Annual Report & Accounts 2020

SysGroup

SysGroup plc
Walker House
Exchange Flags
Liverpool L2 3YL

Company Number
06172239

www.sysgroupplc.com

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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
57 St James's Street
St James
London SW1A 1LD

Broker

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

Registrar

Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Lawyers

Hill Dickinson LLP
50 Fountain Street
Manchester M2 2AS

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

+53%

2020	£19.49m
2019	£12.77m

Gross profit

+44%

2020	£11.20m
2019	£7.78m

Adjusted EBITDA [1]

+99%

2020	£2.81m
2019	£1.41m

Adjusted PBT [2]

+135%

2020	£1.76m
2019	£0.75m

Operational cashflows

+222%

2020	£1.93m
2019	£0.60m

Net cash [4]

£0.45m

2020	£0.45m
2019	£0.47m

Highlight	2020	2019	Change %
Revenue	**£19.49m**	£12.77m	**+53%**
Recurring revenue as a % of total revenue	**77%**	74%	**+3%**
Gross profit	**£11.20m**	£7.78m	**+44%**
Adjusted EBITDA[1]	**£2.81m**	£1.41m	**+99%**
Adjusted EBITDA[1] Margin %	**14%**	11%	**+3%**
Adjusted PBT[2]	**£1.76m**	£0.75m	**+135%**
Adjusted Basic EPS[3]	**3.4p**	3.1p	**+10%**
Statutory loss before tax	**£(0.23)m**	£(0.83)m	**-**
Basic EPS	**(0.2)p**	(2.8)p	**-**
Operational cashflows	**£1.93m**	£0.60m	**+222%**
Net cash[4]	**£0.45m**	£0.47m	**(4%)**

1. Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation of intangible assets, exceptional items, and share based payments.
2. Adjusted profit before tax ("Adjusted PBT") is profit before tax after adding back amortisation of intangible assets, exceptional items, and share based payments.
3. Adjusted Basic EPS is profit after tax after adding back amortisation of intangible assets, exceptional items, share based payments and associated tax, divided by the number of shares in issue.
4. Net cash represents cash balances less bank loans, lease liabilities and contingent consideration, and excludes IFRS16 lease liabilities.

Highlights Continued

Operational

- Successful COVID-19 response and transition of all employees to home working with continuation of services to customers
- Acquisition of Hub Network Services Limited for £1.45m in cash; integration completed in under three months
- New Executive Operational Board and Senior Leadership Team following the integration of Certus IT Limited
- Introduction of Customer Engagement plan demonstrating >97% satisfaction
- Increased investment in sales and demand generation training
- Planned closure of legacy Coventry office and datacentre complete

Post Period-End Developments

- Business continuity plans successfully implemented and remote working facilitated across the business in response to the COVID-19 pandemic, with minimal impact to operations
- Strategic sales engagement relating to digital transformation with both new and existing customers has increased although the Group is seeing some major asset refreshes and contract renewal decisions being delayed
- Strong balance sheet with a cash balance of £3.0m and a net cash[4] balance of £0.45m at 31 March 2020. The Group has facilities of £5m expiring in 2024, consisting of a £1.75m term loan which has £0.35m of headroom at 31 March 2020 and an undrawn £3.25m acquisition revolving credit facility, providing the Group with additional available liquidity to execute on acquisition opportunities.

Strategic Report

Strategic Report

Chairman's Statement

The year ended 31 March 2020 saw the Company progress against each of its priorities and continue to build high levels of recurring revenue. Top line growth of over 50% and doubling of Adjusted EBITDA validates the success of management's buy and build strategy, further underpinned by the increase in Adjusted EBITDA margin to 14.4% (FY19: 11.1%).

In the first half of the year we acquired Hub Network Services Limited ("HNS") for £1.45m and have been pleased with its contribution since. We will continue to consider further acquisitions which fit our strict criteria and help us to meet our goals and believe that the current environment will present further opportunities.

The end of the financial year was clearly dominated by the impact of the COVID-19 pandemic and, as a business, we have been well served by the strength and stability of the senior management team assembled during recent years, including Martin Audcent who joined as Chief Financial Officer ("CFO") in July 2018, and led by Adam Binks, our Chief Executive Officer ("CEO"). The Group's 'people first' mentality saw us adopt safe working practices ahead of government guidance and our continued priority remains the health and wellbeing of our employees. This has undoubtedly been reflected in their professionalism and commitment to serve our customers at a time when our services are even more critical to their own business needs. On behalf of the Board, I would like to offer them all sincere thanks.

SysGroup's services are designed to provide customers with the greatest levels of flexibility and are tailor made to meet the requirements of each and every individual business. As companies come to terms with the current environment and adapt their working practices for both the short and long term, we are ideally placed to support them along the way.

The material economic impact of COVID-19 is already beginning to become clear with recent government statistics and undoubtedly some of our customers will be affected, either directly or through their end market. However, with a cash generative business underpinned by a robust balance sheet, alongside contracted revenues from a diverse and well balanced customer base, combined with the growing relevance of our services and solutions, the Board's confidence in the future of SysGroup remains undiminished.

Michael Edelson
Chairman
30 June 2020

Strategic Report

Chief Executive Officer's Report

Introduction

I am pleased to report on another successful year for the Group, in which we continued to make significant strides towards becoming the leading provider of Managed IT Services to businesses in the UK. The team effort which has been demonstrated throughout the course of the period is unparalleled and I am delighted that we continue to work towards the same common goal of being the best in class.

The Company delivered revenue growth of 53% to £19.49m and Adjusted EBITDA growth of 99% to £2.81m, with Managed IT Services recurring revenues now representing 77% of the Group's total revenue (FY19: 74%). In line with our well known acquisition strategy, we are continuing to engage and nurture relationships with potential target companies, with business models that either complement or significantly enhance our existing solution offering. The acquisition of HNS in June last year enabled the Group to effectively compete in the managed connectivity market space, supplementing our datacentre and cloud offerings and further enhancing the offering of Certus IT Limited ("Certus"), which the Group acquired in the previous financial year. Both acquisitions have been pivotal to our future success and continue to make a great contribution. Through the enlarged business, we are now able to offer our customer base a large and growing suite of managed IT service solutions, positioning us well against the competition and enabling the way for further growth. Additionally, the growth of the business is allowing the benefits of economies of scale and dilution of central costs to come to the fore.

During the year, we invested a considerable amount of time and resources preparing for the integration of the systems of the newly acquired businesses with our own. As a result, the Group is now well on the way to having the benefit of a consolidated platform across its operations for day to day management, providing fast and accurate access to business intelligence across the entire Group. Additionally, the re-branding of the enlarged Group has begun with great momentum – this will bring both Certus and HNS into the SysGroup brand, which aligns with our single go-to-market offering.

Throughout the course of the year, in recognition of SysGroup's growth, to adequately resource the Group for the next stage in its development the Board has elected to invest in a broader senior leadership team to increase managements' bandwidth. In addition to the PLC Board, the Group has introduced an Executive Operational Board that reports to the PLC Board. The Operational Board consists of the CEO, CFO and three new roles: Chief Sales Officer, Chief Marketing Officer and a Chief Technology Officer. Each post holder was recruited during the last financial year, into the Group by way of a rigorous selection process and brings with them a number of years of industry experience. The benefits of this newly formed team are already being felt across the Group as a whole.

COVID-19

As announced in the April trading update, the Group was quick to implement its business continuity plan in response to the global outbreak of COVID-19. After internally publishing our first COVID-19 policy to the team in February 2020, we continued to monitor the unfolding situation and in mid-March successfully executed a transition to remote working across all of our operations. We have continued providing uninterrupted service and support to our customers throughout this challenging period. I would like to thank our entire team for their cooperation as well as for adapting to a new way of working both quickly and seamlessly.

Chief Executive Officer's Report Continued

Whilst we have started to see delays to both existing and new sales cycles, with some customers unable to commit to major asset refreshes and contract renewals until they have established the full impact of COVID-19 on their own businesses, we have seen minimal impact to our operational performance. We are not only well placed to benefit from our strong levels of recurring revenue and solid cash position, but owing to the very nature of the services that we provide, we have been able to operate remotely and adapt quickly allowing our sales teams to stay engaged and our technical teams continue to provide the same levels of quality service to which our customers are accustomed. Looking ahead, we will continue to build upon our own internal IT strategy as well as our working practices to further promote flexible and secure working habits that are scalable to meet future growth and that will ultimately benefit our customers.

We believe COVID-19 has dramatically accelerated the trend towards flexible and remote working practices and that this new way of working will only intensify over the coming year as more businesses realise the benefits not only to their existing teams but also by opening up to a wider talent pool that is less geographically focused. In preparation, we have ensured we maintain regular dialogue with our customers in order to help them rethink their own IT strategy to support their enablement for seamless remote working and so that we are in a position to offer them the appropriate solutions when they are ready and able to commit. We have invested significantly in additional coaching and training for our sales team as well as our newly formed demand generation team so they can confidently engage with our customers and offer the advice on the best solutions for their business.

Market

The market opportunity for SysGroup is substantial and continues to grow rapidly underpinned by the evermore visible need for digital transformation. Now, more so than ever, businesses are relying on proven technology to ensure the smooth running of their operations and business continuity as a result of COVID-19 whilst adjusting to remote working and social distancing measures in the workplace. Businesses are now seeing the value of outsourced managed IT services and are looking to trusted providers to help them navigate the complexities of the technological landscape. We are well positioned to support our customers through this period of global change which will be further underpinned by our buy-and-build strategy.

Strategy

The Group's strategy remains consistent: to expand its position to be the leading provider of Managed IT Services to businesses 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 managed IT services and cloud hosting marketplace. Our primary purpose is to remain abreast of developments in technology and advise our customers accordingly. This leading role is supplemented by exceptional customer service and support resulting in strong client engagement embedding SysGroup into their organisation. The Group continues to invest in R&D to ensure its clients are making use of the latest and best solutions available to them whilst maintaining its vendor agnostic approach.

The Company's route to execute this strategy is through a combination of organic and acquisitive growth whilst ensuring cross-selling opportunities are created throughout the acquired customer bases, providing a single go-to-market offering under the SysGroup brand.

Chief Executive Officer's Report Continued

Acquisitions

At the start of the financial year the Group acquired HNS, 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 superfast, low latency network connectivity and datacentre solutions. HNS supplements the acquisition of Certus IT, which was acquired in FY19 and provides a complementary service offering, geographical reach and customer base to SysGroup.

Both acquisitions reinforce the Group's growth strategy and the Board will continue to assess strategic acquisition opportunities going forward. Management are open to the potential impact of COVID-19 on its peers and the opportunities this may bring to undertake further consolidation within the sector.

Sales & Marketing

The investments we are making in sales and marketing are integral to the successful running of our operations, and we are pleased with the progress that has been made during the year. We completed the integration of the Certus and HNS sales teams into our wider sales organisation and we have already started to see encouraging results, including strengthened relationships with existing customers coupled with opportunities to cross-sell the Group's enhanced portfolio of services into the enlarged customer base. We will continue to align our sales, marketing and operational functions in order to further integrate all parts of the business over the course of FY21. Alongside this, towards the end of the period we commenced the re-brand of the enlarged business to reflect our operating model of a single brand across the Group.

In the final month of the period, we formed a new "Demand Generation" team as part of our graduate programme which has been created to actively pursue new business opportunity. The programme has been designed to train and develop graduates with a passion for a career in sales and whilst this function is in its infancy, we remain confident that our investment will bear fruit in the future. The demand generation process will be aided by our newly integrated CRM and marketing platforms supported by both our existing marketing team and our digital marketing strategy.

Our customer engagement strategy launched earlier in the financial year was designed to help us better identify customer motivations and preferences to ensure we maintain our excellent customer retention rates, and we are pleased to report our customer satisfaction rate for the year was 97%. Throughout the course of the FY21 period we intend to build upon this and dig deeper with our existing customer base to determine the levels of customer satisfaction from all touch points across the business which we expect will highlight areas for improvement to enable even further future success.

In the first half of the year we commenced a project to consolidate all of our legacy network assets onto a single platform that will interconnect at each of our key datacentre locations, providing further scalability and redundancy to our hyper-scale hosting platforms. We expect completion of this project in calendar year 2021. The project is expected to drive further operational cost synergies and will therefore remain a priority for the Group.

During the period we closed our Coventry office and data centre, migrating customers to other facilities within our existing footprint, which was enhanced following the acquisition of Certus. This has provided us with operational cost savings and we will continue focusing on consolidating our data centre and network footprint in order to provide a resilient, secure and scalable infrastructure to service our customers throughout the UK.

Chief Executive Officer's Report Continued

Summary & Outlook

The performance in FY20 from our team has been outstanding, with the Group integrating its largest acquisition to date as well as doubling its Adjusted EBITDA whilst improving margins. The outset of FY21 has been impacted by the interruption caused by COVID-19 however despite this, our people have continued to support and service our customers under the extremely challenging circumstances. I am pleased to be able to report that, underpinned by our strong levels of recurring revenue, momentum in the first months of FY21 trading has continued.

The world has undergone material change and SysGroup is continuing to innovate. We have adapted to a very new style of working and we are using our own experiences to strategically advise our customers to enable their own future success.

Technology has been the enabler for many businesses to continue to operate during this global crisis and whilst some have already accelerated their digital transformation projects, many are yet to make the necessary long term changes required to allow their businesses to continue operating in the future. Consequently, the market opportunity for the Group remains substantial as investment in the appropriate technology is becoming ever more mission critical for businesses to survive and thrive.

Despite the opportunity that lies ahead, there still remains much near term uncertainty as to the impact on the wider UK economy and we are prepared to face delays to our sales cycles whilst businesses assess the impact of COVID-19 and are once again ready to commit to long term contracts and enhanced IT spend. At this stage therefore it remains too early to provide guidance for the current financial year.

I would like to take this opportunity to give my thanks to our entire team, not only for their sterling performance over the course of FY20 but also for their continued dedication, commitment and effort during the COVID-19 pandemic which has created a situation that has never been experienced like this in modern history.

Adam Binks
Chief Executive Officer
30 June 2020

Strategic Report

Chief Financial Officer's Report

Group Statement of Comprehensive Income

Group revenue for the year grew by 53% to £19.49m (FY19: £12.77m) with acquisition led growth from a full year's trading of Certus and part year trading from HNS which we acquired in June 2019.

Managed IT Services revenue increased by 60% to £15.1m compared to FY19 and comprised 77% of the overall Group revenue (FY19: 74%) which was slightly ahead of our expectations. Value Added Resale revenue of £4.4m was an increase of 32% compared to FY19 but still below planned levels due to the political uncertainty leading to delays in customers making capex expenditure decisions. Our business model and internal forecasts are targeted at maintaining an approximate 75%:25% split of Managed IT Services to Value Added Resale revenue.

Revenue by Operating Segment	2020 £'000	2020 %	2019 £'000	2019 %
Managed IT Services	15,092	77%	9,448	74%
Value Added Resale	4,400	23%	3,325	26%
Total	**19,492**	**100%**	**12,773**	**100%**

Gross profit for the year was £11.2m (FY19: £7.8m) with a gross margin percentage of 57% (FY19: 61%). Managed IT Services gross profit increased to £10.3m (FY19: £7.0m) with a gross margin of 68% (FY19: 74%). Value Added Resale gross profit increased to £0.9m (FY19: £0.8m) with a gross margin of 21% (FY19: 25%). These movements in gross margin percentages were anticipated as the Certus and HNS business models have a higher proportion of direct costs than SysGroup historically and this has had a dilutive impact on the Group's overall gross margin.

Operating expenses were controlled well throughout the year and the Group is beginning to see the benefits of economies of scale with savings made from the closure of the Coventry office and streamlining of the team as part of the wider Group integration. Operating expenses before depreciation, amortisation, exceptional items and share based payments of £8.4m were 43% of revenue in FY20 which compares to £6.4m and 50% of revenue in FY19. The reduction of 7% reflects the scale we are now achieving. The overall increase in operating expenses arises from the addition of the overhead bases from the Certus and HNS acquisitions.

Adjusted EBITDA was £2.81m for the twelve months to 31 March 2020, an increase of £1.4m (+99%) compared to £1.41m in FY19. The Adjusted EBITDA margin was 14.4% in FY20 compared to 11.1% in FY19 which is a progressive improvement as the Group continues on its scale- up strategy.

The reconciliation of operating profit to Adjusted EBITDA is shown below. The Directors consider that Adjusted EBITDA is the most appropriate measure to assess the business performance since this reflects the underlying trading performance of the Group. Adjusted EBITDA is not a defined term and is calculated differently by each Company.

Chief Financial Officer's Report Continued

Reconciliation of operating loss to Adjusted EBITDA	2020 £'000	2019 £'000
Operating loss	(28)	(659)
Depreciation	847	494
Amortisation of intangible assets	1,321	723
EBITDA	**2,140**	**558**
Exceptional items	475	736
Share based payments	199	119
Adjusted EBITDA	**2,814**	**1,413**

The Group incurred exceptional costs during the year of £0.48m (FY19: £0.74m) comprising £0.09m of professional fees for the acquisition of HNS and £0.39m for integration and restructuring costs. The costs for integration and restructuring relate to the closure of the Coventry office and planned exits of employees following the acquisitions or as part of the Leadership Team restructure. Amortisation of intangible assets was £1.32m (FY19: £0.72m), of which £1.27m (FY19: £0.66m) relates to the amortisation of acquired intangible assets from acquisitions.

The share-based payments charge has increased to £0.20m in FY20 (FY19: £0.12m). The increase in the charge results from a grant of share options to the Executive Directors in July 2019.

The adjusted profit before tax for the year was £1.76m (FY19: £0.75m) and the loss before tax for the year was £0.23m (FY19: £0.83m).

IFRS16 - Leases

The Group has adopted IFRS 16 – Leases for the financial year ended 31 March 2020 and has chosen to use the modified retrospective approach to adoption which means there are no restatements to the prior year figures. Within the consolidated income statement, operating lease charges which previously sat in administrative expenses have been replaced by depreciation and interest expenses. The adoption of IFRS16 resulted in a right of use asset of £0.51m, with a corresponding liability of £0.58m, being recognised as at 1 April 2019. Within the consolidated income statement, the operating lease charge has been replaced by depreciation and interest expenses. This has resulted in a decrease in operating expenses and an increase in finance costs. Further information is disclosed in the notes to the consolidated financial statements.

Net cash and cashflow

The Group had a net cash balance, excluding IFRS16 lease liabilities, of £0.45m at 31 March 2020 (FY19: £0.47m).

Net cash excluding IFRS16 Lease liabilities	2020 £'000	2019 £'000
Cash balances	3,036	3,376
Bank loans - current	(251)	(224)
Bank loans - non-current	(1,146)	(1,397)
Lease liabilities excl IFRS16	(186)	(285)
Contingent consideration	(1,000)	(1,000)
Net cash	**453**	**470**

Chief Financial Officer's Report Continued

The Group's net cash inflow from operations increased to £1.93m (FY19: £0.60m). This includes payments for interest and taxation and £0.49m exceptional cash costs (FY19: £0.61m). The underlying operational cash conversion, which excludes the exceptional cashflows for acquisitions, integration and restructuring, was 86% and within our target range. This was a similar result to last year (FY19: 86%).

Net cash/(debt) is considered to be a KPI of the business since the level of financial indebtedness of the Group is relevant for Board strategic decisions and a key financial measure for the Group's shareholder base and potential investors.

Cash conversion	2020 £'000	2019 £'000
Operational cashflows	1,930	601
Adjustments:		
Acquisition, integration and restructuring cashflows	492	611
Cash generated from operations	**2,422**	**1,212**
Adjusted EBITDA	2,814	1,413
Cash conversion	**86%**	**86%**

Consolidated Statement of Financial Position

The Group's net assets of £20.1m at the 31 March 2020 year-end have remained at a similar level to the prior year (FY19: £20.1m).

Non-current assets have increased by £0.47m which is a net movement of capital expenditure and the period charges for depreciation and intangible amortisation. Intangible asset additions included £1.47m for the intangible assets and goodwill relating to the acquisition of HNS and £0.19m for the capitalised Project Fusion development costs. The Group invested £0.35m (FY19: £0.30m) in property, plant and equipment and the adoption of IFRS16 – Leases led to £0.51m of property related assets being recognised as non-current assets for the first time on 1 April 2019.

Working capital was managed well throughout the year and the gross trade debtor balance of £1.6m was lower than the £1.8m balance in the previous year. However, the 31 March 2020 year-end landed at the beginning of the COVID-19 lockdown period and we are mindful that cash collections carry a higher risk as businesses contend with the wider economic impact. For this reason, we have increased our doubtful debt provision to £0.21m at 31 March 2020 (FY19: £0.07m), which is 13% of the gross trade debtor balance at 31 March 2020 (FY19: 4%). In a small number of cases, customers have requested financial support from us and where this has been the case, we have assessed their particular situation and longer-term viability and taken a supportive approach where practically possible. Financial support, where it has been offered, has typically been in the form of extended settlement terms for a temporary period. We believe this is the right thing to do in the face of the disruption to the economy and in support of the wider business community.

The bank loan at 31 March 2020 was £1.40m (FY19: £1.62m), there have been no further drawdowns of the facilities during the year and the bank loan covenants have been met throughout the year. The acquisition of HNS was funded from the Group's existing cash balances.

Current liabilities includes contingent consideration of £1.0m which relates to the acquisition of Certus in February 2019 and is recognised at the full value of the consideration. In February 2020 the earn-out period was completed and Certus successfully achieved the EBITDA upper target. Following the 31 March 2020 year end, SysGroup paid £0.975m contingent consideration to the vendors of Certus in full settlement.

Chief Financial Officer's Report Continued

Project Fusion

During the year, the Group launched Project Fusion, a project to deliver a unified platform of systems across the Group to enable more efficient working practices and higher quality operating and reporting information. The Project has multiple workstreams for systems covering Customer Relationship Management ("CRM"), Service Desk, Financial Accounts, Marketing and Risk Management.

Substantial progress has been achieved under the co-ordination of both the Executive and Senior Leadership Team. The project is a substantial one and a huge step forward for the Group not only providing for enhanced business intelligence but also making the integration of future acquisitions simpler and easier. Project Fusion is expected to continue through the course of FY21.

During FY20, £0.19m of development costs were capitalised as an intangible asset comprising employee and contractor costs.

Grants under the Long Term Incentive Plan

In July 2019, the Group announced the grant of 250,000 and 150,000 performance shares with an exercise price of £0.01 (the "Awards") under the 2018 Long Term Incentive Plan ("LTIP") to Adam Binks, CEO, and Martin Audcent, CFO, respectively.

The LTIP was established in June 2018 to incentivise management to deliver long-term value creation for shareholders and ensure alignment with shareholder interests. The Awards are subject to the same performance conditions as those set out in the announcement of 29 June 2018 and 50 per cent. of the Awards will vest following the announcement of the Group's financial results for the financial year ending 31 March 2022, with the residual 50 per cent. vesting following the announcement of the Group's financial results for the year ending 31 March 2023.

The Award represents 0.81% of the current issued share capital of the Company. The Award is also subject to continued employment, malus and clawback provisions and will vest in full on a takeover of the Company.

Summary

The Group has made good strategic progress and delivered on its financial initiatives over the course of the period. The Group benefits from a diverse customer base underpinned by contracted revenue. In addition, the Group has a strong balance sheet with a net cash position meaning the Group is well placed to endure the economic uncertainty generated by COVID-19.

Chief Financial 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 Chief Financial Officers's Report.

	2020	2019	Change %
Revenue growth	**£19.49m**	£12.77m	**+53%**
Recurring revenue as a % of total revenue	**77%**	74%	**+3%**
Gross Profit	**£11.20m**	£7.78m	**+44%**
Gross Profit %	**57%**	61%	**-4%**
Adjusted EBITDA	**£2.81m**	£1.41m	**+99%**
Adjusted PBT	**£1.76m**	£0.75m	**+135%**
Statutory loss before tax	**£(0.23)m**	£(0.83)m	**-**
Net cash	**£0.45m**	£0.47m	**-4%**

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. The Group employs a Head of Legal, Risk & Compliance who operates as a member of the Senior Leadership Team and reports to the Executive Directors. The Head of Legal, Risk & Compliance has the responsibility for managing the Group's Risk Management framework, GDPR policy, Data Protection and other regulatory and compliance processes.

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.

Principal risk	Potential impact	How we mitigate the risk
Impact on trading from the effect a global pandemic has on the business environment and wider economy Likelihood: High	A summary of the Group's response to the COVID-19 pandemic is included in the Chief Executive and Chief Financial Officer's Reports. We recognise that the UK Government's response to the COVID-19 pandemic and related economic policy is an unfolding situation and the Group is presently operating at a higher level of trading risk. The Group is likely to experience delays in customer sales cycles and a period where professional services delivery is below planned levels due to restrictions on attending customer sites. The Directors are also aware that the downturn in the UK and global economy will have an impact on our customers' businesses which increases the risk of customer contract cancellations and corporate defaults.	A summary of the mitigating actions the Group has taken is included in the Chief Executive and Chief Financial Officer's Reports.

Chief Financial Officer's Report Continued

Principal risk	Potential impact	How we mitigate the risk
Political uncertainty related to the Brexit negotiations negatively impacts the wider economy Likelihood: Medium	The UK formally left the EU on 31 January 2020 and entered a transition period which is scheduled to end on 31 December 2020. 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 and the UK economy.	The Directors will continue to monitor the progress of Brexit negotiations and remain up to date with the latest UK Government guidance to ensure that any specific risks are identified.
Dependency on key suppliers Likelihood: Low	The Group procures services from key suppliers that are critical to 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.
Over-reliance on high value customer contracts or high value industry sectors Likelihood: Low	Business risk increases if the Group is over-reliant on one or several high value customer contracts, or over-reliant on one or several industry sectors. The loss of key contracts or a downturn in a particular industry sector 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 FY20 and FY19 and is expected to remain under 5% in the forthcoming year. The Group's customer base is diversified across multiple industry sectors which mitigates the impact of a sector specific industry downturn.
Attracting and retaining high quality employees Likelihood: Low	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.	The Group's employees are key to the success of the business. We seek to recruit high calibre individuals who have an appropriate level of skills, knowledge and experience for the role and have personal attributes that fit with our corporate values. The Group invests in training and development for our employees through internal and external training and offers competitive remuneration and benefits packages. At all levels we encourage our people to be bold and find opportunities to innovate and improve.
Failure in the Group's network infrastructure prevents SysGroup and our customers from operating key business systems Likelihood: Low	The datacentres we utilise are linked together by diverse fibre cables. Should the whole network fail there would be an adverse impact on SysGroup's systems and 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 with failover resilience.

Chief Financial Officer's Report Continued

Principal risk	Potential impact	How we mitigate the risk
Attracting and retaining high quality employees Likelihood: Low	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 and the Executive and Senior Leadership Team has the responsibility to successfully integrate acquisitions into the Group to maximise operational opportunities and financial benefits.	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. The Executive team plan the integration of acquisitions during the acquisition process and the approach typically depends on the size of the business and systems complexity in each case. Where possible, smaller bolt-on acquisitions are expected to be integrated within six months.

Financial position and COVID-19

The Board consider the Group to be in a resilient financial position with a cash balance of £3.04m and £0.45m net cash position at 31 March 2020. Furthermore, the Group's business model is geared to delivering circa 75% of revenue from contracted managed IT services which is a continuous service supply to customers and largely uninterrupted by the impact of COVID-19. These services are critical to our customers to support their own business activities.

The Group's working capital management has remained consistent throughout the year and during the COVID-19 affected period. We have agreed to provide financial support to a small number of customers with temporary periods of extended settlement terms and in some cases the deferral of fees into future periods but in the main we continue to invoice and collect cash following our usual practices. We continue to pay our suppliers in accordance with our usual payment routines. Since our operations and service delivery have continued throughout the COVID-19 period we have not taken advantage of the furlough scheme or requested any loan assistance from the UK government.

Notwithstanding this, the Group has taken a number of financial measures to sensibly manage our finances with caution as we enter the FY21 financial year. We have implemented a hold on recruitment across the Group, deferred the annual salary review which had been due on 1 April 2020, and we have taken advantage of the allowance from HMRC to withhold paying the Q4 VAT payment which was due to be paid in May 2020. This is a deferral only and the VAT will be paid to HMRC before 31 March 2021.

The Group has a term loan with Santander and there was a liability of £1.4m outstanding at 31 March 2020. The loan facility is subject to covenants that are tested each quarter on a 12-month rolling basis for interest cover, net debt to Adjusted EBITDA leverage and debt service cover. The Group met all the covenants with a good level of headroom throughout FY20.

The Board recognises that the Group is trading in an economy that has suffered a significant downturn and with considerable uncertainty in the timing and rate of recovery. The Directors have reviewed financial forecasts and a Reverse Stress Test model in order to assess the Group's business viability and to form a judgement on going concern. Having reviewed the forecasts the Board were satisfied that the Group remains a going concern.

Chief Financial Officer's Report Continued

Strategic Report

s172 Statement

This section describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in exercising their duty to promote the success of the Group for the benefit of its members as a whole.

The Directors consider that the following are the Group's key stakeholders: employees, customers, suppliers, shareholders, the community and regulators, and the Board seeks to understand the respective interests of the stakeholders so they are properly considered in the Board's decisions. We do this by members of the Board having direct engagement with the stakeholder groups and by receiving reports and updates from the Senior Leadership Team who have certain delegated responsibility for stakeholder engagement.

SysGroup purpose, culture and values

The Group's clear strategy and purpose is to become the leading provider of Managed IT Services to clients in the UK. The Group delivers solutions that enable clients to understand and benefit from industry leading technologies and advanced hosting capabilities. SysGroup focuses on a customer's strategic and operational requirements which enables clients to free up resources, grow their core business and avoid the distractions and complexity of delivering IT services.

To ensure we meet our strategic goals it's vital that our organisation is structured, managed and operates in accordance with our core corporate values.

Love what you do

Our people are passionate about what they do, committed to their team, their colleagues, and the success of our business. Loving your job is a part of everybody's role at SysGroup and we aim to inspire our colleagues and customers by our energy, tenacity and adaptability.

Work smart

Being part of a fast-paced, dynamic and growing organisation means it is critical that our people work hard to help us achieve our goals and vision. We encourage people to be innovative, contribute ideas and to work in a way that is efficient and helps them to get the job done. Our people get a real buzz from the pace at which our business operates and work with a strong sense of urgency and purpose which places them outside of their comfort zone.

Own it

Our people stand up and take ownership of tasks and take accountability for their actions. They volunteer to step up when help is needed from their colleagues. Our people are expected to use their own judgement and consistently challenge their own assumptions.

Delight your customers

At SysGroup, we don't want happy, we want delighted! At the heart of everything we do is the desire to set ourselves apart from our competitors by delighting our customers. We want to build our business through our excellent reputation. We take the same approach with our internal customers, taking the time and making the effort to delight our colleagues and stakeholders to promote a positive working environment.

Be bold and deliver

Our people are sharp, agile and insightful. We actively promote an environment where suggestions and ideas are welcome, where people can speak up about an idea, discuss it, then formulate a way to deliver it.

Chief Financial Officer's Report Continued

Having regard to the consequences of strategic and long-term decisions

The Directors hold regular Board meetings which are usually held each month on scheduled calendar dates. The Executive Directors prepare Board papers that cover a full review of the Group's financial performance, operational issues and plans, and opportunities and threats in the external market. In addition, the Board considers the following matters of strategic importance: delegation of authority, annual operating plan and forecast approval, acquisitions, senior management recruitment, capital structure and financing decisions, corporate governance, and the approval of the interim and annual report and accounts. The Board is also responsible for reviewing the effectiveness of the internal controls and risk management framework.

Board meetings are chaired by the Chairperson, Michael Edelson, and all matters on the agenda are covered with the opportunity for additional matters to be raised. The complementary skills and experience of the Directors ensure that strategic decisions are made with consideration to all the key stakeholder groups.

Having regard to maintaining high standards of business conduct

Corporate governance

The Board recognises the importance of operating a robust corporate governance framework, and you can read about how we comply with the Quoted Companies Alliance Corporate Governance Code ("the QCA Code") and our approach to governance in our Corporate Governance Report on pages 36 to 41.

Political donations

No donations were made for political purposes (FY19: £nil)

Having regard to the interests of the employees

The Group's employees are key stakeholders in the success of the business. We look to recruit high calibre individuals and the Group invests in their ongoing development needs through internal and external training. All employees are encouraged to speak openly with line managers and colleagues, and Senior Leadership Team meetings are held once a week to ensure the teams are working with co-ordination and focus in the right areas. We have undertaken employee engagement surveys during the year to gauge how our people feel about working at SysGroup and how they are coping with working from home. The results from these surveys have been very positive and have led to the Senior Leadership team finding new ways to engage with their teams and support their well-being at a time where households are under considerable strain.

The most significant matter on which the Board have recently considered our employees as prime stakeholders has been in dealing with the COVID-19 situation. The health and safety of our employees was our prime concern from the outset and we took an early decision to move all of our employees to work from home ahead of the government guidance. This was accomplished speedily and with minimal disruption and our offices were placed on lockdown. We have changed the way we communicate and "socialise" with our teams and the employee survey results spoke positively about how our people have been able to manage their workloads and private time. The Board considered whether the company should furlough any employees and judged that the right decision, all factors considering, was to place a hold on further recruitment and defer the pay review which would protect employment for the current workforce and avoid the need for government assistance.

Chief Financial Officer's Report Continued

Having regard to the fostering of relationships with customers and suppliers

Suppliers

The Board is briefed on major contract negotiations and strategy with regards to key suppliers, notably with the Group's providers of datacentre services, telecommunications and connectivity. The Board seeks to balance the benefits of maintaining strong partnering relationships with key suppliers alongside the need to obtain value for money for our shareholders and ensuring continued high quality and service levels for our customers.

Customers

We aim to delight our customers and this sentiment is at the heart of everything we do. Our Head of Customer Experience is a key member of the Senior Leadership Team and her primary responsibility is to liaise with our customers to understand how we can help them solve their IT problems and how we can improve our services. We measure our customer feedback by asking clients to provide us with an automated response for their level of satisfaction for every service ticket we complete and our level of satisfied or very satisfied is consistently higher than 95% which is industry benchmark.

The Board Meetings include reviews of Sales, Marketing, Technical Operations and Customer Experience, all of which highlight areas which directly affect our customers. Adam Binks, Chief Executive Officer, regularly meets with our larger customers which strengthens relationships and allows opportunities and issues to be discussed and followed up.

Strategic decisions that the Board discuss that may particularly affect our customers are on the portfolio of services and products we offer, the supplier partners we engage with and changes to our operational structure.

For both our suppliers and customers the Board recently had to consider our relationships in response to the COVID-19 situation. The steps we took to address the COVID risk and our decision to transition all of our employees to home working was communicated clearly and early to all of our customers and suppliers with a commitment that our services would continue to run seamlessly. For our customers, we have provided financial support to a small number of customers and in some cases the deferral of fees into future periods. For our suppliers we have maintained our operational relationships as "business as usual" and continued to make payments according to our usual payment calendar. We believe we've taken the right approach on corporate responsibility in this unprecedented situation by not taking advantage of the UK Government's financial assistance or seeking cost reductions from our suppliers when other industry sectors have suffered significantly more.

Regulators

As an AIM listed Group, we recognise the importance of maintaining high quality regulatory compliance and internal governance which is described in further detail in the Corporate Government Report. We comply with regulations for AIM, the Companies Act, Employment, GDPR, Health & Safety, Anti-Bribery and Corruption, and all other relevant regulations.

Bank provider

We see Santander, our bank operator and lender, as a key partner to the continued success of SysGroup. We have a Term Loan and an undrawn Revolving Credit Facility with Santander which provides funding for the future growth of the organisation. The Directors maintain regular contact with our Relationship contacts at the bank by arranging meetings where updates on the business are provided and by supplying monthly reports on financial performance. The Board keep the capital and funding structure of the Group under consideration as the Group continues its scale up strategy.

Chief Financial Officer's Report Continued

Having regard to the business impact on the community & environment

SysGroup endeavours to operate as a "good citizen" to its local communities and environment. We encourage and support our employees to participate in charitable events and members of our teams have voluntarily contributed their own time to support local educational groups with careers advice and developments in information technology. SysGroup is a low waste business and all our offices recycle to the fullest extent they can.

Having regard to the need to act fairly between members

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 recognise that understanding what analysts and investors think about the Company helps the Board to formulate future strategy. The Executive Directors meet our major shareholders individually 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. The Non-Executive Directors can also be contacted by shareholders if they wish to raise any matters.

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, organisation structure changes and prospects.

Acquisition of Hub Network Services Limited

A key decision taken by the Board of Directors this finanicial year has been the acquisition of Hub Network Services Limited ("HNS") in June 2019. The key stakeholders relevant to this decision were the company's shareholders who support the Group's buy and build strategy and seek long-term value growth, and our employees whom are key to ensuring that the teams working for acquired companies are welcomed into the Group and the business integration process is managed well.

The Board identified the strategic benefits of acquiring HNS for sales growth and complementary services and undertook robust financial, legal and technical due diligence processes which gave sufficient assurances to decide that the acquisition would be in the interests of the shareholders, employees and Group as a whole.

Martin Audcent
Chief Financial Officer
30 June 2020

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 in 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 in April 2019 after being formally appointed to the board in 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 18-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 2020.

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 for the twelve months to 31 March 2020, a summary of the financial position at the year-end and an indication of the outlook for the future is contained in the Strategic Report on pages 9 to 24.

Results & Dividends

The Consolidated Statement of Comprehensive Income for the year is set out on page 51 The Directors do not propose the payment of a dividend for the year ended 31 March 2020 (FY19: nil).

Financial Instruments

The Group uses various financial instruments. These include bank loans, lease contracts, 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.

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 an overdraft facility.

Interest Rate Risk

The Group finances its operations through a mixture of bank loans, property and equipment 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 and the total of the cash balances and trade and other receivables represents the maximum exposure to credit risk. In order to manage credit risk, the Group employs a dedicated credit control team who have access to credit agency rating services. This allows the team to assess new customers for creditworthiness and continually monitor and address credit risks in our customer base.

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
Mark Quartermaine	Non-Executive Director
Mike Fletcher	Non-Executive Director

The interests of the current Directors in shares and options are detailed in the Directors' Remuneration Report on pages 32 to 34.

Significant Shareholdings

As of 25th June 2020, the Company has been notified of the following significant shareholdings:

Name	Number of Shares	Percentage Holding
Gresham House Asset Management Limited	13,739,563	27.81%
Canaccord Genuity Group Inc	6,998,803	14.16%
Downing LLP	3,880,841	7.85%
Darren Carter	3,552,632	7.19%
Herald Investment Management Ltd	3,444,581	6.97%
William Currie	2,757,895	5.58%
Helium Rising Stars Fund	2,285,000	4.62%
Praetura Group Limited*	1,710,256	3.46%
Premier Miton Investors	1,582,656	3.20%

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

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.

Directors' Report Continued

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.

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
30 June 2020

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 and no pay review increase was awarded in the current or prior year. The salary/fees shown below includes car allowances.

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 2020 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:

	2020					2019				
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	40	–	–	–	40
Mark Quartermaine	40	–	–	–	40	40	–	–	–	40
Adam Binks	165	75	8	2	250	165	75	8	1	249
Martin Audcent	130	30	6	1	167	93	30	4	1	128
Julian Llewellyn	–	–	–	–	–	37	–	2	1	40
Robert Khalastchy	–	–	–	–	–	5	–	–	–	5
Total Remuneration	**415**	**105**	**14**	**3**	**537**	**420**	**105**	**14**	**3**	**542**

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 Executive Directors have a Long-Term Incentive Plan ("LTIP") which has been designed to incentivise management to deliver long-term value creation for shareholders and ensure alignment with shareholder interests. Awards of share options are granted by the Remuneration Committee following a review of management performance in the financial year.

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 with full vesting at 25% compound annual growth with straight line vesting for performance between 10% and 25%.

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 three-year period is at least 10% CAGR (the "EPS threshold").

During the year, the Remuneration Committee granted Adam Binks, Chief Executive Officer, 250,000 performance shares with an exercise price of £0.01 and granted Martin Audcent, Chief Financial Officer, 150,000 performance shares with an exercise price of £0.01 (the "Awards"). The shares have an expiry date of 14 July 2029.

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
Mike Fletcher*	1,787,179	3.62%
Michael Edelson*	858,179	1.74%
Adam Binks	220,134	0.45%
Martin Audcent*	117,499	0.24%
Mark Quartermaine	76,923	0.16%

* 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
	250,000	15/07/2019	14/07/2029
Martin Audcent	450,000	16/07/2018	15/07/2028
	150,000	15/07/2019	14/07/2029

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.

All AIM companies have to operate a corporate governance code in compliance with AIM Rule 26 and the SysGroup Board have adopted the principles of the 2019 Quoted Companies Alliance Corporate Governance Code ("the QCA Code") to support the Company's governance framework. 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 Directors and three Non-Executive Directors, and reflects a complementary blend of different experience and backgrounds.

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. Decisions are made promptly following full Board consultation when necessary and appropriate. The Executive Directors provide the Non-Executive Directors with full operational and financial information regularly 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.

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

	Plc Board	Audit Committee	Remuneration Committee
Meetings held	**12**	**4**	**2**
Michael Edelson	12	4	2
Mike Fletcher	10	4	2
Mark Quartermaine	11	3	2
Adam Binks	12	4	-
Martin Audcent	12	4	-

Corporate Governance Report Continued

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.

QCA Code Principles

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. Further detail on the Group's strategy can be found in the strategic report on page 11.

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 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 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. The Non-Executive Directors can also be contacted by shareholders if they wish to raise any matters.

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, organisation structure 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 wider group of stakeholders who assist in creating value in the Group. We have strong relationships with customers and suppliers, and the service and delivery capability of our employees is of central importance. It is our teams that provide the high quality service to customers and we ensure that we continue to invest in them through appropriate training and development.

Corporate Governance Report Continued

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 by assisting them with suggested 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 quality of their products or services and on competitive pricing. Long term relationships are particularly helpful in situations where we can work with the supplier to identify value creation opportunities. New suppliers are subject to 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 look 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, and Senior Leadership Team meetings are held once a week to ensure the team are working with co-ordination and focus on the right priorities. We believe that having a contemporary workplace environment is a key element to attract, retain and motivate our employees and we ensure our workplaces are vibrant and energising places to work.

As an AIM listed Group, we recognise the importance of maintaining 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, the 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 Leadership Team are responsible for monitoring and addressing the key risks of the business and any significant issues are escalated rapidly to the Executive Board.

As the Group continues to grow the risks of the business and risk management framework will remain subject to regular review.

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.

Corporate Governance Report Continued

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.

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

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. The Company does not currently have a formal appraisal process for Directors, but we shall keep this under review.

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. SysGroup has a well-established set of corporate values that are communicated and understood throughout the organisation, these are:

- Love what you do
- Work smart
- Own it
- Delight your customers
- Be bold and deliver

Corporate Governance Report Continued

The Board and Senior Leadership Team have key roles in promoting, demonstrating and embedding these values across the Group. All new employees are provided with an Employee Handbook on joining the organisation which explains all the key internal policies including the Security Policy, Health & Safety Policy, Anti-Corruption and Bribery Policy, Whistleblowing Policy, and Data Protection Policy. These policies are also available to view on our Group's online corporate platform "SysHub" which also offers employee benefits and Company latest news. We use personality insight tools in our recruitment processes and we seek to recruit candidates who fit well with our corporate values as well as for having the appropriate skills, knowledge and experience for the roles. 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.

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

The Directors recognise the importance of having a robust system of governance to ensure there are appropriate levels of internal control for 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 every 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 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, senior management recruitment and remuneration, capital structure changes, corporate governance, and the approval of the interim and annual report and accounts. The Board is also responsible for reviewing the effectiveness of the internal controls and risk management framework.

Audit Committee

The membership of the Company's Audit Committee comprises Michael Edelson, Mark Quartermaine and Mike Fletcher. Mike Fletcher is the Chairman of this Committee. The Audit Committee meets at least three times 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. It reviews the external auditors' performance and independence and makes recommendations to the Board on the appointment of the auditors.

During the year to 31 March 2020, there were four Audit Committee meetings and the principal items are detailed below.

- BDO auditor independence, audit fee and engagement letters
- Adoption of the new standard, IFRS16 Leases
- Review of the Group's classification of Cash Generating Units
- Review of Going Concern & Viability
- Review of the BDO Planning, Interim and Full Year Audit Review reports
- Review and approval of the Interim Results Announcement, Preliminary Announcement and Annual Report & Accounts
- Review and approval of the Management Letters of Representation

Corporate Governance Report Continued

The Group have not included a separate Audit Committee report in its financial statements, the contents of such a report including the principal risk and uncertainties, the role and structure of the audit committee and the corporate governance disclosure are separately included throughout the report and have been reviewed by the Audit Committee.

Remuneration Committee

The membership of the Company's Remuneration Committee 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.

During the year to 31 March 2020, two Remuneration Committee meetings were held and the principal items were to approve the grant of 400,000 EMI and Unapproved share options to the Executive Directors and to approve an allocation of up to 350,000 share options to be granted to other employees at the discretion of the Executive Directors.

8. 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 aim to provide all relevant information that allows shareholders to gain a clear understanding of how we manage the business and we shall continue to identify areas of disclosure that can be enhanced.

We arrange regular meetings for our principal shareholders to meet with the Executive Directors so they can receive an update on the business and have the opportunity to ask questions. Broker research notes on the Group are also available for investors to review. Across the financial year, the regular communications to shareholders are:

- Preliminary 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 the 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 seeks 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 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
30 June 2020

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 2020 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 2020 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
The group has a number of different revenue streams, each of which has a different revenue recognition policy dependent on the specific terms of the transfer of goods or the service provided. Full details of these policies can be found in note 1 to the financial statements. There are a number of judgements involved in the application of IFRS15, the revenue recognition 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. Because of this we determined revenue recognition to be a key audit matter.	We reviewed the Group's revenue recognition policies for all revenue streams to ensure that these were in accordance with accounting standards. We evaluated Management's assessment of the performance obligations in relation to the IFRS 15 criteria and whether revenue should be recognised at a point in time or over time and challenged the key judgements made by Management. We agreed the revenue recognition criteria for a sample of new contracts and checked that assumptions and judgements made were in accordance with the underlying contracts During the year, the group acquired a new subsidiary, Hub Network Services Limited. We checked that the revenue recognition policies for this company was consistent with both IFRS15 and other group companies. Key observation: We are satisfied that the group's revenue recognition is materially correct.

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 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:	£120,000 (2019: £100,000)
Basis for Materiality:	0.6% of revenue (2019: 0.75% of revenue)

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

Parent Company Materiality:	£60,000 (2019: £60,000)
Basis for Materiality:	Capped at 50% of group materiality (2019 – Capped at 60% of group materiality).

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

Rationale for the benchmark applied:
The Parent Company does not recognise any external revenue and so a revenue basis was not considered appropriate and materiality was capped at a percentage of Group materiality.

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 £90,000 (2019: £75,000) and for the parent Company £45,000 (2019: £45,000) 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.

Component materiality was set at levels between £30,000 and £100,000 (2019: £30,000 to £60,000).

We agreed with the Audit Committee that we would report all individual audit differences identified during the course of the audit in excess of £5,000 (2019: £5,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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 operates through a number of legal entities, which form reporting components. Significant components were defined as those reporting components contributing more than 15% towards Group assets, turnover or profits. The Group manages its operations from the UK and the financial information relating to the parent Company and all other components of the Group including 5 significant components and 1 non-significant component were subject to full scope audit by the Group audit team.

As a consequence of the audit scope determined, we achieved coverage of 100% (2019: 100%) of revenue, 100% (2019: 100%) of profit before tax and 99% (2019: 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.

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

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 by the Parent Company, 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.

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, 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.

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

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.

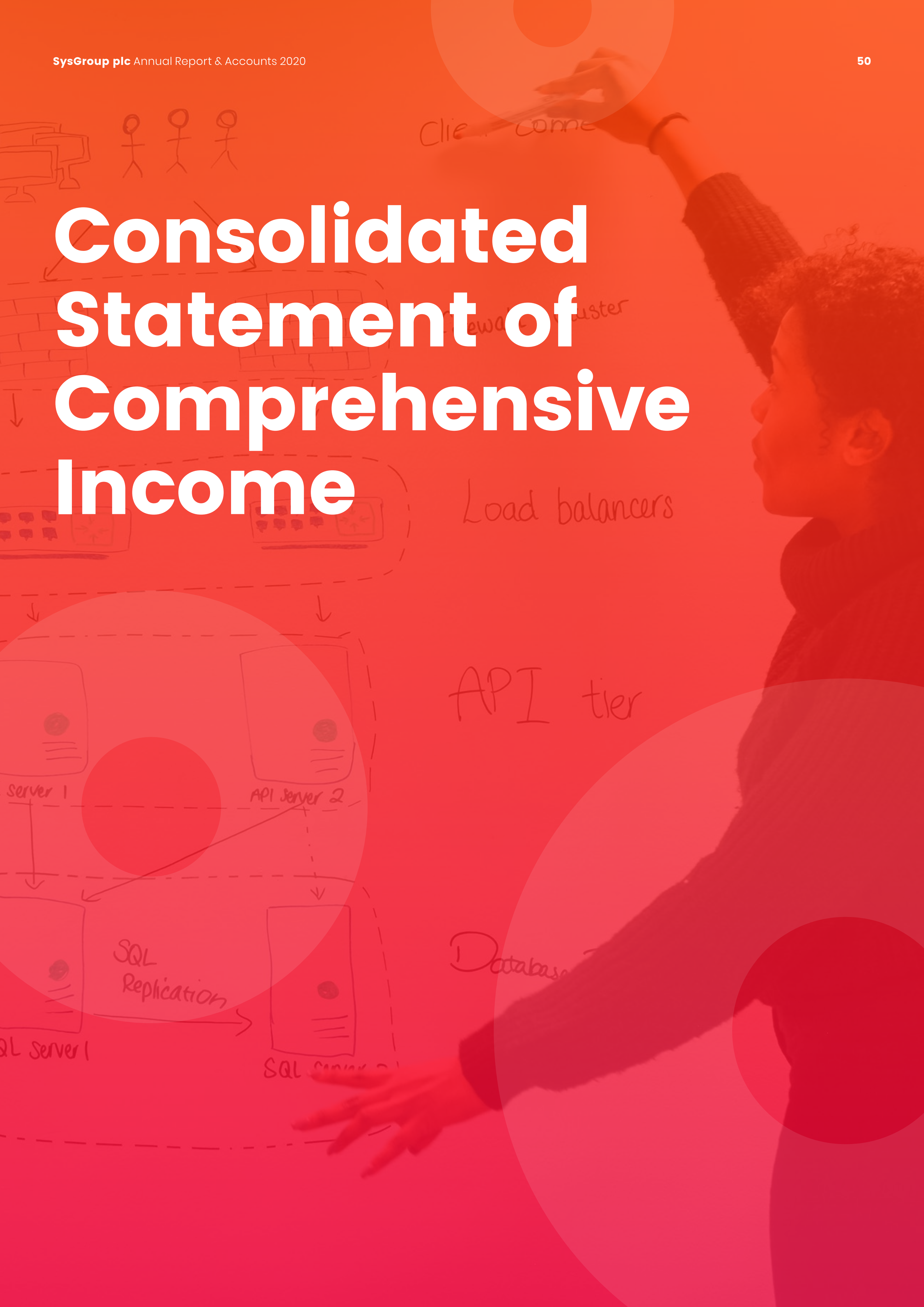
BDO LLP

Gary Harding
Senior Statutory Auditor
30 June 2020

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 2020

	Notes	2020 Group £'000	2019 Group £'000
Revenue	4	**19,492**	**12,773**
Cost of sales		(8,291)	(4,994)
Gross profit		**11,201**	**7,779**
Operating expenses before depreciation, amortisation, exceptional items and share based payments		(8,387)	(6,366)
Adjusted EBITDA		**2,814**	**1,413**
Depreciation	14	(847)	(494)
Amortisation of intangibles	13	(1,321)	(723)
Exceptional items	8	(475)	(736)
Share based payments	9	(199)	(119)
Administrative expenses		(11,229)	(8,438)
Operating loss		**(28)**	**(659)**
Finance costs	6	(206)	(167)
Loss before taxation		**(234)**	**(826)**
Taxation	12	112	104
Total comprehensive loss attributable to the equity holders of the company		**(122)**	**(722)**
Basic loss per share (EPS)	11	(0.2p)	(2.8p)
Diluted loss per share (EPS)	11	(0.2p)	(2.8p)

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position

As at 31 March 2020

	Notes	2020 Group £'000	2019 Group £'000
Assets			
Non-current assets			
Goodwill	13	15,554	15,508
Intangible assets	13	6,188	6,173
Property, plant and equipment	14	1,824	1,420
		23,566	**23,101**
Current assets			
Trade and other receivables	16	2,726	2,856
Cash and cash equivalents		3,036	3,376
		5,762	**6,232**
Total Assets		**29,328**	**29,333**
Equity and Liabilities			
Equity attributable to the equity shareholders of the parent			
Called up share capital	20	494	494
Share premium reserve		9,080	9,080
Other reserve		2,328	2,129
Translation reserve		4	4
Retained earnings		8,163	8,370
		20,069	**20,077**
Non-current liabilities			
Contingent consideration	17	-	1,000
Bank loan	18	1,146	1,397
Lease liabilities	18	441	81
Deferred taxation	12	1,200	1,120
		2,787	**3,598**
Current liabilities			
Trade and other payables	17	3,488	3,992
Contingent consideration	17	1,000	-
Contract liabilities		1,465	1,238
Bank loan	18	251	224
Lease liabilities	18	268	204
		6,472	**5,658**
Total Equity and Liabilities		**29,328**	**29,333**

Consolidated Statement of Financial Position Continued

The financial statements on pages 51 to 94 were approved by the Board and authorised on 30 June 2020.

Martin Audcent
Director

Registered number 06172239

Company Statement of Financial Position

Company Statement of Financial Position

As at 31 March 2020

	Notes	2020 Company £'000	2019 Company £'000
Assets			
Non-current assets			
Investments	15	24,895	23,235
Intangible assets		8	17
Property, plant and equipment	14	194	95
		25,097	**23,347**
Current assets			
Trade and other receivables	16	314	462
Cash and cash equivalents		217	628
		531	**1,090**
Total Assets		**25,628**	**24,437**
Equity and Liabilities			
Equity attributable to the equity shareholders of the parent			
Called up share capital	20	494	494
Share premium reserve		9,080	9,080
Other reserve		2,328	2,129
Retained earnings		6,421	6,592
		18,323	**18,295**
Non-current liabilities			
Contingent consideration	17	-	1,000
Bank loan	18	1,146	1,397
Lease liabilities	18	104	-
		1,250	**2,397**
Current liabilities			
Contingent consideration	17	1,000	-
Amounts due to subsidiary undertakings	17	4,110	2,868
Trade and other payables	17	655	653
Bank loan	18	251	224
Lease liabilities	18	39	-
		6,055	**3,745**
Total Equity and Liabilities		**25,628**	**24,437**

Company Statement of Financial Position Continued

As permitted by section 408 of the Companies Act 2006, the holding Company's statement of comprehensive income has not been included in the financial statements. For the year ended 31 March 2020, the Company made a loss of £159,000 (FY19: loss of £941,000).

Martin Audcent
Director

Registered number 06172239

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity

For the year ended 31 March 2020

	Attributable to equity holders of the parent					
	Share capital £'000	Share premium reserve £'000	Other reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
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**
Balance as at 31 March 2019 (as previously stated)	**494**	**9,080**	**2,129**	**4**	**8,370**	**20,077**
Adjustment on adoption of IFRS16	–	–	–	–	(85)	(85)
As at 1 April 2019 (restated)	**494**	**9,080**	**2,129**	**4**	**8,285**	**19,992**
Comprehensive income						
Loss for the period	–	–	–	–	(122)	(122)
Total Comprehensive income	**–**	**–**	**–**	**–**	**(122)**	**(122)**
Distributions to owners						
Share options granted	–	–	199	–	–	199
Total Distributions to owners	**–**	**–**	**199**	**–**	**–**	**199**
At 31 March 2020	**494**	**9,080**	**2,328**	**4**	**8,163**	**20,069**

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.
Translation Reserve	Amount represents differences in relation to the consolidation of subsidiary companies which are accounted for in currencies other than the Group's functional currency.
Retained Earnings	All other net gains and losses and transactions with owners not recognised elsewhere.

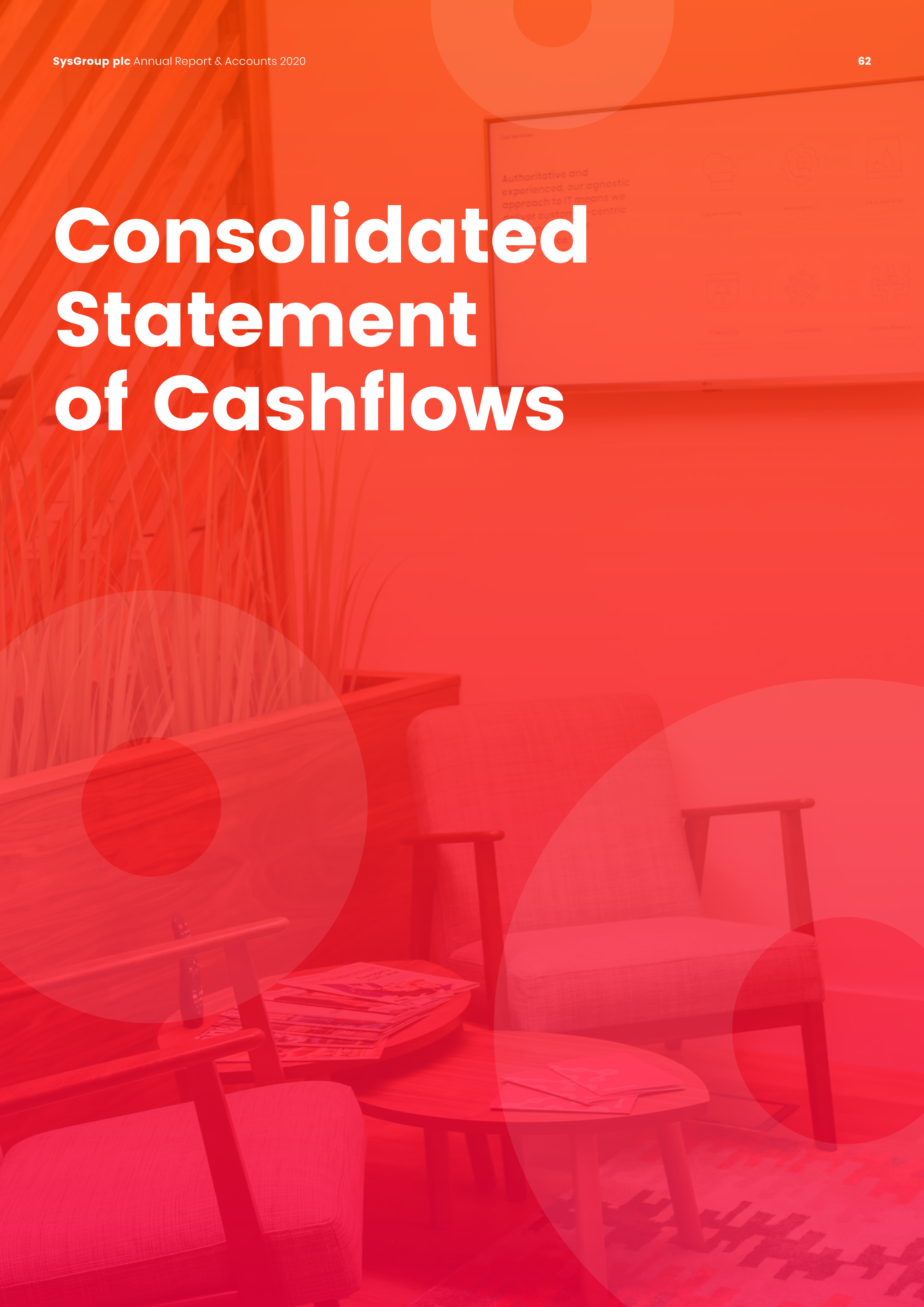
Company Statement of Changes in Equity

Company Statement of Changes in Equity

For the year ended 31 March 2020

	Attributable to equity holders of the Company				
	Share capital £'000	**Share premium reserve £'000**	**Other reserve £'000**	**Retained earnings £'000**	**Total £'000**
At 31 March 2018	**231**	**-**	**2,010**	**7,533**	**9,774**
Comprehensive income					
Profit 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**	**-**	**9,462**
At 31 March 2019	**494**	**9,080**	**2,129**	**6,592**	**18,295**
Balance as at 31 March 2019 (as previously stated)	**494**	**9,080**	**2,129**	**6,592**	**18,295**
Adjustment on adoption of IFRS16	-	-	-	(12)	(12)
As at 1 April 2019 (restated)	**494**	**9,080**	**2,129**	**6,580**	**18,283**
Comprehensive income					
Loss for the period	-	-	-	(159)	(159)
Total Comprehensive income	**-**	**-**	**-**	**(159)**	**(159)**
Distributions to owners					
Share options granted	-	-	199	-	199
Total Distributions to owners	**-**	**-**	**199**	**-**	**199**
At 31 March 2020	**494**	**9,080**	**2,328**	**6,421**	**18,323**

Consolidated Statement of Cashflows



Consolidated Statement of Cashflows

For the year ended 31 March 2020

	Notes	2020 Group £'000	2019 Group £'000
Cashflows used in operating activities			
Loss after tax		(122)	(722)
Adjustments for:			
Depreciation and amortisation	13,14	2,168	1,226
Finance costs	6	206	167
Share based payments		199	119
Taxation	12	(112)	(104)
Operating cashflows before movement in working capital		**2,339**	**686**
(Decrease)/increase in trade and other receivables		501	(188)
(Decrease)/increase in trade and other payables		(533)	275
Operating cashflows before interest and tax		**2,307**	**773**
Interest paid		(205)	(123)
Taxation paid		(172)	(49)
Operational cashflows		**1,930**	**601**
Cashflows from investing activities			
Payments to acquire property, plant & equipment	14	(353)	(296)
Payments to acquire intangible assets	13	(190)	-
Acquisition of subsidiary companies	10	(1,911)	(7,956)
Amounts received in respect of previous acquisitions	10	252	-
Cash acquired with acquisitions	10	609	949
Net cash used in investing activities		**(1,593)**	**(7,303)**
Cashflows from financing activities			
Net proceeds from issue of ordinary share capital		-	9,343
Repayment of loan facility including fees		(224)	(383)
Capital/principal paid on lease liabilities		(453)	(197)
Net cash from financing activities		**(677)**	**8,763**
Net (decrease) / increase in cash and cash equivalents		**(340)**	**2,061**
Cash and cash equivalents at the beginning of the year		3,376	1,315
Cash and cash equivalents at the end of the year		**3,036**	**3,376**

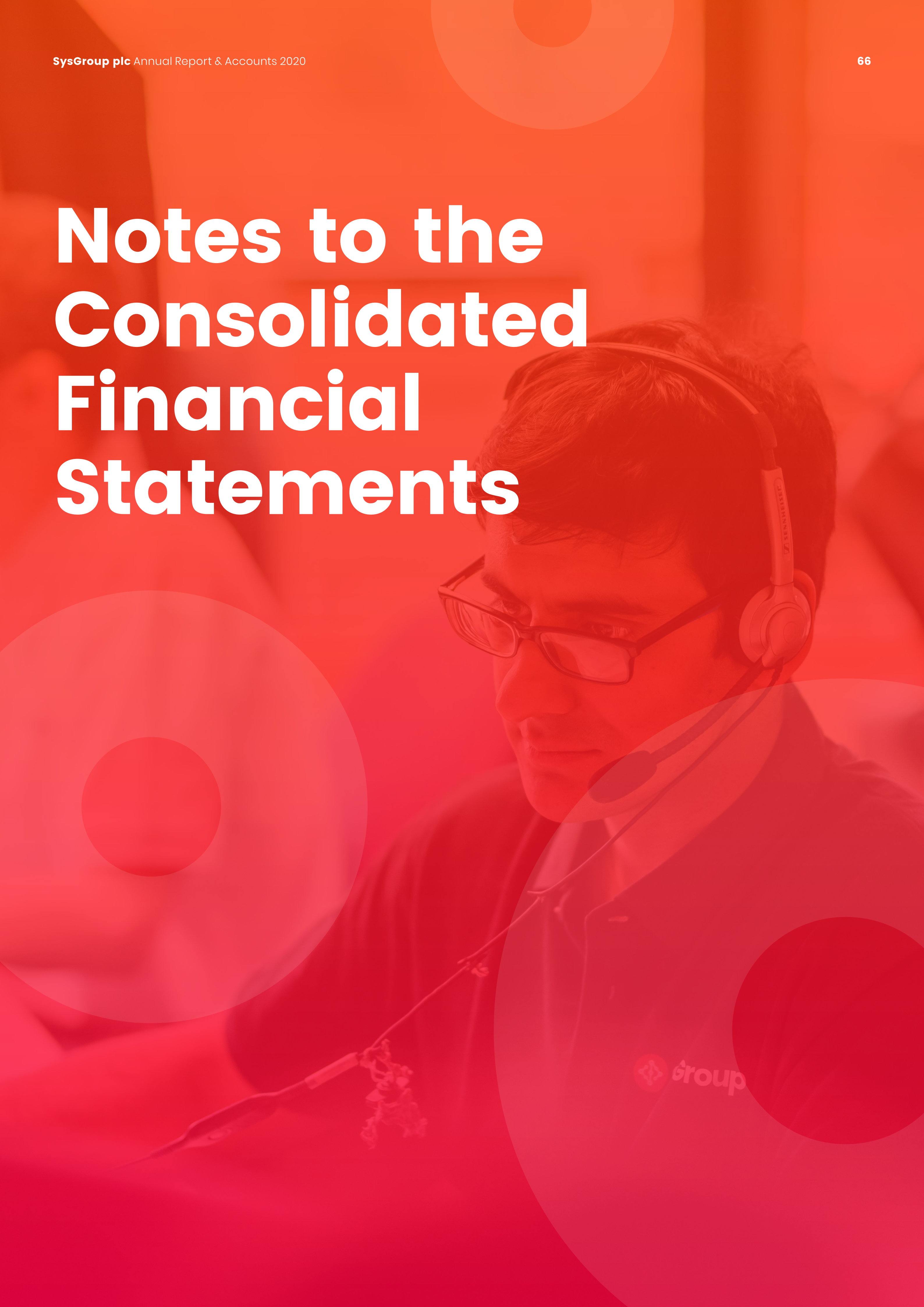
Company Statement of Cashflows

Company Statement of Cashflows

For the year ended 31 March 2020

	Notes	2020 Company £'000	2019 Company £'000
Cashflows used in operating activities			
Loss after tax		(159)	(941)
Adjustments for:			
Depreciation and amortisation		100	67
Finance costs		169	152
Share based payments		199	119
Operating cashflows before movement in working capital		**309**	**(603)**
Decrease/(Increase) in trade and other receivables	16	148	(327)
Increase in trade and other payables	17	1,244	644
Operating cashflows before interest and tax		**1,701**	**(286)**
Interest paid		(169)	(108)
Operational cashflows		**1,532**	**(394)**
Cashflows from investing activities			
Payments to acquire property, plant & equipment	14	(33)	(99)
Acquisition of subsidiary companies	10	(1,911)	(7,956)
Amounts received in respect of previous acquisitions	10	252	-
Net cash used in investing activities		**(1,692)**	**(8,055)**
Cashflows from financing activities			
Net proceeds from issue of ordinary share capital		-	9,343
Repayment of loan facility		(224)	(382)
Capital/principal paid on lease liabilities		(27)	-
Net cash (outflow)/inflow from financing activities		**(251)**	**8,961**
Net (decrease)/increase in cash and cash equivalents		**(411)**	**512**
Cash and cash equivalents at the beginning of the year		628	116
Cash and cash equivalents at the end of the year		**217**	**628**

Notes to the Consolidated Financial Statements



Notes to the Consolidated Financial Statements

For the year ended 31 March 2020

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. This is the first set of Group's financial statements in which IFRS16 has been applied.

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 Board recognises that the Group is trading in an economy that has suffered a significant downturn following the onset of the COVID-19 pandemic and there is considerable uncertainty in the timing and rate of recovery. The Group has an operating model with circa 75% of revenue deriving from contracted managed IT services which is a continuous service supply to customers and largely uninterrupted by the impact of COVID-19. The Group has a resilient financial position with a cash balance of £3.04m and a net cash position of £0.45m at 31 March 2020. Net cash includes a £1.4m Senior Term loan with Santander at 31 March 2020 which is subject to quarterly loan covenant tests which are calculated on a 12-month rolling basis for interest cover, net debt to Adjusted EBITDA leverage and debt service cover.

The Directors have reviewed the financial forecasts and a Reverse Stress Test model. The Reverse Stress Test model has allowed the Board to assess a significant downside scenario set to the point where the bank loan covenants would breach. The projected trading forecasts and resultant cashflows, together with the confirmed loan facilities and other sources of finance, taking account of reasonably possible changes in trading performance, show that the Group can continue to operate within the current facilities available to it.

Notes to the Consolidated Financial Statements Continued

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.

New standards and interpretations

A number of new standards and amendments to standards and interpretations have been issued during the year ended 31 March 2020. 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 2019. Other new amended standards and interpretations issued by the IASB that apply to the financial statements do not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

New standards not yet effective

There are a number of standards and amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early. SysGroup plc is currently assessing the impact of these new standard and amendments. The Group does not expect any other standards issued by the IASB, but not yet effective, to have a material outcome on the Group.

IFRS16 - Leases

IFRS16 has replaced IAS17 Leases and the new standard became effective for the period commencing after 1 January 2019. The Group has adopted IFRS16 using the modified retrospective basis with recognition of a transitional adjustment on the date of initial application being 1 April 2019 and therefore comparatives have not been restated. IFRS 16 introduces a single lessee accounting model, where the Group now recognises a lease liability and a right of use asset for all leases. The group has no significant leasing activities acting as a lessor. On adoption of IFRS16 the group recognised a right of use asset in relation to the lease of motor vehicles, office space and equipment.

	Land & Buildings £'000	Plant & Machinery £'000	Motor Vehicles £'000	Total £'000
At 1 April 2019	-	247	38	**285**
Recognition of right of use assets on initial application of IFRS16	578	-	-	**578**
Additions	204	130	-	**334**
Disposals	(80)	-	-	**(80)**
Interest expense	28	14	3	**45**
Lease payments	(207)	(232)	(14)	**(453)**
At 31 March 2020	**523**	**159**	**27**	**709**

Repayment of lease liabilities are analysed as follows:

	2020 £'000
Due within 1 year	268
Instalments due after 1 year but no more than 5 years	441
Instalments due after 5 years	-

The weighted average incremental borrowing rate applied to lease liabilities on 1 April 2019 was 4%.

Notes to the Consolidated Financial Statements Continued

Reconciliation to operating lease commitment

The aggregate lease liability recognised in the statement of financial position at 1 April 2019 and the Group's operating lease commitment at 31 March 2019 can be reconciled as follows:

	2020 £'000
Operating lease commitment at 31 March 2019	268
Effect of estimating for the purpose of IFRS 16 that lease break clause will not be exercised (i.e. present value of lease payments to be made after the transition date)	349
Discounting	(39)
Aggregate lease liability at 1 April 2019	**578**

IFRS16 provided for certain optional practical expedients, including those in relation to the initial adoption of the standard. The group applied the following practical expedients:

- The group did not reassess any contracts not previously identified as a lease under IAS17 or IFRIC4 prior to the transition date of 1 April 2019.
- A single discount rate was applied to a portfolio of leases with reasonably similar characteristics, which was deemed to be the inherent interest rate at the date of initial application.
- Applied the exemption not to recognise a right-of-use asset and liability for leases with less than 12 months of lease term remaining as at the date of initial application.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Right of use assets have been calculated as if the standard had been applied from the lease commencement date subject to the practical expedients noted above.

	Land & Buildings £'000	Plant & Machinery £'000	Motor Vehicles £'000	Total £'000
At 1 April 2019	-	427	33	**460**
Recognition of lease liabilities on initial application of IFRS16	512	-	-	**512**
Additions	204	107	-	**311**
Disposals	(51)	-	-	**(51)**
Depreciation	(171)	(206)	(15)	**(392)**
At 31 March 2020	**494**	**328**	**18**	**840**

Within the income statement, operating lease charges, which previously sat in administrative expenses, have been replaced by depreciation and interest expenses. The adoption of IFRS 16 resulted in a right of use asset of £0.51m, with a corresponding liability of £0.58m, being recognised at 1 April 2019. Within the consolidated income statement, the operating lease charge has been replaced by depreciation and interest expense. This has resulted in a £0.2m decrease in operating expenses and corresponding increase to Adjusted EBITDA, and a £0.05m increase in finance costs. Cashflows in respect of lease liabilities are included in operating cashflows in the Group and Company statement of cashflows.

Notes to the Consolidated Financial Statements Continued

	2020 £'000	2019 £'000
Gross profit - consistent with 2019 presentation and accounting policy	11,201	7,779
Changes due to new accounting policy - IFRS 16	-	-
Gross profit - consistent with 2020 presentation and accounting policy	**11,201**	**7,779**
Adjusted EBITDA* - consistent with 2019 presentation and accounting policy	2,617	1,413
Changes due to new accounting policy - IFRS 16	197	-
Adjusted EBITDA* - consistent with 2020 presentation and accounting policy	**2,814**	**1,413**

*Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation of intangible assets, exceptional items and share based payments.

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.

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.

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.

Notes to the Consolidated Financial Statements Continued

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 has three principal categories of performance obligation: managed IT 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.

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.

Notes to the Consolidated Financial Statements Continued

Revenue category	Performance delivery	Revenue recognition
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 in line with the day the work is performed. 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.

For managed services and professional services revenue, these are recognised over time as the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

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.

Alternative profit measures

In reporting its results, the Directors have presented various alternative profit measures (APMs) of financial performance, position or cashflows, which are not defined or specified under the requirements of IFRS. On the basis that these measures are not defined by IFRS, they may not be directly comparable with other companies. The key APMs that the group uses include recurring revenue as a percentage of revenue, Adjusted EBITDA, Adjusted PBT, Adjusted EPS and Net cash/(debt).

The Group makes certain adjustments to the statutory profit in order to derive many of these APMs. These include exceptional items and share based payments. 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 on a consistent basis from year to year.

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 expected lifetime credit loss will be recognised using the simplified approach and shown in administrative expenses in the Consolidated Statement of Comprehensive Income. Impairment reviews for other receivables, including those due from related parties, use the general approach whereby twelve month expected credit losses are provided for and lifetime credit losses are only recognised where there has been a significant increase in credit risk, by monitoring the credit worthiness of the other party. Cash and cash equivalents include 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.

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
Right of use assets	over the period of the lease

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.

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	3-5 years	Cost less amortisation
System development	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.

Notes to the Consolidated Financial Statements Continued

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.

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.

Notes to the Consolidated Financial Statements Continued

Significant Accounting Judgements

- Going concern
  The Board recognises that the Group is trading in an economy that has suffered a significant downturn following the onset of the COVID-19 pandemic and there's considerable uncertainty in the timing and rate of economic recovery. Management have to exercise judgement in the preparation of financial forecasts particularly on the level of future sales, customer contract uplifts and cancellations, and working capital assumptions. The Directors have reviewed the Group's financial forecasts and a Reverse Stress Test model in order to assess the Group's business viability and to form a judgement on going concern. Having reviewed the forecasts the Board were satisfied that the Group remains a going concern.

- 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 and the only change this year is to include the new acquisition in the year, Hub Network Services Limited, as a separate CGU (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.

- IFR16 - Leases
  Management make judgements in their assessment of lease contract agreements to ensure the appropriate lease accounting recognition under IFRS16 – Leases. The main elements of judgement are:

  - Determining the inherent rate of interest which applies to each lease or family of leases with similar characteristics;
  - Establishing whether or not it is reasonably certain that an extension option will be exercised; and
  - Considering whether or not it is reasonably certain that a termination option will not be exercised.

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. 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.

Notes to the Consolidated Financial Statements Continued

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

	Group		Company	
Financial assets	**2020 £'000**	**2019 £'000**	**2020 £'000**	**2019 £'000**
Assets held at amortised cost				
Cash and cash equivalents	3,036	3,376	217	628
Amounts due from subsidiaries	-	-	176	241
Trade receivables	1,427	1,744	-	-
Total financial assets	**4,463**	**5,120**	**393**	**869**

Financial liabilities				
Amortised cost				
Trade and other payables	2,778	2,864	569	539
Amounts due to subsidiaries	-	-	4,110	2,868
Loans and other borrowings	2,106	1,906	1,397	1,621
At fair value	**4,884**	**4,770**	**6,076**	**5,028**
Contingent consideration	1,000	1,000	1,000	1,000
Total financial liabilities	**5,884**	**5,770**	**7,076**	**6,028**

Per the fair value hierarchy classifications under IFRS9 Financial Instruments the contingent consideration due on acquisitions shown above is considered to be level 3 financial liabilities as there are no observable inputs for valuation.

	Group £'000	**Company £'000**
At 1 April 2018	**-**	**-**
Certus IT acquisition	1,000	1,000
At 31 March 2019	**1,000**	**1,000**
At 31 March 2020	**1,000**	**1,000**

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.

Notes to the Consolidated Financial Statements Continued

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

Group **At 31st March 2020**	**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	2,778	–	–	–	–
Contingent consideration	1,000	–	–	–	–
Loans and borrowings	123	396	830	757	–
Total	**3,901**	**396**	**830**	**757**	**–**
At 31st March 2019					
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**	**–**

Company **At 31st March 2020**	**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	569	–	–	–	–
Amounts due to subsidiaries	4,110	–	–	–	–
Contingent consideration	1,000	–	–	–	–
Loans and borrowings	56	195	389	757	–
Total	**5,735**	**195**	**389**	**757**	**–**
At 31st March 2019					
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**	**–**

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. The Group has not completed a sensitivity analysis on its interest rate risk, as any sensitivity would be immaterial to the user of the financial statements.

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 of a negative or above on the standard and poor's rating system.

Notes to the Consolidated Financial Statements Continued

Capital Disclosures
The Group monitors capital which comprises all components of equity (i.e. share capital, share premium and retained earnings).

The Group's objectives 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
  This segment provides all forms of sales where the business sells products and licences from supplier partners.

The monthly management accounts reported to the Board of Directors are 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 Value Added Resale 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	**2020 £'000**	**2020 %**	**2019 £'000**	**2019 %**
Managed IT Services	15,092	77%	9,448	74%
Value Added Resale	4,400	23%	3,325	26%
Total	**19,492**	**100%**	**12,773**	**100%**

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.

	2020 £'000	**2020 %**	**2019 £'000**	**2019 %**
UK	19,310	99%	12,526	98%
Rest of World	182	1%	247	2%
Total	**19,492**	**100%**	**12,773**	**100%**

Notes to the Consolidated Financial Statements Continued

	2020 £'000	2019 £'000
Revenue		
Managed IT Services	15,092	9,448
Value Added Resale	4,400	3,325
Total	**19,492**	**12,773**
Gross profit		
Managed IT Services	10,281	6,959
Value Added Resale	920	820
Total	**11,201**	**7,779**

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.

The Group has recognised the following assets and liabilities related to contracts with customers

	2020 £'000	2019 £'000
Current contract liabilities relating to deposits from customers	1,465	1,238
Release of contract liability recognised in revenue which was included in the contract liability balance at the beginning of the year	1,238	425

The Group expect to recognise all such revenue within twelve months of the balance sheet date.

5. Operating Loss

	2020 £'000	2019 £'000
Operating loss is after charging the following:		
Auditor's remuneration:		
Group:		
Audit	68	60
Other advisory	16	-
Company:		
Audit	4	4
Depreciation of tangible fixed assets	847	503
Amortisation of Intangible assets	1,321	723
Staff costs (note 7)	6,544	4,710
Share based payments (note 9)	199	119
Short term lease costs	55	168
Exceptional items (note 8)	475	736

Notes to the Consolidated Financial Statements Continued

6. Finance Expense

	2020 £'000	2019 £'000
Interest payable on lease liabilities	45	13
Interest payable on bank loan	134	108
Arrangement fee amortisation on bank loan	27	46
Total	**206**	**167**

7. Staff Numbers & Costs

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

	2020	2019
Technical Support	84	55
Sales and Marketing	22	17
Administration	14	15
Total	**120**	**87**

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

	2020 £'000	2019 £'000
Wages and salaries	5,757	4,154
Social security costs	627	441
Benefits in kind	59	26
Pension benefits	101	89
Share based payment expense	199	119
Total	**6,743**	**4,829**

Total staff costs for the Company are £2,781,000 (FY19: £2,383,000) and average staff numbers for the Company are 60 (FY19: 43). The increase in costs and staff numbers reflect the consolidation of legacy subsidiary employees into SysGroup plc.

Directors	2020 £'000	2019 £'000
Fees and salaries	520	525
Social security costs	48	43
Benefits in kind	3	3
Pension benefits contributions	14	14
Compensation for loss of office	-	23
Share based payment expense	186	110
Total	**771**	**718**

Notes to the Consolidated Financial Statements Continued

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 29.

The emoluments of the highest paid Director are £250,000 (FY19: £249,000).

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 2020 was £10,000 (FY19: £10,000).

8. Exceptional Items

	2020 £'000	2019 £'000
Acquisitions	85	554
Integration and restructuring	390	182
Total	**475**	**736**

The Group has incurred exceptional costs during the year of £475,000 (FY19: £736,000) comprising £390,000 costs for integration and restructuring and £85,000 of professional fees for the acquisition of Hub Network Services Limited. The costs for integration and restructuring are for the exit of the Coventry office and anticipated employee exits following acquisitions or as part of the Leadership Team restructure.

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. The weighted average exercise price of options in issue is 9.0p per share. For new share options issued in the year, the volatility was estimated using the previous twelve months of the Group's share price. 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 2019**	**Granted**	**Waived/ lapsed**	**At 31 March 2020**
12/12/2013	12/12/13 to 11/12/23	60.0p	5,625	-	(1,875)	3,750
21/02/2016	21/02/16 to 20/02/26	55.2p	11,875	-	-	11,875
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	1.0p	750,000	-	-	750,000
16/07/2018	16/07/18 to 15/07/21	1.0p	450,000	-	-	450,000
26/11/2018	26/11/18 to 25/11/21	42.5p	534,000	-	(223,000)	311,000
15/07/2019	15/07/19 to 14/07/22	1.0p	-	400,000	-	400,000
Total			**1,781,500**	**400,000**	**(224,875)**	**1,956,625**

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	3,750	11,875	30,000	750,000	450,000	311,000	400,000
Grant date	12-Dec-13	21-Feb-16	02-Mar-18	28-Jun-18	16-Jul-18	26-Nov-18	15-Jul-19
Expiry date	11-Dec-23	20-Feb-26	01-Mar-21	27-Jun-21	15-Jul-21	25-Nov-21	14-Jul-22
Contract term (years)	10	10	10	10	10	10	10
Exercise price	60p	55.2p	35.5p	1.0p	1.0p	42.5p	1.0p
Share price at granting	85p	70.8p	35.5p	41.5p	44.4p	42.5p	42.0p
Annual risk-free rate (%)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Annual expected dividend yield (%)	0%	0%	0%	0%	0%	0%	0%
Volatility (%)	17%	17%	17%	17%	17%	17%	17%
Fair value per grant instrument	25.8p	38.2p	15.3p	40.9p	43.7p	18.3p	41.4p

At 31 March 2020 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 June 2019, the Company acquired 100% of the issued share capital of HNS, a managed services provider registered in England & Wales with a head office in Bristol. HNS is a well-established B2B managed services provider with a primary focus on delivering superfast, low latency network connectivity and datacentre solutions.

HNS was acquired for £1.45m cash paid on completion, cash free debt free, with a further £0.45m cash payment following the agreement of the completion accounts for the cash balance acquired, debt items and working capital adjustment. The company incurred £85,000 of professional fees and other acquisition costs in relation to this acquisition. These costs are included as Exceptional items in the consolidated statement of comprehensive income.

The Directors have considered the intangible assets acquired with HNS and have recognised an intangible asset in respect of customer relationships. The asset value has been calculated using a discounted cashflow method, based on the estimated level of profit to be generated from the customers acquired. A post tax discount rate of 11.0% was used in the valuation and the customer relationships are amortised over an estimated useful life of seven 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, “HNS”, since the Company has its own operational structure, cash generation and financial reporting processes. The Directors consider that HNS does not form a separate operating segment and instead the revenue and gross profit is included in the Managed IT services and Value Added Resale segments.

Notes to the Consolidated Financial Statements Continued

Recognised amounts of net assets acquired and liabilities assumed	**Book value £'000**	**Fair value adj £'000**	**Fair value £'000**
Cash and cash equivalents	609	-	609
Trade and other receivables	341	2	343
Property, plant and equipment	111	(8)	103
Intangible assets	-	1,146	1,146
Trade and other payables	(338)	(53)	(391)
Current income tax liability	(8)	-	(8)
Deferred tax liability	(19)	(195)	(214)
Identifiable net assets			**1,588**
Goodwill			323
Total			**1,911**
Satisfied by:			
Cash consideration - paid on acquisition			1,457
Cash paid - consideration adjustment			454
Total consideration			**1,911**

Since the acquisition date to 31 March 2020, Hub Network Services Limited contributed £1.7m to Group revenue and £0.35m to Group EBITDA. Had the acquisition taken place on 1 April 2019, the contribution would have been £2.2m to Group revenue and £0.45m to Group EBITDA.

In the prior financial year, 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 services, cloud hosting, value added resale, and consultancy.

Certus was acquired for an initial £7,956,000 cash consideration paid on completion, with a consideration adjustment of £252,000 paid by the Sellers to SysGroup on the finalization of the completion accounts in June 2019. The parties agreed an earn-out mechanism for a period of twelve months post-acquisition with the potential for the Sellers to receive up to £1,000,000 additional consideration for achieving performance criteria based on EBITDA targets. The mechanism was for the SysGroup to pay £2.50 additional 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. In February 2020 the earn-out period was completed and Certus successfully achieved the maximum EBITDA target. Following the 31 March 2020 year end, the company paid £975,000 to the Sellers in full settlement of the contingent consideration.

Notes to the Consolidated Financial Statements Continued

11. Earnings Per Share

	2020	2019
Loss for the financial year attributable to shareholders	(£122,050)	(£722,000)
Weighted number of issued equity shares	49,419,690	25,843,624
Weighted number of equity shares for diluted EPS calculation	51,734,950	26,999,313
Adjusted basic earnings per share (pence)	3.4p	3.1p
Basic earnings per share (pence)	(0.2p)	(2.8p)
Diluted earnings per share (pence)	(0.2p)	(2.8p)

The inclusion of share options in the weighted number of equity shares is anti-dilutive to the EPS calculation and accordingly diluted earnings per share is presented at the same value as Basic earnings per share.

Profit used in the Earnings per Share calculation	2020 £'000	2019 £'000
Loss after tax	(122)	(722)
Amortisation of intangible assets	1,321	723
Exceptional items	475	736
Share based payments	199	119
Tax adjustments	(216)	(47)
Adjusted profit used for Adjusted Earnings per Share	**1,657**	**809**

12. Taxation

	2020 £'000	2019 £'000
Current tax		
Current tax - current year	128	105
Adjustments in respect of prior years	(107)	55
Tax refund	-	(12)
Current tax charge	**21**	**148**
Deferred tax		
Deferred tax - temporary differences	(133)	(252)
Deferred tax credit	**(133)**	**(252)**
Total tax credit	**(112)**	**(104)**

Notes to the Consolidated Financial Statements Continued

The effective tax rate for the year to 31 March 2020 is lower (2019: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020 £'000	2019 £'000
Loss on ordinary activities before tax	**(234)**	**(826)**
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (2019:19%)	(44)	(157)
Effects of:		
Expenses not deductible	25	10
Income not taxable	-	(24)
Prior year adjustment	(107)	55
Re-measurement of deferred tax due to change in UK rate	85	-
Use of brought forward losses	(71)	-
Tax refund	-	12
Total tax credit	**(112)**	**(104)**

The Group recognised deferred tax assets and liabilities as follows:

	2020 £'000	2019 £'000
Deferred tax on customer relationships	(1,149)	(1,093)
Capital allowances temporary differences	(51)	(27)
Deferred tax liability	**(1,200)**	**(1,120)**

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:

	Temporary differences £'000	Customer relationships £'000	Total £'000
Balance at 1 April 2019	(27)	(1,093)	**(1,120)**
Effect in change in tax rate	-	(85)	**(85)**
Accelerated capital allowances acquired on acquisition of HNS	(18)	-	**(18)**
Deferred tax recognised on acquired intangible assets	-	(195)	**(195)**
Credited to statement of comprehensive income	(6)	224	**218**
Balance at 31 March 2020	**(51)**	**(1,149)**	**(1,200)**

Factors affecting future tax charges:
Deferred tax balances are recognised at 19% (2019 – 17%) due to the cancellation of the planned reduction in tax rate to 17%.

Notes to the Consolidated Financial Statements Continued

13. Intangible Assets

Cost	Systems Development £'000	Software Licences £'000	Customer Relationships £'000	Positive Goodwill £'000	Total £'000
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**
At 1 April 2019	**223**	**198**	**8,010**	**15,508**	**23,939**
Additions	190	–	–	(277)	(87)
Acquisitions	–	–	1,146	323	1,469
At 31 March 2020	**413**	**198**	**9,156**	**15,554**	**25,321**
Accumulated amortisation and impairment					
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**
At 1 April 2019	**206**	**136**	**1,916**	**–**	**2,258**
Charge for the year	9	45	1,267	–	1,321
At 31 March 2020	**215**	**181**	**3,183**	**–**	**3,579**
Net book value					
At 31 March 2019	**17**	**62**	**6,094**	**15,508**	**21,681**
At 31 March 2020	**198**	**17**	**5,973**	**15,554**	**21,742**

The addition to goodwill is a consideration adjustment following the settlement of the completion accounts which resulted in a net repayment from the Sellers to the Company.

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. There have been no changes to the CGU's since 31 March 2019 other than the addition of Hub Network Services Limited ("HNS") which is a separate business that SysGroup acquired in June 2019. The allocation of goodwill and carrying amounts of assets for each CGU is as follows:

	Allocation of goodwill		Carrying value of assets	
	2020 £'000	**2019 £'000**	**2020 £'000**	**2019 £'000**
Managed IT Services	9,727	9,727	10,892	11,894
Certus IT	5,504	5,781	8,341	8,698
HNS	323	–	1,378	–
Total	**15,554**	**15,508**	**20,611**	**20,592**

Notes to the Consolidated Financial Statements Continued

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. The projections beyond five years use an estimated long-term growth rate of 2.5% (FY19: 2.5%) 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. The same rate is 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" and no impairment charges arose as a result of this review.

The assumptions used for the impairment reviews are detailed below. All CGU's have over 45% headroom of VIU compared to the carrying value of assets. For this headroom to reduce to nil, the discount rates would have to increase to 16.3% for Managed IT Services, 16.7% Certus and 17.8% for HNS, or future CGU profits would have to be significantly below current forecast levels. All CGU's have been tested for profit sensitivity and would remain with VIU headroom in the event of zero revenue growth being achieved in years 2-5.

2020	**Managed IT Services**	**Certus IT**	**HNS**
Discount rate	11.00%	11.00%	11.00%
Revenue growth rate year 2 to year 5	5.00%	5.00%	5.00%
Terminal growth rate	2.50%	2.50%	2.50%
2019			
Discount rate	10.45%	10.45%	-
Revenue growth rate year 2 to year 5	5.00%	5.00%	-
Terminal growth rate	2.50%	2.50%	-

Notes to the Consolidated Financial Statements Continued

14. Property Plant & Equipment

Cost	Office Equipment £'000	Right of Use Lease £'000	Freehold Property £'000	Motor Vehicles £'000	Total £'000
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**
At 1 April 2019	**2,586**	**–**	**382**	**73**	**3,041**
IFRS16 adoption	(1,083)	1,668	–	(73)	512
Additions	353	334	–	–	687
Acquisition of subsidiary	103	–	–	–	103
Disposals	–	(60)	–	–	(60)
At 31 March 2020	**1,959**	**1,942**	**382**	**–**	**4,283**
Accumulated depreciation					
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**
At 1 April 2019	**1,580**	**–**	**1**	**40**	**1,621**
IFRS16 adoption	(679)	719	–	(40)	–
Charge for the year	447	392	8	–	847
Disposals	–	(9)	–	–	(9)
At 31 March 2020	**1,348**	**1,102**	**9**	**–**	**2,459**
Net book value					
At 31 March 2018	**746**	**–**	**–**	**63**	**809**
At 31 March 2019	**1,006**	**–**	**381**	**33**	**1,420**
At 31 March 2020	**611**	**840**	**373**	**–**	**1,824**

Notes to the Consolidated Financial Statements Continued

Company

Cost	**Office Equipment £'000**	**Right of Use Lease £'000**	**Total £'000**
At 1 April 2018	**105**	**–**	**105**
Additions	99	–	99
At 31 March 2019	**204**	**–**	**204**
At 1 April 2019	**204**	**–**	**204**
Additions	33	–	33
Adoption of IFRS16	–	157	157
At 31 March 2020	**237**	**157**	**394**
Accumulated depreciation			
At 1 April 2018	**51**	**–**	**51**
Charge for the year	58	–	58
At 31 March 2019	**109**	**–**	**109**
At 1 April 2019	**109**	**–**	**109**
Charge for the year	56	35	91
At 31 March 2020	**165**	**35**	**200**
Net book value			
At 31 March 2018	**54**	**–**	**54**
At 31 March 2019	**95**	**–**	**95**
At 31 March 2020	**72**	**122**	**194**

Notes to the Consolidated Financial Statements Continued

15. Investments

Company	2020 £'000	2019 £'000
Investment in subsidiaries		
At 1 April 2019	23,235	14,279
Certus consideration adjustment	(251)	8,956
HNS acquisition (note 10)	1,911	-
Total	**24,895**	**23,235**

The Certus consideration adjustment is a net repayment from the Sellers to the Company following the settlement of the completion accounts.

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

Subsidiary companies	Registration	Principal activity
SysGroup Trading Limited	England & Wales	Managed Services
Certus IT Limited	England & Wales	Managed Services
Hub Network Services Limited	England & Wales	Managed Services
Netplan LLC*	USA	Managed Services
Netplan Internet Solutions Limited	England & Wales	Non-trading
Rockford IT Limited	England & Wales	Non-trading
System Professional Limited	England & Wales	Dormant
SysGroup (DIS) Limited	England & Wales	Dormant
SysGroup (NH) Limited	England & Wales	Dormant
Node Group Limited	England & Wales	Dormant
SysGroup (EH) Limited	England & Wales	Dormant

*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 2021. 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), System Professional 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 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Trade debtors	1,427	-	1,744	-
Other debtors	-	46	-	130
Amounts due from subsidiaries	-	176	-	241
Prepayments	1,299	92	1,112	91
Total	**2,726**	**314**	**2,856**	**462**

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

Debtor impairment disclosure	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Trade debtors	1,640	-	1,814	-
Impairment provision	(213)	-	(70)	-
Total	**1,427**	**-**	**1,744**	**-**

The Group have applied the simplified approach to calculate its impairment of trade receivables. In completing this review, the Group have segregated its receivables into categories based on the number of days past due for each invoice and used this to estimate the expected lifetime credit loss, with the historic credit losses being adjusted for expected forward cashflows given the current economic environment.

	Group			Company		
	Up to 1 month past due £'000	Over 1 month past due £'000	Total £'000	Up to 1 month past due £'000	Over 1 month past due £'000	Total £'000
Trade debtors	443	1,197	**1,640**	-	-	**-**
Expected credit loss	(1)	(212)	**(213)**	-	-	**-**
Net carrying amount	442	985	**1,427**	-	-	**-**

Notes to the Consolidated Financial Statements Continued

17. Trade & Other Payables

Amounts due within one year	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Trade payables	1,847	147	1,885	252
Amounts due to subsidiaries	-	4,110	-	2,868
Accruals	931	422	979	287
Total financial liabilities, excluding loans and borrowings measured at amortised cost	2,778	4,679	2,864	3,407
Corporation tax	158	-	311	-
Other taxes and social security costs	552	86	817	114
Total	**3,488**	**4,765**	**3,992**	**3,521**

Contingent consideration	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Certus IT Ltd	**1,000**	**1,000**	**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. In February 2020 the earn-out period was completed and Certus successfully achieved the EBITDA maximum target. Following the 31 March 2020 year end, the company has paid £975,000 to the Sellers in full settlement of the contingent consideration.

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 2020 and 31 March 2019.

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

18. Loans and Borrowings

Non-current	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Lease liabilities	441	104	81	-
Bank loan	1,146	1,146	1,397	1,397
Total	**1,587**	**1,250**	**1,478**	**1,397**

Current	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Lease liabilities	268	39	204	-
Bank loan	251	251	224	224
Total	**519**	**290**	**428**	**224**

Notes to the Consolidated Financial Statements Continued

19. 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 (2019: £26,000) for a shared cost of corporate services received by SysGroup plc and Praetura Capital LLP. At 31 March 2020, the balance outstanding was £nil (31 March 2019: £nil) within trade payables.

20. Share Capital

Equity share capital	**Group Number**	**Group £'000**
Allotted, called up and fully paid ordinary shares of £0.01 each		
At 1 April 2018	23,103,898	231
Issue of share capital – equity placing	26,315,792	263
At 31 March 2019	**49,419,690**	**494**
At 31 March 2020	**49,419,690**	**494**

21. Reconciliation of Net Cashflow Movement in Net Cash/(debt)

Cash and cash equivalents	**3,376**	**609**	**-**	**-**	**(949)**	**-**	**3,036**
Debt due in less than one year:							
Bank loans	(224)	-	-	-	224	(251)	(251)
Lease liabilities	(204)	-	-	-	453	(517)	(268)
Contingent consideration	-	-	-	-	-	(1,000)	(1,000)
Debt due in more than one year:							
Bank loans	(1,397)	-	-	-	-	251	(1,146)
Lease liabilities	(81)	-	(129)	(747)	-	517	(440)
Contingent consideration	(1,000)	-	-	-	-	1,000	-
Total	**470**	**609**	**(129)**	**(747)**	**(272)**	**-**	**(69)**

22. Ultimate Controlling Party

The Directors consider the company and Group have no controlling shareholder and no ultimate controlling party.

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 4 August 2020 at 10.00 am at the offices of Hill Dickinson LLP, 50 Fountain Street, Manchester M2 2AS for the purpose of considering and, if thought fit, passing the resolutions set out below, of which Resolutions 1 to 5 will be proposed as ordinary resolutions and Resolutions 6 and 7 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 2020 together with the Directors' and Auditors' Reports contained therein.

2. **TO** reappoint Michael James Fletcher as a director who retires by rotation.

3. **TO** reappoint John Michael Edelson as a director who retires by rotation.

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

5. **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 5.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 5.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:

6. **THAT**, subject to the passing of resolution 5, 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 5 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 6.a above) to any person up to an aggregate nominal amount of £24,709.

Notice of Annual General Meeting Continued

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 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.

7. **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
9 July 2020

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 31 July 2020. Changes to entries on the relevant register of securities after 10.00am on 31 July 2020 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

4. As at 5.00pm on 8 July 2020, 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 8 July 2020 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/