Annual Report & Accounts 2019

SysGroup

SysGroup plc
Walker House
Exchange Flags
Liverpool L2 3YL

Company Number
06172239

www.sysgroupplc.com

Contents

Directors, Secretary & Advisers

Directors, Secretary & Advisers

Board of Directors

Michael Edelson
Non-Executive Chairman

Adam Binks
Chief Executive Officer

Martin Audcent
Chief Financial Officer

Mark Quartermaine
Non-Executive Director

Michael Fletcher
Non-Executive Director

Company Secretary

Martin Audcent

Registered Office

Walker House
Exchange Flags
Liverpool L2 3YL

Company Number

06172239

Legal Entity Identifier (LEI)

213800D18GPZZJR9SH55

Company Website

www.sysgroupplc.com

Nominated Adviser

Shore Capital and Corporate Ltd
Bond Street House
14 Clifford Street
London W1S 4JU

Broker

Shore Capital Stockbrokers Ltd
The Corn Exchange
Fenwick Street
Liverpool L2 7RB

Registrar

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS13 8AE

Lawyers

Hill Dickinson LLP
No.1 St. Paul's Square
Liverpool L3 9SJ

Independent Auditor

BDO LLP
3 Hardman Street
Manchester M3 3AT

Bankers

Santander (UK) plc
298 Deansgate
Manchester M3 4HH

Financial PR Advisers

Alma PR
71-73 Carter Lane
London EC4V 5EQ

Highlights

Highlights

Financial

Revenue

+22%

2019	**£12.77m**
2018	£10.45m

Recurring revenue

+33%

2019	**£9.45m**
2018	£7.13m

Adjusted EBITDA [1]

+41%

2019	**£1.41m**
2018	£1.0m

Adjusted PBT [2]

+39%

2019	**£0.75m**
2018	£0.54m

Cash generated from operations [4]

+50%

2019	**£1.21m**
2018	£0.80m

Net cash/(debt) [5]

£0.47m

2019	**£0.47m**
2018	£(0.92m)

Highlight	2019	2018	Change %
Revenue	**£12.77m**	£10.45m	**+22%**
Recurring revenue as a % of total revenue	**74%**	68%	**+6%**
Gross Margin	**£7.78m**	£5.99m	**+30%**
Gross Margin %	**61%**	57%	**+4%**
Adjusted EBITDA [1]	**£1.41m**	£1.00m	**+41%**
Adjusted PBT [2]	**£0.75m**	£0.54m	**+39%**
Adjusted Basic EPS [3]	**3.1p**	2.3p	**+35%**
Statutory loss before tax	**£(0.83)m**	£(0.01)m	**-**
Basic EPS	**(2.8p)**	1.0p	**-**
Net cash/(debt) [5]	**£0.47m**	£(0.92)m	**-**

1. Adjusted EBITDA, is earnings before interest, taxation, depreciation, amortisation of intangible assets, exceptional items, fair value adjustments and share based payments.
2. Adjusted profit before tax ("Adjusted PBT") is profit before tax after adding back amortisation of intangible assets, exceptional items, fair value adjustments and share based payments.
3. Adjusted Basic EPS is profit after tax after adding back amortisation of intangible assets, exceptional items, fair value adjustments, share based payments and associated tax.
4. Cash generated from operations represents operational cashflows adjusted to exclude cashflows for exceptional items.
5. Net cash/(debt) represents cash balances less bank loans, finance lease liabilities and contingent consideration.

Highlights Continued

Operational

- Acquisition of Certus IT Limited in February 2019 for initial consideration of £8.0m
- Successful placing of new ordinary shares raising £10.0m (gross) in February 2019
- New 5-year bank facilities consisting of:
  - £1.75m term loan
  - £3.25m acquisition revolving credit facility
- Implementation of Employee EMI Share Option Scheme
- Completion of office refurbishment programme

Post Period-End Developments

- Acquisition of Hub Network Services Limited for £1.45m in cash
- Won Autotask International Partner of the Year 2019 Award
- Certus IT acquired on a cash free debt free basis resulting in a post completion adjustment to the initial consideration of £0.25m cash returned to the Group

Strategic Report

Strategic Report

Chairman's Statement

We are pleased to present the Group's final results for the year ended 31 March 2019, delivering double digit growth in revenue and Adjusted EBITDA and demonstrating the continued execution of the Group's buy-and-build strategy. The Group achieved a number of milestones during the year, progressing its journey of becoming the leading provider of managed IT services.

The Group successfully raised £10.0m (gross) by way of an equity placing ("Placing") in February 2019 to fund further opportunities for growth. On behalf of the Company and the rest of the Board, I would like to thank both our new and existing shareholders for their continued support and commitment to our vision. The support by investors has been mirrored by the commitment of Santander to the Group through the provision of £5.0m in new bank facilities. This commitment places the Group in a strong position to continue to execute its growth strategy.

The Placing enabled the acquisition of Certus IT Limited ("Certus") by the Group in February. The deal was transformational adding new customers, expertise, further scale and enhanced geographical reach to the Group. We expect Certus to be trading under the SysGroup brand later this financial year, and the majority of the operations integration will take place in H2 FY20. We will continue to assess complementary acquisition opportunities in line with our growth strategy.

The restructuring of the Board was completed during the year with the appointment of Martin Audcent as Chief Financial Officer in July 2018, putting in place the last of the building blocks in establishing the right mix of experience on the Board. These results mark the first full year with Adam Binks as Chief Executive Officer and the contribution his leadership and vision has delivered to the Group is palpable. I believe we have the right team in place to see the Company through to its next stages of growth.

The market environment remains buoyant and the opportunities for the Group as a trusted IT partner are long term. Furthermore, we continue to invest in the business and our people, and I would like to thank all of our dedicated employees for their contribution to the Group. I look forward to the new year with confidence.

Michael Edelson
Chairman
26 June 2019

Strategic Report

Chief Executive Officer's Report

Introduction

The 2019 financial year saw an acceleration of the Group's growth strategy, delivering against our expectations and building upon the newly-formed business foundations established in the prior year.

The Company delivered revenue growth of 22% to £12.77m and adjusted EBITDA growth of 41% to £1.41m which supported a 50% increase in cash generation to £1.21m. Recurring revenues now represent approximately 74% of the Group's total revenue (FY18: 68%), demonstrating our continued shift and strategic focus on higher quality earnings over lower margin VAR. The addition of new managed service customers to this base has contributed to a steadily growing monthly run-rate of recurring revenues, which, combined with the addition of Certus during the year, has launched the business into the next stage of its growth roadmap.

We have spent considerable time during the year enhancing and streamlining the business platform, and ensuring we remain close to our customer base. During the year we undertook a re-branding exercise, bringing all of the previously acquired businesses under the SysGroup brand with a single go-to-market offering. We have continued to invest in our people and systems to support the Group's growth strategy.

Market

We are still in the infancy in the journey to cloud adoption and fully outsourced IT, and customers and prospects are looking to trusted IT partners to help them navigate the complexities of the outsourced IT landscape. Security, compliance and IT governance remain the key drivers for businesses seeking expert advice in helping them to ultimately outsource to ensure they remain protected and compliant.

The market for managed IT service providers remains highly fragmented and characterised by a plethora of small, often localised players. Many of these players reach a natural ceiling, above which they do not have either the inclination or expertise to grow. This provides significant opportunity for further consolidation and we expect to continue to play a role in that in line with our buy-and-build strategy.

Strategy

The Group's clear strategy remains consistent: to expand its position as a trusted provider of Managed IT Services to clients in the UK. The Board believes that a business focused on the provision of Managed IT Services offers the highest growth opportunity and the potential for increased margins and longer-term contracts, thereby providing greater revenue visibility. In pursuit of this strategy, the Group has positioned itself as an extension of a customer's existing IT department, with an emphasis on consultative-led sales to guide customers through the complexities and developments in the market. The process is supplemented by customer service and support. The Group invests in R&D to ensure its clients take advantage of the latest and best solutions available to them, with a vendor/cloud agnostic approach.

The Company's route to execute this strategy is through a combination of organic and acquisitive growth whilst ensuring we create cross-selling opportunities across our acquired customer bases.

Chief Executive Officer's Report Continued

Acquisitions

The acquisition of Certus IT in February was in line with our stated strategy of augmenting our growth with carefully selected acquisitions. Certus is a well-established and growing managed services provider which has a complementary service offering, geographical reach and customer base to SysGroup. Certus has bolstered the Group's existing managed service offerings, by expanding the enlarged Group's current IaaS customer base, significantly adding to its managed connectivity portfolio and further strengthening the existing relationship with Dell EMC by upgrading the Group to gold partner status.

Further, the Group announced the acquisition of Hub Network Services Limited ("HNS") earlier this week for a cash consideration of £1.45m on a cash free debt free basis. HNS is a well-established B2B managed services provider with a primary focus on delivering fast, low latency network connectivity and co-location solutions. The integration of HNS into the Group's existing operations has already commenced and we expect to be leveraging the operational benefits of HNS from H2 FY20.

The Board continues to assess strategic acquisition opportunities that fit within its strict criteria and importantly, further the Group's customer acquisition priorities.

New Banking Facilities

In February, the Company re-financed its existing term loan facility as a £1.75m term loan over five years and arranged a new £3.25m acquisition revolving credit facility with Santander to provide additional financial flexibility for the Group. The continued support from Santander further underpins the external confidence that has been placed in the Board to deliver on the Group's growth strategy as well as providing the Group with the capital to deliver subsequent acquisitions.

The banking facilities have a five-year term with covenants that will be tested quarterly on a 12-month rolling basis relating to interest cover, net debt to Adjusted EBITDA leverage and debt service cover.

Sales & Marketing

The investments that we have made in sales and marketing have already made a change to the business and we will continue to see the benefits as we grow. The appointments that we have made to date, and continue to make, include several highly skilled senior individuals reflecting our consultancy first approach. Our clients come to us with complex IT needs and it is therefore important that our salespeople fully understand the options available to them and are able to provide clients with a bespoke, end to end solution that best suits these needs.

The brand consolidation work concluded in the financial year has aided our sales effort and played a key role in growing our pipeline of opportunities. Recognition of SysGroup is undoubtedly growing in the marketplace and, with it, our reputation as a trusted provider. The unified brand will also accelerate our ability to integrate acquired businesses with ease.

Financial Review

Group revenue for the year grew by 22% to £12.77m for the year to 31 March 2019 (2018: £10.45m) with growth from existing customers and from the post-acquisition trading of Certus IT, acquired in February 2019. The revenue growth resulted from an increase in higher quality Managed IT Services sales which is principally contracted income on three-year contracts. Value Added Resale revenue of £3.3m was consistent with the prior year revenue of £3.3m. Value Added Resale is a complementary sell to the customer base and is subject to the timing and size of customer's IT asset refresh cycles.

Chief Executive Officer's Report Continued

Revenue by Operating Segment	2019 £'000	2019 %	2018 £'000	2018 %
Managed IT Services	9,448	74%	7,130	68%
Value Added Reseller	3,325	26%	3,321	32%
Total	**12,773**	**100%**	**10,451**	**100%**

The Group adopted "IFRS15 Revenue from Contracts with Customers" and "IFRS9 Financial Instruments" in this years' financial statements and the changes required have had no material impact to the Group's financial statements. Further information on the adoption of IFRS15, IFRS9 and the Group's revenue recognition policy is included in Note 1 to the Accounts.

Gross profit for the year was £7.78m (2018: £5.99m) representing a gross margin of 61% (2018: 57%). The increase in gross margin percentage is attributable to the change in sales mix with the business focussed more on Managed IT Services growth this year. In 2019, 74% of revenue (2018: 68%) came from Managed IT Services which has a gross margin of 74% (2018: 75%). Value Added Resale was 26% of revenue (2018: 32%) with gross margin percentage increasing to 25% in 2019 (2018: 20%) which reflects improvements made in our supplier procurement processes.

Operating expenses before depreciation, amortisation, exceptional items, fair value adjustment and share based payments increased from £5.0m in 2018 to £6.4m in 2019 reflecting an increase in overhead costs from newly acquired businesses and an increase in operational investment to enhance our Group Sales and Marketing teams.

Adjusted EBITDA was £1.41m for the year to 31 March 2019, an increase of £0.41m (+41%) compared to £1.0m in 2018. Adjusted EBITDA is not a defined term and is calculated differently by each Company, the Directors consider that Adjusted EBITDA figure is the most appropriate measure to assess the business performance since this reflects the underlying trading performance of the Group. The reconciliation of Operating (loss)/profit to Adjusted EBITDA is shown below:

Reconciliation of operating (loss)/profit to Adjusted EBITDA	2019 £'000	2018 £'000
Operating (loss)/profit	(659)	77
Depreciation	494	372
Amortisation of intangible assets	723	500
EBITDA	**558**	**949**
Exceptional items	736	581
Fair value adjustment	-	(540)
Share based payments	119	10
Adjusted EBITDA	**1,413**	**1,000**

The Group has incurred exceptional costs during the year of £0.74m (2018: £0.58m) comprising £0.55m for acquisitions of which £0.49m relates to the acquisition of Certus IT Limited and £0.06m is attributable to a terminated acquisition process. Exceptional costs also include £0.18m of costs associated with integrating acquired businesses and restructuring the Group's internal operations. Amortisation of intangible assets was £0.72m (2018: £0.50m), of which £0.66m (2018: £0.45m) relates to the amortisation of acquired intangible assets. The share-based payments charge has increased to £0.12m in 2019. The higher charge results from the grant of share options, under new EMI Schemes registered this year, to the Executive Directors and, in November 2018, to all SysGroup employees who, at the time of grant, had been employed by the Group for over one year. The loss before tax for the year was £0.83m (2018: £0.007m) and the loss position results from the impact of acquisition related exceptional costs and amortisation of acquired intangible assets. The prior year loss before tax includes a one-off £0.54m credit in respect of a contingent consideration adjustment.

Chief Executive Officer's Report Continued

Cashflow & Net Debt

The cash inflow from operations for the year was £0.60m (2018: £0.21m). This includes interest and tax payments and the £0.61m of cash costs from acquisitions, integration and restructuring (2018: £0.59m). The underlying operational cash conversion, i.e. excluding the costs of acquisitions, integration and restructuring, was within expectations at 86% of Adjusted EBITDA compared to 80% in 2018. The improvement resulted from improvements made to the Group's working capital management this year with changes made to the timing of raising contract invoices and a strengthening of our credit control processes.

Cash conversion	**2019 £'000**	**2018 £'000**
Operational cashflows	601	207
Adjustments:		
Acquisition, integration and restructuring cashflows	611	592
Cash generated from operations	**1,212**	**799**
Adjusted EBITDA	**1,413**	**1,000**
Cash conversion	86%	80%

The cash balance increased by £2.06m to £3.38m (2018: £1.32m), with £0.60m of the increase coming from operational cashflows and a net £1.46m from financing and investing activities. The investment cashflows include £7.96m cash paid on completion to acquire Certus IT Limited and a £0.95m cash balance was acquired with the Company. The acquisition was funded by a £10.0m equity share placing of 26,315,792 1p ordinary shares with net proceeds, after related professional fees, of £9.34m. Net cash/(debt) comprises cash balances less bank loans, finance lease liabilities and contingent consideration. At 31 March 2019, the Group had a net cash balance of £0.47m (2018: net debt balance of £0.92m), a cash positive movement of £1.39m.

Reconciliation of Net cash/(debt)	**2019 £'000**	**2018 £'000**
Cash balances	3,376	1,315
Bank loans – current	(224)	(216)
Bank loans – non-current	(1,397)	(1,742)
Finance leases	(285)	(275)
Contingent consideration	(1,000)	-
Net cash/(debt)	**470**	**(918)**

Consolidated Statement of Financial Position

The principal movements on the consolidated statement of financial position arise from the equity fund raise and the acquisition of Certus IT Limited in February 2019. Non-current assets of £23.1m (2018: £13.6m) have increased from the £5.78m goodwill and £3.78m acquired intangible assets relating to Certus. Net working capital including cash balances is £0.57m (2018: £0.25m) and the impact of Certus working capital balances is detailed in note 10. Non-current liabilities include £1.0m (2018: £Nil) of fair value contingent consideration relating to the Certus acquisition, this is payable three months after the earn out period has expired in February 2020.

Following the £10.0m equity raise in February 2019, the equity attributable to the shareholders of the Company has increased by £9.34m, representing the proceeds of the equity raise less the related costs. The share capital of £0.49m (2018: £0.23m) has increased by £0.26m and the excess of the net proceeds above the par value of the shares, £9.08m, has been allocated to the share premium account (2018: £Nil).

Chief Executive Officer's Report Continued

KPIs

The Board of Directors review the performance of the Group using the financial measures outlined below and an explanation of the financial results is provided in the Financial Review above.

	2019	2018	Change %
Revenue growth	**£12.77m**	£10.45m	**+22%**
Recurring revenue as a % of total revenue	**74%**	68%	**+6%**
Gross Margin	**£7.78m**	£5.99m	**+30%**
Gross Margin %	**61%**	57%	**+4%**
Adjusted EBITDA	**£1.41m**	£1.00m	**+41%**
Adjusted PBT	**£0.75m**	£0.54m	**+39%**
Statutory loss before tax	**£(0.83)m**	£(0.01)m	**-**
Net cash/(debt)	**£0.47m**	£(0.92)m	**-**

Principal Risks & Uncertainties

The Board is responsible for monitoring the Group's principal risks and uncertainties which are considered in the context of the nature, size and complexity of the business.

During the year, the Board recognised that a new role, Head of Legal, Quality & Compliance, was required due to the growth in size of the Group. This Senior Management Team position was recruited in H1 with specific responsibilities in the areas of corporate governance, compliance and quality. A key project was undertaken to conduct a full review and evaluation of the Group's principal risks and to formalise the Group's Risk Management Framework.

The review was conducted with the full input of the Senior Management Team with the objective to identify and document the key risks in each area of the business and the principal controls in place to mitigate the risks. The Board have reviewed the Risk Management Framework and will continue to formally review the Framework on an annual basis in the future. The Head of Legal, Quality & Compliance is responsible for ensuring the Risk Management Framework is maintained and updated, and any necessary actions are followed up.

A detailed description of the principal risks and uncertainties faced by the Group, their potential impact and mitigating processes and controls are set out below.

Risk area	Potential impact	Mitigation
Dependency on key suppliers	The Group procures certain services from key suppliers for the continued operation of its business, the most significant of which are the supply of third party software and datacentre services. If any of these suppliers fail in the provision of their services it may have an adverse effect on the Group's ability to provide services to its customers.	The Group continually assesses suppliers for price competitiveness, technical innovation and good financial standing, and are confident that alternative providers are available in the market.
Customer retention	The Group provides an essential service to its customers. Any diminution in the quality of service provided could impact customer retention levels and reduce revenue.	The Group monitors the quality of service provided by the Customer Service teams. We conduct customer surveys to measure feedback and we hold regular service performance reviews with key customers.

Chief Executive Officer's Report Continued

Risk area	Potential impact	Mitigation
Reliance on high value customer contracts	Business risk increases if the Group is over-reliant on one or several high value customer contracts since the loss of key contracts may have a material impact on the financial performance of the Group.	The Board monitors customer concentration throughout the year with a target of customer concentration below 5%. This target was achieved in FY19 and is expected to remain under 5% in the forthcoming year.
Attracting and retaining high quality employees	The Group's business depends on providing high quality service to customers from having a motivated and skilled workforce. If the staff turnover is too high there's a risk that the Group has insufficient skills and quality in the employee base.	We have made significant progress in FY19 to develop a corporate culture to attract and retain our skilled employees. We have extended the space and refurbished the Liverpool and London offices, integrated the legacy acquisitions and established a Senior Management Team with clear accountability. We have created a People & Culture team who launched "SysHub", an online platform for our employees with employee benefits and Company latest news. In November 2018, we issued EMI Scheme share options to a number of our employees to allow them to participate and benefit from the growth of the Company. We invest in training and development and encourage our teams to identify opportunities to innovate and improve.
Network	The datacentres we utilise are linked by fibre that we lease. Should the network fail there would be an adverse impact on the service provided to our customers.	The Group has designed its network to have no single point of failure, it connects with transit providers at different geographical locations.
Acquisitions	The Group's strategy is to continue to make earnings enhancing acquisitions to strengthen its growth. We are reliant on suitable acquisition targets becoming available in the market at appropriate valuations.	We mitigate this risk by regularly conducting searches for targets and developing adviser relationships who introduce targets. We believe the UK market for MSP companies has characteristics of fragmentation which provides opportunities for consolidation. The Board considers all acquisition valuations after robust due diligence processes have been undertaken.

Financing Risk

The inability to refinance the Group's core banking facilities could call into doubt the Group's longer-term viability. The Group's current banking facilities cover all of its expected needs of the Group for the period of such facilities and are sufficiently flexible to allow the Group to function effectively.

The Impact of Brexit

The Group continues to have little inter-territorial trade from the UK into Europe and vice versa. While Brexit has already had an impact on exchange rates, there is inevitably some uncertainty around the likely impact of Brexit on businesses.

Chief Executive Officer's Report Continued

Outlook

The momentum achieved in the year has carried over into the start of the new financial year, and we expect that pace of growth to continue. We have the right tools and strategic partnerships in place to meet clients increasingly complex requirements and the relevant expertise to guide our clients from consultation, through to delivery and on-going support. Our scale, customer base and geographical coverage have grown considerably and, importantly, so too has the quality of our revenue streams. With a highly fragmented market and the continuing opportunity to acquire good businesses to complement increasing organic growth, we remain optimistic for the future.

Adam Binks
Chief Executive Officer
26 June 2019

Board of Directors' Profile

Board of Directors' Profile

Michael Edelson
Non-Executive Chairman

Michael brings a wealth of experience as a Board Director to SysGroup plc. He has been a Founding Director or Chairman of several companies admitted to the AIM market, including Prestbury Group plc, Knutsford Group plc, Mercury Recycling Group plc (now Ironveld plc) and ASOS PLC.

He was a non-executive Chairman of Bramhall plc, subsequently renamed Magic Moments Internet plc and then Host Europe plc, which acquired Magic Moments Design Limited in September 1999. He has also been on the Board of Manchester United Football Club since 1982.

Martin Audcent
Chief Financial Officer

Martin was appointed as Chief Financial Officer on 16th July 2018 as part of a newly established board to deliver on the next stage of growth. Martin brings with him significant senior finance and operational experience.

Martin is a Chartered Accountant, having qualified with PwC in 2000, and joined the Group from NCC Group plc, where for four years he was Associate Director of Finance and Group Financial Controller. Prior to this he worked at Baker Tilly and MBL Group plc in senior finance positions.

Mark Quartermaine
Non-Executive Director

Mark has over 30 years' experience in the ICT industry in a variety of executive, sales and marketing roles. He started his career at IBM in 1984 where he held different executive positions both in the UK and abroad culminating in running the point of sale business in the US, as the Worldwide Marketing Director for the Retail Division.

In January 2013 Mark joined the board of Alternative Networks as a Non-Executive Director, he subsequently moved to become COO in January 2014 and was then appointed CEO in September 2015. Alternative Networks was subsequently sold to Daisy Group for £165 million in December 2016.

Adam Binks
Chief Executive Officer

Adam joined SysGroup in August 2014 and was appointed as Chief Executive Officer on 3rd April 2018 after being formally appointed to the board on 31st October 2017. Adam will lead SysGroup through its next stage of growth, which will incorporate strategic acquisitions and continued organic growth to expand the customer offering and geographical reach, as well as investment in capabilities and technology.

He has extensive experience in the Managed IT, Hosting & Telecoms sectors across his 19-year career. Adam has played a pivotal role in the transformation of the Group from a mass-market web hosting Company, to the Managed Services provider it is today.

Adam has previously held a number of senior management & board level positions. Prior to joining SysGroup, Adam was Sales & Technical Director at Vispa Ltd, a managed hosting & connectivity provider based in Manchester.

Michael Fletcher
Non-Executive Director

Mike has extensive public markets experience and is currently Non-Executive Chairman of AIM listed Inspired Energy PLC (INSE.L), which he helped to successfully bring to market in November 2011. Mike is the Group CEO of Praetura Group Limited, a specialist venture capital and advisory business and sits on the board of several privately-owned growth companies including Sorted Group, Peak AI, Aberla Services, Artorius Wealth and EC3 Brokers.

Previously, Mike was a managing director for European investment bank GCA Altium where he gained 10 years' experience in M&A and corporate finance. He has advised a range of clients from public companies, private equity houses and entrepreneurs. Mike is a chartered accountant, qualifying with PwC in 1999, and is FCA authorised.

Directors' Report

Directors' Report

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 March 2019.

Principal Activities

The principal activities of the business are the provision of Managed IT Services and Value Added Resale of products and licences.

Business Review & Future Developments

A review of the Group's operations and performance during the financial year, setting out the position at the year-end, significant changes in the year and providing an indication of the outlook for the future is contained in the Strategic report on pages 9 to 16.

Results & Dividends

The Consolidated Statement of Comprehensive Income for the year is set out on page 43. The Directors do not propose the payment of a dividend for the year ended 31 March 2019 (2018: nil).

Financial Instruments

The Group uses various financial instruments. These include bank loans, finance leases, cash and various items (such as trade receivables and trade payables) that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail in note 3 to the Accounts.
In February 2019, the Group re-financed its bank loan of £1.75m and entered new loan facility arrangements with Santander for a period of five years to February 2024.

Liquidity Risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved through available cash balances and its overdraft facility.

Interest Rate Risk

The Group finances its operations through a mixture of bank loans, finance leases and the placing of new ordinary shares. The bank facility is on a variable interest rate and the Directors consider this to be appropriate in the current economic environment.

Directors' Report Continued

Credit Risk

The Group's principal financial assets are cash, and trade and other receivables. These balances are actively monitored to avoid significant concentrations of credit risk however the total of the cash balances and trade and other receivables represents the maximum exposure to credit risk. In order to manage credit risk, managed service agreements with customers state preferred collection by direct debit and limits are set for customers based on a combination of payment history and third-party credit references. Credit limits are reviewed by the credit control team on a regular basis in conjunction with debt ageing and collection history.

Directors

The Directors of the Company who held office during the year are as follows:

Name	Position Held
Michael Edelson	Non-Executive Chairman
Adam Binks	Chief Executive Officer
Martin Audcent	Chief Financial Officer (appointed 16 July 2018)
Mark Quartermaine	Non-Executive Director
Mike Fletcher	Non-Executive Director
Robert Khalastchy	Non-Executive Director (resigned 21 September 2018)
Julian Llewellyn	Chief Financial Officer (resigned 27 June 2018)

The interests of current Directors in shares and options are detailed in the Directors' Remuneration Report on page 25.

Share Capital

In February 2019, the Company raised £10.0m in an equity share placing to fund the acquisition of Certus IT Limited. The Company issued 26,315,792 1p ordinary shares and the proceeds of the equity raise net of related professional fees was £9.34m.

Significant Shareholdings

As of 1st June 2019, the Company has been notified of the following significant shareholdings:

Name	Number of Shares	Percentage Holding
Gresham House Asset Management Limited	10,224,086	20.7%
Canaccord Genuity	6,575,029	13.3%
Legal and General Investment Management Ltd	4,790,024	9.7%
Downing LLP	4,646,777	9.4%
Darren Carter	3,552,632	7.2%
Herald Investment Management Ltd	3,444,581	7.0%
William Currie	2,757,895	5.6%
Praetura Group Limited*	1,710,256	3.5%
Miton UK Microcap Trust PLC	1,632,656	3.3%

*Mike Fletcher (Non-Executive Director) is a Director and shareholder of Praetura Group Limited.

Directors' Report Continued

Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going Concern

The Directors have reasonable expectation that the Group has adequate resources to continue to operate for the foreseeable future. For this reason, they adopt the going concern basis for preparing the financial statements.

Post Balance Sheet Event

On 24 June 2019 the Group announced the acquisition of Hub Network Services Limited ("HNS"), a Company registered in England & Wales, for a cash consideration of £1.45m on a cash free debt free basis. HNS is a well-established B2B managed services provider with a primary focus on delivering fast, low latency network connectivity and co-location solutions.

Auditors

Pursuant to s487 of the Companies Act 2006, the auditor will be deemed to be reappointed and BDO LLP will therefore continue in office.

By order of the Board

Martin Audcent
Company Secretary
26 June 2019

Directors' Remuneration Report

Directors' Remuneration Report

Remuneration Committee

Membership of the Remuneration Committee comprises Mark Quartermaine (Chairman), Michael Edelson and Mike Fletcher. The Committee meets at least twice a year and is responsible for determining and reviewing the policy for the remuneration of the Executive Directors and such other members of the Senior Management Team as it is designated to consider. The Remuneration Committee also approves the design of, and determines targets for, any performance related pay schemes, reviews the design of any share incentive plans, determines the awards to the Executive Directors and determines the policy for, and scope of, pension arrangements for each Executive Director.

Remuneration Policy

The Group has a policy to attract, motivate and reward individuals of the highest calibre who are committed to growing the value of the business and to maximising returns to shareholders. The policy is as relevant to Executive Directors as it is to employees, as we aim to reward Executive Directors and senior employees aligned to the performance of the Group. The remuneration structure for all employees considers remuneration rates of competitors to ensure continuity and commitment.

Directors' Service Contracts

Each Executive Director has a service contract which is available for inspection at the Annual General Meeting. The Group does not operate a final salary pension scheme. Executive Directors who are entitled to receive pension contributions may nominate a defined contribution scheme into which the Company makes payments on their behalf.

Directors' Remuneration

The salaries of the Executive Directors are reviewed annually and are considered in relation to the growth of the Group, the contributions made by the Directors and the need to retain and motivate individuals. The annual salary of the Chief Executive Officer is £150,000 and the Chief Financial Officer is £120,000. The salary/fees shown below includes car allowance.

The Chief Executive Officer and Chief Financial Officer can earn a performance-based cash bonus of up to 50% and 25% of annual salary respectively. In respect of the financial year to 31 March 2019 the cash bonus was paid at the full amounts.

Directors' Remuneration Report Continued

A summary of the total remuneration paid to Directors is set out below:

	2019					2018				
Director	**Salary £'000**	**Bonus £'000**	**Pension £'000**	**BIK £'000**	**Total £'000**	**Salary £'000**	**Bonus £'000**	**Pension £'000**	**BIK £'000**	**Total £'000**
Michael Edelson	40	-	-	-	40	40	-	-	-	40
Mike Fletcher	40	-	-	-	40	8	-	-	-	8
Mark Quartermaine	40	-	-	-	40	13	-	-	-	13
Adam Binks	165	75	8	1	249	48	-	6	-	54
Martin Audcent	93	30	4	1	128	-	-	-	-	-
Julian Llewellyn*	37	-	2	1	40	135	-	6	2	143
Robert Khalastchy	5	-	-	-	5	12	-	-	-	12
Christopher Evans	-	-	-	-	-	90	-	5	-	95
Amy Yateman-Smith	-	-	-	-	-	23	-	-	-	23
Total Remuneration	**420**	**105**	**14**	**3**	**542**	**369**	**-**	**17**	**2**	**388**

*In addition to the above Julian Llewellyn was paid £22,500 compensation for loss of office in July 2018.

Directors' Long-Term Incentive Schemes

The Remuneration Committee implemented a new Long Term Incentive Plan ("LTIP") for the Executive Directors in June 2018 following a review and recommendation from an independent firm of advisors. The LTIP has been established to incentivise management to deliver long-term value creation for shareholders and ensure alignment with shareholder interests.

The principal performance condition to which the award is subject is Total Shareholder Return ("TSR"). 25% of the award of performance shares will vest if the Company achieves 10% compound annual TSR over a three-year period to March 2021 (the "Period") with full vesting at 25% compound annual growth with straight line vesting for performance between 10% and 25%.

The Remuneration Committee granted Adam Binks, Chief Executive Officer, 750,000 performance shares with an exercise price of £0.01 on 26 June 2018 and granted Martin Audcent, Chief Financial Officer, 450,000 performance shares with an exercise price of £0.01 on 16 July 2018 (the "Awards"). The shares have an expiry date of 25 June 2028 and 15 July 2028 respectively.

Subject to achievement of the performance conditions, up to 50% of the Awards will vest following the announcement of the Company's results for the financial year ending on 31 March 2021 with the balancing 50% vesting following the announcement of the Company's results for the financial year ending 31 March 2022.

The Awards are also subject to an Adjusted Earnings per Share ("Adjusted EPS") measurement whereby the award will normally lapse unless Adjusted EPS growth over the Period is at least 10% CAGR from an initial Adjusted EPS of 2.3p (the "EPS threshold").

The awards of performance shares are also subject to continued employment, malus and clawback provisions and will vest in full on a takeover of the Company.

Directors' Remuneration Report Continued

Directors' Interests in Ordinary Shares of SysGroup plc

The Directors in office at the end of the year had interests in the ordinary share capital of the Company as shown below:

Director	Number of Ordinary Shares	Percentage Interest
Praetura Group Limited[1]	1,710,256	3.46%
Michael Edelson[2]	858,179	1.74%
Adam Binks[2]	156,042	0.32%

1. Michael Fletcher, Non-Executive Director, is a Director and Shareholder of Praetura Group Limited.
2. The Directors' interest in shares include directly held shares and interests held via related parties.

Directors' Options

The Directors had interests in options over ordinary shares of the Company at the end of the year as shown below:

Employee	Options over ordinary shares	Grant Date	Expiry Date
Adam Binks	750,000	26/06/2018	25/06/2028
Martin Audcent	450,000	16/07/2018	15/07/2028

Directors' Warrants

The Directors held the following warrants over the ordinary shares of the Company at the end of the year as follows:

Director	Exercise Price	No. of Warrants	Grant Date	Expiry Date
Michael Edelson	200p	2,500	09/01/2012	08/01/2022

Michael Edelson's warrants are exercisable at any time before 8 January 2022, the Company may require the exercise of these warrants if its shares are traded at a price in excess of 320p per share for a period of 60 business days and an aggregate value of bargains exceeding £60,000 occurs over that period.

Corporate Governance Report

Corporate Governance Report

Introduction

The SysGroup Board seeks to follow the best practice in corporate governance as appropriate for a Company of our size, nature and stage of development. As a public Company listed on AIM we recognise the trust placed in the Board by shareholders, employees and other stakeholders, and the importance of a corporate governance framework that is robust and effective.

From 28 September 2018 all AIM companies had to adopt a corporate governance code in compliance with AIM Rule 26. The Board has adopted the principles of the 2018 Quoted Companies Alliance Corporate Governance Code ("the QCA Code") to support the Company's governance framework and we set out below the appropriate disclosures of how the Company complies with the ten principles set out in the QCA Code, and where necessary we detail any areas of non-compliance. A full copy of the QCA Code is available from the QCA's website: www.theqca.com

Board of Directors

The Board comprises five Directors, two Executive and three Non-Executive Directors, and reflects a complementary blend of different experience and backgrounds. During the year there have been several changes to the Board composition. Following the resignation of Chris Evans in the previous financial year, Adam Binks was appointed as Chief Executive Officer on 3 April 2018, Adam formerly held the position of Chief Operating Officer at SysGroup. Martin Audcent was appointed as Chief Financial Officer on 16 July 2018 following the resignation of Julian Llewellyn on 27 June 2018. Robert Khalastchy, Non-Executive Director, stepped down from the Board at the AGM in September 2018 and a replacement remains under consideration.

The principal areas of Board responsibility are:

- Business strategy and performance review
- Corporate governance and risk management
- Identification and approval of acquisition opportunities and key investment decisions
- Approval of financing and equity structure changes
- Consideration of Senior employee appointments
- Approval of the Annual Operating Plan, financial forecasts and Annual Report & Accounts

Day-to-day management is delegated to the Executive Directors who are charged with consulting the Board on all significant matters. Consequently, decisions are made promptly following consultation amongst the Directors concerned where necessary and appropriate. All necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively and all Directors have access to independent professional advice at the Company's expense, as and when required.

Corporate Governance Report Continued

The attendance at Board and Committee Meetings in the year was as follows:

Employee	Board Meetings	Audit Committee	Remuneration Committee
Meetings held	13	3	2
Michael Edelson	10	2	2
Mike Fletcher	9	3	2
Mark Quartermaine	9	3	2
Adam Binks	13	3	N/A
Martin Audcent[1]	9 (9)	2 (2)	N/A
Julian Llewellyn[2]	4 (4)	1 (1)	N/A
Robert Khalastchy[2]	3 (4)	1 (1)	N/A

1. Appointed as a director during the year
2. Resigned as a director during the year

Internal Controls

The Group has a system of internal controls which are designed to safeguard the assets of the Group and ensure the reliability of financial information for both internal use and external publication. As with all such systems, the goal is to manage risk within acceptable parameters rather than to eliminate risk entirely. Any system of internal controls can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that risk of failure to achieve business objectives is eliminated. The Group insures against various risks and regularly reviews both the type and amount of external insurance that it buys.

The Directors consider that the system of internal controls operated effectively throughout the financial year and up to the date the financial statements were signed. Based on the size and complexity of the Group, the Board of Directors do not consider that there is a need for an internal audit function.

1. **Establish a strategy and business model which promote long-term value for shareholders**

   SysGroup's business strategy is to expand its position as a trusted provider of Managed IT Services & Cloud Hosting to clients predominantly in the UK. The Board believes that a business focused on the provision of Managed IT Services offers the highest growth opportunity, the potential for increased margins, longer-term contracts, and greater forward revenue visibility. The Group provides managed IT solutions to customers either as a fully outsourced service or as an extension to their existing IT department. We intend to continue to supplement organic growth with carefully considered acquisitions that add critical mass and provide benefits from economies of scale.

2. **Seek to understand and meet shareholder needs and expectations**

   The Directors recognise the importance of listening to and communicating openly with the Company's shareholders to ensure that the strategy, business model and financial performance are understood. We also recognise that understanding what analysts and investors think about the Company helps the Board to formulate future strategy. The Directors actively seek to build relationships with our major institutional investors and shareholders. The Executive Directors meet our major shareholders individually each year following the release of the full year and interim accounts and are available for meetings at other times if requested.

   All shareholders are invited to attend the AGM and the Non-Executive Directors can also be contacted by shareholders if they wish to raise any matters.

Corporate Governance Report Continued

We see the Annual Report and Interim Announcement as key communications to our shareholders. In these Reports we provide a clear explanation of the business performance, financial position, organisational changes and prospects.

All private and institutional investors are invited to attend the AGM where the Company Directors are present to answer any questions. Additionally, shareholders can contact the Company with any questions by using the investor enquiry email address on the website.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

In addition to our shareholders, we have a wide Group of stakeholders who assist in creating value in the Group. We have strong relationships with customers and suppliers, and our workforce is of central importance. It is our team that provides a high quality service and we ensure that we continue to invest in them through appropriate training and development.

A high proportion of the Group's managed services are provided under contracts ranging from twelve months to three years. We develop close working relationships with our customers through their use of our support services and from finding solutions to improve their IT infrastructure and processes. We request feedback from customers on a regular basis to assess how we are performing.

The Group selects suppliers on the basis of their service quality and competitive pricing. Long term relationships are particularly helpful in situations where we can work with the supplier to identify value creating opportunities. New suppliers are subject to appropriate due diligence take-on procedures and the Group makes regular monthly payments to suppliers.

The Group's employees are key stakeholders in the success of the business. We seek to recruit high calibre individuals and the Group invests in their ongoing development needs through internal and external training. The Group offers competitive remuneration and benefits packages. All employees are encouraged to speak openly with line managers and colleagues, with SMT meetings held on a weekly basis to action any feedback. We believe that having a contemporary work place environment is a key element to attract, retain and motivate our employees and in the previous twelve months we have invested in expanding and enhancing our Liverpool and London offices.

As an AIM listed Group we recognise the importance of high quality regulatory compliance and internal governance. We comply with AIM, the Companies Act, Employment, GDPR, Health & Safety, Anti-Bribery and Corruption, and other relevant regulations.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The principal risks and uncertainties of the Group are described in the Annual Report. In the monthly Board meetings Directors are updated on any significant issues that have arisen and the actions that management have taken to address them.

The Directors acknowledge their responsibility for the Company's and the Group's systems of internal controls, which are designed to safeguard the assets of the Group and ensure the reliability of financial information for both internal use and external publication. Overall control is achieved by having reporting processes and systems that are appropriate to the size and complexity of the Group's operations and by ensuring the workforce is sufficiently trained. The Company and Group's financial reporting procedures and policies are documented in a formalised Financial Reporting Procedures document.

The Senior Management Team are responsible for monitoring and addressing the key risks of the business and any significant issues are escalated as high priority to the Executive Directors. As the Group continues to grow the risks of the business and risk management framework will remain subject to regular review.

Corporate Governance Report Continued

5. **Maintain the board as a well-functioning, balanced team led by the chair**

   The Board comprises five Directors, two Executives and three Non-Executives, and reflects a blend of different experience and backgrounds. There is a clear division of responsibility between the Chairman of the Board (a Non-Executive role) and the Chief Executive Officer. The Board considers the Non-Executive Directors to be independent in character and judgement notwithstanding their shareholding and/or share warrants in the Group. The Board of Directors meet regularly, usually monthly and at least ten times a year. Additional Board meetings are sometimes held outside the regular calendar of dates and these may be attended by telephone conference. The Board, through the Chairman and the Non-Executive Directors, as well as the Executive Directors, maintains regular contact with its advisers and seeks to ensure that the Board develops an understanding of the views of the major shareholders of the Company.

   The Company has effective procedures in place to monitor Directors' conflicts of interests which are reported to and dealt with by the Board.

   The Board is satisfied that it has a suitable balance between Executive and Non-Executive Directors and is sufficiently resourced to discharge its duties and responsibilities effectively.

6. **Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities**

   The Board is satisfied that the Directors have an appropriate level of experience, skills and capabilities to effectively discharge their duties and responsibilities. The recruitment of Executive and Non-Executive Directors is carefully considered and profiled to match against the specific requirements of the Group. Details of the skills and experience of each of the Directors can be found in the Annual Report as well as on the Company's website.

   All members of the Board receive training as required and can take independent professional advice if necessary in the furtherance of their duties.

   At each Annual General Meeting of the Company one-third of the Directors retire from office by rotation and a Director retiring by rotation is eligible for re-election. Subject to the provisions of the Act and of the Articles, the Directors to retire in every year shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire are those who have been longest in office since their last appointment or reappointment.

   No person other than a Director retiring at the meeting shall, unless recommended by the Directors for appointment, be eligible for appointment to the office of Director at any General Meeting unless, not less than seven nor more than 28 days before the day appointed for the meeting, the Company receives notice in writing by a member duly qualified to attend and vote at the meeting with the necessary particulars and authorities.

7. **Evaluate board performance based on clear and relevant objectives, seeking continuous improvement**

   The Chairman of the Board is responsible for assessing the individual contributions of the Directors and this is reviewed on an ongoing basis. The Chairman is satisfied that all the Directors are making valued contributions and the Board is working effectively together. Whilst the Company does not currently have a formal appraisal process for Directors, over the next twelve months we intend to review our processes for Board performance evaluation to establish a more formalised framework of assessment, feedback and review.

Corporate Governance Report Continued

8. Promote a corporate culture that is based on ethical values and behaviours

The Directors both individually and together as a Board are committed to promoting ethical values and behaviours throughout the organisation.

We have demonstrated this in the previous twelve months by creating a People & Culture team who are responsible for reviewing the Group's approach to employee communication, embedding the corporate culture and responsible for general employee engagement. We have also launched "SysHub", an online platform for our employees that, in addition to offering employee benefits and Company latest news, is a "go-to" source for all the Group's internal policies including the Health & Safety Policy, Anti-Corruption and Bribery Policy, Whistleblowing Policy, and Data Protection Policy. All new employees are provided with an Employee Handbook on joining the organisation which explains all the employee related corporate policies.

The Group endeavours to appoint employees with appropriate skills, knowledge and experience for the roles they undertake. The Group has a range of policies which are aimed at retaining and providing incentives for key staff. Objectives are set for departments and employees that are derived from the Group's business objectives. The Group has a clear and well-understood organisational structure and each employee knows his or her line of accountability.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The Directors recognise the importance of a robust system of governance to ensure appropriate levels of internal control, financial reporting, risk management, compliance and corporate responsibility.

Board Meetings

Board meetings are attended by the Directors in person and are held on scheduled calendar dates, usually each month and at least ten times a year. If a Director is unable to attend in person they may attend instead by telephone conference. An agenda and relevant Board papers are circulated in advance of the meeting to allow the Directors sufficient time to review. The Board meeting is chaired by the Chairperson, Michael Edelson, and all matters on the agenda are covered with the opportunity for any additional matters to be raised. Minutes are recorded for each meeting, reviewed by all Directors, and signed when approved by the Chairperson.

Matters reserved for the Board include delegation of authority, annual budget approval, acquisitions and business disposals, Executive recruitment and remuneration, capital structure changes, corporate governance, and the approval of the interim and annual report and accounts. Any other matters of high significance and/or material in nature are reported to the Board for necessary approvals. The Board is also responsible for reviewing the effectiveness of the internal controls and risk management framework.

Audit Committee

The Company has established an Audit Committee that comprises of Michael Edelson, Mark Quartermaine and Mike Fletcher. Mike Fletcher is the Chairman of this Committee. The Audit Committee meets at least twice a year and is responsible for reviewing the integrity of the financial statements of the Group, the Group's compliance with legal and regulatory requirements, and the adequacy and effectiveness of the Group's internal financial controls and risk management processes including the extent to which internal audit review is required. It reviews the external auditors' performance and independence and makes recommendations to the Board on the appointment of the auditors.

The Audit Committee assist the board in its responsibilities in regard to financial reporting, internal controls and risk management. No separate audit committee report has been prepared but the audit committee has reviewed the disclosures surrounding principle risks and uncertainties, corporate governance and internal controls in the strategic report.

Corporate Governance Report Continued

Remuneration Committee

The Company has established a Remuneration Committee that comprises Michael Edelson, Mike Fletcher and Mark Quartermaine. Mark Quartermaine is the Chairman. The Committee meets at least twice a year and is responsible for determining and reviewing with the Board the policy for the remuneration of the Executive Directors and such other members of the executive management it is designated to consider. Within the terms of the agreed policy, it determines the total individual remuneration of the Executive Directors. The Remuneration Committee also approves the design of, and determines targets for, any performance related pay schemes, reviews the design of any share incentive plans, determines the awards to the Executive Directors and determines the policy for, and scope of, pension arrangements for each Executive Director.

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Annual Report is a key deliverable to our shareholders to explain how our business is performing and our approach to governance and risk management. In the Annual Report we endeavour to provide all relevant information that allows shareholders to gain a clear understanding of how we run the business and we shall continue to identify areas of disclosure that can be enhanced.

The regular meetings between our principal shareholders and the Executive Directors are a key element to maintaining a dialogue. The Company communicates with institutional investors through briefings with management and analyst notes are reviewed to understand the external view of the Company.

Regular communications to shareholders:

- Full Year Announcement
- Annual Report & Accounts
- Interim Announcement
- Annual General Meeting
- Institutional shareholder meetings following Results Announcements and on request
- Regulatory RNS Announcements

Shareholders can find information on our Board of Directors, Shareholder Circulars, Articles of Association, Admission Document, Financial Reports and Regulatory Announcements on our sysgroupplc.com website.

Rule 21 of The AIM Rules for Companies and MAR (“Market Abuse Regulation”)

The Group complies with Rule 21 of the AIM Rules relating to dealing during close periods. The Group has a reasonable and effective dealing policy in place. All employees are notified when the Company enters and exits close periods but the dealing code in any event requires that an employee seek permission from certain designated people before trading in the shares of the Group.

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report of the Director's and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on Alternative Investment Market.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board

Martin Audcent
Company Secretary
26 June 2019

Independent Auditor's Report to the Members of SysGroup plc

Independent Auditor's Report to the Members of SysGroup plc

Opinion

We have audited the financial statements of SysGroup plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2019 which comprise the consolidated statement of comprehensive income, the consolidated and Company statement of financial position, the consolidated and Company statement of changes in equity, the consolidated and Company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report to the Members of SysGroup plc Continued

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition	How we addressed the key audit matter in the audit
As detailed in note 1 to the Group financial statements the Group has adopted IFRS 15 Revenue from contracts with customers during the financial period. The adoption of IFRS 15 has resulted in changes to the revenue recognition policies applied by the Group. The Group has two main revenue streams, each of which has a different revenue recognition policy dependent on the specific terms of the transfer of goods or the service provision. There are a number of judgements involved in the application of this new standard, including determining the appropriate timing of revenue recognition and in the unbundling of contracts that relate to the provision of more than one service and/or product.	We reviewed the Group's revenue recognition policies for all revenue streams. We evaluated Management's assessment of the performance obligations in relation to IFRS 15 criteria and challenged the key judgements made by Management. We corroborated the key points to contracts and have held meetings with management to challenge the assumptions and judgements made. We reviewed the accuracy and completeness of the disclosure of the transitional adjustments. We reviewed the accounting policies established by the Group by reference to the requirements of IFRS 15 and have reviewed the adequacy of the disclosures within the financial statements.

Intangible asset recognition on acquisitions	How we addressed the key audit matter in the audit
The financial statements for the year ended 31 March 2019 include the acquisition accounting for Certus IT Limited which completed on 22 February 2019. Accounting for acquisitions can be complex and requires significant judgement. The recognition and valuation of assets and liabilities acquired, such as customer relationships and other intangible assets is inherently complex and judgemental. As a result of the judgements required to be made by management there is a risk of material misstatement in the fair value allocated to assets and liabilities acquired including intangible assets and the balance of goodwill recognised. Management has prepared detailed calculations to determine the fair value of the assets acquired and the acquisition consideration. The difference between this consideration and the net assets acquired, including the recognition of intangible assets is goodwill which is required to be tested annually for impairment and management have assessed whether there is any indication of impairment at the year-end. The business combinations disclosure is set out in note 10 of the consolidated financial statements and the relevant accounting policies can be seen within note 1.	We obtained the sale and purchase agreement (SPA) to check that an appropriate accounting treatment has been applied and the disclosures made in the financial statements are accurate and complete. We confirmed cash consideration as stated in the SPA to bank statements. The fair value of the deferred consideration was reviewed and the assumptions made by management within their calculations were challenged. In assessing the fair value of the assets acquired we consulted with our internal valuation specialists in relation to the identification of intangible assets and the valuation methodology used to calculate the fair value of customer relationships. We tested the acquisition balance sheet by agreeing items to supporting documentation and have assessed the fair value adjustments made by management. We considered if other adjustments or alignment of accounting policies were required. We have assessed whether there are any indicators of impairment at the year end regarding any of the intangible or other assets recognised on acquisition. In testing the impairment review prepared by management, we have specifically reviewed the discount rate used to discount expected future cash flows and have also tested the appropriateness of those cash flows used in the calculation attributed to the individual cash generating unit. Sensitivity analysis was performed on the calculations.

Independent Auditor's Report to the Members of SysGroup plc Continued

Our Application of Materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, individually or in aggregate and including omissions, could reasonably be expected to influence the economic decisions of reasonable users that are taken on the basis of financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, materiality for the Group financial statements as a whole was set as follows:

Group Materiality:	£100,000 (2018: £78,000)
Basis for Materiality:	0.75% of revenue (2018: 0.75% of revenue)

Rationale for the benchmark adopted

The Group has continued to make losses in the current period and therefore revenue is the most stable and relevant measure and the percentage determined was considered appropriate for a listed entity.

Parent Company Materiality:	£60,000 (2018: £70,200)
Basis for Materiality:	0.5% of gross assets (2018: 0.5% of gross assets)

Rationale for the benchmark applied

The Parent Company does not recognise any external revenue and so an asset measure is considered appropriate. For 2019, the figure calculated was limited to the component materiality set for the audit of the Group.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Performance materiality for the Group financial statements was set at £75,000 (2018: £58,500) and for the parent Company £45,000 (2018: £52,650) representing 75% of materiality. The performance materiality threshold was selected based on the expected low level of misstatements and the relatively low number of accounts that are subject to management estimation.

The Group operates through a number of legal entities, which form reporting components. Audits have been performed over all components of the Group by the Group audit team. Significant components were defined as those reporting components contributing more than 15% towards Group assets, turnover or profits. Component materiality on those significant components was set at levels between £30,000 and £60,000 (2018: £16,125 to £52,650).

We agreed with the Audit Committee that we would report to the committee all individual audit differences identified during the course of the audit in excess of £5,000 (2018: £3,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report to the Members of SysGroup plc Continued

An Overview of the Scope of Our Audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements.

We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement due to fraud.

The Group manages its operations from the UK and the financial information relating to the parent Company and all other components of the Group were subject to full scope audit by the Group audit team.

As a consequence of the audit scope determined, we achieved coverage of 100% (2018: 100%) of revenue, 100% (2018: 100%) of profit before tax and 100% (2018: 100%) of net assets.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on Which We Are Required to Report by Exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent Auditor's Report to the Members of SysGroup plc Continued

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of Our Report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

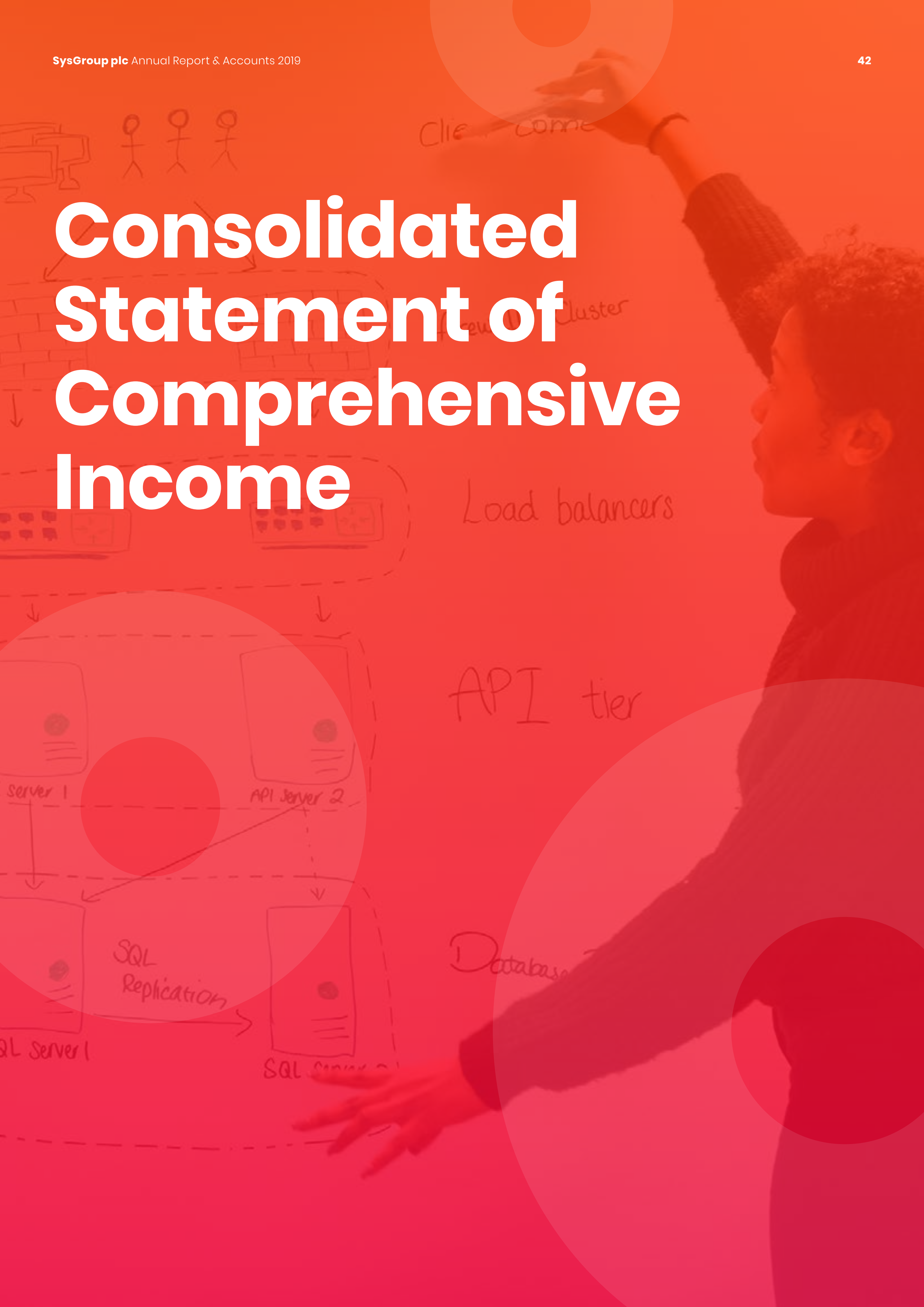
BDO LLP

Gary Harding
Senior Statutory Auditor
26 June 2019

For and on behalf of BDO LLP
Statutory Auditor
Manchester
United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales
(with registered number OC305127)

Consolidated Statement of Comprehensive Income



Consolidated Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	2019 Group £'000	2018 Group £'000
Revenue	4	**12,773**	**10,451**
Cost of sales		(4,994)	(4,456)
Gross profit		**7,779**	**5,995**
Operating expenses before depreciation, amortisation, exceptional items, fair value adjustment and share based payments		(6,366)	(4,995)
Adjusted EBITDA		**1,413**	**1,000**
Depreciation	14	(494)	(372)
Amortisation of intangibles	13	(723)	(500)
Exceptional items	8	(736)	(581)
Fair value adjustment		-	540
Share based payments	9	(119)	(10)
Administrative expenses		(8,438)	(5,918)
Operational (loss)/profit		**(659)**	**77**
Finance costs	6	(167)	(84)
Loss before taxation		**(826)**	**(7)**
Taxation	12	104	245
Total comprehensive (loss)/profit attributable to the equity holders of the company		**(722)**	**238**
Basic (loss)/earnings per share (EPS)	11	(2.8p)	1.0p
Diluted (loss)/earnings per share (EPS)	11	(2.8p)	1.0p

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position

As at 31 March 2019

	Notes	2019 Group £'000	2018 Group £'000
Assets			
Non-current assets			
Goodwill	13	15,508	9,727
Intangible assets	13	6,173	3,094
Property, plant and equipment	14	1,420	809
		23,101	**13,630**
Current assets			
Trade and other receivables	16	2,856	1,624
Cash and cash equivalents		3,376	1,315
		6,232	**2,939**
Total Assets		**29,333**	**16,569**
Equity and Liabilities			
Equity attributable to the equity shareholders of the parent			
Called up share capital	21	494	231
Share premium reserve		9,080	–
Other reserve		2,129	2,010
Translation reserve		4	4
Retained earnings		8,370	9,092
		20,077	**11,337**
Non-current liabilities			
Obligations under finance leases	18	81	128
Contingent consideration	17	1,000	–
Bank loan	18	1,397	1,742
Deferred taxation	12	1,120	674
		3,598	**2,544**
Current liabilities			
Trade and other payables	17	3,992	1,900
Contract liabilities		1,238	425
Bank loan	18	224	216
Obligations under finance leases	18	204	147
		5,658	**2,688**
Total Equity and Liabilities		**29,333**	**16,569**

Consolidated Statement of Financial Position Continued

The financial statements on pages 43 to 88 were approved by the Board and authorised on 26 June 2019.

Martin Audcent
Director

Registered number 06172239

Company Statement of Financial Position

Company Statement of Financial Position

As at 31 March 2019

	Notes	2019 Company £'000	2018 Company £'000
Assets			
Non-current assets			
Investments	15	23,235	14,279
Intangible assets		17	25
Property, plant and equipment	14	95	54
		23,347	**14,358**
Current assets			
Trade and other receivables	16	462	135
Cash and cash equivalents		628	115
		1,090	**250**
Total Assets		**24,437**	**14,608**
Equity and Liabilities			
Equity attributable to the equity shareholders of the parent			
Called up share capital	21	494	231
Share premium reserve		9,080	-
Other reserve		2,129	2,010
Retained earnings		6,592	7,533
		18,295	**9,774**
Non-current liabilities			
Contingent consideration	17	1,000	-
Bank loan	18	1,397	1,742
		2,397	**1,742**
Current liabilities			
Trade and other payables	17	653	292
Bank loan	18	224	216
Amounts due to subsidiary undertakings	17	2,868	2,584
		3,745	**3,092**
Total Equity and Liabilities		**24,437**	**14,608**

As permitted by section 408 of the Companies Act 2006, the holding Company's profit and loss statement has not been included in the financial statements.

For the year ended 31 March 2019, the Company made a loss of £941,000 (2018: loss of £527,000).

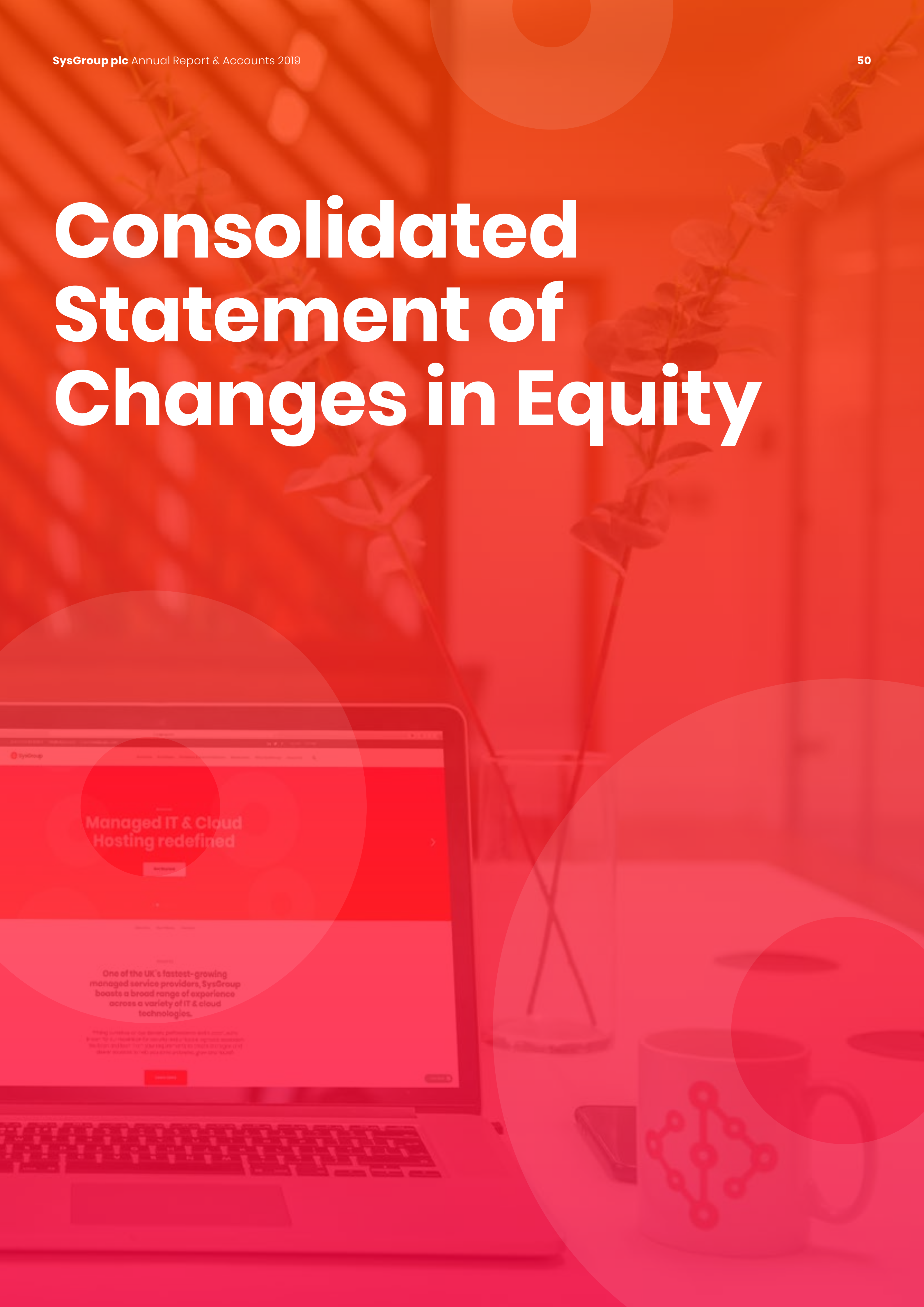
Company Statement of Financial Position Continued

The financial statements were approved by the Board and authorised on 26 June 2019.

Martin Audcent
Director

Registered number 06172239

Consolidated Statement of Changes in Equity



Consolidated Statement of Changes in Equity

For the year ended 31 March 2019

	Attributable to equity holders of the parent					
	Share capital £'000	**Share premium account £'000**	**Other reserve £'000**	**Translation reserve £'000**	**Retained profit £'000**	**Total £'000**
At 1 March 2017	**231**	**–**	**2,000**	**4**	**8,854**	**11,089**
Comprehensive income						
Profit for the period	–	–	–	–	238	238
Total Comprehensive income	**–**	**–**	**–**	**–**	**238**	**238**
Distributions to owners						
Share options granted	–	–	10	–	–	10
Total Distributions to owners	**–**	**–**	**10**	**–**	**–**	**10**
At 31 March 2018	**231**	**–**	**2,010**	**4**	**9,092**	**11,337**
Comprehensive income						
Loss for the period	–	–	–	–	(722)	(722)
Total Comprehensive income	**–**	**–**	**–**	**–**	**(722)**	**(722)**
Distributions to owners						
Share options granted	–	–	119	–	–	119
Issue of share capital - fees	–	(657)	–	–	–	(657)
Issue of share capital - placing	263	9,737	–	–	–	10,000
Total Distributions to owners	**263**	**9,080**	**119**	**–**	**–**	**9,462**
At 31 March 2019	**494**	**9,080**	**2,129**	**4**	**8,370**	**20,077**

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Share Premium Reserve	Amount subscribed for share capital in excess of nominal values.
Other Reserve	Amount reserved for share based payments to be released over the life of the instruments and the equity element of convertible loans
Accumulated losses	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

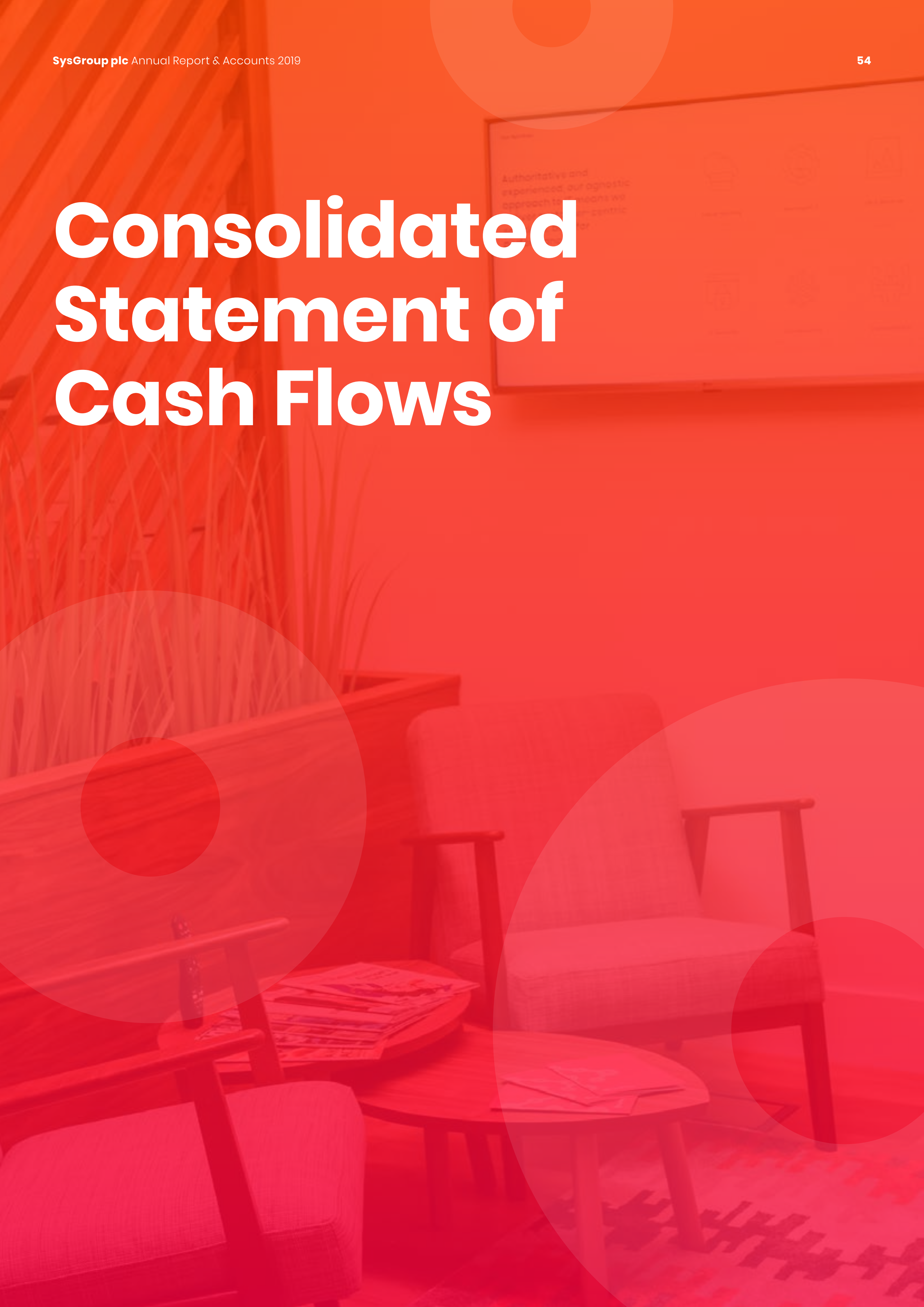
Company Statement of Changes in Equity

Company Statement of Changes in Equity

For the year ended 31 March 2019

	Attributable to equity holders of the parent				
	Share capital £'000	Share premium account £'000	Other reserve £'000	Retained profits £'000	Total £'000
At 1 March 2017	**231**	**-**	**2,000**	**8,059**	**10,290**
Comprehensive income					
Loss for the period	-	-	-	(526)	(526)
Total Comprehensive income	**-**	**-**	**-**	**(526)**	**(526)**
Distributions to owners					
Share options granted	-	-	10	-	10
Total Distributions to owners	**-**	**-**	**10**	**-**	**10**
At 31 March 2018	**231**	**-**	**2,010**	**7,533**	**9,774**
Comprehensive income					
Loss for the period	-	-	-	(941)	(941)
Total Comprehensive income	**-**	**-**	**-**	**(941)**	**(941)**
Distributions to owners					
Share options granted	-	-	119	-	119
Issue of share capital - fees	-	(657)	-	-	(657)
Issue of share capital - placing	263	9,737	-	-	10,000
Total Distributions to owners	**263**	**9,080**	**119**	**-**	**9,463**
At 31 March 2019	**494**	**9,080**	**2,129**	**6,592**	**18,295**

Consolidated Statement of Cash Flows



Consolidated Statement of Cash Flows

For the year ended 31 March 2019

	Notes	2019 Group £'000	2018 Group £'000
Cash flows used in operating activities			
(Loss)/profit after tax		(722)	238
Adjustments for:			
Depreciation and amortisation	13, 14	1,226	872
Fair value adjustment on contingent consideration		-	(540)
Finance costs	6	167	84
Share based payments		119	10
Taxation	12	(104)	(245)
Operating cash flows before movement in working capital		**686**	**419**
(Increase)/decrease in trade and other receivables		(188)	190
Increase/(decrease) in trade and other payables		275	(416)
Operating cashflows before interest and tax		**773**	**193**
Interest paid		(123)	(66)
Taxation (paid)/ refunded		(49)	80
Operational cashflows		**601**	**207**
Cash flows from investing activities			
Payments to acquire property, plant & equipment	14	(296)	(212)
Deferred consideration		-	(150)
Acquisition of subsidiary companies	10	(7,956)	(3,850)
Cash acquired with acquisitions	10	949	327
Net cash used in investing activities		**(7,303)**	**(3,885)**
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	21	9,343	-
(Repayment)/drawdown of loan facility including fees		(383)	1,940
Capital repayment of finance leases		(197)	(228)
Net cash from financing activities		**8,763**	**1,712**
Net increase / (decrease) in cash and cash equivalents from continuing operations		**2,061**	**(1,966)**
Cash flows from discontinued operations			
Net cash used for operating activities		-	(192)
Net increase in cash and cash equivalents from discontinued operations		**-**	**(192)**
Cash and cash equivalents at the beginning of the year		1,315	3,473
Cash and cash equivalents at the end of the year		**3,376**	**1,315**

Company Statement of Cash Flows

Company Statement of Cash Flows

For the year ended 31 March 2019

	Notes	2019 Company £'000	2018 Company £'000
Cash flows used in operating activities			
Loss after tax		(941)	(526)
Adjustments for:			
Depreciation and amortisation	13, 14	67	26
Fair value adjustment on contingent consideration		-	(540)
Finance costs		152	67
Share based payments		119	10
Taxation		-	(3)
Operating cash flows before movement in working capital		**(603)**	**(966)**
Increase in trade and other receivables		(327)	(19)
Increase in trade and other payables		644	1,029
Operating cashflows before interest and tax		**(286)**	**44**
Interest paid		(108)	(49)
Taxation refunded		-	2
Operational cashflows		**(394)**	**(3)**
Cash flows from investing activities			
Payments to acquire property, plant & equipment	14	(99)	(24)
Payments to acquire intangible fixed assets	13	-	(25)
Payments for acquisitions	10	(7,956)	(3,850)
Net cash used in investing activities		**(8,055)**	**(3,899)**
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital	21	9,343	-
(Repayment)/drawdown of loan facility		(382)	1,940
Net cash from financing activities		**8,961**	**1,940**
Net increase/(decrease) in cash and cash equivalents from continuing operations		**512**	**(1,962)**
Cash and cash equivalents at the beginning of the year		116	2,077
Cash and cash equivalents at the end of the year		**628**	**115**

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

1. Accounting Policies

SysGroup Plc (the 'Company') is a Company incorporated and domiciled in the United Kingdom. The Company's registered office is at Walker House, Exchange Flags, Liverpool, L2 3YL. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the 'Group').

Statement of Compliance

These Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as endorsed by the European Union ("endorsed IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under endorsed IFRS.

Basis of Preparation

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial liabilities which have been valued in accordance with IFRS9.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2. The financial statements are presented in pounds sterling, rounded to the nearest thousand, unless otherwise stated.

Going Concern

The Directors have prepared the financial statements on a going concern basis which assumes that the Group and the Company will continue to meet liabilities as they fall due. The Directors have reviewed forecasts prepared for the period ending 31 March 2021 and considered the projected trading forecasts and resultant cashflows together with the confirmed loan facilities and other sources of finance. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group can continue to operate within the current facilities available to it.

The Directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Notes to the Consolidated Financial Statements Continued

New Standards and Interpretations Not yet Adopted

A number of new standards and amendments to standards and interpretations have been issued during the year ended 31 March 2019. The Group has adopted all of the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as they have been adopted by the European Union, that are relevant to its operations and effective for accounting years beginning on 1 January 2018.

IFRS15 Revenue from Contracts with Customers

The Group conducted a full review of IFRS15 to assess the impact of the new standard on the Group's financial reporting processes. The Group applied the retrospective method to adopt IFRS15 and applied the practical expedient to not restate contracts starting and completing in the same financial year. A report of the findings was presented to the Audit Committee with two specific areas of financial reporting identified requiring a change in accounting treatment:

1. **Costs to obtain contracts**
   In the financial year to 31 March 2019, sales commission was paid in respect of managed service contracts with the commission payable for the benefit of the full contract period. Under IFRS15, the sales commission cost is therefore recoverable over the full term of the managed service contract and is therefore capitalised as a "Prepayment" with the cost charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the related managed service contract. In the prior financial year to 31 March 2018, sales commission was not capitalised. The sales commission scheme in operation at that time paid commission on a basis where the cost was appropriately matched and recovered against the profits of the related managed service contracts in the Consolidated Statement of Comprehensive Income, as such no adjustment is required to the previously recognised figures.

2. **Revenue and related costs recognition on set-up of lease lines**
   In some customer contracts, the Group sets up and installs new lease line connections prior to managed services being delivered to the customer. The set up and installation is usually delivered by a third party supplier. Under IFRS15, we consider the set up and installation to be an activity that relates directly to the subsequent provision of the managed services and as such we have deferred the one-off revenue and costs over the period of the related managed service contract in the financial statements to 31 March 2019. Deferred revenue is included in contract liabilities. Previously this revenue was recognised on delivery and not deferred over the life of the contract. The accounting adjustment is not material to the Group Statement of Comprehensive Income in the current or prior year due to the qauntam of such revenue.

Following the adoption of IFRS15, the Group's revenue recognition policy has been outlined in greater detail and is presented in the Revenue Recognition accounting policy note.

IFRS9 Financial Instruments

The Group has adopted IFRS 9 for the first time in the current financial year. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses lifetime expected loss allowances for all trade receivables.

The Group have reviewed their financial instruments and believe that all assets held at amortised cost have a low credit risk at the year end. The Group have also identified no assets which include a significant financing component. Historically the Group's debtor immpairment has been immaterial, and this is not expected to change in the near future, as such the Group have assessed the recoverability of financial instruments on a case by case basis which the Directors do not believe will give a material difference to the impairment of such assets.

Notes to the Consolidated Financial Statements Continued

New Standards Not Yet Effective

New standards, amendments to standards and interpretations have been issued but are not effective (and in some cases had not yet been adopted by the EU) for the financial year beginning 1 January 2019. These have not been early adopted and the Directors are considering the potential impact of IFRS 16 'Leases'.

IFRS16 Leases

IFRS16 replaces IAS17 'Leases' and substantively changes the accounting for operating leases. Where a contract meets IFRS16's definition of a lease, lease agreements will give rise to the recognition of a non-current asset representing the right to use the leased item, and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability, which may impact the phasing of operating profit and profit before tax, compared to existing cost profiles and presentation in the income statement, and will also impact the classification of associated cash flows. The detailed assessment of the impact on the Group is ongoing, with the current focus being on assessing the completeness of lease contracts. The Group currently anticipate adopting the modified retrospective approach in adopting IFRS16 but this is still being considered by the Directors. It is thought that the practical expedients on short term and low value leases will also be utilised. The adoption is expected to have an impact on the presentation of the Group's assets and liabilities, relating to property leases and our initial assessment is that the standard will increase lease assets by £0.4m, increase lease liabilities by £0.5m and increase adjusted EBITDA by £0.2m but will have an immaterial overall effect on profit before tax.

Basis of Consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee; exposure to variable returns from the investee; and the ability of the investor to use its power to affect those variable returns. Control is re-assessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. InterCompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquirer's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Consolidated Statement of Cash Flows

The Group have reclassified cash flows relating to exceptional costs from investing activities to operating cashflows within the Company and consolidated cash flow statements. This has had no overall effect on the prior year cash movement but has resulted in £0.59m of cash outflows being reclassified from investing activities to operating cashflows in the prior year.

Business Combinations

All business combinations are accounted for by applying the purchase method. On acquisition, all the subsidiaries' assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting the conditions at that date. The results of subsidiaries acquired in the period are included in the income statement from the date on which control is obtained.

Notes to the Consolidated Financial Statements Continued

Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is not amortised but is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income. In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of completion, and the fair value of contingent consideration is based on the expected future cashflows based on whether the Directors believe performance conditions will be met and thus the extent to which the further consideration will be payable. Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the consolidated statement of comprehensive income on the acquisition date.

Impairment of Non-Financial Assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually at the financial year end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest Group of assets in which the asset belongs for which there are separable identifiable cash flows that are largely independent of the cash flows from the other assets or Groups of assets). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the consolidated statement of comprehensive income. The results of foreign subsidiaries that have a functional currency different from the Group's presentation currency are translated at the average rates of exchange for the year. Assets and liabilities of foreign subsidiaries that have a functional currency different from the Group's presentation currency, are translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising from the translation of the results of foreign subsidiaries and their opening net assets are recognised as a separate component of equity.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow into the Group and revenue represents the fair value of amounts received or receivable for goods and services provided net of trade discounts and VAT.

The Group's income streams were reviewed in readiness for the adoption of IFRS15 and three categories of performance obligation have been identified: managed services, professional services and value added resale. All customer sales are signed as contracts or orders which separately specify the services and products to be delivered and these are mapped to one of the three revenue recognition categories. The contracts or orders specify, by service and product, the sales price and the contracted term of the services. As such, the separate performance obligations and allocation of transaction price can be identified clearly from the customer sales contracts.

Notes to the Consolidated Financial Statements Continued

The revenue recognition policies can be summarised as follows:

Revenue category	Performance delivery	Revenue recognition
Managed services	Contracted managed IT services are delivered from an agreed commencement date and for a contracted time period, typically three years with a twelve-month automatic extension. Managed services is comprised of different streams including hosting and support but due to the nature of this revenue the streams are considered inter-dependant. The services are delivered uniformly over the duration of the contract and invoiced either quarterly or monthly in advance of the service delivery period.	Revenue is recognised evenly over the duration of the contract period based on the sales price as specified in the customer sales contract. This is on the basis that the customer receives and consumes the services evenly over the term of the contract. Amounts invoiced in advance of service delivery periods are accounted for as contract liabilities and recognised as revenue in the Consolidated Statement of Comprehensive Income to match the period in which the services are delivered.
Professional services	Professional services are delivered by a team of technical consultants based on a scope of work agreed and signed with a customer. The scope of work includes a specification of the work to be delivered, an estimation of the number of consultancy days required, and a sales value based on a day rate. Professional services are invoiced either in advance of work performed, in arrears after the service is delivered or as part of a larger project contract milestone.	Revenue is recognised based on chargeable days delivered using the sales day rate specified in the customer contract. Revenue recognition is therefore matched to the timing of when the customer receives the benefit of the consultancy services which is inline with the day the work is perfomed. The relevant details of customer engagements and the time delivered by consultants is recorded on the Group's financial systems. Professional services are either invoiced in arrears for the actual days delivered or invoiced in advance. When invoiced in advance, the sales value is treated as contract liabilities and recognised as revenue in the Consolidated Statement of Comprehensive Income in the period in which the consultancy days are delivered.
Value added resale	Value added resale ("VAR") comprises sales of IT hardware, licences and warranties ("products") where the Group satisfies its performance obligation by procuring the products from suppliers for delivery to the customer. There are no further or ongoing obligations to the Group after delivery. The sales price for each product is separately specified in the customer sales contract. VAR sales are either invoiced in full in advance of delivery or invoiced according to an agreed contract milestone if part of a larger contract.	Revenue is recognised on delivery of the products from the supplier. Invoices are typically raised in advance of delivery and treated as contract liabilities until delivery has been fulfilled. At this point the revenue and associated purchase cost is recognised in the Consolidated Statement of Comprehensive Income.

Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

Exceptional Items

The Group presents as exceptional items on the face of the Statement of Comprehensive Income those material items of income and expense which the Directors consider, because of their size or nature and expected non-recurrence, merit separate presentation to facilitate financial comparison with prior periods and to assess trends in financial performance. Exceptional items are included in Administration expenses in the Consolidated Statement of Comprehensive Income but excluded from Adjusted EBITDA as management believe they should be considered separately to gain an understanding of the underlying profitability of the trading businesses.

Notes to the Consolidated Financial Statements Continued

Financial Instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Financial Assets

The Group's financial assets comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position. Trade receivables are stated at their nominal value and an impairment provision will be recognised using the simplified approach and shown in administrative expenses in the Consolidated Statement of Comprehensive Income. Cash and cash equivalents includes cash in hand and deposits held at call with banks.

Share Capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments and are recorded at the proceeds received, net of direct issue costs. Proceeds of any share issue in excess of the nominal value of the share capital is recognised within the share premium account.

Financial Liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which it was acquired. The Group's accounting policy for each category is as follows:

- Fair value through profit or loss
  This category comprises only contingent consideration. They are carried in the statement of financial position at fair values with changes in fair value recognised in the consolidated income statement.

- Other Financial Liabilities
  Other financial liabilities include trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Fair Value Measurement Hierarchy

IFRS 9 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value to reflect the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

a. Quoted prices in active markets for identical assets or liabilities (Level 1)

b. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

c. Inputs from the asset or liability that are not based on observable market data (Level 3)

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

Notes to the Consolidated Financial Statements Continued

Share Based Payments

The fair value of employee options, along with any share warrants granted, is charged to the consolidated statement of comprehensive income with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes pricing model, considering the terms and conditions upon which the options were granted. The fair value of warrants is also reviewed to the extent that exercise of the warrants is considered likely.

Leases

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in payables net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the consolidated statement of comprehensive income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period. Rentals payable under operating leases are charged against income on a straight-line basis over the lease term.

Property Plant and Equipment

Items of property, plant and equipment are stated at cost less depreciation. Depreciation is provided at annual rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Office equipment	20% – 33.3% straight line
Motor vehicles	25% straight line
Freehold property	2% straight line

Investment in Subsidiaries

Fixed asset investments in the Parent Company are shown at cost less any provision for impairment as necessary.

Research and Development

Research expenditure is written off to the consolidated statement of comprehensive income in the year in which the expenditure occurs. Development expenditure is treated in the same way unless the Directors are satisfied as to the technical, commercial and financial viability of individual projects, there is an intention to complete and sell the product and the costs can be easily measurable. In this situation, the expenditure is capitalised, and the amortised expense is included in administrative expenses in the Consolidated Statement of Comprehensive Income over the years during which the Group is to benefit.

Notes to the Consolidated Financial Statements Continued

Intangible Assets

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements below).

The significant intangibles recognised by the Group, their estimated useful economic lives and the methods used to determine the cost of intangibles acquired in business combinations are as follows:

Intangible asset	Estimated UEL	Valuation method
Customer relationships	5-7 years	Estimated discounted cash flow
Software and web design costs	3-5 years	Cost less amortisation

Deferred Taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is highly probable that relief against taxable profit will be available.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group Company; or different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Deferred tax liabilities are recognised on intangible assets and other temporary differences recognised in business combinations.

Notes to the Consolidated Financial Statements Continued

2. Significant Accounting Estimates & Judgements

The preparation of this financial information requires management to make estimates and judgements that affect the amounts reported for assets and liabilities at the period end date and the amounts reported for revenues and expenses during each period. The nature of the estimation or judgement means that actual outcomes could differ from the estimates and judgements taken in the preparation of the financial statements.

Significant Accounting Estimates

- **Impairment of goodwill and other intangibles**
  The Group tests goodwill for impairment on an annual basis in line with the accounting policy noted above. This involves judgement regarding the future development of the business and the estimation of the level of future profitability and cash flows to support the carrying value of goodwill. An impairment review has been performed at the reporting date taking into account sensitivities around future business performance, covering a range of outcomes and risks over levels of revenue, cost and cash generation. No impairment has been identified. More details including carrying values are included in note 13.

- **Valuation of intangible assets acquired in business combinations**
  Determining the fair value of customer relationships acquired in business combinations requires estimation of the value of the cash flows related to those relationships and a suitable discount rate in order to calculate the present value. More details including carrying values are included in note 10.

- **Valuation of contingent consideration**
  The Group has contingent consideration payable which is based on the future performance of acquired companies. When valuing the contingent consideration still payable on acquisitions, the Group considers various factors including the performance of the acquired entity since acquisition together with an estimate of the expected future trading performance for the period to the expiry of the earn-out period. Contingent consideration is recognised at, and carried thereafter at, fair value. All changes in fair value (other than measurement period adjustments) are reflected in the income statement.

Significant Accounting Judgements

- **Revenue**
  Management make judgements in determining the appropriate application of revenue recognition policies to the sale of services and products. An explanation of the Group's revenue recognition policy is shown in note 1.

- **Assessment of CGU's and carrying value of intangible assets**
  A CGU is the smallest identifiable Group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or Groups of assets and the Board of Directors use judgement to identify the CGUs of the Group. The Board have reviewed the Group's CGU's this year and exercised their judgement to amend the CGUs following the integration of previously acquired businesses and changes to the Group's management and reporting structure in the current financial year. The Board have concluded that the Group has a single CGU of "Managed IT Services". See note 13.

- **Useful economic lives of intangible assets**
  Intangible assets are amortised over their useful economic lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in changes in the carrying values and hence amounts charged to the income statement in particular periods which could be significant.

Notes to the Consolidated Financial Statements Continued

3. Financial Instruments – Risk Management

The Group's financial instruments comprise cash and liquid resources and various items such as trade receivables and trade payables that arise directly from its operations. There have been no substantive changes in the Group's objectives, policies and processes for managing those risks or the methods used to measure them from previous periods although the Group have considered the additional requirements in respect of IFRS9. The Group's objective is to ensure adequate funding for continued growth and expansion.

All the Group's financial instruments are carried at amortised cost with the exception of contingent consideration. There is no material difference between the carrying and fair value of its financial instruments, in the current or prior year, due to the instruments bearing interest at fixed rates or being of short term nature. The Group faces a financial risk that such financial assets are not recovered but a provision is made where recoverability is in doubt.

A summary of financial instruments held by category is shown below:

	Group		Company	
Financial assets	**2019 £'000**	**2018 £'000**	**2019 £'000**	**2018 £'000**
Assets held at amortised cost				
Cash and cash equivalents	3,376	1,315	628	115
Amounts due from subsidiaries	-	-	241	-
Trade receivables	1,744	1,101	-	-
Total financial assets	**5,120**	**2,416**	**869**	**115**
Financial liabilities				
Amortised cost				
Trade and other payables	2,864	1,377	539	262
Amounts due to subsidiaries	-	-	2,868	2,584
Loans and other borrowings	1,906	2,233	1,621	1,958
At fair value	**4,770**	**3,610**	**5,028**	**4,804**
Contingent consideration	1,000	-	1,000	-
Total financial liabilities	**5,770**	**3,610**	**6,028**	**4,804**

Per the fair value hierarchy classifications under IFRS 9 Financial Instruments the contingent consideration due on acquisitions shown above are considered to be level 3 financial liabilities as there are no observable inputs for valuation.

	Group £'000	**Company £'000**
Contingent consideration **At 1 April 2017**	**690**	**690**
Settled during the year	(150)	(150)
Notional interest charged	16	16
Fair value adjustment through income statement	(556)	(556)
At 31 March 2018	**-**	**-**
Certus IT acquisition	1,000	1,000
At 31 March 2019	**1,000**	**1,000**

Notes to the Consolidated Financial Statements Continued

Liquidity Risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to prepare periodic working capital forecasts, allowing an assessment of the cash requirements of the Group and Company, to manage liquidity risk. Cash resources are managed in accordance with planned expenditure forecasts and the Directors have regard to the maintenance of sufficient cash resources to fund the Group and Company's immediate operating requirements and capital expenditure.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

Group **At 31st March 2019**	**Up to 3 months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	2,864	-	-	-	-
Contingent consideration	-	-	1,000	-	-
Loans and borrowings	110	318	305	1,173	-
Total	**2,974**	**318**	**1,305**	**1,173**	**-**
At 31st March 2018					
Trade and other payables	1,377	-	-	-	-
Contingent consideration	-	-	-	-	-
Loans and borrowings	91	272	1,826	44	-
Total	**1,468**	**272**	**1,826**	**44**	**-**

Company **At 31st March 2019**	**Up to 3 months £'000**	**Between 3 and 12 months £'000**	**Between 1 and 2 years £'000**	**Between 2 and 5 years £'000**	**Over 5 years £'000**
Trade and other payables	539	-	-	-	-
Amounts due to subsidiaries	2,868	-	-	-	-
Contingent consideration	-	-	1,000	-	-
Loans and borrowings	56	168	224	1,173	-
Total	**3,463**	**168**	**1,224**	**1,173**	**-**
At 31st March 2018					
Trade and other payables	262	-	-	-	-
Amounts due to subsidiaries	2,584	-	-	-	-
Contingent consideration	-	-	-	-	-
Loans and borrowings	52	164	1,742	-	-
Total	**2,898**	**164**	**1,742**	**-**	**-**

Notes to the Consolidated Financial Statements Continued

Interest Rate Risk

The Group seeks to minimise exposure to interest rate risk by borrowing at a mix of fixed and floating interest rates appropriate to the nature and term length of borrowings. During the period the Group re-financed its loan facilities with Santander (Note 18).

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group receives payments either from automated banking receipts or from customers generally paying on 30-day credit terms. The Group has a dedicated credit control function to manage customer payments and uses an external credit rating agency to assess customers and prospects for creditworthiness. Doubtful debts are provided for in accordance with IFRS9. For cash and cash equivalents, the Group only uses recognised banks with high credit ratings.

Capital Disclosures

The Group monitors capital which comprises all components of equity (i.e. share capital, share premium and retained earnings). The Group's objective when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders in future periods and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk. The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

4. Segmental Analysis

The chief operating decision maker for the Group is the Board of Directors. The Group reports in two segments:

- Managed IT Services
  This segment provides all forms of managed services to customers and includes professional services.

- Value Added Resale (VAR)
  This segment provides all forms of VAR sales where the business sells products and licences from supplier partners.

The monthly management accounts reported to the Board of Directors is reviewed at a consolidated level with the operating segments representative of the business model for growth of recurring contract income in Managed IT Services and VAR sales as a complementary business activity. The Board review the results of the operating segments at a revenue and gross profit level since the Group's management and operational structure supports both operational segments as Group functions. In this respect, assets and liabilities are also not reviewed on a segmental basis. All assets are within the UK other than a low value of property, plant & equipment in the USA.

All segments are continuing operations and there are no transactions between segments.

Revenue by operating segment	2019 £'000	2019 %	2018 £'000	2018 %
Managed IT Services	9,448	74%	7,130	68%
Value Added Resale	3,325	26%	3,321	32%
Total	**12,773**	**100%**	**10,451**	**100%**

Notes to the Consolidated Financial Statements Continued

No individual customer accounts for more than 5% of the Group's revenue.

The revenue by geographic location for where services are delivered to customers is shown below.

	2019 £'000	2019 %	2018 £'000	2018 %
UK	12,526	98%	10,213	98%
Rest of World	247	2%	238	2%
Total	**12,773**	**100%**	**10,451**	**100%**

	2019 £'000	2018 £'000
Revenue		
Managed IT Services	9,448	7,130
Value Added Resale (VAR)	3,325	3,321
Total	**12,773**	**10,451**
Gross profit		
Managed IT Services	6,959	5,329
Value Added Resale (VAR)	820	666
Total	**7,779**	**5,995**

There were no sales between the two business segments, and all revenue is earned from external customers. The business segments' gross profit is reconciled to profit before taxation as per the consolidated income statement. The Group's overheads are managed centrally by the Board and consequently there is no reconciliation to profit before tax at a segmental level.

Assets and liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers. There were no assets arising from contracts with customers.

	2019 £'000	2018 £'000
Current contract liabilities relating to deposits from customers	1,238	425
Release of contract liability recognised in revenue which was included in the contract liability balance at the beginning of the year	425	465

Notes to the Consolidated Financial Statements Continued

5. Operating (Loss)/Profit

	2019 £'000	2018 £'000
Operating (loss)/profit is after charging the following:		
Auditor's remuneration:		
Group:		
Audit	60	49
Other advisory	–	5
Company:		
Audit	4	4
Depreciation of tangible fixed assets:		
Owned	345	201
Held under finance leases	158	171
Amortisation of intangible assets	723	500
Staff costs (note 7)	4,710	3,972
Share based payments (note 9)	119	10
Rentals payable under operating leases	168	156
Exceptional items (note 8)	736	581

6. Finance Expense

	2019 £'000	2018 £'000
Interest payable on finance leases	13	17
Interest payable on bank loan	108	49
Arrangement fee amortisation on bank loan	46	18
Total	**167**	**84**

7. Staff Numbers & Costs

The average monthly number of full-time persons employed by the Group, including Executive Directors during the year was:

	2019	2018
Research and Development	3	4
Technical Support	52	48
Sales and Marketing	17	11
Executive and Administration	15	11
Total	**87**	**74**

Notes to the Consolidated Financial Statements Continued

The aggregate payroll costs including Executive Directors and excluding Non-Executive Directors were as follows:

	2019 £'000	2018 £'000
Wages and salaries	4,154	3,548
Social security costs	441	365
Benefits in kind	26	22
Pension benefits	89	37
Share based payment expense	119	10
Total	**4,829**	**3,982**

Total staff costs for the Company are £2,383,000 (2018: £836,000) and average staff numbers for the Company are 43 (2018: 14). The increase in costs and staff numbers reflect the consolidation of legacy subsidiary employees into SysGroup plc.

Directors

	2019 £'000	2018 £'000
Fees and salaries	525	369
Social security costs	43	35
Benefits in kind	3	2
Pension benefits contributions	14	17
Compensation for loss of office	23	-
Share based payment expense	110	9
Total	**718**	**432**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, they are the Directors of the Company listed on page 21.

The emoluments of the highest paid Director are £249,000 (2018: £137,000).

The Group does not operate a defined benefits pension scheme and Executive Directors who are entitled to receive pension contributions may nominate a defined contribution scheme into which the Company makes pension contributions. The fees relating to Non-Executive Directors are in some cases payable to third parties in connection with the provision of their services. The balance outstanding at 31 March 2019 was £10,000 (2018: £4,000).

Notes to the Consolidated Financial Statements Continued

8. Exceptional Costs

	2019 £'000	2018 £'000
Acquisitions	554	186
Integration and restructuring	182	395
Total	**736**	**581**

The Directors believe these costs are exceptional as their size and one-off nature are significant enough to the Group's profit and loss to warrant separate consideration. The acquisitions cost of £554,000 represents £66,000 professional fees incurred on a terminated acquisition process and £498,000 professional fees and other costs relating to the Certus IT acquisition. In the prior year, the £186,000 costs relate to the acquisition of Rockford IT Limited. Integration and restructuring costs represent the costs incurred for integrating newly acquired companies and for restructuring the internal business to manage the requirements of a larger Group.

9. Share Based Payments & Warrants

The Company has granted a number of EMI options. The Directors have the discretion to grant options to subscribe for ordinary shares up to a maximum of 10 per cent of the Company's issued share capital. Options can be granted to any employee of the Group. For options to vest the employee has to be employed by the Group at the vesting date. There are no other performance criteria attached to the options. The weighted average exercise price of options in issue is 1.83p per share. Rights to options over ordinary shares of the Company are summarised as follows:

			No. of Ordinary Shares			
Grant date	**Exercise period**	**Exercise price**	**At 31 March 2018**	**Granted**	**Waived/ lapsed**	**At 31 March 2019**
27/09/2012	27/09/12 to 26/09/15	80p	10,000	-	(10,000)	-
12/12/2013	12/12/13 to 11/12/23	60p	5,625	-	-	5,625
21/02/2016	21/02/16 to 20/02/26	55.2p	11,875	-	-	11,875
13/09/2016	13/09/16 to 12/09/26	60.5p	5,000	-	(5,000)	-
06/04/2017	06/04/17 to 05/04/19	47.5p	125,000	-	(125,000)	-
30/08/2017	30/08/17 to 29/08/19	43p	5,000	-	(5,000)	-
02/03/2018	02/03/18 to 01/03/21	35.5p	30,000	-	-	30,000
28/06/2018	28/06/18 to 27/06/21	1p	-	750,000	-	750,000
16/07/2018	16/07/18 to 15/07/21	1p	-	450,000	-	450,000
26/11/2018	26/11/18 to 25/11/2021	42.5p	-	534,000	-	534,000
Total			**192,500**	**1,734,000**	**(145,000)**	**1,781,500**

Notes to the Consolidated Financial Statements Continued

The options have been valued, using the Black Scholes method, using the following assumptions:

Number of instruments granted	5,625	11,875	30,000	750,000	450,000	534,000
Grant date	12/12/13	21/02/16	02/03/18	28/06/18	16/07/18	26/11/18
Expiry date	11/12/23	20/02/26	01/03/21	27/06/21	15/07/21	25/11/21
Contract term (years)	10	10	10	10	10	10
Exercise price	60p	55.2p	35.5p	1p	1p	42.5p
Share price at granting	85p	70.8p	35.5p	41.5p	44.4p	42.5p
Annual risk-free rate (%)	0.5%	0.5%	1.4%	1.5%	1.5%	1.5%
Annual expected dividend yield (%)	0%	0%	0%	0%	0%	0%
Volatility (%)	90%	55%	36%	30%	30%	30%
Fair value per grant instrument	74.46p	47.6p	16.84p	40.64p	45.64p	22.22p

The inputs to the share valuation model utilised at the grant of the option is shown in the tables above. Management has determined volatility using their knowledge of the business.

At 31 March 2019 there were 2,500 outstanding warrants to subscribe for the ordinary share capital of the Company as follows:

		No. of Warrants and Exercise price
Grant date	**Exercise period**	**200p**
09/01/2012	08/01/2022	2,500

The fair value of the warrants has been calculated at 0.36p based on the following assumptions – share price at granting 50p, annual risk-free rate 1.5%, and volatility 20%. No provision has been made for the warrants in shared based payments.

10. Acquisitions

In February 2019, the Company acquired 100% of the share capital of Certus IT Limited ("Certus"), a Managed IT Services Company registered in England & Wales with a head office in Newport, South Wales. Certus provides Managed IT services, cloud hosting, value added resale, and IT consultancy.

Certus was acquired for an initial £7,956,000 cash consideration paid on completion, subject to final adjustment on the completion accounts, with a maximum £1,000,000 additional consideration payable in cash in twelve months' time depending on Certus' profit performance in the twelve-month period following completion and subject to 70% of the gross margin being achieved from recurring income. In respect of the contingent consideration, the Company will pay £2.50 consideration for every £1 of EBITDA achieved by Certus over and above a floor of £1.2m and up to a maximum of £1.6m EBITDA.

The Company incurred £498,000 of professional fees and other acquisition costs in relation to this acquisition. These costs are included as Exceptional costs in the Group's consolidated statement of comprehensive income for the year ended 31 March 2019.

The Directors have considered the intangible assets acquired with Certus and have accordingly recognized an intangible asset for customer relationships which has been calculated using a discounted cashflow method, based on the estimated level of profit to be generated from the customers acquired.

Notes to the Consolidated Financial Statements Continued

A post tax discount rate of 10.45% was used in the valuation and the customer relationships are being amortised over an estimated useful life of 7 years. The goodwill arising on this acquisition is attributable to the technical skills of the workforce and cross-selling opportunities achievable from combining the acquired customer bases and trade with the existing Group.

The goodwill and intangible asset has been allocated to a new CGU, Certus IT, given the Company has its own management and operational structure, cash generation and financial reporting processes in place.

Since the acquisition date to 31 March 2019, Certus IT Limited contributed £1.0m to Group revenue and £0.09m to Group EBITDA. Had the acquisition taken place on 1 April 2018, the contribution to Group revenue would have been £7.8m to Group revenue and £1.1m to Group EBITDA.

Recognised amounts of net assets acquired and liabilities assumed	**Book value £'000**	**Fair value adj £'000**	**Fair value £'000**
Cash and cash equivalents	949	-	949
Trade and other receivables	1,179	(135)	1,044
Property, plant and equipment	869	(32)	837
Stock and work in progress	32	(32)	-
Intangible assets	-	3,777	3,777
Trade and other payables	(2,570)	(2)	(2,572)
Current income tax liability	(162)	-	(162)
Deferred tax liability	(56)	(642)	(698)
Identifiable net assets	**241**	**2,934**	**3,175**
Goodwill			5,781
Total			**8,956**

Satisfied by:	
Cash consideration - paid on acquisition	7,956
Contingent consideration	1,000
Total consideration	**8,956**

Notes to the Consolidated Financial Statements Continued

11. Earnings Per Share

	2019	2018
(Loss)/profit for the financial year attributable to shareholders	(£722,000)	£238,000
Weighted number of issued equity shares	25,843,624	23,103,898
Weighted number of equity shares for diluted EPS calculation	26,999,313	23,298,898
Adjusted basic earnings per share (pence)	3.1p	2.3p
Basic earnings per share (pence)	(2.8p)	1.0p
Diluted earnings per share (pence)	(2.8p)	1.0p

Profit used in the Earnings per Share calculation	**2019 £'000**	**2018 £'000**
(Loss)/profit after tax used for basic earnings per share	(722)	238
Amortisation of intangible assets	723	500
Exceptional items	736	581
Fair value adjustment	-	(540)
Share based payments	119	10
Tax adjustments	(47)	(250)
Adjusted profit used for Adjusted Earnings per Share	**809**	**539**

For diluted earnings per share, the weighted number of ordinary shares in issue during the year is adjusted to include the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential shares into ordinary shares.

12. Taxation

	2019 £'000	**2018 £'000**
Current tax		
Current tax - current year	105	32
Adjustments in respect of prior years	55	(126)
Tax refund	(12)	(80)
Total current tax charge/(credit)	**148**	**(174)**
Deferred tax		
Deferred tax - timing differences	(252)	(71)
Total deferred tax	**(252)**	**(71)**
Total tax credit	**(104)**	**(245)**

Notes to the Consolidated Financial Statements Continued

The effective tax rate for the year to 31 March 2019 is higher (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £'000	2018 £'000
Loss on ordinary activities before tax	**(826)**	**(7)**
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (2018:19%)	(157)	(1)
Effects of:		
Expenses not deductible	10	33
Income not taxable	(24)	(106)
Prior year adjustment	55	(126)
Re-measurement of deferred tax due to changes in UK rate	-	5
Deferred tax not recognised	-	(130)
Tax refund	12	80
Total tax credit	**(104)**	**(245)**

The Group recognised deferred tax assets and liabilities as follows:

	2019 £'000	2018 £'000
Deferred tax on customer relationships	(1,093)	(588)
Capital allowances timing differences	(27)	(86)
Deferred tax liability	**(1,120)**	**(674)**

Recognition of deferred tax assets is restricted to those instances where it is highly probable that relief against taxable profit will be available.

The movement in the deferred tax account during the year was:

	Capital allowances timing differences £'000	Customer relationships £'000	Total £'000
Balance at 1 April 2018	(86)	(588)	**(674)**
Accelerated capital allowances acquired on acquisition of Certus IT	(56)	-	**(56)**
Deferred tax recognised on customer lists acquired on acquisition of Certus IT	-	(642)	**(642)**
Credited to statement of comprehensive income	115	137	**252**
Balance at 31 March 2019	**(27)**	**(1,093)**	**(1,120)**

Factors affecting future tax charges:

The UK corporation tax rate will change from 19% to 17% on 1 April 2020.

Notes to the Consolidated Financial Statements Continued

13. Intangible Assets

Cost	Website Cost £'000	Software Licences £'000	Customer Relationships £'000	Positive Goodwill £'000	Total £'000
At 1 April 2017	**197**	**72**	**2,383**	**7,620**	**10,272**
Additions	26	6	–	–	**32**
Acquisitions	–	95	1,850	2,107	**4,052**
At 31 March 2018	**223**	**173**	**4,233**	**9,727**	**14,356**
At 1 April 2018	**223**	**173**	**4,233**	**9,727**	**14,356**
Additions	–	9	–	–	**9**
Acquisitions	–	16	3,777	5,781	**9,574**
At 31 March 2019	**223**	**198**	**8,010**	**15,508**	**23,939**
Accumulated amortisation and impairment					
At 1 April 2017	**191**	**30**	**814**	**-**	**1,035**
Charge for the year	7	47	446	-	**500**
At 31 March 2018	**198**	**77**	**1,260**	**-**	**1,535**
At 1 April 2018	**198**	**77**	**1,260**	**-**	**1,535**
Charge for the year	8	59	656	-	**723**
At 31 March 2019	**206**	**136**	**1,916**	**-**	**2,258**
Net book value					
At 31 March 2018	**25**	**96**	**2,973**	**9,727**	**12,821**
At 31 March 2019	**17**	**62**	**6,094**	**15,508**	**21,681**

All amortisation and impairment charges are included in the depreciation, amortisation and impairment of non-financial assets classification, which is disclosed as administrative expenses in the statement of comprehensive income. Customer relationships have a remaining amortisation period of between 2 and 7 years.

Cash-Generating Units

Goodwill and intangible assets are allocated to CGUs in order to be assessed for potential impairment. During the year, the Directors reconsidered the CGUs within the Group following the unification of all Group management and operations under a single brand, SysGroup, in April 2018. The Group has a Senior Management Team that manages the SysGroup business within a single operational and delivery structure having fully integrated previously acquired Rockford IT, System Professional and Netplan businesses. The Board of Directors review the Group's performance at a consolidated level reflecting how the business is managed and controlled. In view of these developments in the year, the Directors concluded that the CGUs that represented the acquired businesses at the "statutory entity" level is no longer appropriate and that the Group has a single CGU of "Managed IT Services". As the Group acquires new businesses, they will form their own CGU until they have been integrated into the Group's core operational structure. Accordingly, Certus IT Limited, acquired in February 2019 is recognised as a separate CGU, "Certus IT", in this year's impairment review.

Notes to the Consolidated Financial Statements Continued

The allocation of goodwill and carrying amounts of assets for each CGU is as follows:

	Allocation of goodwill		Carrying value of assets	
	2019 £'000	**2018 £'000**	**2019 £'000**	**2018 £'000**
Managed IT Services	9,727	9,727	11,894	13,166
Certus IT	5,781	-	8,698	-
Total	**15,508**	**9,727**	**20,592**	**13,166**

Impairment Review

When assessing impairment, the recoverable amount of each CGU is based on value-in-use calculations (VIU). VIU calculations are an area of material management estimate as set out in note 2. These calculations require the use of estimates, specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax discount rate. Cash flow projections are based on the Group's detailed annual operating plan for the forthcoming financial year which has been approved by the Board.

The VIU calculation is determined based on a discounted cash flow basis and is allocated to individual cash generating units. Cash flows beyond the forthcoming financial year use estimated growth rates which are stated below. The assumptions for growth rates and margins are based on management's experience of growth and knowledge of the industry sector, markets and our own internal opportunities for growth and margin enhancement. The projections beyond five years use an estimated long-term growth rate of 2.5% (2018: 2.9%) for revenue. This represents management's best estimate of a long-term annual growth rate aligned to an assessment of long-term GDP growth rates. A higher sector-specific growth rate would be a valid alternative estimate. A different set of assumptions may be more appropriate in future years dependent on changes in the macroeconomic environment.

The discount rates used are based on management's calculation of the WACC using the capital asset pricing model to calculate the cost of equity. Specific rates are used for each CGU in the VIU calculation and the rates reflect management's assessment on the level of relative risk in each respective CGU. Discount rates can change relatively quickly for reasons both inside and outside management control. Those outside management direct control or influence include changes in the Group's Beta, changes in risk free rates of return and changes in Equity Risk Premia. Matters inside management control are the delivery of performance in line with plans or budgets and the production of high or low risk plans.

At the year end reporting date, goodwill was reviewed for impairment in accordance with IAS 36 "Impairment of Assets". No impairment charges arose as a result of this review.

The assumptions used for the impairment reviews are as follows:

2019	**Managed IT Services***	**Certus IT**
Discount rate	10.45%	10.45%
Revenue growth rate year 2 to year 5	5.0%	5.0%
Terminal growth rate	2.5%	2.5%
2018		
Discount rate	10.13%	-
Revenue growth rate year 2 to year 5	5.0%-7.5%	-
Terminal growth rate	2.9%	-

*In 2018, the CGU's were Rockford IT, System Professional and Netplan.

Notes to the Consolidated Financial Statements Continued

14. Property Plant & Equipment

Cost	Office Equipment £'000	Freehold Property £'000	Motor Vehicles £'000	Total £'000
At 1 April 2017	**1,320**	**-**	**101**	**1,421**
Additions	181	-	-	**181**
Acquisition of subsidiary	334	-	-	**334**
At 31 March 2018	**1,835**	**-**	**101**	**1,936**
At 1 April 2018	**1,835**	**-**	**101**	**1,936**
Additions	296	-	-	**296**
Acquisition of subsidiary	455	382	-	**837**
Disposals	-	-	(28)	**(28)**
At 31 March 2019	**2,586**	**382**	**73**	**3,041**
Accumulated depreciation				
At 1 April 2017	**737**	**-**	**18**	**755**
Charge for the year	352	-	20	**372**
At 31 March 2018	**1,089**	**-**	**38**	**1,127**
At 1 April 2018	**1,089**	**-**	**38**	**1,127**
Charge for the year	491	1	11	**503**
Disposals	-	-	(9)	**(9)**
At 31 March 2019	**1,580**	**1**	**40**	**1,621**
Net book value				
At 31 March 2017	**583**	**-**	**83**	**666**
At 31 March 2018	**746**	**-**	**63**	**809**
At 31 March 2019	**1,006**	**381**	**33**	**1,420**

Included in the net book value of £1,420,000 (2018: £809,000) are assets held under finance leases with a NBV of £377,000 (2018: £323,000). The depreciation for the year on these assets was £158,000 (2018: £170,000).

Notes to the Consolidated Financial Statements Continued

Company **Cost**	**Office Equipment £'000**	**Total £'000**
At 1 April 2017	**81**	**81**
Additions	24	**24**
At 31 March 2018	**105**	**105**
At 1 April 2018	**105**	**105**
Additions	99	**99**
At 31 March 2019	**204**	**204**
Accumulated depreciation		
At 1 April 2017	**25**	**25**
Charge for the year	26	**26**
At 31 March 2018	**51**	**51**
At 1 April 2018	**51**	**51**
Charge for the year	58	**58**
At 31 March 2019	**109**	**109**
Net book value		
At 31 March 2017	**56**	**56**
At 31 March 2018	**54**	**54**
At 31 March 2019	**95**	**95**

The Company held no finance leases at 31 March 2019 or at 31 March 2018.

Notes to the Consolidated Financial Statements Continued

15. Investments

Company	2019 £'000	2018 £'000
Investment in subsidiaries		
At 1 April 2018	14,279	10,429
Additions (note 10)	8,956	3,850
Total	**23,235**	**14,279**

The Company's subsidiary undertakings all of which are wholly owned and included in the consolidated accounts are:

Undertakings	Registration	Principal activity
System Professional Limited	England	Managed Services
Netplan Internet Solutions Limited	England	Managed Services
Netplan LLC*	USA	Managed Services
SysGroup (DIS) Limited	England	Managed Services
SysGroup (NH) Limited	England	Managed Services
Node Group Limited	England	Managed Services
Project Clover Limited	England	Managed Services
SysGroup (EH) Limited	England	Managed Services
Rockford IT Limited	England	Managed Services
Certus IT Limited	England	Managed Services

*Netplan LLC is a wholly owned subsidiary of Netplan Internet Solutions Limited

The recoverable amounts have been determined from discounted cash flow calculations based on cash flow projections from the approved annual operating plan covering a one-year period to 31 March 2020. The principal assumptions can be found in note 13.

SysGroup (NH) Limited (Company Number 03963376), SysGroup (EH) Limited (Company Number 05814619), SysGroup (DIS) Limited (Company number 05743110), Project Clover Limited (Company number 08995906) are taking advantage of the exemption from audit under section 479a of the Companies Act 2006 following the guarantee provided by SysGroup plc under section 479C of the Companies Act 2006.

The registered office of all subsidiaries is the same as the registered office of the parent Company with the exception of Netplan LLC whose registered office is c/o USA Corporate Services Inc, 19 West 34Th Street, Suite 1018, New York, 10001.

Notes to the Consolidated Financial Statements Continued

16. Trade & Other Receivables

Amounts due within one year	**Group 2019 £'000**	**Company 2019 £'000**	**Group 2018 £'000**	**Company 2018 £'000**
Trade debtors	1,744	-	1,101	-
Other debtors	-	130	-	35
Amounts due from subsidiaries	-	241	-	-
Prepayments	1,112	91	523	100
Total	**2,856**	**462**	**1,624**	**135**

The carrying value of trade and other receivables approximates to their fair value.

Debtor impairment disclosure	**Group 2019 £'000**	**Company 2019 £'000**	**Group 2018 £'000**	**Company 2018 £'000**
Trade debtors	1,814	-	1,125	-
Impairment provision	(70)	-	(24)	-
Total	**1,744**	**-**	**1,101**	**-**

17. Trade & Other Payables

Amounts due within one year	**Group 2019 £'000**	**Company 2019 £'000**	**Group 2018 £'000**	**Company 2018 £'000**
Trade payables	1,885	252	893	102
Amounts due to subsidiaries	-	2,868	-	2,584
Accruals	979	287	484	160
Total financial liabilities, excluding loans and borrowings measured at amortised cost	2,864	3,407	1,377	2,846
Corporation tax	311	-	85	-
Other taxes and social security costs	817	114	438	30
Total	**3,992**	**3,521**	**1,900**	**2,876**

Contingent consideration	**Group 2019 £'000**	**Company 2019 £'000**	**Group 2018 £'000**	**Company 2018 £'000**
Certus IT Ltd	1,000	1,000	-	-

The fair value of contingent consideration is in relation to the acquisition of Certus IT Limited (note 10) and is recognised at the full value of the consideration. The consideration is expected to be paid in the financial year to 31 March 2021. An adjustment for discounting has not been applied given the immateriality.

To the extent trade payables and other payables are not carried at fair value in the consolidated balance sheet, book value approximates to fair value at 31 March 2019 and 31 March 2018.

The maturity of the financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost is shown in note 3.

Notes to the Consolidated Financial Statements Continued

18. Loans & Borrowings

Non-Current	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Obligations under finance leases	81	-	128	-
Bank loan	1,397	1,397	1,742	1,742
Total	**1,478**	**1,397**	**1,870**	**1,742**

Current	Group 2019 £'000	Company 2019 £'000	Group 2018 £'000	Company 2018 £'000
Obligations under finance leases	204	-	147	-
Bank loan	224	224	216	216
Total	**428**	**224**	**363**	**216**

The Company re-financed its bank loan facilities with Santander in February 2019. The existing drawn down term loan of £1.75m was re-financed as a new Senior Term Loan facility of £1.75 million with a five-year term to February 2024 and with quarterly bank loan repayments of £62,500 for eight Quarters followed by £104,166 for the following twelve Quarters. The bank loan is fully secured by a debenture over SysGroup PLC and its subsidiaries and interest is charged at LIBOR + 3.0% per annum. At 31 March 2019, the Senior Term loan was drawn down by £1.75m.

As part of the same re-financing process, the Company signed a new Acquisition Revolving Credit Facility with Santander of £3.25 million on a five-year term to February 2024. The Company has not drawn down any funds under this RCF facility at 31 March 2019. On utilisation of the RCF, quarterly loan repayments will become payable at 3.75% of the aggregate principal balance following the expiry of a two-year availability period. The RCF is fully secured by a debenture over SysGroup PLC and its subsidiaries and interest is charged at LIBOR + 3.5% per annum

The Senior Term Loan and RCF loan facilities have financial covenants that are tested quarterly on a twelve-month rolling basis relating to interest cover, net debt to Adjusted EBITDA leverage and debt service cover.

Notes to the Consolidated Financial Statements Continued

19. Leases

Group obligations under finances leases

Future lease payments are due as follows:	Minimum lease payments 2019 £'000	Interest 2019 £'000	Present value 2019 £'000
Not later than one year	217	(13)	204
Later than one year and not later than 5 years	85	(4)	81
Later than 5 years	–	–	–
Total	**302**	**(17)**	**285**

Future lease payments are due as follows:	Minimum lease payments 2018 £'000	Interest 2018 £'000	Present value 2018 £'000
Not later than one year	158	(11)	147
Later than one year and not later than 5 years	134	(6)	128
Later than 5 years	–	–	–
Total	**292**	**(17)**	**275**

The Company has no finance leases.

Group Operating Leases

The total future value of minimum lease payments is due as follows:

Current	Leasehold property 2019 £'000	Other 2019 £'000	Leasehold property 2018 £'000	Other 2018 £'000
Within one year	160	–	193	–
Within two to five years	108	–	268	–
After five years	–	–	–	–
Total	**268**	**–**	**461**	**–**

Company Operating Leases

Current	Leasehold property 2019 £'000	Other 2019 £'000	Leasehold property 2018 £'000	Other 2018 £'000
Within one year	23	–	23	–
Within two to five years	–	–	23	–
After five years	–	–	–	–
Total	**23**	**–**	**46**	**–**

Notes to the Consolidated Financial Statements Continued

20. Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Group and other related parties are disclosed below:

Praetura Capital LLP, a Company of which Mike Fletcher (Non-Executive Director) is a partner, invoiced SysGroup plc £26,000 (2018: £nil) for a shared cost of corporate services received by SysGroup plc and Praetura Capital LLP. As at 31 March 2019, the balance outstanding was £nil (31 March 2018: £nil) within trade receivables.

Details of Directors' remuneration are given in the Directors' Remuneration Report. Other related party transactions are as follows:

		Transaction value		Balance Due to Related Party	
Related party relationship	**Type of Transaction**	**2019 £'000**	**2018 £'000**	**2019 £'000**	**2018 £'000**
Companies in which directors or their immediate family have a significant / controlling interest	Provision of management and website design services	–	5	–	–
	Training services	–	4	–	–

All transactions have been made on an arm's length basis.

21. Share Capital

Equity share capital	**Group 2019 Number**	**Group 2019 £'000**
Allotted, called up and fully paid		
At 1 April 2017	23,103,898	231
At 31 March 2018	**23,103,898**	**231**
Issue of share capital – equity placing	26,315,792	263
Issue of share capital – share premium	–	9,080
At 31 March 2019	**49,419,690**	**9,574**

In February 2019, the Company raised £10.0m gross proceeds from an equity share placing to fund the acquisition of Certus IT Limited. The Company issued 26,315,792 1p ordinary shares at 38.0p. The net proceeds of the equity raise, including the professional fees incurred, was £9,343,000.

Notes to the Consolidated Financial Statements Continued

22. Reconciliation of Net Cash Flow Movement in Net Debt

	1 April 2018 £'000	Cash Flow £'000	Acquired in Acquisitions £'000	Profit & Loss £'000	Reclassifi-cation £'000	31 March 2019 £'000
Cash and cash equivalents	**1,315**	**1,112**	**949**	**-**	**-**	**3,376**
Debt due in less than one year:						
Bank loans	(216)	216	-	-	(224)	**(224)**
Finance leases	(147)	147	-	-	(204)	**(204)**
Debt due in more than one year:						
Bank loans	(1,742)	159	-	(38)	224	**(1,397)**
Finance leases	(128)	50	(207)	-	204	**(81)**
Total	**(918)**	**1,684**	**742**	**(38)**	**-**	**1,470**

23. Ultimate Controlling Party

The Directors consider that there is no controlling shareholder and no ultimate controlling party of the Group.

24. Post Balance Sheet Events

On 24 June 2019 the Group announced the acquisition of Hub Network Services Limited ("HNS"), a Company registered in England & Wales, for cash consideration of £1.45m on a cash free debt free basis. The gross assets of the Company at 31 October 2018, the date of the Company's last reported accounts, was £0.8m. HNS is a well-established B2B managed services provider with a primary focus on delivering fast, low latency network connectivity and co-location solutions.

Notice of Annual General Meeting

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held on 20 September 2019 at 10.00am at SysGroup Plc, Walker House, Exchange Flags, Liverpool L2 3YL for the purpose of considering and, if thought fit, passing the resolutions set out below, of which Resolutions 1 to 6 will be proposed as ordinary resolutions and Resolutions 7 and 8 will be proposed as special resolutions.

Ordinary Business

To consider and, if thought fit, pass the following resolutions:

1. **TO** receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 March 2019 together with the Directors' and Auditors' Reports contained therein.

2. **TO** reappoint Martin Audcent as a director in accordance with the Company's articles of association.

3. **TO** reappoint Mark Richard Quartermaine as a director who retires by rotation.

4. **TO** reappoint Adam Binks as a director who retires by rotation.

5. **TO** reappoint BDO LLP as auditors of the Company and authorise the Directors to fix their remuneration.

6. **THAT**, in accordance with section 551 of the Companies Act 2006, the Directors be generally and unconditionally authorised to allot Relevant Securities (as defined below):

   a. comprising equity securities (as defined by section 560 of the Companies Act 2006) up to an aggregate nominal amount of £329,464 (such amount to be reduced by the nominal amount of any Relevant Securities allotted pursuant the authority in resolution 6.b below) in connection with an offer by way of a rights issue:

      i. to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

      ii. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

      but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

   b. in any other case, up to an aggregate nominal amount of £164,732 (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in resolution 6.a above in excess of £164,732),

Notice of Annual General Meeting Continued

provided that this authority shall, unless renewed, varied or revoked by the Company, expire 15 months from the date of this resolution or, if earlier, the date of the next annual general meeting of the Company save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

This resolution revokes and replaces all unexercised authorities previously granted to the Directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

For the purposes of the resolution: **'Relevant Securities'** means:

i. shares in the Company other than shares allotted pursuant to: (i) an employee share scheme (as defined by section 1166 of the Companies Act 2006); (ii) a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or (iii) a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security; and

ii. any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined by section 1166 of the Companies Act 2006). References to the allotment of Relevant Securities in the resolution include the grant of such rights.

Special Business

As special business, to consider and, if thought fit, pass the following resolutions:

7. THAT, subject to the passing of resolution 6, the Directors be given the general power to allot equity securities (as defined by section 560 of the Companies Act 2006) for cash, either pursuant to the authority conferred by resolution 8 or by way of a sale of treasury shares, as if section 561(1) of the Companies Act 2006 did not apply to any such allotment, provided that this power shall be limited to:

a. the allotment of equity securities in connection with an offer by way of a rights issue:

i. to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and

ii. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and

b. the allotment of equity securities or sale of treasury shares (otherwise than pursuant to resolutions 7.a above) to any person up to an aggregate nominal amount of £24,709.

The power granted by this resolution will expire 15 months from the date this resolution is passed or, if earlier, the conclusion of the Company's next annual general meeting (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which

Notice of Annual General Meeting Continued

would or might require equity securities to be allotted (or treasury shares to be sold) after such expiry and the Directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

This resolution revokes and replaces all unexercised powers previously granted to the Directors to allot equity securities as if section 561(1) of the Companies Act 2006 did not apply but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

8. TO authorise the Company generally and unconditionally to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of ordinary shares of £0.01 each (**Ordinary Shares**) provided that:

a. the maximum aggregate number of Ordinary Shares that may be purchased is 4,941,969;

b. the minimum price (excluding expenses) which may be paid for each Ordinary Share is £0.01;

c. the maximum price (excluding expenses) which may be paid for each Ordinary Share is the higher of:

   i. 105 per cent of the average market value of an Ordinary Share in the Company for the five business days prior to the day the purchase is made; and

   ii. the value of an Ordinary Share calculated on the basis of the higher of the price quoted for:

      a) the last independent trade of; and

      b) the highest current independent bid for,

   any number of the Company's Ordinary Shares on the trading venue where the purchase is carried out;

d. the authority conferred by this resolution shall expire 15 months from the date this resolution is passed or, if earlier, at the conclusion of the Company's next annual general meeting save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority.

By order of the board

Martin Audcent
Company Secretary
22 July 2019

Registered Office:
Walker House
Exchange Flags
Liverpool L2 3YL

Notice of Annual General Meeting Continued

Notes

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies who need not be a member of the Company to attend and to vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.

2. In order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power of attorney, must reach the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, not less than 48 hours (excluding weekends and bank holidays) before the time of the meeting or of any adjournment of the meeting.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 the Company specifies that to be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the number of votes they may cast), holders of Ordinary Shares must be entered on the relevant register of securities by 10.00 am on 18 September 2019. Changes to entries on the relevant register of securities after 10.00 am on 18 September 2019 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

4. As at 5.00pm on 19 July 2019, which is the latest practicable date before publication of this notice, the Company's issued share capital comprised 49,419,690 ordinary shares of £0.01 each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5.00pm on 19 July 2019 is 49,419,690. The Company's website will include information on the number of shares and voting rights.

5. In the case of joint holders, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding (the first named being most senior).

6. Copies of the service contracts and letters of appointment of each of the Directors of the Company together with the Register of Directors' Interests will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and public holidays excluded) and at the place of the Annual General Meeting from at least 15 minutes prior to and until the conclusion of the Annual General Meeting.

7. The Directors have no present intention of exercising either the allotment authority under resolution 6 or the disapplication of pre-emption rights authority under resolution 7.

8. The Annual Report and Financial statements can be downloaded from the investor section of the Company's website at the following location www.sysgroupplc.com/financial-reports/