Annual Report & Accounts 2021

SysGroup

SysGroup plc
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Company Number
06172239

www.sysgroup.com

Contents

Directors, Secretary & Advisers

Directors, Secretary & Advisers

Board of Directors

Michael Edelson
Non-Executive Chairman

Adam Binks
Chief Executive Officer

Martin Audcent
Chief Financial Officer

Mark Quartermaine
Non-Executive Director

Michael Fletcher
Non-Executive Director

Company Secretary
Martin Audcent

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Company Number
06172239

Legal Entity Identifier (LEI)
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Highlights

Highlights

Financial

Revenue

£18.13m

2020 £19.49m

-7%

Gross profit

£10.50m

2020 £11.20m

-6%

Adjusted EBITDA[1]

£2.91m

2020 £2.81m

+4%

Adjusted PBT[2]

£2.09m

2020 £1.76m

+18%

Operational cashflows

£2.70m

2020 £1.93m

+40%

Net cash[4]

£1.88m

2020 £(0.07)m

Highlight	2021	2020	Change %
Revenue	**£18.13m**	£19.49m	**-7%**
Recurring revenue as a % of total revenue	**79%**	77%	**+2%**
Gross profit	**£10.50m**	£11.20m	**-6%**
Adjusted EBITDA[1]	**£2.91m**	£2.81m	**+4%**
Adjusted EBITDA[1] Margin %	**16%**	14%	**+2%**
Adjusted PBT[2]	**£2.09m**	£1.76m	**+18%**
Adjusted Basic EPS[3]	**3.5p**	3.4p	**+3%**
Statutory profit/(loss) before tax	**£0.21m**	£(0.23)m	**-**
Basic EPS	**0.5p**	(0.2)p	**-**
Operational cashflows	**£2.70m**	£1.93m	**+40%**
Net cash/(debt)[4]	**£1.88m**	£(0.07)m	**-**

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 weighted average number of shares in issue.
4. Net cash/(debt) represents cash balances less bank loans, lease liabilities and contingent consideration.

Highlights Continued

Operational

- Demonstrated resilience and relevance throughout the pandemic
- Acquired businesses fully integrated and operating on a single platform
- Corporate structure simplified with Certus and HNS both hived up into main trading entity
- Negligible impact from completion of Brexit
- Customer satisfaction consistently remained above 97%, despite lockdown challenges
- Secured ISO27001 for the entire Group

Post Period-End Developments

- Opening of a new office in Manchester to build a northern sales & marketing hub
- Complete refurbishment of the Newport office to provide a better working environment
- EMI share options issued to all team members

Strategic Report

Strategic Report

Chairman's Statement

SysGroup delivered a highly commendable performance in FY21, delivering an improved Adjusted EBITDA, achieved in the face of the difficulties presented by the lockdown restrictions in place throughout the financial year. This performance was underpinned by our high levels of recurring revenues - a key focus over recent years - and, had this not been the case, the year would have been much harder for both the business and shareholders. SysGroup's performance this year is also testament to the Group's response to the operational challenges presented by the pandemic, swiftly moving employees to remote working whilst maintaining strong uninterrupted service levels for customers and keeping tight management control over costs.

I would like to place on record the Board's appreciation of the ongoing commitment and cooperation of our team in rising to the challenge. They have tackled all of the challenges presented by the pandemic with diligence, care and empathy. Not only have they applied themselves to helping our clients and ensuring that their business needs are met, but they have also been there to support each other and rallied together as all great teams do in times of adversity. The management team deserve credit for putting in place tiers of support mechanisms and accordingly we will emerge from the pandemic a stronger unit.

In order to retain our talented team and attract more quality individuals to support our ambitious growth aspirations, we have made additional grants, post the year end, under the Group's 2018 EMI share option scheme, as well as the implementation of a new executive LTIP scheme which was put in place in July 2020. The Board also took the decision, in December 2020, to buy back 560,000 Ordinary Shares and hold them in Treasury to satisfy the future exercise of options under the Group's incentive schemes.

It was very pleasing to note the recognition the Company has received during the year with SysGroup being included in the London Stock Exchange's Top 1000 most influential companies in Britain and our Chief Executive, Adam Binks, was listed in the Northwest Power 100 for the second time which reflects the continued efforts of the entire SysGroup team.

No further acquisitions were made during the year, but we remain very much committed to our stated strategy of being a consolidator in a hugely fragmented market. We are in a strong position to make accretive acquisitions with committed debt facilities, a strong cash position and a supportive institutional shareholder base. Whilst we have continued to seek out complementary acquisitions during lockdown, we have maintained our discipline and only focus on quality assets that meet our strict acquisition criteria. As we begin to come out of the pandemic and are once again able to meet with potential vendors face to face, we are confident that the pipeline of opportunity will pick up, with anticipated changes to Capital Gains Tax fuelling this further.

Michael Edelson
Chairman
18 June 2021

Strategic Report

Chief Executive Officer's Report

Introduction

I'm pleased to report on what has proved to be a very robust performance from the Group against a backdrop of lockdown restrictions for the full twelve months under review. This resilience highlights the importance of our continued focus over recent years on securing high levels of recurring revenues, long-term contracts and a balance sheet set up to support corporate activity.

I am extremely proud of how our entire team has adapted since the pandemic began and I would like to take the opportunity to extend my sincere gratitude to the entire SysGroup team for their outstanding efforts during what has been a significant period of disruption and uncertainty in general. SysGroup has played an integral role for many of our customers and helped them to adapt to the forever changing environment through the use of technology and again, I am delighted that we have been able to play a part and help during this time.

Adjusted EBITDA shows an improvement of 4% on last year's results, reflecting synergies through the integration of prior year acquisitions and an extremely well managed overhead base. This is particularly impressive in light of the ongoing investment into the business to ensure we are ideally placed to benefit from opportunities, as and when normal business practices resume. Total revenues decreased slightly year on year, by 7%, due to the impact of the pandemic as customers deferred spending decisions coupled with the fact that our sales teams have been unable to have in-person interactions with our customers and prospects, owing to the restrictions impacting the sales pipeline. As noted in our half year results, we also took the strategic decision to exit some lower margin customer contracts that came with the acquisitions we made in 2019, which had a small impact on revenue but minimal impact on the Group's profitability. As a result, Adjusted EBITDA margin rose to 16.1% (FY20: 14%). The Group has generated a strong operating cashflow this year and the growth in our net cash to £1.88m has ensured an extremely robust financial position going into FY22.

Despite the impact that the pandemic has had on this year's top line, there is no doubt that it has also refocused the minds of business leaders on the efficacy, resilience and suitability of their existing IT systems and the associated support that is required to ensure their platforms remain current, compliant and secure. There is much debate as to whether organisations will return to full office working, remain entirely flexible or adopt a hybrid solution. What is clear though is that the technology they deploy to support them is more critical than ever and we believe that the trend of outsourcing to experts such as SysGroup will increase. Once we have greater economic certainty and confidence returns, we are likely to see an increase in spend and commitment to long term managed IT services contracts, which we are ideally placed to fulfil.

As well as supporting our existing client base and ensuring they receive the best levels of service, we have also focused heavily on operational improvements and making sure that SysGroup is positioned to capitalise when market conditions improve. The remote working model that we employed throughout the last twelve months was highly successful, with our teams able to support clients through the trickiest of conditions, reflected in customer satisfaction levels throughout the full year of over 97%. At the same time, I am delighted that we were able to welcome team members back to the office from 24 May on an optional basis, with appropriate Covid safety measures, albeit at a reduced capacity and in-line with government guidance. The cultural importance of having our teams working together, drawing energy and inspiration from each other and relishing a normalised working environment cannot be understated.

Chief Executive Officer's Report Continued

Integration

During the course of the year, and post completion of the earn-out period, we completed the full integration of the Certus business which we acquired in February 2019. There is now one senior leadership team in place responsible for delivering our strategy and teams at all levels have been amalgamated to create greater pockets of expertise. As stated in our half year results and in line with our single go-to-market offering, known as "one SysGroup," all of our business operations have also now been rebranded to SysGroup and all legacy brands have been discontinued. The integration exercise was completed with a corporate structure tidy up at the end of year with both the Certus and HNS businesses being hived up into our main trading entity.

We have made substantial progress on Project Fusion and during the second half of the year, we went live with a new business system that unified our CRM platform, marketing, service desk and billing operations. This improvement to our core platform gives us much greater oversight at a Group level on all sales and marketing activities, customer support requests and billing processes. The benefits of this are already being experienced, but more importantly it will enable us to scale over the coming years more quickly and efficiently and make integration of future acquisitions simpler.

Project Fusion, which is our internal programme for amalgamating and developing business systems and processes to support future growth, will continue in FY22 as our focus moves to the people management and financial accounting systems and we will also continue to build out the full benefits of the reporting functionality giving even greater access to business intelligence.

Offices

Back in April, we announced our "2021 return to the office" programme to our teams. Whilst our people have successfully worked from home since 13 March 2020, as a business we continue to recognise the importance of providing an environment where our teams can come together and collaborate.
Further changes have been made across our UK footprint with the closure of our offices in Bristol and local clients are now being serviced from Newport supported by our wider teams. Following the year-end, we have opened a new office in Manchester which will become our main sales & marketing hub in the North. The opening of a new location in Manchester will give the Group even greater access to world class talent and provide an environment which is focused solely on delivering growth, supported by strategic marketing campaigns.

People

Our people remain our greatest asset and great attention has been paid to making sure that we can attract and retain best in class talent. A significant part of this has been relaunching our core values, namely: Be Bold, Delight your customer, Work Smart, Own it and Love what you do. They resonate with our market position and reflect the ambitions of our talented workforce. Our benefits scheme has been rolled out throughout the Group, ensuring that there is a commonality of reward for all SysGroup team members, no matter their route into the organisation. A number of new hires were also made during the year which will help us to support our growth ambitions, and which also help to drive our culture by bringing in fresh impetus and demonstrating our commitment to investing in the future.

As a result of the operational improvements made during FY21, we have started the new financial year with a more simplified leadership & operational structure with clear lines of responsibility, a more interactive workforce working towards defined common goals, greater visibility and presence throughout the UK market and the capacity and desire to grow market share.

Chief Executive Officer's Report Continued

Summary & Outlook

Whilst we remain mindful of the fact the pandemic is by no means over, it is pleasing to see the positive effects of the vaccination programme which is enabling us to feel the benefit of restrictions easing, which in turn will help us to conduct business on a face-to-face basis once again.

Despite the challenges, FY21 overall has been another successful year for the Group, demonstrated by the increase in Adjusted EBITDA and the strength of our year-end balance sheet. The £1.95m growth in Net Cash is also testament to the performance of the business throughout the course of the year.

I said this time last year that the world has gone through material change and that technology has been an enabler for many to simply survive. Twelve months later and I now believe that almost all businesses will have no option other than to embrace technology in order to thrive. SysGroup is well established and ready to take advantage of those opportunities that will once again come to the fore when key decision makers have the confidence to once again commit to termed contracts and enhanced spending.

Our business is highly cash generative, and we remain committed to our stated acquisition strategy and continuing to be a consolidator in a highly fragmented market whose relevance over the last 15 months has really come to the fore. As the year progresses and we move beyond the fears of further lockdowns, I am certain confidence will return to pre-pandemic levels and the investments made by businesses into their technology platforms will exceed all previous levels.

Adam Binks
Chief Executive Officer
18 June 2021

Strategic Report

Chief Financial Officer's Report

Group Statement of Comprehensive Income

In a challenging year with government lockdown restrictions in operation across the entire period, the Group successfully delivered revenue of £18.13m (FY20: £19.49m), a decrease of 7% on the prior period, and an improved Adjusted EBITDA of £2.91m (FY20: £2.81m), an increase of 4% against the FY20 performance.

Managed IT services revenue reduced to £14.34m (FY20: £15.09m). This reflects the effect of the pandemic as customers deferred new capital spend and the fact that our sales and technical consulting teams were unable to attend customer sites due to the restrictions. The impact of the pandemic also led to a small number of customers choosing to downsize their service requirements or cancel contracts to reduce costs. In keeping with our business model of focussing on the UK mid-market, we also exited some lower margin customer contracts that were inherited with the Certus and HNS acquisitions. Whilst this has had a small impact on revenue the impact to the Group's profitability is minimal. Similarly, value added resale ("VAR") revenue in FY21 was £3.79m (FY20: £4.40m) as sales were affected by customers exercising caution by withholding capex expenditure in response to the impact of COVID-19 on their businesses and markets. As greater economic certainty returns, we believe that those deferred commitments to both managed IT services and VAR will resume.

The revenue mix of 79% managed IT services and 21% VAR was slightly ahead of the Group's target business model of 75% managed IT services and 25% VAR. The FY20 revenue mix was 77%:23%.

Revenue by Operating Segment	2021 £'000	2021 %	2020 £'000	2020 %
Managed IT Services	14,344	79%	15,092	77%
Value Added Resale	3,787	21%	4,400	23%
Total	**18,131**	**100%**	**19,492**	**100%**

Gross profit for the year was £10.50m with a gross margin of 57.9% (FY20: £11.20m and 57.5%) respectively. The gross margin percentage was similar to last year with net neutral impacts from the change in revenue mix, an improvement in VAR sales margin and a small reduction in the managed IT Services sales margin.

Adjusted operating expenses of £7.59m were £0.80m below last year (FY20: £8.39m) with an overhead/revenue ratio of 42% (FY20: 43%). The lower overhead costs reflect the benefit of £0.40m acquisition synergies, £0.26m of travel and general overhead savings and an increase in Project Fusion R&D capitalisation of £0.14m relating to the investment in a unified platform of systems across the Group. The acquisition synergies are permanent savings. As lockdown restrictions begin to ease and our sales teams are able to mobilise and generate additional revenue, we can expect travel costs and general overheads to increase, and our investment in the development of Project Fusion to drive further growth will continue into FY22. The Group made no use of the government furlough scheme, so the income statement does not include any one-off credits from government support.

Adjusted EBITDA was £2.91m for the twelve months to 31 March 2021, an increase of £0.10m (+4%) from £2.81m in FY20. The Adjusted EBITDA margin was 16.1% in FY21 compared to 14.4% in FY20 which continues our progressive profit improvement from the Group's scale-up strategy and synergising activity.

The reconciliation of operating profit to Adjusted EBITDA is shown in the table 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 statutory measure and is calculated differently by each Company.

Chief Financial Officer's Report Continued

Reconciliation of operating loss to Adjusted EBITDA	**2021 £'000**	**2020 £'000**
Operating loss	313	(28)
Depreciation	722	847
Amortisation of intangible assets	1,294	1,321
EBITDA	**2,329**	**2,140**
Exceptional items	82	475
Share based payments	504	199
Adjusted EBITDA	**2,915**	**2,814**

The Group incurred exceptional costs during the year of £0.08m (FY20: £0.48m) comprising employee exit costs from integration activities and for the closure of the Bristol office. Amortisation of intangible assets was £1.29m (FY20: £1.32m), of which £1.22m (FY20: £1.27m) relates to the amortisation of acquired intangible assets from acquisitions. Project Fusion capitalised software development costs commenced amortisation in November 2020 when the first modules of the new system went live.

Finance costs of £0.11m are reduced from the FY20 charge of £0.21m as the term loan continues to amortise through quarterly loan repayments and as lease contracts reach their expiry. The share-based payments charge of £0.50m for the year (FY20: £0.20m) includes a £0.18m charge for the 2018 & 2019 Executive Director LTIPs which vested in July 2020.

The Adjusted profit before tax for the year was £2.09m (FY20: £1.76m) and statutory profit before tax for the year was £0.21m (FY20: loss before tax £(0.23)m). Adjusted basic earnings per share for FY21 was 3.5p (FY20: 3.4p) and basic earnings per share for FY21 was 0.5p (FY20: (0.2)p loss per share).

Adjusted profit before tax	**2021 £'000**	**2020 £'000**
Profit/(loss) before taxation	205	(234)
Amortisation of intangibles	1,294	1,321
Exceptional items	82	475
Share based payments	504	199
Total	**2,085**	**1,761**

Taxation

The Group reports a tax credit in the FY21 Consolidated Income Statement of £0.04m which compares to a £0.11m credit in FY20. The corporation tax charge has increased this year to £0.27m (FY20: £0.02m) as trading profits have risen but this is more than offset by deferred tax credit movements, notably on the amortisation of intangible assets and share based payments. The Group uses the HMRC Research & Development tax credit scheme when project expenditure fulfils the HMRC scheme criteria. The Group's tax in the Income Statement is expected to become a net charge in the future as the business continues to grow and the remaining tax losses are fully utilised.

Cashflow & Net Cash

The Group had a strong net cash position of £1.88m as at 31 March 2021 (FY20: net debt £0.07m) which includes IFRS16 property lease liabilities. Cash conversion was 95% (FY20: 86%) and the Group's gross cash balance as at 31 March 2021 was £3.47m (FY20: £3.03m). The Directors were pleased with this cash and debt management performance given the challenges that COVID-19 presented to the business community at the commencement of, and throughout, the Group's financial year.

Chief Financial Officer's Report Continued

As reported in last year's Annual Report, we entered Q1 with requests from a number of customers for financial support which we were able to provide with extended settlement terms and in some cases a deferral of fees into future periods. These arrangements were adhered to with full co-operation from the customers involved and all have since come to an end with reversion to standard payment terms. Since SysGroup's customer base has a wide diversification of industry sectors there was only a low level of exposure to the sectors most exposed to the pandemic restrictions imposed by the Government in hospitality, leisure, travel and tourism. Cash collection has remained strong throughout the period which is a credit to our customers in a difficult period, and a reflection of the business criticality of the IT services we provide. No changes were made to our supplier payment processes during the year and suppliers were paid as normal in accordance with our usual monthly payment runs.

Operational cashflows were £2.70m (FY20: £1.93m) which reflected strong cash conversion at 95% (FY20: 86%), good trade debtor control and lower interest and tax payments. The Group has made no use of the government furlough scheme or any of the government backed COVID-19 assistance schemes and the deferral of the £0.28m Q1 VAT payment reported in our Interim Results was repaid in full in December 2020.

Cash conversion	**2021 £'000**	**2020 £'000**
Operational cashflows	2,700	1,930
Adjustments:		
Acquisition, integration and restructuring cashflows	82	492
Cash generated from operations	**2,782**	**2,422**
Adjusted EBITDA	2,915	2,814
Cash conversion	**95%**	**86%**

The Group's investing activities included the payment of the final earn-out consideration relating to the acquisition of Certus. The full earn-out profit target was achieved and £0.975m cash consideration was paid to the vendors of Certus. In Financing activities, in addition to the quarterly bank loan and lease payments, the Company repurchased 560,000 ordinary shares of £0.01 each in the capital of the Company ("Ordinary Shares") for consideration of £0.20m.

The Group's net cash position of £1.88m is shown below and this includes IFRS16 Lease liabilities. 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.

Net cash	**2021 £'000**	**2020 £'000**
Cash balances	3,473	3,036
Bank loans – current	(416)	(251)
Bank loans - non-current	(757)	(1,146)
Lease liabilities - equipment	(86)	(186)
Lease liabilities – property	(334)	(522)
Contingent consideration	-	(1,000)
Net cash/(debt)	**1,880**	**(69)**

Chief Financial Officer's Report Continued

Consolidated Statement of Financial Position

The Group's net assets of £20.6m at 31 March 2021 represented an increase of £0.5m to the prior year (FY20: £20.0m).

Non-current assets have reduced by £1.44m which mainly arises from the £1.22m amortisation of acquired intangible assets. During the year, the Group invested £0.18m (FY20: £0.35m) in property, plant and equipment and £0.39m (FY20: £0.18m) in Project Fusion software development costs. Working capital was managed well throughout the year with the gross trade debtor balance of £1.18m comparing to £1.64m in the previous year and trade payables of £0.81m comparing to £1.85m in the prior year.

The contingent consideration liability of £1.0m which was held at the prior year end for the Certus acquisition earn-out was paid in H1 FY21 following the successful achievement of the earn-out. SysGroup paid £0.975m contingent consideration to the vendors of Certus in full settlement.

The bank loan at 31 March 2021 was £1.17m (FY20: £1.40m); there have been no further drawdowns of the facilities during the year and the bank loan covenants have been met throughout the year.

A new Treasury reserve has been established within equity. This is to recognise the Company purchase of 560,000 ordinary shares of £0.01 each on 1 December 2020 at a price of 35.745 pence per ordinary share. The shares will be held in treasury to fulfil the future anticipated exercise of options under the Employee Share Option plans.

Project Fusion

Project Fusion was launched in FY20 as 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.

During FY21, substantial progress has been made as our internal project teams and implementation partners have worked well together to design and implement the core system. The new system which brings together CRM, Billing, Service Desk & Marketing onto a single platform, went live in H2 FY21. Project Fusion will continue in FY22 as focus moves to the People Management and Financial Accounts systems, in addition to building out the full benefits of the reporting functionality which will provide far greater visibility of business intelligence and enable us to scale more effectively and efficiently. During the year, £0.39m (FY20: £0.18m) of software development costs were capitalised as an intangible asset comprising employee and third-party supplier costs

Share Option Grants

In July 2020 we announced the implementation of the new 2020 SysGroup Long Term Incentive Plan ("2020 LTIP"), together with an initial grant of 400,000 performance shares (the "Award") under the 2020 LTIP. The Remuneration Committee granted 250,000 performance shares to Adam Binks, Chief Executive Officer, and 150,000 performance shares to Martin Audcent, Chief Financial Officer (together the "Executive Directors"). The 2020 LTIP replaced in its entirety the incentive plan set up in June 2018 ("2018 LTIP") and the 1.6 million performance shares granted to the Executive Directors under the 2018 LTIP vested with immediate effect.

In addition to the grant of the 400,000 performance shares to the Executive Directors, 450,000 share options were granted in April 2020 to senior management under the existing 2018 SysGroup EMI Scheme.

On 8 April 2021, following the 31 March 2021 year end, the Company granted 306,000 share options to employees under the SysGroup 2018 EMI Scheme.

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 Financial Review above.

	2021	2020	Change %
Revenue growth	**£18.13m**	£19.49m	**-7%**
Recurring revenue as a % of total revenue	**79%**	77%	**+2%**
Gross Profit	**£10.50m**	£11.20m	**-6%**
Gross Profit %	**58%**	57%	**+1%**
Adjusted EBITDA	**£2.91m**	£2.81m	**+4%**
Adjusted PBT	**£2.09m**	£1.76m	**+18%**
Profit/(loss) before tax	**£0.21m**	£(0.23)m	**+191%**
Net cash/(debt)	**£1.88m**	£(0.07)m	

Chief Financial Officer's Report Continued

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, 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	The COVID-19 pandemic has created an unprecedented period of social & political challenges that has led to serious disruption to all businesses and the worldwide economy. Whilst the current outlook is for general economic growth as the vaccination scheme progresses, the business environment will remain uncertain during FY22 and there remains the risk of a roll-back of government plans if further COVID variants are found. This business risk and uncertainty recognises that COVID is likely to remain an issue worldwide for the foreseeable future but also recognises the risk that a new pandemic could arise in the future that has an impact on the Group. In the event of a pandemic, whilst the Group has successfully proved its capability to "work from home" with minimal impact to operating requirements and without the need to furlough employees, the Group is likely to experience delays in customer buying decisions. The Directors are also aware that a 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.	The Group successfully invoked its Business Continuity Plan in March 2020 and adopted an operational "home working" model for all team members with minimal disruption. All services were maintained to customers. All employees have laptops rather than desktop PCs so they are able to work flexibly from home. Microsoft Teams is the preferred communication tool for remote collaboration between work teams, and with our customers and suppliers. We monitor the business continuity plans of our key suppliers to ensure the Group has resilient sources of supply and our customer base comes from a diverse range of industry sectors. The Group did not take advantage of any government backed loans or the furlough schemes during the period. If there was a new catastrophic pandemic, then the Board would keep government loan support under consideration and make a judgement based on the specific circumstances.
Impact on the business from a cyber-attack that prevents business operations Likelihood: Medium	The instance of cyber-attacks on companies is becoming more common across all businesses from SME's to blue-chip multinational enterprises. These attacks, typically for the purpose of a ransom, can be to access confidential consumer & business information, penetrate with viruses or to instigate DDOS attacks on the IT infrastructure or website. The impact on a company can be to prevent access to the business operating systems, to prevent online trading or to threaten disclosure of confidential information.	SysGroup has an IT security framework in place to mitigate the risk of cyber-attacks. The IT infrastructure includes multiple firewalls with enhanced security features and the use of multiple datacentres allows for suitable failover resilience. All employees have regular IT Security refresh training to remind them of the risks, how to recognise social engineered attacks and best practice for physical IT & password security. This business risk and uncertainty is included in the Group's Business Continuity Plan.

Chief Financial Officer's Report Continued

Principal risk	Potential impact	How we mitigate the risk
Economic uncertainty caused by the UK Government exiting the EU ("Brexit"). Likelihood: Low	The UK formally left the EU on 31 December 2020 and signed a new Free Trade Agreement ("FTA") with the EU countries. The impact of Brexit has been masked by the wider economic impact from the COVID-19 pandemic but there is an increase in cross-border administration and a longer-term risk of customers and suppliers changing their buying and selling behaviours following Brexit. The extent of this is uncertain. SysGroup continues to have little trade, either buying or selling, into Europe and vice versa and we do not expect this position to change. It is possible that Brexit may affect the businesses of our customers and suppliers in the long term and as part of the settling down of the wider UK economy.	The Directors will continue to monitor our level of cross-border trading to assess the level of business risk but are satisfied that the rating is judged low at present.
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 these are the suppliers 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, quality of service, technical innovation and good financial standing. We are confident that alternative providers are available in the market should the need arise.
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 exceeded in FY21 with the top customer comprising 6% of revenue due to a one-off tech refresh project but is expected to be below 5% again 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.

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 business depends on providing high quality service to customers from having a motivated and skilled workforce. If the employee 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.
Company acquisitions are over-valued or poorly integrated leading to a diminution in shareholder value. 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 managed IT services and cloud hosting companies has characteristics of fragmentation which provides opportunities for consolidation. The Board considers all acquisition valuations after a robust due diligence process has 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.

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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 businesses 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 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.

Political donations

No donations were made for political purposes (FY20: £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 are coping with both working from home and the pandemic in general. The results from these surveys 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.

Throughout the year, the most significant matter on which the Board have considered our employees is 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. The business continued to operate fully thoughout the lockdown period though it was necessary to change the way we communicated both internally and externally which was mainly through online calls. Our People & Culture Team were tasked with supporting our teams as they worked from home and this took the form of promoting more online "socialising", creating online activities & competitions and providing access to independent advice and support for health & well-being. Many of our team are parents with children of school age and we ensured there was flexibility for them to provide school time assistance during normal working hours. The employee survey results spoke positively about the people engagement and how we communicated during the lockdown period.

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, software 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.

Chief Financial Officer's Report Continued

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.

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. Where possible, we also try to "buy local" to ensure we support the surrounding economies of our office locations. During this financial year, as the UK have been operating under lockdown restrictions we have not been involved in as many charitable events as usual, but we expect the activities to pick up as we return to the office in FY22.

Chief Financial Officer's Report Continued

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 results and are available for meetings at other times if requested. All shareholders are invited to attend the AGM (subject to local lockdown restrictions). 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.

Martin Audcent
Chief Financial Officer
18 June 2021

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 2018 as part of a newly established board to deliver on the next stage of growth. Martin has considerable finance, regulatory and compliance experience with listed companies and also has extensive acquisitions 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 as Chief Operating Officer in August 2014 and was formally appointed to the Board in October 2017. Leveraging Adam's vast equity capital markets and M&A experience, he was promoted to Group CEO in April 2018. He is responsible for setting and delivering the group's overall strategy to become the leading provider of managed IT services to the UK mid-market. He has extensive experience in the managed IT, hosting & telecoms sectors across a 21-year career. Adam has played a pivotal role in the transformation of the group from a mass-market web hosting company to the award-winning managed IT services & cloud hosting provider that it has become. Adam has previously held a number of senior management & Board level positions within the sector.

Michael Fletcher
Non-Executive Director

Mike is a successful investor, business leader and entrepreneur with more than 20 years' experience in the financial sector. He was the co-founder and former CEO of Praetura Group, which launched in 2011. His early career was spent with PwC as a chartered accountant before joining GCA Altium, where he was a managing director for 10 years. Mike is a founding Partner at Arete Capital partners LLP and is also a trusted advisor and non-executive chairman to several other businesses, including Inspired Energy plc, and a board member at several others, including Peak AI and Sorted Group.

Directors' Report

Directors' Report

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 March 2021.

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 2021, 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 8 to 24.

Results & Dividends

The Consolidated Statement of Comprehensive Income for the year is set out on page 53. The Directors do not propose the payment of a dividend for the year ended 31 March 2021 (2020: 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 strategic growth and to manage finance for the day-to-day operations of the business. 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 manage cash assets safely and profitably. Cashflow forecasts are maintained and monitored as part of the Group's three-year, twelve-month and monthly forecasts. Short-term flexibility is achieved through available cash balances and an overdraft facility.

Interest Rate Risk

The Group finances its operations and capital investments through operational cash generation. The Group has commercial lease agreements in place for office properties and occasionally leases are used for equipment purchases. The bank facility is on a variable interest rate and the Directors consider this to be appropriate in the current economic environment.

Credit Risk

The Group's principal financial assets are cash, and trade and other receivables. These balances are actively monitored to avoid significant concentrations of credit risk however the total of the cash balances and trade and other receivables represents the maximum exposure to credit risk. In order to manage credit risk, 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' Report Continued

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 31 to 34.

Significant Shareholdings

As of 16 June 2021, the Company has been notified of the following significant shareholdings:

Name	Number of Shares	Percentage Holding
Gresham House Asset Management Limited	13,999,563	28.33%
Canaccord Genuity Group Inc	8,998,803	18.42%
Darren Carter	3,552,632	7.19%
Herald Investment Management Ltd	3,444,581	6.97%
Downing LLP	3,412,560	6.91%
Helium Rising Stars Fund	2,300,000	4.65%
Praetura Group Limited*	1,710,256	3.46%

*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 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 COVID-19 pandemic has had an unprecedented effect on the UK economy and despite the recent upturn in growth from the gradual lifting of lockdown restrictions there remains considerable uncertainty in economic outlook.

Over the past twelve months the Group has demonstrated that its operating model is broadly resilient to the economic impacts of the pandemic. The Group's products and services are typically considered to be critical IT infrastructure supplies to customers with circa 75% of revenue deriving from contracted managed IT services which is a continuous service supply and subject to twelve months to three-year contracts. The Group has a cash balance of £3.47m and a net cash position of £1.88m on 31 March 2021. The gross cash has increased by £0.4m since 1 April 2020 and the net cash has increased by £1.95m in the same period. All the bank covenants were met in the financial year and are forecast to be achieved in the foreseeable future.

The Directors have reviewed financial forecasts including a downside scenario and the resultant cashflows, together with the confirmed loan facilities and other sources of finance, show that the Group can continue to operate within the current facilities available to it. The Directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in 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
18 June 2021

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. Independent professional advisors are used when benchmarking advice is required or changes to incentive schemes are being considered.

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' LTIP Scheme

The Remuneration Committee introduced a new Executive Director LTIP scheme in July 2020, the SysGroup Long Term Incentive Plan ("2020 LTIP"), following an independent review by professional advisors and after consultation with certain of its larger institutional shareholders. The Committee members consider the new scheme will incentivise management to deliver long-term value creation for shareholders and ensure alignment with shareholder interests. The 2020 LTIP replaces in its entirety the incentive plan set up in June 2018 ("2018 LTIP").

Under the 2020 LTIP, the Remuneration Committee will, each financial year, set a minimum Adjusted EBITDA performance ("Threshold"), by reference to prevailing market consensus. On conclusion of the financial year the Executive Directors will be paid a mixture of a cash bonus and issued with nil cost performance shares, which will be granted subject to the Group's performance against the Threshold and will vest two years after the date of grant.

The Company must achieve a minimum of 90% of the Threshold before any cash payment or grant of performance shares is due to the Executive Directors. The level of cash payment and grant of performance shares increases up to 110% of the Threshold with the maximum grant due at the discretion of the Remuneration Committee. The maximum grant for the Chief Executive Officer is 150% of annual salary and for the Chief Financial Officer 112.5% of annual salary. The split between a cash payment and performance shares is set at 50%:50% unless a Threshold of 100% is exceeded at which point the split between a cash payment and performance shares is at the discretion of the Remuneration Committee for the excess amount.

Performance shares that are granted will vest on the second anniversary of the initial grant and will be subject to an additional grant dependent upon the performance of the share price based on the 90-day volume weighted average price immediately prior to the vesting date. The sale of shares received under the 2020 LTIP will be restricted such that a maximum of one third of the shares received will be able to be sold from the vesting date, two thirds from the first anniversary of the vesting date and all performance shares exercised will be able to be sold from the second anniversary of the vesting date.

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

Directors' Remuneration Report Continued

In July 2020, under the new 2020 LTIP Scheme, an initial grant of 250,000 performance shares was made to Adam Binks, Chief Executive Officer, and 150,000 performance shares to Martin Audcent, Chief Financial Officer. On the same date, since the 2020 LTIP replaced the 2018 LTIP, the 1.6 million performance shares that had previously been granted to the Executive Directors under the 2018 LTIP vested with immediate effect and all future grants under the 2018 LTIP were cancelled.

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 increases have been awarded in the current or previous two years. The salary costs shown below includes car allowances.

	2021					2020				
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	86	8	2	261	165	75	8	2	250
Martin Audcent	130	51	6	1	188	130	30	6	1	167
Total Remuneration	**415**	**137**	**14**	**3**	**569**	**415**	**105**	**14**	**3**	**537**

Adam Binks and Martin Audcent have LTIP share options that incurred share-based payment charges of £287,000 and £177,000 respectively in FY21.

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:

Directors' interests in ordinary shares

Director	**Number of Ordinary Shares**	**Percentage Interest**
Michael Edelson*	858,179	1.76%
Adam Binks*	220,134	0.45%
Martin Audcent*	117,499	0.24%
Mike Fletcher	77,193	0.16%
Mark Quartermaine	76,923	0.16%

* The Directors' interest in shares include directly held shares and interests held via related parties.

Directors' Remuneration Report Continued

Directors' Options

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

Employee	LTIP Scheme	Vested	Options over ordinary shares	Grant Date	Expiry Date
Adam Binks	2018 LTIP	Vested	750,000	26/06/2018	25/06/2028
	2018 LTIP	Vested	250,000	15/07/2019	14/07/2029
	2020 LTIP	Unvested	250,000	08/07/2020	07/07/2030
Martin Audcent	2018 LTIP	Vested	450,000	16/07/2018	15/07/2028
	2018 LTIP	Vested	150,000	15/07/2019	14/07/2029
	2020 LTIP	Unvested	150,000	08/07/2020	07/07/2030

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	**11**	**3**	**2**
Michael Edelson	10	3	2
Mike Fletcher	11	3	2
Mark Quartermaine	11	3	2
Adam Binks	11	3	-
Martin Audcent	11	3	-

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.

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.

Corporate Governance Report Continued

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.

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 Group employs a Head of Legal, Risk & Compliance ("HLRC"), a Senior Leadership Team position, whose responsibility includes the identification of risks and the ownership and maintenance of the Corporate Risk Register. The HLRC reports to the Chief Financial Officer in the organisation structure. The concept of risk and mitigation is embedded in our Senior Leadership Team and the risks that have been recorded in our Risk Register have Senior Leader business owners who are responsible and accountable for the risks and controls that are in place.

The Board of Directors receives periodic reports from the HLRC to convey the risk profile of the Group and how this has changed from previous periods. As an IT Managed Services company, we also place the utmost importance to IT security risks and we are accredited under ISO27001 for our internal policies and processes in this area. An Information Security Management Systems Meeting is held on a quarterly basis which is attended by the HLRC, CTO, CFO and Head of People & Culture, to monitor performance and progress any necessary actions.

In March 2020, the risk of the COVID-19 pandemic and the impact this would have on our business operations was a trigger for us to implement our Business Continuity Plan ("BCP") which is there to address events that carry the highest level of risk to SysGroup. The BCP was effectively in operation throughout the financial year as the business successfully continued to carry out its operations under lockdown restrictions.

The Board of Directors are updated by the Executive Directors on all significant risk matters or events, either at the monthly Board meetings or at the time the issues arise depending on the considered level of urgency and importance.

The Directors acknowledge their responsibility for financial risk, and in particular for the Company's and Group's internal system of 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.

As the Group continues to grow the risks of the business and risk management framework will remain subject to regular review. Further information on the principal risks and uncertainties of the Group can be found in the CFO Report.

Corporate Governance Report Continued

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

The Board comprises five Directors, two Executives and three Non-Executives, and reflects a blend of different experience and backgrounds. There is a clear division of responsibility between the Chairman of the Board (a Non-Executive role) and the Chief Executive Officer. The Board considers the Non-Executive Directors to be independent in character and judgement notwithstanding their shareholdings in the Group.

The Board of Directors usually meet in person on a monthly basis 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 teleconference calls. For the FY21 financial year and due to the government's lockdown restrictions the Board, Audit Committee & Remuneration Committee Meetings have been held by MS Teams calls.

The Board, through the Chairman and the Non-Executive Directors, as well as the Executive Directors, maintains regular contact with its advisers and seeks to ensure that the Board develops an understanding of the views of the major shareholders of the Company.

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

The Chairman is satisfied that there is a suitable balance between Executive and Non-Executive Directors in the Board composition and is sufficiently resourced to discharge its duties and responsibilities effectively.

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

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

The Chairman 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 is responsible for assessing the individual contributions of the Directors and this is monitored and 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 this shall be kept under review.

Corporate Governance Report Continued

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

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

The corporate values are actively promoted by the Executive Directors, People & Culture Team and the Senior Leadership Team and the ethical values of transparency, honesty, and doing the right thing underpins how we work. New employees receive inductions on joining the organisation which includes an explanation of all the key internal policies including the IT Security Policy, Health & Safety Policy, Anti-Corruption and Bribery Policy, Whistleblowing Policy, and GDPR. These policies are also available to view on the Group's intranet "SysHub" which also offers employee benefits and Company latest news.

SysGroup uses personality insight tools in our recruitment processes and seeks to recruit candidates who fit well with our corporate values in addition to 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 overall plan. The Group has a clear and well-understood organisational structure and each employee knows his or her line of responsibility and accountability.

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

The Directors recognise the importance of 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 Chairman, Michael Edelson, and all matters on the agenda are covered with the opportunity for questions and discussion. Additional matters can be raised under AOB. Minutes are recorded for each meeting which are reviewed and signed by the Chairperson.

Matters reserved for the Board include business strategy, acquisitions and disposals, bank facilities, equity and capital structure, corporate governance, delegation of authority, annual operating plan, 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, a chartered accountant, 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. The Group's auditors attend the Audit Committee Meetings.

Corporate Governance Report Continued

During the year to 31 March 2021, there were four Audit Committee meetings and the principal items are detailed below.

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

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, the Remuneration Committee engaged professional advisors to recommend a new Executive LTIP Scheme (the "2020 LTIP") to better align Executive reward to the interests of the Group and for the maximisation of shareholder value. Further details on this can be found in the Directors' Remuneration Report. There were two Remuneration Committee meetings during the year and the principal items were to approve the new 2020 LTIP Scheme and the grant of performance share options to the Executive Directors, and to approve a grant of EMI share options to SysGroup employees at the end of the financial year.

Corporate Governance Report Continued

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

The Annual Report is a key deliverable to our shareholders to explain how our business is performing and our approach to governance and risk management. In the Annual Report we 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
18 June 2021

Independent Auditor's Report to the Members of SysGroup plc

Independent Auditor's Report to the Members of SysGroup plc

Opinion

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

We have audited the financial statements of Sysgroup plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2021 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 their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Rationale for the benchmark applied:
We remain 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.

Conclusions Relating to Going Concern

WIn auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's assessment that supports the Board's conclusions with respect to the disclosures provided around going concern;
- We considered the appropriateness of management's forecasts by testing their mechanical accuracy, assessing historical forecasting accuracy and understanding management's consideration of downside sensitivity analysis;
- We obtained an understanding of the financing facilities from the finance agreements, including the nature of the facilities, covenants and attached conditions;
- We assessed the facility and covenant headroom calculations, and re-performed sensitivities on management's base case and stressed case scenarios; and
- We reviewed the wording of the going concern disclosures, and assessed its consistency with management's forecasts.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Coverage	100% (2020: 100%) of Group profit before tax 100% (2020: 100%) of Group revenue 99% (2020:99%) of Group total assets
Key audit matters	There is one Key audit matter in both 2021 and 2020 which is the judgements involved in the Group's revenue recognition policy.
Materiality	Group financial statements as a whole £150,000 (2020:£120,000) based on 0.85% (2020: 0.65%) of revenue.

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. The Group audit team have completed a full scope audit on all non-dormant components of the Group. As a consequence of the audit scope determined, we achieved coverage of 100% (2020: 100%) of revenue, 100% (2020: 100%) of profit before tax and 99% (2020: 99%) of net assets.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that 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.

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

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue recognition Note 4 See accounting policy on page 72	TThe 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 check 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 recognised in the year for a sample of new contracts to the underlying contact and evidence of completion of work and checked that the revenue recognised was in accordance with the underlying contracts and IFRS15. 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, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

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.

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

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent Company financial statements	
	2021 £	2020 £	2021 £	2020 £
Materiality	150,000	120,000	100,000	60,000
Basis for determining materiality	0.85% of Revenue	0.65% of Revenue	Capped at 67% of Group materiality	Capped at 50% of Group materiality
Rationale for the benchmark applied	Revenue was considered the most stable measure and to be of most relevance to the users of the financial statements. The percentage threshold was increased this year given the increased stability of the Group this year.		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.	
Performance materiality	112,500	90,000	75,000	45,000
Basis for determining performance materiality	Performance materiality was set at 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 £24,000 and £109,000 (2020: £30,000 to £100,000) based on the revenue recognised in each component and our assessment of the risk of material misstatement of that component. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £6,000 (2020: £5,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

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

Strategic report and Directors' report	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. In the light of the knowledge and understanding of the Group and 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.
Matters on which we are required to report by exception	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.

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

Extent to which the audit was capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding and accumulated knowledge of the Group and the sector in which it operates we considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud and whether such actions or non-compliance might have a material effect on the financial statements. These included but were not limited to those that relate to the form and content of the financial statements, such as the Group accounting policies, International accounting standards, and the UK Companies Act; those that relate to the payment of employees; and industry related such as GDPR compliance. All team members were briefed to ensure they were aware of any relevant regulations in relation to their work.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the expected credit loss provision, the depreciation of tangible assets and the amortisation of intangible assets;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or including specific keywords;
- Testing a sample of revenue transactions within a specified cut off window pre and post year end to determine if they have been recorded in the correct period;
- Tested a sample of credit notes issued post year end to determine if the associated revenue had been recorded in the correct period;
- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of minutes of Board meetings throughout the period to identify any issues which were pertinent to the audit; and

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

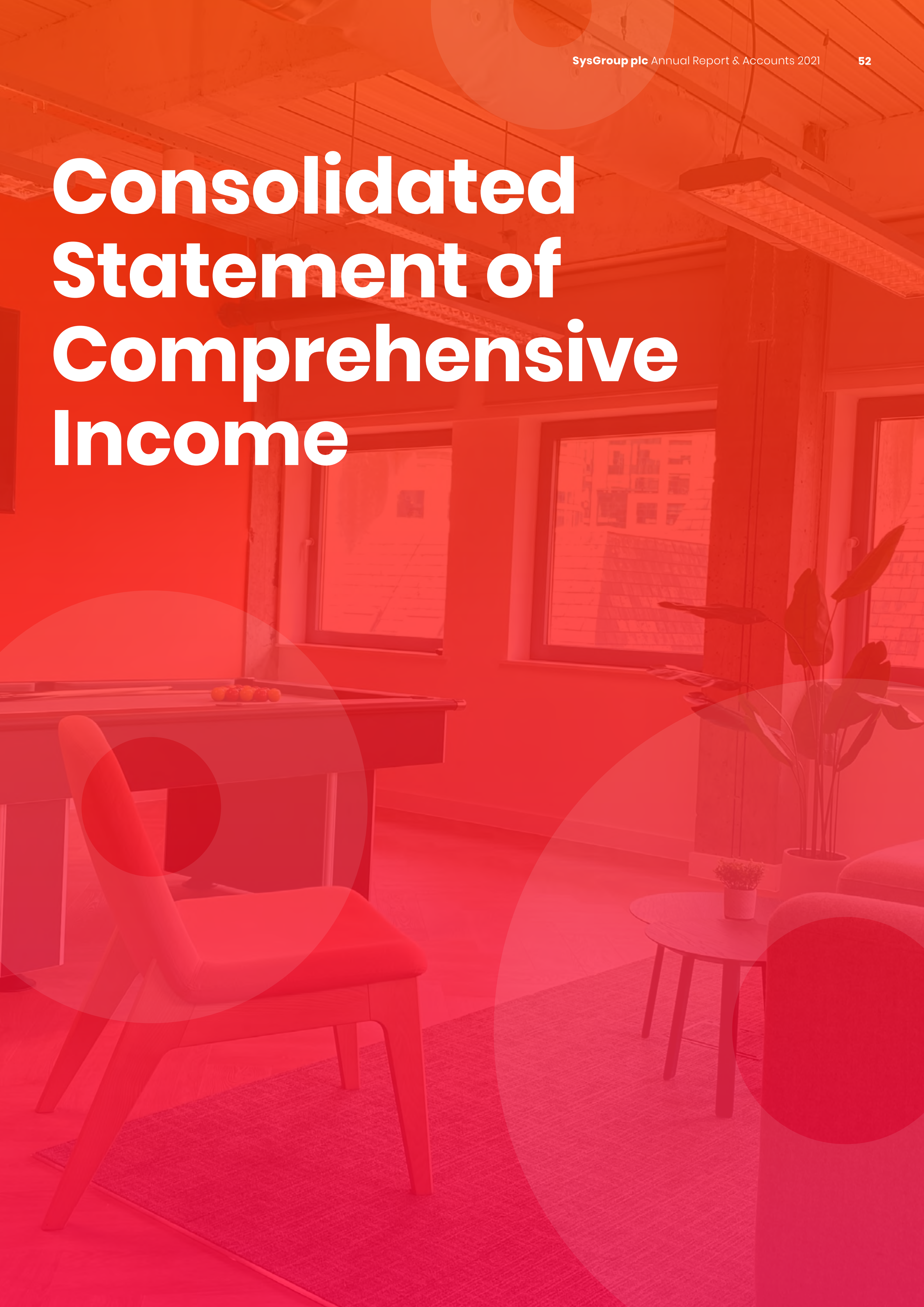
BDO LLP

Gary Harding
Senior Statutory Auditor
18 June 2021

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 2021

	Notes	2021 Group £'000	2020 Group £'000
Revenue	4	**18,131**	**19,492**
Cost of sales		(7,630)	(8,291)
Gross profit		**10,501**	**11,201**
Operating expenses before depreciation, amortisation, exceptional items and share based payments		(7,586)	(8,387)
Adjusted EBITDA		**2,915**	**2,814**
Depreciation	14	(722)	(847)
Amortisation of intangibles	13	(1,294)	(1,321)
Exceptional items	8	(82)	(475)
Share based payments	9	(504)	(199)
Administrative expenses		(10,188)	(11,229)
Operating profit/(loss)		**313**	**(28)**
Finance costs	6	(108)	(206)
Profit/(loss) before taxation		**205**	**(234)**
Taxation	12	35	112
Total comprehensive profit/(loss) attributable to the equity holders of the company		**240**	**(122)**
Basic earnings per share (EPS)	11	0.5p	(0.2p)
Diluted earnings per share (EPS)	11	0.5p	(0.2p)

Consolidated Statement of Financial Position

Consolidated Statement of Financial Position

As at 31 March 2021

	Notes	2021 Group £'000	2020 Group £'000
Assets			
Non-current assets			
Goodwill	13	15,554	15,554
Intangible assets	13	5,290	6,188
Property, plant and equipment	14	1,281	1,824
		22,125	**23,566**
Current assets			
Trade and other receivables	16	1,728	2,726
Cash and cash equivalents		3,473	3,036
		5,201	**5,762**
Total Assets		**27,326**	**29,328**
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
Treasury reserve		(201)	-
Other reserve		2,832	2,328
Translation reserve		4	4
Retained earnings		8,403	8,163
		20,612	**20,069**
Non-current liabilities			
Lease liabilities	18	190	441
Bank loan	18	757	1,146
Deferred taxation	12	889	1,200
		1,836	**2,787**
Current liabilities			
Trade and other payables	17	2,683	3,488
Contract liabilities		1,549	1,465
Lease liabilities	18	230	268
Contingent consideration	17	-	1,000
Bank loan	18	416	251
		4,878	**6,472**
Total Equity and Liabilities		**27,326**	**29,328**

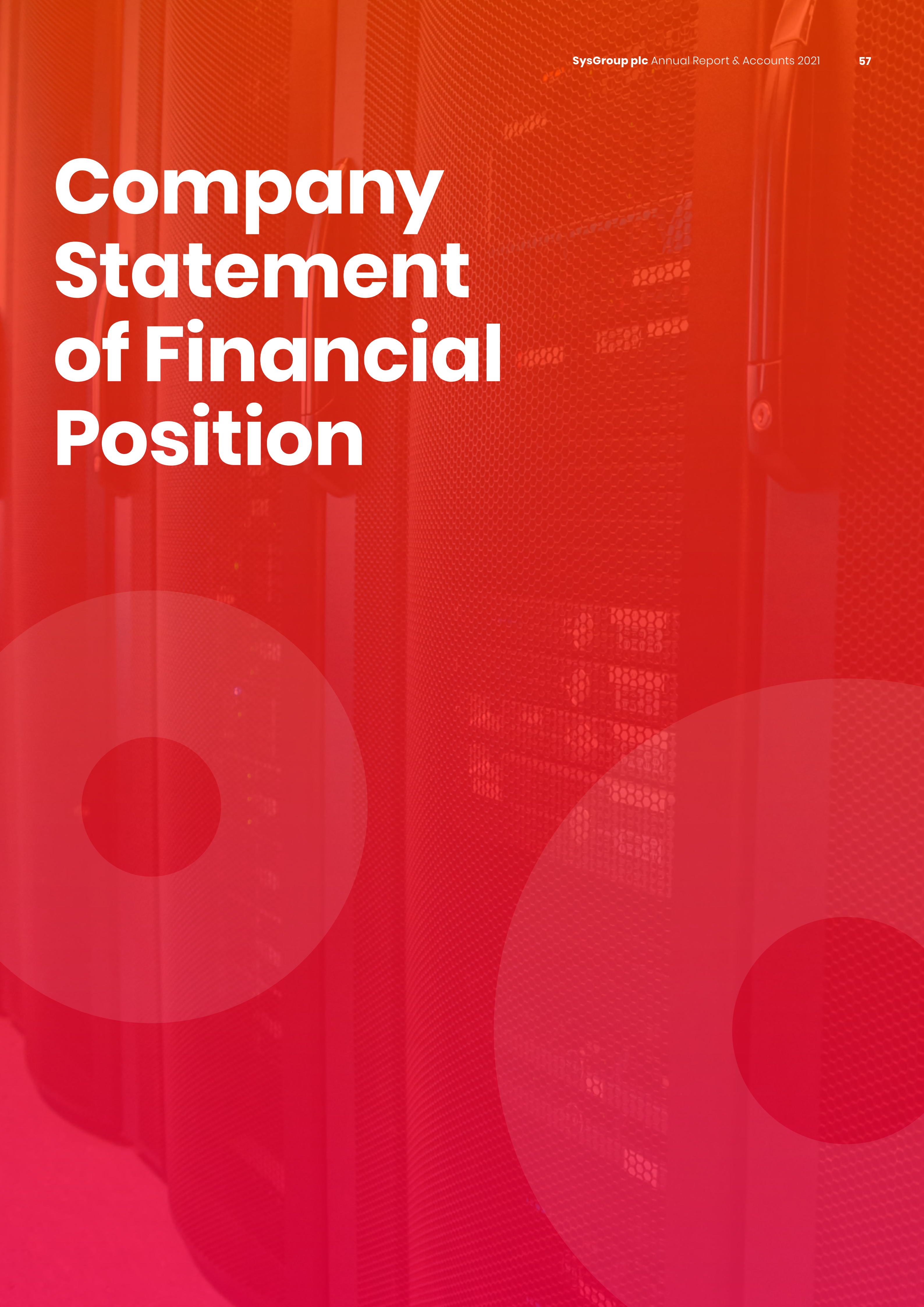
Consolidated Statement of Financial Position Continued

The financial statements on pages 53 to 94 were approved by the Board and authorised on 18 June 2021.

Martin Audcent
Director

Registered number 06172239

Company Statement of Financial Position



Company Statement of Financial Position

As at 31 March 2021

	Notes	2021 Company £'000	2020 Company £'000
Assets			
Non-current assets			
Investments	15	24,895	24,895
Intangible assets		-	8
Property, plant and equipment	14	133	194
		25,028	**25,097**
Current assets			
Trade and other receivables	16	285	314
Cash and cash equivalents		585	217
		870	**531**
Total Assets		**25,898**	**25,628**
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
Treasury reserve		(201)	-
Other reserve		2,832	2,328
Retained earnings		6,308	6,421
		18,513	**18,323**
Non-current liabilities			
Bank loan	18	757	1,146
Lease liabilities	18	64	104
		821	**1,250**
Current liabilities			
Amounts due to subsidiary undertakings	17	5,456	4,110
Trade and other payables	17	652	655
Lease liabilities	18	40	39
Contingent consideration	17	-	1,000
Bank loan	18	416	251
		6,564	**6,055**
Total Equity and Liabilities		**25,898**	**25,628**

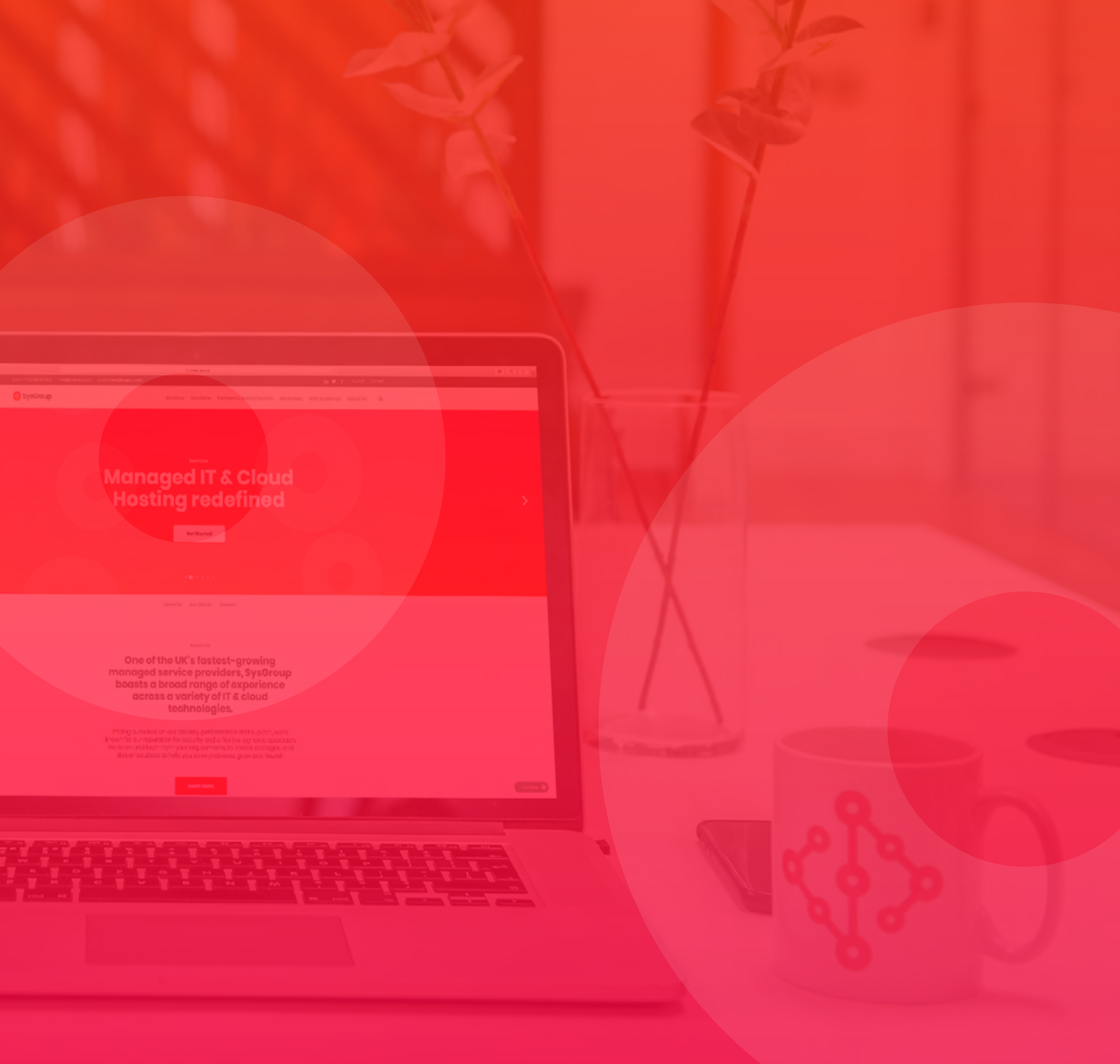
Company Statement of Financial Position Continued

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 2021, the Company made a loss of £113,000 (FY20: loss of £159,000).

Martin Audcent
Director

Registered number 06172239

Consolidated Statement of Changes in Equity



Consolidated Statement of Changes in Equity

For the year ended 31 March 2021

	Attributable to equity holders of the parent						
	Share capital £'000	**Share premium reserve £'000**	**Treasury reserve £'000**	**Other reserve £'000**	**Translation reserve £'000**	**Retained earnings £'000**	**Total £'000**
As at 1 April 2019	**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 charge	–	–	–	199	–	–	199
Total Distributions to owners	**–**	**–**	**–**	**199**	**–**	**–**	**199**
At 31 March 2020	**494**	**9,080**	**–**	**2,328**	**4**	**8,163**	**20,069**
As at 1 April 2020	**494**	**9,080**	**–**	**2,328**	**4**	**8,163**	**20,069**
Comprehensive income							
Profit for the period	–	–	–	–	–	240	240
Total Comprehensive income	**–**	**–**	**–**	**–**	**–**	**240**	**240**
Distributions to owners							
Share buy back	–	–	(201)	–	–	–	(201)
Share options charge	–	–	–	504	–	–	504
Total Distributions to owners	**–**	**–**	**(201)**	**504**	**–**	**–**	**303**
At 31 March 2021	**494**	**9,080**	**(201)**	**2,832**	**4**	**8,403**	**20,612**

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.
Treasury reserve	Company owned shares held for the purpose of settling the exercise of employee share options.
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 2021

	Attributable to equity holders of the parent					
	Share capital £'000	Share premium reserve £'000	Treasury reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
As at 1 April 2019	**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 charge	–	–	–	199	–	199
Total Distributions to owners	**–**	**–**	**–**	**199**	**–**	**199**
At 31 March 2020	**494**	**9,080**	**–**	**2,328**	**6,421**	**18,323**
As at 1 April 2020	**494**	**9,080**	**–**	**2,328**	**6,421**	**18,323**
Comprehensive income						
Loss for the period	–	–	–	–	(113)	(113)
Total Comprehensive income	**–**	**–**	**–**	**–**	**(113)**	**(113)**
Distributions to owners						
Share buy back	–	–	(201)	–	–	(201)
Share options charge	–	–	–	504	–	504
Total Distributions to owners	**–**	**–**	**(201)**	**504**	**–**	**303**
At 31 March 2021	**494**	**9,080**	**(201)**	**2,832**	**6,308**	**18,513**

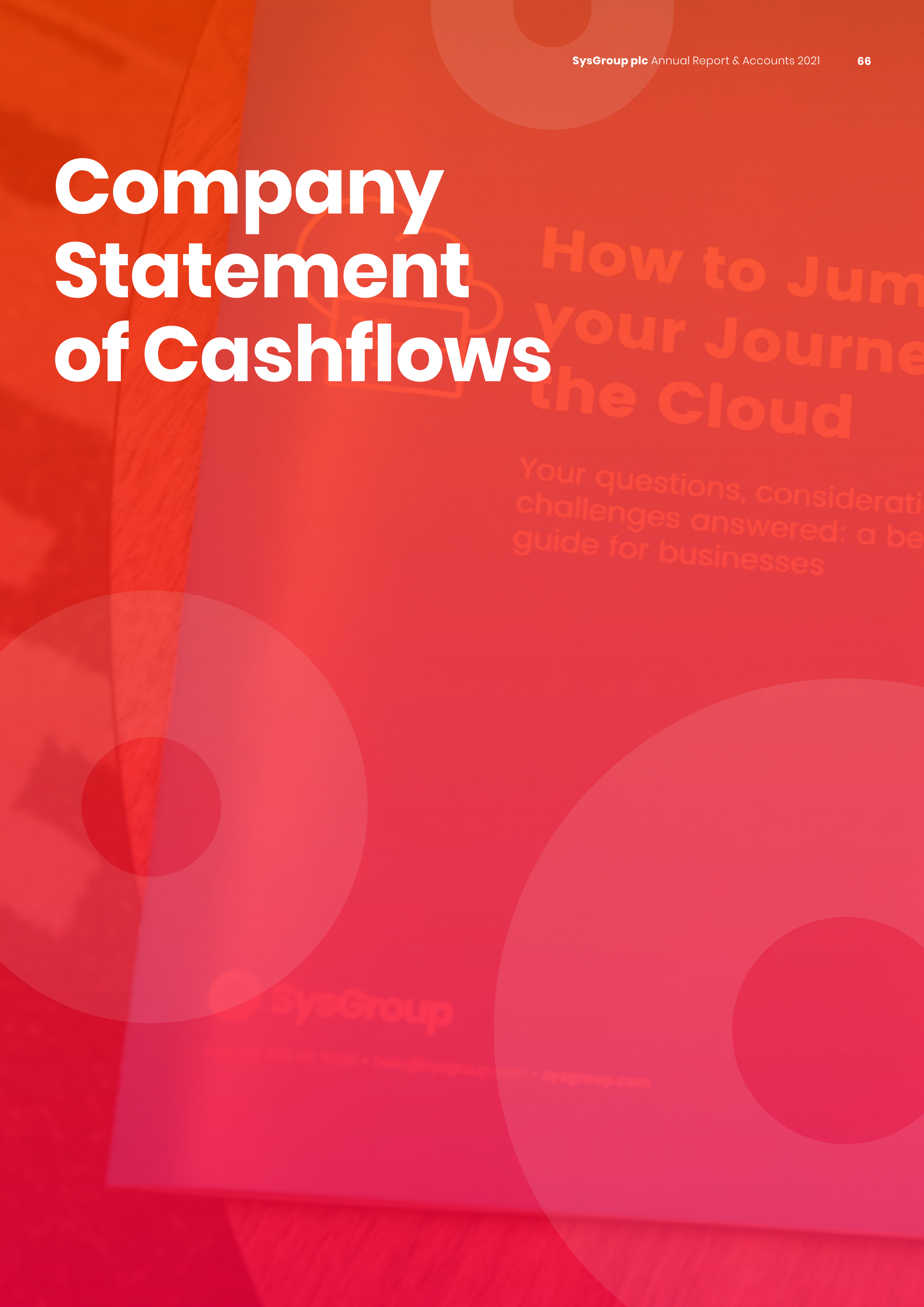
Consolidated Statement of Cashflows

Consolidated Statement of Cashflows

For the year ended 31 March 2021

	Notes	2021 Group £'000	2020 Group £'000
Cashflows used in operating activities			
Profit/(loss) after tax		240	(122)
Adjustments for:			
Depreciation and amortisation	13,14	2,016	2,168
Finance costs	6	108	206
Share based payments		504	199
Taxation credit	12	(35)	(112)
Operating cashflows before movement in working capital		**2,833**	**2,339**
Decrease in trade and other receivables		987	501
Decrease in trade and other payables		(889)	(533)
Operating cashflows before interest and tax		**2,931**	**2,307**
Interest paid and amortisation of arrangement fee on loan facility		(105)	(161)
Interest paid on lease liabilities		(28)	(44)
Taxation paid		(98)	(172)
Operational cashflows		**2,700**	**1,930**
Cashflows from investing activities			
Payments to acquire property, plant & equipment	14	(179)	(353)
Payments to acquire intangible assets	13	(396)	(190)
Acquisition of subsidiary companies	10	(975)	(1,911)
Amounts received in respect of previous acquisitions		-	252
Cash acquired with acquisitions		-	609
Net cash used in investing activities		**(1,550)**	**(1,593)**
Cashflows from financing activities			
Payments for share buy-back	20	(201)	-
Repayment of loan facility including fees		(224)	(224)
Capital/principal paid on lease liabilities		(288)	(453)
Net cash from financing activities		**(713)**	**(677)**
Net increase / (decrease) in cash and cash equivalents		**437**	**(340)**
Cash and cash equivalents at the beginning of the year		3,036	3,376
Cash and cash equivalents at the end of the year		**3,473**	**3,036**

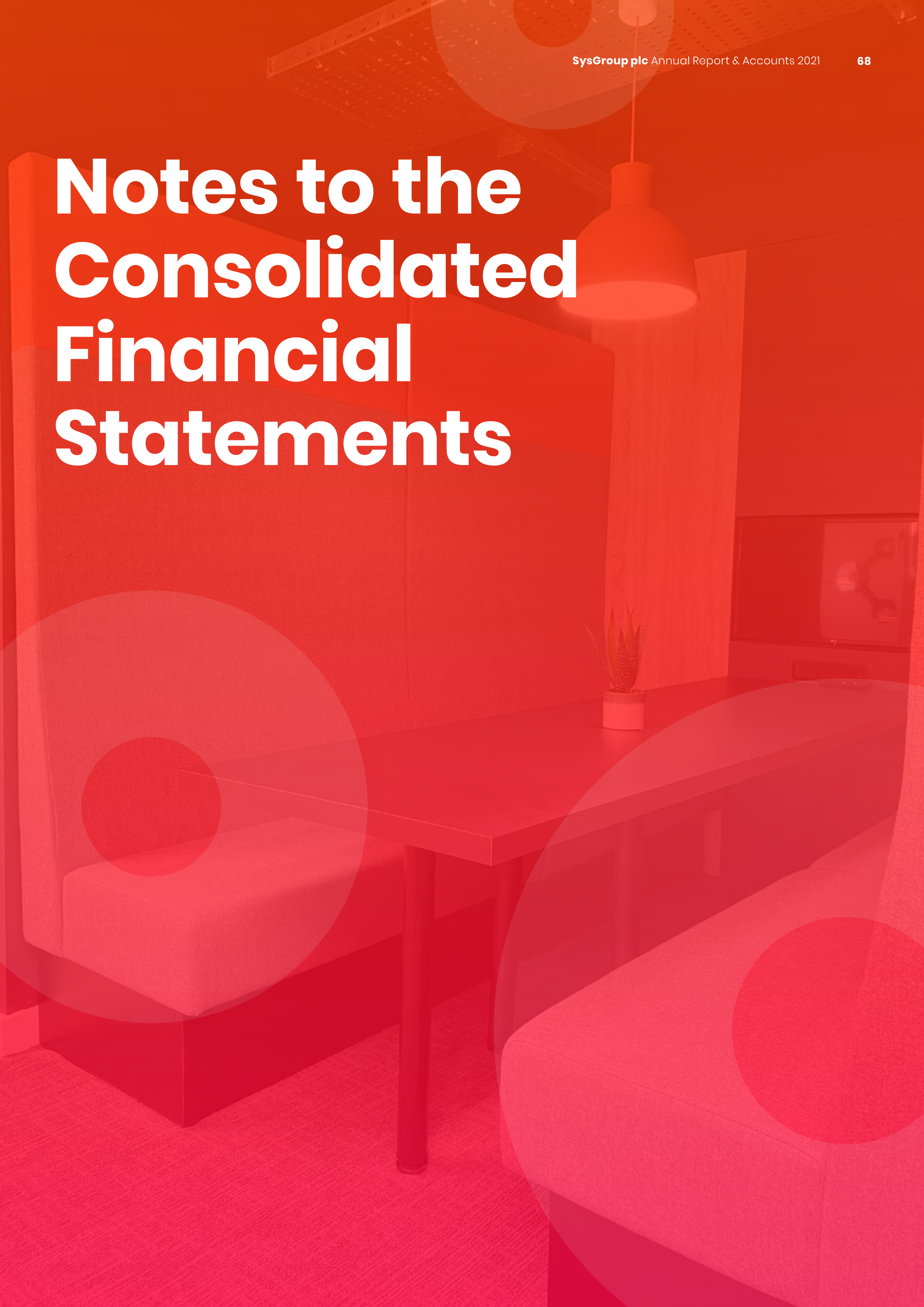
Company Statement of Cashflows



Company Statement of Cashflows

For the year ended 31 March 2021

	Notes	2021 Company £'000	2020 Company £'000
Cashflows used in operating activities			
Loss after tax		(113)	(159)
Adjustments for:			
Depreciation and amortisation		101	100
Finance costs		87	169
Share based payments		504	199
Taxation credit		(122)	-
Operating cashflows before movement in working capital		**457**	**309**
Decrease in trade and other receivables	16	151	148
Increase in trade and other payables	17	1,340	1,244
Operating cashflows before interest and tax		**1,948**	**1,701**
Interest paid and amortisation of arrangement fee on loan facility		(105)	(161)
Interest paid on lease liabilities		(6)	(8)
Operational cashflows		**1,837**	**1,532**
Cashflows from investing activities			
Payments to acquire property, plant & equipment	14	(32)	(33)
Acquisition of subsidiary companies	10	(975)	(1,911)
Amounts received in respect of previous acquisitions		-	252
Net cash used in investing activities		**(1,007)**	**(1,692)**
Cashflows from financing activities			
Payments for share buy-back	20	(201)	-
Repayment of loan facility		(224)	(224)
Capital/principal paid on lease liabilities		(37)	(27)
Net cash from financing activities		**(463)**	**(251)**
Net increase / (decrease) in cash and cash equivalents		**368**	**(411)**
Cash and cash equivalents at the beginning of the year		217	628
Cash and cash equivalents at the end of the year		**585**	**217**



Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

For the year ended 31 March 2021

1. Accounting Policies

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

Statement of Compliance

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

Basis of Preparation

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

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

Going Concern

The Directors have prepared the financial statements on a going concern basis which assumes that the Group and the Company will continue to meet liabilities as they fall due.

The Board recognises that the COVID-19 pandemic has had an unprecedented effect on the UK economy and despite the recent upturn in growth from the gradual lifting of lockdown restrictions there remains considerable uncertainty in economic outlook.

Over the past twelve months the Group has demonstrated that its operating model is broadly resilient to the economic impacts of the pandemic. The Group's products and services are typically considered to be critical IT infrastructure supplies to customers with circa 75% of revenue deriving from contracted managed IT services which is a continuous service supply and subject to twelve months to three-year contracts. The Group has a cash balance of £3.47m and a net cash position of £1.88m at 31 March 2021. The gross cash has increased by £0.4m since 1 April 2020 and the net cash has increased by £1.95m in the same period. Net cash includes a £1.2m Senior Term loan with Santander which is subject to quarterly loan covenant tests and calculated on a 12-month rolling basis for interest cover, net debt to Adjusted EBITDA leverage and debt service cover. All the bank covenants were met in the financial year and are forecast to be achieved in the foreseeable future.

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 2021. 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 that are relevant to its operations. 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 and in some cases not yet adopted by the UK Endorsement Board 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

IFRS 16 introduces a single lessee accounting model, where the Group recognises a lease liability and a right of use asset for all leases. The group has no significant leasing activities acting as a lessor. 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 2020	523	159	27	**709**
Additions	-	-	-	**-**
Disposals	-	(1)	(27)	**(28)**
Interest expense	19	8	-	**27**
Lease payments	(182)	(106)	-	**(288)**
At 31 March 2021	**360**	**60**	**-**	**420**

Repayment of lease liabilities are analysed as follows:

	2021 £'000
Due within 1 year	230
Instalments due after 1 year but no more than 5 years	190
Instalments due after 5 years	-

The weighted average incremental borrowing rate applied to lease liabilities on 1 April 2020 was 4%.

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.

Notes to the Consolidated Financial Statements Continued

Right of use assets	**Land & Buildings £'000**	**Plant & Machinery £'000**	**Motor Vehicles £'000**	**Total £'000**
At 1 April 2020	494	328	18	840
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation	(162)	(243)	(16)	(421)
At 31 March 2021	**332**	**85**	**2**	**419**

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.

Notes to the Consolidated Financial Statements Continued

Impairment of non-financial assets

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

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

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

Foreign currencies

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

Revenue

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

The Group 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:

Notes to the Consolidated Financial Statements Continued

Revenue category	Performance delivery	Revenue recognition
Managed services	Contracted managed IT services are delivered from an agreed commencement date and for a contracted time period, typically three years with a twelve-month automatic extension. Managed services is comprised of different streams including hosting and support but due to the nature of this revenue the streams are considered inter-dependant. The services are delivered uniformly over the duration of the contract and invoiced either quarterly or monthly in advance of the service delivery period.	Revenue is recognised evenly over the duration of the contract period based on the sales price as specified in the customer sales contract. This is on the basis that the customer receives and consumes the services evenly over the term of the contract. Amounts invoiced in advance of service delivery periods are accounted for as contract liabilities and recognised as revenue in the Consolidated Statement of Comprehensive Income to match the period in which the services are delivered.
Professional services	Professional services are delivered by a team of technical consultants based on a scope of work agreed and signed with a customer. The scope of work includes a specification of the work to be delivered, an estimation of the number of consultancy days required, and a sales value based on a day rate. Professional services are invoiced either in advance of work performed, in arrears after the service is delivered or as part of a larger project contract milestone.	Revenue is recognised based on chargeable days delivered using the sales day rate specified in the customer contract. Revenue recognition is therefore matched to the timing of when the customer receives the benefit of the consultancy services which is 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.

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

Notes to the Consolidated Financial Statements Continued

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.

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.

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

Notes to the Consolidated Financial Statements Continued

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.

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

Notes to the Consolidated Financial Statements Continued

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

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 this year and exercised their judgement to amend the CGUs following the integration of previously acquired businesses and changes to the Group's management and reporting structure in the current financial year. The Board have concluded that the Group has a single CGU of "Managed IT Services".

- 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

Notes to the Consolidated Financial Statements Continued

to the income statement in particular periods which could be significant. The Group have capitalised system development expenditure in the current and previous financial year in relation to Project Fusion, a project to integrate all of the legacy business systems into one new CRM, Marketing, Projects, Billing & Service Desk system. Phase I of Project Fusion went live during the current period and the System Development intangible asset is being amortised over a five-year useful life which the Directors consider appropriate for the Group's core business system..

- 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.

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

	Group		Company	
Financial assets	**2021 £'000**	**2020 £'000**	**2021 £'000**	**2020 £'000**
Assets held at amortised cost				
Cash and cash equivalents	3,473	3,036	585	217
Amounts due from subsidiaries	-	-	-	176
Trade receivables	916	1,427	-	-
Total financial assets	**4,389**	**4,463**	**585**	**393**
Financial liabilities				
Amortised cost				
Trade and other payables	1,801	2,778	546	569
Amounts due to subsidiaries	-	-	5,456	4,110
Loans and other borrowings	1,593	2,106	1,278	1,540
At fair value	**3,394**	**4,885**	**7,280**	**6,219**
Contingent consideration	-	1,000	-	1,000
Total financial liabilities	**3,394**	**5,885**	**7,280**	**7,219**

Notes to the Consolidated Financial Statements Continued

Contingent consideration	2021 £'000	2020 £'000
At 1 April	1,000	1,000
Credited to the income statement	(25)	-
Certus IT acquisition	(975)	-
At 31 March	**-**	**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.

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

Group At 31 March 2021	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	1,801	-	-	-	-
Loans and borrowings	155	464	580	394	-
Total	**1,956**	**464**	**580**	**394**	**-**
At 31 March 2020					
Trade and other payables	2,778	-	-	-	-
Contingent consideration	1,000	-	-	-	-
Loans and borrowings	123	396	830	757	-
Total	**3,901**	**396**	**830**	**757**	**-**

Company At 31 March 2021	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	546	-	-	-	-
Amounts due to subsidiaries	5,456	-	-	-	-
Loans and borrowings	108	323	432	415	-
Total	**6,110**	**323**	**432**	**415**	**-**

Notes to the Consolidated Financial Statements Continued

Company **At 31 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	96	299	389	756	-
Total	**5,735**	**299**	**389**	**756**	**-**

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.

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 VAR sales as a complementary business activity. The Board review the results of the operating segments at a revenue and gross profit level since the Group's management and operational structure supports both operational segments as Group functions. In this respect, assets and liabilities are also not reviewed on a segmental basis. All assets are located in the UK.

Notes to the Consolidated Financial Statements Continued

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

Revenue by operating segment	**2021 £'000**	**2021 %**	**2020 £'000**	**2020 %**
Managed IT Services	14,344	79%	15,092	77%
Value Added Resale	3,787	21%	4,400	23%
Total	**18,131**	**100%**	**19,492**	**100%**

No individual customer accounts for more than 6% of the Group's revenue.

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

	2021 £'000	**2021 %**	**2020 £'000**	**2020 %**
UK	18,091	100%	19,310	99%
Rest of World	40	0%	182	1%
Total	**18,131**	**100%**	**19,492**	**100%**

	2021 £'000	**2020 £'000**
Revenue		
Managed IT Services	14,344	15,092
Value Added Resale	3,787	4,400
Total	**18,131**	**19,492**
Gross profit		
Managed IT Services	9,593	10,281
Value Added Resale	907	920
Total	**10,501**	**11,201**

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

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

	2021 £'000	**2020 £'000**
Current contract liabilities relating to deposits from customers	1,549	1,465
Release of contract liability recognised in revenue which was included in the contract liability balance at the beginning of the year	1,465	1,238

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

Notes to the Consolidated Financial Statements Continued

5. Operating Profit

	2021 £'000	2020 £'000
Operating profit is after charging the following:		
Auditor's remuneration:		
Group:		
Audit	64	68
Other advisory	12	16
Company:		
Audit	4	4
Depreciation of tangible fixed assets	722	847
Amortisation of Intangible assets	1,294	1,321
Staff costs (note 7)	5,315	6,544
Share based payments (note 9)	504	199
Short term lease costs	38	55
Exceptional items (note 8)	82	475

6. Finance Expense

	2021 £'000	2020 £'000
Interest payable on lease liabilities	27	45
Interest payable on bank loan	53	134
Arrangement fee amortisation on bank loan	28	27
Total	**108**	**206**

Notes to the Consolidated Financial Statements Continued

7. Staff Numbers & Costs

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

	2021	2020
Technical Support	81	84
Sales and Marketing	20	22
Administration	15	14
Total	**116**	**120**

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

	2021 £'000	2020 £'000
Wages and salaries	4,631	5,757
Social security costs	508	627
Benefits in kind	50	59
Pension benefits	126	101
Share based payment expense	504	199
Total	**5,819**	**6,743**

Total staff costs for the Company are £3,497,000 (FY20: £2,781,000) and average staff numbers for the Company are 73 (FY20: 60).

Directors	2021 £'000	2020 £'000
Fees and salaries	552	520
Social security costs	53	48
Benefits in kind	3	3
Pension benefits contributions	14	14
Share based payment expense	464	186
Total	**1,086**	**771**

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.
The emoluments of the highest paid Director are £261,000 (FY20: £250,000).

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 2021 was £10,000 (FY20: £10,000).

Notes to the Consolidated Financial Statements Continued

8. Exceptional Items

	2021 £'000	2020 £'000
Acquisitions	-	85
Integration and restructuring	82	390
Total	**82**	**475**

The Group has incurred exceptional costs during the year of £82,000 (FY20: £475,000) which are in relation to the exit of the Bristol office and employee costs incurred from the integration of the senior management team.

9. Share Based Payments & Warrants

The Company has granted share options to the Executive Directors under LTIP Schemes and Group employees under an EMI Scheme. 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. For new share options issued in the year, the volatility was estimated using the previous twelve months of the Group's share price.

EMI Scheme

Share options can be granted to employees of the Group at the discretion of and with approval from the Remuneration Committee. For EMI share 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 28.2p per share.

			No. of Ordinary Shares			
Grant date	**Exercise period**	**Exercise price**	**At 31 March 2020**	**Granted**	**Waived**	**At 31 March 2021**
17/03/2014	17/03/17 to 11/12/24	60.0p	3,750	-	-	3,750
21/02/2016	21/02/16 to 20/02/26	55.2p	11,875	-	-	11,875
02/03/2018	02/03/21 to 01/03/28	35.5p	30,000	-	-	30,000
26/11/2018	26/11/21 to 25/11/28	42.5p	311,000	-	(71,000)	240,000
16/04/2020	16/04/23 to 15/04/30	1.0p	-	450,000	(300,000)	150,000
Total			**356,625**	**450,000**	**(371,000)**	**435,625**

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

Number of instruments granted	3,750	11,875	30,000	240,000	150,000
Grant date	17-Mar-14	21-Feb-16	02-Mar-18	26-Nov-18	16-Apr-20
Expiry date	17-Mar-17	20-Feb-19	01-Mar-21	26-Nov-21	16-Apr-23
Contract term (years)	10	10	10	10	10
Exercise price	60p	55.2p	35.5p	42.5p	1.0p
Share price at granting	85p	70.8p	35.5p	42.5p	27.0p
Annual risk-free rate (%)	5.0%	5.0%	5.0%	5.0%	5.0%
Annual expected dividend yield (%)	0%	0%	0%	0%	0%
Volatility (%)	24%	24%	24%	24%	24%
Fair value per grant instrument	29.0p	40.4p	17.2p	20.5p	26.4p

Notes to the Consolidated Financial Statements Continued

Executive LTIP Options

The Remuneration Committee is responsible for establishing the Executive LTIP Schemes and also sets the targets by which the performance of the Executive Directors is measured. The award of share options to the Executive Directors is governed by the LTIP Scheme Rules. Further information on the Schemes is presented in the Directors' Remuneration report. The weighted average exercise price of options in issue is 1.0p per share.

Executive LTIP Options			No. of Ordinary Shares			
Grant date	**Exercise period**	**Exercise price**	**At 31 March 2020**	**Granted**	**Waived**	**At 31 March 2021**
28/06/2018	08/07/20 to 28/06/28	1.0p	750,000	-	-	750,000
16/07/2018	08/07/20 to 16/07/28	1.0p	450,000	-	-	450,000
15/07/2019	08/07/20 to 14/07/29	1.0p	400,000	-	-	400,000
08/07/2020	08/07/22 to 07/07/30	1.0p	-	400,000	-	400,000
Total			**1,600,000**	**400,000**	**-**	**2,000,000**

Number of instruments granted	750,000	450,000	400,000	400,000
Grant date	28-Jun-18	16-Jul-18	15-Jul-19	08-Jul-20
Exercise date	08-Jul-20	08-Jul-20	08-Jul-20	08-Jul-22
Contract term (years)	10	10	10	10
Share price at granting	1.0p	1.0p	1.0p	1.0p
Annual risk-free rate (%)	41.5p	46.5p	42.0p	33.0p
Annual expected dividend yield (%)	5.0%	5.0%	5.0%	5.0%
Volatility (%)	24%	24%	24%	24%
Fair value per grant instrument	40.9p	43.7p	41.4p	32.4p

Share warrants

At 31 March 2021 there were 140,000 outstanding warrants to subscribe for the ordinary share capital of the Company, of which 2,500 were held by Michael Edelson, Non-Executive Director.

		No. of Warrants and Exercise price
Grant date	**Exercise period**	**200p**
09/01/2012	08/01/2022	140,000

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.

Notes to the Consolidated Financial Statements Continued

10. Acquisitions

In February 2019, the Company acquired 100% of the share capital of Certus IT Limited ("Certus"), and the parties agreed an earn-out mechanism for a period of twelve months post-acquisition based on profit performance targets. In February 2020 the earn-out period was completed and Certus successfully achieved the maximum EBITDA target. The company paid £975,000 to the Sellers in full settlement of the contingent consideration during H1 FY21.

11. Earnings Per Share

	2021	2020
Profit/(loss) for the financial year attributable to shareholders	£240,000	(£122,050)
Weighted number of issued equity shares	49,234,036	49,419,690
Weighted number of equity shares for diluted EPS calculation	51,811,233	51,734,950
Adjusted basic earnings per share (pence)	3.5p	3.4p
Basic earnings per share (pence)	0.5p	(0.2p)
Diluted earnings per share (pence)	0.5p	(0.2p)

The weighted number of issued equity shares and the weighted number of shares for the diluted calculation both exclude the Treasury shares held by the Company in accordance with accounting standards.

	2021 £'000	2020 £'000
Profit/(loss) after tax used for basic earnings per share	240	(122)
Amortisation of intangible assets	1,294	1,321
Exceptional items	82	475
Share based payments	504	199
Tax adjustments	(376)	(216)
Adjusted profit used for Adjusted Earnings per Share	**1,744**	**1,657**

12. Taxation

	2021 £'000	2020 £'000
Current tax		
Current tax - current year	260	128
Adjustments in respect of prior years	16	(107)
Total current tax charge	**276**	**21**
Deferred tax		
Deferred tax - temporary differences	(311)	(133)
Deferred tax credit	**(311)**	**(133)**
Total tax credit	**(35)**	**(112)**

Notes to the Consolidated Financial Statements Continued

The effective tax rate for the year to 31 March 2021 is lower (2020: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2021 £'000	2020 £'000
Profit/(loss) on ordinary activities before tax	**205**	**(234)**
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (2019:19%)	39	(44)
Effects of:		
Expenses not deductible	53	25
Prior year adjustment	17	(107)
Re-measurement of deferred tax due to changes in UK rate	51	85
Deferred tax asset on share-based payments	(122)	-
Use of brought forward losses	(73)	(71)
Total tax credit	**(35)**	**(112)**

The Group recognised deferred tax assets and liabilities as follows:

	2021 £'000	2020 £'000
Deferred tax liability on customer relationships	(927)	(1,149)
Deferred tax asset on share-based payments	122	-
Capital allowances timing differences	(84)	(51)
Deferred tax liability	**(889)**	**(1,200)**

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:

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

	Capital allowances timing differences £'000	Customer relationships £'000	Total £'000
Balance at 1 April 2020	(51)	(1,149)	**(1,200)**
Credited to statement of comprehensive income	(33)	222	**189**
Deferred tax recognised on acquired intangible assets	122	-	**122**
Balance at 31 March 2021	**38**	**(927)**	**(889)**

Factors affecting future tax charges:
Deferred tax balances are recognised at 19% (2020: 17%) due to the cancellation of the planned reduction in tax rate to 17%. The government further announced in the Spring Budget 2021 that from 1 April 2023, the corporation tax rate would increase to 25% from 2023.

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 2019	**223**	**198**	**8,010**	**15,508**	**23,939**
Additions	184	6	-	(277)	(87)
Acquisitions	-	-	1,146	323	1,469
At 31 March 2020	**407**	**204**	**9,156**	**15,554**	**25,321**
At 1 April 2020	**407**	**204**	**9,156**	**15,554**	**25,321**
Additions	395	1	-	-	396
At 31 March 2021	**802**	**205**	**9,156**	**15,554**	**25,717**
Accumulated amortisation					
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**
At 1 April 2020	**215**	**181**	**3,183**	**-**	**3,579**
Charge for the year	49	20	1,225	-	1,294
At 31 March 2021	**264**	**201**	**4,408**	**-**	**4,873**
Net book value					
At 31 March 2020	**192**	**23**	**5,973**	**15,554**	**21,742**
At 31 March 2021	**538**	**4**	**4,748**	**15,554**	**20,844**

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

Cash-Generating Units

Goodwill and intangible assets are allocated to CGUs in order to be assessed for potential impairment. During the year the Directors reconsidered the CGUs within the Group following the unification of all Group management, systems, reporting and operations. The Group has a Senior Leadership Team that manages the SysGroup business within a single operational and delivery structure having fully integrated the previously acquired Certus IT and Hub Network Services ("HNS") businesses. The Board of Directors review the financial and operating performance of the Group as a single performing unit which reflects how the business is managed and controlled. On 31 March 2021, the businesses, assets and liabilities of Certus IT and HNS were hived up to SysGroup Trading Limited.

In view of these developments, the Directors concluded that the CGUs which represented these businesses at the "statutory entity" level were no longer appropriate and that the Group has a single CGU of "Managed IT Services". As the Group acquires new businesses, they will form their own CGU until they have been integrated into the Group's core operational structure.

Notes to the Consolidated Financial Statements Continued

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

	Allocation of goodwill		Carrying value of assets	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Managed IT Services	15,554	9,727	19,331	10,892
Certus IT	-	5,504	-	8,341
HNS	-	323	-	1,378
Total	**15,554**	**15,554**	**19,331**	**20,611**

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% (FY20: 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 yearend 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 review are detailed below. The CGU has over 70% headroom of VIU compared to the carrying value of assets. For this headroom to reduce to nil, the discount rate would have to increase to 14.9% for Managed IT Services, or future CGU profits would have to be significantly below current forecast levels. The CGU has been tested for profit sensitivity and would remain with VIU headroom in the event of zero revenue growth being achieved in years 2-5.

Notes to the Consolidated Financial Statements Continued

2021	Managed IT Services	Certus IT	HNS
Discount rate	9.50%	–	–
Revenue growth rate year 2 to year 5	5.00%	–	–
Terminal growth rate	2.50%	–	–
2020			
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%

14. Property Plant & Equipment

Cost	Office Equipment £'000	Right of Use Lease £'000	Freehold Property £'000	Motor Vehicles £'000	Total £'000
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**
At 1 April 2020	1,959	1,942	382	–	4,283
Additions	179	–	–	–	179
At 31 March 2021	**2,138**	**1,942**	**382**	**–**	**4,462**
Accumulated depreciation					
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**
At 1 April 2020	**1,348**	**1,102**	**9**	**–**	**2,459**
Charge for the year	293	421	8	–	722
At 31 March 2021	**1,641**	**1,523**	**17**	**–**	**3,181**
Net book value					
At 31 March 2019	**1,006**	**–**	**381**	**33**	**1,420**
At 31 March 2020	**611**	**840**	**373**	**–**	**1,824**
At 31 March 2021	**497**	**419**	**365**	**–**	**1,281**

Notes to the Consolidated Financial Statements Continued

Company

Cost	**Office Equipment £'000**	**Right of Use Lease £'000**	**Total £'000**
At 1 April 2019	**204**	**–**	**204**
Additions	33	–	33
Adoption of IFRS16	–	157	157
At 31 March 2020	**237**	**157**	**394**
At 1 April 2020	**237**	**–**	**394**
Additions	32	–	32
At 31 March 2021	**269**	**157**	**426**
Accumulated depreciation			
At 1 April 2019	**109**	**–**	**109**
Charge for the year	56	35	91
At 31 March 2020	**165**	**35**	**200**
At 1 April 2020	**165**	**35**	**200**
Charge for the year	58	35	93
At 31 March 2021	**223**	**70**	**293**
Net book value			
At 31 March 2019	**95**	**–**	**95**
At 31 March 2020	**72**	**122**	**194**
At 31 March 2021	**46**	**87**	**133**

15. Investments

Company	**2021 £'000**	**2020 £'000**
Investment in subsidiaries		
At start of year	24,895	23,235
Certus consideration adjustment	–	(251)
Additions	–	1,911
At 31 March	**24,895**	**24,895**

The recoverable amounts have been determined from discounted cash flow calculations based on cash flow projections from the approved annual operating plan covering the period to 31 March 2022. The principal assumptions can be found in note 13.

Notes to the Consolidated Financial Statements Continued

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

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

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

TNetplan Group Limited, SysGroup (EH) Limited and SysGroup (NH) Limited, all dormant companies in the prior year, were dissolved during the year. SysGroup (DIS) Limited (Company number 05743110) and System Professional Limited (Company number 08995906) have taken 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.

16. Trade & Other Receivables

Amounts due within one year	Group 2021 £'000	Company 2021 £'000	Group 2020 £'000	Company 2020 £'000
Trade debtors	916	-	1,427	-
Other debtors	-	54	-	46
Amounts due from subsidiaries	-	-	-	176
Prepayments	812	109	1,299	92
Deferred tax asset	-	122	-	-
Total	**1,728**	**285**	**2,726**	**314**

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

Debtor impairment disclosure	Group 2021 £'000	Company 2021 £'000	Group 2020 £'000	Company 2020 £'000
Trade debtors	1,183	-	1,640	-
Impairment provision	(267)	-	(213)	-
Total	**916**	**-**	**1,427**	**-**

Notes to the Consolidated Financial Statements Continued

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	281	902	**1,183**	-	-	**-**
Expected credit loss	(1)	(266)	**(267)**	-	-	**-**
Net carrying amount	**280**	**636**	**916**	**-**	**-**	**-**

17. Trade & Other Payables

Amounts due within one year	**Group 2021 £'000**	**Company 2021 £'000**	**Group 2020 £'000**	**Company 2020 £'000**
Trade payables	811	50	1,847	147
Amounts due to subsidiaries	-	5,456	-	4,110
Accruals	990	496	931	422
Total financial liabilities, excluding loans and borrowings measured at amortised cost	1,801	6,002	2,778	4,679
Corporation tax	254	-	158	-
Other taxes and social security costs	628	106	552	86
Total	**2,683**	**6,108**	**3,488**	**4,765**

Contingent consideration	**Group 2021 £'000**	**Company 2021 £'000**	**Group 2020 £'000**	**Company 2020 £'000**
Certus IT Ltd	-	-	1,000	1,000

The fair value of contingent consideration in the prior year relates to the acquisition of Certus IT Limited and was 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 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 2021 and 31 March 2020.

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

Notes to the Consolidated Financial Statements Continued

18. Loans and Borrowings

Non-current	Group 2021 £'000	Company 2021 £'000	Group 2020 £'000	Company 2020 £'000
Lease liabilities	190	64	441	104
Bank loan	757	757	1,146	1,146
Total	**947**	**821**	**1,587**	**1,250**

Current	Group 2021 £'000	Company 2021 £'000	Group 2020 £'000	Company 2020 £'000
Lease liabilities	230	40	268	39
Bank loan	416	416	251	251
Total	**646**	**456**	**519**	**290**

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 £26,479 (2020: £26,000) for a shared cost of corporate services received by SysGroup plc and Praetura Capital LLP. At 31 March 2021, the balance outstanding was £nil (31 March 2020: £nil).

20. Share Capital

Equity share capital	Group 2021 Number	Group 2021 £'000
Allotted, called up and fully paid ordinary shares of £0.01 each		
At 1 April 2019	49,419,690	494
At 31 March 2020	**49,419,690**	**494**
At 31 March 2021	**49,419,690**	**494**

In December 2020, the Company purchased 560,000 of its own ordinary shares of £0.01 each for consideration of £201,000. These shares are being held as Treasury shares and will be used to settle future issues of share options to employees as they vest and become exercised.

Notes to the Consolidated Financial Statements Continued

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

	1 April 2020 £'000	Non cashflow movements £'000	Cashflow £'000	Reclass £'000	31 March 2021 £'000
Cash and cash equivalents	**3,036**	**-**	**437**	**-**	**3,473**
Debt due in less than one year:					
Bank loans	(251)	27	224	(416)	(416)
Lease liabilities	(268)	-	288	(250)	(230)
Contingent consideration	(1,000)	25	975	-	-
Debt due in more than one year:					
Bank loans	(1,146)	(27)-	-	416	(757)
Lease liabilities	(440)	-	250	250	(190)
Total	**(69)**	**25**	**1,924**	**-**	**1,880**

22. Ultimate Controlling Party

The Directors consider the company and Group have no controlling shareholder and there's 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 16 September 2021 at 10.00 am at 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 6 will be proposed as ordinary resolutions and Resolutions 7 and 8 will be proposed as special resolutions.

Ordinary Business

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

1. **TO** receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 March 2021 together with the Directors' and Auditors' Reports contained therein.

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

3. **TO** reappoint Martin Audcent as a director who retires by rotation.

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

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

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

    a. comprising equity securities (as defined by section 560 of the Companies Act 2006) up to an aggregate nominal amount of £325,730 (such amount to be reduced by the nominal amount of any Relevant Securities allotted pursuant the authority in resolution 6.b below) in connection with an offer by way of a rights issue:

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

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

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

    b. in any other case, up to an aggregate nominal amount of £162,865 (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in resolution 6.a above in excess of £162,865),

Notice of Annual General Meeting Continued

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

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

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

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

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

Special Business

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

7. **THAT**, subject to the passing of resolution 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 7.a above) to any person up to an aggregate nominal amount of £24,429.

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.

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

a. the maximum aggregate number of Ordinary Shares that may be purchased is 4,885,969;

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
23 August 2021

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 14 September 2021. Changes to entries on the relevant register of securities after 10.00 am 14 September 2021 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

4. As at 5.00pm on 20 August 2021, 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, of which 560,000 are treasury shares in respect of which the Company is not permitted to exercise voting rights (such treasury shares equate to approximately 1.15 per cent of the Company's issued share capital (excluding treasury shares)). 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 20 August 2021 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 https://www.sysgroup.com/about-us/investors