

SANDERSON GROUP PLC



Placing and Admission to the
Alternative Investment Market

Nominated Adviser and Broker
Arden Partners Limited

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent adviser who is authorised for the purposes of the Financial Services and Markets Act 2000 and who specialises in advising on the acquisition of shares and other securities.

This document, which is an admission document required by the AIM Rules, does not constitute a prospectus pursuant to the POS Regulations but has been drawn up in accordance with the requirements of the POS Regulations as required by the AIM Rules. A copy of this document has been delivered to the London Stock Exchange as an admission document in respect of the Ordinary Shares.

Application has been made for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings will commence in the Ordinary Shares on 16 December 2004. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

London Stock Exchange plc has not itself examined or approved the contents of this document.

Sanderson Group plc

(Incorporated and registered in England and Wales with registered no. 4968444)

Placing of 27,721,000 Ordinary Shares at 50p per share

and

Admission to trading on AIM

Nominated Adviser and Broker

Arden Partners Limited

Authorised		Share Capital on Admission	Issued and Fully Paid	
<i>Amount</i>	<i>Number</i>		<i>Amount</i>	<i>Number</i>
£5,350,000	53,500,000	Ordinary Shares of 10p each	£4,043,848	40,438,482

All of the Ordinary Shares will upon Admission, rank pari passu in all respects and will rank in full for all dividends and other distributions declared, paid or made in respect of the Ordinary Shares after Admission.

Arden Partners, which is regulated by the Financial Services Authority, is acting as nominated adviser and as broker exclusively for the Company in connection with the Placing, Employee Offer and Admission. Arden Partners is not acting for any other person and will not be responsible to any other person for providing the protections afforded to clients of Arden Partners, or for advising any other person in connection with the Placing or Employee Offer. The responsibilities of Arden Partners, as nominated adviser, are owed solely to the London Stock Exchange.

The Directors of Sanderson, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors the information contained in this document is in accordance with the facts and this document makes no omission likely to affect the import of such information.

Your attention is drawn to Part 4 of this document, which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Group's business, financial position and prospects should be viewed in light of the risk factors set out in Part 4 of this document.

The distribution of this document outside the UK may be restricted by law and therefore persons outside the UK into whose possession this document comes should inform themselves about and observe any restrictions as to the Placing, the Employee Offer, the Ordinary Shares or the distribution of this document. The Ordinary Shares have not been, nor will be, registered in the United States under the United States Securities Act of 1933, as amended, or under the securities laws of Canada, Australia or Japan and they may not be offered or sold directly or indirectly within the United States, Canada, Australia, or Japan or to, or for the account or benefit of, US persons or any national, citizen or resident of the United States, Canada, Australia or Japan. This document does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful.

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DIRECTORS, SECRETARY AND ADVISERS

Directors	Christopher Winn David Andrew O'Byrne Deborah Mary Wood David James Gutteridge John Clement MacKenzie Paterson Philip Edward Kelly	<i>(Executive Chairman)</i> <i>(Managing Director)</i> <i>(Finance Director)</i> <i>(Non-Executive Director)</i> <i>(Non-Executive Director)</i> <i>(Non-Executive Director)</i>
Company Secretary	Deborah Mary Wood	
Registered and Head Office	Sanderson House Manor Road Coventry CV1 2GF	
Nominated Adviser and Broker	Arden Partners Limited Arden House 17 Highfield Road Edgbaston Birmingham B15 3DU	
Solicitors to the Company	DLA LLP Fountain Precinct Balm Green Sheffield S1 1RZ	
Auditors and Reporting Accountants	KPMG LLP 1 The Embankment Neville Street Leeds LS1 4DW	
Solicitors to the Placing	Pinsent Masons 3 Colmore Circus Birmingham B4 6BH	
Principal Bankers	Barclays Bank PLC 3rd Floor 54 Lombard Street London EC3P 3AH	
Registrar	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA	

PLACING STATISTICS

Number of Sale Shares being placed on behalf of Selling Shareholders	16,000,000
Total number of New Ordinary Shares being placed on behalf of the Company	11,721,000
Total number of Ordinary Shares being placed	27,721,000
Issue Price	50p
Number of Ordinary Shares in issue immediately following Admission	40,438,482
Percentage of the Enlarged Share Capital being placed	68.6 per cent.
Market capitalisation at the Issue Price	£20.2 million
Gross proceeds of the Placing and Employee Offer receivable by the Company	£6.0 million
Estimated proceeds, after expenses, of the Placing and Employee Offer receivable by the Company	£5.1 million

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and commencement of dealings	16 December 2004
Delivery of Ordinary Shares into CREST accounts	16 December 2004
Despatch of definitive share certificates (where applicable)	by 5 January 2005

Each of the times and dates above is subject to change.

PART 1

INFORMATION ON THE GROUP

Overview

Sanderson is a well established and profitable software and IT services business specialising in commercial markets in the UK and Ireland.

The Group provides software and IT services to enterprises with turnovers between £5m and £250m. This is a substantial market and the Directors believe that Sanderson maintains a strong market position due to the quality of its products and services and its successful track record.

Sanderson is well positioned to take advantage of the growth in IT spend within its target markets which independent research indicates is being stimulated by demand for improved productivity. This research forecasts growth in expenditure on enterprise applications of approximately 5 per cent. per annum for the next three years.

The Group has a strong revenue model, with more than 50 per cent. of turnover arising from recurring licence, support and maintenance contracts. A further 40 per cent. of turnover is derived from the existing customer base, with the balance represented by revenue from new customers.

The Directors believe that the Group's industry knowledge, proven revenue model, track record and acquisition experience provide a good position from which to acquire complementary businesses to strengthen its position as a leading supplier of software and IT services in its chosen markets.

The Sanderson business was founded in 1983 and grew organically and by acquisition to over £119m turnover. In December 2003 the Former Sanderson Group was demerged into three separate, independent entities, with the Company retaining the Sanderson name and brand. The Directors believe that the Sanderson name is widely recognised as an established provider of software and IT services.

The Business

The Group provides software products and consultancy services.

Software products

The Group's packaged software products are designed to meet all the operational needs of a broad range of businesses. Products cover functions common to all customers from sales and marketing through finance, human resources, purchasing, production, supply and distribution whilst also addressing specific requirements such as ingredient handling and call centre operations. As a result of the comprehensive design of its products and the typical size of its customers, the Group is usually the principal business software supplier to its customers. Where required, the Group also supplies technology products to support its software.

Sanderson continuously works with its customers to develop products and services to meet either their specific requirements or to reflect functional or technological advances. Wherever possible Sanderson seeks to ensure that these developments can be introduced within existing platforms and environments, thereby safeguarding customers' existing IT investment. This is a key benefit for both new and existing customers and helps to maintain customer loyalty. Sanderson has many customers who have used the Group's software products for over ten years.

All development is carried out in the UK by Sanderson employees. In the year ended 30 September 2004, Sanderson spent approximately £1.5 million on product development, and customers contributed to this through annual license fees and funding of specific projects.

The Group's strategic product is UNITY, a software suite released in 2003. UNITY runs on Microsoft, Unix and IBM platforms. The software is modular, with a range of common modules supplemented by specific modules addressing the needs of individual market sectors. A key feature of UNITY is its ability to integrate with a wide range of ancillary systems such as time and attendance, weigh scales, mobile data terminals and document imaging systems. This enables customers to benefit from these individual systems whilst relying upon UNITY as the core system for their business.

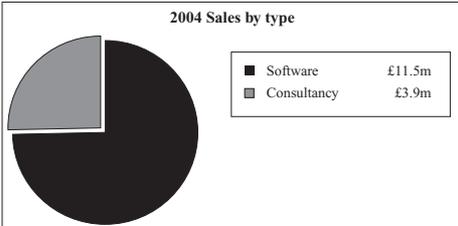
Currently under five per cent. of customers by number use UNITY and the Directors are confident that in the next few years increasing numbers of customers will upgrade. The contract value of a typical UNITY upgrade is in the region of £50,000 to £100,000.

Sanderson owns and develops the IPR to its software products and licences their use. Software sales to new or existing customers therefore generate revenues from an initial one-year licence providing the customer with a right to use the product, followed by a smaller annual usage fee thereafter.

Consultancy Services

Customers who contract for a new or upgraded system also contract for consulting services. These include 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.

The sales split by activity is illustrated below:



Markets

Sanderson is well positioned to take advantage of the growth in IT spend within its target markets for which independent research forecasts growth in expenditure on enterprise applications of approximately 5 per cent. per annum for the next three years.

Sanderson targets the following market sectors:

Manufacturing

This sector includes the engineering, plastics, electronics, furniture, printing and automotive parts industries.

Sanderson provides software products to its customers to integrate and control production, commerce and business administration. The Group’s products are particularly effective at managing discrete component manufacturing operations and are therefore capable of meeting the requirements of a wide range of organisations in this sector.

This is the largest market category and customers include companies such as Hampson Aerospace and Mabey & Johnson.

Food and Process Industries

This sector includes customers in the food, cosmetics and pharmaceutical industries

Sanderson’s products are designed to serve process manufacturing operations, being particularly suited to ingredient-based manufacturing which involves the traceability and management of complex production and inventory. The majority of customers in this category are food and beverage producers and the system is also used by chemical and biotechnology companies.

Customers include Witwood Food Products and Memory Lane Cakes.

Mail Order

The mail order market comprises both Business-to-Business and Business-to-Consumer operations. The Business-to-Consumer sector involves multi channel ordering (eg via mail web, telephone, interactive TV), whereas Business-to-Business operations typically include direct mail and fulfilment services. Sanderson’s products support all or part of these operations as required by the customer.

Customers are typically mail order organisations with turnovers below £100m such as Field and Trek and M&M Sports.

Sanderson’s customers also include the direct sales divisions of large companies, for whom mail order is not a core activity, (for example Entertainment UK Direct (part of Woolworths), and Thorntons) and charities.

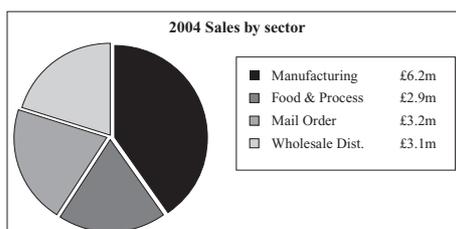
Wholesale Distribution

This sector includes customers involved in cash and carry, wines, catering supplies and frozen foods.

Sanderson's product enables wholesalers, distributors and retailers to manage sales, order picking, stock control and warehousing. Customers are frequently members of buying groups.

Nisa Today's is one of the larger buying groups with whom Sanderson has had a strong relationship, and has been the preferred supplier for four years. In addition, Sanderson has customers within the Landmark and Country Range buying groups.

In the year ended 30 September 2004, Sanderson's top ten customers accounted for under 15 per cent. of revenues and no single customer accounted for more than 3 per cent. of revenues.



Strategy

Sanderson's strategy is to continue to build on its leading market position as a specialist provider of software and IT services.

The Group has been able to deliver continued profit growth and steady group revenues over the past two years despite the UK software market enduring a period of weak demand. The Directors believe that Sanderson is strongly positioned to deliver continued organic growth as a result of improving market conditions and the Group's substantial customer base.

The Board also intends to pursue a strategy for growth based on selective acquisitions of complementary businesses. Sanderson's markets are serviced by a large number of suppliers, with no single supplier having a dominant position. The Directors believe that many of these businesses continue to be run inefficiently, resulting in low operating margins, and that there are significant opportunities for consolidation.

Financial record

Set out below is a summary of the financial record of the businesses now comprised within the Group for the three year period to 30 September 2004 which has been extracted without material adjustment from the accountants' report set out in Part 2 of this document. **In order to make a proper assessment of the results and financial position of the Group, investors should not rely solely on the summary information set out below but should read the whole of this document, including the accountants' report set out in Part 2 of this document.**

	Year ended 30 September 2002 £m	Year ended 30 September 2003 £m	Year ended 30 September 2004 £m
Turnover	15.9	14.5	15.4
Operating profit before exceptional items and goodwill amortisation	1.2	2.0	2.8
<i>Percentage margin</i>	7.5%	13.8%	18.2%

Turnover during the period reflects management's restructuring of the business in 2002 and the subsequent focus on driving profitable growth.

In the year ended 30 September 2004, 53 per cent. of sales came from contracted recurring revenues for software licence, support and maintenance fees. The substantial base of recurring revenue, an improved sales performance and a reduction in the Group's cost base have contributed to an improvement in operating margins from 8 per cent. to 18 per cent.

Reorganisation and Group Structure

The original Sanderson business was founded in 1983, floated on the Unlisted Securities Market of the London Stock Exchange as Sanderson Electronics plc in 1988, and achieved a full listing in 1990. In 1999, the take private of the Former Sanderson Group, led by Christopher Winn, David O'Byrne and five senior managers and backed by the Alchemy Plan, allowed the founding directors to exit. The management team then consolidated the large number of subsidiaries into three market-facing businesses, one of which was Sanderson. In 2002, Christopher Winn and David O'Byrne took direct management responsibility for Sanderson, and put in place a new management team.

In December 2003 the Former Sanderson Group was demerged into three separate, independent entities, with the Company retaining the Sanderson name and brand. The Directors believe that the Sanderson name is widely recognised as an established provider of software and IT services.

Details of the material contracts entered into by the Company in connection with the demerger are set out in paragraph 13 of Part 5 of this document.

Sanderson is the ultimate holding company within the Sanderson Group. Its immediate subsidiary, Sonarsend Limited, is an intermediate holding company, which in turn owns the Group's principal operating subsidiary, Sanderson Limited.

Current trading and prospects

Since 30th September 2004, the Group has continued to trade in line with expectations, and the Directors view the prospects for the remainder of this year with confidence.

The Company's short term growth expectations are not based on substantial increases in the number and value of new business sales, but rather reflect increasing sales into its existing customer base. Longer term, the Company expects to increase the number of new customers and to further develop the business by selective acquisitions.

Organic growth is dependent upon the demand for Sanderson's products and services within the Group's chosen markets. The Directors believe that this demand will continue to grow over the next three years.

Directors

The Board comprises:

Christopher Winn, Executive Chairman, aged 54

After graduating from Nottingham University, Christopher Winn worked at British Olivetti for two years. In 1974 he joined Applied Computer Techniques which later became ACT Group Plc, (the second UK IT company floated in the London Stock Exchange in 1979). He served on the ACT Group Board between 1983 and 1994 and undertook a number of senior roles including the management of several mergers and acquisitions. In 1995 he joined the Former Sanderson Group and became Group Chief Executive. By 1999 turnover had risen to £100 million and in December of that year he led a management buyout of the Former Sanderson Group backed by the Alchemy Plan. Following the take private he carried out a restructuring of the Former Sanderson Group and in 2002 focussed on the Sanderson business.

David O'Byrne, Managing Director, aged 51

David O'Byrne has over 30 years experience in the software and IT services sector. His early career was spent in a number of senior technical and managerial roles in commercial and software companies, including four years with Northgate Information Systems. He joined the Former Sanderson Group in 1986 to form their Local Government business, was appointed Managing Director of the public sector business in 1994 and managed the rapid growth of this business by organic and acquisition means, prior to this appointment as Managing Director of Sanderson Limited in April 2002.

Deborah Mary Wood, Finance Director, aged 40

Deborah Wood is a qualified Certified Accountant. After joining Sanderson in April 2002, she worked closely with her senior colleagues to restructure the business. She focused upon making the administrative function more efficient, whilst continuing to deliver a quality support service. She has also implemented a number of cash management initiatives which have strengthened the cash generation of the business. Prior to joining the Group Deborah held a number of senior financial roles within manufacturing organisations.

David Gutteridge, Non-Executive Director, aged 53

David Gutteridge has held several Board appointments and is currently an independent consultant involved in strategic business development and corporate transactions. He is a member of the Chartered Institute of Management Accountants. He was co founder of Financial Objects plc in 1995, and as Finance Director and then Chief Operating Officer led several acquisitions and the full listing on the London Stock Exchange in 1998. Prior to this he held a number of senior financial and commercial roles at ACT Group plc, Seiko Epson Ltd and Logica plc.

David is the senior independent non executive director.

Philip Kelly, Non-Executive Director, aged 52

Philip Kelly is currently the chairman of Radius Solutions (UK) Limited (formerly a wholly owned subsidiary of Radius plc, which was taken private with funding from the Alchemy Plan in 1998). He has over 20 years experience as the chief executive of private and publicly quoted software companies supplying the commercial and public sectors in the UK, Europe and the USA. Philip had previously worked for Digital Equipment and 3i Consultants. Philip was nominated for appointment to the Board by Alchemy Partners.

John Paterson, Non-Executive Director, aged 58

John Paterson has extensive City experience as an investment analyst. He is a director of Elba Investments, a venture capital business, and is a consultant to Arden Partners. He was managing director of Albert E Sharp Securities stockbrokers from 1993 until the acquisition of Albert E Sharp by Old Mutual in 1998, and he was instrumental in setting up Arden Partners in 2002 where he was a director until November 2004.

Senior management

The key members of senior management include:

Steve Shakespeare, Divisional Director, aged 47

Steve Shakespeare joined the Former Sanderson Group in 1995, and was appointed to his current role in 2002. He has extensive experience of the software and services sector, having been previously employed in companies such as ICL, Apricot Computer Services and Network SI.

Peter Oldershaw, Divisional Director, aged 53

Peter Oldershaw has recently been appointed the divisional managing director of the Process Industries division. He joined Sanderson Limited in 2003 as the client services director of the Mail Order division. He had previously worked in a number of senior positions within the IT industry, most recently Mitsubishi Electric.

Paul Bywater, Director of Product Strategy, aged 46

Paul Bywater is responsible for all aspects of product development strategy. A qualified engineer with industry experience, he has worked for the Sanderson business for over 18 years in a number of senior technical or product strategy roles.

Employees

The Group employs approximately 180 employees, the majority of whom are employed at the Group's premises in Sheffield, Coventry, Bristol and Belfast.

The Directors consider employee relations to be strong within the Group. Employees are encouraged to be proactive in the development of the business and, on Admission, it is expected that many employees will have an economic interest in the Group either through shares or options under the Share Option Plans. Qualifying Employees are being given the opportunity to subscribe for New Ordinary Shares.

Corporate governance

The Directors recognise the importance of sound corporate governance, whilst taking into account the size and nature of the Company. Following Admission, the Board intends to comply, where appropriate, given the Company's size and the constitution of the Board, with The Combined Code on Corporate Governance (as amended and updated) and Related Guidance and Good Practice Suggestions.

The Board has established an audit committee and a remuneration committee comprising in each case the three non-executive directors, David Gutteridge, John Paterson and Philip Kelly. David Gutteridge is chairman of the audit committee and John Paterson is chairman of the remuneration committee. The committees have duties and responsibilities formally delegated to them by the Board. The audit committee is primarily responsible for ensuring that the financial performance of the Company is properly measured and reported on and for reviewing reports from the auditors relating to the Company's accounting and internal controls and for reviewing the effectiveness of the Company's systems of internal control. The remuneration committee has a primary responsibility to review the performance of the Company's executive Directors and senior employees and to set their remuneration and other terms of employment. The remuneration committee is also responsible for administering the Share Option Plans referred to in paragraph 5 of Part 5 of this document.

The Board has also established a nomination committee comprising the non-executive directors, together with Christopher Winn which, amongst other matters, is responsible for making recommendations on the appointment of additional directors and for reviewing the composition of the Board and membership of board committees.

Share Option Plans

The Company has established the Share Option Plans in order to provide an incentive to executives and employees. Details of the Share Option Plans are set out in paragraph 5 of Part 5 of this document.

Intellectual Property Rights

The Group owns the intellectual property rights for its software products by virtue of the fact that such software has been created by employees of the Group in the course of their employment or has been acquired by the Group. The Group protects its intellectual property by ensuring the software is created by employees, who are made aware of their confidentiality obligations to the Group. The source code to products is not released to any customer but may be the subject of an escrow agreement containing appropriate confidentiality provisions.

The Directors are satisfied that the steps taken by the Group to protect its intellectual property rights are sufficient.

Competition

The Group's target commercial markets for software and IT services consist of a number of market sectors. Competition in these sectors is represented principally by small suppliers, the majority of whom specialise in an individual niche sector. The supply base is therefore very fragmented and highly competitive.

The Directors believe that the quality of the Group's products and services and the skill and knowledge of its employees will enable it to compete effectively for new business and will help to ensure the continued strong relationship with its existing customers. In addition the opportunity exists to make selective acquisitions and strengthen the Group's market position.

The Directors believe that the Group is well positioned in terms of its focus, experience and financial track record to satisfy the needs of customers in its target market.

Model Code

The Company has adopted a model code for Directors' dealings which is appropriate for an AIM quoted company. The Company will take all reasonable steps to ensure that applicable employees also comply with this code.

Dividend policy

The Directors' intention is that the Company will provide investors with an attractive dividend yield, and that it will follow a progressive dividend policy in forthcoming years while continuing to retain a significant proportion of the Group's earnings to facilitate the Board's plans for the continued growth of the Group. It is intended that the first dividend to be paid by the Company following Admission will be an interim dividend in respect of the six months ending 31 March 2005, which the Directors expect to pay in July 2005.

In arriving at their dividend policy, the Directors have considered the reserves position of the companies in the Group and their ability to pay dividends in the near future.

The Board will continue to review its dividend policy as the Company develops.

Taxation

A general guide to the taxation of dividends for Shareholders who are resident in the UK is set out in paragraph 8 of Part 5 of this document and your attention is drawn to this section. **Persons who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their professional advisers.**

Venture Capital Trust/Enterprise Investment Scheme

The Company has received provisional confirmation from the Inland Revenue that the Company is a qualifying company for the purposes of both the Venture Capital Trust ("VCT") and Enterprise Investment Scheme ("EIS") legislation. The Inland Revenue has also confirmed that the Ordinary Shares will be eligible shares for VCT purposes.

The confirmations received are limited in their scope and do not guarantee that any particular VCT or prospective EIS investor will qualify for relief in respect of the acquisition of Ordinary Shares. The conditions for relief are complex and depend not only upon the qualifying status of the Company but also upon certain factors and characteristics of the investor concerned. Prospective investors who believe that they may qualify for VCT or EIS relief should consult their own tax advisers concerning this.

Part 2 of this document contains financial information about the Company including a consolidated balance sheet as at 30 September 2004. When adjusted, in accordance with section 293(6C)ICTA 1988 for EIS purposes and para 8(3) of schedule 28B ICTA 1988 for VCT purposes, the aggregate value of the gross assets of all the companies within the Group did not exceed £15m at 30 September 2004.

The Company cannot guarantee or undertake to conduct its business following Admission so as to ensure that the Company meets, or will continue to meet, the legislative requirements or will otherwise qualify for VCT or EIS relief.

Reasons for Admission to AIM and use of proceeds of the Placing

The net proceeds of the New Ordinary Shares and the Sale Shares will be used primarily by the Company to repay existing debt within the Group and to enable certain existing investors to realise a return on their investment.

The Directors believe that the strengthening of the Company's balance sheet as a result of the Placing, and the ability to use its quoted shares will put the Group in a much stronger position to make acquisitions of complementary businesses as part of a wider consolidation of the market. The Group will predominantly target software businesses operating in the same markets and providing similar products to those currently offered by the Group and also focus on enhancing the Group's product offering by targeting companies supplying a product or service not currently offered by Sanderson.

Further, the Directors believe that an AIM listing will significantly enhance the Company's profile within its target markets and amongst its industry peers.

Details of the Placing and Employee Offer

The Company and the Selling Shareholders are proposing to raise approximately £13.9 million (before expenses) through a conditional placing by Arden Partners of 27,721,000 Ordinary Shares at 50p per share.

Pursuant to the Placing Agreement, Arden Partners has agreed with the Company, on and subject to the terms set out therein, to procure institutional and other investors to subscribe for the Subscription Shares at the Issue Price. The placing of Subscription Shares at the Issue Price will raise approximately £4.9 million (net of expenses) for the Company.

In addition, pursuant to the Placing Agreement, Arden Partners has conditionally agreed with the Selling Shareholders to procure institutional and other investors to purchase the Sale Shares. The placing of the Sale Shares at the Issue Price will raise £8.0 million for the Selling Shareholders. None of the Directors or management team is selling any shares in the Placing. Further details of the Placing Agreement are set out in paragraph 12 of Part 5 of this document.

Under the terms of the Employee Offer, Qualifying Employees are entitled to subscribe for New Ordinary Shares at the Placing Price. Further terms and conditions of the Employee Offer and details of how to apply are set out in the Employee Offer Application Form that was sent to Qualifying Employees by the Company.

The Employee Offer closed at 3.00 pm on 6 December 2004. 279,000 New Ordinary Shares will be allotted, conditional on Admission, under the Employee Offer.

The Placing has been underwritten by Arden Partners and is conditional, *inter alia*, on:

- (a) the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and
- (b) Admission being effective no later than 16 December 2004 or such later date as Arden Partners and the Company may agree (not being later than 30 December 2004).

The New Ordinary Shares will represent approximately 29.7 per cent. of the Enlarged Share Capital. The New Ordinary Shares will be issued credited as fully paid and will rank *pari passu* with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after Admission.

On Admission, at the Issue Price, the Company will have a market capitalisation of approximately £20.2 million.

Lock-in undertakings and significant Shareholder

Immediately following Admission, the Alchemy Plan and the Directors will be interested, in aggregate, in 12,681,749 Ordinary Shares, representing approximately 31.4 per cent. of the Enlarged Share Capital. The Alchemy Plan and the Directors and certain of the other Selling Shareholders have undertaken that following Admission, subject to certain exceptions, they will not dispose of any of their respective interests in the Ordinary Shares held on Admission until the earlier of the date of announcement of the Group's results for the year ending September 2005 and 31 January 2006.

Further details of the Placing Agreement, including the lock-in undertakings given to Arden Partners, are set out in paragraph 12 of Part 5 of this document.

Following Admission, Alchemy Nominees (as nominee for investors in the Alchemy Plan) will remain a significant Shareholder in Sanderson retaining an interest in approximately 27.9 per cent. of the Enlarged Share Capital. Further details of substantial Shareholders are set out in paragraph 6.4 of Part 5 of this document.

Admission, settlement and dealings

Application has been made for Admission of the Enlarged Share Capital to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on 16 December 2004.

Application has been made for all of the issued and to be issued Ordinary Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place in CREST.

It is expected that, subject to the satisfaction of the conditions of the Placing, the Placing Shares will be registered in the names of the placees subscribing for or acquiring them and issued or transferred either:

- (a) in certificated form, where the placee so elects, with the relevant share certificate expected to be despatched by post, at the placee's risk, by 5 January 2005; or
- (b) in CREST, where the placee so elects and only if the placee is a "system member" (as defined in the CREST Regulations) in relation to CREST, with delivery (to the designated CREST account) of the Placing Shares subscribed for or purchased expected to take place on 16 December 2004.

Notwithstanding the election by placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a placee, or as they may direct, will be sent through the post at their risk.

The Employee Shares made available to Qualifying Employees will, subject to the satisfaction of the conditions of the Placing, be registered in the names of successful applicants under the Employee Offer and be issued in certificated form, and the relevant share certificates are expected to be despatched by post at the applicant's risk by 5 January 2005.

Pending the dispatch of definitive share certificates (as applicable), instruments of transfer will be certified against the register.

Additional information

Prospective investors should read the whole of this document which provides additional information on the Group and the Admission and Placing and not rely on summaries or individual parts only. In particular, the attention of prospective investors is drawn to Part 4 of this document, which contains a summary of the risk factors relating to any investment in the Ordinary Shares of the Company.

PART 2

FINANCIAL INFORMATION ON THE GROUP



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The Directors
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10 December 2004

Dear Sirs

Sanderson Group plc (“Sanderson”)

We report on the financial information set out in paragraphs 1 to 5.22 below (“the Financial Information”). This Financial Information has been prepared for inclusion in the admission document dated 10 December 2004 relating to Sanderson and its subsidiary undertakings (“the Group”) (“the Admission Document”).

Basis of preparation

The Group did not exist as a statutory group of companies prior to 23 December 2003. The Group consists of the trading company Sanderson Limited and its non-trading subsidiaries, Sanderson Limited’s intermediate holding company Sonarsend Limited and their ultimate parent company Sanderson Group plc (formerly Sonarsend Holdings Limited).

The Financial Information is based on the audited financial statements of Sanderson Limited, Sanderson Group plc and Sonarsend Limited together with the management information underlying those financial statements and has been prepared on the basis described in note 4.1, after making such adjustments as we considered necessary.

Responsibility

The financial statements of the Group are the responsibility of the respective directors of those companies who approved their issue.

The Directors of Sanderson (“the Directors”) are responsible for the contents of the Admission Document in which this report is included.

It is our responsibility to compile the Financial Information set out in our report from the financial statements and the management information underlying the financial statements, to form an opinion on the Financial Information and to report our opinion to you.



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Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Financial Information. The evidence included that recorded by the auditors who audited the financial statements underlying the Financial Information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the Financial Information and whether the accounting policies are appropriate to the entities' circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the Financial Information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the dates stated and of its results and cash flows for the years then ended.

Consent

We consent to the inclusion in the Admission Document dated 10 December 2004 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

1. Profit and loss accounts

		Years ended 30 September		
		2002	2003	2004
		£000	£000	£000
Turnover	Notes 5.1	15,904	14,517	15,430
Cost of sales		(2,931)	(2,826)	(3,021)
Gross profit		12,973	11,691	12,409
Administrative expenses		(11,790)	(10,695)	(11,405)
Operating profit				
before amortisation and exceptional items		1,183	1,996	2,787
Goodwill amortisation	5.7	–	(1,000)	(885)
Exceptional items	5.2.2	–	–	(898)
Operating profit	5.2.1	1,183	996	1,004
Net interest payable and similar charges	5.4	(1,706)	(1,841)	(1,936)
Loss on ordinary activities before taxation		(523)	(845)	(932)
Taxation	5.5	–	–	–
Unrecovered loss		(523)	(845)	(932)
Loss per share – basic	5.6	(1.3p)	(2.1p)	(2.3p)
Loss per share – diluted	5.6	(1.2p)	(1.9p)	(2.1p)
Earnings per share – adjusted	5.6	1.8p	3.8p	5.9p

There were no gains or losses during any of the periods other than those reported above.

There is no material difference between the historical cost profit for each of the years and the profit as reported above.

2. Balance sheets

		As at 30 September		
Notes	2002 £000	2003 £000	2004 £000	
Fixed assets				
Intangible assets	5.7	20,000	19,000	22,211
Tangible assets	5.8	2,044	1,591	930
		<u>22,044</u>	<u>20,591</u>	<u>23,141</u>
Current assets				
Stocks	5.9	351	242	103
Debtors	5.10	5,929	5,283	4,145
Cash at bank and in hand		242	211	1,784
		<u>6,522</u>	<u>5,736</u>	<u>6,032</u>
Creditors: amounts falling due within one year	5.11	(8,704)	(7,353)	(8,294)
Net current liabilities		<u>(2,182)</u>	<u>(1,617)</u>	<u>(2,262)</u>
Total assets less current liabilities		19,862	18,974	20,879
Creditors: amounts falling due after more than one year	5.11	(20,650)	(22,386)	(19,560)
Provisions for liabilities and charges	5.12	–	–	(1,247)
Net (liabilities)/assets		<u>(788)</u>	<u>(3,412)</u>	<u>72</u>
Capital and reserves	5.13	<u>(788)</u>	<u>(3,412)</u>	<u>72</u>

3. Cash flow statements

		Years ended 30 September		
Notes	2002 £000	2003 £000	2004 £000	
Net cash inflow from operating activities	5.17	642	2,556	3,452
Returns on investments and servicing of finance	5.18	(448)	(442)	(381)
Taxation	5.18	–	–	–
Capital expenditure	5.18	(33)	(103)	(89)
Net cash inflow before financing		<u>161</u>	<u>2,011</u>	<u>2,982</u>
Financing	5.18	–	(2,042)	(1,409)
Increase/(decrease) in cash in the year	5.19	<u>161</u>	<u>(31)</u>	<u>1,573</u>

4. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Financial Information.

4.1 Basis of preparation

The Financial Information has been prepared in accordance with applicable accounting standards, under the historical cost accounting rules and on a going concern basis.

On 23 December 2003 Sanderson Group plc (formerly Sonarsend Holdings Limited) was incorporated and acquired Sonarsend Limited, the holding company of Sanderson Limited and its subsidiaries.

The profit and loss accounts and cash flow statements for the three years ended 30 September 2004 are based on the aggregation of the financial statements of Sanderson Limited and Sanderson Group plc together with an apportionment of the trading of Sonarsend Limited (which until 23 December 2003 held companies which no longer form part of the Group).

On 23 December 2003 the dormant company Sanderson Australia Software Pty Limited (“Sanderson Australia”) became a subsidiary of Sanderson Limited as part of a group reorganisation. Prior to 1 October 2003, all contracts were renegotiated directly with Sanderson Limited such that in 2004, all the trade was within Sanderson Limited, the assets and liabilities of Sanderson Australia are included in the 2004 Group consolidated balance sheet. In order to present consistent Financial Information for 2002 and 2003, the relevant trading, assets and liabilities of Sanderson Australia are included within the aggregation in those years.

The relevant revenues, costs, assets and liabilities of the Group were identified on the following basis:

Turnover and gross margins

Turnover and gross margin are derived from the consolidated financial statements of the Group for the period from 23 December 2003 to 30 September 2004 and the financial statements and management information of Sanderson Limited and its subsidiaries for the period from 1 October 2001 to 23 December 2003.

- Sanderson Limited acquired the trade and assets of the Enterprise division of Sanderson IT Systems Limited on 1 March 2002. The financial statements of Sanderson Limited for the year ended 30 September 2002 accordingly contain only 7 months of profit and loss account information relating to the Enterprise division. The remaining 5 months turnover and gross margin have been derived from the management information of Sanderson IT Systems Limited on the basis of revenues and costs related to the product categories transferred.
- In 2003 turnover and gross margin have been derived from the financial statements of Sanderson Limited and Sanderson Australia.
- In 2004, as part of a group restructuring, the trade and assets were transferred out of Sanderson Limited to other group companies before being transferred back into Sanderson Limited. For this reason, the audited statutory profit and loss account only presents 6 months of trading. Turnover and gross margin have therefore been derived from the unaudited 12 month pro-forma profit and loss account presented within the financial statements and the management information of Sanderson Limited.

Revenue recognition policy

During 2004 Sanderson Limited changed its accounting policies with regard to revenue recognition following the introduction of Financial Reporting Standards No.5 Application Note G.

There is no 2001 financial information available from which to draw the required data to make the adjustments to revenue in 2002 in respect of the trade and assets of the Enterprise division of Sanderson IT Systems Limited which was acquired by Sanderson Limited on 1 March 2002. For this reason certain assumptions have had to be made:

- That the same percentage of total accrued income should be disallowed in the opening 2002 balance sheet as has been disallowed in the closing 2002 balance sheet (70%). This assumes that the accrued income cycle is the same in 2002 as in 2003.
- That the level of deferred income in the opening balance sheet for 2002 is the same as for the closing 2002 balance sheet.

The adjustments have the effect of increasing operating profit in 2002 by £270,000.

Administrative expenses

Administrative expenses (including exceptional items and goodwill amortisation) have been derived from the same information sources as turnover and gross margin together with an apportionment of central costs borne by Sonarsend Limited, which relate in the main to the remuneration of one of the Group's directors.

Interest payable

Interest payable in the period from 23 December 2003 to 30 September 2004 represents interest on a £6m loan balance with Barclays Bank PLC held within Sonarsend Limited (this was reduced to £5.2m at the year end due to a repayment on 30 September 2004). In 2002, 2003 and for the first 3 months of 2004 interest payable is based on the proportion of total interest payable by the larger group (pre-reorganisation) attributable to Sanderson's share of total group debt, considered by management to be £6m throughout that period.

Interest payable also includes accrued discount on loan notes held within Sonarsend Limited; upon reorganisation of the Group at 23 December 2003 Sanderson was apportioned 16.8% of the loan notes held by the Group. Discount accrues on the loan notes compounded at a rate of 11.25% per annum. The interest charge for each year has therefore been calculated based on the balance at 30 September 2004.

Taxation

The taxation charge has been calculated based on the profit before taxation of the Group. Group relief between Sanderson Limited and Sonarsend Limited has been eliminated.

Distributions

No distributions have been recorded in the profit and loss account as the Group did not pay a statutory dividend in 2004, and did not exist as a statutory group prior to this.

Balance sheet

The balance sheet as at 30 September 2004 is based on the consolidated financial statements of the Group for the period from 23 December 2003 to 30 September 2004. The balance sheets as at 30 September 2002 and 30 September 2003 represent an aggregation of the balance sheets of Sanderson Limited and Sanderson Australia, together with other elements as follows:

Fixed assets

Fixed assets include those held by Sonarsend Limited, which continue to be used within the Group.

Intercompany balances

Intercompany balances between Sanderson Limited, Sonarsend Limited and Sanderson Australia are eliminated.

Group bank borrowings

A proportion of 'pre-reorganisation' group bank borrowings held by Sonarsend Limited and relating to the Sanderson Group are included within the aggregation. The relevant proportion of 'pre-reorganisation' group bank borrowings is considered by management to be £6m throughout 2002 and 2003.

Loan notes

Upon reorganisation of the Group at 23 December 2003 Sanderson was apportioned 16.8% of the Group's loan notes held within Sonarsend Limited. Discount accrues on the loan notes compounded at a rate of 11.25% per annum. The appropriate proportion of loan notes attributable to Sanderson for 2003 and 2002 has therefore been based on the balance at 30 September 2004 less accrued discount at 11.25% for each year.

Cash flow statement

Due to the reorganisations of the Group and the fact that the financial information is prepared on an aggregation basis, it is not possible to reconcile the reserves movement. Therefore a difference arises on the cash flow statement which has been recognised as a movement on financing due to the fact that the reorganisations were settled through intercompany loans.

When the Enterprise business of Sanderson IT Systems Limited was transferred to Sanderson Limited on 1 March 2002 the business' trade creditors at transfer remained with other Group companies. During 2002 Sanderson Limited funded the cash flow of the Group. It is assumed that a proportion of these payments was used to fund the trade creditors of the Enterprise business, and has hence been included in the working capital movement of the Group for 2002. The proportion of the funding payments to the Group attributed to trade creditors is based on the average monthly outstanding trade creditor balance and the average payment terms for 2002.

4.2 Foreign currencies

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions; monetary assets and liabilities at the balance sheet date are translated at the year end rates of exchange. All resulting exchange differences are dealt with in the profit and loss account in the period in which they arise. On consolidation, differences on exchange arising from the translation of the opening net investments in subsidiary and associated companies at the year end exchange rates, together with the differences arising from the translation of the results at the average rate compared to the year end exchange rate, are taken directly to reserves.

4.3 Depreciation

Tangible fixed assets are depreciated over their expected useful lives by equal annual instalments. The principal depreciation rates per annum are:

Plant and equipment	15% – 33½%
Short leasehold property	over the life of the lease
Freehold buildings	2%
Freehold land	Nil

The company adopted a policy of historical cost accounting following the introduction of Financial Reporting Standard No.15 'Tangible Fixed Assets'.

4.4 Leased assets

Assets acquired under finance leases and hire purchase agreements are capitalised and depreciated on the same basis as assets which are owned. Depreciation on such assets and the interest element of the leasing payments are charged to the profit and loss account. Rentals paid under operating leases are charged to the profit and loss account on an accruals basis.

4.5 Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items. In the case of finished goods and work in progress, cost represents direct materials only.

4.6 Turnover

Turnover comprises the value of sales of licences, support, maintenance and training services, consulting contracts and hardware. Turnover 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 and maintenance services the amount of consideration is derived from an assessment of the fair value of the goods or services provided.

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

4.7 Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes that have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard No.19.

4.8 Goodwill

Goodwill, representing the excess of the purchase consideration for subsidiaries or businesses acquired over the fair value ascribed to their net tangible assets at the date of acquisition, is capitalised and amortised over its useful economic life. All goodwill is being amortised over a period of 20 years.

4.9 Research and development

Research and development expenditure largely comprises employment costs of staff working on customer specific developments. Such costs are expensed as incurred. In certain circumstances external costs, in respect of development work on products to be delivered to a number of customers in future accounting periods, are recorded as current assets and written off against revenues generated by the development.

4.10 Pension benefits

Contributions to separately administered defined benefit pension schemes are charged to the profit and loss account to spread the costs of pensions over the employees' working lives with the Group. The regular pension costs are attributed to individual years using the projected unit credit method. Variations in pension costs which are identified as a result of actuarial valuations, are amortised over the average expected working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either a provision or prepayment in the balance sheet.

Contributions to defined contribution pension schemes are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

The disclosures required by Financial Reporting Standard No.17 'Retirement Benefits' are provided in note 5.16 of the Financial Information.

4.11 Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

5. Notes to the Financial Information

5.1 Segmental analysis

Substantially all of the Group's turnover originates from the UK. Turnover by destination is not materially different from turnover by origin. The operations of the Group are regarded as a single business segment.

5.2 Operating profit

5.2.1 *Operating profit is stated after charging:*

	Years ended 30 September		
	2002 £000	2003 £000	2004 £000
Depreciation and other amounts written off tangible fixed assets – owned assets	169	283	750
Amortisation of goodwill	-	1,000	885
Hire of equipment – operating leases	533	-	8
Research and development	1,455	1,499	1,544
Auditors' remuneration:			
– statutory audit	56	55	54
– non-audit services	6	60	20
Leasehold property rentals	269	378	377

5.2.2 *Exceptional items*

	Years ended 30 September		
	2002 £000	2003 £000	2004 £000
Impairment of fixed assets	-	-	621
Write down of stock to net realisable value	-	-	140
Enhanced retirement benefits	-	-	80
Other	-	-	57
	-	-	898

5.3 Staff costs – directors and employees

5.3.1 *Staff costs*

The total staff costs including the Directors are as follows:

	Years ended 30 September		
	2002 £000	2003 £000	2004 £000
Total staff costs (including the Directors)			
Wages and salaries	7,418	6,028	6,532
Social security costs	761	499	678
Other pension costs	276	210	279
	8,455	6,737	7,489

The average monthly number of employees during each year was as follows:

	Years ended 30 September		
	2002 No.	2003 No.	2004 No.
Total number of staff	246	196	189

5.3.2 Directors and Directors' interests

Prior to 23 December 2003 the Group did not exist as an entity and therefore did not have a Board of Directors.

However, for illustrative purposes, the remuneration paid by Sanderson group companies to the proposed Executive Directors who are to form the Board of Sanderson Group plc on Admission is given below:

Year ended 30 September 2004	Salary £000	Other benefits £000	Bonus £000	Total £000	Pension contributions £000
Christopher Winn	177	21	80	278	15
David O'Byrne	100	20	51	171	5
Deborah Wood	48	13	19	80	2
	<u>325</u>	<u>54</u>	<u>150</u>	<u>529</u>	<u>22</u>

5.4 Net interest payable and similar charges

	Years ended 30 September		
	2002 £000	2003 £000	2004 £000
Interest receivable and similar income:			
Bank interest receivable	17	11	40
Interest receivable on Group balances	48	65	–
	<u>65</u>	<u>76</u>	<u>40</u>
Interest payable and similar charges:			
On bank loans and overdrafts	513	518	421
Loan notes accruing discount	1,258	1,399	1,555
	<u>1,771</u>	<u>1,917</u>	<u>1,976</u>
Net interest payable and similar charges	<u>1,706</u>	<u>1,841</u>	<u>1,936</u>

Interest receivable on Group balances represents interest on balances with companies which no longer form part of the Sanderson Group. These amounts were cleared as part of the reorganisation described in note 4.1.

5.5 Taxation

The Group was part of the Sanderson group that did not pay tax in the UK for 2002 and 2003. The 2004 £nil charge is based on the loss before taxation. It is anticipated that Sanderson Group plc will be required to pay UK tax in the future.

	Years ended 30 September		
	2002 £000	2003 £000	2004 £000
Corporation tax	–	–	–

5.6 Earnings per share

Sanderson has not previously existed as a statutory group of companies and therefore no weighted average share capital information is available. However, for illustrative purposes, an earnings per share calculation using the expected number of issued, fully paid ordinary shares on Admission is presented below. A diluted earnings per share calculation is also presented. The difference between the basic and diluted number of shares reflects the impact of share options granted on Admission as set out in paragraph 5 of part 5 of this document.

	Years ended 30 September		
	2002	2003	2004
Loss attributable to ordinary shareholders (£000)	(523)	(845)	(932)
Adjusted profit attributable to ordinary shareholders (£000)	735	1,554	2,406
Number of shares (see above)	40,438,482	40,438,482	40,438,482
Diluted number of shares (see above)	45,160,230	45,160,230	45,160,230
Loss per share (pence/share)	(1.3)	(2.1)	(2.3)
Diluted loss per share (pence/share)	(1.2)	(1.9)	(2.1)
Adjusted earnings per share (pence/share)	1.8	3.8	5.9

The adjusted earnings per share figure is calculated using the profit attributable to ordinary shareholders prior to the deduction of any exceptional costs shown in note 5.2.2, goodwill shown in note 5.7 and net interest payable on loan notes shown in note 5.4.

5.7. Intangible fixed assets

	Goodwill £000
Cost	
At 30 September 2001	–
Acquisitions	20,000
At 30 September 2002	20,000
At 30 September 2003	20,000
Arising on group reorganisation	3,096
At 30 September 2004	23,096
Amortisation	
At 30 September 2001	–
At 30 September 2002	–
Charge for the year	1,000
At 30 September 2003	1,000
Arising on group reorganisation	(1,000)
Charge for the year	885
At 30 September 2004	885
Net book value	
At 30 September 2002	20,000
At 30 September 2003	19,000
At 30 September 2004	22,211

The goodwill arising in 2002 relates to the Group reorganisation. Goodwill was reallocated from the old Sanderson Group to the current Sanderson Group which related to the subsidiaries transferred.

The goodwill arising in 2004 relates to a further reorganisation of the Group, described in note 4.1.

5.8 Tangible fixed assets

	Freehold property £000	Short leasehold property £000	Plant and equipment £000	Total £000
Cost				
At 30 September 2001	910	400	2,279	3,589
Additions	–	–	33	33
Disposals	–	–	(266)	(266)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2002	910	400	2,046	3,356
Additions	–	–	103	103
Disposals	(324)	–	(27)	(351)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2003	586	400	2,122	3,108
Transfers between categories	176	–	(176)	–
Additions	–	–	89	89
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2004	762	400	2,035	3,197
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation				
At 30 September 2001	152	–	1,167	1,319
Charge for year	9	–	160	169
Disposals	–	–	(176)	(176)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2002	161	–	1,151	1,312
Charge for year	15	–	268	283
Disposals	(51)	–	(27)	(78)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2003	125	–	1,392	1,517
Transfers between categories	97	–	(97)	–
Charge for year	1	–	128	129
Impairment	99	50	472	621
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2004	322	50	1,895	2,267
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value				
At 30 September 2002	749	400	895	2,044
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 September 2003	461	400	730	1,591
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 September 2004	440	350	140	930
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

As part of the fair value exercise carried out upon the reorganisation of the Group, as described in note 4.1, the Directors reviewed the accounting policies and carrying values of the Group's assets. This resulted in the £621,000 impairment of fixed assets.

5.9 Stocks

	As at 30 September		
	2002 £000	2003 £000	2004 £000
Finished goods and goods for resale	351	242	103
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

5.10 Debtors falling due within one year

	As at 30 September		
	2002	2003	2004
	£000	£000	£000
Trade debtors	4,037	3,398	3,695
Amounts owed by group undertakings	1,074	1,376	–
Prepayments and accrued income	818	509	450
	<u>5,929</u>	<u>5,283</u>	<u>4,145</u>

Amounts owed by group undertakings represent balances with companies which no longer form part of the Sanderson Group. These amounts were cleared as part of the reorganisation described in note 4.1.

Trade debtors in 2002 and 2003 include £300,000 which falls due after more than one year.

5.11 Creditors

	As at 30 September		
	2002	2003	2004
	£000	£000	£000
Amounts falling due within one year			
Bank loans	–	–	1,000
Trade creditors	386	405	484
Amounts owed to group undertakings	1,505	934	–
Corporation tax	–	–	100
Other taxation and social security	891	605	686
Accruals and deferred income	5,922	5,409	6,024
	<u>8,704</u>	<u>7,353</u>	<u>8,294</u>

Amounts owed to group undertakings represent balances with companies which no longer form part of the Sanderson Group. These amounts were cleared as part of the reorganisation described in note 4.1.

	As at 30 September		
	2002	2003	2004
	£000	£000	£000
Amounts falling due after more than one year			
Bank loans	6,000	6,000	4,170
Loan notes	12,436	13,835	15,390
Amounts owed to group undertakings	2,214	2,551	–
	<u>20,650</u>	<u>22,386</u>	<u>19,560</u>

Amounts owed to group undertakings represent balances with companies which no longer form part of the Sanderson Group. These amounts were cleared as part of the reorganisation described in note 4.1.

	As at 30 September		
	2002	2003	2004
	£000	£000	£000
Analysis of debt:			
Debt can be analysed as falling due:			
In one year or less, or on demand	–	–	1,000
Between one and two years	1,658	2,233	1,300
Between two and five years	2,217	17,602	2,870
In five years or more	14,561	–	15,390
	<u>18,436</u>	<u>19,835</u>	<u>20,560</u>

The bank debt at 30 September 2004 is stated net of unamortised issue costs of £130,000. The bank loans in place at 30 September 2004 have been drawdown under a committed facility which expires on 30 September 2008, from Barclays Bank PLC under which each Group company has cross-guaranteed the borrowings of its fellow Group companies. Interest is payable at a percentage above LIBOR, the percentage being dependent upon the total amount drawn down under the facility. The borrowings are secured by way of fixed and floating charges over the assets of the Group.

The loan notes were issued by the Sanderson Group plc, (formerly Sonarsend Holdings Limited), and carried a redemption date of 6 October 2006. Upon reorganisation of the Group the redemption date was extended to 6 October 2010. Upon redemption the amount subscribed is repayable together with accrued discount compounded at the rate of 11.25% per annum. The loan notes may be redeemed at any date prior to 6 October 2010 by agreement between the Group and the loan note holders.

5.12 Provisions for liabilities and charges

	As at 30 September		
	2002	2003	2004
	£000	£000	£000
Pension			
At the start of the financial year	–	–	–
Created in the year	–	–	1,282
Utilised in the year	–	–	(35)
	<u>–</u>	<u>–</u>	<u>1,247</u>
At the end of the financial year	<u>–</u>	<u>–</u>	<u>1,247</u>

The provision represents the Group's share of the pension deficit that has been provided in accordance with FRS 7 "Fair values in acquisition accounting", accordingly, this amount has been charged directly to goodwill.

There is no deferred taxation provided in any of the periods.

The Group has adopted FRS 19 'Deferred taxation' for all of the periods. The deferred taxation asset not provided is given below:

	As at 30 September		
	2002	2003	2004
	£000	£000	£000
Accelerated capital allowances	146	170	350
	<u>146</u>	<u>170</u>	<u>350</u>

5.13 Share capital and reserves

The share capital and reserves presented at 30 September 2002 and 30 September 2003 represents an aggregation of businesses which will comprise the Group. At 30 September 2004, the consolidated Group position is presented, which consists of share capital of £500,000 and an accumulated reserves deficit of £428,000.

Share capital and reserves is as follows:

	As at 30 September		
	2002	2003	2004
	£000	£000	£000
Share capital and reserves	(788)	(3,412)	72

A reconciliation of movements in shareholders funds is not possible due to the group reorganisations and the fact that the basis of preparation is an aggregation of figures.

5.14 Contingent liabilities

The Group has entered a cross guarantee agreement, whereby each Group company guarantees the bank facilities of the other companies within the Group. Bank facilities are also secured by fixed and floating charges over the whole of the Group's property, assets and undertakings.

5.15 Commitments under operating leases

The Group had annual commitments under operating leases as follows:

	Years ended 30 September		
	2002	2003	2004
	£000	£000	£000
Land and buildings			
Expiring within one year	–	8	52
Expiring within one to five years	126	108	165
Expiring in over five years	58	58	159
Plant and machinery			
Expiring within one year	66	–	–
Expiring within one to five years	2	2	–
Expiring in over five years	–	–	–

5.16 Pension schemes

The Group operates a defined contribution pension scheme in the UK. The pension cost charge for 2004 relating to this scheme was £166,000. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The Group also operates two defined benefit pension schemes. The schemes are UK based and closed to new members and future accrual. The pension cost charge for 2004 relating to the defined benefit schemes amounted to £86,000.

The company continues to account for pension costs in accordance with Statement of Standard Accounting Practice Number 24: 'Accounting for pension costs'. However full disclosures relevant to the Group pension schemes, as required by Financial Reporting Standard Number 17: 'Retirement benefits' have been provided.

FRS 17 disclosures

The Group is the principal employer for two pension schemes: The Pension and Life Assurance Plan of Sanderson Systems Limited ("the Systems Scheme") and The Sanderson Group Retirement Benefit Scheme ("the Group Scheme").

The previous fellow subsidiary undertakings, Civica plc and Talgentra International Limited are also participating employers in these schemes.

The three employers are required to make contributions at a level that is set to make good any past service deficit, as the schemes are both closed to new members and future accrual. Sanderson is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis. The disclosures that follow are therefore in respect of the total scheme position, which does not necessarily reflect the Sanderson share of the deficit. The provision described in note 5.12 is the directors estimate of the Sanderson share of the deficit at acquisition.

The major assumptions used in the valuations are:

	Systems scheme 30 September 2002	Both schemes 30 September 2003	Both schemes 30 September 2004
Rate of increase in salaries	3.75%	4.20%	4.40%
Rate of increase in pensions in payment	2.25%	2.70%	2.90%
Discount rate	5.50%	5.30%	5.50%
Inflation rate	2.25%	2.70%	2.90%

The assumptions used by the actuary in each case are estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods and are thus inherently uncertain, were:

'Group' scheme

	Value (£000) 30 September 2003	Value (£000) 30 September 2004
Equities	1,293	1,553
Conventional with profits	4,695	4,713
Bonds (including gilts)	226	203
Cash	97	93
Other assets	93	114
	<hr/>	<hr/>
	6,404	6,676
Present value of the scheme liabilities	(9,370)	(8,856)
	<hr/>	<hr/>
Deficit in the scheme – pension liability	(2,966)	(2,180)
Related deferred tax asset	891	654
	<hr/>	<hr/>
Net pension liability	(2,075)	(1,526)
	<hr/> <hr/>	<hr/> <hr/>
	Long term rate of return 30 September 2003	Long term rate of return 30 September 2004
Equities	7.75%	8.00%
Conventional with profits	6.50%	6.00%
Bonds (including gilts)	5.00%	5.00%
Cash	4.00%	4.00%
Other assets	4.00%	4.00%

'Systems' scheme

	Value (£000) 30 September 2002	Value (£000) 30 September 2003	Value (£000) 30 September 2004
Group pension contract	3,836	3,947	3,829
Cash and other assets	–	(3)	(17)
	<hr/>	<hr/>	<hr/>
Present value of the scheme liabilities	3,836 (5,499)	3,944 (6,019)	3,812 (5,395)
	<hr/>	<hr/>	<hr/>
Deficit in the scheme – pension liability	(1,663)	(2,075)	(1,583)
Related deferred tax asset	499	519	475
	<hr/>	<hr/>	<hr/>
Net pension liability	(1,164)	(1,556)	(1,108)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	Long term rate of return 30 September 2002	Long term rate of return 30 September 2003	Long term rate of return 30 September 2004
Group pension contract	5.50%	5.00%	5.25%
Cash and other assets	4.00%	3.50%	4.00%

The movement in the deficits during the year may be summarised as follows:

	Group scheme 2003 £000	Systems scheme 2003 £000	Group scheme 2004 £000	Systems scheme 2004 £000
Deficit in the scheme at the beginning of the financial year	(2,432)	(1,663)	(2,966)	(2,075)
Movement in the financial year:				
Current service cost	(175)	(12)	(146)	(7)
Losses on settlements and curtailments	–	–	745	72
Contributions paid by employer	111	–	146	43
Other finance costs	(28)	(91)	(84)	(120)
Actuarial gain/(loss)	(442)	(309)	125	504
	<hr/>	<hr/>	<hr/>	<hr/>
Deficit in the scheme at the end of the financial year	(2,966)	(2,075)	(2,180)	(1,583)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Had FRS17 been fully adopted in this Financial Information, the amount of the net pension liabilities shown above would have had a consequential effect on reserves and the pension cost charged in the profit and loss account would have been:

	Group scheme 2003 £000	Systems scheme 2003 £000	Group scheme 2004 £000	Systems scheme 2004 £000
(i) In arriving at operating profit				
Current service cost	(175)	(12)	(146)	(7)
Cost of settlements and curtailments	–	–	745	72
	<hr/>	<hr/>	<hr/>	<hr/>
Operating credit/(charge)	(175)	(12)	599	65
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Group scheme 2003 £000	Systems scheme 2003 £000	Group scheme 2004 £000	Systems scheme 2004 £000
(ii) Other finance costs				
Expected return on the assets	421	209	416	198
Interest cost	(449)	(300)	(500)	(319)
	<hr/>	<hr/>	<hr/>	<hr/>
Other finance costs	(28)	(91)	(84)	(121)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Had FRS17 been fully adopted, an analysis of amounts recognised in the statement of total recognised gains and losses would have been:

	Group scheme 2003 £000	Systems scheme 2003 £000	Group scheme 2004 £000	Systems scheme 2004 £000
Actual return less expected return on scheme assets	763	(12)	96	(363)
Experience gains and losses arising on scheme liabilities	204	76	58	795
Changes in assumptions underlying the present value of scheme liabilities	(1,409)	(373)	(29)	72
	<hr/>	<hr/>	<hr/>	<hr/>
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	(442)	(309)	125	504
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

History of experience gains and losses:

	Group scheme 2003 £000	Systems scheme 2003 £000	Group scheme 2004 £000	Systems scheme 2004 £000
Difference between the expected and actual return on scheme assets:				
Amount	763	(12)	96	(363)
Percentage of year end scheme assets	12.0%	(0.3%)	1.0%	(9.5%)
Experience gains and losses on scheme liabilities:				
Amount	204	76	58	795
Percentage of year end present value of scheme liabilities	2.0%	1.3%	1.0%	14.7%
Total amount recognised in statement of total recognised gains and losses:				
Amount	(442)	(309)	125	504
Percentage of year end present value of scheme liabilities	(5.0%)	(5.1%)	1.0%	9.3%

Due to the reorganisation of the Group during 2002 full FRS17 pensions information is not available for the Group for the year ending 30 September 2002.

5.17 Reconciliation of operating profit to net cash inflow from operating activities

	Years ended 30 September		
	2002 £000	2003 £000	2004 £000
Operating profit	1,183	996	1,004
Amortisation of goodwill	–	1,000	885
Depreciation of tangible fixed assets	169	283	129
Impairment of tangible fixed assets	–	–	621
(Increase)/decrease in stock	(64)	109	139
(Increase)/decrease in debtors	(1,378)	948	(238)
Increase/(decrease) in creditors	732	(780)	775
Other movements	–	–	137
Net cash inflow from operating activities	642	2,556	3,452

5.18 Analysis of cash flows for headings netted in the cash flow statement

	Years ended 30 September		
	2002 £000	2003 £000	2004 £000
Returns on investments and servicing of finance			
Interest received	65	76	40
Interest paid	(513)	(518)	(421)
	(448)	(442)	(381)
Taxation			
Corporation and group relief taxation paid	–	–	–
Capital expenditure			
Net payments to acquire tangible fixed assets	(33)	(103)	(89)
Financing			
Repayment of bank loans	–	–	(830)
Movements due to group reorganisations	–	(2,042)	(579)
	–	(2,042)	(1,409)

5.19 Reconciliation of net cash flow to movement in net debt

	Years ended 30 September		
	2002 £000	2003 £000	2004 £000
(Decrease)/increase in cash in the year	161	(31)	1,573
Repayment of bank loans	–	–	830
Loan note discount	(1,258)	(1,399)	(1,555)
Total movement in net debt	(1,097)	(1,430)	848
Net debt brought forward	(17,097)	(18,194)	(19,624)
Net debt carried forward	(18,194)	(19,624)	(18,776)

5.20 Analysis of changes in net debt

	30 Sept 2002 £000	Cash flows £000	Non-cash movements £000	30 Sept 2003 £000	Cash flows £000	Non-cash movements £000	30 Sept 2004 £000
Cash and cash equivalents							
Cash at bank and in hand	242	(31)	–	211	1,573	–	1,784
Debt due within one year							
Bank loan	–	–	–	–	–	(1,000)	(1,000)
Debt due after more than one year							
Bank loan	(6,000)	–	–	(6,000)	830	1,000	(4,170)
Loan notes	(12,436)	–	(1,399)	(13,835)	–	(1,555)	(15,390)
Total net debt	<u>(18,194)</u>	<u>(31)</u>	<u>(1,399)</u>	<u>(19,624)</u>	<u>2,403</u>	<u>(1,555)</u>	<u>(18,776)</u>

5.21 Related party transactions

At 30 September 2004 £10,603,627 of loan notes were owed to the Alchemy Investment Plan. During 2004 the Group paid Alchemy Partners LLP £35,663 for the services of J Moulton and P Bridges as directors of the Group, of which £14,690 relates to the services of J Moulton to the Former Sanderson Group.

A number of directors have interests in the share capital of the Company as set out in paragraph 6 of Part 5 of this document.

5.22 Post balance sheet events

On 23 November 2004, prior to the flotation of the Group, Sonarsend Holdings Limited reregistered as a public limited company and changed its name to Sanderson Group plc.

Yours faithfully

KPMG LLP

PART 3

PRO FORMA FINANCIAL INFORMATION

The pro forma statement of net assets is provided for illustrative purposes only to show the effect on the net assets of the Group had the Placing and the drawdown of the new debt facilities occurred on 30 September 2004. It has been compiled on the basis described below from the accountant's report as set out in Part 2 of this document. Due to its nature, the pro forma statement of net assets may not give a true picture of the financial position of the Group and is designed to give only an indication of the net assets of the Group.

	Sanderson 30 Sept 2004 £000 (Note 1)	Use of surplus cash £000 (Note 2)	Reorganisation and fund raising £000 (Note 3)	New bank debt £000 (Note 4)	Pro forma Admission Group £000 (Note 5)
Fixed assets					
Intangible assets	22,211	–	–	–	22,211
Tangible assets	930	–	–	–	930
	23,141	–	–	–	23,141
Current assets					
Stocks	103	–	–	–	103
Debtors	4,145	–	–	–	4,145
Cash at bank and in hand	1,784	(1,700)	–	(84)	–
	6,032	(1,700)	–	(84)	4,248
Creditors: amounts falling due within one year					
Overdraft	–	–	–	(206)	(206)
Bank loans	(1,000)	–	1,000	–	–
Other creditors	(7,294)	–	–	–	(7,294)
	(2,262)	(1,700)	1,000	(290)	(3,252)
Total assets less current liabilities	20,879	(1,700)	1,000	(290)	19,889
Creditors: amounts falling due after more than one year					
Bank loans	(4,170)	–	4,050	(1,700)	(1,820)
Loan notes	(15,390)	1,700	11,700	1,990	–
Provisions for liabilities and charges	(1,247)	–	–	–	(1,247)
Net assets	72	–	16,750	–	16,822

Notes:

1. Extracted from the Financial Information on the Group at 30 September 2004 as set out in Part 2 of this document.
2. The Group will use surplus cash to redeem £1.7 million of loan notes.
3. On Admission, £11.7 million of loan notes will be converted into Ordinary Shares at the Placing Price, and the New Ordinary Shares will be issued to raise £5.1 million (net of expenses) of new money that will be used to repay existing bank debt.
4. £1.7 million of new bank debt will be raised and used to redeem loan notes.
5. No account has been taken of the trading results or cash flows since 30 September 2004.

PART 4

RISK FACTORS

The attention of prospective investors is drawn to the fact that ownership of shares in the Company will involve a variety of risks which, if they occur, may have a materially adverse effect on the Group's business or financial condition, results or future operations. In such case, the market price of the Ordinary Shares could decline and an investor might lose all or part of his or her investment.

In addition to the information set out in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Company. The following factors do not purport to be an exhaustive list or explanation of all the risk factors involved in investing in the Company and they are not set out in any order of priority. In particular, the Company's performance might be affected by changes in market and/or economic conditions and in legal, regulatory and tax requirements. Additionally, there may be additional risks of which the Board are not aware or believe to be immaterial which may, in the future, adversely affect the Group's business and the market price of the Ordinary Shares.

Before making a final investment decision, prospective investors should consider carefully whether an investment in the Company is suitable for them and, if they are in any doubt, should consult with an independent financial adviser authorised under the Financial Services and Markets Act 2000.

Competition

There are a large number of Enterprise Application Software vendors in the UK and the Directors believe that the market is likely to continue to be highly competitive for the foreseeable future.

Market growth

Although the Directors are expecting an improvement in the market for the Group's products and services in 2005/6, there can be no certainty that this improvement will materialise or, if it does materialise, will be sustained in subsequent years. In the absence of an improving market, the Group may find it difficult to achieve significant revenue increases.

Management and employees

The Group is substantially dependent on the retention of its Directors and senior management, and on its ability to continue to attract and retain highly skilled and qualified personnel. There can be no assurance that the Group will retain the services of any of its Directors, senior managers or skilled employees.

Pensions

Pursuant to the terms of the 2003 demerger, an agreement (described in paragraph 13.8 of part 5 of this document) was entered into pursuant to which other members of the Former Sanderson Group agree to meet agreed proportions of the total pensionable salary roll for certain final salary pension schemes. Members of the Group remain responsible for the full amount of the contributions due to these schemes and accordingly the Group is at risk should the relevant members of the Former Sanderson Group not make these payments.

Intellectual property

The Group relies on intellectual property law to protect its intellectual property rights. Despite precautions which may be taken by the Group to protect its intellectual property, other parties may attempt to copy or use the Group's products or technology incorporated in the Group's products. In so far as the Group's products are protected by intellectual property rights, it may be necessary for the Group to engage in litigation to protect such rights. Such litigation may be costly, and may involve a significant commitment of resources and management time.

Product liability

As a result of its complexity, software may contain undetected errors or failures when initially introduced to the market or when new versions are released. Although the Group thoroughly tests all of its software prior to release, errors may be found subsequent to release. The occurrence of errors or failures in the Group's software products could result in a loss of revenue or could have a material adverse effect on the Group's business and financial position.

Technological change

Competitors may introduce new products using new technology and the Group's existing products may, as a result, become obsolete. The Group will accordingly need continually to enhance its existing products and services and will need promptly to respond to technological change as and when this occurs. If the Group is unable to do this, or encounters material delay in introducing new products or services, it may be at a significant disadvantage to its key competitors.

Acquisition risk

There can be no certainty that the Company will be able to identify suitable acquisition targets or complete the purchase of any identified targets at a price the Directors consider acceptable. The acquisition of other businesses can involve significant commercial and financial risks and there can be no certainty that any acquired business will not have a material adverse effect on the operations, results or financial position of the Group.

Regulatory and legal

Existing and future legislation or regulation could involve the Group in additional expense, restrictions or delays in its activities. There can be no assurance that new legislation or regulation will not be enacted or applied so as to have a material adverse impact on the business of the Group.

Marketability

The Ordinary Shares will be admitted to trading on AIM, but this should not be taken to mean that there will be a liquid market in the Ordinary Shares. Accordingly, an investment in the Company's Ordinary Shares may be difficult to realise.

Share price effect of sales of Ordinary Shares by significant Shareholder

The market price of Ordinary Shares could decline significantly as a result of any sales of Ordinary Shares by the Alchemy Plan following expiry of the lock-in period, as explained in the paragraph headed "Lock-in undertakings and significant Shareholder" in Part 1 of this document, or the perception by the market that such sales could occur.

PART 5

ADDITIONAL INFORMATION

1. Responsibility

The Directors, each of whose business address is or will be the registered office of the Company and whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Directors the information contained in this document is in accordance with the facts and this document makes no omission likely to affect the import of such information.

2. Incorporation and activities

- 2.1 The Company was incorporated and registered in England and Wales on 18 November 2003 as Broomco (3343) Limited under the Act as a private limited company with registered number 04968444. On 23 December 2003, the Company changed its name to Sonarsend Holdings Limited, and on 23 November 2004 the Company was re-registered as a public limited company under the Act with the name Sanderson Group plc.
- 2.2 The principal legislation under which the Company operates is the Act. The liability of the Company's members is limited.
- 2.3 The registered and head office of the Company is at Sanderson House, Manor Road, Coventry CV1 2GF.
- 2.4 The principal activity of the Company is that of a holding company.

3. Share capital

- 3.1 As at the date of this document, the authorised share capital of the Company is £500,000 divided into 40,000,000 'A' ordinary shares of 1 pence each and 10,000,000 ordinary shares of 1 pence each, all of which were issued and credited as fully paid.
- 3.2 Pursuant to a written resolution of the Company passed on 10 December 2004 and conditional upon (but effective immediately prior to) Admission taking place not later than 16 December 2004 (or such later date as the Company and Arden Partners shall agree, not being later than 30 December 2004):
 - 3.2.1 the authorised and issued share capital of the Company was consolidated on a one for ten basis and accordingly the 10,000,000 authorised and issued ordinary shares of 1 pence each in the Company were consolidated into 1,000,000 ordinary shares of 10 pence each and the 40,000,000 authorised and issued 'A' ordinary shares of 1 pence each in the Company were consolidated into 4,000,000 'A' ordinary shares of 10 pence each;
 - 3.2.2 the 4,000,000 'A' ordinary shares of 10 pence each were re-designated as 4,000,000 Ordinary Shares;
 - 3.2.3 the authorised share capital of the Company was increased from £500,000 to £5,350,000 by the creation of 48,500,000 new Ordinary Shares;
 - 3.2.4 £11,719,241 of the £15,719,241 worth of principal and accrued discount due as at 16 December 2004 in respect of the discounted unsecured loan notes due 6 October 2010 assumed by the Company pursuant to the Demerger Agreement and deed of adherence dated 23 December 2003 (further details of which are set out in paragraph 13 of this Part 5) was capitalised in consideration for the issue of 23,438,482 new Ordinary Shares to the holders of such loan notes;
 - 3.2.5 the Directors were generally and unconditionally authorised in accordance with section 80 of the Act to allot relevant securities (within the meaning of section 80 of the Act):
 - 3.2.5.1 up to a maximum aggregate nominal value of £2,343,848.20 for the purposes of the loan note capitalisation referred to in paragraph 3.2.4 above;
 - 3.2.5.2 up to a maximum aggregate nominal value of £1,200,000 for the purposes of the Placing and the Employee Offer; and
 - 3.2.5.3 otherwise than pursuant to sub-paragraphs (i) and (ii) above, to a maximum aggregate nominal value of £1,306,151.80

such authority to expire on the date falling 15 months after the date on which the resolution was passed or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2005; and

- 3.2.6 the Directors were empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authorities referred to in paragraph 3.2.5 as if section 89(1) of the Act did not apply to the allotment provided that the aggregate nominal amount of equity securities allotted for cash under the power conferred by paragraph 3.2.5(iii) above otherwise than in connection with a rights issue or other pre-emptive offer should not exceed £202,192.40, such authority to expire on the date falling 15 months after the date on which the resolution was passed or, if earlier, at the conclusion of the annual general meeting of the Company to be held in 2005.
- 3.3 The Company's authorised share capital on Admission and completion of the Placing will be £5,350,000 divided into 53,500,000 Ordinary Shares, of which 40,438,482 Ordinary Shares will be issued fully paid and 13,061,518 Ordinary Shares will be unissued.
- 3.4 The Ordinary Shares in issue upon Admission will be in registered form and, following Admission, will be capable of being held in uncertificated form. Application has been made to the London Stock Exchange for the Ordinary Shares to be admitted to trading on AIM. No temporary documents of title will be issued and it is anticipated that definitive share certificates will be posted by first class post to shareholders on or before 5 January 2005.
- 3.5 The articles of association permit the holding and transfer of Ordinary Shares under CREST. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Directors have applied for the Ordinary Shares to be admitted to CREST.

4. Memorandum and articles of association

4.1 Memorandum of association

The principal objects of the Company include acting as a holding company and the carrying on of business as a general commercial company (including the carrying on of any trade or business whatsoever and the doing of all such things as are incidental or conducive to the carrying on of any trade or business).

4.2 Articles of association

The articles of association of the Company adopted, conditionally upon Admission, pursuant to a written resolution of the Company passed on 10 December 2004 ("Articles") include provisions to the following effect:

4.2.1 *Voting rights*

Subject to any terms as to voting upon which any shares may have been issued or may for the time being be held and to any disenfranchisement in the event of non-compliance with a statutory notice requiring disclosure of interests in shares in the Company, at a general meeting of the Company:

4.2.1.1 every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member, shall, on a show of hands, have one vote; and

4.2.1.2 every member present in person or by representative (in the case of a corporate member) or by proxy shall, on a poll, have one vote for every share of which he is the holder.

Unless the board otherwise determines, a member shall not be entitled to vote unless all calls or other sums due from him in respect of shares in the Company have been paid.

4.2.2 *Dividends*

Subject to the provisions of the Acts (as defined in the Articles) and of the Articles, the Company may by ordinary resolution declare a dividend to be paid to the members according to their respective rights and interests in the profits of the Company, but no dividend shall exceed the

amount recommended by the board. Subject to the provisions of the Acts, the board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appear to the board to be justified by the profits of the Company available for distribution.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up or credited as paid up (other than amounts paid in advance of calls) on the shares in respect of which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on such shares during any portion or portions of the period in respect of which the dividend is paid. All dividends unclaimed for a period of 12 years after having been declared or becoming due for payment shall be forfeited and cease to remain owing by the Company.

Without prejudice to the provisions of the Articles, the board may, with the authority of an ordinary resolution of the Company:

4.2.2.1 offer holders of ordinary shares the right to elect to receive further ordinary shares of that class, credited as fully paid, instead of cash in respect of all or part of any dividend or dividends specified by the ordinary resolution;

4.2.2.2 direct that payment of all or part of any dividend declared may be satisfied by the distribution of specific assets.

4.2.3 *Distribution of assets on a winding-up*

On a winding-up, the liquidator may, with the authority of an extraordinary resolution of the Company and any other sanction required by law, divide among the members in kind the whole or any part of the assets of the Company and may value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, transfer any part of the assets of the Company to trustees on such trusts for the benefit of members as he may determine. The liquidator shall not, however (except with the consent of the member concerned) distribute to a member any asset to which there is attached a liability or potential liability for the owner.

4.2.4 *Transfer of shares*

Every transfer of shares which are in certificated form must be in writing in any usual form or in any form approved by the board and shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee.

Every transfer of shares which are in uncertificated form must be made by means of a relevant system (as defined in the Uncertificated Securities Regulations 2001).

The board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares if: (a) it is in respect of a share which is not fully paid up; (b) it is in respect of more than one class of share; (c) it is not duly stamped (if so required); or (d) it is not delivered for registration to the registered office of the Company or such other place as the board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued) by the relevant share certificate and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer.

The board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares which is in favour of: (a) a child, bankrupt or person of unsound mind; or (b) more than four joint transferees.

In the case of shares in certificated form, the registration of transfers of shares may be suspended at such times and for such periods (not exceeding 30 days in any year) as the board may from time to time determine.

In the case of shares in uncertificated form, the register shall not be closed without the consent of the Operator of the relevant system (as defined in the Articles).

4.2.5 *Variation of class rights*

Subject to the provisions of the Acts, all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights, or, in the absence of any such provision, either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of such holders of shares of that class, but not otherwise. The quorum at any such meeting is two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class in question or, at an adjourned meeting, two persons holding shares of the class in question or his proxy. Any holder of shares of the class in question present in person or by proxy may demand a poll. Holders of shares of the class in question shall, on a poll, have one vote for every share of that class held by them.

The rights attached to any class of shares shall not, unless otherwise expressly provided in the rights attaching to such shares, be deemed to be varied or abrogated by the creation or issue of shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of any of its own shares.

4.2.6 *Share capital, changes in capital and purchase of own shares*

Subject to the provisions of the Acts and the Articles, the power of the Company to allot and issue shares shall be exercised by the board at such times and on such terms and conditions as the board may determine.

Subject to the provisions of the Acts and to any rights attached to any existing shares: (a) any share may be issued with such rights or restrictions as the Company may from time to time determine by ordinary resolution; and (b) the Company may issue redeemable shares.

The Company may, by ordinary resolution, (a) increase its share capital; (b) consolidate, or consolidate and then divide, all or any of its shares into shares of a larger amount; (c) sub-divide its shares or any of them into shares of a smaller amount and as a part of such sub-division determine that any of such shares may have any preference or other advantage or deferred or qualified rights or be subject to any restriction as compared with the others; (d) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; and (e) convert all or any of its paid up shares into stock, and re-convert that stock into paid up shares of any denomination.

Subject to the provisions of the Acts, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.

Subject to the provisions of the Acts, the Company may purchase all or any of its shares of any class (including redeemable shares).

4.2.7 *Directors*

Unless otherwise determined by ordinary resolution, there shall be no maximum number of directors, but the number of directors shall not be less than two.

Subject to the provisions of the Acts and provided that he has disclosed to the directors the nature and extent of any interest, a director may:

4.2.7.1 enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested;

4.2.7.2 hold any other office or place of profit under the Company (except that of auditor or auditor of a subsidiary of the Company) in conjunction with the office of director and may act by himself or through his firm in a professional capacity to the Company, and be remunerated accordingly;

4.2.7.3 be a director or other officer, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any company promoted by the Company or in which the

Company is otherwise interested or as regards which the Company has any powers of appointment; and

4.2.7.4 shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal.

Save as otherwise provided by the Articles, a director shall not vote on, or be counted in the quorum in relation to, any resolution of the board or of a committee of the board concerning any contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he (together with any person connected with him) is to his knowledge materially interested, directly or indirectly (otherwise than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company); provided that a director shall be entitled to vote and be counted in the quorum in circumstances where the resolution relates:

- (a) to the giving of any guarantee, security or indemnity in respect of (i) money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings or (ii) a debt or obligation of the Company or any of its subsidiary undertakings for which the director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (b) to an offer of securities of the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (c) to another company in which he and any persons connected with him has a direct or indirect interest of any kind, provided that he and any persons connected with him do not to his knowledge hold an interest in shares representing one per cent or more of either any class of equity share capital, or the voting rights, in such company;
- (d) to any arrangement for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award the director any privilege or benefit not generally awarded to the employees to whom such arrangement relates;
- (e) to any proposal concerning the purchase or maintenance of any insurance policy under which he may benefit.

A director shall not vote or be counted in the quorum on any resolution of the board or any committee of the board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

Unless otherwise determined by the Company by ordinary resolution, a director (other than an alternate director) who does not hold executive office shall be paid for his services as a director fees at such rate (not exceeding £50,000 per annum) as the board may decide. Such maximum level of fees shall be increased in line with the increase in the General Index of Retail Prices. Any fee payable shall accrue from day to day and shall be distinct from any salary, remuneration or other amounts payable to a director pursuant to other provisions of the Articles.

Each director shall be entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as director, including any expenses incurred in attending meetings of the board or of any committees of the board or general meetings or separate meetings of the holders of any class of shares or debentures of the Company. Any director who performs special services for the Company may be paid such extra remuneration by way of additional fees, salary, percentage of profits or otherwise as the board may determine.

At each annual general meeting of the Company, there shall be required to retire by rotation: (a) one-third of the directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third; and (b) in addition, any director who at an annual general meeting shall have been a director at each of the preceding two annual general meetings of the Company (provided that he was not appointed or reappointed at either such annual general meeting and he has not otherwise ceased to be a director and been

reappointed by general meeting of the Company at or since either such annual general meeting), and each such retiring director may, if eligible, offer himself for re-election. The directors to retire by rotation shall first be those who wish to retire and not offer themselves for re-election and secondly those who have been longest in office since their last appointment or reappointment and, in the case of those who have been in office an equal length of time, shall, unless they agree otherwise, be determined by lot. Any director appointed by the board shall hold office only until the next annual general meeting, when he shall be eligible for appointment, but shall not be taken into account in determining the directors to retire by rotation at that meeting.

No person shall be or become incapable of being appointed a director by reason of his having attained the age of 70 or any other age and no special notice shall be required in connection with the appointment or the approval of the appointment of any such person, nor shall a director be required to retire by reason of his having attained that or any other age.

Directors shall not be required to hold any shares in the Company.

4.2.8 *Borrowing powers*

Subject to the provisions of the Acts, the board may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, to issue debentures and other securities and to give security, either outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The board shall restrict the borrowings of the Company and, insofar as it is able, of its subsidiary undertakings, so as to procure that the aggregate principal amount outstanding in respect of borrowings by the group shall not, without an ordinary resolution of the Company, exceed a sum equal to 2 times the aggregate of the amount paid up or credited as paid up on the Company's issued share capital and the total amount standing to the credit of the capital and revenue reserves of the Group as shown in the latest audited balance sheet of the Group, after such adjustments and deductions as are specified in the Articles.

4.2.9 *Pensions and benefits*

The board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities, by insurance or otherwise, for any person who is, or has at any time been, a director of or employed by or in the service of the Company or of any company which is a subsidiary company of the Company, or is allied to or associated with the Company or any such subsidiary, or any predecessor in business of the Company or any such subsidiary, and for any member of his family (including a spouse or former spouse) or any person who is, or was, dependent on him.

4.2.10 *Untraced shareholders*

The Company may sell at the best price reasonably obtainable the shares of a member or the shares to which a person is entitled by virtue of transmission on the death or bankruptcy of a member or otherwise by operation of law if all dividends, warrants and cheques sent, or funds transferred, to such member or person have remained uncashed or been returned to the Company, respectively, for a period of 12 years; the Company has paid at least three cash dividends in respect of those shares during such period; and the Company has, on the expiration of such period given notice of its intention to sell such shares in a national newspaper and an appropriate local newspaper, and no indication is received as to the whereabouts or existence of such member or persons.

The Company shall account to the member or other person entitled to such shares for the net proceeds of such sale.

5. **Share Option Plans**

It is proposed that the following share incentive arrangements will be adopted immediately following Admission:

- Sharesave Plan;
- Unapproved Plan;
- EMI Plan; and
- LTIP.

Each of the Share Option Plans will allow for the grant of Options over Ordinary Shares in Sanderson to directors and employees of the Group.

The LTIP will be operated in conjunction with an employee benefit trust further details of which are to be found at paragraph 5.7 of this Part 5.

Inland Revenue approval has been sought for the Sharesave Scheme.

A number of Admission Awards have been granted, conditional upon Admission, under the Unapproved Plan and the LTIP.

It is also proposed that a number of Options will be granted under the EMI Plan and the Sharesave Plan (if Inland Revenue approval is received for the Sharesave Plan) following Admission.

Further information concerning the Admission Awards is set out in paragraph 5.2.6 of this Part 5.

The principal features of the Share Option Plans will be as follows:

5.1 Sharesave Plan

5.1.1 *Eligibility*

Options are granted under the Sharesave Plan following the receipt of applications from eligible employees to whom invitations to participate in the Sharesave Plan have been sent. Any full-time director and any employee (full-time or part-time) of any company within the Group who has been with the Group for the period specified by the Board at the time of invitations (but not exceeding 5 years) will be eligible to participate.

For any Options to be granted following Admission, all employees of the Group at the time of Admission will be eligible to participate.

Invitations to participate, as well as the Options granted under the Sharesave Plan, will be personal to the participant and may not be assigned.

5.1.2 *Savings Contract*

Each Participant who accepts the invitation to participate and applies for an Option under the Sharesave Plan must enter into a savings contract (“Contract”) which has been approved by the Board. The Board may choose the length of the period over which the Contract will operate. The Board has indicated that in respect of those Sharesave Plan Options to be granted following admission the Contract will be for a three year period.

A participant in the Sharesave Plan will make monthly savings under the Contract of an amount, decided by him, up to the maximum monthly amount specified by the Board. The monthly amount saved will not exceed the maximum from time to time permitted by the legislation. No other payment will be required from a participant on the grant of an Option.

5.1.3 *Scaling down*

If the Board receives applications for Options over more Ordinary Shares than the Board has decided should be available for a particular grant of Options under the Sharesave Plan, the applications shall be scaled down on a pro rata basis.

5.1.4 *Option exercise price*

The price payable for each Ordinary Share on the exercise of an Option will be the higher of the nominal value of an Ordinary Share at the time of grant of the Option or the average middle market quotation of an Ordinary Share, as derived from the AIM appendix to the official list of the UK Listing Authority, for the three dealing days immediately prior to the date of issue of invitations to apply for Options.

The Board has discretion to offer a discount of up to 20 per cent. of the middle market price or such other percentage as may from time to time be permitted by the legislation.

5.1.5 *Number of Ordinary Shares over which Option granted*

The number of Ordinary Shares over which a participant will be granted an Option will be the number which, taking into account the price payable on exercise of the Option, can be purchased with the amount saved under the Contract (which will normally include a bonus payable under the Contract).

5.1.6 *Exercise of Options*

Except in the event of the participant's death, no Option may be exercised later than six months after the maturity date of the Contract ("the Maturity Date").

In the event of death, the Option may be exercised by the participant's personal representatives within 12 months of the participant's death but no later than 12 months after the Maturity Date.

5.1.7 *Cessation of employment*

Options will lapse if the participant ceases to be employed within the Group.

Exceptionally, if the reason for ceasing to be so employed is the injury, disability, or redundancy of the participant or his retirement at age 65, Options may be exercised within six months after such cessation.

If a participant reaches the age of 65 but continues to be employed within the Group, he may exercise his Option within six months of reaching that age.

5.1.8 *Takeover and liquidation*

If Sanderson is the subject of a takeover or a proposed liquidation or if the participant's employing company or business ceases to be within the Group, Options may generally be exercised within six months after such event. Except as mentioned in paragraph 5.1.6, Options may not be exercised later than 6 months after the Maturity Date.

5.2 Unapproved Plan

5.2.1 *Eligibility*

Any full time director or employee (whether full time or part time) of the Group will be eligible to participate. Actual participation will be at the discretion of the Remuneration Committee. Options will be personal to the participant and not capable of assignment except that on death, the Option holder's personal representatives may exercise the Option within 12 months thereafter. Options shall be granted by deed for no consideration.

5.2.2 *Individual Participation Limit*

There is no limit on the market value of Ordinary Shares over which Options may be granted to an eligible employee under the Unapproved Plan.

However the Remuneration Committee when considering the grant of Options under the Unapproved Plan following Admission, will have regard to the guidelines published by the Association of British Insurers and are unlikely to grant an Option over Ordinary Shares to any eligible employee in circumstances such that the total market value of Ordinary Shares over which the Option is to be granted exceeds four times the annual salary of that eligible employee.

5.2.3 *Option exercise price*

In respect of Options granted under the Unapproved Plan following Admission (that are not Admissions Awards), the exercise price for each Ordinary Share under Option will be the higher of the nominal value of an Ordinary Share at the time of grant of the Option and the average middle market quotation of an Ordinary Share as derived from the AIM appendix to the official list of the UK Listing Authority for the three dealing days immediately prior to the date on which the Option is granted.

The Option exercise price for Options forming part of the Admission Awards which are granted conditional on Admission is the Issue Price.

5.2.4 *Exercise of Options*

Options will normally be exercisable only within the period of three to ten years after the date of grant.

If an Option holder ceases to be an employee because of his death any Option granted to him must be exercised, if at all, before the date which is the later of six months after the commencement of the relevant Option exercise period, (which is three years after the date of grant), and six months after the date of his death.

A participant who ceases to be an employee because of injury, disability, redundancy, the Option holders retirement at normal retirement age, or on the participant's employing company or business ceasing to be within the Group or, at the direction of the Remuneration Committee, on the participant leaving the employment for any other reason will be able to exercise his Option in the period of six months following the commencement of the relevant Option exercise period.

In each of the circumstances referred to in this paragraph 5.2.4 it will be necessary for the performance condition to which the exercise of the Option is subject to be satisfied before that Option can be exercised.

5.2.5 *Performance conditions*

The Remuneration Committee shall impose objective conditions as to the performance of the Group (which will be set having regard to institutional guidelines) which must normally be satisfied before Options can be exercised. Having granted Options and set a performance target, the Remuneration Committee may vary the performance target provided that the Remuneration Committee reasonably considers that the performance target set no longer represents a fair measure of performance and provided that any new conditions are no more difficult nor easy to satisfy.

All performance targets set will be notified to shareholders through Sanderson's annual report and accounts.

5.2.6 *Admission Awards*

In respect of the Admission Awards granted conditional on Admission under the Unapproved Plan, the Option exercise period will commence on 1 October 2007. Although such Options will only be exercisable after 1 October 2007 the number of Ordinary Shares over which these Options can be exercised are to be considered as consisting of three equal tranches.

The Option can be exercised over the first tranche of Ordinary Shares at any time after 1 October 2007. In respect of the second and third tranche of Ordinary Shares, the Option can only be exercised if the growth in earnings per share for the 12 month periods ending 30 September 2005 and 30 September 2006, respectively, is at least equal to the increase in inflation over each such period plus 2 per cent. For the purposes of ascertaining whether this performance condition has been achieved the Remuneration Committee shall determine an earning per share figure for the period ended 30 September 2004.

5.3 EMI Plan

5.3.1 *Eligibility*

All directors and employees of the Group who are required to devote at least 25 hours a week or, if less, at least 75 per cent. of his working week to the business of the Group will be eligible to be nominated for participation in the EMI Plan.

No director, senior executive or employee can participate in the EMI Plan if he has a "material interest" in the Company where "material interest" means a holding of 30 per cent. or more of the number of issued Ordinary Shares.

The Remuneration Committee will have absolute discretion in selecting the persons to whom Options are to be granted under the EMI Plan and (subject to the limits set out below) in determining the number and terms of Options to be so granted. No person is entitled as of right to be granted an Option.

5.3.2 *EMI Option agreement*

It is necessary for the eligible employee and the Company to enter into a specific form of option agreement in order for the option to be considered as having been granted under an EMI Scheme which is in accordance with the relevant legislation. The EMI Option agreement must be submitted to the Inland Revenue within 92 days of the grant of an Option under the EMI Plan.

5.3.3 *Option Price*

The exercise price for which any Ordinary Share can be obtained on the exercise of an Option granted under the EMI Plan shall be determined in the manner set out in paragraph 5.2.3 above.

5.3.4 *Performance condition*

Other than in respect of any Options granted under the EMI Plan in the 42 day period following admission, the performance conditions to which the exercise of an Option granted under the EMI Plan will be subject will be the same as the performance conditions that apply to the exercise of Options granted under the Unapproved Plan as set out in paragraph 5.2.5.

5.3.5 *Individual limits*

Each individual's participation in the EMI Plan will be limited so that the total market value (as determined in accordance with the provisions set out in paragraph 5.3.3) of Ordinary Shares over which an Option or Options granted under the EMI Plan may be held by any eligible employee at any time, shall not exceed £99,990 or such other limit set out in the relevant legislation (less £10) at the time of grant of the Option.

5.3.6 *Limits applying to the EMI Plan*

No Option may be granted if immediately following the aggregate Option exercise price of all Options granted under the EMI Plan which have been exercised or are still capable of being exercised exceeds £3,000,000.

5.3.7 *Exercise and lapse of options*

Options will not be transferable (other than on the death of the Option holder in certain circumstances) and may normally only be exercised between the third and tenth anniversaries of the date of grant by a person who remains a director or employee.

Similar provisions to those set out in paragraph 5.2.4 will apply to the exercise of Options granted under the EMI Plan in the circumstances set out in that paragraph.

Options will normally lapse on the expiry of any of the periods allowed for exercise.

5.3.8 *Post Admission Options*

Options granted under the EMI Plan in the 42 day period following Admission will be exercisable on terms that are similar to the terms on which Admission Awards granted under the Unapproved Plan can be exercised as set out in paragraph 5.2.6 above.

5.4 Features Common to Sharesave Plan, EMI Plan and the Unapproved Plan

5.4.1 *Time of grant of Options*

Options may initially be granted under each of the EMI Plan and the Unapproved Plan within 42 days after adoption of each plan by Sanderson and in the case of the Sharesave Plan within 42 days of approval by the Board of the Inland Revenue.

After the grant of the Admission Awards and Options granted under the Sharesave Plan following approval by the Inland Revenue, Options will normally be granted (if at all), within 42 days after the announcement of Sanderson's yearly or half-yearly results or of its results for any other period.

Without further shareholder approval, Options may only be granted within ten years of shareholder approval of the schemes.

5.4.2 *Shares Issued on Exercise of Options*

Ordinary Shares acquired by Option holders under each plan will rank *pari passu* with Sanderson's existing issued Ordinary Shares (save that they will not qualify for any dividends or other distributions by reference to a record date prior to the date of exercise of the Option).

5.4.3 *Takeovers*

In the event of the takeover, amalgamation or reconstruction of Sanderson, Options may be exercised under the Unapproved Plan or the EMI Plan. In such circumstances there is no requirement that any performance condition to which the exercise of the Option is subject should be satisfied before an Option can be exercised.

Alternatively, with the agreement of the acquiring company, Options granted under the Sharesave Plan, EMI Plan and the Unapproved Plan may be exchanged for options over shares in the acquiring company or a company associated with the acquiring company.

5.4.4 *Variation of Share Capital*

In the event of a variation of share capital by way of capitalisation, rights issue, sub-division, consolidation or reduction of share capital, then the number of Ordinary Shares over which a subsisting Option has been granted and the price payable on exercise may be adjusted.

Except in the case of a capitalisation issue, no adjustment may be made without the prior confirmation in writing of the auditors of the Company that the adjustment is in their opinion fair and reasonable.

In respect of the Sharesave Plan no adjustment can be made without Inland Revenue approval and no adjustment can be made which would cause the aggregate amount payable on the exercise of an Option in full to be increased nor if the amount payable on exercise would be materially changed or increased beyond the expected repayment date under the Savings Contract.

5.4.5 *Alterations to the Schemes*

The Remuneration Committee may alter the schemes but no alteration to the Sharesave Plan can have effect without Inland Revenue approval.

Certain alterations cannot take effect without shareholder approval (unless they are amendments to comply with or take account of applicable legislation or statutory regulations or any change therein or any requirements of the Inland Revenue for the approval of the scheme or to obtain or maintain favourable taxation treatment for Sanderson or Option holders or potential participants), being the limits on the number of Ordinary Shares which can be offered under the relevant scheme, the category of persons who may participate (or, in the case of the Sharesave Plan, who must be allowed to participate as of right), the price at which Options may be granted (or, under the Sharesave Plan, offered), the number of Ordinary Shares over which an employee may hold an Option, the maximum amounts which can be saved under the Sharesave Plan, the period during which Options may be offered and exercised, the rights attaching to Ordinary Shares subject to an Option, the provisions for altering share capital and for altering the terms of the relevant scheme and the provisions which apply on a winding-up of the Company.

5.4.6 *Taxation*

The Unapproved Plan and the EMI Plan contain provisions to ensure that any income tax liabilities that arise on the exercise of an Option will be satisfied by the relevant Option holder. In addition, where possible the Option holder will bear the cost of any employer's national insurance contributions.

5.4.7 *Pension status*

None of the benefits which may be received under the Sharesave Plan, Unapproved Plan or the EMI Plan will be pensionable.

5.5 Long Term Incentive Plan

5.5.1 *Administration*

The LTIP will be administered by the trustee of a trust to be established which will be known as the Sanderson Group (2004) Employee Benefit Trust (“Trust”). It is expected that the trustee of the Trust (“Trustee”) will be an independent professional trustee based in the Channel Islands. The Trustee when exercising its discretion will always have regard to the recommendations of the Remuneration Committee.

5.5.2 *Participation*

All executive directors and senior executives are entitled to be considered for the grant of awards under the LTIP.

In order to ensure that the Remuneration Committee has maximum flexibility in devising the structure of remuneration packages for executives it is proposed that the LTIP will operate in conjunction with the other Share Option Plans adopted by the Company. Participants in the LTIP will therefore also be entitled to be granted options under the Company’s Share Option Plans and it is intended that a number of awards will be made under the LTIP to directors and other employees who will also be granted options under the Share Option Plans.

After due consideration, the Remuneration Committee will recommend to the Trustee the names of certain executive directors and other senior executives who are to be considered for participation in the LTIP. The Remuneration Committee will also recommend the maximum number of Ordinary Shares over which an award may be made to any particular executive.

After taking into account the recommendations of the Remuneration Committee, the Trustee will make awards under the LTIP to selected executive directors and other senior executives. The awards will be over a specified number of Ordinary Shares.

An award made under the LTIP may take the form of an option granted to the participating executive which may be exercised following the end of the relevant measurement period to the extent that the performance target (see paragraph 5.5.3 below) has been achieved.

Alternatively an award may take the form of a transfer of Ordinary Shares to the participant at the commencement of the measurement period. In such circumstances the ownership of the Ordinary Shares held by the participant will be conditional upon the achievement of the performance targets referred to in paragraph 5.5.3 below. In these circumstances the Company and the Trustee may enter into a conditional share buy back arrangement which will enable the company to acquire any of the Ordinary Shares following the end of the measurement period that are not be retained by the relevant participant.

5.5.3 *Performance targets and vesting*

The vesting of the Ordinary Shares over which an award has been made will be dependent upon the achievement of the performance targets.

The first performance target selected by the Remuneration Committee is based on the concept of “Total Shareholder Return” or “TSR”. The TSR expresses the total return to shareholders over a particular period of time, the measurement period. The total return to shareholders takes into account the value of an Ordinary Share at the start of the measurement period, the dividends paid during the measurement period and the value of an Ordinary Share at the end of the measurement period. The total return to shareholders can be expressed as an annual percentage return for any share in any company.

Under the terms of the LTIP, the TSR for Sanderson over the measurement period would be calculated and compared to the TSR’s achieved during the same measurement period by companies in the comparator group. The companies in the comparator group are those companies that are selected by the Remuneration Committee at the commencement of the measurement period. All of the companies in the comparator group will be quoted on either the Official List of the UK Listing Authority or on AIM. When selecting the companies for inclusion in the comparator group the Remuneration Committee will have regard to such criteria as market value and sector of operation.

All the companies in the comparator group, that are still quoted on the Official List or on AIM at the end of the measurement period and Sanderson would be ranked in order of the TSR achieved over the measurement period, with the company achieving the highest TSR being ranked at the number one position.

If Sanderson is ranked in the top half of the list of TSR's achieved by Sanderson and the companies in the comparator group, all of the Ordinary Shares over which an award had been made would vest in the ownership of the relevant participant.

If the TSR of Sanderson was ranked in the bottom 40 per cent. of all companies on the list (including Sanderson) then none of the Ordinary Shares over which an award had been made would vest and the relevant participant would not be entitled to any of the Ordinary Shares.

If the TSR of Sanderson places Sanderson below the median but above the bottom 40 per cent. of companies in the comparator group, then the number of Ordinary Shares over which the LTIP award will vest will be calculated on a straight line basis between those two limits.

In addition to the TSR performance target no award will vest unless in the opinion of the Remuneration Committee the underlying financial performance of Sanderson has been satisfactory over the measurement period.

5.5.4 *Measurement Period*

The maximum length of the measurement period for any award will be three years. The measurement period for any award will commence on the date of that award.

In respect of the Admission Awards made under the LTIP, the measurement period will commence on the date of Admission and end on 30 September 2007.

5.5.5 *Cessation of employment*

A participant who ceased to be an employee before the end of the measurement period and is a "good leaver" would not be entitled to the vesting of any Ordinary Shares until after the end of the measurement period. The extent to which an award would vest would then depend upon the actual TSR achieved by Sanderson over the measurement period and the underlying financial performance of Sanderson.

If a participant ceased to be an employee but was not a "good leaver" the extent to which he will be entitled to receive any Ordinary Shares under the LTIP will depend upon the discretion of the Trustee. Before exercising its discretion the Trustee will take into account the opinion of the Remuneration Committee and when forming its opinion the Remuneration Committee will take into account the performance of Sanderson and the contribution made by the relevant participant before he ceased to be an employee.

5.5.6 *Takeover, amalgamation and reconstruction*

In the case of a takeover that takes place within the measurement period, the accepted bid price will be used to determine the TSR of Sanderson in the period commencing on the date of the award and ending on the occurrence of the takeover. TSR's for the comparator group of companies will be calculated for the same period. The extent to which the Shares over which awards have been made will vest will be determined by comparing the TSR of Sanderson with the TSR's of the companies in the comparator group in a manner similar to that outline in paragraph 5.5.3.

In the case of an amalgamation or reconstruction of Sanderson, with the consent of the acquiring company the awards may be exchanged or varied so as to operate over shares in the acquiring company.

5.5.7 *Vesting of award*

At the end of the measurement period, a participant in the LTIP who has been granted an option to acquire the relevant number of Ordinary Shares will only have to pay a nominal amount to the Trustee to obtain full ownership of the Ordinary Shares which have vested.

5.5.8 *Acquisition of Shares by Trustee*

In respect of the Shares over which the awards are made, the Trustee will acquire the relevant number of Ordinary Shares from Sanderson by subscribing for new Ordinary Shares.

The subscription price to be paid by the Trustee will be the market value of the Ordinary Shares on the day that the awards are made.

The subscription money will be advanced to the Trustee by Sanderson.

5.5.9 *Taxation*

The LTIP will contain provisions to ensure that any income tax liabilities that arise on the vesting of an award will be satisfied by the relevant participant. In addition, where possible the participant will bear the cost of any employer's national insurance contributions.

5.5.10 *Variation of share capital*

In the event of a variation of share capital by way of capitalisation, rights issue, sub-division, consolidation or reduction of share capital, the number of Ordinary Shares over which an award has been made may be adjusted.

5.5.11 *Amendment to LTIP*

The Trustee may amend the terms of the LTIP on the recommendation of the Remuneration Committee.

Certain amendments cannot take effect without shareholder approval unless they are amendments to comply with or take account of applicable legislation or statutory regulations or any change therein or to obtain or maintain favourable taxation treatment for the Company or the participants.

Shareholder approval is required before any amendment can be made to the overall limits on the number of Ordinary Shares that can be issued to satisfy Options granted under the Company's Share Option Plans and awards made under the LTIP, the category of persons who may participate, the periods during which awards may be made, the provisions for altering the share capital of the Company and the provisions which relate to the alteration of the terms of the LTIP.

5.5.12 *Awards under the LTIP*

The life of LTIP will be ten years and no awards may be made more than ten years after the date of the forthcoming general meeting.

5.5.13 *Pension status*

None of the benefits which may be received under the LTIP will be pensionable.

5.6 *Scheme Limits*

The Share Option Plans will impose limits on the numbers of Ordinary Shares over which Options may be granted. The maximum number of Ordinary Shares over which Options may be granted in any ten year period shall not exceed 6,708,745 Ordinary Shares*.

It is expected that the maximum number of Ordinary Shares over which Options will be granted under the Sharesave Plan will be 936,879 Ordinary Shares*.

The number set out above shall include any Options which have been granted as part of the Admission Awards and shall also include any Option granted under the EMI Plan within the 42 day period following Admission up to a maximum of 1,325,621 Ordinary Shares* over which EMI Options may be granted.

In addition the limit set out above shall not include any Ordinary Shares over which Options have been granted or awards under the LTIP have been made but in respect of which the Options or awards have lapsed or been surrendered.

*Note:

The maximum number of Ordinary Shares over which Options may be granted in any ten year period shall not exceed 16.59 per cent of the Enlarged Share Capital.

5.7 Employee Benefit Trust

It is intended that the Share Option Plans will be operated in conjunction with an employee benefit trust. The employee trust will have the following principal features:

- 5.7.1 The trust fund will consist of an initial sum of £100.
- 5.7.2 Funds required by the employee benefit trust in order to purchase Ordinary Shares will generally be provided by Sanderson or its subsidiaries either in the form of contributions or loans.
- 5.7.3 By the terms of a trust instrument the trustees will have absolute discretion to apply the trust fund for the benefit of the beneficiaries in such manner generally as they think fit. The trustees will have power to transfer the trust fund to trustees of other settlements for the benefit of the same class of beneficiaries, to lend or appoint any part of it to a beneficiary and to grant options, transfer shares and pay any taxes. The trustees will have in addition all powers of investment, sale, charging or dealing with the trust fund as if they were beneficial owner, including the power to invest the trust fund in the acquisition of shares in or debentures of Sanderson.
- 5.7.4 the employee benefit trust which will already be established at Admission, will be controlled and managed outside the UK, having a single corporate trustee.
- 5.7.5 It is proposed that the employee benefit trust will not, without the approval by ordinary resolution of the members of Sanderson, hold more than 5 per cent., of the Ordinary Shares (excluding Ordinary Shares over which a beneficial interest has been granted or transferred). This will exclude any shares required to satisfy any Options granted under the Share Option Plans.
- 5.7.6 The trust instrument will contain normal provisions to exonerate the trustees from, and indemnify them against, liability for loss of the trust fund, or any costs or expenses or liabilities which they incur, save as attributable to their own wilful misconduct or gross negligence. Any professional trustee will be entitled to charge remuneration in accordance with its usual terms and conditions.
- 5.7.7 Sanderson will have the power to alter or amend the trust instrument subject to this not affecting the status of the employee benefit trust as an employee share scheme or affecting the tax status of the employee benefit trust.

6. Directors' and other interests

- 6.1 The interests (all of which are beneficial unless otherwise stated) of the Directors and persons connected with them (within the meaning of section 346 of the Act) in the issued share capital of the Company which (i) have been notified by each director to the Company pursuant to section 324 or section 328 of the Act, or (ii) which are required to be entered in the register maintained under section 325 of the Act, or (iii) so far as the Directors are aware having made due and proper enquiry of such persons as are connected (within the meaning of section 346 of the Act) with each Director, are interests of a connected person of a Director which would, if the connected person were a director of the Company, be required to be disclosed under paragraphs (i) or (ii) above and the existence of which is known to or could, with reasonable diligence, be ascertained by that Director, (a) as at the date of this document and (b) as they will be immediately following Admission, are as follows:

Director	(a) As at the date of this document		(b) Following Admission	
	Number of ordinary shares of 1 pence each	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Christopher Winn	3,219,738	6.44	1,000,000*	2.47
David O'Byrne	827,548	1.66	182,754	0.45
Deborah Wood	—	—	—	—
John Paterson	—	—	80,000	0.20
Philip Kelly	—	—	20,000	0.05
David Gutteridge	—	—	100,000	0.25

* Christopher Winn's holding includes 139,487 Ordinary Shares allotted to Mr Winn on the capitalisation of £69,744 of loan notes issued by the Company and capitalised at the Placing Price pursuant to the agreement described in paragraph 13.11 of this Part 5.

6.2 Conditional on Admission, the following Admission Awards have been granted to the Directors:

Under the Unapproved Plan

Director	Number of Ordinary Shares over which Option granted	Exercise price per Ordinary Share	Exercise Period
Christopher Winn	910,972	50p	after 1 October 2007
David O'Byrne	506,587	50p	after 1 October 2007

Under the LTIP

Director	Number of Ordinary Shares over which award made	Measurement Period (commences on the date of Admission)	Acquisition Period
Christopher Winn	910,972	ends 30 September 2007	after 1 October 2007
David O'Byrne	506,587	ends 30 September 2007	after 1 October 2007

In addition, also conditional on Admission, the following Admission Awards have been granted to other senior management of the Company:

Under the Unapproved Plan

Others	Number of Ordinary Shares over which Option granted	Exercise price per Ordinary Share	Exercise Period
Others	305,501	50p	after 1 October 2007

Under the LTIP

Others	Number of Ordinary Shares over which award made	Measurement Period (commences on the date of Admission)	Acquisition Period
Others	305,501	ends 30 September 2007	after 1 October 2007

All of the above Options under the Unapproved Plan and awards under the LTIP have been made for no cash consideration.

It is proposed to grant options under the EMI Plan in the 42 day period following Admission to Christopher Winn, David O'Byrne and certain other senior executives immediately following Admission. The market value of an Ordinary Share for the grant of Options under the EMI Plan has to be agreed with the Inland Revenue. The Inland Revenue may not agree that the Issue Price is equal to the market value of an Ordinary Share.

On the assumption that the Issue Price is equal to the market value of an Ordinary Share for the purposes of the EMI Plan, the number of Ordinary Shares over which Options would be granted under the EMI Plan to Christopher Winn and David O'Byrne is as set out in the table below. If the Inland Revenue agree that the Issue Price is less than the market value of an Ordinary Share, the number of Ordinary Shares over which Option under the EMI Plan will be granted to Christopher Winn and David O'Byrne will be reduced so that the limit of £99,990 on the market value of Ordinary Shares over which Options may be granted is not exceeded. An Unapproved Option will be granted to Christopher Winn and David O'Byrne, over the surplus number of Ordinary Shares.

Under the EMI Plan

Director	Number of Ordinary Shares over which Option granted	Exercise price per Ordinary Share	Exercise Period
Christopher Winn	199,980	50p	after 1 October 2007
David O'Byrne	199,980	50p	after 1 October 2007

Options under the EMI Plan will also be granted in the 42 day period following Admission to other senior executives as follows:

Under the EMI Plan

	Number of Ordinary Shares over which Option granted	Exercise price per Ordinary Share	Exercise Period
Others	925,660	50p	after 1 October 2007

6.3 Save as disclosed in this Part 5, none of the Directors has any interest in the share capital of the Company or of any of its subsidiaries nor does any person connected with the Directors (within the meaning of section 346 of the Act) have any such interest, whether beneficial or non-beneficial.

6.4 As at the date of this document and so far as the Directors are aware, the only persons (other than any Director) who is or will be interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company are as follows:

	As at the date of this document		Following Admission	
	Number of 'A' ordinary shares of 1 pence each	Percentage of issued share capital	Number of Ordinary Shares	Percentage of issued share capital
Shareholder				
Alchemy Nominees	27,726,120	55.45	11,298,995	27.94
Goldman Sachs	3,482,680	6.97	—	—
Lothian 71 LP	3,381,240	6.76	—	—
JP Morgan	3,313,600	6.63	—	—
Weyerhaeuser Company Master Retirement Trust	2,028,740	4.06	—	—

Notes:

- (i) Alchemy Nominees holds the registered title to the "A" ordinary shares and Ordinary Shares listed opposite its name as nominee for investors in the Alchemy Plan;
- (ii) The Goldman Sachs interest is the aggregated holding of GS Private Equity Partners II LLP, GS Private Equity Partners II Direct Investment Fund LP, GS Private Equity Partners II Offshore LP, GS Private Equity Partners III Offshore LP, GS Private Equity Partners III LP and NBK/GS Private Equity Partners LP;
- (iii) Lothian 71 LP holds the registered title to the shares listed opposite its name as nominee for Collier Investment Management Limited;
- (iv) The JP Morgan interest is the aggregated holding of JP Morgan Corporate Finance Institutional Investors LLC and JP Morgan Corporate Finance Private Investors LLC;
- (v) Each of Goldman Sachs, JP Morgan and Weyerhaeuser Company Master Retirement Trust are investors in the Alchemy Plan and therefore also interested in certain of the "A" ordinary shares registered in the name of Alchemy Nominees as at the date of this document. As a result of their interest in the Alchemy Plan they will also retain an interest in the Ordinary Shares registered in the name of Alchemy Nominees following Admission.

6.5 Save as disclosed in this paragraph 6, the Company is not aware of any persons who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

6.6 It is the Directors' intention, within the twelve week period following Admission to invite all Directors and employees to apply for Options under the Sharesave Plan. Following Admission the maximum number of Ordinary Shares over which Options may be granted under the Sharesave Plan is 936,879 Ordinary Shares in total. The Directors will be entitled to participate in this invitation.

In addition to the Options to be granted under the Sharesave Plan, Options will also be granted under the EMI Plan in the 42 day period following Admission. Details of such Options to be granted under the EMI Plan are set out in paragraph 6.2 of Part 5 of this document.

6.7 Save as disclosed in this Part 5, no share or loan capital of the Company or any of its subsidiary undertakings is under option or agreed conditionally or unconditionally to be put under option.

6.8 Save as otherwise disclosed in this document, no Director has or has had any interests in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of the Group and which was effected by the Group in the current or immediately preceding financial year of the Group or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

- 6.9 Save as otherwise disclosed in this document, no Director has, or has had any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to, any member of the Group or which are proposed to be acquired of by, or lease to, any member of the Group.
- 6.10 There are no outstanding loans granted by any member of the Group to any Director nor are there any guarantees provided by any member of the Group for the benefit of any Director.
- 6.11 Save as disclosed in this document, no person (other than professional advisers or trade suppliers) has at any time within the 12 months preceding the date of this document received, directly or indirectly, from the Company or any other member of the Group or entered into any contractual arrangements to receive, directly or indirectly, from the Company or any other member of the Group on or after Admission any fees, securities in the Company or any other benefit to the value of £10,000 or more. Under a general consultancy agreement with Arden Partners Limited dated 31 October 2004, John Paterson will receive a fee of 15 per cent. of the gross fees and commissions receivable by Arden Partners pursuant to the Placing Agreement described in paragraph 12 of this Part 5.
- 6.12 The details of those companies and partnerships of which the Directors have been directors or partners at any time during the five years prior to the date of this document are as follows:

Director	Current directorships and partnerships	Past directorships and partnerships
Christopher Winn	Sandsenor Limited Sonarsend Limited Sanderson Limited Sanderson Net Limited Sanderson Services Limited Sanderson GA Limited Sanderson Consultancy Limited General Automotion Limited Brook Street Computers Limited Sanderson CBT Limited CSL Commercial Systems Limited Sanderson Brook Street Limited Mandis International Limited Sanderson Electronics Limited Premier People Limited Sanderson Computers Limited Sanderson Computer Services Limited Sanderson Support Limited Sanderson Commercial Services Limited Sanderson Cotswold Limited Cotswold Computers Limited Sanderson Software Limited Sanderson Logistics Limited	Civica Services Limited Talgentra International Limited Talgentra Holdings Limited Commercial Systems Limited Sanderson Solutions Limited Civica Government Limited Civica FCS Limited Civica Licensing Limited Civica Enforcement Limited Pick People Limited Management Software Limited Civica Public Sector Limited Civica Computer Solutions Limited Civica Technology Limited Talgentra Revenue Management Limited Talgentra Collection Services Limited Talgentra Solutions Limited Tallyman Limited Talgentra Limited Civica Holdings Limited

Director	Current directorships and partnerships	Past directorships and partnerships
David O'Byrne	Sonarsend Limited Sanderson Limited Sanderson Net Limited Sanderson Services Limited Sanderson GA Limited Sanderson Consultancy Limited General Automotion Limited Brook Street Computers Limited Sanderson CBT Limited CSL Commercial Systems Limited Sanderson Brook Street Limited Mandis International Limited Sanderson Electronics Limited Premier People Limited Sanderson Computers Limited Sanderson Computer Services Limited Sanderson Commercial Services Limited Sanderson Cotswold Limited Cotswold Computers Limited Sanderson Software Limited Sanderson Logistics Limited Sanderson NI Limited Sanderson Ireland Limited Sabre Software Development Limited	Talgentra International Limited Civica Software Management Limited Civica Systems Limited Civica Holdings Limited Civica PSS Limited Civica Insight Limited
Deborah Wood	Sanderson Limited Sanderson Ireland Limited Sabre Software Development Limited	
John Paterson	Elba Investments Limited	Arden Partners Limited Capel Cure Sharp Limited OMFS (Exco) Limited Albert E. Sharp & Co. Limited
Philip Kelly	Maxline Agencies Limited Radius Solutions (UK) Limited Avalon Systems Limited Radius Solutions Pension Fund Trustees Limited Radius Solutions Limited*	Powersolve Software Limited MGB Computer Services Limited Radius Commercial Systems Limited Radius Distribution Limited Radius Health Limited Radius Nursing Software Limited Radius Systems Limited Alpha Controls Limited Radius LG Limited Radius Limited Sudiar Limited Radius Print Limited Radius Computer Services Limited Radius Computer Maintenance Limited Systemsolve Limited Systemsolve (Computer Services) Limited
David Gutteridge	Pentlands Services Limited	Financial Objects (UK) Limited Global Financial Systems Limited Financial Objects International Limited 9000 Limited Fino Software Services Limited Financial Objects plc

* The Alchemy Plan has a shareholding of 64% in Radius Solutions Limited

6.13 At the date of this document no Director:

6.13.1 has any unspent convictions in relation to any indictable offences; or

6.13.2 has been bankrupt or entered into an individual voluntary arrangement; or

6.13.3 was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or

6.13.4 has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or

6.13.5 has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or

6.13.6 has been subject to any public criticism by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

7. Directors' service agreements, letters of appointment and emoluments

7.1 Each of the executive Directors has a service agreement with the Company and Sanderson Limited. Details of these service agreements (including salary) are set out below:

Director	Employing Company	Date of agreement	Salary per annum
Christopher Winn	Sanderson Limited	10 December 2004	£185,000
David O'Byrne	Sanderson Limited	10 December 2004	£115,000
Deborah Wood	Sanderson Limited	10 December 2004	£72,000

The agreements with Christopher Winn and David O'Byrne are each terminable by 12 months' notice by either the employing company or the relevant executive Director. The agreement with Deborah Wood is terminable on 6 months' notice by either the employing company or Deborah Wood. The salaries are subject to annual review (next review date 1 October 2005) by the Remuneration Committee but there is no contractual entitlement to any increase in basic salary.

Christopher Winn is entitled to bonus payments as follows:

- £55,000 if operating profit for the Group for the year ending 30 September 2005 exceeds £3,000,000; and
- £25,000 if operating profit for the Group for the year ending 30 September 2005 exceeds £3,150,000; and
- 2.5 per cent. of the amount by which the operating profit of the Group for the year ending 30 September 2005 exceeds £3,150,000 (up to a maximum of £25,000); and
- £50,000 on Admission.

David O'Byrne is entitled to bonus payments as follows:

- £20,000 if operating profit for the Group for the year ending 30 September 2005 exceeds £3,000,000; and
- £10,000 if operating profit for the Group for the year ending 30 September 2005 exceeds £3,150,000; and
- 2 per cent. of the amount by which the operating profit of the Group for the year ending 30 September 2005 exceeds £3,150,000 (up to a maximum of £20,000); and
- £50,000 on Admission.

Deborah Wood is entitled to bonus payments as follows:

- £15,000 if operating profit for the Group for the year ending 30 September 2005 exceeds £3,000,000; and
- £5,000 if operating profit for the Group for the year ending 30 September 2005 exceeds £3,150,000; and
- 1 per cent. of the amount by which the operating profit of the Group for the year ending 30 September 2005 exceeds £3,150,000 (up to a maximum of £10,000); and
- £25,000 on Admission.

In addition to the above terms, the following benefits and emoluments are also granted to each of Christopher Winn, David O'Byrne and Deborah Wood (unless specified otherwise) under the terms of their service agreements:

- a car allowance to the value of £16,000 per annum in the case of Christopher Winn, £13,200 per annum in the case of David O'Byrne and £8,820 per annum in the case of Deborah Wood;
- pension contributions of 15% of basic salary in the case of Christopher Winn, 12.5% of basic salary in the case of David O'Byrne and 5% of basic salary in the case of Deborah Wood;
- private medical expenses insurance for the director and spouse
- life insurance (currently at a rate of 4 times annual salary);
- permanent health insurance;
- 25 days holiday (David O'Byrne and Deborah Wood) and 30 days holiday (Christopher Winn); and
- sick pay of up to eight weeks at full pay, half pay for a further eight weeks and thereafter such remuneration (if any) as the Board shall determine in its discretion.

Each Director is also subject to non-competition and non-solicitation covenants in favour of the Group for the period of their employment and for 12 months following cessation of their employment.

- 7.2 (i) John Paterson was appointed a non-executive Director of the Company by letter of appointment dated 23 November 2004. The appointment has effect from the date of the letter but if Admission has not occurred on or before 30 December 2004, it will lapse and have no legal effect. The appointment is for an initial term of 2 years subject to earlier termination at any time on three months' notice by either the Company or the non-executive Director and is subject to the provisions of the Articles dealing with appointment, retirement and qualification of directors. In the event that, following Admission, the Company terminates the appointment within 12 months of a change of control of the Company, the notice period shall be extended to 12 months. The fee payable for Mr Paterson's services as a non-executive Director is £25,000 per annum and is subject to annual review.
- (ii) Philip Kelly was appointed a non-executive Director of the Company by letter of appointment dated 23 November 2004. The appointment has effect from the date of the letter but if Admission has not occurred on or before 30 December 2004, it will lapse and have no legal effect. The appointment is for an initial term of two years subject to earlier termination at any time on three months' notice by either the Company or the non-executive Director and is subject to the provisions of the Articles dealing with appointment, retirement and qualification of directors. In the event that, following Admission, the Company terminates the appointment within 12 months of a change of control of the Company, the notice period shall be extended to 12 months. The fee payable for Mr Kelly's services as a non-executive Director is £25,000 per annum and is subject to annual review.
- (iii) David Gutteridge was appointed a non-executive Director of the Company by letter of appointment dated 23 November 2004. The appointment has effect from the date of the letter but if Admission has not occurred on or before 30 December 2004, it will lapse and have no legal effect. The appointment is for an initial term of two years subject to earlier termination at any time on three months' notice by either the Company or the non-executive Director and is subject to the provisions of the Articles dealing with appointment, retirement and qualification of directors. In the event that, following Admission, the Company terminates the appointment within 12 months of a change of control of the Company, the notice period shall be extended to 12 months. The fee

payable for Mr Gutteridge's services as a non-executive Director is £25,000 per annum and is subject to annual review.

- 7.3 Save as disclosed in paragraphs 7.1 and above 7.2 there are no existing or proposed service agreements or consultancy agreements between any of the Directors and the Company which cannot be terminated by the Company without payment of compensation within 12 months.
- 7.4 The aggregate of the remuneration paid, pension contributions and benefits in kind (including bonus payments) granted to the Directors by any member of the Group in respect of the financial year ended 30 September 2004 was approximately £551,000.
- 7.5 It is estimated that based upon arrangements in force as at the date of this document, the aggregate remuneration to be paid, pension contributions and benefits in kind (excluding performance-related bonus payments of up to £130,000 which remain to be determined by the Remuneration Committee) to be granted to the Directors by any member of the Group for the financial year ending 30 September 2005 will be approximately £635,000.

8. Taxation

- 8.1 **The following paragraphs are intended only as a general guide to the current tax law and practice in the UK in the areas referred to below. They apply (unless otherwise expressly stated) to persons who are resident or ordinarily resident in the UK for tax purposes who beneficially own their shares as investments who are not share dealers or charities or persons with special tax status.**

If you are in any doubt as to your taxation position, or if you are subject to tax in any jurisdiction other than the UK, you should consult an appropriate professional adviser without delay.

8.2 Taxation of dividends

- 8.2.1 Under current UK tax legislation, no tax will be withheld by the Company when it pays a dividend.
- 8.2.2 Individual shareholders resident in the United Kingdom for tax purposes will generally be entitled to a tax credit equal to one-ninth of the amount of the net dividend, which is also equivalent to a tax credit of 10 per cent of the sum of the net dividend and the tax credit.
- 8.2.3 Individual shareholders who are resident for tax purposes in the UK, will be liable to income tax on the amount of the gross dividend. The tax credit referred to above will discharge the liability to income tax in respect of a dividend received by an individual shareholder who is subject to UK income tax at the lower or basic rate only. Higher rate taxpayers will be able to offset the tax credit against their liability for income tax on the amount of the gross dividend. A higher rate taxpayer will be liable to income tax on the amount of the gross dividend at a rate of 32.5 per cent. After setting off the tax credit, a higher rate taxpayer will be liable to additional income tax equal to 25 per cent of the net dividend.
- 8.2.4 For dividends paid to trustees of UK resident or discretionary or accumulation trusts, the gross dividend will be subject to UK income tax at a rate of 25 per cent with a tax credit equal to 10 per cent of the gross dividend.
- 8.2.5 The amount of the tax credit in respect of a dividend paid which constitutes income of a pension fund, life assurance company or charity will not be repaid. Special transitional rates will apply to charities to compensate them for the loss of repayable tax credits.
- 8.2.6 A corporate shareholder (other than a share dealer) resident for tax purposes in the UK will not generally be liable to UK corporation tax on any dividend received, nor will it be able to recover any part of the tax credit.
- 8.2.7 Certain non-resident shareholders may be able to claim repayment of part of the tax credit under a relevant double taxation agreement.

8.3 Taxation of capital gains

- 8.3.1 Depending on their circumstances, shareholders who are resident or, in the case of individuals, ordinarily resident in the UK for taxation purposes, may be subject to capital gains tax (or, in the case of corporate shareholders, corporation tax on capital gains) in respect of any gain arising on a disposal, including a disposal on a winding up of the Company of their shares unless the shareholder is taxed as a dealer in securities, in which case any gain will be treated as income and

taxed as such. For shareholders who are individuals, taper relief and for shareholders who are within the charge to UK corporation tax, indexation allowance, may reduce a chargeable gain

8.3.2 Shareholders who are not resident or ordinarily resident in the UK for taxation purposes will not normally be liable to UK taxation on chargeable gains arising from a disposal of shares unless they carry on a trade, profession or vocation in the UK through a branch or agency in connection with which the shares are held. However, such shareholders may be subject to charges to foreign taxation depending upon their personal circumstances. In addition, individual shareholders who are temporarily non-UK resident may be liable to UK capital gains tax under anti-avoidance legislation.

8.4 Stamp duty and Stamp Duty Reserve Tax (“SDRT”)

No liability to stamp duty or SDRT should arise on the allotment of Placing Shares by the Company under the Placing.

Subsequent sales of Ordinary Shares inside CREST will generally be liable to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration rounded up to the nearest £5.

Subsequent sales of Ordinary Shares outside CREST will generally be liable to ad valorem Stamp Duty, at the rate of 0.5 per cent. of the amount or value of the consideration rounded up to the nearest £5. Stamp duty and SDRT are normally the liability of the purchaser or transferee of the Ordinary Shares. However, where an instrument of transfer which completes an unconditional agreement to transfer shares is duly stamped within six years after the agreement was entered into (or it becomes unconditional) the stamp duty will cancel the SDRT liability and any SDRT paid can be recovered.

No stamp duty or SDRT will arise on a transfer of shares into CREST unless the transfer is itself for consideration, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of the consideration given. Transfers of shares within CREST are generally liable to SDRT at the rate of 0.5 per cent.

The information in this paragraph is a general summary of certain tax reliefs which may be available and should not be construed as constituting advice. Potential investors should obtain advice from their own investment or taxation adviser.

9. The Company and its subsidiaries

The Company acts as the holding company of the Group, the principal activity of which is the provision of software and IT services to commercial markets in the UK and Ireland. The Company will, on Admission, have the following principal operating subsidiary, which has its registered office at Sanderson House, Poplar Way, Sheffield S60 5TR, is a private limited company incorporated in England and Wales and is wholly owned (indirectly) by the Company:

Name	Registered number	Principal activity
Sanderson Limited	2968972	Provision of software and IT services to commercial markets in the UK and Ireland

10. Working capital

The Directors are of the opinion, having made due and careful enquiry, that the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of Admission.

11. Litigation

No legal or arbitration proceedings are active, pending or threatened against or being brought by the Company or any member of the Group which are having or may have a significant effect on the Company’s financial position.

12. Placing Agreement

The Placing Agreement dated 10 December 2004 between (1) the Company, (2) the Selling Shareholders, (3) the Directors and (4) Arden Partners pursuant to which Arden Partners has agreed, subject to certain conditions, as agent for the Company to use all reasonable endeavours to procure subscribers for the Subscription Shares and as agent for each of the Sellers to use all reasonable endeavours to procure purchasers for the Sale Shares, in each case at the Issue Price and, to the extent that it does not procure such subscribers or purchasers, to itself subscribe or purchase such Placing Shares at the Issue Price.

The Placing Agreement is conditional, amongst other things, upon Admission becoming effective by not later than 8:30am on 16 December 2004 or such later time and/or date as Arden Partners and the Company may agree, being not later than 30 December 2004.

The Placing Agreement provides for payment of the following amounts by the Company to Arden Partners, in addition to the corporate finance fee of £35,000 plus value added tax paid by the Company to Arden Partners pursuant to the engagement letter entered into between those parties on 4 November 2004:

- (a) an advisory fee of £45,000; and
- (b) a commission of 3.5 per cent. of the aggregate value at the Issue Price of the Subscription Shares;

in each case together with any value added tax. In addition, the Selling Shareholders have agreed to pay to Arden Partners a commission of 3.5 per cent. of the aggregate value at the Issue Price of the Sale Shares together with any value added tax. The Company will bear all costs of, or incidental to, the Placing including (without limitation) the fees of the London Stock Exchange, printing costs, registrar's fees and the legal and accounting fees of the Company and Arden Partners and any stamp duty and stamp duty reserve tax (where applicable) in respect of the Subscription Shares. The Selling Shareholders are liable to pay all stamp duty and stamp duty reserve tax payable in respect of the purchase of the Sale Shares sold by them subject to a maximum rate of 0.5 per cent.

The Placing Agreement contains certain warranties by the Company and the Directors in favour of Arden Partners, including as to the accuracy of the information contained in this document and certain financial information and other matters relating to the Group and its businesses together with certain warranties by the Selling Shareholders as regards their title to the Sale Shares and the information relating to them in this document. In addition, the Company has agreed to indemnify Arden Partners in respect of any losses, damages and liabilities incurred by Arden Partners resulting from the carrying out by Arden Partners of its obligations or services under or in connection with the Placing Agreement. The executive Directors have further agreed to indemnify the Company in respect of certain tax liabilities.

Arden Partners may terminate the Placing Agreement prior to Admission in certain specific circumstances, including (amongst other things) in the event of:

- (a) a material breach of the Placing Agreement by the Company, the Directors or the Sellers or of the warranties or indemnities contained in it; or
- (b) any change or development in national or international financial, economic, political or market conditions in or affecting the United Kingdom which (in Arden Partners' reasonable opinion) is likely to materially and adversely affect the financial position, business or prospects of the Group or which renders the Placing or the creation of a market in the Ordinary Shares impracticable or inadvisable;

in each case occurring prior to Admission.

Each of the Directors and certain of the Selling Shareholders have agreed (subject to certain exceptions) not to sell any Ordinary Shares until the earlier of the date of announcement of the Group's results for the year ending September 2005 and 31 January 2006. In addition, they have further agreed (subject to certain exceptions) that for a further period of 12 months they will not (without the prior written consent of Arden Partners) dispose of any interest in Ordinary Shares other than through Arden Partners or the firm acting for the time being as the Company's broker subject to certain conditions.

13. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by any member of the Group and are, or may be, material to the Group or have been entered into by any member of the Group and contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

- 13.1 the Placing Agreement;
- 13.2 a share transfer agreement dated 9 December 2003 and made between (1) Sonarsend Limited (then known as Sonarsend plc) and (2) Civica plc (then known as Civica Holdings Limited) pursuant to which Sonarsend Limited transferred the entire issued capital of Sanderson Solutions Limited to Civica Holdings Limited for the consideration of £6,300,000.

- 13.3 a share transfer dated 19 December 2003 and made between (1) Sanderson Pacific Pty Limited and (2) Sanderson Limited pursuant to which Sanderson Pacific Pty Limited transferred the entire issued share capital of Sanderson Australia Software Pty Limited to Sanderson Limited for the consideration of £140,000.
- 13.4 a senior credit agreement (“Credit Agreement”) dated 23 December 2003 and made between (1) the Company (2) Sonarsend Limited (3) various other Group companies as borrowers and/or as guarantors (4) Barclays Leveraged Finance and (5) Barclays Bank PLC (“Barclays”) (in several capacities) pursuant to which the Company has had made to it a term loan and guarantee facility of £6,000,000 and a revolving credit facility of £500,000 (aggregate of £6,500,000). The term loan and guarantee facility and the revolving credit facility are available until 31 December 2008. The Company has given various representations, warranties and covenants (including financial covenants) to Barclays. Furthermore, the Company has agreed that on the occurrence of certain defined events of default, Barclays will be entitled to demand repayment of both the term loan and guarantee facility and the revolving credit facility.

Pursuant to an amendment letter dated 10 December 2004, Barclays has agreed that following Admission, a further tranche of the term loan in the maximum aggregate amount of £1,700,000 (“Tranche B”) will be made available to the Company and shall be used for financing the redemption of the loan notes described in paragraph 13.11 of this Part 5. Tranche B bears interest at specific margins over LIBOR plus standard regulatory costs but is subject to a margin ratchet in the event that certain financial covenants are met. Tranche B is repayable in half yearly instalments commencing on 31 March 2005 and must be fully repaid on 30 September 2007. The amendment letter further provides that, following Admission, the revolving credit facility will increase from £500,000 to £1,000,000.

- 13.5 a demerger agreement dated 23 December 2003 between (1) Sandsenor Limited (in liquidation) (“Sandsenor”) (2) Civica plc (then known as Civica Holdings Limited) (3) Talgentra Holdings Limited (4) the Company (5) various management shareholders, including Christopher Winn and David O’Byrne (6) Alchemy Nominees and various institutional shareholders and (7) Peter Souster and Colin Haig (as joint liquidators).

The agreement relates to Sandsenor and the reorganisation and demerger of three of its subsidiaries (each being an intermediate holding company). This was effected pursuant to section 110 of the Insolvency Act 1986 by means of various intra-group transfers, the liquidation of Sandsenor and the transfer of its shares in the aforementioned subsidiaries into three newly formed holding companies, the Company, Civica plc and Talgentra Holdings Limited in consideration for such companies issuing shares to the Sandsenor shareholders (in proportion to their then existing shareholdings in Sandsenor). Under this agreement, the Company assumed all of Sandsenor’s obligations relating to Sonarsend Limited (and its subsidiaries). The Company also agreed to indemnify Sandsenor and the joint liquidators against all Sanderson liabilities expressly assumed under the agreement and 15 per cent. of any other liability of Sandsenor not expressly referred to in the agreement, including any liability of the joint liquidators arising from their appointment and the proper exercise of their duties as joint liquidators to Sandsenor.

- 13.6 a novation agreement dated 23 December 2003 between (1) Sandsenor (2) the Company and (3) Sanderson Limited pursuant to which the Company agreed to assume the liability to repay an intra-group loan due from Sandsenor to Sanderson Limited in the sum of £20,050,000 and assume the obligations owed or incurred by Sandsenor to Sanderson Limited pursuant to a business transfer agreement entered into on the same date.
- 13.7 a deed of adherence dated 23 December 2003 between, inter alia, (1) Sandsenor and (2) the Company pursuant to which the Company agreed to assume the liability of Sandsenor to satisfy certain loan notes in the amount of £14,160,008.
- 13.8 a side letter to the demerger agreement dated 23 December 2003 between (1) Civica plc (then known as Civica Holdings Limited) (2) Talgentra Holdings Limited (3) the Company and (4) Sanderson Support Limited pursuant to which Civica plc and Talgentra Holdings Limited were permitted to continue to make contributions to Sanderson Support Limited as trustee of the Sanderson Group Retirement Benefits Scheme (“Scheme”) and the Pension and Life Assurance Plan of Sanderson Systems Limited (“Plan”) for those employees of Civica plc and Talgentra Holdings Limited and their respective subsidiaries who are members of the Scheme and Plan. The amount of the contributions paid would be in proportion to the total pensionable salary roll for the Scheme and the Plan represented by the employees of the relevant groups.

- 13.9 a shareholders agreement dated 23 December 2003 between (1) the Company (2) Alchemy Partners (Guernsey) Limited and other institutional investors and (3) Christopher Winn and David O' Byrne and other shareholders. This agreement governed the relationship between existing Shareholders with respect to the management and operation of the Company. Pursuant to the agreement, Alchemy Partners is entitled to appoint a director to the Board at all times. The consent of the director appointed by Alchemy Partners is required before various actions can be taken by the Company, including but not limited to, varying the share capital of the Company, a material change in the nature of the business of the Company, incurring capital expenditure in excess of £100,000 and entering into contracts other than on arms length terms. Such consents (when required) have been obtained for the matter referred to in paragraph 3 of this Part 5. This agreement will terminate upon Admission pursuant to the deed referred to in paragraph 13.10 below.
- 13.10 a deed of termination dated 10 December 2004 between (1) the Company (2) Alchemy Partners (Guernsey) Limited and other institutional investors and (3) Christopher Winn and David O'Byrne and other shareholders pursuant to which the terms of the shareholders agreement referred to in paragraph 13.9 of this Part 5 shall cease and determine upon Admission.
- 13.11 an agreement dated 10 December 2004 between (1) the Company and (2) the holders of the loan notes agreed to be assumed by the Company pursuant to the deed of adherence referred to in paragraph 13.7 of this Part 5, whereby the Company agreed to redeem such loan notes conditional upon Admission, the consideration for which would be
- 13.11.1 the issue of 23,438,482 new Ordinary Shares; and
- 13.11.2 the payment in cash of a total of £4,000,000 of which £2,300,000 is to be paid on the date of Admission and £1,700,000 is to be paid within 5 business days of Admission.
- 13.12 a nominated adviser and broker agreement between (1) the Company and (2) Arden Partners dated 10 December 2004, pursuant to which Arden Partners has agreed to act as the Company's nominated adviser and broker as required by the AIM Rules. The agreement is terminable by the Company or Arden Partners on six months notice (save in certain circumstances where the agreement is terminable forthwith). The agreement provides for the Company to pay Arden Partners an annual fee of £35,000 plus VAT and expenses, such fee to be paid annually in advance with the first payment being due on 1 January 2006 in respect of the year ending 31 December 2006. Under this agreement, the Company has provided certain undertakings and an indemnity to Arden Partners.

14. General

- 14.1 The total amount being raised by the Company through the Placing and Employee Offer is £6,000,000. The costs and expenses of, or incidental to, the Placing, Employee Offer and Admission, payable by the Company, are estimated to be approximately £950,000 (exclusive of value added tax). The expected net proceeds of the Placing and Employee Offer accruing to the Company after deduction of such costs and expenses, is £5,050,000. No expenses of the Placing or Employee Offer are being specifically charged to subscribers or purchasers under the Placing and Employee Offer.
- 14.2 The Placing has been underwritten by Arden Partners, which is regulated in the United Kingdom by the Financial Services Authority and which is registered in England and Wales under number 4427253 and whose registered office is at Arden House, 17 Highfield Road, Edgbaston, Birmingham, B15 3DU.
- 14.3 The Placing Price of 50 pence represents a premium of 40 pence above the nominal value of 10 pence per Ordinary Share. The Placing Price is payable in full on application.
- 14.4 The minimum amount which, in the opinion of the Directors, must be raised by the issue of new Ordinary Shares pursuant to the Placing and the Employee Offer in order to provide the sums required to be provided pursuant to paragraph 21 of Schedule 1 to the Regulations is £6,000,000 which will be applied as follows:
- Preliminary expenses (including the costs of the Placing) approximately £950,000.
 - Repayment of bank borrowings approximately £5,050,000.
- 14.5 The financial information set out in this document does not comprise statutory accounts within the meaning of section 240 of the Act. KPMG LLP, Chartered Accountants and registered auditors of 1 The

Embankment, Neville Street, Leeds, has audited the annual accounts of the companies of the Sanderson Group (where applicable) in accordance with national law for the three financial years ended 30 September 2004. These accounts have been delivered to the Registrar of Companies in England and Wales. The auditors gave reports pursuant to section 235 of the Act in respect of these accounts and each such report was an unqualified report within the meaning of section 262(1) of the Act and did not contain a statement under section 237(2) or (3) of the Act.

- 14.6 KPMG LLP has given and has not withdrawn its written consent to the inclusion in this document of its name and the report set out in Part 2 in the form and context in which they appear.
- 14.7 Arden Partners has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

15. Availability of Admission Document

Copies of this document will be available to the public free of charge at the offices of Arden Partners at Nicholas House, 3 Laurence Pountney Hill, London EC4R 0EU from the date of this document until one month after Admission.

Dated 10 December 2004

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of the Enlarged Share Capital to trading on AIM becoming effective in accordance with the AIM Rules
“Admission Award”	means those Options to be granted under the Unapproved Plan and the awards made under the LTIP, conditional on Admission;
“Admission Document”	this document, drawn up in accordance with the AIM Rules and the POS Regulations
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules of the London Stock Exchange governing admission to and the operation of AIM
“Alchemy Nominees”	Alchemy Partners Nominees Limited, PO Box 255, Trafalgar Court, Les Banques, St Peter Port, Guernsey
“Alchemy Partners”	Alchemy Partners LLP of 20 Bedfordbury, London WC2N 4BL
“Alchemy Plan”	the discretionary funds managed by Alchemy Partners (Guernsey) Limited with advice from Alchemy Partners
“Arden Partners”	Arden Partners Limited
“Articles”	the articles of association of the Company adopted on 10 December 2004, conditional on Admission
“Capitalisation Shares”	the 23,438,482 new Ordinary Shares to be issued by the Company pursuant to the written resolution referred to in paragraph 3 of Part 5 of this document, and the agreement referred to in paragraph 13.11 of Part 5 of this document
“Company” or “Sanderson”	Sanderson Group plc
“CREST”	the relevant system (as defined in the CREST Regulations) for paperless settlement of share transfers and the holding of shares in uncertificated form which is administered by CRESTCo
“CRESTCo”	CRESTCo Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001
“Demerger Agreement”	the demerger agreement in connection with the liquidation of Sandenor described in paragraph 13 of Part 5 of this document
“Directors” or the “Board”	the directors of the Company, whose names appear on page 3 of this document
“EMI Plan”	the enterprise management incentive plan adopted by Sanderson, conditional on Admission, further details of which are set out in paragraph 5 of Part 5 of this document;
“Employee Offer”	the offer by the Company of new Ordinary Shares to Qualifying Employees, as described in Part 1 of this document
“Employee Offer Application Forms”	the application forms used by Qualifying Employees pursuant to the terms of the Employee Offer

“Employee Shares”	the 279,000 New Ordinary Shares for which Qualifying Employees have applied under the Employee Offer
“Enlarged Share Capital”	the share capital of the Company immediately following Admission consisting of the Existing Ordinary Shares, the Capitalisation Shares and the New Ordinary Shares
“Existing Ordinary Shares”	the 5,000,000 Ordinary Shares in issue immediately prior to Admission (following the consolidation and redesignation referred to in paragraphs 3.2.1 and 3.2.2 of Part 5 of this document)
“Former Sanderson Group”	Sanderson Group PLC (company number 2131240), and its subsidiaries
“Group” or “Sanderson Group”	Sanderson and its subsidiary undertakings
“Issue Price”	50p per Ordinary Share
“London Stock Exchange”	London Stock Exchange plc
“LTIP”	the long term incentive plan adopted by Sanderson, conditional on Admission, further details of which are set out in paragraph 5 of Part 5 of this document;
“New Ordinary Shares”	the 12,000,000 new Ordinary Shares to be issued by the Company and subscribed pursuant to the Placing and the Employee Offer
“Options”	options or awards over Ordinary Shares granted pursuant to the Share Option Plans
“Ordinary Shares”	ordinary shares of 10 pence each in the capital of the Company
“Placing”	the conditional placing by Arden Partners of the Placing Shares with institutional and other investors at the Issue Price pursuant to the Placing Agreement
“Placing Agreement”	the conditional agreement dated 10 December 2004 between (1) the Company, (2) the Selling Shareholders, (3) the Directors and (4) Arden Partners further details of which are set out in paragraph 12 of Part 5 of this document
“Placing Shares”	the Subscription Shares and the Sale Shares
“POS Regulations”	the Public Offers of Securities Regulations 1995 (as amended)
“Qualifying Employees”	<p>employees (including directors) of the Group, who are, in each case, aged 18 or over and resident in the UK and who</p> <ul style="list-style-type: none"> (i) were employed by the Group on 24 November 2004 (whether on a full or part time basis); and (ii) remain in the employ of the Group and have not given notice, or been given notice, to terminate their employment on or prior to 24 November 2004, <p>provided that the Board has the absolute discretion in any individual case to decide whether the conditions of eligibility have been satisfied</p>
“Remuneration Committee”	means the remuneration committee of the Board of Sanderson from time to time
“Sale Shares”	the 16,000,000 Ordinary Shares to be sold on behalf of the Selling Shareholders under the Placing pursuant to the Placing Agreement

“Selling Shareholders”	the Shareholders who are selling the Sale Shares under the Placing
“Sandsonor”	Sandsonor Limited
“Shareholders”	holders of Ordinary Shares
“Share Option Plans”	together the Sharesave Plan, the EMI Plan, the Unapproved Plan and the LTIP, as defined in paragraph 5 of Part 5 of this document
“Sharesave Plan”	the sharesave plan to be approved by the Inland Revenue adopted by Sanderson, conditional on Admission, further details of which are set out in paragraph 5 of Part 5 of this document;
“Subscription Shares”	the New Ordinary Shares other than the Employee Shares
“subsidiary” and “subsidiary undertaking”	have the meanings respectively ascribed to them by the Act
“Taxes Act”	the Income and Corporation Taxes Act 1988
“UK”	United Kingdom of Great Britain and Northern Ireland
“Unapproved Plan”	the unapproved share option plan adopted by Sanderson, conditional on Admission, further details of which are set out in paragraph 5 of Part 5 of this document;
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“US” or “USA” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia and all other areas subject to its jurisdiction

 **SANDERSON GROUP PLC**

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