FOUR SQUARE

research

SANDERSON GROUP PLC

Recovery Continues

May 2010

On a rating less than half comparable sectors, the shares have further to go

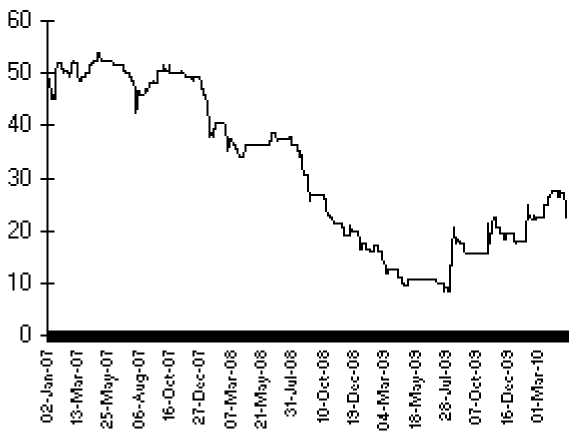
Sanderson, the software and IT services group, continues to recover well from the late 2008 downturn. Although reporting for its first half that its customers still face tough conditions, new products have helped grow both the order book and new customer wins by 50% over the comparable period. H1 results show a 29% improvement in operating profit on revenues 6% ahead, and with most of the higher order book for implementation in H2, the improving trend should continue.

The shares have been recovering well since their low in July last year – helped by the confidence that Chairman, Christopher Winn, displayed in February by buying a 26% stake (at 20p) to take his holding to 29.9%.

However, they are still very low. Along with most companies on AIM, Sanderson fell much further at the start of the recession in late 2008 than has turned out to be warranted, and although partly caused by a cut in the dividend (which is starting to be restored this year – the interim is 0.25p vs 0.20p) the company's share rating on even modest expectations for current year earnings is STILL substantially below that in any other comparable business supply sector.

One reason for the share weakness that set in on the recession, was the high level of borrowings (to avoid diluting equity shareholders) taken in the late summer of 2007 to fund the acquisition of Retail Business Solutions (now Sanderson RBS), whose full contribution is still flowing through. The associated debt was renegotiated last year, with repayments well within the Group's capacity to repay, and so far this year net gearing is down to 46% from 49%.

Our expectation of gearing under 30% by 2011 should help the improving sentiment, and in this light a current year fully taxed PER of only 6.1 (at 22p on our forecasts of normalised earnings) which is about half the average of all other comparable suppliers to business (software, computer, and services) – makes the shares still attractive for continuing recovery.



Listing	AIM
Ticker	SND
Shares in issue m	43.9
(fully diluted)	49.3
Latest share mid price (p)	23
Mid-market cap £m	£10.0
Enterprise Value £m	£18.1
Latest reported EBITDA m	£2.8
Latest reported EBT m	(£2.0)
Curr year est EBITDA m	£3.2
Latest year adjusted eps (p)	3.4
Current year est adj eps (p)	4.4
Latest 12 mo div	0.45
Est curr year div	0.50

John Cornford MSI, May 2010

***about* - FOUR SQUARE**

Many companies are only sparsely covered by broker research. We aim to fill the gap. Although 'sponsored' by our subject companies (we are not stockbrokers, so do not earn, and have no incentive to earn, commissions by trading the shares) we must earn a living. We know that we will not succeed if our investor readers come to distrust our objectivity. *See Regulatory Disclaimer page 13*

CONTENTS

Latest interims confirm a stable record in a vital business niche

Sanderson is one of the longest established UK management software groups, who over the years has built a niche as a supplier of specialist solutions to the **multi-channel retail** and **manufacturing** sectors, where it has many well known and solid customers.

Except for the effects of the sharp demand downturn in 2008/9 1st half, the company's financial progress over the last four years has been remarkably stable half-year by half-year – which together with the business niche that it occupies, we think warrants a better image and rating than Sanderson has been accorded recently.

Interim results announced May 17th and the table below shows a continuation of this record, with revenues ahead 3% but with the order book 50% higher over the six months, and operating profit 29% ahead continuing the recovery. Lower gross margins this time reflect a higher proportion of other products that are integrated with Sanderson's proprietary software, but offset by lower costs elsewhere.

We discuss Sanderson's longer term performance and its business and customers in more detail later. Suffice to say that the acquisition of Retail Business Solutions (now Sanderson RBS) in late 2007 brought substantial additional business in the retail sector, but initially at lower gross margins than for its original business which was based on the Group's own software and owned IPR.

As for prospects, the recent growth of Sanderson has stemmed primarily from that in its retail customers, who need to enhance their IT systems to cope with, amongst other things, the move to e-commerce (on-line retail) and multi-channel retailing (combining store, Internet and mail order sales) - a trend both Sanderson and the industry sees as continuing.

The Group's manufacturing customers have struggled during the UK recession, although the food sector has continued to actively invest in IT. Now that sterling has slumped and could fall further, it is reasonable to expect that UK manufactured exports will revive (both Tory and Labour are promising support) – and that manufacturers will resume enhancing their IT systems.

Sanderson Group									
Years to end Sept	**2006**	**2006**	**2007**	**2007**	**2008**	**2008**	**2009**	**2009**	**2010**
£'000's	H1	H2	H1	H2	H1	H2	H1	H2	H1
New clients	11	14	9	6	14	5	10	16	15
Turnover	**7,296**	**8,600**	**8,125**	**10,040**	**13,001**	**14,553**	**12,956**	**11,940**	**13,313**
Gross Profit	**6,100**	**7,205**	**6,666**	**8,051**	**9,558**	**9,989**	**9,233**	**8,795**	**8,929**
gross margin	83.6%	83.8%	82.0%	80.2%	73.5%	68.6%	71.3%	73.7%	67.1%
Operating Profit (EBITA)	**1,457**	**1,821**	**1,414**	**2,052**	**1,968**	**2,102**	**1,066**	**1,697**	**1,376**
Net interest	(96)	**(179)**	(128)	(196)	(454)	(469)	(397)	(427)	(620)
Normalised Pbt EBTA	**1,361**	**1,642**	**1,286**	**1,856**	**1,514**	**1,633**	**669**	**1,270**	**756**
Non-cash etc charges	(371)	(654)	(1,017)	(575)	(549)	(1,697)	(2,789)	(1,176)	(722)
Pre-tax profit reported	**990**	**988**	**269**	**1,281**	**965**	**(64)**	**(2,120)**	**94**	**34**

The table shows the Group's underlying performance each half-year (normalised Pbt), and, separately, non-cash and exceptional charge,s before the reported pre-tax profit.

Like all software groups with past acquisitions, Sanderson amortises their goodwill in its balance sheet, artificially reducing stated earnings and rendering comparisons unrealistic. We ignore this in arriving at 'normalised' earnings.

Similar AIM listed suppliers (Sanderson's peers) have also been lagging the stockmarket

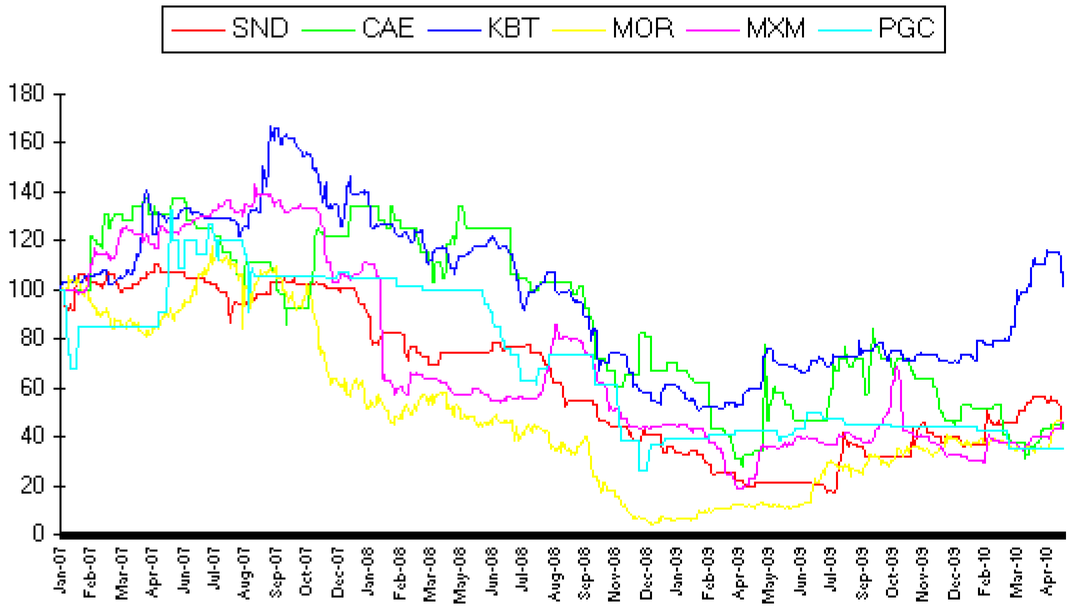
The stockmarket recovery that set in from April 2009 has included practically all industries and sectors – except AIM.

From July 2008 AIM fell twice as far as the rest of the market - and has still not recovered. Currently (May 2010) its index is still only 60% of its 2008 peak, whereas the FTSE All Share is at 86%.

Looking at Sanderson's peers on AIM, it is apparent that the small cap IT sector (although it has been recovering) is still trading at levels well below others. We deduce that is not necessarily due to any fundamental problem with small software companies, but reflects the low level of activity on the AIM market.

The share price charts (shown below since Jan 2007) of Sanderson, and its peer group among smaller software providers, show this.

All have markedly underperformed both the wider software sector and the market generally and only now are a few starting to recover. The largest company shown, K3 Business Systems (KBT) operates in the same sector as Sanderson (SND) and has been reporting a similar recovery in business. Although, with some talk of a double-dip, the UK economy remains fragile, if the recovery in orders reported by Sanderson and many of its peers continues, and business confidence builds, we expect a gradual improvement in this sector's rating to follow.



Sanderson (red SND) and peer group shares relative peformance since Jan 2007

CAE = Charteris
KBT = K3 Business Systems
MOR = Morse
MXM = Maxima Holdngs
PGC = Prologic

Sanderson History and Strategy

Sanderson was founded in 1983 as Sanderson Electronics; was taken private by the management backed by Alchemy Partners in 1999; and demerged into three business entities. The software business that is now Sanderson Group was refloated on AIM in 2004 at 50p, valuing the Group at £20.2m - Alchemy Partners retaining 27.8% and the directors 3.3%. Chairman, now and at the float, Christopher Winn, has recently bought most of Alchemy's stake (at 20p) to take his holding to 29.9%.

Developing and providing IT solutions

Sanderson has continued to own and develop its own software IP - differing from many of its peers who depend on reselling systems from the large software groups like Microsoft, SAP, and Sage. There are pros and cons of 'going it alone' but a 'pro' is to be closer to clients, with packaged solutions that match customer needs without requiring high levels of bespoke or development work. And a 'con' for those who are mere resellers/installers is that the franchise can be lost overnight, as happened late last year in the case of its QAD product, to Maxima Holdings which could be regarded as a member of the Sanderson peer group.

Sanderson has successfully pursued this strategy in its longstanding software businesses, such as in manufacturing, where it now has around 200 clients in a diverse range of industries and today offers its latest product, the Unity ERP suite. It has developed specialist products for the printing and aerospace markets, and also for the food and drink sector where demand for IT systems to cope with regulatory requirements such as traceability, is currently strong.

Acquisitions since AIM float			Consideration £'000's	
			cash	shares
Jul-05	Progressive Computer Systems		750	250
Feb-06	Megabyte, now Sanderson Retail Systems		1,875	495
Feb-07	Elucid (software and trading assets)		1,112	0
Sep-07	Retail Business Solutions Group Ltd		9,225	227

(Consideration is net of cash or borrowings acquired)

However, given that the UK manufacturing market has been in decline, the company's strategy since 2005, has been to expand in the stronger multi-channel retailing sector, and accordingly Sanderson made a transformational cash acquisition in September 2007 of Retail Business Solutions Ltd (now Sanderson RBS), which has a longstanding and strong position in the retail market.

Through Sanderson RBS the company has been supplying solutions based on Retail-J, which is considered to be the market-leading EPoS, back office and retail estate management solution. Utilising the latest (Java-based) technology, the system has proved attractive to retailers searching for a solution to help meet the demands of modern retailing.

Sanderson estimates that it has implemented over half of all UK Retail-J installations, making it the leading provider in the UK, and now has, for example, Harrods and Selfridges, along with over 3,000 retail outlets belonging to the UK's major retail and department store chains, as customers for its add-on products and for its support and managed services.

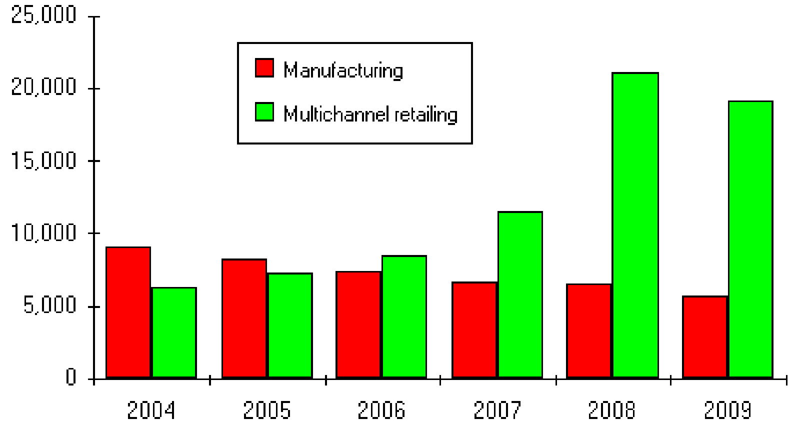
Sanderson has only recently completed the integration of RBS – which in the latest year has continued to win new clients, such as Fenwick and Hamleys.

The acquisition of Sanderson RBS came after that of Elucid (an e-business system for multi-channel retailers) in February 2007, and of EPoS and retail specialist Megabyte Ltd (now Sanderson Retail Systems) in February 2006. Progressive Computer Systems – a specialist in browser-based software – was acquired in July 2005.

Expansion in multi-channel retail

The chart below shows how the balance of Sanderson Group's revenues has been changed by the acquisition of RBS. Not shown is that revenue growth has been faster than customer numbers, demonstrating a key aim of its acquisition which was to be able to sell more upgrades, and support, maintenance, and managed service contracts to existing customers, as well as to acquire new ones.

The retail business now accounts for 75% of the Group's revenue and the company expects it to drive the bulk of its growth in the foreseeable future.



New products continue to be introduced

An emerging, and currently strong, part of the Sanderson retail business is driven by the need of its customers for 'Business Assurance' services – i.e. both to counter credit card fraud / help retailers with PCI (payment card industry) compliance, and to ensure continuity in the face of system failures.

For this, Sanderson has recently launched its **Business Assurance** managed services suite of products, which it describes as designed to protect businesses from system failures; to reduce cost of ownership; and to increase return on IT investment. They ensure that IT infrastructures and processes are run optimally and monitored for threats or potential failure. Identified issues are rectified to maintain trading and to improve "the customer experience" – a concept that retailers regard as key to their success.

This product is being used by a growing number of Sanderson customers - an example being Wilkinson, a Midlands based hardware, DIY and general retail chain which has expanded rapidly to over 330 stores currently. Sanderson says that its 3,200 EPoS terminals process over one million transactions a day, while its business assurance service ensures smooth running throughout the group's in-store, back office, and head office systems.

Business Assurance Services now account for over 6% of the Sanderson's retail business, with scope to grow through extending it to existing as well as new customers.

In manufacturing, a recent addition to Sanderson's product range is **Factory Automation** - the most recent enhancement to the latest version of its Unity enterprise solution introduced in 2003. As such, Sanderson considers it to be more up-to-date than many of the "generic" packages offered by its competitors. For this product Sanderson has recently gained new customers in the aerospace, print and food industries, one of whom is using it to replace its existing Sage and Microsoft applications.

Sanderson software products

For Multi-channel retail

Multi-channel retail is a generic term which applies to retailers where expansion in on-line sales requires the integration of web selling, fulfilment, and the supply chain with their existing in-store management and EPoS systems, and represents a broader set of needs than those previously implied by mail order and ecommerce. Sanderson supplies software fulfilling all these requirements to:

Tier 1 department stores such as Harrods, Selfridges & Fenwick
Regional department stores such as Stringers, Boyes, Banburys & Creasey's
High street multiples such as Wilkinson, Ryman, Paperchase, Slaters (Menswear, Womenswear, Formal Hire), Russell & Bromley, La Senza, Lakeland, Kurt Geiger and Jaeger
Multi-channel retailers such as Hotel Chocolat, Thorntons, OKA and Scotts of Stow
Multi-fascia retailers such as French Connection & Toast; Tie Rack & Rolling Luggage; Blacks, Millets, Peter Storm, Freespirit & Mambo
Discount retailers such as Choice Discount
Football clubs such as Tottenham Hotspur
Garden centres such as Wyevale Garden Centres (now the Garden Centre Group)
Speciality retailers such as Cass Art
Charities such as Help the Aged, British Heart Foundation and Cats Protection
Tourist destinations such as English Heritage and Kew Gardens
Buying groups and their members such as AIS and Nisa-Today's

Specific products for the multi-channel retail market include:

Retail-J – now the Sanderson Group's flagship product in the retail market. Aimed at tier 1 and tier 2 retailers, it is an EPoS, back office and retail estate management solution that integrates with other company-wide retail systems. It is suitable for fashion retail, department stores, general merchandise, big ticket items, and telecommunications with users including Harrods, French Connection, Wilkinson, Hotel Chocolat and Selfridges. Fenwick, the department store chain, with a large initial order, was added in 2009, and Sanderson reckons that, with some 350 clients it is one of the leading suppliers to the retail sector in the UK.

Elucid (acquired in 2007) is an ecommerce solution (i.e. on-line catalogues and mail-order) for smaller retailing groups and has around 50 customers (118 brands). In addition, Sanderson offers its longer established **Midas** package for smaller retailers like garden centres, tourist destinations, and charity retailers. It is used by around 1,000 outlets including those of Rohan, English Heritage, Intersport, and Kew Gardens (who in 2009 said of Sanderson "- they are experts in retail management and their solutions are very user-friendly …").

In retail Sanderson also supplies a wholesale distribution package, which is aimed at Delivered Wholesale and Cash & Carry businesses, and integrates the whole supply and distribution chain incorporating sales, warehousing, purchasing, cash management, customer relationship management, stock and RFID systems. Sanderson is the preferred IT supplier to the wholesale and cash and carry businesses of Nisa-Today's – with a turnover in excess of £1billion, one of Europe's largest independent buying groups.

For Manufacturing

Sanderson has been selling management software packages for over 25 years to medium-sized manufacturers in a variety of sectors. Some in which it operates include aerospace components, automotive components, defence equipment, electronics manufacture, engineering fabrication, furniture, printing, and metals manufacture.

Unity, the company's latest package, is described by Sanderson as very attractive to customers because the functionality is rich; it can be set up to their special requirements; and can accommodate a wide range of manufacturing styles such as complex, batch, mixed mode, make-to-order, assemble-to-order and configure-to-order environments. A customer example is aerospace parts manufacturer Bromford Industries (recently gained) with others including Anstey Wallpapers, Denman, Douglas, Protex, Bemrose Booth, Clays and Sherborne Upholstery.

Food and Drink

While the demand for software from the manufacturing sector as a whole has been declining, there are still healthy subsectors within it such as food and drink processing, which needs to cope with regulatory requirements for food quality and traceability, as well as supermarket requests for more information.

For this sector, Sanderson offers its **Unity Formul8** package which manages manufacturing, procurement and distribution functions for what it lists as the following food and drink sectors - bread; pastries & cakes; coatings; condiments; dairy products & cheese; drinks (non-alcoholic); ethnic foods; fish products; flavourings; food distribution; fruit & vegetables; health products; ingredients; oils; pet & animal foods; prepared meals; sandwiches; sweets; sauces; soups; and snack foods. Customers include Tunnocks, The English Provender Co, Memory Lane Cakes, Newly Weds Foods, Nairns, and Associated British Foods

Financial Performance

Recession effect quickly repaired and underlying financials better than 'headline'

Sanderson Group summary P&L account								
Years to end Sept	**2007**	**2008**	**2009**	**2009**	**2009**	**2010**	**2010**	**2010**
£'000's	Full Year	Full Year	H1	H2	Full Year	H1	H2 est	Full Year est
New client wins	15	19	10	16	26	15		
Revenues								
Manufacturing clients	6,673	6,489	2,974	2,759	5,733	2,863		
Multi-channel retail clients	11,492	21,065	9,982	9,181	19,163	10,450		
Group Revenues	**18,165**	**27,554**	**12,956**	**11,940**	**24,896**	**13,313**	**12,387**	**25,700**
Gross Profit	**14,717**	**19,547**	**9,233**	**8,795**	**18,028**	**8,929**	**8,571**	**17,500**
gross margin	81.0%	70.9%	71.3%	73.7%	72.4%	67.1%	69.1%	68.0%
Operating Profit (EBITA)								
Manufacturing clients	976	1,255	401	357	758	536		
Multi-channel retail clients	2,490	2,815	665	1,340	2,005	840		
Group operating Profit (EBITA)	**3,466**	**4,070**	**1,066**	**1,697**	**2,763**	**1,376**	**1,624**	**3,000**
Group net interest payable	(324)	(851)	(973)	(412)	(1,385)	(628)	(472)	(1,100)
Normalised Pbt (EBTA)	**3,142**	**3,219**	**93**	**1,285**	**1,378**	**748**	**1,152**	**1,900**
Non-cash charges								
Pension & LTIP charges	(586)	(48)	(24)	(500)	(524)	(24)	0	(24)
Impairment & Amortisation	(1,006)	(2,270)	(2,189)	(691)	(2,880)	(690)	(696)	(1,386)
Pre-tax profit reported (EBT)	**1,550**	**901**	**(2,120)**	**94**	**(2,026)**	**34**	**456**	**490**
taxation	(589)	942	134	707	841	(29)	(31)	(60)
tax %	38.0%	-104.6%	6.3%	-752.1%	41.5%	85.3%	21.2%	25.5%
Net earnings reported	**961**	**1,843**	**(1,986)**	**801**	**(1,185)**	**5**	**425**	**430**
Normal tax normalised earnings	**2,545**	**2,607**	**76**	**1,054**	**1,130**	**613**	**945**	**1,558**
Diluted normalised eps	**5.7**	**5.8**	**0.2**	**2.3**	**2.5**	**1.4**	**2.0**	**3.4**
Dividend (p)	2.65	1.40	0.20	0.20	0.40	0.25	0.25	0.50

Last few years' performance.

The acquisition of Sanderson RBS in late 2007 brought a sharp, 60%, increase in turnover in 2008, but margins lower than on sales of the group's traditional software IPR, reflecting the incorporation of other bought-in solutions and hardware (such as tills, and network and communications infrastructure).

It also, of course, brought a sharp increase in the level of debt and interest paid on the loan that Sanderson took towards RBS's acquisition.

Nevertheless the initial impact of Sanderson RBS was to improve operating profits by 9% in 1st half 2008 and by 26% in the 2nd half. But for the year as a whole this was offset in reported profits by a one-off impairment charge as Sanderson rationalised its mail order and catalogue product offerings, following its acquisition of Elucid. There was also a higher interest charge, so that, after a record 1st half, reported pre-tax profit for 2008 as a whole turned out at £0.9m compared with £1.4m the previous year.

Before these impairment and other non-cash amortisation charges, 'normalised' pre-tax profit held up well however, and in the second half was a record. Cash generation for the year was a record £4.2m before a further boost from favourable working capital changes.

In 2009 however the recession started to bite in the 1st half, so that together with a sudden slow-down in business from new customers, and some one-off factors including the loss of a high margin contract with Woolworths, operating margins halved in retail and reduced by 25% in manufacturing, so that overall operating profit halved – from £1.97m to £1.07m.

Following rapid action to reduce costs (without, Sanderson says, affecting its ability to respond to a subsequent upturn) a sharp recovery was achieved in the 2nd half – to a £1.7m operating profit which was around 15% lower than the previous year's record of £2m.

Normalised 'earnings' however, – i.e. before the notional effect of goodwill amortisation and impairment – were affected by what is now higher gearing resulting from the interest charge – so came out at £1.1m compared with £3.2m.

Similarly, cash generation at £2.7m was considerably down on the record £4.2m of the previous year, and further depressed by a reversal in working capital. The situation was improved by a dividend cut (saving £1.2m) and a tax credit (which will continue) so that Sanderson was still able to pay down £2.2m of the bank loan.

For the current year, we have already outlined the first half results showing that revenues from Sanderson's traditional manufacturing sector are holding up well (and now account for 21.5% of the group) with four new customers gained against three for the whole of 2009, and recurring revenues accounting for 58% of the division's total so as to cover 86% of its overheads.

In multi-channel retail, revenues were 4.7% ahead of the previous comparable period and 13.8% ahead of the prior half-year, with eleven new customers against six in the comparable period, and the outstanding order book for new and existing customers standing at £2.6m compared with £1.4m six months before. That was after a £6.4m total order intake compared with £10.6m in the whole of 2009, and excludes pre-contracted and recurring software licence fees and support and managed service fees running at over £10.5m annually.

With most new orders due for delivery by the year end, Sanderson expects a 'satisfactory' full year trading performance. We are therefore forecasting a 'normalised' profit before tax and amortisation, of £1.9m - 38% ahead of 2009. Gross cash generation of around £3m should be available to cover around £2.3m of bank interest and loan repayments (the latter weighted towards the end of the year). For that reason, although Sanderson has declared a small, partial, restoration of the interim dividend – from 0.2p to 0.25p – we would not expect more than a similar second half payment to bring the year's dividend cost to £0.22m.

Beyond that, even though many observers, and Sanderson, are cautious, it seems reasonable to expect that Sanderson will continue its current momentum. The improvement in order intake may well be down to management initiatives taken last year whereby a more 'sales led', and customer orientated team, was promoted to a Group Operating Board immediately below the main Board.

Sanderson looks significantly undervalued

Sanderson's sector of the software stockmarket ('enterprise software' packages for SMEs) we believe has been perceived as unglamorous compared with some others (cloud computing and offsite services of various types) that are thought to be 'fast growth' and that we believe have been luring investors away from the longer established sectors.

Not only that but, as the table below shows (based on statistics at end March 2010) a comparison with the 243 companies listed in the Business Supplies; Software; and Computer Supplies sub sectors, shows Sanderson to be valued extremely cheaply on various metrics. (To arrive at the table's statistics, we have taken figures from a widely available information service, but have stripped out extreme values and cases where a statistical nonsense would be produced.)

On a PER measure, the Sanderson Group's prospective 6.1 times (on our estimates, and using pre-amortisation figures) is less than half that of the majority of other companies. The same is true for the ratio of market cap to both revenue and cash flow.

The current rating of Sanderson might be justified however in relation to yield. And that has come about because we are forecasting a payment this year less than ¼ that in 2007. In other words, Sanderson is currently paying out a much lower proportion of its earnings than are the other companies – understandably, after the cut in late 2008 to give priority to servicing the bank loan.

Valuation	No of companies			Market Cap/	Market Cap/	Projected	Projected
Parameters	in sector	in sample		Cash Flow	Revenues	PER	Yield
Business Services	120	113	Median	7.5	0.5	9.9	4.1
			Average	8.9	0.3	10.6	4.3
			Range	0.7 - 35.1	0.01- 5.0	2.5 - 27.1	1.3 - 10.9
Computer Services	35	33	Median	9.8	0.8	10.5	3.1
			Average	9.8	0.5	12.4	3.1
			Range	1.1-20.0	0.1 - 5.0	6.1 - 29.0	0.9 - 5.6
Software	88	79	Median	8.9	1.25	13.7	3.1
			Average	10.3	0.89	14	3.7
			Range	0.5 - 37.8	0.09 - 10.0	3.1 - 33.0	0.3 - 10.8
Sanderson (computer services)				**3.7**	**0.38**	**6.1**	**2.2**

Our conclusion is that when investors see signs of even a part restoration of its dividend, Sanderson's shares will recover closer to the industry norm. In any case, given that Sanderson is demonstrating through a strong recovery in orders that it remains vital to its customers, it seems illogical that investors are valuing the shares well below other companies. In addition, with the Group's good track record in adapting to change and new trends, we expect that Sanderson will itself introduce products akin to Software as a Service (SaaS) and cloud computing whenever its customers demand them.

Shareholders

Major shareholders	Number	%
Board and Management		
Christopher Winn - Chairman	13,000,000	29.60%
Other directors (4 in no)	296,000	0.67%
Others		
Axa Framlington	3,296,303	7.51%
ISIS Ep LLP	3,000,075	6.83%
Marlborough Fund Managers	2,165,000	4.93%
Chelverton Asset Management	2,000,000	4.55%
Polar Capital Technology Trust	1,900,000	4.33%
Unicorn Asset Management	1,540,200	3.51%
Others < 3%	16,723,562	38.08%
	43,921,140	100.00%
Directors' options	5,455,226	12.42%
exercisable 2007-2017 at 9.5p-57p		

Financial Record

Cash Flow Statements Years to end Sept £'000's	2005 Full Year	2006 Full Year	2007 Full Year	2008 Full Year	2009 Full Year	2010 H1
Net profit for the year	495	1,995	961	1,843	(1,185)	5
Depreciation, Amortisation, LTIP	705	1,121	978	2,692	3,228	836
Finance expense	708	297	324	851	1,693	628
Income tax expense	67	(96)	424	(942)	(841)	29
Share based pmt expense			586	48	26	24
Emplyee pension contribs	(74)	(80)	(134)	(234)	(234)	(129)
Gross cash generated	1,901	3,237	3,139	4,258	2,687	1,393
Profit on disposals	-	(119)				
Increase in stocks	-	(51)	(1)	(5)	36	
Decrease in debtors	626	934	(1,536)	1,287	762	275
Increase in creditors	(484)	(1,394)	1,318	(685)	(1,611)	
Cash generated from operations	2,043	2,607	2,920	4,855	1,874	1,668
Interest paid	(329)	(178)	(260)	(605)	(1,372)	(718)
Returns on investment	28					
Taxation	(92)	(639)	(360)	(1,139)	653	305
Capital expenditure	(107)	(156)	(128)	(269)	(150)	(72)
R&D capitalised	(136)	(271)	(69)	(50)	(92)	(35)
Disposals		530	-			
Acquisitions	(857)	(1,680)	(10,240)	(500)	-	
Pmts to pension scheme						
Financing						
Dividends paid	(445)	(1,024)	(1,110)	(1,192)	(174)	(87)
Increase in loans	2,500	1,375	10,219	-		
Decrease in loans	(9,660)	(625)	(500)	(975)	(2,200)	
Issue of shares	5,795	-				
Increase in Cash	(1,260)	(61)	472	125	(1,461)	1,061
Cash etc at start	1,784	524	463	935	1,060	(401)
Cash etc at end	524	463	935	1,060	(401)	660

P&L account

Years to end Sept £'000's	2005 Full Year	2006 Full Year	2007 Full Year	2008 Full Year	2009 Full Year	2010 H1	2010 H2 est	2010 Full Year est
New client wins (number)	17	25	15	19	26	15		
Recurring revenues & fees	8,194	8,882	9,490	13,450	13,560	6,700		
Other	7,266	7,267	8,675	14,104	11,336	6,613		
of which								
Manufacturing	8,657	7,397	6,673	6,489	5,733	2,863		
Multi-channel sales	6,803	8,499	11,492	21,065	19,163	10,450		
Group Revenues	15,460	15,896	18,165	27,554	24,896	13,313	12,387	25,700
Gross Profit	12,337	13,305	14,717	19,547	18,028	8,929	8,571	17,500
gross margin	79.8%	83.7%	81.0%	70.9%	72.4%	67.1%	69.2%	68.1%
Operating Profit (EBITA)	2,908	3,278	3,466	4,070	2,763	1,376	1,624	3,000
Derivatives fair value charge				72	(561)	(8)		
Net interest	(708)	(275)	(324)	(923)	(824)	(620)	(480)	(1,100)
Normalised Pbt EBTA	2,200	3,003	3,142	3,219	1,378	748	1,152	1,900
Non-cash etc charges								
LTIP charges	(458)	(642)	(586)	(48)	(26)	(24)	0	(24)
Discontinued & impairment	-	(183)	(385)	(889)	(1,499)	-	-	-
Goodwill amortisation	(104)	(319)	(621)	(1,381)	(1,381)	(690)	(696)	(1,386)
Exceptional pension interest	(1,076)	119	-	-	(498)	-	-	-
Pre-tax profit reported	562	1,978	1,550	901	(2,026)	34	456	490
taxation	(67)	17	(589)	942	841	(29)	(31)	(60)
tax %	11.9%	-0.9%	38.0%	-104.6%	41.5%	85.3%	20.3%	24.5%
Net earnings reported	495	1,995	961	1,843	(1,185)	5	425	430
Average shares in issue	41,418	41,418	41,834	43,384	43,384	43,384		43,384
Options & LTIP	2,939	2,939	2,947	1,837	1,780	1,780		1,780
Stated Diluted EPS (p)	1.12	4.50	2.15	4.08	(2.62)	0.01	0.94	0.95
Dividend (p)	2.60	2.50	2.65	1.40	0.40	0.25	0.25	0.50
Normal tax earnings	1,650	2,402	2,545	2,607	1,130	613	945	1,558
before g'will exceptionals, etc								
Diluted normalised eps	3.7	5.4	5.7	5.8	2.5	1.4	2.1	3.4

Balance Sheets

Years to end Sept £'000's	2005 Full Year	2006 Full Year	2007 Full Year	2008 Full Year	2009 Full Year	2010 H1
Goodwill & IP	23,670	27,051	40,834	37,236	35,026	33,638
Tangible Assets	914	585	589	602	491	456
Deferred tax/employee benefits	1,051	488	9	1,216	1,874	1,648
Current Assets						
Stocks	103	258	392	397	361	362
Debtors	3,788	4,338	8,180	7,783	6,677	7,419
Cash	524	463	935	1,060	-	660
Current Liabilities						
Trade creditors	(3,671)	(2,351)	(6,401)	(4,565)	(4,186)	(4,837)
Bank borrowings	(760)	(528)	(2,023)	(2,170)	(1,672)	(1,636)
Deferred income & accruals	(4,050)	(4,865)	(6,153)	(7,202)	(6,910)	(7,297)
Long term liabilities						
Bank Borrowings	(1,380)	(2,420)	(10,616)	(9,554)	(8,286)	(8,082)
Employee benefits	(2,480)	(1,849)			(1,835)	(1,735)
Deferred consideration		(464)	(1,888)			
Provisions / deferred tax etc	-		(1,316)	(1,665)	(1,178)	(974)
Net Assets	17,709	20,706	22,542	23,138	20,362	19,622

Important Information - Disclaimer

1) This document has been produced by FourSquare Research for the information of, and is distributed only to, professional investors and professional investment advisors in the UK. It is not directed at any reader/investor to whom any legislation or regulation in any jurisdiction prohibits making it available. In particular it is not intended for private investors, and should not be construed as a solicitation to buy or sell shares in the subject company. Any private investor becoming aware of the content of this report should take appropriate advice from an independent financial advisor before taking any action concerning any securities of the subject company.

2) This document has been prepared only from publicly available sources that are believed to be reliable. It has also been checked for factual accuracy by the subject company. The subject company has paid Four Square and the analyst a fee to produce this document. Any opinions estimates or forecasts, or forward-looking statements, are however entirely those of the author/analyst. These opinions are subject to change, and FourSquare Research has no obligation to notify the recipients of this document of any such changes.

3) Four Square Research does not conduct investment business and does not hold any positions in the subject securities. Four Square charges a flat fee for the preparation of its reports and does not earn any further remuneration or incentive that depends on the performance of the subject company's securities subsequent to publication.

4) The value of the security mentioned in this report can be subject to large swings and may in some situations become zero. In addition, the security which is the subject of this report has from time to time fallen within the definition of a 'penny share' – that is one where the bid-offer spread has exceeded 10% of the offer price. It may also in future be difficult or impossible to buy, sell, or obtain accurate information about the value of the security. Past performance of any securities for which research has been published by Four Square is not necessarily a guide to future performance.

5) We believe that this document would be deemed 'objective' by the rules of the FSA in that the subject company has checked this document only for factual accuracy at the date of publication and has made no contribution to the opinions and estimates expressed in it. However FourSquare Research does not claim that this document is objective.

6) Because the primary purpose of this document is to provide information, and not investment advice as defined by the rules of the FSA, we believe there is no requirement for its authors to be regulated by the FSA. However, the author of this document holds investment qualifications which are recognised by the FSA as appropriate for providing investment advice.

PUBLISHED BY FOURSQUARE RESEARCH, WEST SUSSEX BN18 0NU

01243 814632