# Annual Report & Accounts 2022

**SysGroup plc**
Walker House
Exchange Flags
Liverpool L2 3YL

**Company Number**
06172239

**www.sysgroup.com**

SysGroup

# Contents

# Directors, Secretary & Advisers

# Directors, Secretary & Advisers

## Board of Directors

**Michael Edelson**
Non-Executive Chairman

**Adam Binks**
Chief Executive Officer

**Martin Audcent**
Chief Financial Officer

**Mark Quartermaine**
Non-Executive Director

**Michael Fletcher**
Non-Executive Director

## Company Secretary
Martin Audcent

## Registered Office
Walker House
Exchange Flags
Liverpool L2 3YL

## Company Number
06172239

## Legal Entity Identifier (LEI)
213800D18GPZZJR9SH55

## Company Website
www.sysgroup.com

## Nominated Adviser & Broker
**Zeus Capital**
82 King Street
Manchester M2 4WQ

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

## Lawyers
**Hill Dickinson LLP**
50 Fountain Street
Manchester M2 2AS

## Independent Auditor
**BDO LLP**
3 Hardman Street
Manchester M3 3AT

## Bankers
**Santander (UK) plc**
298 Deansgate
Manchester M3 4HH

## Financial PR Advisers
**Alma PR**
71-73 Carter Lane
London EC4V 5EQ

# Highlights

# Highlights

## Financial

**Revenue**

**£14.75m**

2021 £18.13m

**-19%**

**Gross profit**

**£8.92m**

2021 £10.50m

**-15%**

**Adjusted EBITDA[1]**

**£2.82m**

2021 £2.91m

**-3%**

**Adjusted PBT[2]**

**£2.04m**

2021 £2.09m

**-2%**

**Cashflow from operations**

**£2.47m**

2021 £2.93m

**-16%**

**Net cash[4]**

**£2.99m**

2021 £1.88m

**+59%**

| Highlight | 2022 | 2021 | Change % |
|---|---|---|---|
| Revenue | **£14.75m** | £18.13m | **(19%)** |
| Recurring revenue as a % of total revenue | **87%** | 79% | **+8%** |
| Gross profit | **£8.92m** | £10.50m | **(15%)** |
| Adjusted EBITDA[1] | **£2.82m** | £2.91m | **(3%)** |
| Adjusted EBITDA[1] Margin % | **19%** | 16% | **+3%** |
| Adjusted PBT[2] | **£2.04m** | £2.09m | **(2%)** |
| Adjusted Basic EPS[3] | **3.6p** | 3.5p | **+3%** |
| Profit before tax | **£0.60m** | £0.21m | **+192%** |
| Basic EPS | **0.9p** | 0.5p | **+80%** |
| Cashflow from operations | **£2.47m** | £2.93m | **(16%)** |
| Net cash[4] | **£2.99m** | £1.88m | **+59%** |

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 represents cash balances less bank loans, lease liabilities and contingent consideration.

# **Highlights** Continued

## Operational

- Completion of the Group's project to deliver a unified platform of systems ("Project Fusion"), delivering significant benefits across all operations
- Successful migration to SysCloud 2.0, the Group's multi-tenanted cloud platform which went fully live in May 2022, delivering higher client performance and Group efficiency with greater capacity from less physical space
- Unified sales and marketing hub opened in Manchester with a number of highly targeted campaigns planned for FY23 to drive new customer engagement and continue to build sales pipeline
- Customer approval scores comfortably ahead of 97% target throughout entire year
- Office rationalisation complete with refurbishment programme delivered in Newport and closure of Telford

## Post Period-End Developments

- Acquisition of Edinburgh based Truststream Security Solutions Limited ("Truststream) - a fast growing provider of cyber security solutions which enhances SysGroup's security services and gives the Group a presence in Scotland from which to grow
- Acquisition of Independent Network Solutions Limited, which trades as Orchard Computers ("Orchard"), further enhancing the Group's presence in the Southwest region and complementing its South Wales based operations
- Both acquisitions expected to be immediately earnings enhancing
- Telford office successfully closed which will generate a small operational saving

# Strategic Report

Strategic Report

# Chairman's Statement

The financial performance of SysGroup over the past year, whilst highly credible, does not represent the wider progress made. Revenue decreased as expected due to the impact of the pandemic but through strong management the Group was able to deliver an Adjusted EBITDA performance in line with management's expectations coupled with stronger than expected cash generation, whilst also investing in the business to prepare it for future growth.

Despite the short-term frustrations caused by the pandemic and wider economic uncertainty, the market opportunity for SysGroup has not diminished and, in fact, continues to grow. With this in mind, the management team has focused on optimising the Group's operations in readiness for when the market returns to growth, and the increased activity seen towards the end of the financial year are grounds for cautious optimism.

Our people are the bedrock of the business and the culture that pervades across SysGroup has helped us to endure difficult conditions with great dignity and professionalism. It is their focus which has resulted in customer satisfaction levels comfortably ahead of our target and on behalf of the Board, I offer them my sincere thanks.

The Board is pleased to present its first ESG report this year and in the forthcoming year we anticipate focusing on how SysGroup can further improve as a good corporate citizen. It is the first step in our commitment to do more and having reported our baseline position this year we will now progress to establishing the measures we are taking and KPI's against which we will be measured and be held accountable. It is an exciting and important step in our evolution.

The two acquisitions completed post the period end complement our existing operations, bringing talented teams, enhanced offering and geographical reach as well as new clients and strong recurring revenue streams. Further, they signal our ongoing commitment to the Group's buy and build strategy and to act as a consolidator in a highly fragmented market. The pandemic and associated lockdowns subdued activity but we are starting to see increasing levels of M&A activity in our sector and are confident that further opportunities will present themselves.

**Michael Edelson**
Chairman
17 June 2022

Strategic Report

# Chief Executive Officer's Report

## Introduction

I am pleased to report a very robust performance for the Group despite a number of sector wide headwinds throughout the period. The resilience that SysGroup has shown exemplifies the continued demand for our core services, the quality of our service offering and our highly talented team. Alongside this performance we have further improved the operational structure of the business to enable us to drive growth as demand returns.

As a result of solid trading in the year, the Group achieved Adjusted EBITDA in line with management's expectations at £2.82m, which has been achieved despite the anticipated decrease in revenue to £14.75m. The strong Adjusted EBITDA performance has been driven by a greater mix of managed IT services, representing 87% of the Group's total revenue, with lower margin value added resale ("VAR") contributing the balance of 13% as businesses deferred asset refresh spending. It also reflects the synergies throughout the Group and careful control of overheads, whilst investing in areas that will drive future performance.

Cash conversion was again typically strong during the period, ending the year ahead of management's expectations with net cash of £2.99m. This performance was achieved in a financial year that was dominated by the effects of the global pandemic with economic uncertainty throughout and a return to office working only coming through in the second half.

We have used these difficult markets to focus on all areas within our control, to improve our business where possible and to ensure it is ideally placed to benefit as confidence and economic stability returns. I am pleased to say that we have achieved a huge amount and with customer engagement increasing on new project discussions and sales opportunities beginning to convert towards the end of the financial year, we are confident in our opportunity to succeed.

## Market

The pandemic has greatly enhanced the demand for digital transformation and managed IT services with businesses needing reliable technology solutions to ensure the continued smooth running of their operations in an increasingly hybrid working environment. The pace of the transition away from on-premise IT to cloud and hybrid solutions has continued as flexible working becomes the norm for many businesses and cloud-based services offer the efficiency and practicality required to accommodate businesses' evolving needs.

Security is increasingly important to businesses as people continue to work from home, presenting greater threats through increased access points as well as traditional dangers through email and web. Similarly, connectivity, storage and backup are focus areas where customers need the right solutions for their staff to be effective.

With the technology landscape becoming increasingly complicated and solutions evolving continuously, outsourced managed IT services are recognised as the go-to solution. SysGroup's well established reputation as an industry leader in this field will ensure accelerated growth as spending commitment returns.

## **Chief Executive Officer's Report** Continued

### Strategy

The Group's strategy is to consolidate its position as a leading managed IT services, cyber security and cloud hosting provider to UK businesses. We are dedicated to remaining up to date with all recent developments in technology to pre-empt our customers' demands, so as to offer each individual organisation the solutions they require in a timely manner.

We have a clear understanding of the market that we can best serve with our customers typically ranging from 50 to 500 and above employees.

We place a great emphasis on understanding and servicing the needs of existing customers through dedicated field-based account management resources. As a result, we continue to enjoy very high levels of recurring business and our customer satisfaction levels remained comfortably ahead of our 97% target throughout the entire year, meaning we are a highly trusted partner to our clients and can benefit from any increasing needs within their IT infrastructure.

Our sales teams have been strengthened and during the year we were pleased to open the new office in Manchester which creates a unified marketing and sales team from which to target new clients. Working closely together provides the unit with the ability to be more agile and react quickly to any changes in market demand. The hub is still in its infancy but there are a number of key marketing campaigns scheduled for the new financial year centred around our core competencies and tailored specifically towards individual sector verticals. We are confident these will help us reach new audiences, encourage engagement and build our sales pipeline.

Through a combination of existing customer focus, increased relevant service offerings and targeted new client acquisition we are confident that we can deliver solid and sustainable organic growth.

### Acquisitions

To support the Group's ambitious growth strategy, the Board continues to monitor the market for complementary acquisitions, backed by the strong bank support with increased credit facility and a solid shareholder register all supportive of the M&A strategy.

Our goal is to find businesses with distinct characteristics that mirror those of SysGroup. Typically, they will benefit from high levels of recurring income with an engaged and talented team and the opportunity to provide cross-selling opportunities. Geographical reach is also a consideration in helping us to broaden our national sales coverage, as is the potential to enhance our existing product expertise.

Post period end, we were pleased to announce the acquisitions of Truststream and Orchard, prime examples of the characteristics described above. Both deals have significantly enhanced the existing service offering, creating additional cross-selling opportunities, bringing in new talent and expanding the Group's geographic reach into Scotland whilst enhancing the existing position in the Southwest.

The expansion of the business enables SysGroup to offer customers an enhanced suite of IT solutions, providing a competitive edge over competitors and better positioning the Company to take advantage of the market opportunities in the near future. We continue to engage with potential targets and assess businesses that could enable the continued growth of the Group and ensure that our customers continue to receive the best possible service available.

## Operational focus

Alongside the opening of the Manchester sales hub, this year has seen a number of strategic developments completed and from which we are already experiencing significant benefits. We were able to close down our Telford office, with all customers continuing to be supported from other Group locations and we refurbished the offices in Newport to create a greater working environment for the team.

In March 2022 we completed Project Fusion, the project to deliver a unified platform of systems across the Group. In FY21, we successfully implemented a new and unified CRM, marketing, service desk, projects and billing system. In FY22 we completed the project with further functionality for marketing automation, people management and reporting. As well as providing greater transparency and efficiency across the existing Group, the platform has enabled us to immediately commence the integration programme for the two recent acquisitions. Systems integration for both Truststream and Orchard are both underway with people integration already completed and CRM, service desk and billing on track to be completed by the end of the first half of the current financial year.

SysCloud 2.0, the Group's multi-tenanted cloud platform went fully live and operational in May 2022. SysGroup offers full cloud support from the environment, platform, virtualisation up to the operating system for infrastructure as a service (IaaS) or database platforms for platform as a service (PaaS). We support the full cloud lifecycle from design, deployment, provisioning of the platform as well as customers' applications and data to ongoing service and change management. SysCloud 2.0 provides our clients with even better performance and provides the Group with greater efficiency, giving more capacity from less physical space.

## People

As a people led business, our staff are at the very centre of everything that we do and we have gone to great lengths to both attract and retain the best talent available in the market.

The recruitment market remains challenging with many companies competing to hire the best talent available and SysGroup is committed to investing in this regard. We have revamped our recruitment process and moved to a direct sourcing model with the addition of our own talent acquisition partner. The aim is to give us better access to a wider talent pool and reduce our overall cost of talent acquisition.

I am proud of the commitment our team members have shown in the face of challenging conditions brought about by the pandemic. Our people have returned to the office, largely on a full-time basis and I am pleased to see the benefits of in-person collaboration and innovation coming to fruition. The quality of the work produced by our team is industry-leading and this is reflected in our customer satisfaction levels remaining above our 97% target throughout the 12 month period.

## **Chief Executive Officer's Report** Continued

### ESG

SysGroup is a people first business and we hold social responsibility at the very core of our ethos. As such we continue to push ourselves to be a more conscientious business and welcome accountability as we work towards becoming a more socially impactful business. We are dedicated to our sense of purpose and are proud to have supported our team throughout the pandemic without utilising the furlough scheme.

As part of our ongoing social responsibility programme, the Group has commenced an ESG programme and has chosen to voluntarily disclose our ESG activities and position. A copy of our summary ESG report is available to view on our website and the full ESG report will be available alongside publication of our annual report and accounts. We believe that being a good corporate citizen, good employer and working to reduce carbon emissions are of the utmost importance and are committed to improving in this regard. Through this disclosure, we will establish a baseline for reporting moving forward as we set out actionable KPI's and execute on this commitment.

As a technology focused business, our environmental impact is relatively low and our recently refurbished offices allow us to reduce our carbon emissions further. Our management team, staff and stakeholders are collectively committed to further combat climate change and we look forward to setting our path to doing so in the near future.

### Summary and Outlook

The Group has delivered strong financial results with high levels of Adjusted EBITDA and cash generation throughout a prolonged difficult period caused by the pandemic and the ongoing macro-economic situation which are beyond the Group's control. We are well aware that challenges remain. There can be no doubt though that SysGroup today is a stronger business than at the onset of the global pandemic.

We have the right service portfolio and technical expertise to meet the individual and evolving needs of the UK mid-market. We have an established and engaged customer base that we can provide a broader range of solutions to and we have a unified sales and marketing team who can help us convey the SysGroup value proposition to a broader audience through concise, targeted campaigns. We also remain committed to exploring further M&A opportunities which can accelerate this growth.

Towards the end of the last financial year we began to see the green shoots of recovery for new business, with existing clients beginning to engage on projects and an increasing pipeline of opportunities from new potential clients. Whilst these are still early days and we must remain cautious, I am confident that we will see improvements to both revenue and EBITDA performance in this new financial year.

**Adam Binks**
Chief Executive Officer
17 June 2022

Strategic Report

# Chief Financial Officer's Report

## Group Statement of Comprehensive Income

The Group delivered revenue of £14.75m (FY21: £18.13m), a decrease of 19% on the prior year and an Adjusted EBITDA of £2.82m (FY21: £2.91m), a decrease of 3% against the FY21 performance.

This has been another challenging period as COVID restrictions continued for most of the year, and the economy was affected by high inflation and rising energy costs. During H1 the Government implemented the roadmap for lifting lockdown to return the public and businesses to normal home and working life but throughout the year most businesses continued to operate homeworking policies which limited the ability to have valued face to face meetings or attend business facilities. Whilst SysGroup continued to operate with minimal disruption throughout the COVID period and without using the furlough scheme, there has been a negative impact on revenue as customers and prospects deferred spending decisions. Contract churn also increased beyond normal levels as customers were forced to reduce or cancel their contracted services on renewal. This arose from their need to save costs to manage their financial position or from a reduction in their staff numbers meaning less resources where required.

Managed IT services revenue was £12.85m (FY21: £14.34m), a decrease of 10% on the prior year. We entered this financial year at a lower level of contracted income than last year due to the higher level of churn in FY21 and as previously described we continued to see contract churn in FY22. With most businesses continuing to enforce homeworking policies, this also meant that our sales and technical consulting teams were unable to visit many of our customers until Q4 of FY22. This has eased as we have entered FY23 with companies gradually returning to the office and firmly placing IT strategy on board agendas with an increased interest in cloud hosted solutions. Value added resale ("VAR") revenue was £1.90m (FY21: £3.79m), a decrease of 50%, as companies deferred spending decisions on tech refresh activity and extended the useful life of on-premise IT assets.

In the short and medium term, managed IT services and VAR revenue is expected to increase but in the long term, as businesses opt to move more towards our higher margin cloud hosted service offerings, we can expect to see VAR revenues continue to trend down.

The revenue mix of 87% managed IT services and 13% VAR is ahead of the Group's target business model of 75% managed IT services and 25% VAR which was predominantly due to the lower relative VAR sales in the year. The FY21 revenue mix was 79%:21%.

| **Revenue by Operating Segment** | **2022 £'000** | **2022 %** | **2021 £'000** | **2021 %** |
|---|---|---|---|---|
| Managed IT Services | 12,845 | 87% | 14,344 | 79% |
| Value Added Resale | 1,901 | 13% | 3,787 | 21% |
| **Total** | **14,746** | **100%** | **18,131** | **100%** |

Gross profit was £8.92m with a gross margin of 60.5% (FY21: £10.50m and 57.9% respectively). The higher gross margin percentage reflects good cost control and an increase in revenue mix towards higher margin managed IT services. The gross margin for managed IT services was 66.3% (FY21: 66.9%) and the gross margin for VAR was 21.5% (FY21: 23.9%).

Adjusted operating expenses of £6.10m were £1.49m below last year (FY21: £7.59m) with a ratio of overhead to revenue of 41.4% (FY21: 41.8%). The main driver for this was a reduction in employee costs as headcount reduced in full realisation of post-acquisition synergies and we had a slightly higher vacancy rate in the face of a challenging recruitment market. The Group made no use of the government furlough scheme throughout the COVID period. Other overhead costs were well managed throughout the year and we continued to invest into strategic areas of value such as employee training and development and the ESG programme. During the year we opened a new office in Manchester which has given us good presence in a strong tech sector location and the lease has been recognised under the IFRS16 lease accounting policy.

Adjusted EBITDA was £2.82m for the twelve months to 31 March 2022 which is slightly lower than FY21 Adjusted EBITDA of £2.91m. The Adjusted EBITDA margin was 19.1% in FY22 compared to 16.1% in FY21 which continues the progressive improvement in profit efficiency as the Group has scaled up and synergised the cost base.

The Group had no exceptional items in FY22 (FY21: £0.08m). Amortisation of intangible assets was £1.24m (FY21: £1.29m), of which £1.10m (FY21: £1.22m) relates to the amortisation of acquired intangible assets from acquisitions and £0.14m (FY21: £0.07m) relates to the amortisation of Project Fusion software development costs.

Finance costs of £0.13m remain low (FY21: £0.11m) as the term loan continued to amortise through fixed quarterly loan repayments and the remaining lease contracts are generally for office leases. The share-based payments charge of £0.20m for the year (FY21: £0.50m) relates to charges for the share options under the Executive Director LTIP and Employee Management Incentive schemes.

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.

| **Reconciliation of operating profit to Adjusted EBITDA** | **2022 £'000** | **2021 £'000** |
|---|---|---|
| Operating profit | 725 | 313 |
| Depreciation | 654 | 722 |
| Amortisation of intangible assets | 1,243 | 1,294 |
| **EBITDA** | **2,622** | **2,329** |
| Exceptional items | – | 82 |
| Share based payments | 195 | 504 |
| **Adjusted EBITDA** | **2,817** | **2,915** |

The Group has reported a statutory profit before tax of £0.60m which compares to a profit before tax of £0.21m in FY21, an increase of 192%. Whilst Adjusted EBITDA is slightly lower this year, profit before tax is higher due to the lower charges for depreciation, amortisation and share based payments.

## **Chief Financial Officer's Report** Continued

The table below shows the reconciliation of profit before taxation to Adjusted profit before tax.

| **Reconciliation of Profit before taxation to Adjusted Profit before tax** | **2022 £'000** | **2021 £'000** |
|---|---|---|
| Profit before taxation | 598 | 205 |
| Amortisation of intangible assets | 1,243 | 1,294 |
| Exceptional items | - | 82 |
| Share based payments | 195 | 504 |
| **Adjusted Profit before tax** | **2,036** | **2,085** |

Adjusted basic earnings per share was 3.6p (FY21: 3.5p) and basic earnings per share was 0.9p (FY21: 0.5p), both showing a marginal improvement on the prior year.

## Taxation

The Group has a tax charge of £0.15m (FY21: £0.04m credit) and this includes a £0.17m one-off deferred tax adjustment to reflect the increase in the corporation tax rate that will apply from 1 April 2023.

The corporation tax current charge has reduced this year to £0.03m (FY21: £0.28m). This reduction is partly from having a slightly lower trading profit but is also due to a £0.1m prior year adjustment and the availability of accelerated capital allowances using the new scheme put in place by the UK Government.

The deferred tax charge has increased to £0.12m (FY21: £0.31m credit) which includes the one-off £0.17m charge. This adjustment is to recognise the expected higher future tax liability which will arise from the increase in corporation tax rate to 25% in April 2023. The deferred tax charge also includes a £0.08m prior year adjustment for fixed asset timing differences, unrelated to the change in tax rate.

As an outlook, we expect the tax charge to increase in FY23 since brought forward trading losses have been fully utilised in FY22 and Project Fusion, which has allowed the Group to claim for R&D tax credits, has now been completed. Looking further out to FY24, we expect the tax charge to increase further since the rate of corporation tax increases on 1 April 2023 from 19% to 25% and the accelerated capital allowances scheme comes to an end.

## Cashflow & Net Cash

The Group had a strong net cash position of £2.99m at the end of the year, an increase of £1.11m from FY21 net cash of £1.88m, and had a gross cash balance of £4.13m (FY21: £3.47m). Cashflow from operations was £2.47m (FY21: £2.93m) and cash conversion of 88% was at the higher end of our target range of 80-90% (FY21: 103%).

Working capital continues to be managed well with debtor days at year end below the target level of 25 days and suppliers routinely paid in our monthly payment runs to agreed terms. Corporation tax paid was £0.16m (FY21: £0.10m) reflecting the general increase in the Group's tax liability. The cash outflow from investing activities of £0.89m (FY21: £1.55m) includes £0.30m (FY21: £nil) expenditure on office refurbishments for the Newport and Manchester offices, and £0.27m (FY21: £0.40m) of Project Fusion capitalised software development costs. Cashflow from financing activities includes interest payments, which have been re-categorised from operating activities in the Consolidated Cashflow Statement, and bank loan repayments which as expected, stepped up this financial year in accordance with the terms of the loan agreement.

## **Chief Financial Officer's Report** Continued

The Group's net cash position of £2.99m (FY21: £1.88m), an increase of 59% and £1.11m, reflects the strength of the business model for cash generation. We consider net cash to be a KPI of the business since the level of cash availability and 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** | **2022 £'000** | **2021 £'000** |
|---|---|---|
| Cash balances | 4,133 | 3,473 |
| Bank loans – current | (416) | (416) |
| Bank loans - non-current | (387) | (757) |
| Lease liabilities - equipment | (8) | (86) |
| Lease liabilities – property | (331) | (334) |
| **Net cash** | **2,991** | **1,880** |

| **Cash conversion** | **2022 £'000** | **2021 £'000** |
|---|---|---|
| Cashflow from operations | 2,468 | 2,931 |
| Adjustments: | | |
| Acquisition, integration and restructuring cashflows | - | 82 |
| **Cash generated from operations** | **2,468** | **3,013** |
| Adjusted EBITDA | 2,817 | 2,915 |
| **Cash conversion** | **88%** | **103%** |

## Cash conversion

We have previously reported our cash conversion ratio to include tax and interest payments as part of operating cash but we have made the decision to amend the calculation to be more consistent with our listed peer group by measuring operating cashflows generated after movements in working capital. The cash conversion ratio is therefore calculated as cashflow from operations, adjusted for exceptional cashflow, as a percentage of Adjusted EBITDA. This performance measure is reported as a KPI to the Board of Directors each month and is a key indicator of the quality of adjusted profit as it converts into cash. In FY22 cash conversion was 88% (FY21: 103%).

## Consolidated Statement of Financial Position

The Group's net assets of £21.3m at 31 March 2022 represent an increase of £0.7m compared to the prior year (FY21: £20.6m).

Non-current assets of £21.35m (FY21: £22.13m) have reduced by £0.78m and this movement represents capital additions of £1.13m less £1.90m of depreciation charge and amortisation of intangible assets. During the year, we invested £0.86m of tangible capex into our business and office locations. As well as investing £0.30m in the office refurbishments, we also invested £0.13m to significantly enhance our multi-tenanted cloud hosting platform for greater capacity and resilience. We invested a further £0.27m (FY21: £0.39m) into Project Fusion as capitalised development costs and the final phase of Project Fusion was completed in March 2022.

Working capital was managed well throughout the year. The gross trade debtor balance of £2.08m compares to £1.73m in the previous year and the trade and other payables balance of £2.69m compares to £2.68m in the prior year.

At the year end, the remaining balance on the senior term loan liability was £0.80m (FY21: £1.17m). There were no further drawdowns of the bank facilities during the year and the bank loan covenants were met throughout the year.

**Chief Financial Officer's Report** Continued

## New £8.0m Revolving Credit Facility

Following the 31 March 2022 year end, the Company re-financed its existing term loan facility of £1.75m and its undrawn acquisition revolving credit facility ("RCF") of £3.25m and replaced both with a new £8.0m RCF provided by Santander to provide additional financial flexibility for acquisitions and working capital requirements. The Group drew down £4.5m of RCF funds to finance the acquisition of Truststream.

The new banking facility has a five year term which expires in April 2027 and carries an interest rate of base rate +3.25% on drawn funds and 1.3% on undrawn funds. The bank covenants in the RCF will be tested quarterly and calculated on total net debt to Adjusted EBITDA leverage and minimum liquidity.

## Project Fusion

The project to deliver a unified platform of systems across the Group has continued to deliver significant improvements to our business operations. In FY21, we successfully implemented a unified CRM, marketing, service desk, projects and billing system and in FY22 we have gone live with further functionality for marketing automation, people management and business reporting. As anticipated, the project was completed in March 2022 with all core operational systems now on a single platform. This provides a robust, efficient and single pane of glass view of our business which will be used as the platform for integrating newly acquired businesses in the future. Capitalised software development costs comprising employee and third-party supplier costs were £0.27m in FY22 (FY21: £0.39m).

## Share Option Grants

During the year, the Company granted options over 336,000 shares to employees and 250,000 shares to senior management under the 2018 SysGroup EMI Scheme. In June 2021, the Remuneration Committee granted 179,675 performance shares to Adam Binks, Chief Executive Officer, and 107,805 performance shares to Martin Audcent, Chief Financial Officer, in relation the Group's performance in FY21 and under the terms of the 2020 SysGroup Long Term Incentive Plan.

## 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.

| | 2022 | 2021 | Change % |
|---|---|---|---|
| Revenue | **£14.75m** | £18.13m | **(19%)** |
| Recurring revenue as a % of total revenue | **87%** | 79% | **+8%** |
| Gross Margin | **£8.92m** | £10.50m | **(15%)** |
| Gross Margin % | **60%** | 58% | **+2%** |
| Adjusted EBITDA | **£2.82m** | £2.91m | **(3%)** |
| Adjusted PBT | **£2.04m** | £2.09m | **(2%)** |
| Profit before tax | **£0.60m** | £0.21m | **+192%** |
| Net cash | **£2.99m** | £1.88m | **+59%** |

**Martin Audcent**
Chief Finance Officer
17 June 2022

## Strategic Report

# Principal risks and 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**<br><br>Likelihood: High | The COVID-19 pandemic created an unprecedented period of social & political challenges that led to serious disruption to all businesses and the worldwide economy. Whilst businesses are now operating in a "post-pandemic" environment, we consider the risk of a recurrence remains high and this may necessitate an imposition of government lockdown restrictions again.<br><br>In the event of government restrictions being imposed from a recurrence of COVID or from a new pandemic, we are confident that the Group has successfully proved its capability to "work from home" with minimal impact to operating requirements. The Group did not furlough any employees or take ay government loan assistance over the COVID period. However, it is likely that the Group would experience delays in customer buying decisions. The Directors are also aware that a downturn in the UK and global economy would 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.<br><br>All employees have laptops rather than desktop PCs so they can work flexibly from home. Microsoft Teams is the preferred communication tool for remote collaboration between work teams, and with our customers and suppliers.<br><br>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.<br><br>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**<br><br>Likelihood: Medium | The instance of cyber-attacks on companies is becoming more prevalent 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.<br><br>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.<br><br>This business risk and uncertainty is included in the Group's Business Continuity Plan. |

## **Principal risks and uncertainties** Continued

| Principal risk | Potential impact | How we mitigate the risk |
|---|---|---|
| **Political & Economic developments**<br><br>Likelihood: Low | The UK formally left the EU on 31 December 2020 and signed a new Free Trade Agreement ("FTA") with the EU countries. Brexit has led to an increase in cross-border administration, longer supply chain delivery timescales and a longer-term risk of customers and suppliers changing their buying and selling behaviours.<br><br>The Russian invasion of Ukraine has contributed to the recent higher energy prices and the shortage of certain raw materials in the IT sector supply chain.<br><br>SysGroup continues to have little trade, either buying or selling, into Europe and we do not expect this position to change. However, 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.<br><br>SysGroup passes on datacentre energy price changes to our customers under our contractual terms which assists in mitigating the higher costs.<br><br>SysGroup are not dependent on single suppliers for IT equipment orders and alternative suppliers are used when required. In the event of a sector wide supply shortage, SysGroup will communicate the lead times to customers to enable them to program them into their own strategic plans and/or recommend alternative IT solutions. |
| **Dependency on key suppliers**<br><br>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**<br><br>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 this financial year with the top customer comprising 6% of revenue. This is expected to reduce in FY23 following the acquisitions of Truststream Security Solutions Limited and Orchard Computers Limited.<br><br>The Group's customer base is diversified across multiple industry sectors which mitigates the impact of a sector specific industry downturn. |

## **Principal risks and uncertainties** Continued

| Principal risk | Potential impact | How we mitigate the risk |
|---|---|---|
| **Attracting and retaining high quality employees**<br><br>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, or if we're unable to attract talent, 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 recruitment market was difficult in 2021 as businesses had to contend with a candidate led market, inflationary wage pressures and redesigning policies on returning to the office and flexible working.<br><br>The Group rewards our employees with annual pay reviews and pay awards for development and promotions. We invest 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. We have seen an improvement in the recruitment market in 2022. |
| **Failure in the Group's network infrastructure prevents SysGroup and our customers from operating key business systems.**<br><br>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.**<br><br>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.<br><br>The Board considers all acquisition valuations after a robust due diligence process has been undertaken.<br><br>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.<br><br>Following the year end, SysGroup acquired Truststream Security Solutions Limited and Independent Network Service Limited (owners of Orchard Computers Limited) which were acquired at valuations within the target range of the Board. |

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 the Group's main stakeholders to be 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 decision-making. Both the Board and Senior Leadership Team have direct communication with stakeholders and our internal reporting framework ensures the Board are appraised of stakeholder interests.

The Directors make key business decisions as part of the day-to-day leadership of the business and strategic level decisions are discussed and approved at Board level. Examples of key decisions taken in FY22 are:

- Health & safety protection for teams continuing to work under COVID restrictions
- Planning for the safe return to the office for all employees
- M&A opportunities
- Investment in SysCloud 2.0 IT infrastructure
- New sales & marketing office in Manchester
- Newport office refurbishment
- Telford office closure
- ESG Programme

## 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.

## **s172 Statement** Continued

### 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.

## 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, ESG strategy, 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 Governance Report on pages 36 to 54.

### Political donations
No donations were made for political purposes (FY21: £nil)

## Having regard to the interests of the employees

The Group's employees are key to 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 at least once a week to ensure the teams are working with co-ordination and focus in the right areas. We undertake employee surveys to gauge opinions on working for SysGroup and the results from these surveys feed into the decision making of the Directors and Senior Leadership team to find new ways to improve working life.

Throughout the year, the most significant matter which the Board considered in relation to our employees was in dealing with the COVID-19 situation and ensuring the continued health and safety of our employees. We have followed UK Government guidance throughout the COVID period and continued to operate at full capacity from a homeworking position during the lockdown periods. During H1, the government implemented a Steps programme to gradually remove restrictions and we took the decision, following Health & Safety inspections and the implementation of required COVID safeguards, to open up our offices for employees to use on a voluntary basis. In Newport we were able to re-open the office and welcome back our team with a fantastic newly refurbished office space. From the beginning of 2022 we have had all of our team back in the offices working together and collaborating to provide the best level of customer service.

## **s172 Statement** Continued

We have continued to enhance our benefits package to employees, including extending private medical health insurance to all employees, and during the COVID period our teams were able to access free of charge mental health support services via our health insurance provision.

## 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. SysGroup pay suppliers by routine process on monthly payment runs. .

### 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. Our CEO, CFO, Chief Sales Officer and Senior Leadership Team regularly meet 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.

### 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 Governance 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. The Directors maintain regular contact with our relationship contacts at the bank by having regular meetings where updates on the business are provided and updates on financial performance are provided. The Board keep the capital and funding structure of the Group under consideration as the Group continues its scale up strategy. In April 2022, the strength of this relationship was demonstrated when we signed a new £8m Revolving Credit Facility with Santander which was part utilised in the acquisition of Truststream Security Solutions Limited.

**s172 Statement** Continued

## Having regard to the business impact on the community & environment

In FY22 we took the step to launch a new Environmental, Social & Governance ("ESG") project with objectives to embed and enhance ESG in the business, to improve our environmental impact and to make disclosures on our carbon footprint. A summary ESG report is provided in the Corporate Governance section of the Annual Report and the full ESG report will be available to view on our website in due course. SysGroup is generally a low waste business and our offices recycle to the fullest extent they can.

During the year we invited everyone to submit suggestions for a suitable charity for SysGroup to support. We received many excellent nominations and in the end, following a vote across the business, we selected MIND, the mental health charity. We're looking forward to planning a number of charity fundraising activities in FY23 in support of the excellent work that MIND and their volunteers carry out.

Where possible, we try to "buy local" to ensure we support the surrounding economies of our office locations. Good examples of this in FY22 have been the two office refurbishments in Newport and Manchester where in both cases we chose to use local fit-out suppliers in support of local business. In Newport we also arranged for the old furniture, equipment and fittings to be collected and passed onto a not-for-profit organisation, providing them with second hand office equipment in good condition and saving them a significant cost of purchase. The reuse of the office furniture and equipment also prevented its disposal into landfill.

## 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. 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 changes and latest prospects.

Strategic Report

# Environmental, Social & Governance Report

## Introduction

Operating as a good citizen is embedded within our purpose, culture and core values. We aim to act responsibly at all times with consideration for the environment and the local communities in which we operate.

*"In light of the growing interest in Environment, Social and Governance ('ESG') amongst our team and stakeholders, we recognise that SysGroup has a part to play to reduce our environmental impact and enhance our support for social development both within our organisation and in our local communities. We have an established and strong governance structure in place and will seek to build this out further with the growth of the Group. We are at the beginning of our ESG journey and are taking the necessary steps to build an effective ESG vision and strategy which aligns with our values and those of our stakeholders."*

**Adam Binks, CEO**

## ESG Project

SysGroup is not currently subject to ESG regulatory reporting requirements since we're significantly below the size thresholds and not in one of the alternatively specified business categories. However, we are committed to reducing our impact on the environment, further developing our teams, and contributing to local communities where we operate.

This year we launched our ESG Project with the purpose to disclose our carbon emissions for the first time, understand the environmental and social impact of our operations, and report on the social and governance activities that we've undertaken. Since this is Year 1, there is no comparative information included in the reports but this will be included from next year.

Following the Board's decision to embark on the Project, we took the decision to partner with a specialist ESG consultancy to help us navigate the ESG reporting landscape and develop our ESG strategy. To ensure our strategy is developed using guidance from best practice, we have followed the ESG disclosures and reporting frameworks outlined below:

- Streamlined Energy and Carbon Reporting (SECR) to calculate and voluntarily report on our energy usage, associated emissions and energy performance. We will use this framework when decisions are made affecting energy consumption and carbon emissions.
- Task Force on Climate-Related Financial Disclosures (TCFD) to assess our risks and opportunities associated with climate change. We have published our first TCFD Report, allowing us to monitor risks to the business and to prepare for emerging regulation.
- Global Reporting Initiative (GRI) to prepare our first ESG Report which outlines the development of the Group's ESG project and next steps to our stakeholders. The GRI is an depth ESG reporting framework that enables organisations to report on their environmental, social, economic and governance performance.

**Environmental, Social & Governance Report** Continued

## ESG - Social

We at SysGroup are committed to acting responsibly and positively impacting our employees and the communities in which we operate.

### Employee engagement

We recognise that a happy and engaged workforce is a key to driving success. We encourage our team leaders to meet with team members regularly face-to-face to discuss and address any work or personal concerns raised by employees. Periodically we conduct employee surveys to hear the views of our team members and feedback any ideas or concerns they may have. Every Friday we send out a companywide "shout-out" that appreciates the hard work of employees across our teams in the form of electronic gift-cards. These employees are chosen by their colleagues, who are encouraged to submit their nominations each week.

We believe it's important that our people have energising office spaces to work in which fits with our overall culture value of love what you do. As such, we are committed to creating energising working environments with current technology for our employees. In FY22, we completed a full refurbishment of our Newport office and opened our newly fitted out Manchester office. Our teams in both offices have appreciated the vibrant and amenable spaced created which aligns with our company culture and fosters an environment of creativity, collaboration and social interaction. We are confident our offices are a place where our employees can succeed and develop with the business.

### Employee welfare

We take the wellbeing and health of our employees very seriously and this was a prime area of focus during the COVID-19 pandemic period when we were homeworking under lockdown restrictions. Our People & Culture (P&C) team kept in close contact with our teams throughout the period and our people were able to access wellbeing and occupational health support service when required. The P&C Team also did an excellent job at keeping up spirits and encouraging social interaction through regular activities such as quizzes, photo and bake competitions, and promotion of exercise and book clubs. Since we have returned to the office, the welfare support and interaction activities have remained in place.

### Employee benefits

This year we extended our benefits offering to give all of our employees private medical insurance cover which brings peace of mind in the unfortunate event of illness or accident. The insurance cover also entitles the policy holder to up to six sessions of free mental health counselling. Additionally, all employees benefit from having Medicash cover which reimburses smaller costs of medical or dental treatment. Via our SysHub company platform, our team can take advantage of retail and experience discounts for a variety of establishments including gym memberships.

To help our people spread the positivity that we implement into our working environment, we have created a Candidate Referral Bonus Policy. The purpose of this scheme is to incentivise our team members to refer people they know directly to the company as candidates for positions. SysGroup pays a bonus award of £3,000 to the team member if the candidate is recruited and successfully pass their probationary period.

### Diversity, Equity and Inclusion

We at SysGroup believe that a diverse team is the foundation to a successful business, a happy and productive culture and empowered employees. We are committed to building a more diverse workforce and in order to do so, it is our policy to hire based on merit and talent. SysGroup are in the process of developing our Diversity Policy which will outline our commitment to increasing our employee diversity including by gender, race, ethnicity and ability.

# **Environmental, Social & Governance Report** Continued

## Gender diversity

While we are committed to increasing our diversity as a whole, we have initially focused our efforts on addressing gender diversity. The tech industry has a particularly low representation of women, as it stands just 19% of tech workforce are female. During the year, we advertised many of our job opportunities specifically on online female careers communities to encourage more women to join SysGroup and enter the technology sector. We are advocates for an increase in female representation in the industry and earlier this year we sponsored the Simply Ladies Awards in Leeds, an event to celebrate excellence in woman with a special emphasis on promoting local businesses. In 2021, we also sponsored Womenspire, an organisation which recognises the achievements of women in every aspect of life, from personal achievements to outstanding contribution in business.

## Equal Opportunities

We are committed to promoting equality of opportunity and fostering a safe working environment for all. SysGroup operate an Equal Opportunities Policy which outlines our commitment to not unjustifiably discriminate against our Staff or Applicants based on their sex, marital or civil partner status, gender reassignment, sexual orientation, race, colour, nationality, ethnic or national origin, religion or belief, pregnancy or maternity, disability or age.

## Learning and Development

We are a strong believer that the business provides the best customer service from a team that is motivated, trained well and curious to learn more. Therefore at SysGroup, we encourage an environment of constant improvement/ upskilling by providing our employees with a variety of learning and development opportunities.

Our people receive a range of training, from general onboarding to role specific development training. During onboarding, all employees are trained on health & safety, information and security, for example General Data Protection Regulation (GDPR), and an assortment of online safety modules such as social media and phishing.

At SysGroup, we are committed to promoting the professional development of our workforce in their chosen careers within our company. We operate a Professional Qualification Study Support Policy which sets out the support that will be offered and the expectations of the employee undertaking the qualification. We fund many professional qualifications for our employees such as, the CIMA for our Finance team, CIPD for our People team and continuous role specific accreditations for our IT teams. SysGroup are in the process of implementing a Leadership Management System which will provide appropriate learning opportunities for all team members. We plan to extend our leadership development in FY23 by introducing apprentices and graduate programmes, which are currently in the works with Cardiff University. Where possible, mentors from within the business will be assigned to provide support and guidance where necessary.

To enhance our learning and development programme further, we have introduced a Lunch & Learn scheme, where guest speakers give presentations on various topics to our teams, bringing everyone together in an educational space at least once a month. Our first Lunch & Learn was in June 2021, delivered by our Chief Technical Officer on the topic of cloud hosting.

# **Environmental, Social & Governance Report** Continued

## Health & Safety (H&S)

We consider health and safety to be always of paramount importance in SysGroup. This was exemplified by our response and the safeguards we put in place during the COVID pandemic and as we returned to the office during the year. We use the services of a third-party company that provides Health & Safety Advice including annual office inspections and improvement recommendations. During the year, and in addition to their usual annual inspections, we engaged them to inspect all of our offices prior to re-opening following the lockdown periods. This included ensuring that maximum headcounts, social distancing and office working safeguards were appropriately put in place.

To enhance our governance and oversight of H&S in SysGroup, we established a new Health & Safety Committee this year which meets on a quarterly basis. The chairperson is the Head of People & Culture, and fellow standing members are the CFO, Head of Legal, Risk & Compliance, Head of Technical Operations, Senior People & Culture Advisor and Executive Assistant. The principal remit of the Committee covers Employee H&S training, Fire Wardens & training, First Aid kits and training, Electrical appliance testing, Evacuation procedures, Working at height policy. Personal protective equipment, Review and actioning of H&S Office visit reports, Maintain and promote the H&S Policy, Review of any incidents.

Due to the nature of our operations, very few health & safety incidents occur and these tend to only be for very minor injuries. Any incident is recorded in an accident log and learnings reviewed.

## Charitable & Local Communities

We aim to have a positive impact on the local communities in which we operate.

During the year we invited everyone to submit suggestions for a suitable charity for SysGroup to support. We received many excellent nominations and in the end, following a vote across the business, we selected MIND, the mental health charity. We're looking forward to planning a number of charity fundraising activities in FY23 in support of the excellent work that MIND and their volunteers carry out.

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. We partner with organisations to donate unused and refurbished laptops to underprivileged children in our local areas.

Where possible, we try to "buy local" to ensure we support the surrounding economies of our office locations. In FY22 we have had two office refurbishments in Newport and Manchester where in both cases we chose to use local fit-out suppliers in support of local business. In Newport we also arranged for all of the old furniture, equipment and fittings to be collected and passed on to a not-for-profit organisation, providing them with good condition secondhand office equipment and saving them a significant cost of purchase. The reuse of the office furniture and equipment was also a good decision to reduce any environmental disposal impact.

Additional initiatives have been introduced to give back to our local communities. Our kitchens have been fitted with food bank boxes that allow our staff to donate. Our team have also made donations to refugee causes, such as in the recent events in Ukraine.

**Environmental, Social & Governance Report** Continued

## ESG - Environmental

Operating responsibly is embedded throughout our culture and in embarking on the ESG journey we are at the start of understanding where we stand today with our carbon emissions and our impact on the environment. We will aim to use the information gathered this year to assess our impact before introducing initiatives to support our efforts of being a more sustainable business.

### Reducing Waste

Due to the nature of our operations, SysGroup is a low waste business. Our offices are fitted with recycle bins and employees are encouraged to recycle to the fullest extent they can. Our products and services require minimal packaging which lessens our impact.

At SysGroup we recycle as much of our old IT equipment as possible using CPR Computer Equipment Recycling (CPR). Partnering with CPR ensures our equipment is wiped to comply with GDPR, before being restored and recycled, with profits from retail sales being donated to UK charities.

Following the refurbishment of our Newport office in April 2021, we ensured that old items were disposed of in a sustainable way, with our impact on the environment in mind. Plasterboard, metal, timber and cardboard waste was all split and recycled. For valuable products in good condition, we held an event for employees to make anonymous donations for items such they could reuse. We also partnered with Collecteco to donate old furniture, equipment and materials from our Newport office to local charities and not for profit good causes, supporting a circular economy. 342 items were donated during this project, resulting in 11,622kg of waste being diverted from landfill and 11,815kg CO2e avoided.

### Water

We do not operate in a high water intensive sector. Water consumption across the Group is for employee use only and kept to a minimum.

### Materials

We aim to minimise our impact on the environment. When refurbishing our Newport and Manchester offices during the year, we partnered with companies who are committed to operating responsibly, operating an internal Environmental Policy. With their support, we used furniture which was sourced ethnically from sustainable sources and manufactured from recycled materials. Our Newport office is fitted with LED lighting, reducing our energy consumption.

### Greenhouse Gas emissions

Reducing our carbon emissions is important to becoming a more sustainable business, and we took the first steps on this journey by capturing and understanding our carbon balance sheet (Scope 1, 2 and 3 emissions) for the first time.

- Scope 1 emissions are direct greenhouse gas ('GHG') emissions that occur from sources that we control or own, i.e., gas usage and transport fuel. SysGroup do not produce any direct emissions from sources that we own or control
- Scope 2 emissions are indirect GHG emissions associated with our purchase of electricity, steam, heating or cooling. Our offices and datacentre racks consume electricity and this makes up 19% of our total group emissions
- Scope 3 emissions are the indirect GHG emissions within our value chain – the emissions associated with our value chain makes up 81% of our total group emissions

| Emissions Scope | Gross Emissions (tCO2e) | Percentage of Total Emissions |
|---|---|---|
| Scope 1 | - | - |
| Scope 2 | 356 | 19% |
| Scope 3 | 1,486 | 81% |
| **Total** | **1,842** | **100%** |

## Environmental, Social & Governance Report Continued

### Datacentres

Our Scope 2 emissions are the indirect emissions associated with the electricity we have consumed. The electricity consumed at the data centres we use for cloud hosting is responsible for most of our Scope 2 emissions, accounting for 349 tCO2e. We recognise the high energy nature of data centres, and while we have little ability to impact this, we aim to engage with our data centres to understand more about their energy usage and efforts to operate sustainably.

## Streamlined Energy and Carbon Reporting (SECR)

To further enhance our reporting and understand our impact, we have voluntarily reported on all measured emissions sources required under the government policy SECR, for the first time.

SECR requires companies to report on their energy usage (kWh) and its associated emissions (tCO2e). For SysGroup, this specifically includes breaking our energy usage into Scope 2 supplied electricity and Scope 3 transportation emissions. This reporting helps us and our stakeholders to understand the energy performance for the Group. We have reported our intensity metric of tCO2e per £m turnover to track our progress over time as our business grows.

Total Consumption (kWh) figures for energy supplies reportable by the Group are as follows:

| Utility and Scope | Consumption kWh (FY22) |
|---|---|
| Grid-Supplied Electricity (Scope 2) | 1,676,193 |
| Transportation (Scope 3) | 101,523 |
| **Total Energy Use - all Scopes** | **1,777,716** |

Total Consumption (kWh) figures for energy supplies reportable by the Group are as follows:

| Utility and Scope | Consumption (tCO2e) FY22 |
|---|---|
| Grid-Supplied Electricity (Scope 2) | 355.91 |
| Transportation (Scope 3) | 23.54 |
| **Total emissions - all scopes** | **379.45** |

An intensity metric of tCO2e per £m revenue has been applied for the annual total consumption.

| Intensity Metric | UK Intensity Metric (FY22) |
|---|---|
| **tCO2e / £m** | **25.73** |

### Energy efficiency

For this year, we have focused on understanding and calculating our impact for the first time and have launched a robust data collection process to report against SECR and TCFD. Completing this process enables SysGroup to identify areas of high impact throughout our operations and start to address them. In the forthcoming year, we will see how we can introduce more energy efficiency measures across our business and will report our progress against targets over time.

### SECR Methodology

Scope 1, 2 and 3 consumption and CO2e emissions data has been calculated in line with the 2019 UK Government environmental reporting guidance. The following Emission Factor Databases 2020 version 1 has been used, utilising the current published kWh gross calorific value (CV) and kgCO2e emissions factors relevant for reporting year 01/04/2021 – 31/03/2022:

Intensity metrics have been calculated using total tCO2e figures and the selected performance indicator agreed with Sysgroup Plc for the relevant report period is total revenue which was £14.75m in FY22.

## Taskforce on Climate-related Financial Disclosures (TCFD) Report

### TCFD Framework

SysGroup is an AIM listed company with under 500 employees and £500m turnover and as such we are not required to comply with UK TCFD disclosure and regulation. However, we recognise that understanding climate change and its impact will support us on our wider ESG journey. Therefore, we are pleased to voluntarily report on our progress of embedding the recommendations of the TCFD into our existing processes.

We have used the TCFD framework as a tool to guide us in understanding climate change and its associated risks and opportunities. By following each of the eleven TCFD recommendations, we have integrated climate change into our Corporate Risk Management framework which is formally reviewed by the Board each year. Whilst we are at the beginning of this process, we are pleased with our progress and intend to enhance our TCFD reporting process over time as we expand and develop our climate strategy.

### Overview

We understand that climate-related impacts may affect the success of our business in the future. This year, we have worked to better understand the climate-related risks and opportunities facing our business over the short (2020-2025), medium (2025-2035) and long-term (2035-2050) time periods.

We have concluded that due to the nature of our business and the location of our sites across the UK, climate change poses a low risk to our operations and business strategy. Nonetheless, we are committed to mitigating the risks of climate change and reducing our impact on the environment. In the first year of voluntary reporting, we have focused on the following:

- Calculating our Carbon Balance Sheet (Scope 1, 2 and 3 emissions)
- Identifying our climate-related risks and opportunities
- Evaluating existing mitigation strategies

After understanding our impact, we aim to set a commitment to becoming a net zero business.

### Governance

The SysGroup Board has overall responsibility for the Group's climate-related risks and opportunities and ensuring that SysGroup builds a business strategy that is as resilient as possible to climate change.

The ESG Committee is responsible for assessing the Group's climate-related risks and opportunities and implementing controls to minimise their impact. The ESG Committee meets on a quarterly basis and will provide an update to the Board annually.

The Head of Legal, Risk & Compliance maintains a climate risk register which forms part of our overall Corporate Risk Register. This is continually maintained throughout the year and is subject to a scheduled update and review each year with a formal report to the Board. The Chief Financial Officer presented the outcomes of the Climate Risk Management Workshop to members of the Board who sign off on the classification of each risk.

### Strategy

The Group's clear strategy and purpose is to become the leading provider of managed IT services to businesses in the UK. Using the TCFD recommendations, we ensure that our long-term business strategy remains robust and resilient to future changes in the climate.

During FY22, we carried out a detailed climate scenario analysis across all of our sites. Climate scenarios are referenced models of the future climate based on global emission levels and are used to identify potential climate-related risks and opportunities. The scenario modelling considered transition risks, those associated with the transition to a decarbonised global economy, at Group level, while each site was analysed against specific climate-related indicators to reveal the inherent climate-related physical risks for the Group.

## **Environmental, Social & Governance Report** Continued

- We used a combination of the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathway (RCPs), the International Energy Agency's World Energy Model and other established models to develop our three scenarios.

- Below 2°C: Governments and companies align with the Paris Agreement target of pursuing efforts to limit warming to 1.5°C by 2100 and achieve the UK 2050 net-zero target. It is anticipated that Governments will introduce policies in a timely and coordinated fashion to reduce carbon emissions. This scenario is associated with high transition risks in the short term but minimal physical risks due to prompt action.

- Between 2-3°C: This pathway predicts a staggered response to climate change from governments, introducing policies in an uncoordinated manner to reduce global emissions. The business continues as usual in the short term, but the delayed action results in the highest levels of transitional risks within the medium term with some increased severity of physical risks in the long term compared to the Below 2oC scenario.

- Above 3°C: In this scenario, little to no climate action is taken in the short or medium term. Fossil fuels remain the dominant global energy source leading to rising emissions until 2040. The inevitable rise in temperatures and subsequent physical risks will eventually pressure governments to act, leading to policies being introduced in an uncoordinated method in the long term. This scenario contains the highest levels of physical risk due to several tipping points being surpassed.

The TCFD recommends using a range of scenarios and timelines to fully evaluate the impact of climate change. The climate scenarios were modelled across three time horizons:

- Short-term (2020-2025)
- Medium-term (2025-2035)
- Long-term (2035-2050)

### Review Results

The results of the climate scenario analysis were presented to the Head of Legal, Risk and Compliance and the Head of Finance, to categorise the impact of each potential climate-related risk across the Group.

In FY22, we identified twelve climate-related risks and one opportunity. We defined a risk to be significant if it had the potential to cause at least a small disruption to our operations. In this first year of reporting against the TCFD, we have not modelled the financial impact of each risk, however we aim to explore this process in FY23. Out of the twelve risks identified, four were deemed to be significant to SysGroup.

### Significant risks

- Increased cost of energy and materials – Short – Medium Term (2020-2035)
- Increase in carbon pricing – Medium Term (2025-2035)
- Increased frequency and severity of flooding – Long Term (2035-2050)
- Sea level rise – Long Term (2035-2050)

### Opportunity

- Transitioning to lower emissions technologies – Short – Medium Term (2020 – 2035)

For SysGroup, our most significant climate-related risk is the increased cost of energy and materials. We have already seen our energy suppliers increasing energy prices and some finished products costs have also increased. It's likely that energy prices will increase further in the short-medium term (2020-2035) and under the below 2°C scenario and the 2-3°C scenario. We aim to monitor this risk closely and review the impact as we explore more energy efficiency technology, supply chain management, and initiatives to reduce our energy usage.

# **Environmental, Social & Governance Report** Continued

SysGroup is not currently impacted by carbon pricing. However, we recognise that this may change over time if the government increase regulation in this area. The impact of this risk would be highest for SysGroup within the 2-3°C scenario, particularly in the medium-term when carbon pricing is expected to peak.

SysGroup may feel the impact of physical risks such as increased flooding and sea-level rise within the above 3°C scenario in the long-term (2035-2050). While these risks do not impact the Company in the near term, we will continue to monitor the physical risks at all of our offices and third party datacentre locations.

You can find more detail on our climate-related risks on our website sysgroup.com.

## Risk Management

SysGroup aims to decisively evaluate and manage climate-related risks and opportunities to deliver on its business strategy and deliver long-term sustainable success. We have integrated the recommendations from the TCFD into our existing risk management processes to support the development of an internal climate risk management framework.

As a first step of our climate risk management framework, we used climate scenario analysis to identify the potential climate-related risks and opportunities impacting the Group.

We held a Climate Risk Management Workshop with members of the ESG Committee in 2022 to assess the potential impact of each climate-related risk over the short, medium and long-term. Each risk was classified using existing risk management processes. The workshop was held to further understand climate change and identify its broader scope of associated risks. After the workshop, a climate risk register was created and certified to assess and accurately report all climate-related risks.

Following this, mitigation processes were evaluated based on their ability to reduce the impacts of climate change. From this step, controls were developed and agreed upon based on the effectiveness in building climate resilience into our existing strategy and planning. These classifications were signed off by the Chief Financial Officer, members of the Audit Committee and members of the Board.

In FY23, we aim to introduce initiatives as part of our ESG programme which will mitigate the impacts of climate-related risks on our business. We also plan to introduce an action plan to assess the impact and capitalise on the climate-related opportunity, transitioning to lower emissions technology. We will run a climate scenario analysis each year to broaden our scope of risk classification.

## Metrics & Targets

In FY22 we launched a data collection process to calculate our Scope 1, 2 and 3 emissions and help us understand our impact on the environment. As this is a complex task for a company of our size and nature, we engaged specialists to support us on this journey. This process enables us to understand the material emissions sources across our business and value chain, and identify areas where we can make the most significant impact on emission reductions. Our Scope 1, 2 and 3 emissions are disclosed in this report.

We followed the Greenhouse Gas Protocol (GHG) Corporate Value Chain (Scope 3) Accounting and Reporting Standard to calculate our Scope 3 emissions. Under the GHG Protocol, Scope 3 reporting has 15 reporting categories, 8 of which apply to SysGroup. Due to the difficulty of this task and availability of data, we have not been able to calculate the emissions for all 8 relevant categories  We aim to broaden and strengthen our data

Now we have set our baseline, we aim to develop a net-zero strategy and set targets to reduce our emissions over time. As part of this process, we will introduce initiatives throughout the Group to help mitigate the impact of our climate-related risks. We will report on our progress annually.

## **Environmental, Social & Governance Report** Continued

**Martin Audcent**
Chief Finance Officer
17 June 2022

## Strategic Report

The Strategic Report, which includes all of the contents of pages 8 to 35, was approved by the Board on 17 June 2022 and was signed on its behalf by:

**Adam Binks**
Chief Executive Officer
17 June 2022

# Governance Report

# 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 25 years' experience in the financial services sector. His early career was spent with PwC where he qualified as a chartered accountant, before joining GCA Altium in 2000 where he was a Managing Director in Corporate Finance. He subsequently founded Praetura Group, which launched in 2011, where he served as Group CEO prior to establishing Arete Capital Partners in 2020 where he is a Managing Partner. Mike is also a trusted advisor to several high profile and high growth entrepreneurs and their companies including Sorted Group, Svella plc and Tactus Group.

# Directors' Report

# Directors' Report

The Directors present their Annual Report and Audited Financial Statements for the year ended 31 March 2022.

## 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 2022, 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.

## Results & Dividends

The Consolidated Statement of Comprehensive Income for the year is set out on page 64. The Directors do not propose the payment of a dividend for the year ended 31 March 2022 (FY21: 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 current Directors in shares and options are detailed in the Directors' Remuneration Report on pages 42 to 45.

## Significant Shareholdings

As of 16 June 2022, the Company has been notified of the following significant shareholdings:

| Name | Number of Shares | Percentage Holding |
|---|---|---|
| Gresham House Asset Management Limited | 13,999,563 | 28.65% |
| Canaccord Genuity Group Inc | 8,998,803 | 18.42% |
| Darren Carter | 3,552,632 | 7.27% |
| Herald Investment Management Ltd | 3,444,581 | 7.05% |
| Helium Rising Stars Fund | 3,400,000 | 6.96% |
| Downing LLP | 3,016,731 | 6.17% |
| Praetura Group Limited* | 1,710,256 | 3.50% |

## 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.

## Post Balance Sheet Events

Following the year end, in April 2022, SysGroup plc acquired 100% of the issued share capital in Truststream Security Solutions Limited ("Truststream") and Independent Network Solutions Limited ("INSL", holding company of Orchard Computers Limited).

SysGroup acquired Truststream on 4 April 2022 for £4.8m initial cash consideration on a cash-free debt-free basis with an earn-out payable following the first and second anniversaries of the transaction of up to £3.075m. The earn-out is subject to the achievement of certain maintainable EBITDA performance targets in the first and second 12-month periods following the completion of the acquisition.

The Truststream acquisition was mainly funded from a new £8.0m revolving credit facility ("RCF") which was signed with Santander on 4 April 2022. SysGroup utilised £4.5m of funds from the RCF to finance the acquisition. Further information on the new RCF facility can be found in note 18 to the Consolidated Financial Statements.

## **Directors' Report** Continued

SysGroup acquired INSL on 26 April 2022 for £1.0m cash consideration which was funded from the Group's existing cash balances. There is no contingent or deferred consideration for this acquisition.

Further information on the two acquisitions can be found in note 23 to the Consolidated Financial Statements.

## Going Concern

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

The Directors have reviewed the Base business forecast for the period to 31 March 2024 and a Sensitised version which models the financial consequences of a considerable downside scenario. In assessing the forecasts, the Directors have considered the potential impacts on the world and UK economies from the Russian invasion of Ukraine and prolonged rises in inflation and energy costs.

In the Base forecast there is significant and increasing headroom in the bank covenants as the business continues to generate cash and reduce net debt. In the Sensitised forecast, and despite lower revenue and profits, the Group maintains positive gross cash balances, reduces net debt and stays within the bank covenants. The Group has a business model with a high degree of financial resilience since circa 80% of revenue is derived from contracted managed IT services which is a continuous and business critical service supply to customers. This provides a high level of operating cash generation. At 31 March 2022, the Group had cash balances of £4.1m and a net cash position of £3.0m. Subsequent to the year end, the Group re-financed with Santander and now has an £8.0m Revolving Credit Facility ("RCF") which can be used for acquisitions and working capital requirements and has no fixed repayment terms. This provides further financing flexibility to the Group.

The forecasts, the resultant cashflows, together with the confirmed new RCF loan facilities, taking account of reasonably possible changes in trading performance, show that the Group can continue to operate within the current facilities available to it.

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

## 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
17 June 2022

# 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. The company makes pension contributions for Executive Directors at 5% of salary.

## Directors' LTIP Scheme

The Executive Directors have a Long Term Incentive Plan ("2020 LTIP") which was implemented in July 2020 following an independent review by professional advisors and after consultation with certain of its larger institutional shareholders. Under the 2020 LTIP, the Remuneration Committee sets a minimum Adjusted EBITDA performance ("Threshold") each year by reference to prevailing market consensus. On conclusion of the financial year the Executive Directors are paid a mixture of a cash bonus and issued with nil cost performance shares, which are granted subject to the Group's performance against the Threshold and vest two years after the date of grant.

The Group 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 vest on the second anniversary of the initial grant and are 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 June 2021, under the 2020 LTIP Scheme, a grant of 179,675 performance shares was made to Adam Binks, Chief Executive Officer, and 107,805 performance shares to Martin Audcent, Chief Financial Officer. At 31 March 2022, Adam Binks held 1,429,675 share options and Martin Audcent held 857,805 share options.

## Directors' remuneration (audited)

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. In FY22, the annual salary of the Chief Executive Officer was £150,000 and the Chief Financial Officer £120,000.

In March 2022 the Remuneration Committee reviewed the salaries of the Executive Directors in view of the growth of the business since the last salary review in 2018. The Remuneration Committee also took into consideration available peer group executive pay information. With effect from 1 April 2022, the Chief Executive Officer will receive a salary of £200,000 per annum and the Chief Financial Officer a salary of £150,000 per annum.

| | 2022 | | | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **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 | 74 | 8 | 2 | 249 | 165 | 86 | 8 | 2 | 261 |
| Martin Audcent | 130 | 44 | 6 | 1 | 181 | 130 | 51 | 6 | 1 | 188 |
| **Total Remuneration** | **415** | **118** | **14** | **3** | **550** | **415** | **137** | **14** | **3** | **569** |

The salaries of Adam Binks and Martin Audcent include a car allowance of £15,000 & £10,000 respectively in both years. Adam Binks and Martin Audcent have LTIP share options that incurred share-based payment charges of £83,000 (FY21: £287,000) and £50,000 (FY21: £177,000) respectively.

## Directors' Interests in Ordinary Shares of SysGroup plc

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

| **Director** | **Number of Ordinary Shares** | **Percentage Interest** |
|---|---|---|
| Michael Edelson* | 858,179 | 1.76% |
| Adam Binks | 220,134 | 0.45% |
| Martin Audcent* | 117,499 | 0.24% |
| Mark Quartermaine | 76,923 | 0.16% |
| Mike Fletcher | 77,193 | 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 |
| | 2020 LTIP | Unvested | 179,675 | 21/06/2021 | 20/06/2031 |
| 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 |
| | 2020 LTIP | Unvested | 107,805 | 21/06/2021 | 20/06/2031 |

**Mark Quartermaine**
Chairman
Remuneration Committee
17 June 2022

# 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 must 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
- Approval of the Annual Report & Accounts
- ESG strategy

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 regular operational and financial information 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:

| | Board | Audit Committee | Remuneration Committee |
|---|---|---|---|
| **Meetings** | **11** | **3** | **2** |
| Michael Edelson | 11 | 3 | 2 |
| Mike Fletcher | 10 | 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 reporting 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 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 be contacted by shareholders if they wish to raise any matters.

   The Annual Report and Interim Announcement are key communications to our shareholders. In these Reports we aim to provide a clear explanation of the business performance, financial position, operational structure changes and future prospects.

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

3. **Take into account wider stakeholder and social responsibilities and their implications for long-term success**
   In addition to our shareholders, we have a wider group of stakeholders who assist in creating value in the Group. We have strong relationships with customers and suppliers, and the service and delivery capability of our employees is of central importance. It is our teams that provide the high-quality service to customers and we ensure that we continue to invest in them through appropriate training and development.

   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.

## **Corporate Governance Report** Continued

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 payments to suppliers on a regular and routine payment process.

The Group's employees are key stakeholders in the success of the business. We aim 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 including the periodic offer of EMI share options. All employees are encouraged to speak openly with line managers and colleagues, and Senior Leadership Team meetings are held weekly 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 receive an annual report from the HLRC to show 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, CFO, Head of Technical Operations and Head of People & Culture, to monitor performance and progress any necessary actions.

The onset of the COVID-19 pandemic in 2020 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 operated highly effectively during the pandemic as the business transitioned rapidly to working from home with minimal impact on operations.

The Non-Executive 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 financial 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.

### 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.

## **Corporate Governance Report** Continued

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. During the first half of the financial year, and in view of the government's COVID guidance at the time, the Board, Audit Committee & Remuneration Committee Meetings were held by MS Teams calls. The Board have returned to usual office-based meetings since October 2021.

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.

**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.

**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

## **Corporate Governance Report** Continued

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 organisation 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 oversight and 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, ESG strategy, 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, BDO, attend the Audit Committee Meetings.

During the year to 31 March 2022, there were three Audit Committee meetings and the principal items discussed were:

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

In FY22, there was a change in BDO Audit Partner as Gary Harding rotated off the SysGroup audit and was replaced by Graham Ellis.

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.

# **Corporate Governance Report** Continued

### 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.

There were two Remuneration Committee meetings during the year and the principal items were to approve the FY21 Executive Directors' cash bonus and grant of performance share options, and to review the salaries of the Executive Directors.

**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 standard communications to shareholders are:

- Preliminary Announcement
- Annual Report & Accounts
- Interim Announcement
- Annual General Meeting
- Institutional shareholder meetings following Results Announcements
- 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 sysgroup.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 of the Director's and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with UK adopted international accounting standards. 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

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 UK adopted international accounting standards, 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
17 June 2022

**Financial Statements**

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

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

## Opinion on the financial statements

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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance withthe 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 2022 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of changes in equity, the company statement of changes in equity, the consolidated statement of cashflows, the company statement of cashflows and notes to the consolidated financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards 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.

### Independence

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

In 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 the Directors' assessment that supports the Board's conclusions with respect to going concerns and the related disclosures;
- We considered the appropriateness of the Directors' forecasts by testing their mechanical accuracy, assessing historical forecasting accuracy by comparing the Group's results to its previous forecasts and considering the feasibility of the downside sensitivity analysis and reverse stress testing completed;
- We challenged the rationale for the assumptions including revenue growth and the level of overheads utilised in the forecasts, using our knowledge of the business and the sector and wider commentary available from stock market analysts;

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

- We obtained an understanding of the financing facilities from the finance agreements, including the nature of the facilities, covenants and attached conditions and assessed the facility and covenant headroom calculations, and re-performed sensitivities on the Directors' base case and stressed case scenarios; and
- We reviewed the wording of the going concern disclosures, and assessed its consistency with the Directors' forecasts and assessment.

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 and the 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.

## Overview

| | | | |
|---|---|---|---|
| **Coverage** | 100% (2021: 100%) of Group profit before tax<br>100% (2021: 100%) of Group revenue<br>99% (2021:99%) of Group total assets | | |
| **Key audit matters** | Revenue recognition | 2022<br>✓ | 2021<br>✓ |
| **Materiality** | Group financial statements as a whole<br>Materiality has been based on 1% (2021: 0.85%) of revenue, rounded to £145,000 (2021: £150,000) | | |

## 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.

The Group operates through one trading subsidiary entity and the Parent Company, which form reporting and significant components. The Group audit team have completed a full scope audit on the significant components.

There are in addition a number of dormant entities in the Group which are non- significant components. Dormant entities have been subject to desktop reviews only by the Group audit team.

### 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. This matter was 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 this matter.

## 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**<br><br>Note 4<br><br>See accounting policy in note 1 | The Group has a number of different revenue streams, each of which has a different revenue recognition policy dependent on the specific terms of the transfer of goods or the service provided.<br><br>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.<br><br>We have assessed that the risk of material misstatement could arise from:<br><br>• an inappropriate use of manual journals in revenue;<br>• improper revenue recognition before completion of performance obligations, with a focus around year end cut-off | We reviewed the Group's revenue recognition policies for all revenue streams to check that these were in accordance with accounting standards.<br><br>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 by review of key terms in revenue contracts<br><br>We agreed the revenue recognised in the year for a sample of revenue transactions within each revenue streams to the underlying contract and evidence of completion of work and checked that the revenue recognised was in accordance with the underlying contracts and IFRS15. Specifically we checked a sample of revenue recognised by performance obligation during the year and either side of year end, to contracts with customers and to confirmation of the delivery of the obligations in the year. Where contracts related to more than one revenue stream we ensured that these had been correctly unbundled.<br><br>For a sample of manual journal entries recorded in revenue throughout the year, we assessed the validity of the transaction by testing it to source documentation<br><br>**Key observations:**<br>Based on the procedures performed we found that performance obligations had been satisfied before revenue was recognised and that revenue was recognised in the appropriate period. |

## 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 | |
|---|---|---|---|---|
| | **2022 £** | **2021 £** | **2022 £** | **2021 £** |
| **Materiality** | 145,000 | 150,000 | 74,000 | 100,000 |
| **Basis for determining materiality** | Based on 1% of revenue, then rounded | 0.85% of Revenue | 51% of Group materiality | Capped at 67% 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 due to no significant change in ownership in the year and stable profitability performance, with no new financing and no acquisitions in the year impacting the audit approach. | | The Parent Company does not recognise any external revenue and so a revenue basis was not considered appropriate and materiality was calculated as a percentage of Group materiality. | |
| **Performance materiality** | 108,750 | 112,500 | 55,500 | 75,000 |
| **Basis for determining performance materiality** | Performance materiality was set at 75% of materiality. was considered appropriate based on:<br>• cumulative knowledge of the Group<br>• degree of estimation in financial statements<br>• the trade of the Group being contained in one principal trading companies and one principal holding company | | | |

### Key audit matters

We set materiality for each component of the Group based on a percentage of between 51% and 99% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £74,000 to £143,500. 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.

### Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £5,800 (2021: £6,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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

### 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.

### Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

| | |
|---|---|
| **Strategic report and Directors' report** | In our opinion, based on the work undertaken in the course of the audit:<br>• 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<br>• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.<br>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:<br>• 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<br>• the Parent Company financial statements are not in agreement with the accounting records and returns; or<br>• certain disclosures of Directors' remuneration specified by law are not made; or<br>• 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.

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

Based on our understanding and accumulated knowledge of the Group and the sectors 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, UK adopted international accounting standards, the UK Companies Act 2006, the Listing Rules, the QCA Corporate Governance Code and industry related such as compliance with health and safety legislation, employment law and taxation legislation. We held discussions with management and the Directors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud and reviewed the minutes of Board meetings throughout the period to corroborate our enquiries and to identify any other matters not already disclosed by management and the Directors.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, revenue being recognised in the correct period around the year end (refer to the KAM section) and management bias in accounting estimates. Our audit procedures included, but were not limited to:

- 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, as well as judgements employed within accounting for leases under IFRS 16;
- Identifying and testing journal entries to source documentation, in particular any journal entries posted with unusual account combinations or including specific keywords to source documentation ;
- Testing a sample of revenue transactions within a specified period pre and post year end to determine if they have been recorded in the correct financial year;
- Testing a sample of credit notes issued post year end to determine if the associated revenue had been recorded in the correct period;
- Obtaining an understanding and documenting of the control environment in monitoring compliance with laws and regulations; and

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

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. The engagement partner has assessed and confirmed that the engagement team collectively had the appropriate competence and capabilities to identify or recognize non-compliance with laws and regulations.

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.

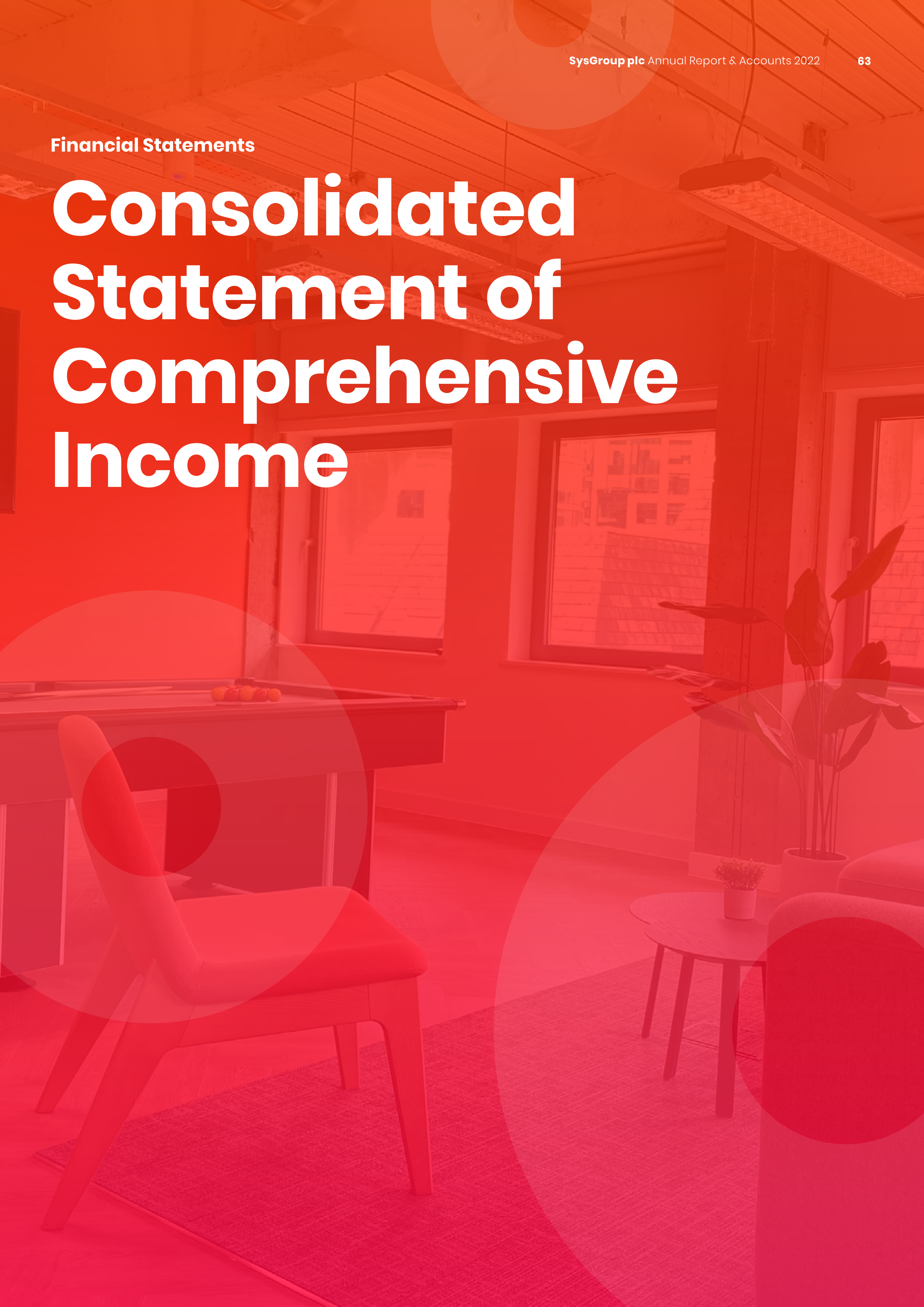
## Use of our report

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

**Graham Ellis (Senior Statutory Auditor)**
For and on behalf of BDO LLP, Statutory Auditor
Liverpool
17 June 2022

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



**Financial Statements**

# Consolidated Statement of Comprehensive Income

# Consolidated Statement of Comprehensive Income

## For the year ended 31 March 2022

| | Notes | 2022 Group £'000 | 2021 Group £'000 |
|---|---|---|---|
| **Revenue** | 4 | **14,746** | **18,131** |
| Cost of sales | | (5,826) | (7,630) |
| **Gross profit** | | **8,920** | **10,501** |
| Operating expenses before depreciation, amortisation, exceptional items and share based payments | | (6,103) | (7,586) |
| **Adjusted EBITDA** | | **2,817** | **2,915** |
| Depreciation | 14 | (654) | (722) |
| Amortisation of intangibles | 13 | (1,243) | (1,294) |
| Exceptional items | 8 | – | (82) |
| Share based payments | 9 | (195) | (504) |
| Administrative expenses | | (8,195) | (10,188) |
| **Operating profit** | | **725** | **313** |
| Finance costs | 6 | (127) | (108) |
| **Profit before taxation** | | **598** | **205** |
| Taxation | 12 | 147 | 35 |
| **Total comprehensive profit attributable to the equity holders of the company** | | **451** | **240** |
| Basic earnings per share (EPS) | 11 | 0.9p | 0.5p |
| Diluted earnings per share (EPS) | 11 | 0.9p | 0.5p |

**Financial Statements**

# Consolidated Statement of Financial Position

# Consolidated Statement of Financial Position

## As at 31 March 2022

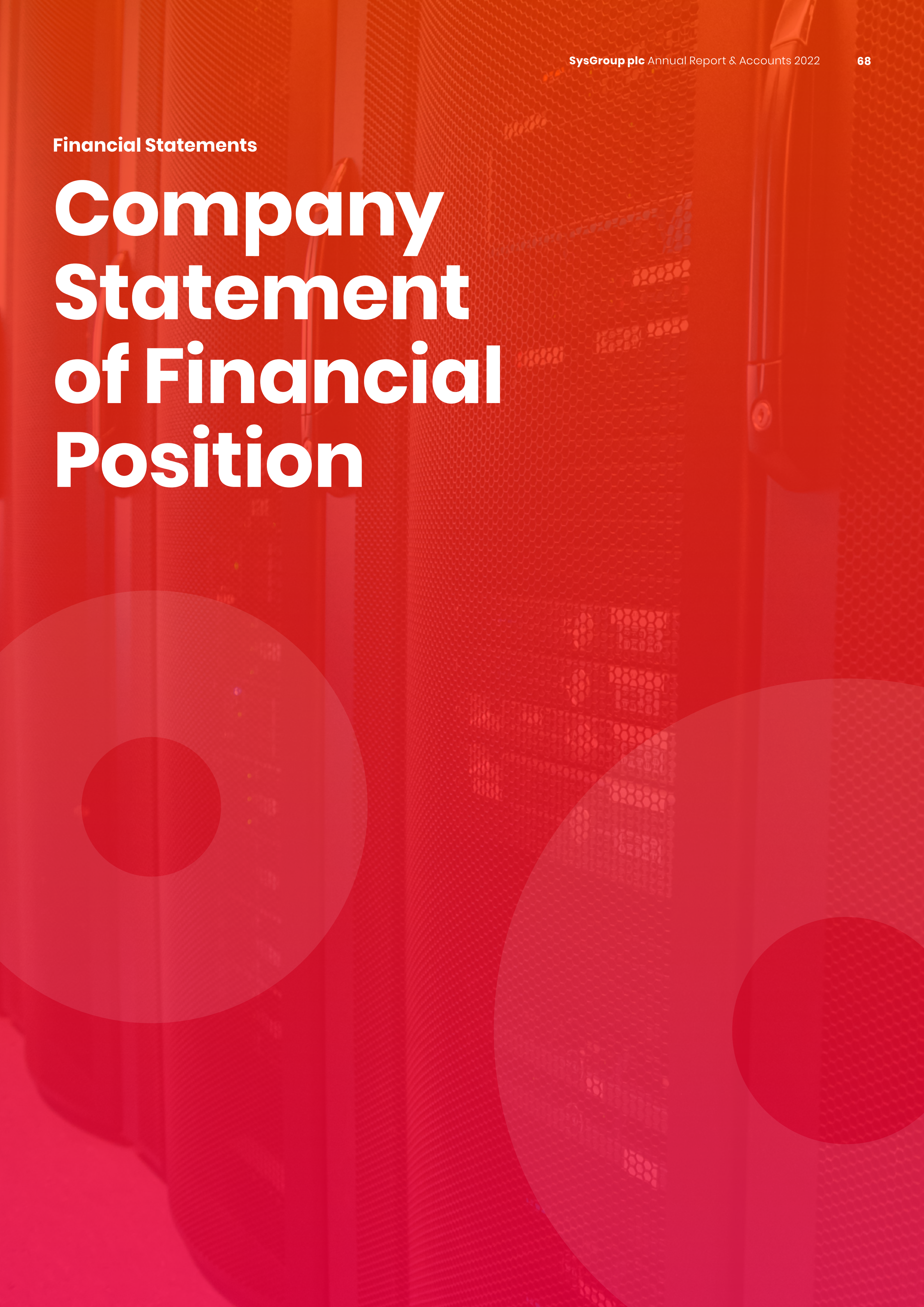
| Assets | Notes | 2022 Group £'000 | 2021 Group £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 13 | 15,554 | 15,554 |
| Intangible assets | 13 | 4,318 | 5,290 |
| Property, plant and equipment | 14 | 1,478 | 1,281 |
| | | **21,350** | **22,125** |
| **Current assets** | | | |
| Trade and other receivables | 16 | 2,079 | 1,728 |
| Cash and cash equivalents | | 4,133 | 3,473 |
| | | **6,212** | **5,201** |
| **Total Assets** | | **27,562** | **27,326** |
| **Equity and Liabilities** | | | |
| *Equity attributable to the equity shareholders of the parent* | | | |
| Called up share capital | 21 | 494 | 494 |
| Share premium reserve | | 9,080 | 9,080 |
| Treasury reserve | | (201) | (201) |
| Other reserve | | 3,027 | 2,832 |
| Translation reserve | | 4 | 4 |
| Retained earnings | | 8,854 | 8,403 |
| | | **21,258** | **20,612** |
| **Non-current liabilities** | | | |
| Lease liabilities | 12 | 1,011 | 889 |
| Bank loan | 18 | 195 | 190 |
| Deferred taxation | 18 | 387 | 757 |
| Contract liabilities | 19 | 296 | 481 |
| | | **1,889** | **2,317** |
| **Current liabilities** | | | |
| Trade and other payables | 17 | 2,692 | 2,683 |
| Lease liabilities | 18 | 144 | 230 |
| Bank loan | 18 | 416 | 416 |
| Contract liabilities | 19 | 1,163 | 1,068 |
| | | **4,415** | **4,397** |
| **Total Equity and Liabilities** | | **27,562** | **27,326** |

## **Consolidated Statement of Financial Position** Continued

The financial statements on pages 63 to 105 were approved by the Board and authorised on 17 June 2022.

**Martin Audcent**
Director

Registered number 06172239



**Financial Statements**

# Company Statement of Financial Position

# Company Statement of Financial Position

## As at 31 March 2022

| | Notes | 2022 Company £'000 | 2021 Company £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments | 15 | 24,895 | 24,895 |
| Property, plant and equipment | 14 | 254 | 133 |
| | | **25,149** | **25,028** |
| **Current assets** | | | |
| Trade and other receivables | 16 | 288 | 285 |
| Cash and cash equivalents | | 634 | 585 |
| | | **922** | **870** |
| **Total Assets** | | **26,071** | **25,898** |
| **Equity and Liabilities** | | | |
| Equity attributable to the equity shareholders of the parent | | | |
| Called up share capital | 21 | 494 | 494 |
| Share premium reserve | | 9,080 | 9,080 |
| Treasury reserve | | (201) | (201) |
| Other reserve | | 3,027 | 2,832 |
| Retained earnings | | 7,896 | 6,308 |
| | | **20,296** | **18,513** |
| **Non-current liabilities** | | | |
| Bank loan | 18 | 387 | 757 |
| Lease liabilities | 18 | 152 | 64 |
| | | **539** | **821** |
| **Current liabilities** | | | |
| Amounts due to subsidiary undertakings | 17 | 3,884 | 5,456 |
| Trade and other payables | 17 | 861 | 652 |
| Lease liabilities | 18 | 75 | 40 |
| Bank loan | 18 | 416 | 416 |
| | | **5,236** | **6,564** |
| **Total Equity and Liabilities** | | **26,071** | **25,898** |

## **Company Statement of Financial Position** Continued

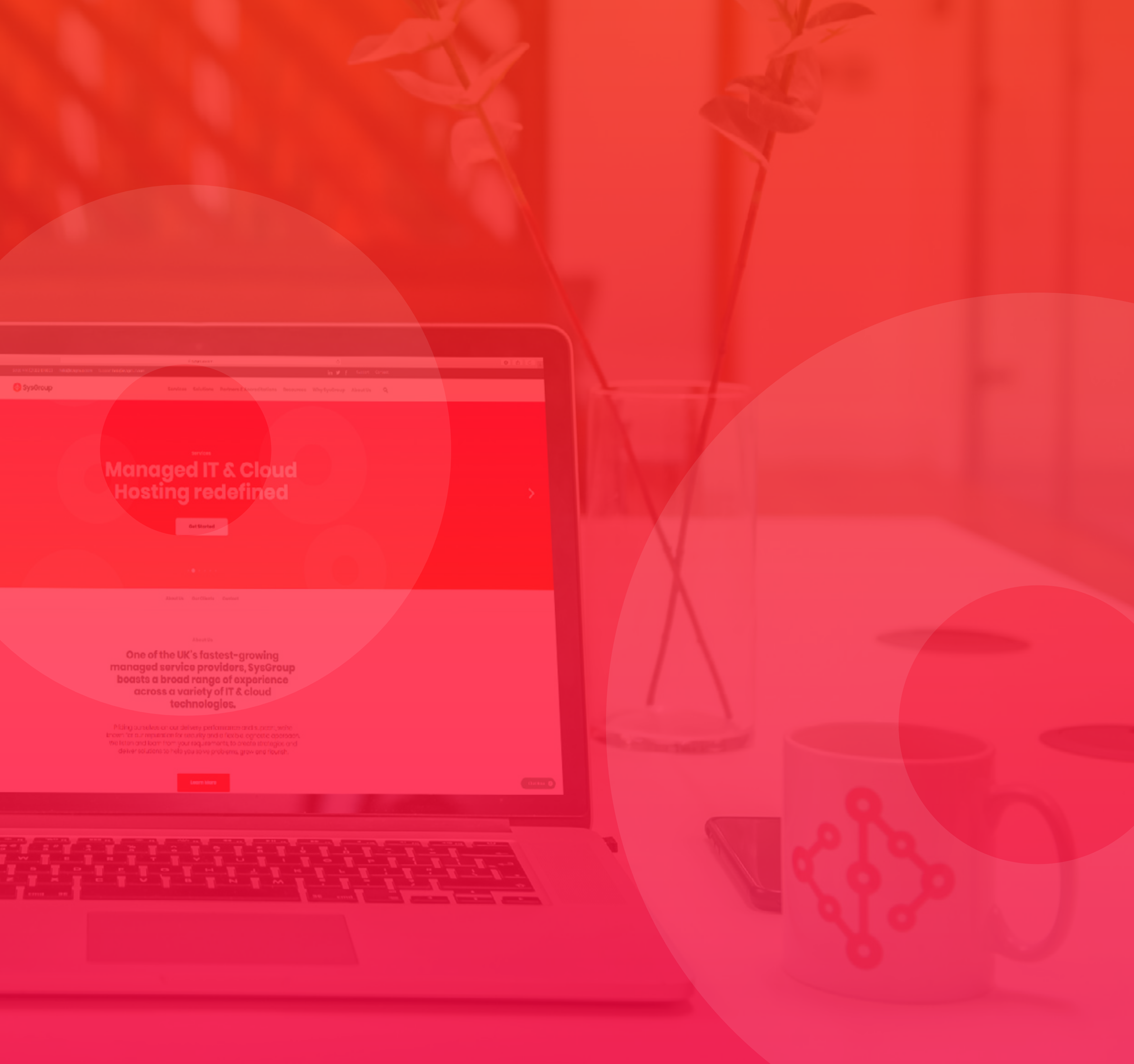
As permitted by section 408 of the Companies Act 2006, the holding Company's statement of comprehensive income has not been included in the financial statements. For the year ended 31 March 2022, the Company made a profit of £1,588,908 (FY21: loss of £113,000).

**Martin Audcent**
Director

Registered number 06172239

Financial Statements

# Consolidated Statement of Changes in Equity



# Consolidated Statement of Changes in Equity

## For the year ended 31 March 2022

| | 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 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** |
| | | | | | | | |
| **As at 1 April 2021** | **494** | **9,080** | **(201)** | **2,832** | **4** | **8,403** | **20,612** |
| **Comprehensive income** | | | | | | | |
| Profit for the period | – | – | – | – | – | 451 | 451 |
| **Total Comprehensive income** | **–** | **–** | **–** | **–** | **–** | **451** | **451** |
| **Distributions to owners** | | | | | | | |
| Share options charge | – | – | – | 195 | – | – | 195 |
| **Total Distributions to owners** | **–** | **–** | **–** | **195** | **–** | **–** | **195** |
| **At 31 March 2022** | **494** | **9,080** | **(201)** | **3,027** | **4** | **8,854** | **21,258** |

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 relations to the consolidation of subsidiary companies accounting for currencies other than the Group's functional currency. |
| Retained Earnings | All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere. |

Financial Statements

# Company Statement of Changes in Equity

# Company Statement of Changes in Equity

## For the year ended 31 March 2022

| | 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 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** |
| **As at 1 April 2021** | **494** | **9,080** | **–** | **2,832** | **6,308** | **18,513** |
| **Comprehensive income** | | | | | | |
| Profit for the period | – | – | – | – | 1,588 | 1,588 |
| **Total Comprehensive income** | **–** | **–** | **–** | **–** | **1,588** | **1,588** |
| **Distributions to owners** | | | | | | |
| Share options charge | – | – | – | 195 | – | 195 |
| **Total Distributions to owners** | **–** | **–** | **–** | **195** | **–** | **195** |
| **At 31 March 2022** | **494** | **9,080** | **(201)** | **3,027** | **7,896** | **20,296** |

Financial Statements

# Consolidated Statement of Cashflows

# Consolidated Statement of Cashflows

## For the year ended 31 March 2022

| | Notes | 2022 Group £'000 | 2021 Group £'000 |
|---|---|---|---|
| **Cashflows used in operating activities** | | | |
| Profit after tax | | 451 | 240 |
| **Adjustments for:** | | | |
| Depreciation and amortisation | 13,14 | 1,897 | 2,016 |
| Finance costs | 6 | 127 | 108 |
| Share based payments | | 195 | 504 |
| Taxation charge/(credit) | 12 | 147 | (35) |
| **Operating cashflows before movement in working capital** | | **2,817** | **2,833** |
| (Increase)/decrease in trade and other receivables | | (354) | 987 |
| Increase/(decrease) in trade and other payables | | 5 | (889) |
| **Cashflow from operations** | | **2,468** | **2,931** |
| Taxation paid | | (159) | (98) |
| **Net cash from operating activities** | | **2,309** | **2,833** |
| **Cashflows from investing activities** | | | |
| Payments to acquire property, plant & equipment | 14 | (620) | (179) |
| Payments to acquire intangible assets | 13 | (271) | (396) |
| Acquisition of subsidiary companies | 10 | - | (975) |
| **Net cash used in investing activities** | | **(891)** | **(1,550)** |
| **Cashflows from financing activities** | | | |
| Payments for share buy-back | | - | (201) |
| Repayment of loan facility including fees | | (417) | (224) |
| Capital/principal paid on lease liabilities | | (256) | (288) |
| Interest paid on loan facility | | (67) | (105) |
| Interest paid on lease liabilities | | (18) | (28) |
| **Net cash used in financing activities** | | **(758)** | **(846)** |
| **Net increase in cash and cash equivalents** | | **660** | **437** |
| Cash and cash equivalents at the beginning of the year | | 3,473 | 3,036 |
| **Cash and cash equivalents at the end of the year** | | **4,133** | **3,473** |

**Financial Statements**

# Company Statement of Cashflows

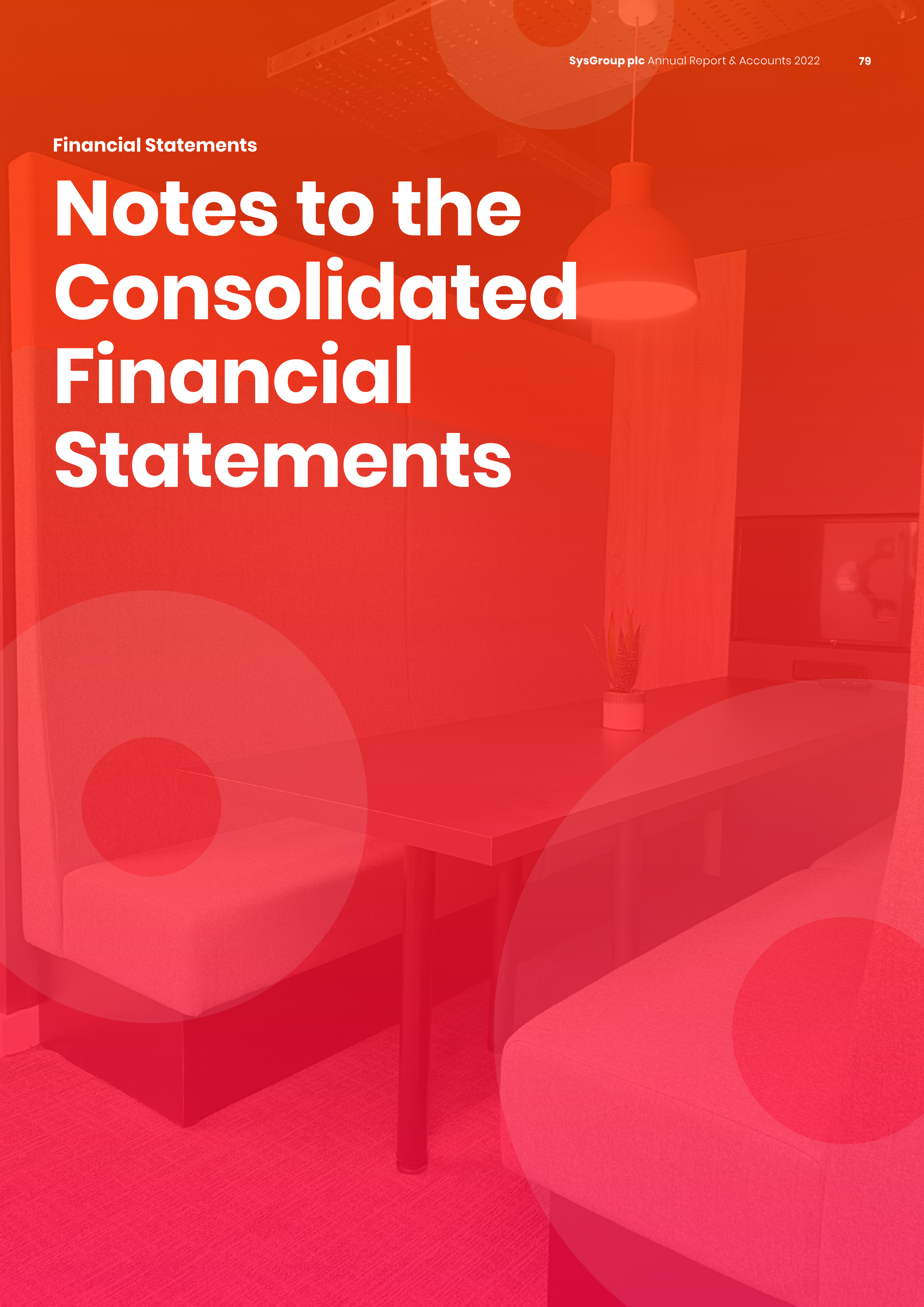
# Company Statement of Cashflows

## For the year ended 31 March 2022

| | Notes | 2022 Company £'000 | 2021 Company £'000 |
|---|---|---|---|
| **Cashflows used in operating activities** | | | |
| Profit/(loss) after tax | | 1,589 | (113) |
| **Adjustments for:** | | | |
| Depreciation and amortisation | | 119 | 101 |
| Finance costs | | 118 | 87 |
| Share based payments | | 194 | 504 |
| Taxation credit | | 126 | (122) |
| **Operating cashflows before movement in working capital** | | **2,146** | **457** |
| (Increase)/decrease in trade and other receivables | 16 | (11) | 151 |
| (Decrease)/increase in trade and other payables | 17 | (1,488) | 1,340 |
| **Net cash from operating activities** | | **647** | **1,948** |
| **Cashflows from investing activities** | | | |
| Payments to acquire property, plant & equipment | 14 | (51) | (32) |
| Acquisition of subsidiary companies | 10 | - | (975) |
| **Net cash used in investing activities** | | **(51)** | **(1,007)** |
| **Cashflows from financing activities** | | | |
| Payments for share buy-back | | - | (201) |
| Repayment of loan facility | | (417) | (224) |
| Capital/principal paid on lease liabilities | | (53) | (37) |
| Interest paid on loan facility | | (67) | (105) |
| Interest paid on lease liabilities | | (10) | (6) |
| **Net cash used in financing activities** | | **(547)** | **(573)** |
| **Net increase in cash and cash equivalents** | | **49** | **368** |
| Cash and cash equivalents at the beginning of the year | | 585 | 217 |
| **Cash and cash equivalents at the end of the year** | | **634** | **585** |

**Financial Statements**

# Notes to the Consolidated Financial Statements



# Notes to the Consolidated Financial Statements

## For the year ended 31 March 2022

## 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 UK adopted international accounting standards ("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 and share based payments which have been valued in accordance with IFRS9 and IFRS2 respectively.

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

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

The Directors have reviewed the Base business forecast for the period to 31 March 2024 and a Sensitised version which models the financial consequences of a considerable downside scenario. In assessing the forecasts, the Directors have considered the potential impacts on the world and UK economies from the Russian invasion of Ukraine and prolonged rises in inflation and energy costs.

In the Base forecast there is significant and increasing headroom in the bank covenants as the business continues to generate cash and reduce net debt. In the Sensitised forecast, and despite lower revenue and profits, the Group maintains positive gross cash balances, reduces net debt and stays within the bank covenants. The Group has a business model with a high degree of financial resilience since circa 80% of revenue is derived from contracted managed IT services which is a continuous and business critical service supply to customers. This provides a high level of operating cash generation. At 31 March 2022, the Group had cash balances of £4.1m and a net cash position of £3.0m. Subsequent to the year end, the Group re-financed with Santander and now has an £8.0m Revolving Credit Facility ("RCF") which can be used for acquisitions and working capital requirements and has no fixed repayment terms. This provides further financing flexibility to the Group.

The forecasts, the resultant cashflows, together with the confirmed new RCF loan facilities, taking account of reasonably possible changes in trading performance, show that the Group can continue to operate within the current facilities available to it.

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

# **Notes to the Consolidated Financial Statements** Continued

### New standards and interpretations

A number of new standards and amendments to standards and interpretations have been issued during the year ended 31 March 2022. 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 introduced 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. .

| **Lease liabilities** | **Land & Buildings £'000** | **Plant & Machinery £'000** | **Total £'000** |
|---|---|---|---|
| At 1 April 2021 | 360 | 60 | **420** |
| Additions | 174 | - | **174** |
| Interest expense | 17 | 2 | **19** |
| Lease payments | (220) | (54) | **(274)** |
| **At 31 March 2022** | **331** | **8** | **339** |

**Repayment of lease liabilities are analysed as follows:**

| | **2022 £'000** |
|---|---|
| Due within 1 year | 144 |
| Instalments due after 1 year but no more than 5 years | 195 |
| Instalments due after 5 years | - |

The weighted average incremental borrowing rate applied to lease liabilities 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 2021 | 332 | 85 | 2 | 419 |
| Additions | 239 | - | - | 239 |
| Depreciation | (191) | (74) | (2) | (267) |
| **At 31 March 2022** | **380** | **11** | **-** | **391** |

### 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 services, professional services and value-added resale. All customer sales are signed as contracts or orders which separately specify the services and products to be delivered and these are mapped to one of the three revenue recognition categories. The contracts or orders specify, by service and product, the sales price and the contracted term of the services. As such, the separate performance obligations and allocation of transaction price can be identified clearly from the customer sales contracts.

## **Notes to the Consolidated Financial Statements** Continued

The revenue recognition policies can be summarised as follows:

| Revenue category | Performance delivery | Revenue recognition |
|---|---|---|
| **Managed services** | Contracted managed 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.

## **Notes to the Consolidated Financial Statements** Continued

The Group makes certain adjustments to the statutory profit in order to derive many of these APMs. These include exceptional items and share based payments. The group presents as exceptional items on the face of the Statement of Comprehensive Income those material items of income and expense which the Directors consider, because of their size or nature and expected non-recurrence, merit separate presentation to facilitate financial comparison with prior periods and to assess trends in financial performance. Exceptional items are included in Administration expenses in the Consolidated Statement of Comprehensive Income but excluded from Adjusted EBITDA as management believe they should be considered separately to gain an understanding of the underlying profitability of the trading businesses on a consistent basis from year to year.

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

**Financial Assets**
The Group's financial assets comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position. Trade receivables are stated at their nominal value and an expected lifetime credit loss will be recognised using the simplified approach and shown in administrative expenses in the Consolidated Statement of Comprehensive Income. Impairment reviews for other receivables, including those due from related parties, use the general approach whereby twelve month expected credit losses are provided for and lifetime credit losses are only recognised where there has been a significant increase in credit risk, by monitoring the credit worthiness of the other party. Cash and cash equivalents include cash in hand and deposits held at call with banks.

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

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

- Fair value through profit or loss
  This category comprises only contingent consideration. They are carried in the statement of financial position at fair values with changes in fair value recognised in the consolidated income statement.
- Other Financial Liabilities
  Other financial liabilities include trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

**Fair Value Measurement Hierarchy**
IFRS 9 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value to reflect the significance of the inputs used in making the fair value measurement.

The fair value hierarchy has the following levels:

a. Quoted prices in active markets for identical assets or liabilities (Level 1);
b. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
c. Inputs from the asset or liability that are not based on observable market data (Level 3).

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

# **Notes to the Consolidated Financial Statements** Continued

### Share Based Payments

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

### Property Plant and Equipment

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

| | |
|---|---|
| Office equipment | 20% – 33.3% straight line |
| Motor vehicles | 25% straight line |
| Freehold property | 2% straight line |
| Right of use assets | over the period of the lease |

### Investment in Subsidiaries

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

### Research and Development

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

### Intangible Assets

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

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

| Intangible asset | Estimated UEL | Valuation method |
|---|---|---|
| Customer relationships | 5-7 years | Estimated discounted cash flow |
| Software licenses | 3-5 years | Cost less amortisation |
| System development | 5 years | Cost less amortisation |

### Deferred Taxation

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

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

**Notes to the Consolidated Financial Statements** Continued

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

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

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

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

## 2. Significant Accounting Estimates & Judgements

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

**Significant Accounting Estimates**

### Impairment of goodwill and other intangibles

The Group tests goodwill for impairment annually and in line with the stated accounting policy. 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. Further details are included in note 13.

### Valuation of intangible assets acquired in business combinations

Determining the fair value of customer relationships acquired in business combinations requires estimation of the value of the cash flows related to those relationships and a suitable discount rate in order to calculate the present value.

**Significant Accounting Judgements**

### Going concern

The Board have approved an Annual Operating Plan for FY23 and a forecast to 31 March 2024, and management have exercised judgement in the preparation of the financial forecasts particularly on the level of future sales, customer contract uplifts and cancellations, and working capital assumptions. The Board have reviewed the Group's financial forecasts and a Sensitised 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 included in note 1.

## **Notes to the Consolidated Financial Statements** Continued

### 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 their judgement to identify the CGUs of the Group. When SysGroup acquire a company, the newly acquired business is allocated its own CGU for the first year and until such time as either the business and assets have been hived up into the main SysGroup trading company or when the systems, finances & management of the business have been successfully integrated, whichever is earlier. At 31 March 2022, the Board exercised their judgement and concluded that the Group continues to have one CGU, "Managed IT Services", which is the same as in the prior year.

### Useful economic lives of intangible assets

Intangible assets are amortised over their useful economic lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in changes in the carrying values and hence amounts charged to the income statement in particular periods which could be significant. 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, People, Projects, Billing & Service Desk system. 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. Project Fusion was completed in March 2022.

### 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** | **2022 £'000** | **2021 £'000** | **2022 £'000** | **2021 £'000** |
| **Assets held at amortised cost** | | | | |
| Cash and cash equivalents | 4,133 | 3,473 | 634 | 585 |
| Trade receivables | 1,154 | 916 | - | - |
| **Total financial assets** | **5,287** | **4,389** | **634** | **585** |

## Notes to the Consolidated Financial Statements Continued

| | Group | | Company | |
|---|---|---|---|---|
| **Financial liabilities** | **2022 £'000** | **2021 £'000** | **2022 £'000** | **2021 £'000** |
| **Amortised cost** | | | | |
| Trade and other payables | 2,005 | 1,801 | 603 | 546 |
| Amounts due to subsidiaries | – | – | 3,884 | 5,456 |
| Loans and other borrowings | 1,142 | 1,593 | 1,030 | 1,278 |
| **At fair value** | **3,147** | **3,394** | **5,517** | **7,280** |
| **Total financial liabilities** | **3,147** | **3,394** | **5,517** | **7,280** |

### 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 prepare cashflow forecasts during the month and working capital forecasts on a monthly basis. These allow the Directors to make an assessment of the cash position and the future requirements of the Group 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's operating requirements and capital expenditure.

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

| **Group**<br>**At 31 March 2022** | **Up to 3 months £'000** | **Between 3 and 12 months £'000** | **Between 1 and 2 years £'000** | **Between 2 and 5 years £'000** | **Over 5 years £'000** |
|---|---|---|---|---|---|
| Trade and other payables | 2,005 | – | – | – | – |
| Loans and borrowings | 133 | 402 | 588 | – | – |
| **Total** | **2,138** | **402** | **588** | **–** | **–** |
| **At 31 March 2021** | | | | | |
| Trade and other payables | 1,801 | – | – | – | – |
| Loans and borrowings | 155 | 464 | 580 | 394 | – |
| **Total** | **1,956** | **464** | **580** | **394** | **–** |

## Notes to the Consolidated Financial Statements Continued

| **Company**<br><br>**At 31 March 2022** | **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 | 602 | – | – | – | – |
| Amounts due to subsidiaries | 3,884 | – | – | – | – |
| Loans and borrowings | 116 | 350 | 495 | 51 | – |
| **Total** | **4,602** | **350** | **495** | **51** | **–** |
| **At 31 March 2021** | | | | | |
| Trade and other payables | 546 | – | – | – | – |
| Amounts due to subsidiaries | 5,456 | – | – | – | – |
| Loans and borrowings | 108 | 323 | 432 | 415 | – |
| **Total** | **6,110** | **323** | **432** | **415** | **–** |

**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 paying on direct debit or 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 & 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 objective when maintaining capital are to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders in future periods and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk. The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

## Notes to the Consolidated Financial Statements Continued

### 4. Segmental Analysis

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

- Managed IT Services – this segment provides all forms of managed services to customers and includes professional services.
- Value Added Resale (VAR) – this segment provides all forms of VAR sales where the business sells products and licences from supplier partners.

The monthly management accounts reported to the Board of Directors 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.

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

| Revenue by operating segment | 2022 £'000 | 2022 % | 2021 £'000 | 2021 % |
|---|---|---|---|---|
| Managed IT Services | 12,845 | 87% | 14,344 | 79% |
| Value Added Resale | 1,901 | 13% | 3,787 | 21% |
| **Total** | **14,746** | **100%** | **18,131** | **100%** |

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

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

| | 2022 £'000 | 2022 % | 2021 £'000 | 2021 % |
|---|---|---|---|---|
| UK | 14,706 | 100% | 18,091 | 100% |
| Rest of World | 40 | – | 40 | – |
| **Total** | **14,746** | **100%** | **18,131** | **100%** |

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Revenue** | | |
| Managed IT Services | 12,845 | 14,344 |
| Value Added Resale | 1,901 | 3,787 |
| **Total** | **14,746** | **18,131** |
| **Gross profit** | | |
| Managed IT Services | 8,511 | 9,594 |
| Value Added Resale | 409 | 907 |
| **Total** | **8,920** | **10,501** |

## **Notes to the Consolidated Financial Statements** Continued

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Current contract liabilities relating to deposits from customers | 1,459 | 1,549 |
| Release of contract liability recognised in revenue which was included in the contract liability balance at the beginning of the year | **1,549** | **1,465** |

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

## 5. Operating Profit

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Operating profit is after charging the following: | | |
| **Auditor's remuneration:** | | |
| **Group:** | | |
| Audit | 64 | 64 |
| Other advisory – Interim Review | 14 | 12 |
| **Company:** | | |
| Audit | 4 | 4 |
| Depreciation of tangible fixed assets | 654 | 722 |
| Amortisation of Intangible assets | 1,243 | 1,294 |
| Staff costs (note 7) | 4,628 | 5,315 |
| Share based payments (note 9) | 195 | 504 |
| Short term lease costs | 46 | 38 |
| Exceptional items (note 8) | - | 82 |

## 6. Finance Expense

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interest payable on lease liabilities | 20 | 27 |
| Interest payable on bank loan | 80 | 53 |
| Arrangement fee amortisation on bank loan | 27 | 28 |
| **Total** | **127** | **108** |

## 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:

| | 2022 | 2021 |
|---|---|---|
| Technical Support | 60 | 81 |
| Sales and Marketing | 13 | 20 |
| Administration | 15 | 15 |
| **Total** | **88** | **116** |

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

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Wages and salaries | 4,026 | 4,631 |
| Social security costs | 444 | 508 |
| Benefits in kind | 35 | 50 |
| Pension benefits | 123 | 126 |
| Share based payment expense | 195 | 504 |
| **Total** | **4,823** | **5,819** |

Total staff costs for the Company are £4,823,000 (FY21: £3,497,000) and average staff numbers for the Company are 88 (FY21: 73).

| **Directors** | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Fees and salaries | 533 | 552 |
| Social security costs | 57 | 53 |
| Benefits in kind | 3 | 3 |
| Pension benefits contributions | 14 | 14 |
| Share based payment expense | 133 | 464 |
| **Total** | **740** | **1,086** |

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 £249,000 (FY21: £261,000).

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 2022 was nil (FY21: £10,000).

## **Notes to the Consolidated Financial Statements** Continued

# 8. Exceptional Items

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Integration and restructuring | – | 82 |
| **Total** | **–** | **82** |

# 9. Share Based Payments

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 24.3p per share.

| | | | No. of Ordinary Shares | | | |
|---|---|---|---|---|---|---|
| **Grant date** | **Exercise period** | **Exercise price** | **At 1 April 2021** | **Granted** | **Waived** | **At 31 March 2022** |
| 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 | 240,000 | – | (9,000) | 231,000 |
| 16/04/2020 | 16/04/23 to 15/04/30 | 1.0p | 150,000 | – | – | 150,000 |
| 06/04/2021 | 06/04/24 to 05/04/31 | 41.0p | – | 306,000 | (51,000) | 255,000 |
| 01/07/2021 | 01/07/24 to 30/06/31 | 1.0p | – | 250,000 | – | 250,000 |
| 14/02/2022 | 14/02/25 to 13/02/32 | 26.0p | – | 30,000 | – | 30,000 |
| **Total** | | | **435,625** | **586,000** | **(60,000)** | **961,625** |

## Notes to the Consolidated Financial Statements Continued

The inputs to the share valuation model utilised at the grant of the option is shown in the table below. Management has determined volatility using their knowledge of the business. The options have been valued using the Black Scholes method and using the following assumptions:

| | | | | | | |
|---|---|---|---|---|---|---|
| Number of instruments granted | 3,750 | 11,875 | 30,000 | 231,000 | 150,000 | 255,000 |
| Grant date | 12-Dec-13 | 21-Feb-16 | 02-Mar-18 | 26-Nov-18 | 16-Apr-20 | 06-Apr-21 |
| Expiry date | 11-Dec-23 | 20-Feb-26 | 01-Mar-21 | 25-Nov-21 | 15-Apr-23 | 05-Apr-24 |
| Contract term (years) | 10 | 10 | 10 | 10 | 10 | 10 |
| Exercise price | 60.0p | 55.2p | 35.5p | 42.5p | 27.0p | 41.0p |
| Share price at granting | 85.0p | 70.8p | 35.5p | 42.5p | 1.0p | 41.0p |
| Annual risk-free rate (%) | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| Annual expected dividend yield (%) | 0% | 0% | 0% | 0% | 0% | 0% |
| Volatility (%) | 27% | 27% | 27% | 27% | 27% | 27% |
| Fair value per grant instrument | 30.2p | 41.5p | 17.9p | 14.8p | 26.0p | 14.3p |

| | | |
|---|---|---|
| Number of instruments granted | 250,000 | 30,000 |
| Grant date | 01-Jul-21 | 14-Feb-22 |
| Expiry date | 30-Jun-24 | 13-Feb-25 |
| Contract term (years) | 10 | 10 |
| Exercise price | 1.0p | 26.0p |
| Share price at granting | 42.0p | 26.0p |
| Annual risk-free rate (%) | 0.5% | 0.5% |
| Annual expected dividend yield (%) | 0% | 0% |
| Volatility (%) | 27% | 27% |
| Fair value per grant instrument | 41.0p | 9.1p |

### 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 1 April 2021** | **Granted** | **Waived** | **At 31 March 2022** |
| 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 |
| 21/06/2021 | 21/06/23 to 20/06/31 | 1.0p | - | 287,480 | - | 287,480 |
| **Total** | | | **2,000,000** | **287,480** | **-** | **2,287,480** |

## **Notes to the Consolidated Financial Statements** Continued

The inputs to the share valuation model utilised at the grant of the option is shown in the table below. Management has determined volatility using their knowledge of the business. The options have been valued using the Black Scholes method and using the following assumptions:

| | | | | | |
|---|---|---|---|---|---|
| Number of instruments granted | 750,000 | 450,000 | 400,000 | 400,000 | 287,480 |
| Grant date | 28-Jun-18 | 16-Jul-18 | 15-Jul-19 | 08-Jul-20 | 21-Jun-21 |
| Expiry date | 27-Jun-20 | 15-Jul-21 | 14-Jul-22 | 07-Jul-22 | 20-Jun-23 |
| Contract term (years) | 10 | 10 | 10 | 10 | 10 |
| Exercise price | 1.0p | 1.0p | 1.0p | 1.0p | 1.0p |
| Share price at granting | 41.5p | 46.5p | 42.0p | 33.0p | 42.0p |
| Annual risk-free rate (%) | 0.5% | 0.5% | 0.5% | 0.5% | 0.5% |
| Annual expected dividend yield (%) | 0% | 0% | 0% | 0% | 0% |
| Volatility (%) | 27% | 27% | 27% | 27% | 27% |
| Fair value per grant instrument | 40.9p | 43.7p | 41.4p | 32.0p | 41.0p |

## 10. Acquisitions

In FY21, the prior year, SysGroup plc paid £975,000 to the Sellers of Certus IT Limited in full settlement of the earn-out agreed for SysGroup's acquisition of Certus IT Limited in February 2019.

## 11. Earnings Per Share

| | **2022** | **2021** |
|---|---|---|
| Profit for the financial year attributable to shareholders | £451,264 | £240,000 |
| Weighted number of issued equity shares | 48,859,690 | 49,234,036 |
| Weighted number of equity shares for diluted EPS calculation | 51,983,666 | 51,811,233 |
| Adjusted basic earnings per share (pence) | 3.6p | 3.5p |
| Basic earnings per share (pence) | 0.9p | 0.5p |
| Diluted earnings per share (pence) | 0.9p | 0.5p |

| | **2022 £'000** | **2021 £'000** |
|---|---|---|
| Profit after tax used for basic earnings per share | 451 | 240 |
| Amortisation of intangible assets | 1,243 | 1,294 |
| Exceptional items | - | 82 |
| Share based payments | 195 | 504 |
| Tax adjustments | (141) | (376) |
| **Adjusted profit used for Adjusted Earnings per Share** | **1,748** | **1,744** |

## **Notes to the Consolidated Financial Statements** Continued

# 12. Taxation

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Current tax** | | |
| Current tax - current year | 120 | 260 |
| Adjustments in respect of prior years | (94) | 16 |
| **Total current tax charge** | **26** | **276** |
| **Deferred tax** | | |
| Deferred tax - timing differences | 121 | (311) |
| **Total deferred tax** | **121** | **(311)** |
| **Total tax charge/(credit)** | **147** | **(35)** |

The effective tax rate for the year to 31 March 2022 is higher (FY21: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Profit on ordinary activities before tax** | **598** | **205** |
| Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (FY21:19%) | 114 | 39 |
| **Effects of:** | | |
| Expenses not deductible | 34 | 53 |
| Prior year adjustment | (94) | 17 |
| Re-measurement of deferred tax due to changes in UK rate | 142 | 51 |
| Deferred tax asset on share-based payments | 6 | (122) |
| Use of brought forward losses | (55) | (73) |
| **Total tax charge/(credit)** | **147** | **(35)** |

The Group recognised deferred tax assets and liabilities as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Deferred tax liability on customer relationships | (846) | (927) |
| Deferred tax asset on share-based payments | 116 | 122 |
| Capital allowances timing differences | (281) | (84) |
| **Deferred tax liability** | **(1,011)** | **(889)** |

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

## Notes to the Consolidated Financial Statements Continued

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 2021 | 38 | (927) | **(889)** |
| Debited/credited to statement of comprehensive income | (197) | 81 | **(116)** |
| Deferred tax asset on share-based payments | (6) | - | **(6)** |
| **Balance at 31 March 2022** | **(165)** | **(846)** | **(1,011)** |

**Factors affecting future tax charges:**
Deferred tax balances are recognised at 25% (2021: 19%) following UK government legislation to increase the rate of corporation tax from 19% to 25% on 1 April 2023..

## 13. Intangible Assets

| Cost | Systems Development £'000 | Software Licences £'000 | Customer Relationships £'000 | Positive Goodwill £'000 | Total £'000 |
|---|---|---|---|---|---|
| **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** |
| **At 1 April 2021** | 802 | 205 | 9,156 | 15,554 | 25,717 |
| Additions | 271 | - | - | - | 271 |
| **At 31 March 2022** | **1,073** | **205** | **9,156** | **15,554** | **25,988** |
| **Accumulated amortisation** | | | | | |
| **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** |
| **At 1 April 2021** | 264 | 201 | 4,408 | - | 4,873 |
| Charge for the year | 140 | 4 | 1,099 | - | 1,243 |
| **At 31 March 2022** | **404** | **205** | **5,507** | **-** | **6,116** |
| **Net book value** | | | | | |
| **At 31 March 2021** | **538** | **4** | **4,748** | **15,554** | **20,844** |
| **At 31 March 2022** | **669** | **-** | **3,649** | **15,554** | **19,872** |

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 5 years.

## **Notes to the Consolidated Financial Statements** Continued

### Cash-generating units ("CGUs")

Goodwill and intangible assets are allocated to CGUs in order to be assessed for potential impairment. 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.

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

| | Allocation of goodwill | | Carrying value of assets | |
|---|---|---|---|---|
| | **2022 £'000** | **2021 £'000** | **2022 £'000** | **2021 £'000** |
| Managed IT Services | 15,554 | 15,554 | 21,280 | 19,331 |
| **Total** | **15,554** | **15,554** | **21,280** | **19,331** |

### 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% (FY21: 2.5%) for revenue. This represents management's best estimate of a long-term annual growth rate aligned to an assessment of long-term GDP growth rates. A higher sector-specific growth rate would be a valid alternative estimate. A different set of assumptions may be more appropriate in future years dependent on changes in the macroeconomic environment.

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

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

The assumptions used for the impairment review are detailed below. The CGU has over 50% 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 over 13.0% or future CGU profits would have to be significantly below current forecast levels.
The CGU has been tested for profit sensitivity and would remain within VIU headroom in the event of nil revenue growth being achieved in years 2-5 whilst maintaining overhead growth.

## Notes to the Consolidated Financial Statements Continued

| **2022** | **Managed IT Services** |
|---|---|
| Discount rate | 9.40% |
| Revenue growth rate year 2 to year 5 | 2.50% |
| Terminal growth rate | 2.50% |
| **2021** | |
| Discount rate | 9.50% |
| Revenue growth rate year 2 to year 5 | 2.50% |
| Terminal growth rate | 2.50% |

## 14. Property Plant & Equipment

| **Cost** | **Office Equipment £'000** | **Right of Use Lease £'000** | **Freehold Property £'000** | **Total £'000** |
|---|---|---|---|---|
| **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** |
| **At 1 April 2021** | 2,138 | 1,942 | 382 | 4,462 |
| Additions | 620 | 239 | - | 859 |
| Disposals | (14) | - | - | (14) |
| **At 31 March 2022** | **2,744** | **2,181** | **382** | **5,307** |
| **Accumulated depreciation** | | | | |
| **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** |
| **At 1 April 2021** | 1,641 | 1,523 | 17 | 3,181 |
| Charge for the year | 379 | 267 | 8 | 654 |
| Disposals | (6) | - | - | (6) |
| **At 31 March 2022** | **2,014** | **1,790** | **25** | **3,829** |
| **Net book value** | | | | |
| **At 31 March 2021** | **497** | **419** | **365** | **1,281** |
| **At 31 March 2022** | **730** | **391** | **357** | **1,478** |

## Notes to the Consolidated Financial Statements Continued

**Company**

| Cost | Office Equipment £'000 | Right of Use Lease £'000 | Total £'000 |
|---|---|---|---|
| **At 1 April 2020** | 237 | 157 | 394 |
| Additions | 32 | - | 32 |
| **At 31 March 2021** | **269** | **157** | **426** |
| **At 1 April 2021** | 269 | 157 | 426 |
| Additions | 51 | 189 | 240 |
| **At 31 March 2022** | **320** | **346** | **666** |
| **Accumulated depreciation** | | | |
| **At 1 April 2020** | 165 | 35 | 200 |
| Charge for the year | 58 | 35 | 93 |
| **At 31 March 2021** | **223** | **70** | **293** |
| **At 1 April 2021** | 223 | 70 | 293 |
| Charge for the year | 55 | 64 | 119 |
| **At 31 March 2022** | **278** | **134** | **412** |
| **Net book value** | | | |
| **At 31 March 2021** | **46** | **87** | **133** |
| **At 31 March 2022** | **42** | **212** | **254** |

## 15. Investments

| Investment in subsidiaries | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **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 forecasts covering the period to 31 March 2024. The principal assumptions can be found in note 13.

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 IT 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

## **Notes to the Consolidated Financial Statements** Continued

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 2022 £'000 | Company 2022 £'000 | Group 2021 £'000 | Company 2021 £'000 |
|---|---|---|---|---|
| Trade debtors | 1,154 | - | 916 | - |
| Other debtors | - | 54 | - | 54 |
| Prepayments | 925 | 118 | 812 | 109 |
| Deferred tax asset | - | 116 | - | 122 |
| **Total** | **2,079** | **288** | **1,728** | **285** |

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

| Debtor impairment disclosure | Group 2022 £'000 | Company 2022 £'000 | Group 2021 £'000 | Company 2021 £'000 |
|---|---|---|---|---|
| Trade debtors | 1,360 | - | 1,183 | - |
| Impairment provision | (206) | - | (267) | - |
| **Total** | **1,154** | **-** | **916** | **-** |

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 | 415 | 945 | 1,360 | - | - | - |
| Expected credit loss | (1) | (205) | (206) | - | - | - |
| **Net carrying amount** | **414** | **740** | **1,154** | **-** | **-** | **-** |

## **Notes to the Consolidated Financial Statements** Continued

## 17. Trade & Other Payables

| Amounts due within one year | Group 2022 £'000 | Company 2022 £'000 | Group 2021 £'000 | Company 2021 £'000 |
|---|---|---|---|---|
| Trade payables | 1,116 | 115 | 811 | 50 |
| Amounts due to subsidiaries | - | 3,884 | - | 5,456 |
| Accruals | 889 | 488 | 990 | 496 |
| **Total financial liabilities, excluding loans and borrowings measured at amortised cost** | **2,005** | **4,487** | **1,801** | **6,002** |
| Corporation tax | 188 | 120 | 254 | - |
| Other taxes and social security costs | 499 | 138 | 628 | 106 |
| **Total** | **2,692** | **4,745** | **2,683** | **6,108** |

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 2022 and 31 March 2021.

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

## 18. Loans and Borrowings

| Non-current | Group 2022 £'000 | Company 2022 £'000 | Group 2021 £'000 | Company 2021 £'000 |
|---|---|---|---|---|
| Lease liabilities | 195 | 152 | 190 | 64 |
| Bank loan | 387 | 387 | 757 | 757 |
| **Total** | **582** | **539** | **947** | **821** |

| Current | Group 2022 £'000 | Company 2022 £'000 | Group 2021 £'000 | Company 2021 £'000 |
|---|---|---|---|---|
| Lease liabilities | 144 | 75 | 230 | 41 |
| Bank loan | 416 | 416 | 416 | 416 |
| **Total** | **560** | **491** | **646** | **457** |

Following the 31 March 2022 year end, SysGroup plc re-financed its existing term loan facility of £1.75m and its undrawn acquisition revolving credit facility of £3.25m and replaced both with a new £8.0m revolving credit facility with Santander to provide additional financial flexibility for the Group. The new banking facility has a term of five years, an interest rate of Base Rate +3.25% margin on drawn funds and covenants that will be tested quarterly relating to total net debt to Adjusted EBITDA leverage and minimum liquidity. The Group drew down £4.5m of RCF funds for the Truststream acquisition in April 2022.

## Notes to the Consolidated Financial Statements Continued

## 19. Contract liabilities

| Contract liabilities | Group 2022 £'000 | Company 2022 £'000 | Group 2021 £'000 | Company 2021 £'000 |
|---|---|---|---|---|
| Current - contract liabilities | 1,163 | - | 1,068 | - |
| Non-current - contract liabilities | 296 | - | 481 | - |
| **Total** | **1,459** | **-** | **1,549** | **-** |

## 20. Related party transactions

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

Arete Capital Partners, a Company of which Mike Fletcher (Non-Executive Director) is a partner, invoiced SysGroup plc £26,479 (2021: £26,479) for a shared cost of corporate services received by SysGroup plc and Arete Capital Partners. At 31 March 2022, the balance outstanding was £nil (31 March 2021: £nil).

## 21. Share Capital

| | Group Number | Group £'000 |
|---|---|---|
| Allotted, called up and fully paid ordinary shares of £0.01 each | | |
| At 1 April 2020 | 49,419,690 | 494 |
| **At 31 March 2021** | **49,419,690** | **494** |
| **At 31 March 2022** | **49,419,690** | **494** |

## 22. Reconciliation of Net Cashflow Movement in Net Cash

| | 1 April 2021 £'000 | Non cashflow movements £'000 | Cashflow £'000 | Right of Use Additions £'000 | Reclass £'000 | 31 March 2022 £'000 |
|---|---|---|---|---|---|---|
| **Cash and cash equivalents** | 3,473 | - | 660 | - | - | 4,133 |
| **Debt due in less than one year:** | | | | | | |
| Bank loans | (416) | 27 | 369 | - | (416) | (436) |
| Lease liabilities | (230) | - | 256 | - | (170) | (144) |
| **Debt due in more than one year:** | | | | | | |
| Bank loans | (757) | (27) | - | - | 416 | (368) |
| Lease liabilities | (190) | - | - | (175) | 170 | (195) |
| **Net cash** | **1,880** | **-** | **1,285** | **(175)** | **-** | **2,990** |

**Notes to the Consolidated Financial Statements** Continued

## 23. Post Balance Sheet Events

Following the year end date, SysGroup plc acquired 100% of the issued share capital in Truststream Security Solutions Limited ("Truststream") and Independent Network Solutions Limited ("INSL", holding company of Orchard Computers Limited).

The acquisition purchase price accounting calculation has not been calculated at the date of this Annual Report but the exercise will be undertaken and completed ahead of SysGroup's Interim Announcement later in the year. The acquired book values of the net assets has been provided for both acquisitions below.

**Truststream Security Solutions Limited**
Established in 2011 and based in Edinburgh, Truststream is one of the UK's fastest growing providers of professional and managed cyber security services. Truststream covers all aspects of cyber security from analysis and threat detection, through protection architecture and implementation, to incident response and ongoing 24/7 support and training. The Acquisition further enhances SysGroup's service offering and is complementary to the Group's core expertise and key areas of focus. In addition, the Acquisition enables the Group to further strengthen its UK presence by opening up Scotland as an attractive hub for the Group.

SysGroup acquired Truststream on 4 April 2022 for £4.8m initial cash consideration on a cash-free debt-free basis with an earn-out payable following the first and second anniversaries of the transaction of up to £3.075m. The earn-out is subject to the achievement of certain maintainable EBITDA performance targets in the first and second 12 month periods following the completion of the acquisition.

The Truststream acquisition was mainly funded from a new £8.0m revolving credit facility ("RCF") which was signed with Santander on 4 April 2022. SysGroup utilised £4.5m of funds from the RCF to finance the acquisition. Further information on the new RCF facility can be found in note 18 to the Consolidated Financial Statements.

**Independent Network Solutions Limited**
INSL is the holding company of Orchard Computers Limited ("Orchard") which is based in Bristol. Orchard has been in operation for over 30 years and has built a loyal customer base largely in the South West of England and across a broad range of sectors, covering both the private and public sectors. Its managed IT service offering mirrors that of SysGroup, providing high quality consulting services and building tailor made, vendor agnostic solutions, designed specifically to meet individual customer needs, followed by ongoing support. The acquisition of Orchard will further strengthen SysGroup's presence in the South West of England.

SysGroup acquired INSL on 26 April 2022 for £1.0m cash consideration on a cash-free debt-free basis. There is no contingent or deferred consideration for this acquisition. The cash consideration was funded from the Group's existing cash balances.

| Net assets and liabilities acquired at book value | Orchard NBV £'000 | Truststream NBV £'000 |
|---|---|---|
| Cash and cash equivalents | 398 | 550 |
| Trade and other receivables | 305 | 1,783 |
| Property, plant and equipment | 34 | 1 |
| Trade and other payables | (299) | (1,709) |
| Current income tax liability | (54) | (62) |
| Deferred tax liability | (6) | - |
| **Net assets** | **378** | **563** |

## 24. Ultimate Controlling Party

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

# Notice of Annual General Meeting

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held on 8 September 2022 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 5 will be proposed as ordinary resolutions and Resolutions 6 and 7 will be proposed as special resolutions.

## Ordinary Business

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

1. **TO** receive, consider and adopt the Annual Report and Financial Statements for the year ended 31 March 2022 together with the Directors' and Auditors' Reports contained therein. .

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

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

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

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

   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 5.b below) in connection with an offer by way of a rights issue:

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

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

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

   b. in any other case, up to an aggregate nominal amount of £162,865 (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in resolution 5.a above in excess of £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:

**6. THAT**, subject to the passing of resolution 5, the Directors be given the general power to allot equity securities (as defined by section 560 of the Companies Act 2006) for cash, either pursuant to the authority conferred by resolution 5 or by way of a sale of treasury shares, as if section 561(1) of the Companies Act 2006 did not apply to any such allotment, provided that this power shall be limited to:

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

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

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

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

b. the allotment of equity securities or sale of treasury shares (otherwise than pursuant to resolutions 6.a above) to any person up to an aggregate nominal amount of £24,429.

## **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.

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

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

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
28 July 2022

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 6 September 2022. Changes to entries on the relevant register of securities after 10.00 am 6 September 2022 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

4. As at 5pm on 27 July 2022, 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 5pm on 27 July 2022 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 5 or the disapplication of pre-emption rights authority under resolution 6.

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

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**Company Number**
06172239

**www.sysgroupplc.com**