	(310)
Goodwill amortisation	3	(778)	-	(778)	(577)	(1,255)
Exceptional administrative expense	4	-	-	-	(1,016)	(1,076)
Operating profit / (loss)		173	78	251	(378)	181
Profit on disposal of fixed assets				128	-	-
Interest on bank debt	5			(69)	(119)	(187)
Non-recurring interest	5			-	(504)	(504)
Interest payable				(69)	(623)	(691)
Interest receivable				-	-	28
Other finance costs				(27)	(23)	(46)
Profit / (loss) on ordinary activities before taxation				283	(1,024)	(528)
Taxation				(360)	(14)	(73)
Loss on ordinary activities for the financial period				(77)	(1,038)	(601)
Basic loss per share (pence)	6			(0.19p)	(2.35p)	(1.42p)
Fully diluted loss per share (pence)	6			(0.19p)	(2.35p)	(1.42p)

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES
for the six months ended 31 March 2006

	Group	Group	Group
	31 March	31 March	Year ended
	2006	2005	30 September
	(unaudited)	(unaudited)	2005
	£000	£000	(audited)
			£000
Loss on ordinary activities for the financial period	(77)	(1,038)	(601)
Actuarial loss recognised in the pension scheme	-	-	(1,052)
Deferred tax arising on losses recognised in the pension scheme	-	-	316
	-	-	(736)
Total recognised losses for the financial period	(77)	(1,039)	(1,337)
Prior year adjustment (note 12)	(563)		
Total losses recognised since last annual report	(640)		

CONSOLIDATED BALANCE SHEET
as at 31 March 2006

	Notes	31 March 2006 (unaudited) £000	31 March 2005 (unaudited) Restated £000	30 September 2005 (audited) Restated £000
Fixed Assets				
Intangible assets	3	24,933	21,756	22,949
Tangible assets		637	879	914
		<hr/> 25,570	<hr/> 22,635	<hr/> 23,863
Current assets				
Stocks		409	103	103
Debtors	7	6,732	3,850	4,188
Cash at bank and in hand		413	526	524
		<hr/> 7,554	<hr/> 4,479	<hr/> 4,815
Creditors: amounts falling due within one year	8	(10,955)	(8,225)	(9,008)
Net current liabilities		<hr/> (3,401)	<hr/> (3,746)	<hr/> (4,193)
Total assets less current liabilities		22,169	18,889	19,670
Creditors: amounts falling due after more than one year	9	(3,374)	(1,010)	(1,380)
Net assets excluding pension liability		<hr/> 18,795	<hr/> 17,879	<hr/> 18,290
Net pension liability		(1,723)	(1,005)	(1,736)
		<hr/> 17,072	<hr/> 16,874	<hr/> 16,554
Capital and reserves				
Share capital		4,181	4,044	4,081
Shares to be issued		495	-	-
Share premium		14,578	13,970	14,183
Profit & loss account	10	(2,182)	(1,140)	(1,710)
		<hr/> 17,072	<hr/> 16,874	<hr/> 16,554

CONSOLIDATED CASH FLOW STATEMENT
for the six months ended 31 March 2006

	Group 31 March 2006 (unaudited) £000	Group 31 March 2005 (unaudited) £000	Group Year ended 30 September 2005 (audited) £000
Net cash inflow from operating activities	669	795	1,907
Returns on investments and servicing of finance	(109)	(119)	(301)
Taxation	(410)	-	(92)
Capital expenditure and financial investment	477	(54)	(107)
Acquisitions	(1,637)	-	(857)
Equity dividends paid	(575)	-	(445)
Net cash (outflow) / inflow before financing	(1,585)	622	105
Movement in loans	1,285	(3,675)	(3,160)
Capital element of hire purchase repayments	(8)	-	-
Issue of ordinary shares	-	5,795	5,795
Repayment of loan notes	-	(4,000)	(4,000)
Decrease in cash and cash equivalents in the period	(308)	(1,258)	(1,260)
Reconciliation of net cash inflow from operating activities			
Operating profit / (loss)	251	(378)	181
Depreciation and amortisation	857	682	1,398
LTIP charges	204	102	310
Increase in stocks	(39)	-	-
(Increase) / decrease in debtors	(1,306)	173	626
Increase / (decrease) in creditors	702	216	(608)
Net cash inflow from operating activities	669	795	1,907

	30 September 2005 £000	Cashflow £000	Acquisition £000	Non-cash changes £000	31 March 2006 £000
Reconciliation of movement in net debt					
Cash at bank	524	(111)	-	-	413
Overdraft	-	(197)	-	-	(197)
Net cash	524	(308)	-	-	216
Bank debt					
due within one year	(760)	10	-	-	(750)
due after more than one year	(1,380)	(1,295)	-	39	(2,636)
Capital element of hire purchase					
due within one year	-	-	(32)	-	(32)
due after more than one year	-	8	(62)	-	(54)
	(1,616)	(1,585)	(94)	39	(3,256)

NOTES TO THE ACCOUNTS

1. The interim results for the periods ended 31 March 2006 and 31 March 2005 are unaudited and do not constitute statutory accounts within the meaning of s.240 of the Companies Act 1985. They comply with relevant accounting standards and have been prepared on a consistent basis using the accounting policies set out in the 2005 statutory accounts. The comparative figures for the financial period ended 30 September 2005 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.
2. LTIP charges represent the amount chargeable to the profit and loss account in the period in respect of the Long Term Incentive Plan. An assumption has been made that all awards under the Plan will vest at the end of the three year performance period.
3. The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Goodwill relating to the acquisition of Sonarsend Limited and the Sanderson trade in 2003 is being amortised over a period of 20 years. Goodwill arising on the acquisition of Sanderson PCSL Limited in 2005 is being amortised over a period on 5 years. Goodwill arising on the acquisition of Sanderson Retail Systems Limited in 2006 is being amortised over a period of 10 years. In all cases the directors consider the periods to approximate to the useful economic lives of the businesses acquired.
4. Exceptional items represent the expenses and associated preparation reorganisation costs incurred in relation to the admission of Sanderson Group plc to AIM on 16 December 2004.
5. Interest comprises:

	Group	Group	Group
	31 March	31 March	Year ended
	2006	2005	30 September
	(unaudited)	(unaudited)	(audited)
	£000	£000	£000
Unsecured loan note interest	-	329	329
Write-off of facility fees	-	175	175
Total non-recurring interest	-	504	504
Bank loan interest	69	119	187
Total interest payable	69	623	691

The unsecured loan notes were repaid following the Admission of the company's shares to AIM on 16 December 2004.

6. Actual loss per share is calculated on the basis of the following information:

	Group 31 March 2006 (unaudited) £000	Group 31 March 2005 (unaudited) £000	Group Year ended 30 September 2005 (audited) £000
Earnings used in basic and diluted earnings per share calculation			
Loss for the financial period	(77)	(1,038)	(601)
Earnings used in calculating earnings per share adjusted for goodwill amortisation, LTIP charges and exceptional items			
Loss for the financial period	(77)	(1,038)	(601)
LTIP charges	204	102	310
Goodwill amortisation	778	577	1,255
Exceptional items	-	1,016	1,076
	905	657	2,040
Weighted average number of shares in issue			
Basic	41,017,902	44,229,846	42,406,166
Dilutive effect of share options	1,786,852	1,727,029	2,155,233
Diluted	42,804,754	45,956,875	44,561,399

The basic weighted average number of shares in issue in the six months to 31 March 2005 shown above is distorted by the share structure in place prior to the Group's admission to AIM. The adjusted earnings per share figures quoted in the Chairman's statement is therefore based on the number of shares in issue from the float date of 16 December 2004 to 31 March 2005. As a result, basic number of shares in issue used in the calculation for the six months to 31 March 2005 is 40,438,482 and the diluted number 42,165,511.

7. Analysis of debtors

	31 March 2006 (unaudited) £000	31 March 2005 (unaudited) £000	30 September 2005 (audited) £000
Trade debtors	5,268	3,279	3,152
Deferred taxation	400	-	400
Accrued income and prepayments	1,064	571	636
	6,732	3,850	4,188

8. Analysis of creditors due within one year

	31 March 2006 (unaudited) £000	31 March 2005 (unaudited) Restated £000	30 September 2005 (audited) Restated £000
Bank loans and overdraft	947	660	760
Hire purchase creditor	32	-	-
Trade creditors	1,333	990	937
Corporation tax	397	115	455
Other taxes and social security	1,091	752	898
Other creditors	1,422	399	750
Accruals and deferred income	5,733	5,309	5,208
	<hr/> 10,955	<hr/> 8,225	<hr/> 9,008

9. Analysis of creditors due after more than one year

	31 March 2006 (unaudited) £000	31 March 2005 (unaudited) £000	30 September 2005 (audited) £000
Bank loans	2,636	1,010	1,380
Hire purchase creditor	54	-	-
Deferred income	684	-	-
	<hr/> 3,374	<hr/> 1,010	<hr/> 1,380

10. Profit & loss account reserve

	31 March 2006 (unaudited) £000	31 March 2005 (unaudited) Restated £000	30 September 2005 (audited) Restated £000
At start of the period – as previously reported	(1,710)	(428)	(428)
Prior year adjustments (note 12)	-	225	225
	<hr/> (1,710)	<hr/> (203)	<hr/> (203)
Total recognised gains & losses	(77)	(1,038)	(1,337)
Dividends paid	(575)	-	(445)
LTIP reserve transfer	180	101	275
	<hr/> (2,182)	<hr/> (1,140)	<hr/> (1,710)

11. Acquisition of subsidiary undertaking

On 22 February 2006 the Group acquired the entire issued share capital of Sanderson Retail Systems Limited ('SRS'). Prior to the acquisition SRS traded as Megabyte Limited. The consideration paid on acquisition was £1,495,000 of which £1,000,000 was paid in cash and £495,000 in shares. A further £500,000 cash and further ordinary shares in Sanderson Group plc may be payable dependent upon the achievement of performance targets by SRS for a period ending not later than 30th September 2008.

The following table sets out the book values of the identifiable assets and liabilities acquired, and their provisional fair values to the Group.

	Book value £000	Fair value adjustments £000	Provisional fair value £000
Tangible fixed assets	217	(66)	151
Stock	267		267
Debtors	1,245		1,245
Bank overdraft	(332)		(332)
Trade creditors	(180)		(180)
Other creditors	(1,069)		(1,069)
Net assets	148	(66)	82
Consideration and costs			
Shares issued			495
Cash			1,000
Costs incurred			105
Contingent deferred share consideration			495
Contingent deferred cash consideration			500
Consideration and costs			2,595
Goodwill arising			2,513

In addition, on 24 March 2006 the Group acquired the IPR in a software product that complements the Group's existing product offerings. Consideration of £200,000 cash was paid on acquisition, with a further £50,000 in cash being payable in October 2006. The payments are being treated as an intangible asset and amortised over a period of 3 years, which is considered to be the useful life of the product acquired.

12. Prior year adjustment

The following UK accounting standards have been adopted for the first time in preparing the interim results for the six months ended 31 March 2006:

FRS17 Retirement benefits

The Group previously reflected the transitional disclosure rules of the standard, but has now adopted the recognition and measurement requirements for the first time.

FRS21 Events after the balance sheet date

The standard requires dividends to be recognised when paid, or approved in General Meeting. As a result, certain dividends previously accrued at period ends have been recognised when paid or approved as applicable.

FRS25 Financial instruments: disclosure & presentation

Dividends, when recognised, are now reported as a movement in reserves rather than on the face of the profit & loss account

FRS28 Corresponding amounts

No material changes have resulted from the adoption of this standard

Adoption has required a restatement of the comparative information, as summarised below.

	31 March 2006 (unaudited) £000	31 March 2005 (unaudited) Restated £000	30 September 2005 (audited) Restated £000
Balance sheet at period end			
Reduction in provisions for liabilities & charges	-	1,208	1,173
Increase in net pension liability	-	(1,005)	(1,736)
Reduction in creditors – proposed dividends	-	485	572
	-	688	9
Profit & loss account for the period			
Increase in taxation	-	-	(6)
Increase in other finance costs	-	(23)	(46)
Increase in loss for the period	-	(23)	(52)

The adoption of FRS17 resulted in a lower net liability under FRS17 than previously existed under SSAP24 at 30 September 2004. As a result the net assets and profit and loss reserve have increased at this date by £225,000.

INDEPENDENT REVIEW REPORT TO SANDERSON GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the six months ended 31 March 2006 which comprises the consolidated profit and loss account, statement of recognised gains and losses, balance sheet, cash flow statement and notes to the accounts. 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 in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

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 which require that the interim report must be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of 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 Statements 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 2006.

KPMG Audit Plc
Chartered Accountants
Leeds
4 May 2006