Annual report and accounts *2023*

SysGroup plc
Walker House,
Exchange Flags
Liverpool L2 3YL

Company number
06172239

www.sysgroup.com

We create value

We are a multi-award-winning technology solutions provider that creates value through technology transformation.

Our mission is to supercharge the UK mid-market. By focusing on the innovative use of technology and creating clever, bespoke solutions we support our customers in achieving their true potential.

Over the last year, we have refined our offering to focus on helping our customers address their biggest challenges, enabling them to drive productivity, increase their resilience, mitigate risk and become more sustainable.

We have made two significant strategic acquisitions which have expanded our presence across the UK, enhanced our service offering and bolstered our client portfolio.

Alongside this evolution of the business, our continued focus on driving organic growth and further strengthening our network of industry-leading partnerships has created robust foundations for future growth.

Contents

Directors, secretary and advisers

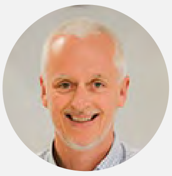
Board of Directors

Michael Edelson
Non-Executive Chairman

Adam Binks
Chief Executive Officer

Martin Audcent
Chief Financial Officer

Michael Fletcher
Non-Executive Director



Mark Quartermaine
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 and broker

Liberum Capital Ltd
25 Ropemaker Street, London EC2Y 9LY

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

Revenue

£21.65m

+47%

Gross profit

£11.10m

+24%

Adjusted EBITDA[1]

£3.33m

+18%

Adjusted PBT[2]

£2.22m

+9%

Cashflow from operations

£3.02m

+22%

Net debt

£1.32m

–

Highlights	*2023*	*2022*	*Change %*
Revenue	**£21.65m**	£14.75m	**47%**
Recurring revenue as a % of total revenue	**81%**	87%	**(6%)**
Gross profit	**£11.10m**	£8.92m	**24%**
Adjusted EBITDA[1]	**£3.33m**	£2.82m	**18%**
Adjusted EBITDA[1] margin %	**15%**	19%	**(4%)**
Statutory (loss)/profit before tax	**£(0.10)m**	£0.60m	**–**
Adjusted PBT[2]	**£2.22m**	£2.04m	**9%**
Basic EPS	**0.0p**	0.9p	**(0.9p)**
Adjusted Basic EPS[3]	**3.9p**	3.6p	**0.3p**
Cashflow from operations	**£3.02m**	£2.47m	**22%**
Net (debt)/cash[4]	**£(1.32)m**	£2.99m	**–**

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 (debt)/cash represents cash balances less bank loans and lease liabilities.
5. Adjusted operating expenses are administrative expenses before depreciation, amortisation, exceptional items and share based payments.

Operational

- Acquisitions of Truststream Security Solutions Limited ("Truststream") and Orchard Computers Limited ("Orchard")
    - Truststream acquired for up to £7.9m, enhancing cyber security offering and adding Edinburgh location
    - Orchard acquired for £1m in cash, strengthening south west operations
- Business operations and systems integration into SysGroup completed
- New £8.0m revolving credit facility secured with Santander
- Consistently high customer satisfaction levels maintained above our 97% target throughout the 12 month period

Post period-end developments

- New go-to-market strategy launched simplifying our messaging to prospects and customers
- Heejae Chae to join the Company as Executive Chairman with Adam Binks stepping down after nine successful years

Strategic *report*

Strategic report

Chairman's statement

In my final report as Chairman, I am pleased to report a year of positive revenue growth for SysGroup as it successfully executed on its growth strategy and navigated challenging sector headwinds. I am incredibly proud to have been Chairman of SysGroup for the last fourteen years, which has seen the Group achieve significant change and growth both organically and through M&A.

Trading for the year has been strong with revenue and Adjusted EBITDA both increasing in line with market expectations. It is pleasing to see the strategic acquisitions of Truststream and Orchard already contributing to total Group revenues. Both businesses have proven to be valuable additions to our existing operations, enhancing our service offering, expanding our geographical presence and fostering new client relationships and cross-sell opportunities. The teams have been seamlessly integrated into the Group, placing us in a stronger position. Moreover, these businesses have brought robust recurring revenue streams, reinforcing our commitment to the Group's buy and build strategy and solidifying our position as a consolidator within a highly fragmented market.

Our people are at the centre of everything we do and I would like to take this opportunity to sincerely thank all of them for their continued diligence and dedication. We have worked hard to create an environment which allows the diverse range of talent within SysGroup to thrive and I believe that this will play a significant part in our continued success. It is the commitment of our people that has consistently propelled our customer satisfaction levels beyond our set targets, and they continue to be at the centre of our growth plans.

On behalf of the Board and the wider team, I would like to extend our thanks to Adam Binks for his dedication and commitment during his time as CEO of SysGroup. Adam has been central to the growth of the Company over the last nine years and I know I speak for all stakeholders by wishing him well for the future.

I would also like to take the opportunity to welcome Heejae Chae to the Board, who will take over from me as Chair.

As the Group continues to invest in its services, execute on its growth strategy and as companies begin to increase investment in technology solutions, we have confidence in the mid-term outlook for SysGroup.

Michael Edelson
Chairman
23 June 2023

Strategic report

Chief Executive Officer's report

Introduction

I am pleased to be able to report, for the final time as Chief Executive, another year of progress for SysGroup, in spite of the continued difficult economic backdrop. The Group met expectations with revenue growth of 47% to £21.65m (FY22: £14.75m) and Adjusted EBITDA[1] increased to £3.33m (FY22: £2.82m). The growth in Group revenues was achieved through a combination of 6% organic growth supplemented by the successful acquisitions of Truststream and Orchard (the "Acquisitions"), both in April 2022.

Managed IT services revenues grew by £4.6m to £17.4m, but reduced as a percentage of Group revenues to 80.6% (FY22: 87.1%) with value-added resale (VAR) sales more than doubling during the period to £4.2m (FY22: £1.9m). Although the increased proportion of VAR impacts the gross margin, it is a reassuring signal that companies are once again committing to IT spend.

SysGroup's strong track record of cash generation continued, with gross cash of £4.19m at the year-end (FY22: £4.13m), achieved after payment of £5.39m (net of cash acquired) in respect of the initial consideration payable for the Acquisitions. As expected, following the Acquisitions and successful refinancing, the Group has a net debt position of £1.32m excluding contingent consideration (FY22: net cash £2.99m). The balance sheet therefore remains very healthy with an Adjusted EBITDA[1] to net debt ratio of 0.4x.

Acquisitions

The Board was pleased to complete two acquisitions early in the financial year, being the first since 2019. Both were strategically important, enhancing our geographical presence as well as complementing our suite of services to meet market needs.

We acquired Truststream for an initial cash consideration of £4.8m on a cash free, debt free basis, and a maximum earn out consideration of up to £3.07m over a 24 month period. Truststream is a leading provider of professional and managed cyber security services, providing SysGroup with greater expertise and an expanded portfolio to target one of the fastest-growing segments of the market. With a strong client base covering both private and public sectors, it 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.

Subsequently, the Group acquired Independent Network Solutions Limited, which trades as Orchard Computers, a Bristol-based managed IT service provider, for £1m in cash. Orchard has been in operation for over 30 years and has built a longstanding and diverse customer base totalling over 120 active clients in 2021, largely in the Southwest of England, complementing the Group's operations in South Wales. Orchard represents customers 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.

At the time of the Truststream acquisition, the Company secured a new £8m revolving credit facility with Santander to provide additional financial flexibility for the Group. This facility has a term of five years with covenants that will be tested quarterly relating to total net debt to Adjusted EBITDA[1] leverage and minimum liquidity. The Group has drawn down £4.5m against the new facility towards the funding of the Truststream Acquisition.

As a result of the Group's prior year investments in Project Fusion, which provided the Group with a single operating platform, the integration of both businesses has been both swift and seamless. The integration of both finance operations, customer relationship management and team members were completed during the first half of the year and we have since completed integration of all technical operations. In line with our strategic focus, both businesses are now trading under the SysGroup brand.

Strategy

During the periods dominated by the COVID-19 pandemic, the Group focused on ensuring we had the right structure and systems in place to be able to scale our business, both organically and through acquisitions, seamlessly and without friction. The success of this has been demonstrated through the integration of both Truststream and Orchard. We now have a Group with a presence throughout the United Kingdom able to serve the mid-market and enterprise customers, all supported by a centralised sales and marketing team.

During the year under review we refined and simplified our go-to-market strategy. We know that we have the right solutions to meet the demands that businesses currently face and to help them build for the future, which is reflected in our outstanding levels of client retention and customer satisfaction.

The technology transformation journey is more complex than ever before and businesses need to rely on trusted advisors to help them navigate these complexities. SysGroup now operates under a single unified brand and all marketing material and sales collateral centres around how we can help C-Suite executives grow their businesses and achieve their corporate ambitions. This includes a revitalised website, which is consistent with our values and sales efforts. Rather than looking to engage with them on technical detail, our approach centres around the key issues that they encounter, such as:

- How better technology can help them to drive productivity and deliver top-line growth
- How they can increase resilience through combatting threats, withstanding change and ensuring continuity of their most important assets
- How they can mitigate risks to avoid any financial, operational or reputational damage
- How the power of technology can help them become more sustainable by future-proofing operations and accelerating their journey to net zero

This approach is not only applicable for gaining new clients but also for growing within our existing estate. As a result of our acquisitive nature, there is still a significant proportion of our client base that utilise no more than two of our core competencies. As previously stated, we believe there is an opportunity to expand within these customers and while some progress has been made to date, our simplified message will drive this further.

People

I am pleased to report that the initial results of this refined strategy have been encouraging. Organic growth of 6% in a difficult market highlights that we are making progress and the feedback internally is very supportive. The stability and continuity of management and senior leadership teams has created a collaborative culture in which participation and having a voice are encouraged and evident.

Having been in this business for nine years and worked with many of the team throughout that tenure, I am continually impressed by the collective desire to improve as an organisation, to learn new ways to develop our offering and the commitment to provide our customers with the very best levels of service. This is once again demonstrated by our customer satisfaction levels remaining above our 97% target throughout the 12 month period, and is a trait that I am certain will continue beyond my stewardship.

Summary and outlook

The Group has delivered a robust performance with revenue and Adjusted EBITDA increasing despite the challenging macroeconomic environment impacting all businesses. We are pleased to report that trading for the first two months of the new financial year are in line with the Board's expectations, and as I look to leave the business, I have complete confidence that SysGroup has the right platform to succeed in today's technological world as it continues to support business of all sizes find the right solutions to meet their needs.

The solid foundations created through investment during my time as CEO has placed SysGroup in a strong position to capitalise on the market opportunity as it executes against its growth strategy. The seamless integration of Truststream and Orchard serves to evidence the strength of this position and our ability to bring in complementary businesses which will expand our addressable market, generate new client relationships and be immediately earnings enhancing for the Group.

As we continue to invest in our expanded service offering, while remaining committed to exploring further appropriate M&A opportunities, we have great confidence in the mid-term outlook for the Group.

SysGroup has built a fantastic team and it is clear that all of the right systems and processes are in place to achieve sustainable growth over the coming period and beyond. I would like to take this opportunity to wish every success to the team as they continue to take the Company further on its growth journey.

Adam Binks
Chief Executive Officer
23 June 2023

Strategic report

Chief Financial Officer's report

Group statement of comprehensive income

The Group delivered revenue of £21.65m (FY22: £14.75m), an increase of 47% on the prior year, Adjusted EBITDA of £3.33m (FY22: £2.82m), an increase of 18% compared to FY22, and a statutory loss before tax of (£0.1m) (FY22: profit before tax of £0.60m).

The revenue and Adjusted EBITDA growth has principally come from the acquisitions of Truststream and Orchard (the "Acquisitions") which were both acquired in April 2022 and provided a full years' contribution to the Group results, and overall the Group achieved organic revenue growth of 6%.

The two acquisitions have performed well and in line with expectations. Truststream's IT security services have proved to be a strong area of growth, with cyber security being a key concern for our mid-market and enterprise level customers. The Orchard business, which provides customers with a broad set of managed IT services, has been integrated into the SysGroup operational structure and it has been pleasing to see new business won during the year whilst their customer churn has remained at relatively low levels. Revenue in the core business has remained broadly level, though we are seeing a stronger pipeline of opportunities.

In common with all companies, we have seen a rise in energy costs and other supplier charges due to the high inflation economy and impact from the geopolitical situation. Our contract terms with customers have largely allowed us to pass price increases onto customers although power consumption across our office footprint has been absorbed into the overhead base.

Managed IT services revenue was £17.44m (FY22: £12.85m), an increase of 36% on the prior year, and VAR revenue was £4.2m (FY22: £1.9m), an increase of 121%. Organic growth was 4% and 14% respectively for managed IT services and VAR revenue. The higher VAR revenue performance has shifted the revenue mix to 81% managed IT services and 19% VAR (FY22: 87%:13%) which is more in line with our target revenue mix model. This shift back had been anticipated following the Acquisitions and we expect a similar revenue mix in the forthcoming year.

Gross profit was £11.10m with a gross margin of 51.3% (FY22: £8.92m and 60.5% respectively). Whilst gross profit has increased with the larger size of the business, the gross margin percentage has reduced as anticipated as a consequence of the Acquisitions. Truststream has a higher revenue mix of VAR sales compared to the legacy SysGroup business and both Truststream and Orchard operate at lower gross margins. The gross profit achieved in managed IT services was £10.35m at 59.3% (FY22: £8.51m at 66.2%) with the margin fall due to acquisition dilution and the gross profit achieved in VAR sales was £0.75m at 17.8% (FY22: £0.41m at 21.5%) with the lower gross margin % due to the lower license sale margins in the Truststream business.

Revenue by operating segment	*2023 £'000*	*2023 %*	*2022 £'000*	*2022 %*
Managed IT services	17,441	81%	12,845	87%
Value-added resale	4,207	19%	1,901	13%
Total	**21,648**	**100%**	**14,746**	**100%**

Adjusted operating expenses[5] of £7.77m were £1.67m above last year (FY22: £6.10m) as the overheads of the acquired businesses have increased the cost base of the Group. The ratio of overheads to revenue is 36% (FY22: 41%) which demonstrates the economies of scale of a larger sized business. Notwithstanding the general incidence of supplier cost increases, overhead costs were managed well throughout the year and we continued to invest into strategic areas of value such as employee training and development as well as the ESG programme. During the year we opened a new office in Edinburgh to provide the Truststream team with a contemporary designed SysGroup branded office space with available room for expansion.

Adjusted EBITDA was £3.33m for the twelve months to 31 March 2023 (FY22: £2.82m) which is an Adjusted EBITDA margin of 15.4% (FY22: 19.1%). The lower margin percentage reflects the change in the revenue and gross margin mix following the Acquisitions.

The consolidated income statement includes £0.41m of exceptional costs which relate to professional fees for the Acquisitions, and costs associated with the post-acquisition integration and restructuring activities. No further exceptional costs are expected in FY24 in relation to these acquisitions.

Amortisation of intangible assets was £1.74m (FY22: £1.24m) in the year, of which £1.56m (FY22: £1.10m) relates to the amortisation of acquired intangible assets from acquisitions and £0.18m (FY22: £0.14m) relates to the amortisation of software development and licence costs.

Finance costs increased in the year to £0.48m (FY22: £0.13m), mainly from the increase in bank loan interest charges following the £4.5m loan drawdown in April 2022 and the impact of rising bank base rates. Finance costs also include £0.1m of non-cash finance charges for the unwinding of discount on contingent consideration and the amortisation of the loan arrangement fee.

The share-based payments charge of £0.18m for the year (FY22: £0.20m) 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.

The Group has an adjusted profit before tax of £2.22m (FY22: £2.04m) and a statutory loss before tax of £0.10m (FY22: profit before tax £0.60m). The statutory loss before tax results from having £0.41m of non-recurring exceptional costs, a £0.46m increase in amortisation of acquired intangible assets, and an increase in finance costs. Adjusted basic earnings per share was 3.9p (FY22: 3.6p) and basic earnings per share was 0.0p (FY22: 0.9p).

Reconciliation of operating profit to adjusted EBITDA	*2023 £'000*	*2022 £'000*
Operating profit	378	725
Depreciation	625	654
Amortisation of intangible assets	1,739	1,243
EBITDA	**2,742**	**2,622**
Exceptional items	408	–
Share based payments	178	195
Adjusted EBITDA	**3,328**	**2,817**

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

Adjusted profit before tax	*2023 £'000*	*2022 £'000*
(Loss)/profit before taxation	(105)	598
Amortisation of intangible assets	1,739	1,243
Exceptional items	408	–
Share based payments	178	195
Total	**2,220**	**2,036**

Taxation

The Group has a tax credit of £0.10m this year (FY22: £0.15m charge) which principally arises from the deferred tax credit movement in the period. The corporation tax current charge has increased to £0.37m (FY22: £0.03m) as a result of the larger size of the group and the lower value of R&D tax credits claimed this year. The deferred tax movement is a £0.47m credit (FY22: £0.12m charge) due to the increase in amortisation of acquired intangibles recognised in the Consolidated Statement of Comprehensive Income.

The Group's tax charge is expected to increase in FY24 due to the increase in the rate of corporation tax from 19% to 25% on 1 April 2023.

Cashflow and net debt

The Group's financial position moved from a net cash position of £2.99m at 31 March 2022 to a net debt position of £1.32m at 31 March 2023, excluding the £2.68m of contingent consideration. The gross cash balance at 31 March 2023 was £4.19m (FY22: £4.13m) and cash conversion remained strong at 103% (FY22: 88%). We consider net (debt)/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.

The structural shift in the Group's net (debt)/cash position has arisen from the £1.0m acquisition of Orchard, which was financed entirely from the Group's existing cash balances, and the Truststream acquisition which was funded by £0.85m of the Group's existing cash resources and £4.5m from funds drawn from the new £8.0m revolving credit facility. The £2.68m contingent consideration liability is payable in two tranches based on the EBITDA performance of Truststream in the first twelve months and second twelve month period following acquisition.

Net debt	*2023 £'000*	*2022 £'000*
Cash balances	4,186	4,133
Bank loans – current	–	(416)
Bank loans – non-current	(4,705)	(387)
Net (debt)/cash before lease liabilities	**(519)**	**3,330**
Lease liabilities – equipment	–	(8)
Lease liabilities – property	(803)	(331)
Net (debt)/cash	**(1,322)**	**2,991**
Contingent consideration	(2,681)	–
Net (debt)/cash including contingent consideration	**(4,003)**	**2,991**

Cashflow from operations was £3.02m (FY22: £2.47m) and cash conversion was strong at 103% (FY22: 88%) which compares to the target cash conversion range of 80-90%. Working capital continues to be managed well with debtor days below the target level of 25 days at year end and suppliers routinely paid in our monthly payment runs to agreed terms. All exceptional costs were paid in cash during the year.

The Consolidated Statement of Cashflows reflects the Acquisitions, including the amounts paid to acquire the companies and the bank loan drawdown used to part fund them. The Company made a repayment of £0.6m on loans during the year. The cash outflow for property, plant and equipment of £0.25m (FY22: £0.62m) includes the expenditure on the Edinburgh office fit-out and the payments to acquire intangible assets includes the capitalisation of software development costs for a new financial system that was implemented in April this year.

Cash conversion	*2023 £'000*	*2022 £'000*
Cashflow from operations	3,020	2,468
Adjustments:		
Acquisition, integration and restructuring cashflows	408	–
Cash generated from operations	**3,428**	**2,468**
Adjusted EBITDA	3,328	2,817
Cash conversion	**103%**	**88%**

New £8.0m revolving credit facility

In April 2022, 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 are tested quarterly and calculated on total net debt to Adjusted EBITDA leverage and minimum liquidity. All bank covenants were met during the year with a comfortable level of headroom.

Consolidated statement of financial position

The Group's total net assets of £39.1m at 31 March 2023 represent an increase of £11.5m compared to the prior year (FY22: £27.6m).

Non-current assets of £29.9m (FY22: £21.4m) have increased by £8.5m principally as a result of the additions to goodwill and acquired intangible assets from the Truststream and Orchard acquisitions. Property, Plant and Equipment of £2.0m has increased by £0.5m compared to the prior year which is mainly from new and renewed property leases that are recognised as "right of use" assets.

Working capital was managed well throughout the year. The gross trade debtor balance of £1.71m compares to £1.15m in the previous year despite the increase in size of the Group. The prepayment balance of £3.3m (FY22: £0.9m) and the contract liabilities balance (aka. "deferred income") of £4.0m (FY22; £1.5m), have both increased significantly. This is due to the working capital model of the Truststream business where customers are typically invoiced annually in advance and costs from suppliers are typically received annually in advance. Accordingly, the respective income and costs are deferred on the balance sheet and recognised over the period of the contracts.

Share option grants

In June 2022, the Remuneration Committee granted 284,010 performance shares to Adam Binks, Chief Executive Officer, and 170,406 performance shares to Martin Audcent, Chief Financial Officer, in relation the Group's performance in FY22 and under the terms of the 2020 SysGroup Long Term Incentive Plan. Following the year end date, the Remuneration Committee granted 362,709 performance shares to Adam Binks and 204,024 performance shares to Martin Audcent, in relation the Group's performance in FY23 and under the terms of the same 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.

Martin Audcent
Chief Financial Officer
23 June 2023

	2023	*2022*	*Change %*
Revenue	**£21.65m**	£14.75m	**47%**
Recurring revenue as a % of total revenue	**81%**	87%	**(6%)**
Gross margin	**£11.10m**	£8.92m	**24%**
Gross margin %	**51%**	60%	**(9%)**
Adjusted EBITDA[1]	**£3.33m**	£2.82m	**18%**
Adjusted PBT[2]	**£2.22m**	£2.04m	**9%**
Statutory (loss)/profit before tax	**£(0.10)m**	£0.60m	**–**
Net (debt)/cash[4]	**£(1.32)m**	£2.99m	**–**

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 and Compliance who operates as a member of the Senior Leadership Team and reports to the Executive Directors. The Head of Legal, Risk and 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 pandemic has on the business environment and wider economy Likelihood: **medium**	In 2020, the COVID-19 pandemic created an unprecedented period of social and political challenges that led to serious disruption to all businesses and the worldwide economy. As we have progressed a further period of twelve months beyond the government lockdowns, we now consider it appropriate to reduce the risk likelihood from high to medium. In the event of government restrictions being imposed from a pandemic, we are confident that the Group has a successful plan to "work from home" which has already been proved during the COVID-19 lockdown period when the Group continued to operate with minimal impact on operations and without the need to furlough any employees or take any government loan assistance. However, it is likely that the Group would experience a negative impact from a wider economic slowdown and from customers postponing or cancelling orders, and from downsizing renewals to structurally reduce their costs.	The Group successfully invoked its Business Continuity Plan during the COVID-19 period and adopted an operational "home working" model for all team members with minimal disruption. All services were maintained to customers. All employees have laptops rather than desktop PCs so they can work flexibly from home. Microsoft Teams is the preferred communication tool for remote collaboration between work teams, and with our customers and suppliers. We monitor the business continuity plans of our key suppliers to ensure the Group has resilient sources of supply and our customer base comes from a diverse range of industry sectors. 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.

Principal risk	*Potential impact*	*How we mitigate the risk*
Impact on the business from a cyber-attack that prevents business operations 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 and business information, penetrate with viruses or to instigate DDOS attacks on the IT infrastructure or website. The impact on a Company can be to prevent access to the business operating systems, to prevent online trading or to threaten disclosure of confidential information.	SysGroup has an IT security framework in place to mitigate the risk of cyber-attacks. The IT infrastructure includes multiple firewalls with enhanced security features and the use of multiple datacentres allows for suitable failover resilience. All employees have regular IT Security refresh training to remind them of the risks, how to recognise social engineered attacks and best practice for physical IT and password security. This business risk and uncertainty is included in the Group's Business Continuity Plan.
Political and economic developments Likelihood: **medium**	The high level of inflation and energy prices in the UK economy has continued throughout FY23 and as we have entered FY24, and the continuation of the Russian invasion of Ukraine has had an impact on some supply chain timelines. The impact of high inflation and energy prices is to increase supplier costs to the Group and particularly from datacentre suppliers. We have increased the likelihood of this risk from low to medium given the prolonged period of price inflation in the UK economy.	SysGroup has the ability through its standard contract terms to pass on datacentre energy price changes to our customers which assists in mitigating the higher costs. 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 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 Likelihood: **low**	The Group procures services from key suppliers that are critical to the continued operation of its business, the most significant of these are the suppliers of third-party software and datacentre services. If any of these suppliers fail in the provision of their services, it may have an adverse effect on the Group's ability to provide services to its customers.	The Group continually assesses suppliers for price competitiveness, quality of service, technical innovation and good financial standing. We are confident that alternative providers are available in the market should the need arise.
Over-reliance on high value customer contracts or high value industry sectors Likelihood: **medium**	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 6.5% of revenue. The Group's customer base is diversified across multiple industry sectors which mitigates the impact of a sector specific industry downturn.

Principal risk	*Potential impact*	*How we mitigate the risk*
Attracting and retaining high quality employees Likelihood: **medium**	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 FY23 as businesses had to contend with a candidate led market and inflationary wage pressures. 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 2023.
Failure in the Group's network infrastructure prevents SysGroup and our customers from operating key business systems. Likelihood: **low**	The datacentres we utilise are linked together by diverse fibre cables. Should the whole network fail, there would be an adverse impact on SysGroup's systems, and the service provided to our customers.	The Group has designed its network to have no single point of failure, it connects with transit providers at different geographical locations with failover resilience.
Company acquisitions are overvalued or poorly integrated leading to a diminution in shareholder value. Likelihood: **low**	The Group's strategy is to continue to make earnings enhancing acquisitions to strengthen its growth. We are reliant on suitable acquisition targets becoming available in the market at appropriate valuations and the Executive and Senior Leadership Team has the responsibility to successfully integrate acquisitions into the Group to maximise operational opportunities and financial benefits.	We mitigate this risk by regularly conducting searches for targets and developing adviser relationships who introduce targets. We believe the UK market for managed IT services and cloud hosting companies has characteristics of fragmentation which provides opportunities for consolidation. The Board considers all acquisition valuations after a robust due diligence process has been undertaken. The Executive Team plan the integration of acquisitions during the acquisition process and the approach typically depends on the size of the business and systems complexity in each case. Where possible, smaller bolt-on acquisitions are expected to be integrated within six months. During the year, 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 FY23 are:

- The acquisitions of Truststream and Orchard IT
- New office premises in Edinburgh
- Investment in new financial system
- Project Simplify 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.

Delight your customer

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 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 Corporate Governance Report on pages 41 to 46.

Political donations

No donations were made for political purposes (FY22: £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. The Group has a wide provision of employee benefits that is regularly monitored against the market and enhanced each year.

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.

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 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 the 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

Santander, our bank operator and lender, are a key partner to the continued success of SysGroup. The Directors maintain regular contact with our Relationship Directors 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.

Having regard to the business impact on the community and environment

Last year we took the step to launch an Environmental, Social and 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 for FY23 will soon be available to view on our website. SysGroup is generally a low waste business and our offices recycle to the fullest extent they can.

Having regard to the need to act fairly between members

The Directors recognise the importance of listening to and communicating openly with the Company's shareholders to ensure that the strategy, business model and financial performance are understood. We recognise that understanding what analysts and investors think about the Company helps the Board to formulate future strategy. The Executive Directors meet our major shareholders individually following the release of the full year and interim 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.

Environmental, social and governance report

SysGroup

SysGroup is not subject to the mandatory ESG regulatory reporting requirements since we do not meet the size thresholds. However, as a Board we took the decision last year to commit to reducing our environmental impact and contributing to local communities where we can.

We launched an ESG Project, beginning to understand the environmental and social impact of our operations, disclosing our carbon emissions and reporting on the social and governance activities that we undertook for the first time.

Operating as a good citizen is embedded within the purpose, culture and core values of SysGroup and we aim to always act responsibly, with consideration for the environment and the local communities where we operate.

We have worked alongside a specialist ESG consultancy to assist with the development of our ESG strategy and this relationship continues as we enter our third year. To ensure our strategy was developed with best practice guidance, we have followed the ESG disclosures and reporting frameworks outlined as follows:

- 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 to inform our decisions associated with energy consumption and carbon emissions.
- Task Force on Climate-Related Financial Disclosures (TCFD) to assess our risks and opportunities associated with climate change. Last year we published our first TCFD Report. This helped us to monitor the risks to our business and to prepare for emerging regulation. This financial year, we will publish our second annual TCFD report.
- Global Reporting Initiative (GRI) to prepare our first ESG Report, which outlines the development of the Group's ESG Project and the next steps to our stakeholders. The GRI is an in-depth ESG reporting framework that enables organisations to report on their environmental, social, economic and governance performance.

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 understand that a motivated and engaged workforce is crucial to our success. To foster this, we encourage our team leaders to hold regular face-to-face meetings with their team members to discuss any work or personal concerns raised by employees.

Annually we hold an employee survey to hear the views of our team members and gather feedback and suggestions to improve our business. Following an 85% participation rate in FY23, "You Said, We Did" sessions were held to highlight improvements which have been made across the business. As a result, we introduced a newsletter and an improved intranet. We also introduced focus groups across the business to further identify and introduce improvements, as well as improving team collaboration.

In January 2023, our Culture Advocates conducted informal temperature checks, by engaging with team members to understand what our employees would like to see introduced.

Every Friday we issue a Companywide "shout-out" that appreciates the hard work of employees across our teams in the form of e-cards. These employees are selected by their colleagues, who are encouraged to submit their nominations each week. Employees can access their social wall to view their gift-card and send eCards to other colleagues, such as thank you cards, as a display of appreciation. We plan to launch a new recognition intranet in FY24.

During the year, we successfully launched a new Company Newsletter which is circulated Quarterly and distributed electronically. The newsletter is a fun and inclusive way to showcase monthly events, provide business updates and highlight employee recognition to all colleagues.

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 all of our employees. During the year we sourced new office premises for our Edinburgh team and arranged a fit out to provide a vibrant and collaborative workspace, which encourage creativity, collaboration, and social interaction. We are confident that our offices are conducive to employee growth and success within the Company.

Employee welfare

We take the wellbeing and health of our employees very seriously. Our People and Culture (P&C) team continue to keep in close contact with our teams and our employees are able to access wellbeing and occupational health support service when required.

The P&C Team work to encourage social interaction across the business, hosting a range of activities and events such as quizzes, photo competitions, bake competitions, exercise clubs and book clubs. Our P&C team remains committed to promoting a healthy and enjoyable work environment for our employees.

Employee benefits

We are pleased to offer a wide range of benefits to our employees. We offer private medical insurance cover for **all** employees, bringing peace of mind to our people in the unfortunate event of illness or accident. This insurance policy also includes up to six sessions of free mental health counselling, prioritising both the mental and physical health of our employees. Additionally, all employees receive Medicash coverage, which reimburses smaller medical and dental expenses.

Through our Company intranet platform, our team members can access discounts of retail and experience discounts for a variety of establishments, including gym memberships.

We introduced a cycle to work scheme in May which had been requested by a number of our team members.

Other SysGroup employee benefits include life assurance, financial advice, free quarterly prize draws, annual events to support team health and wellbeing and an additional half-day of annual leave on their birthday.

To help our people spread the positivity that we implement into our working environment, we also have 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.

Diversity, equality and inclusion

SysGroup believe that a diverse team is the foundation of 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. We are in the process of developing a Diversity Policy, which will outline our commitment to increasing our employee diversity including by gender, race, ethnicity and ability.

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 26% of the tech workforce are female.

We aim to take steps to improve this representation and are currently exploring how we can identify and encourage female candidates throughout the recruitment process moving forward.

We have previously advertised job opportunities specifically on online female careers communities to encourage more women to join SysGroup and enter the technology sector. We have recently engaged with a number of external organisations to support us in understanding potential future opportunities.

We are proud advocates for an increase in female representation in the industry and have sponsored events which aim to celebrate excellence in women, 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 employees. 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. We encourage an environment of constant improvement and upskilling by providing our employees with a variety of learning and development opportunities.

Our people receive a range of training, from general onboarding to specific development training. During onboarding, all employees are trained on Health & Safety, information and security, General Data Protection Regulation (GDPR), and an assortment of online safety modules (such as social media and phishing). Role specific training such as Cisco Certified Network Associate ("CCNA") and Microsoft training was held for employees where appropriate. We also aim to hold customer service training for our Service Desk members.

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 financially support many professional qualifications for our employees, for example, the CIMA for our Finance team, CIPD for our People team and continuous role specific accreditations for our IT teams.

In FY23 we implemented a Learning Management System using Skillsoft (Percipeo), which provides appropriate learning opportunities for all team members, including technical and other business needs.

We are in the process of expanding our leadership development programmes by introducing apprentices and graduate programmes. We aim to engage with mentors from within the business to provide support and guidance, where necessary.

To enhance our learning and development programme we have continued our 'lunch and learn scheme', where guest speakers provide presentations on various topics to our teams, bringing everyone together in an educational space monthly. Topics covered include compliance policies and technology as well as informative sessions hosted by the charity Mind.

Health & Safety (H&S)

We consider the health and safety of our employees and visitors to be of paramount importance. We use the services of a third-party Company that provides H&S Advice.

To enhance our governance and oversight of H&S in SysGroup, we have a Health and Safety Committee which meets on a quarterly basis. The chairperson is the Head of People and Culture, and fellow members are the CFO, Head of Legal, Risk and Compliance, Senior People and Culture Advisor and Executive Assistant. The remit of the Committee covers employee H&S training, fire wardens and 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.

Due to the nature of our operations, very few H&S incidents occur. These tend to be associated with minor injuries. Any incident is recorded in an accident log, and any necessary health and safety changes are implemented.

Charitable and local communities

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

SysGroup's chosen charity to support is Mind,a mental health charity which provides advice and support to empower anyone experiencing a mental health problem.

In FY23, SysGroup encouraged colleagues to participate in fundraising events such as Christmas jumper days and Company fancy dress events, in return for making a donation to charity. In October 2022 we raised over £900 for Mind, by hosting a "Freaky Friday Fundraising" event, where colleagues carved pumpkins and wore fancy dresses.

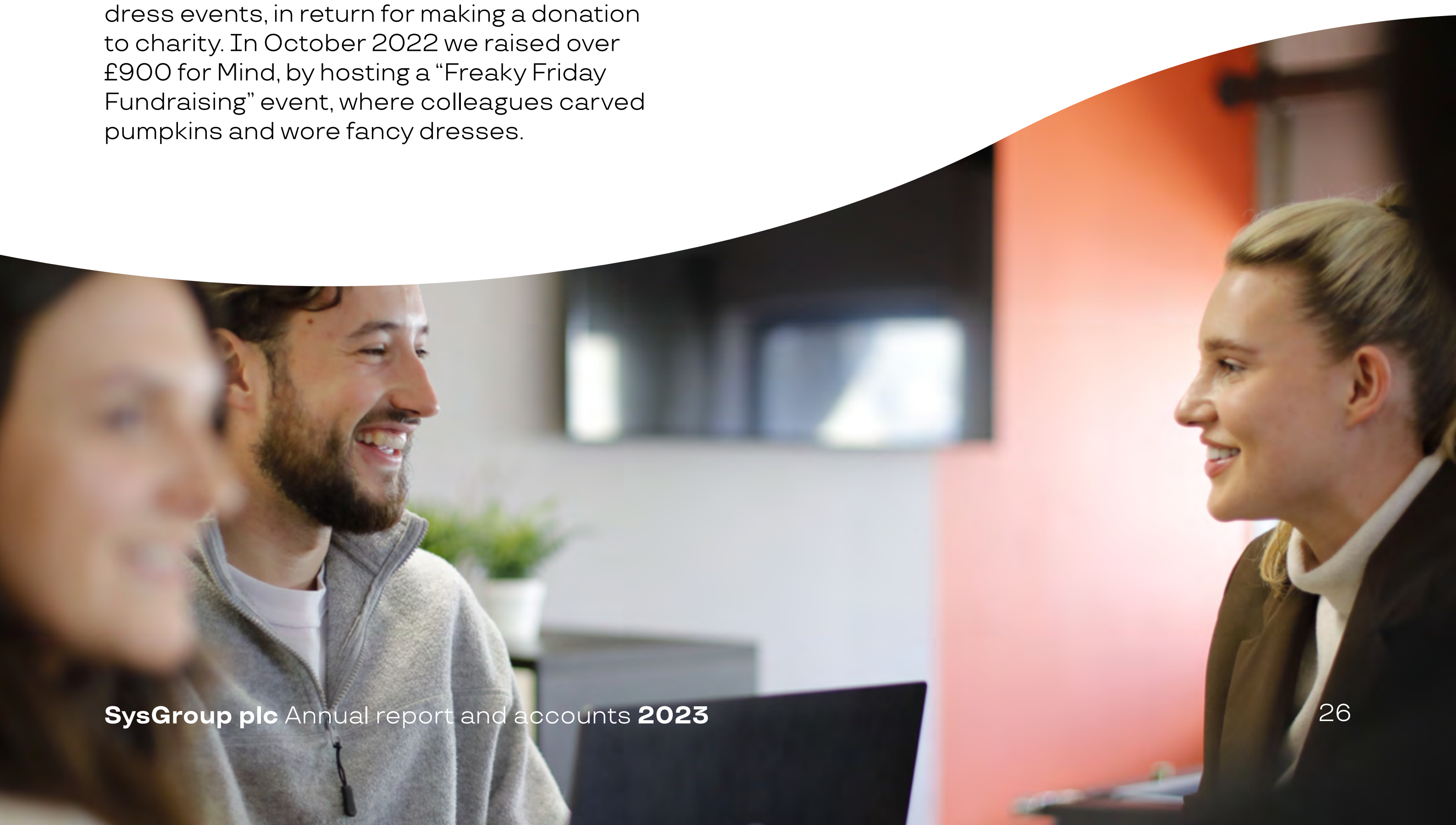
An information session was held to inform SysGroup colleagues of the work Mind does and how they could support in this work.

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, partnering with local suppliers where possible. We donate old furniture and equipment to not-for-profit organisations, providing them with good condition second hand office equipment and saving them a significant cost of purchase.

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.

SysGroup has also worked the Grace Eyre Foundation (Grace Eyre), which supports people with learning disabilities and mental health needs in Brighton, Hove and across Sussex. Grace Eyre helps people to develop their independence, obtain housing, find employment and learn new skills. SysGroup provides technical consultancy, strategic advice and IT problem resolution to support Grace Eyre with its lack of in-house IT expertise. We further support local communities, by sponsoring a local football team in Bristol.



ESG - Environmental

Operating responsibly is embedded throughout our culture and developing ESG strategy. We are at the start of our journey, improving our understanding of our carbon emissions and impact on the environment. We aim to improve our data collection processes and introduce initiatives to support our efforts of become a more sustainable business.

Reducing waste

Due to the nature of our operations, SysGroup is a low waste business. Despite this we are committed to minimising waste and reducing our environmental impact. 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.

We are committed to taking a sustainable approach to disposal when required, separating waste materials for recycling.

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

When disposing of old office equipment, we allow our employees to make small donations in exchange for reusable items. We have also partnered with Collecteco to donate old furniture, equipment, and materials to local charities and non-profit organisations, supporting a circular economy. Through this initiative, and to date, we have donated 342 items, diverting 11,622kg of waste from landfill and avoiding 11,815kg CO2e emissions. We will continue to consider the environment when making business decisions and operate more sustainably where we can at SysGroup.

Water

We do not operate in a high-water intensive sector. Therefore, our water consumption across the Group is for employee use only and kept to a minimum. Our environmental impact in relation to water usage is therefore very small.

Materials

We aim to minimise our impact on the environment. When sourcing materials and equipment we aim to partner with companies who are committed to operating responsibly. We have used furniture sourced ethnically from sustainable sources and manufactured from recycled materials in office fit-outs.

Greenhouse gas emissions ('GHG')

Reducing our carbon emissions is important to becoming a more sustainable business. We improved our understanding and collection of our greenhouse gas emissions, by developing our carbon balance sheet (Scope 1, 2 and 3 emissions) for the second time this year.

- Scope 1 emissions are direct 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, which comprise 15% of our total Group emissions.
- Scope 3 emissions are the indirect GHG emissions within our value chain, which represents 84% of our total Group emissions.

In FY23 we enhanced our data collection processes to improve the accuracy of our Scope 3 data, including launching by engaging with members of the business to gather more detailed information on Category 7: Employee Commuting. We have also utilised improved internal systems to collect more granular data surrounding Category 6: Business Travel.

During the year we also conducted an initial assessment of our top 10 suppliers, to better understand their ESG credentials and strategy. Over time we aim to develop this process further to understand how we can utilise the progress of our suppliers to improve the accuracy of our data collection and engage with suppliers on our ambition to reduce our carbon emissions.

Table 1: A table showing SysGroup's total Scope 1, 2 and 3 carbon emissions.

Emissions scope	*FY23 gross emissions*	*FY23 percentage of total emissions*	*FY22 gross emissions*	*FY22 percentage of total emissions*
Scope 1	29	1%	–	–
Scope 2	277	15%	356	19%
Scope 3	1,545	84%	1,486	81%
Total	**1,851**	**100%**	**1,842**	**100%**

Datacentres

The electricity consumed at the data centres that we use for cloud hosting is responsible for a high proportion of our Scope 2 emissions, accounting for 254 tCO_2e, compared to 349 tCO_2e in FY22. We recognise the high energy nature of data centres. Although, we have a limited ability to impact this, many of our data centre suppliers have communicated their own ambitions to be net zero, along with a commitment to utilise renewable energy where possible across their sites. We aim to engage with our data centres over time to further understand 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.

SECR requires companies to report on their energy usage (kWh) and its associated emissions (tCO2e). For SysGroup, this specifically includes separating 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 of the Group. We have reported our intensity metric of tCO2e per £m turnover to track our progress over time as our business grows.

Table 2: Total consumption (kWh) figures for energy supplies reportable by the Group.

Utility and scope	*FY23 consumption (kWh)*	*FY22 consumption (kWh)*
Gaseous and other fuels (Scope 1)	85,136	–
Transportation (Scope 1)	57,803	–
Grid-supplied electricity (Scope 2)	1,430,125	1,676,193
Transportation (Scope 3)	50,084	101,523
Total energy use – all scopes	**1,623,148**	**1,777,716**

Table 3: Total consumption (tCO2e) reportable by the Group.

Utility and scope	*FY23 consumption (tCO2e)*	*FY22 consumption (tCO2e)*
Gaseous and other fuels (Scope 1)	15.54	–
Transportation (Scope 1)	13.13	–
Grid-supplied electricity (Scope 2)	276.56	355.91
Transportation (Scope 3)	11.55	23.54
Total emissions – all scopes	**316.78**	**379.45**

Table 4: An intensity metric of tCO2e per £m revenue has been applied for the annual total consumption.

Intensity metric	*FY23 UK intensity metric*	*FY22 UK intensity metric*
tCO2e / £m	**14.63**	**25.73**

Energy efficiency

Our primary objective has been to understand and calculate our impact, by implementing a thorough data collection process to report against SECR and TCFD. Understanding our energy usage and carbon footprint enables us to identify areas of high impact throughout our operations. Our new offices are fitted with LED lighting, reducing our energy consumption. Over time, we aim to investigate the feasibility of introducing energy efficiency measures across our business and report on our progress annually.

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 [2022] version 1 has been used, utilising the current published kWh gross calorific value (CV) and kgCO2e emissions factors relevant for reporting year 01/04/2022 – 31/03/2023:

Intensity metrics have been calculated using total tCO2e figures and the selected performance indicator agreed with SysGroup Plc for the relevant report period total turnover £21.65m, 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. 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 guide, to help understand 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 reviewed by the Board annually. Whilst we are still 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 increased our understanding of the climate-related risks and opportunities associated with our business over the short (up to 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. This year we have prioritised the following:

- Calculating our FY23 Carbon Balance Sheet (Scope 1, 2 and 3 emissions)
- Widening climate scenario analysis to newly acquired sites
- Establishing an ambition to be net zero for Scope 1 & 2 by 2030 and for Scope 3 by 2040

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. In order to equip the Board with the skills and knowledge required to embed climate change into future business decisions we held an ESG training session in FY23 covering climate change, carbon emissions and net zero.

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 and Compliance maintains a climate risk register which forms part of our overall Corporate Risk Register. This is 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, which signed 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.

We have conducted a detailed climate scenario analysis across all sites, expanding our climate scenario analysis, to include newly acquired sites in FY23.

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.

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, which are outlined below.

- 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 Government's 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. It is associated with increased severity of physical risks in the long term, compared to the Below 2°C scenario.
- Above 3°C: In this scenario, limited 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 (up to 2025)
- Medium-term (2025-2035)
- Long-term (2035-2050)

Results

The results of the climate scenario analysis were presented at our annual Climate Risk Management workshop. This session was used to inform the categorisation of impact of each potential climate-related risk across the Group.

In FY23, we identified 12 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. Out of the 12 risks identified, three were deemed to be significant to SysGroup.

Significant risks

- Increased cost of energy and materials (Short – Medium Term)
- Increase in carbon pricing (Medium Term)
- Increased frequency and severity of flooding (Long Term)

Opportunity

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

Our most significant climate-related risk is the increased cost of energy and materials. We have already experienced an increase in energy prices and costs associated with some finished products. As a result of climate change and the increasing legislation, it is likely that energy prices will increase further in the short-medium term, under the below 2°C scenario and the 2-3°C scenarios. We will 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. To enhance this journey, we have engaged with a third-party consultancy Company.

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 experience physical risk, for example, increased flooding, within the above 3°C scenario in the long-term. While these risks do not impact the Company in the near term, we will continue to monitor the physical risks at all our offices and third-party datacentre locations.

Further information on our climate-related risks is available 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 use climate scenario analysis to identify the potential climate-related risks and opportunities impacting the Group. We hold an annual Climate Risk Management Workshop with members of the ESG Committee 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.

We aim to reduce our carbon emissions over time and further develop our ESG programme, contributing to the mitigation of 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 continue to conduct climate scenario analysis annually, to broaden our scope of risk classification.

Metrics and targets

In FY22 we launched a data collection process to calculate our Scope 1, 2 and 3 emissions and help us to understand our impact on the environment for the first time. We have continued this process during FY23 to enable year-on-year monitoring of our carbon emission.

Due to the complexity of this task, our Company size and nature, we enlisted the support of specialists, to assist us with this process. Calculating our carbon footprint 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.

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.

In FY23, our efforts have focused on data collection improvements, widening the scope to capture categories we were unable to calculate last due to data availability. We aim to continuously 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. Having established our baseline our next step is to develop a net zero strategy roadmap over time and set targets aligning to our ambition to be net zero by 2040. 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.

Martin Audcent
Chief Financial Officer
23 June 2023

Strategic report

The Strategic Report, which includes all of the contents of pages 7 to 32, was approved by the Board signed on its behalf by:

Adam Binks
Chief Executive Officer
23 June 2023

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.

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 and 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 and cloud hosting provider that it has become. Adam has previously held a number of Senior Management and Board level positions within the sector.

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.

Michael Fletcher
Non-Executive Director

Mike has extensive public markets experience and is the Managing Partner of Arete Capital LLP, a specialist venture and advisory business and sits on the Board of several privately owned growth companies. Previously, Mike was a managing director for European investment bank GCA Altium where he gained 10 years' experience in M&A and corporate finance. He has advised a range of clients from public companies, private equity houses and entrepreneurs. Mike is a chartered accountant, qualifying with PwC in 1999, and is both FCA and SRA approved.

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.

Directors' report

The Directors present their annual report and audited financial statements for the year ended 31 March 2023.

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 and future developments

A review of the Group's operations and performance for the twelve months to 31 March 2023, 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 and dividends

The Consolidated Statement of Comprehensive Income for the year is set out on page 56. The Directors do not propose the payment of a dividend for the year ended 31 March 2023 (FY22: 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.

Foreign exchange risk

Following the acquisition of Truststream, the Group has increased its exposure to foreign exchange risk since a number of customers are invoiced in USD and certain suppliers invoice the Company in USD. The Group manages this foreign exchange risk partially through the natural hedging of using USD cash receipts to make USD cash payments to suppliers, but also uses USD forward exchange contracts to mitigate the risk. At 31 March 2023, there was $347k of undrawn USD forex contract outstanding which it is anticipated will be used before 31 March 2024.

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

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

The interests of current Directors in shares and options are detailed in the Directors' Remuneration Report on pages 38 to 40.

Significant shareholdings

As of 16 June 2023, the Company has been notified of the following significant shareholdings:

Name	*Number of shares*	*Percentage holding*
Gresham House Asset Management Limited	12,999,563	26.61%
Canaccord Genuity Group Inc	8,093,302	16.56%
Heejae Chae*	6,800,000	13.92%
Darren Carter	3,552,632	7.27%
Herald Investment Management Ltd	3,444,581	7.05%
Praetura Group Limited*	1,710,256	3.50%

*Heejae Chae will be appointed Executive Chairman of the Board of Directors on 26 June 2023.

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Acquisitions

In April 2023, 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 for £5.33m cash consideration (inclusive of cash and debt acquired) 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 in April 2023. 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 19 to the consolidated financial statements.

SysGroup acquired INSL 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 10 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 and a Sensitised version for the period to 30 June 2024 and taken into account the forecasts that support the business viability for the period to 31 March 2025.

In the Base forecast there is significant headroom in the bank covenants as the business continues to operate with a high level of cash conversion and a reducing level of net debt. In the Sensitised forecast, which includes assumptions for a significant decline in revenue and profits, the Group maintains positive gross cash balances, reduce 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 2023, the Group had a gross cash balance of £4.18m and a net debt position of £1.3m, excluding contingent consideration of £2.68m. The Group has a £0.5m unused overdraft facility and £3.2m of undrawn headroom in its RCF Loan facility which is available for working capital and acquisitions.

The forecasts, the resultant cashflows, together with the 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
23 June 2023

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. 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 these 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.

In June 2022, under the 2020 LTIP Scheme and in respect of performance for the FY22 financial year, 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.

Subsequent to the year end, under the same Scheme and in respect of performance for the FY23 financial year, a grant of 362,709 performance shares was made to Adam Binks, Chief Executive Officer, and 204,024 performance shares to Martin Audcent, Chief Financial Officer.

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 FY23, the annual salary of the Chief Executive Officer was £200,000 and the Chief Financial Officer £150,000.

In April 2023, the Remuneration Committee reviewed the fees of the Non-Executive Directors in view of the growth of the business and in their consideration used available peer group pay information. The Committee resolved an increase in Non-Executive Director fees from £40,000 to £44,000 per annum from 1 June 2022.

	2023					2022				
Director	*Salary/Fees £'000*	*Bonus £'000*	*Pension £'000*	*BIK £'000*	*Total £'000*	*Salary/Fees £'000*	*Bonus £'000*	*Pension £'000*	*BIK £'000*	*Total £'000*
Michael Edelson	43	–	–	–	43	40	–	–	–	40
Mike Fletcher	43	–	–	–	43	40	–	–	–	40
Mark Quartermaine	43	–	–	–	43	40	–	–	–	40
Adam Binks	215	102	10	3	330	165	74	8	2	249
Martin Audcent	160	56	8	2	226	130	44	6	1	181
Total	**504**	**158**	**18**	**5**	**685**	**415**	**118**	**14**	**3**	**550**

The salaries of Adam Binks and Martin Audcent include a car allowance of £15,000 and £10,000 respectively in both years. Adam Binks and Martin Audcent have LTIP share options that incurred share-based payment charges of £83,000 (FY22: £83,000) and £49,000 (FY22: £50,000) 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' 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	21/06/2022	20/06/2032
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	21/06/2022	20/06/2032

Post balance sheet date

On 26 May 2023, subsequent to the balance sheet date, it was announced that Adam Binks would be stepping down as Chief Executive Officer and from the Board on 26 June 2023. Mr Binks will no longer be an employee of the Company from this date. The Company reached a mutual agreement with Mr Binks to retain his services as a consultant for a period of six months to 27 December 2023, and additionally agreed a Settlement Agreement to pay twelve months' contractual notice period for salary, car allowance and benefits, and 100% of the FY24 LTIP bonus, amounting to a gross payment of £449,000 in total.

In respect of Mr Binks' departure, the Board agreed that the 826,394 unvested options granted to Mr Binks under the Company's 2020 LTIP Scheme would vest with immediate effect with all restrictions on all his options waived. Mr Binks agreed to immediately exercise all his options granted under the 2018 and 2020 LTIP schemes, totalling 2,076,394 ordinary shares of 1p each ("Ordinary Shares") and further agreed to sell, and the Company agreed to buy, a total of 2,076,394 Ordinary Shares at a price of £0.375 per Ordinary Share. The Company will hold these Ordinary Shares in treasury to satisfy the exercise of future share options under SysGroup's share incentive schemes.

On 26 May, the Board also agreed that the 482,235 unvested options granted to Martin Audcent, the Company's Chief Financial Officer, under the Company's 2020 LTIP Scheme may vest with immediate effect with restrictions on his options waived.

Mark Quartermaine
Chairman
Remuneration Committee
23 June 2023

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: **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 and financial forecasts
- Approval of the annual report and 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:

	PLC Board	*Audit committee*	*Remuneration committee*
Meetings	**10**	**3**	**2**
Michael Edelson	9	3	2
Mike Fletcher	10	3	2
Mark Quartermaine	10	3	2
Adam Binks	10	3	1
Martin Audcent	10	3	–

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 and 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.

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 and 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's 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 to monitor performance and progress any necessary actions.

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.

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. 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

The corporate values are actively promoted by the Executive Directors, People and 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 site 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 2023, 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 of IFRS15 revenue recognition for the new acquisitions
- Review and approval of the interim results, preliminary announcement
- Review and approval of the annual report and accounts
- Review and approval of the management letters of representation

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

Remuneration Committee

The membership of the Company's Remuneration Committee comprises Michael Edelson, Mike Fletcher and Mark Quartermaine. Mark Quartermaine is the Chairman. The Committee meets at least twice a year and is responsible for determining and reviewing with the Board the policy for the remuneration of the Executive Directors and such other members of the executive management it is designated to consider. Within the terms of the agreed policy, it determines the total individual remuneration of the Executive Directors.

The Remuneration Committee also approves the design of, and determines targets for, any performance related pay schemes, reviews the design of any share incentive plans, determines the awards to the Executive Directors and determines the policy for, and scope of, pension arrangements for each Executive Director.

There were two Remuneration Committee meetings during the year and the principal items were to approve the FY23 Executive Directors' cash bonus and grant of performance share options, and to review the salaries of the Non-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 and accounts
- Interim announcement
- Annual General Meeting
- 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

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
23 June 2023

Financial *statements*

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 2023 and of the Group's loss 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 with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of SysGroup plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2023 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 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 using our knowledge of the group, industry and economy assessed 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;
- 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% (2022: 100%) of Group profit before tax 100% (2022: 100%) of Group revenue 99% (2022: 99%) of Group total assets		
Key audit matter		**2023**	**2022**
	Revenue recognition	✓	✓
	Business combinations	✓	
Materiality	**Group financial statements as a whole** Materiality has been based on 1.25% (2022: 1%) of revenue, rounded to £270,000 (2022: £145,000)		

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.

Our Group audit scope focused on the Group's main trading entity being SysGroup Trading Limited, the Parent Company and Truststream Security Solutions Limited which were considered to be the significant components. Full scope audits were performed on these components by the Group engagement team. Independent Network Solutions Limited and Orchard Computers Limited were considered insignificant components to the Group, however full scope audits were performed on these components also by the Group engagement team.

There are in addition a number of dormant entities in the Group which are insignificant 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter		*How the scope of our audit addressed the key audit matter*
Revenue recognition Note 4 See accounting policy in note 1	The Group has a number of different revenue streams, each of which have a different revenue recognition policy dependent on the specific terms of the transfer of goods or the service provided. There are a number of judgements involved in the application of IFRS15, the revenue recognition standard, including determining the appropriate timing of revenue recognition and in the unbundling of contracts that relate to the provision of more than one service and/or product. Because of this we determined revenue recognition to be a key audit matter. We have assessed that the risk of material misstatement could arise from: • An inappropriate use of manual journals in revenue; • Improper unbundling of contracts and allocation of transaction price to performance obligations; and • Improper revenue recognition before completion of performance obligations, with a focus around year end cut-off. We therefore consider revenue recognition to be a key audit matter.	The audit procedures included the following: • We reviewed the Group's revenue recognition policies for all revenue streams to check that these were in accordance with accounting standards; • We evaluated Management's assessment of the performance obligations in relation to the IFRS 15 criteria and whether revenue should be recognised at a point in time or over time and challenged the key judgements made by Management by review of key terms in revenue contracts; • We agreed the revenue recognised in the year for a sample of contracts checking evidence of completion of work and that the revenue recognised was in accordance with IFRS15. We also specifically checked a sample of revenue recognised by performance obligation 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 checked that these had been appropriately bundled or unbundled; and • 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. **Key observations:** Based on the procedures performed we consider that revenue has been appropriately recognised based on performance obligations and recorded in the appropriate period.
Business combinations Note 2 and 10 See accounting policy in note 1	The Group has made two acquisitions during the year 'Orchard' and 'Truststream'. Accounting for acquisitions can be complex and requires significant judgement. The recognition and valuation of assets and liabilities acquired, such as intangible assets, is inherently complex and judgemental. Management prepared detailed calculations to determine the fair value of the intangible assets acquired without the use of third party specialists. As a result of the judgements required to be made by Management there is a risk of material misstatement in the fair value allocated to assets and liabilities acquired including intangible assets and the balance of goodwill recognised. There is further judgement required by Management in relation to the valuation of contingent consideration related to Truststream. For these reasons, acquisition accounting was determined to be a key audit matter.	We obtained and reviewed the sale and purchase agreements (SPAs) to check that the appropriate accounting treatment had been applied. Our work included: • With the support of our internal valuations experts we challenged the key inputs, assumptions and methodology used by Management in determining the fair values of intangible assets acquired based on our knowledge of the industry; • We reviewed Management reconciliations and supporting documentation to corroborate the acquisition net book values of assets and liabilities and resulting fair value adjustments; • We challenged the completeness of intangible assets acquired through inspection of due diligence reports and previous financial statements of the acquired entities; • We agreed the fair value of the purchase consideration to supporting evidence and recalculating the equivalent goodwill arising on acquisition; and • We challenged the valuation of accrued contingent consideration with reference to Truststream forecast performance in the earn-out period, including the challenge of underlying assumptions utilised within the forecasts such as earning and discount are against historic data, corroboration of data inputs and comparison of forecast performance to actual results post acquisition. • Reviewing the disclosures for the business combinations in line with IFRS 3 – Business Combinations. **Key observations:** Based on the procedures we performed, we consider the judgements and estimates made by Management to be reasonable in respect of business combinations.

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.

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**	
	2023 *£*	*2022* *£*	*2023* *£*	*2022* *£*
Materiality	270,000	145,000	176,000	74,000
Basis for determining materiality	Based on 1.25% of revenue, then rounded	Based on 1% of revenue, then rounded	Based on 0.5% of gross assets, then rounded	51% 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.		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. Parent Company materiality in the prior year was set at a percentage of group materiality to address the aggregation risk.	
Performance materiality	195,750	108,750	127,600	55,500
Basis for determining performance materiality	Performance materiality was set at 72.5% of materiality. This was considered appropriate based on: • Cumulative knowledge of the group • Degree of estimation in the financial statements • Acquisitions made of 'Orchard' and 'Truststream' in the year	Performance materiality was set at 75% of materiality. This was considered appropriate based on: • Cumulative knowledge of the group • Degree of estimation in the financial statements	Performance materiality was set at 72.5% of materiality. This was considered appropriate based on: • Cumulative knowledge of the group • Degree of estimation in the financial statements • Acquisitions made of 'Orchard' and 'Truststream' in the year	Performance materiality was set at 75% of materiality. This was considered appropriate based on: • Cumulative knowledge of the group • Degree of estimation in the financial statements

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, apart from the Parent Company whose materiality is set out above, based on a percentage of between 27% and 83% (2022: 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 £73,000 to £223,000 (2022: £74,000 to £143,500). In the audit of each component, we further applied performance materiality levels of 72.5% (2022: 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 £10,800 (2022: £5,800). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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: • The information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • The Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • The Parent Company financial statements are not in agreement with the accounting records and returns; or • Certain disclosures of Directors' remuneration specified by law are not made; or • We have not received all the information and explanations we require for our audit.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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:

Non-compliance with laws and regulations

Based on our understanding and accumulated knowledge of the Group and the sector in which it operates we considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud and whether such actions or non-compliance might have a material effect on the financial statements. These included but were not limited to those that relate to the form and content of the financial statements, such as the Group accounting policies, UK adopted international accounting standards, the UK Companies Act 2006, the AIM listing rules, the QCA Corporate Governance Code and industry related such as compliance with health and safety legislation, employment law and taxation legislation.

Our audit procedures included, but were not limited to:

- Holding discussions with those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing minutes of Board meetings for instances of non-compliance with laws and regulation and fraud;
- Reviewing a sample of legal costs incurred and any known legal correspondence throughout the year for instances of non-compliance with laws and regulation; and
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Fraud

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 and management bias in accounting estimates as well as inappropriate revenue recognition.

Our audit procedures included, but were not limited to:

- Agreeing the financial statement disclosures to underlying supporting documentation;
- Performing the procedures set out in the key audit matters section above in response to the risk of fraud in revenue recognition and in response to estimates and judgements within business combination accounting;

- Challenging assumptions and judgements made by Management in their significant accounting estimates, in particular in relation to the expected credit loss provision, the valuation of goodwill and intangibles and 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 supporting documentation; and
- Incorporating an element of unpredictability into the audit procedures, by testing a sample of immaterial employee expenses incurred in the year to supporting documentation to assess the validity.

We also 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: **frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

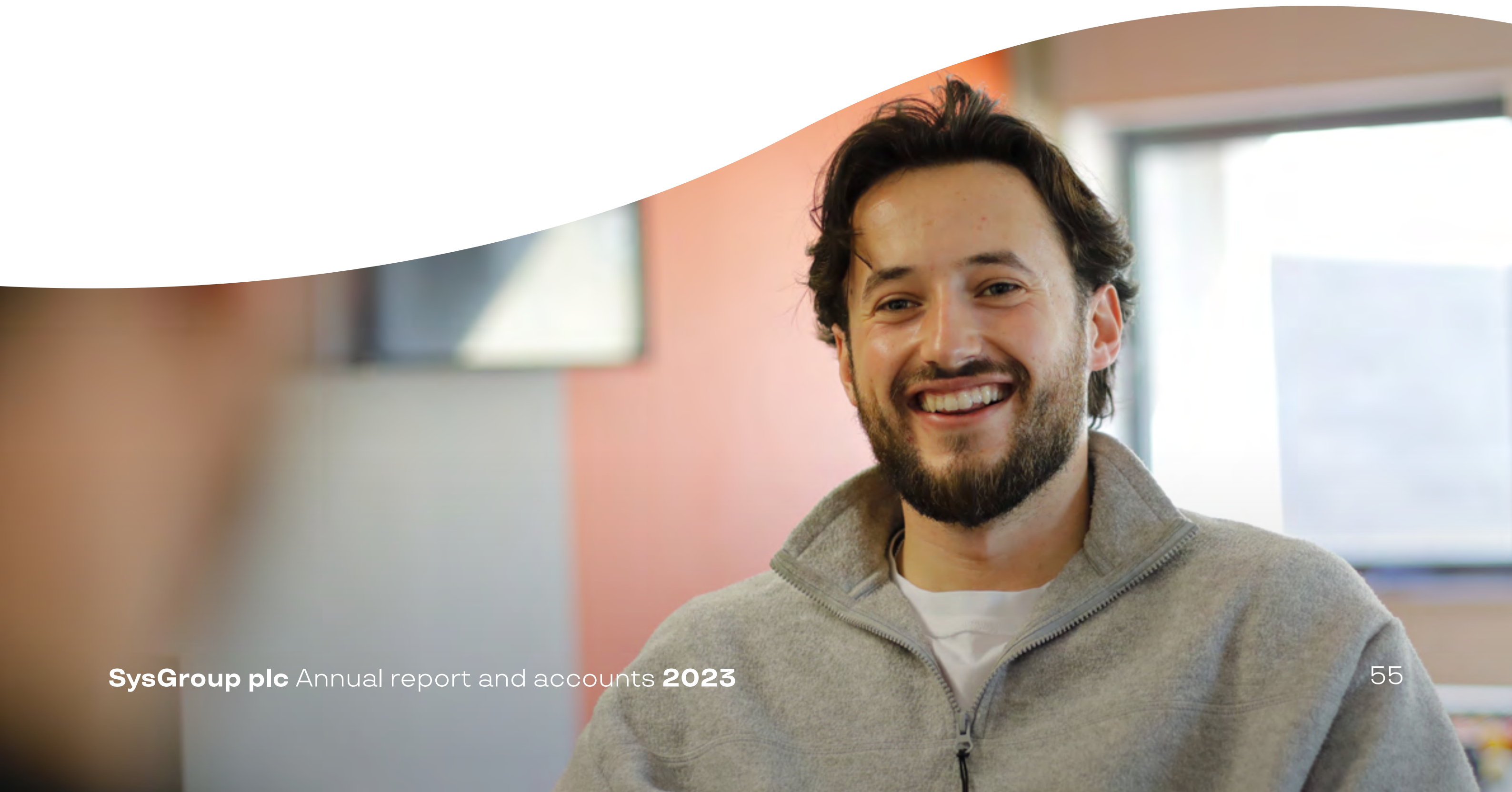
Use of our report

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
23 June 2023

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



Financial statements

Consolidated statement of comprehensive income

For the year ended 31 March 2023

	Notes	*2023 Group £'000*	*2022 Group £'000*
Revenue	4	**21,648**	**14,746**
Cost of sales		(10,552)	(5,826)
Gross profit		**11,096**	**8,920**
Operating expenses before depreciation, amortisation, exceptional items and share based payments		(7,768)	(6,103)
Adjusted EBITDA		**3,328**	**2,817**
Depreciation	14	(625)	(654)
Amortisation of intangibles	13	(1,739)	(1,243)
Exceptional items	8	(408)	–
Share based payments	9	(178)	(195)
Administrative expenses		(10,718)	(8,195)
Operating profit		**378**	**725**
Finance costs	6	(483)	(127)
(Loss)/profit before taxation		**(105)**	**598**
Taxation	12	98	147
Total comprehensive (loss)/profit attributable to the equity holders of the Company		**(7)**	**451**
Basic earnings per share (EPS)	11	0.0p	0.9p
Diluted earnings per share (EPS)	11	0.0p	0.9p

Consolidated statement of financial position

As at 31 March 2023

Assets	Notes	2023 Group £'000	2022 Group £'000
Non-current assets			
Goodwill	13	21,666	15,554
Intangible assets	13	6,295	4,318
Property, plant and equipment	14	1,966	1,478
		29,927	**21,350**
Current assets			
Trade and other receivables	16	5,007	2,079
Cash and cash equivalents		4,186	4,133
		9,193	**6,212**
Total Assets		**39,120**	**27,562**
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		3,205	3,027
Translation reserve		–	4
Retained earnings		8,851	8,854
		21,429	**21,258**
Non-current liabilities			
Lease liabilities	19	621	195
Contract liabilities	20	383	296
Contingent consideration	17	1,875	–
Provisions	18	191	–
Deferred taxation	12	1,434	1,011
Bank loan	19	4,705	387
		9,209	**1,889**
Current liabilities			
Trade and other payables	17	3,861	2,692
Lease liabilities	19	182	144
Contract liabilities	20	3,633	1,163
Contingent consideration	17	806	–
Bank loan	19	–	416
		8,482	**4,415**
Total Equity and Liabilities		**39,120**	**27,562**

Financial statements

The financial statements on pages 48 to 98 were approved by the Board and authorised on 23 June 2023.

Martin Audcent
Director

Registered number 06172239

Company statement of financial position

As at 31 March 2023

Assets	Notes	2023 Company £'000	2022 (Restated)* Company £'000
Non-current assets			
Investments	15	34,034	24,895
Intangible assets		26	–
Property, plant and equipment	14	325	254
Deferred tax asset		166	116
		34,551	**25,265**
Current assets			
Trade and other receivables	16	625	172
Cash and cash equivalents		401	634
		1,026	**806**
Total Assets		**35,577**	**26,071**
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		3,205	3,027
Retained earnings		11,536	6,417
		24,114	**18,817**
Non-current liabilities			
Lease liabilities	19	88	152
Contingent consideration	17	1,875	–
Provisions	18	68	–
Bank loan	19	4,705	387
		6,736	**539**
Current liabilities			
Trade and other payables	17	3,863	6,224
Lease liabilities	19	58	75
Contingent consideration	17	806	–
Bank loan	19	–	416
		4,727	**6,715**
Total Equity and liabilities		**35,577**	**26,071**

*See the basis of preparation note for details of the FY22 restatement.

As permitted by section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in the financial statements. For the year ended 31 March 2023, the Company made a profit of £5,119,000 (FY22: restated profit of £109,000).

Martin Audcent
Director

Registered number 06172239

Financial statements

Consolidated statement of changes in equity

For the year ended 31 March 2023

	Attributable to equity holders of the parent						
	Share capital £'000	*Share premium account £'000*	*Treasury reserve £'000*	*Other reserve £'000*	*Translation reserve £'000*	*Retained earnings £'000*	*Total £'000*
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**
As at 1 April 2022	**494**	**9,080**	**(201)**	**3,027**	**4**	**8,854**	**21,258**
Comprehensive income							
Loss for the period	–	–	–	–	(4)	(3)	(7)
Total comprehensive income	**–**	**–**	**–**	**–**	**(4)**	**(3)**	**(7)**
Distributions to owners							
Share options charge	–	–	–	178	–	–	178
Total distributions to owners	**–**	**–**	**–**	**178**	**–**	**–**	**178**
At 31 March 2023	**494**	**9,080**	**(201)**	**3,205**	**–**	**8,851**	**21,429**

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. The only overseas subsidiary Company, Netplan LLC, no longer trades and no further foreign currency translation differences are anticipated. The balance of the reserves has been transferred to Retained Earnings in FY23.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

Company statement of changes in equity

For the year ended 31 March 2023

	Share capital £'000	*Share premium account £'000*	*Treasury reserve £'000*	*Other reserve £'000*	*Retained earnings £'000*	*Total £'000*
As at 1 April 2021	**494**	**9,080**	**(201)**	**2,832**	**6,308**	**18,513**
Comprehensive income						
Profit for the period (restated)*	–	–	–	–	109	109
Total comprehensive income	**–**	**–**	**–**	**–**	**109**	**109**
Distributions to owners						
Share options charge	–	–	–	195	–	195
Total distributions to owners	**–**	**–**	**–**	**195**	**–**	**195**
At 31 March 2022 (restated)*	**494**	**9,080**	**(201)**	**3,027**	**6,417**	**18,817**
As at 1 April 2022	**494**	**9,080**	**(201)**	**3,027**	**6,417**	**18,817**
Comprehensive income						
Profit for the period	–	–	–	–	5,119	5,119
Total comprehensive income	**–**	**–**	**–**	**–**	**5,119**	**5,119**
Distributions to owners						
Share options charge	–	–	–	178	–	178
Total distributions to owners	**–**	**–**	**–**	**178**	**–**	**178**
At 31 March 2023	**494**	**9,080**	**(201)**	**3,205**	**11,536**	**24,114**

*See the basis of preparation note for details of the FY22 restatement.

Consolidated statement of cashflows

For the year ended 31 March 2023

	Notes	*2023 Group £'000*	*2022 Group £'000*
Cashflows used in operating activities			
(Loss)/profit after tax		(7)	451
Adjustments for:			
Depreciation and amortisation	13,14	2,364	1,897
Finance costs	6	483	127
Share based payments		178	195
Taxation (credit)/charge	12	(98)	147
Operating cashflows before movement in working capital		**2,920**	**2,817**
Increase in trade and other receivables		(737)	(354)
Increase in trade and other payables		837	5
Cashflow from operations		**3,020**	**2,468**
Taxation paid		(303)	(159)
Net cash from operating activities		**2,717**	**2,309**
Cashflows from investing activities			
Payments to acquire property, plant and equipment	14	(252)	(620)
Payments to acquire intangible assets	13	(163)	(271)
Acquisition of subsidiary net of cash acquired	10	(5,389)	–
Net cash used in investing activities		**(5,804)**	**(891)**
Cashflows from financing activities			
Bank loans drawdown		4,500	–
Payment of bank loan arrangement fee		(127)	–
Repayment of bank loans		(582)	(417)
Capital/principal paid on lease liabilities		(303)	(256)
Interest paid on loan facility		(316)	(67)
Interest paid on lease liabilities		(32)	(18)
Net cash from/(used in) financing activities		**3,140**	**(758)**
Net increase in cash and cash equivalents		**53**	**660**
Cash and cash equivalents at the beginning of the year		4,133	3,473
Cash and cash equivalents at the end of the year		**4,186**	**4,133**

Company statement of cashflows

For the year ended 31 March 2023

	Notes	*2023 Company £'000*	*2022 (Restated)* Company £'000*
Cashflows used in operating activities			
Profit after tax		5,119	109
Adjustments for:			
Depreciation and amortisation		127	119
Finance costs		454	118
Share based payments		178	194
Taxation (credit)/charge		(49)	14
Operating cashflows before movement in working capital		**5,829**	**554**
Increase in trade and other receivables	16	(342)	(11)
(Decrease)/increase in trade and other payables	17	(2,612)	104
Cashflow from operations		**2,875**	**647**
Taxation paid		(7)	–
Net cash from operating activities		**2,868**	**647**
Cashflows from investing activities			
Payments to acquire property, plant and equipment	14	(159)	(51)
Payments to acquire intangible assets	13	(28)	–
Acquisition of subsidiary	10	(6,337)	–
Net cash used in investing activities		**(6,524)**	**(51)**
Cashflows from financing activities			
Bank loans drawdown		4,500	–
Payment of bank loan arrangement fee		(127)	–
Repayment of bank loans		(500)	(417)
Capital/principal paid on lease liabilities		(119)	(53)
Interest paid on loan facility		(316)	(67)
Interest paid on lease liabilities		(15)	(10)
Net cash from/(used in) financing activities		**3,423**	**(547)**
Net (decrease)/increase in cash and cash equivalents		**(233)**	**49**
Cash and cash equivalents at the beginning of the year		634	585
Cash and cash equivalents at the end of the year		**401**	**634**

*See the basis of preparation note for details of the FY22 restatement.

Notes to the consolidated financial statements

For the year ended 31 March 2023

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.

SysGroup plc Company - Restatement of management charge

The SysGroup plc Company financial statements for 2022 have been restated to reflect a prior year adjustment of £1,592k that relates to an increase in the central costs recharge to subsidiary companies within the Group. The central cost recharge from SysGroup plc to SysGroup Trading Limited was overstated by £1,592k due to the use of budgeted recharges which hadn't been updated for actual costs. In the SysGroup plc entity the effect of the adjustment is to increase administrative expenses by £1,592k and increase the interCompany creditor by £1,592k. The tax impact of this is to decrease the corporation tax charge and corporation tax creditor by £113k. The profit impact of this restatement has been to reduce the FY22 profit from £1,479k to £109k. There is no impact on the cashflow statement since this is a non-cash adjustment. The FY22 retained earnings have reduced from £7,896k to £6,417k.

Since the recharge is a transaction between SysGroup companies the effect of the restatement has no impact on the SysGroup plc consolidated position.

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 and a sensitised version for the period to 30 June 2024 and taken into account the forecasts that support the business viability for the period to 31 March 2025.

In the base forecast there is significant headroom in the bank covenants as the business continues to operate with a high level of cash conversion and a reducing level of net debt. In the sensitised forecast, which includes assumptions for a significant decline in revenue and profits, the Group maintains positive gross cash balances, reduce 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 2023, the Group had a gross cash balance of £4.19m and a net debt position of £1.3m, excluding contingent consideration of £2.68m. The Group has a £0.5m unused overdraft facility and £3.2m of undrawn headroom in its RCF loan facility which is available for working capital and acquisitions.

The forecasts, the resultant cashflows, together with the 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.

New standards and interpretations

A number of new standards and amendments to standards and interpretations have been issued during the year ended 31 March 2023. 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

The group has no activities acting as a lessor. The group recognises right of use assets 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 2022	331	8	339
Additions	806	–	806
Disposals	(71)	–	(71)
Interest expense	32	–	32
Lease payments	(295)	(8)	(303)
At 31 March 2023	**803**	**–**	**803**

Repayment of lease liabilities are analysed as follows:	*2023 £'000*
Due within 1 year	182
Instalments due after 1 year but no more than 5 years	621
Instalments due after 5 years	–

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. The interest rate used was 4%. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Right of use assets	*Land & buildings £'000*	*Plant & machinery £'000*	*Total £'000*
At 1 April 2022	380	11	391
Additions	932	–	932
Disposals	(71)	–	(71)
Depreciation	(245)	(11)	(256)
At 31 March 2023	**996**	**–**	**996**

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before the commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations – see note 20).

The property lease rentals are fixed payments over the rental terms.

Basis of consolidation

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

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

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

Business combinations

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

Goodwill

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

Impairment of non-financial assets

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

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.

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 term of one to three years. Managed services comprises multiple streams of service including cloud hosting and support and operating licences. 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 annually, 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. 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 and licences 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 total revenue, Adjusted EBITDA, Adjusted PBT, Adjusted EPS and Net debt.

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

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.

Share capital

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

Financial liabilities

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

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

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

Fair value measurement hierarchy

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

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

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

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

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

Share based payments

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

Deferred taxation

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

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

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

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

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

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

Intangible asset	*Estimated UEL*	*Valuation method*
Customer relationships	5–10 years	Estimated discounted cashflow
Software licenses	3–5 years	Cost less amortisation
System development	5 years	Cost less amortisation

2. Significant accounting estimates and 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.

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. In FY23, there was a requirement to assess the valuation of intangible assets acquired for the acquisitions of Truststream Security Services Limited and Orchard Computers Limited.

Contingent consideration

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

Significant accounting judgements

Going concern

The Board have approved an annual operating plan for FY24 and a forecast to 31 March 2025, 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.

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 usually 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 and management of the business have been successfully integrated, whichever is earlier.

The Board have reviewed the Group's CGU's following the acquisition of Truststream Security Services Limited and Orchard Computers Limited in April 2022 and have concluded that Truststream is a separate CGU at 31 March 2023 and Orchard is part of the IT Managed Services CGU. Further detail is provided in Note 13.

Useful economic lives of intangible assets

Intangible assets are amortised over their useful economic lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in changes in the carrying values and hence amounts charged to the income statement in particular periods which could be significant. The Group have capitalised system development expenditure in the current year and the intangible asset is being amortised over a five-year useful life which the Directors consider appropriate.

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
- 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	*2023 £'000*	*2022 £'000*	*2023 £'000*	*2022 £'000*
Assets held at amortised cost				
Cash and cash equivalents	4,186	4,133	401	634
Amounts due from subsidiaries	–	–	323	–
Trade receivables	1,706	1,154	–	–
Total financial assets	**5,892**	**5,287**	**724**	**634**

Financial liabilities	Group *2023* *£'000*	 *2022* *£'000*	Company *2023* *£'000*	 *Restated** *2022* *£'000*
Amortised cost				
Trade and other payables	2,801	2,005	632	603
Amounts due to subsidiaries	–	–	3,099	5,476
Loans and other borrowings	5,508	1,142	4,851	1,030
	8,309	**3,147**	**8,582**	**7,109**
At fair value				
Contingent consideration	2,681	–	2,681	–
Total financial liabilities	**10,990**	**3,147**	**11,263**	**7,109**

Contingent consideration	*£'000*
At 1 April 2022	**–**
Acquisition of Truststream	**2,681**
At 31 March 2023	**2,681**

*See the basis of preparation note for details of the FY22 restatement.

Fair value of financial instruments

The Group has adopted the following fair value hierarchy in relation to its financial instruments that are carried in the balance sheet at the fair values at the year end:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The following table sets out the fair value of all financial assets and liabilities that are measured at fair value:

Group & Company	2023 *Level 1* *£'000*	 *Level 2* *£'000*	 *Level 3* *£'000*	2022 *Level 1* *£'000*	 *Level 2* *£'000*	 *Level 3* *£'000*
Liabilities measured at fair value						
Contingent consideration	–	–	2,681	–	–	–
Total	**–**	**–**	**2,681**	**–**	**–**	**–**

Contingent consideration is included in Level 3 of the fair value hierarchy. The provision for contingent consideration is in respect of the Truststream acquisition in April 2022, further details of which can be found in Note 10. The fair value is determined considering the expected payments, discounted to present value using a risk adjusted discount rate.

The significant unobservable inputs are the financial performance forecasts for the Year 1 and Year 2 twelve month periods post-acquisition and the risk adjusted discount rate of 4.0%.

The estimated fair value would increase or decrease if the EBITDA was higher or lower or the risk adjusted discount rate was higher or lower. A reasonably possible change to one of these significant unobservable inputs, holding the other inputs constant, would have the following effects:

Group & Company Effect of change in assumption on income statement	*Increase £'000*	*Decrease £'000*
EBITDA movement by £100,000	–	300
Risk-adjusted discount rate change by 1.0%	43	42

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 *At 31 March 2023*	*Up to 3 months £'000*	*Between 3 & 12 mths £'000*	*Between 1&2 years £'000*	*Between 2&5 years £'000*	*Over 5 years £'000*
Trade and other payables	2,801	–	–	–	–
Loans and borrowings	46	137	621	4,705	–
Contingent consideration	806	–	1,875	–	–
Total	**3,653**	**137**	**2,496**	**4,705**	**–**
At 31 March 2022					
Trade and other payables	2,005	–	–	–	–
Loans and borrowings	133	402	537	51	–
Total	**2,138**	**402**	**537**	**51**	**–**

Company *At 31 March 2023*	*Up to 3 months £'000*	*Between 3 & 12 mths £'000*	*Between 1&2 years £'000*	*Between 2&5 years £'000*	*Over 5 years £'000*
Trade and other payables	632	–	–	–	–
Amounts due to subsidiaries	3,099	–	–	–	–
Loans and borrowings	15	43	88	4,705	–
Contingent consideration	806	–	1,875	–	–
Total	**4,552**	**43**	**1,963**	**4,705**	**–**
*At 31 March 2022 (restated)**					
Trade and other payables	603	–	–	–	–
Amounts due to subsidiaries	5,476	–	–	–	–
Loans and borrowings	116	350	495	51	–
Total	**6,195**	**350**	**495**	**51**	**–**

*See the basis of preparation note for details of the FY22 restatement.

The amounts due to subsidiaries shown in "up to 3 months" category in the table above are payable on demand (Note 17).

Interest rate risk

The Group and Company finance their operations through a combination of retained profits and bank borrowings. The Group's RCF Bank loan with Santander has an interest charge of 3.25% above bank base rate and accordingly the interest charge the Group incurs fluctuates according to the movement in the bank base rates. During FY23 bank base rates were increased by the Bank of England and the Group's interest charge has therefore increased as explained in the Chief Financial Officer's Report.

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.

Foreign exchange risk

Following the acquisition of Truststream, the Group has some exposure to foreign exchange risk since a number of customers are invoiced in USD and certain suppliers of Truststream invoice the Company in USD. The Group manages this foreign exchange risk partially through the natural hedging of using USD cash receipts to make USD cash payments to suppliers, but also uses USD forward exchange contracts to mitigate the risk. At 31 March 2023, there was $347k of undrawn USD forex contract outstanding which it is anticipated will be used before 31 March 2024. The fair value of these USD forex contracts are not material to the financial statements at year end date.

Capital disclosures

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

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

4. Segmental analysis

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

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

The monthly management accounts reported to the Board of Directors 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	*2023 £'000*	*2023 %*	*2022 £'000*	*2022 %*
Managed IT services	17,441	81%	12,845	87%
Value-added resale	4,207	19%	1,901	13%
Total	**21,648**	**100%**	**14,746**	**100%**

No individual customer accounts for more than 7% of the Group's revenue.
The revenue by geographic location for where services are delivered to customers is shown below.

	2023 £'000	*2023 %*	*2022 £'000*	*2022 %*
UK	21,608	100%	14,706	100%
Rest of world	40	–	40	–
Total	**21,648**	**100%**	**14,746**	**100%**

	2023 £'000	*2022 £'000*
Revenue		
Managed IT services	17,441	12,845
Value-added resale	4,207	1,901
Total	**21,648**	**14,746**
Gross Profit		
Managed IT services	10,349	8,511
Value-added resale	747	409
Total	**11,096**	**8,920**

Assets and liabilities related to contracts with customers

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

	2023 £'000	*2022 £'000*
Contract liabilities relating to deposits from customers	4,016	1,459
Release of contract liability recognised in revenue which was included in the contract liability balance at the beginning of the year	**1,163**	**1,549**

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's assets are also managed centrally by the Board and consequently there is no reconciliation between the Group's assets per the Statement of Financial Position and the segment assets.

5. Operating profit

	2023 £'000	*2022 £'000*
Operating profit is after charging the following:		
Audit - Group	94	60
Audit - Company	4	4
Other advisory	12	14
Auditor's remuneration:	**110**	**78**
Depreciation of tangible fixed assets	625	654
Amortisation of intangible assets	1,739	1,243
Staff costs (note 7)	5,566	4,628
Share based payments (note 9)	178	195
Short term lease costs	40	46
Exceptional items (note 8)	408	–

6. Finance expense

	2023 £'000	*2022 £'000*
Interest payable on bank loan	307	80
Unwind of discounting on contingent consideration	105	–
Interest payable on lease liabilities	32	20
Arrangement fee amortisation on bank loan	29	27
Other interest	10	–
Total	**483**	**127**

7. Staff numbers and costs

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

	2023	*2022*
Technical support	70	60
Sales and marketing	18	13
Administration	20	15
Total	**108**	**88**

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

	2023 £'000	*2022 £'000*
Wages and salaries	4,793	4,026
Social security costs	547	444
Benefits in kind	55	35
Pension benefits	171	123
Share based payment expense	178	195
Total	**5,744**	**4,823**

Total staff costs for the Company are £5,744,000 (FY22: £4,823,000) and average staff numbers for the Company are 108 (FY22: 88).

Directors	*2023 £'000*	*2022 £'000*
Fees and salaries	662	533
Social security costs	69	57
Benefits in kind	3	3
Pension benefits contributions	18	14
Share based payment expense	132	133
Total	**884**	**740**

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 £329,000 (FY22: £249,000).

The Group does not operate a defined benefits pension scheme and Executive Directors who are entitled to receive pension contributions may nominate a defined contribution scheme into which the Company makes pension contributions.

The fees relating to Non-Executive Directors are in some cases payable to third parties in connection with the provision of their services. The balance outstanding at 31 March 2023 was nil (FY22: £Nil).

8. Exceptional items

	2023 £'000	2022 £'000
Integration and restructuring costs	189	–
Acquisition costs	219	–
Total	**408**	**–**

The acquisitions cost of £219,000 relates to professional fees and other costs incurred in the acquisitions of Truststream and Independent Network Solutions Limited (trading as Orchard IT). Integration and restructuring costs of £189,000 in relation to employee exit costs and professional fees.

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% of the Company's issued share capital. For new share options issued in the year, the volatility was estimated using the previous twelve months of the Group's share price.

EMI scheme

Share options can be granted to employees of the Group at the discretion of and with approval from the Remuneration Committee. For EMI share options to vest the employee has to be employed by the Group at the vesting date. The weighted average exercise price of options in issue is 28.2p per share.

			Number of ordinary shares			
Grant date	*Exercise period*	*Exercise price*	*At 31 March 2022*	*Granted*	*Waived*	*At 31 March 2023*
17/03/2014	17/03/17 to 16/03/24	60.0p	3,750	–	(3,750)	–
21/02/2016	21/02/19 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	231,000	–	(16,000)	215,000
16/04/2020	16/04/23 to 15/04/30	27.0p	150,000	–	–	150,000
06/04/2021	06/04/24 to 05/04/31	41.0p	255,000	–	(49,000)	206,000
01/07/2021	01/07/24 to 30/06/31	1.0p	250,000	–	(150,000)	100,000
14/02/2022	14/02/25 to 13/04/32	26.0p	30,000	–	–	30,000
Total			**961,625**	**–**	**(218,750)**	**742,875**

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	11,875	30,000	215,000	150,000	206,000	100,000	30,000
Grant date	21-Feb16	02-Mar18	26-Nov18	16-Apr20	06-Apr21	01-Jul21	14-Feb22
Expiry date	20-Feb26	01-Mar28	25-Nov28	15-Apr30	05-Apr31	30-Jun31	13-Feb32
Contract term (years)	10	10	10	10	10	10	10
Exercise price	55.2p	35.5p	42.5p	27.0p	41.0p	1.0p	26.0p
Share price at granting	70.8p	35.5p	42.5p	27.0p	41.0p	42.0p	26.0p
Annual risk free rate (%)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	4.0%
Annual expected dividend yield (%)	0%	0%	0%	0%	0%	0%	0%
Volatility (%)	27%	27%	27%	27%	27%	27%	41%
Fair value per grant instrument	30.2p	41.5p	17.9p	14.8p	26.0p	14.3p	15.0p

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.

			Number of ordinary shares			
Grant date	*Exercise period*	*Exercise price*	*At 31 March 2022*	*Granted*	*Waived*	*At 31 March 2023*
28/06/2018	28/06/21 to 27/06/28	1.0p	750,000	–	–	750,000
16/07/2018	16/07/21 to 15/07/28	1.0p	450,000	–	–	450,000
15/07/2019	15/07/22 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
21/06/2022	21/06/24 to 20/06/32	1.0p	–	454,416	–	454,416
Total			**2,287,480**	**454,416**	**–**	**2,741,896**

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	454,416
Grant date	28-Jun-18	16-Jul-18	15-Jul-19	08-Jul-20	21-Jun-21	21-Jun-22
Expiry date	27-Jun-28	15-Jul-28	14-Jul-29	07-Jul-30	20-Jun-31	20-Jun-32
Contract term (years)	10	10	10	10	10	10
Exercise price	1.0p	1.0p	1.0p	1.0p	1.0p	1.0p
Share price at granting	41.5p	46.5p	42.0p	33.0p	42.0p	27.0p
Annual risk free rate (%)	0.5%	0.5%	0.5%	0.5%	0.5%	4.0%
Annual expected dividend yield (%)	0%	0%	0%	0%	0%	0%
Volatility (%)	27%	27%	27%	27%	27%	41%
Fair value per grant instrument	40.9p	43.7p	41.4p	32.0p	41.0p	26.0p

On 26 May 2023, subsequent to the balance sheet date, it was announced that Adam Binks would be stepping down as Chief Executive Officer and the Board on 26 June 2023. The Board agreed that the 826,394 unvested options granted to Adam Binks under the Company's 2020 LTIP Scheme would vest with immediate effect with all restrictions on all his options waived. Adam Binks agreed to immediately exercise all his options granted under the 2018 and 2020 LTIP schemes, totalling 2,076,394 ordinary shares of 1p each ("Ordinary Shares") and further agreed to sell, and the Company agreed to buy, a total of 2,076,394 Ordinary Shares at a price of £0.375 per Ordinary Share. The Company will hold these Ordinary Shares in treasury to satisfy the exercise of future share options under SysGroup's share incentive schemes.

10. Acquisitions

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).

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 2023 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. A payment of £0.53m was paid in respect of the cash and debt balances. 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 by a new £8.0m revolving credit facility ("RCF") which was signed with Santander on 4 April 2023. 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 19 to the consolidated financial statements.

Recognised amounts of net assets acquired and liabilities assumed	*Book value £'000*	*Fair value adj. £'000*	*Fair value £'000*
Cash and cash equivalents	550	–	550
Trade and other receivables	1,783	–	1,783
Property, plant and equipment	1	–	1
Intangible assets	–	2,525	2,525
Trade and other payables	(1,776)	(24)	(1,800)
Corporation tax	(117)	–	(117)
Deferred tax	–	(631)	(631)
Identifiable net assets			2,311
Goodwill			5,602
Total net assets			7,913
Satisfied by:			
Cash consideration - paid on acquisition			5,337
Contingent consideration			2,754
Discounting of contingent consideration			(178)
Total consideration			**7,913**

Independent Network Solutions Limited

INSL is the holding Company of Orchard Computers Limited ("Orchard"), which is a business 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 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.

SysGroup acquired INSL on 26 April 2023 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.

Recognised amounts of net assets acquired and liabilities assumed	*Book value £'000*	*Fair value adj. £'000*	*Fair value £'000*
Cash and cash equivalents	398	–	398
Trade and other receivables	311	(15)	296
Property, plant and equipment	32	(32)	–
Intangible assets	–	1,028	1,028
Trade and other payables	(383)	(435)	(818)
Bank loan	(82)	–	(82)
Corporation tax	(63)	(5)	(68)
Deferred tax	(7)	(257)	(264)
Identifiable net assets			490
Goodwill			510
Total net assets			**1,000**
Satisfied by:			
Cash consideration - paid on acquisition			1,000
Total consideration			**1,000**

The Directors have considered the intangible assets acquired with the two acquisitions and have recognized intangible assets for customer relationships which have been calculated using a discounted cashflow method, based on the estimated level of profit to be generated from the customer bases acquired. A post tax discount rate of 9.40% was used in the valuations and the customer relationships are being amortised over an estimated useful life of 7 years for Truststream and 10 years for Orchard. The goodwill arising on both acquisitions are attributable to the technical skills of the workforce and cross-selling opportunities achievable from combining the acquired customer bases and trade with the existing Group.

The goodwill and intangible assets of Truststream have been allocated to a new CGU named "Truststream" and the goodwill and intangible assets of Orchard have been allocated to the CGU "IT Managed Services". See Note 13 for further details. The Company incurred £218,000 of professional fees and other acquisition costs in relation to the two acquisitions. These costs are included as Exceptional costs in the Group's consolidated statement of comprehensive income.

Truststream contributed £4.9m to Group revenue and £0.3m profit before tax for the twelve month period to 31 March 2023. Orchard was acquired on 26 April 2022 under a lock box mechanism which fixed the financial returns to the Group from 1 April 2022. Orchard contributed £1.8m to Group revenue and £0.1m profit before tax for the twelve month period to 31 March 2023 .

11. Earnings per share

	2023	*2022*
(Loss)/profit for the financial year attributable to shareholders	(£7,000)	£451,000
Adjusted profit for the financial year	£1,917,000	£1,748,000
Weighted number of issued equity shares	48,859,690	48,859,690
Weighted number of equity shares for diluted EPS calculation	52,274,633	51,983,666
Adjusted basic earnings per share (pence)	3.9p	3.6p
Basic earnings per share (pence)	0.0p	0.9p
Diluted earnings per share (pence)	0.0p	0.9p

	2023 £'000	*2022 £'000*
(Loss)/profit after tax used for basic earnings per share	(7)	451
Amortisation of intangible assets	1,739	1,243
Exceptional items	408	–
Share based payments	178	195
Tax adjustments	(401)	(141)
Adjusted profit used for adjusted earnings per share	**1,917**	**1,748**

12. Taxation

Current tax	*2023 £'000*	*2022 £'000*
Current tax - current year	374	120
Adjustments in respect of prior years	–	(94)
Total current tax charge	**374**	**26**
Deferred tax		
Deferred tax - timing differences	(472)	121
Total deferred tax	**(472)**	**121**
Total tax (credit)/charge	**(98)**	**147**

The effective tax rate for the year to 31 March 2023 is higher (2022:higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2023 £'000	*2022 £'000*
(Loss)/profit on ordinary activities before tax	**(105)**	**598**
(Loss)/profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (2022:19%)	(19)	114
Effects of:		
Expenses not deductible	92	34
Prior year adjustment	–	(94)
Short term timing differences	98	–
R&D tax credits	(29)	–
Re-measurement of deferred tax due to changes in UK rate	(66)	142
Deferred tax on share based payments	32	6
Deferred tax on acquired intangible assets	(206)	–
Use of brought forward losses	–	(55)
Total tax (credit)/charge	**(98)**	**147**

The Group recognised deferred tax assets and liabilities as follows:

	2023 £'000	*2022 £'000*
Deferred tax on customer relationships	(1,421)	(846)
Deferred tax asset on share-based payments	166	116
Capital allowances timing differences	(179)	(281)
Deferred tax liability	**(1,434)**	**(1,011)**

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

The movement in the deferred tax ("DT") account during the year was:

	Capital allowances & timing differences £'000	*Customer relationships £'000*	*Total £'000*
Balance at 1 April 2022	(165)	(846)	(1,011)
Acquired intangible assets	–	(888)	(888)
DT acquired on acquisitions	(7)	–	(7)
DT on share based payments	15	–	15
DT on amortisation of intangible assets	–	379	379
Effect of changes in deferred tax rate	–	(66)	(66)
Fixed asset and other timing differences	144	–	144
Balance at 31 March 2023	**(13)**	**(1,421)**	**(1,434)**

Factors affecting future tax charges:

Deferred tax balances are recognised at 25% (2022: 19%) following UK government legislation to increase the rate of corporation tax from 19% to 25% on 1 April 2023.

13. Intangible assets

Group cost	*Systems development £'000*	*Software licences £'000*	*Customer relationships £'000*	*Positive goodwill £'000*	*Total £'000*
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**
At 1 April 2022	1,073	205	9,156	15,554	25,988
Additions	163	–	3,553	6,112	9,828
Disposals	(225)	(205)	–	–	(430)
At 31 March 2023	**1,011**	**–**	**12,709**	**21,666**	**35,386**
Accumulated amortisation					
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**
At 1 April 2022	404	205	5,507	–	6,116
Charge for the year	177	–	1,562	–	1,739
Disposals	(225)	(205)	–	–	(430)
At 31 March 2023	**356**	**–**	**7,069**	**–**	**7,425**
Net book value					
At 31 March 2022	**669**	**–**	**3,649**	**15,554**	**19,872**
At 31 March 2023	**655**	**–**	**5,640**	**21,666**	**27,961**

Company cost	*Systems development £'000*	*Total £'000*
At 1 April 2021 & 31 March 2022	–	**–**
Additions	28	28
At 31 March 2023	**28**	**28**
Accumulated amortisation		
At 1 April 2021 & 31 March 2022	–	**–**
Charge for the year	2	2
At 31 March 2023	**2**	**2**
Net book value		
At 31 March 2022	**–**	**–**
At 31 March 2023	**26**	**26**

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

Cash-generating units ("CGUs")

Goodwill and intangible assets are allocated to CGUs in order to be assessed for potential impairment. The Group has a core CGU of "Managed IT Services" and as the Group acquires new businesses they form their own CGU until they have been integrated into the Group's core operational structure.

The Group has a Senior Leadership Team that manages the SysGroup business within a single operational and delivery structure and during the year the Orchard business was fully integrated within the core operational structure. On 31 March 2023, the trade, assets and liabilities of Orchard Computers Limited were hived up to SysGroup Trading Limited. In view of this integration and hive up of the business, the Directors concluded that the Orchard business formed part of the IT Managed Services CGU at 31 March 2023. Whilst the Truststream business was integrated within the SysGroup leadership structure and onto the Group system platforms, the business continues to operate its own cash transactions and balances and therefore remains a distinct cash generating unit of the Group. As such, the Directors consider Truststream to be a separate CGU.

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

	Allocation of goodwill		Carrying value of assets	
	2023 £'000	*2022 £'000*	*2023 £'000*	*2022 £'000*
Managed IT services	16,064	15,554	19,366	21,280
Truststream Security Solutions	5,602	–	6,698	–
Total	**21,666**	**15,554**	**26,064**	**21,280**

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: post-tax cash flow projections; long-term growth rates; and a post-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 prepared for each individual cash generating unit. 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% (FY22: 2.5%) for net post-tax cash flows. 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 IT Managed Services CGU has over 40% headroom of VIU compared to the carrying value of assets, and the Truststream CGU has over 30% headroom. For the headrooms to reduce to nil, the post-tax discount rate would have to increase to over 14.3% on IT Managed Services and 13.7% on Truststream or future CGU profits would have to be significantly below current forecast levels. The assumptions used for the impairment review are detailed below:

2023	*Managed IT services*	*Truststream*
Discount rate post-tax	10.7%	10.7%
Revenue growth rate year 2	2.5%	10.0%
Revenue growth rate year 3 to year 5	2.5%	2.5%
Terminal growth rate	2.5%	2.5%
2022		
Discount rate post-tax	9.4%	–
Revenue growth rate year 2	2.5%	–
Revenue growth rate year 3 to year 5	2.5%	–
Terminal growth rate	2.5%	–

14. Property, plant and equipment

Group cost	*Office equipment £'000*	*Right of use lease £'000*	*Freehold property £'000*	*Total £'000*
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**
At 1 April 2022	2,744	2,181	382	5,307
Additions	249	935	–	1,184
Disposals	(1,793)	(1,851)	–	(3,644)
At 31 March 2023	**1,200**	**1,265**	**382**	**2,847**
Accumulated depreciation				
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**
At 1 April 2022	2,014	1,790	25	3,829
Charge for the year	358	259	8	625
Disposals	(1,793)	(1,780)	–	(3,573)
At 31 March 2023	**579**	**269**	**33**	**881**
Net book value				
At 31 March 2021	**497**	**419**	**365**	**1,281**
At 31 March 2022	**730**	**391**	**357**	**1,478**
At 31 March 2023	**621**	**996**	**349**	**1,966**

During the year, the Group conducted a review of its fixed asset register and disposed of £3.6m of fully written down value assets in office equipment and right of use assets. There was no net gain or loss on disposal.

14. Property, plant and equipment (contd.)

Company cost	*Office equipment £'000*	*Right of use Lease £'000*	*Total £'000*
At 1 April 2021	269	157	426
Additions	51	189	240
At 31 March 2022	**320**	**346**	**666**
At 1 April 2022	320	346	666
Additions	150	47	197
Disposals	(298)	–	(298)
At 31 March 2023	**172**	**393**	**565**

Accumulated depreciation			
At 1 April 2021	223	70	293
Charge for the year	55	64	119
At 31 March 2022	**278**	**134**	**412**
At 1 April 2022	278	134	412
Charge for the year	56	70	126
Disposals	(298)	–	(298)
At 31 March 2023	**36**	**204**	**240**

Net book value			
At 31 March 2021	**46**	**87**	**133**
At 31 March 2022	**42**	**212**	**254**
At 31 March 2023	**136**	**189**	**325**

15. Investments

Company	*2023 £'000*	*2022 £'000*
At start of year	24,895	24,895
Acquisitions	8,913	–
Investment in subsidiaries	226	–
At 31 March	**34,034**	**24,895**

The investment in subsidiaries of £226,000 relates to an investment cost in Orchard Computers Limited arising from a loan waived by SysGroup plc in favour of Orchard Computers Limited, a 100% subsidiary group Company.

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
Truststream Security Solutions Limited	England & Wales	Managed IT services
Certus IT Ltd	England & Wales	Non-trading
Hub Network Services Limited	England & Wales	Non-trading
Netplan LLC*	USA	Non-trading
Orchard Computers Limited**	England & Wales	Non-trading
Independent Network Solutions Limited	England & Wales	Non-trading
Netplan Internet Solutions Limited	England & Wales	Dormant
Rockford IT Limited	England & Wales	Dormant
System Professional Limited	England & Wales	Dormant
SysGroup (DIS) Ltd	England & Wales	Dormant

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

**At 31 March 2023 Orchard Computers Limited became non-trading due to the hive up of its trade, assets and liabilities into SysGroup Trading Limited. Orchard is owned 100% by Independent Network Solutions Limited.

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

Truststream Security Solutions Limited
whose registered office is:

8th Floor, Sugar Bond House,
Anderson Place, Leith, Edinburgh,
Scotland, EH6 5NP.

16. Trade and other receivables

Amounts due within one year	*Group 2023 £'000*	*Company 2023 £'000*	*Group 2022 £'000*	*Company 2022 £'000*
Trade debtors	1,706	–	1,154	–
Amounts due from subsidiaries	–	323	–	–
Other debtors	–	81	–	54
Prepayments	3,301	221	925	118
Total	**5,007**	**625**	**2,079**	**172**

Amounts due from subsidiaries are due on demand and incur no interest.

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

Debtor impairment	*Group 2023 £'000*	*Company 2023 £'000*	*Group 2022 £'000*	*Company 2022 £'000*
Trade debtors	1,979	–	1,360	–
Impairment provision	(273)	–	(206)	–
Total	**1,706**	**–**	**1,154**	**–**

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	585	1,394	1,979	–	–	–
Expected credit loss	(1)	(272)	(273)	–	–	–
Net carrying amount	**584**	**1,122**	**1,706**	**–**	**–**	**–**

17. Trade and other payables

Amounts due within one year	*Group 2023 £'000*	*Company 2023 £'000*	*Group 2022 £'000*	*Company (restated)* 2022 £'000*
Trade payables	1,813	110	1,116	115
Amounts due to subsidiaries	–	3,099	–	5,476
Accruals	988	522	889	488
Total financial liabilities, excluding loans and borrowings measured at amortised cost	**2,801**	**3,731**	**2,005**	**6,079**
Corporation tax	438	–	188	7
Other taxes and social security costs	622	132	499	138
Total	**3,861**	**3,863**	**2,692**	**6,224**

Amounts due to subsidiaries are due on demand and incur no interest charge.

Contingent consideration **Amounts due within one year**	*Group 2023 £'000*	*Company 2023 £'000*	*Group 2022 £'000*	*Company 2022 £'000*
Contingent consideration	806	806	–	–
Amounts due after one year				
Contingent consideration	1,949	1,949	–	–
Discounted value	(74)	(74)	–	–
Discounted contingent consideration	**1,875**	**1,875**	**–**	**–**

The contingent consideration is stated at its discounted fair value. The consideration is expected to be paid in two tranches in H1 FY24 and H1 FY25, following the completion of the Year 1 and Year 2 earn-out periods and subject to the terms of the earn-out mechanism.

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 2023 and 31 March 2022. The maturity of the financial liabilities, excluding loans and borrowings, classified as financial liabilities and measured at amortised cost is shown in note 3.

18. Provisions

	Group 2023 £'000	*Company 2023 £'000*	*Group 2022 £'000*	*Company 2022 £'000*
Dilapidations provision	191	68	–	–
Total	**191**	**68**	**–**	**–**

The provision is for the estimated aggregate cost of returning the Group's offices to their original condition on the expiry and exit of the property leases. Currently the leases extend to between 2023 and 2028.

19. Loans and borrowings

Non-current	*Group 2023 £'000*	*Company 2023 £'000*	*Group 2022 £'000*	*Company 2022 £'000*
Lease liabilities	621	88	195	152
Bank loan	4,705	4,705	387	387
Total	**5,326**	**4,793**	**582**	**539**

Current	*Group 2023 £'000*	*Company 2023 £'000*	*Group 2022 £'000*	*Company 2022 £'000*
Lease liabilities	182	58	144	75
Bank loan	–	–	416	416
Total	**182**	**58**	**560**	**491**

In April 2022, 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.

20. Contract liabilities

Contract liabilities	*Group 2023 £'000*	*Company 2023 £'000*	*Group 2022 £'000*	*Company 2022 £'000*
Current - contract liabilities	3,633	–	1,163	–
Non-current - contract liabilities	383	–	296	–
Total	**4,016**	**–**	**1,459**	**–**

21. Share capital

Group and company	*Number*	*£'000*
Allotted, called up and fully paid ordinary shares of £0.01 each		
At 1 April 2021	49,419,690	494
At 31 March 2022	**49,419,690**	**494**
At 31 March 2023	**49,419,690**	**494**

22. Reconciliation of net cashflow movements in net debt

	1 April 2022 £'000	*Non cashflow movements £'000*	*Cashflow £'000*	*Right of use movement £'000*	*Maturity reclass £'000*	*31 March 2023 £'000*
Cash and cash equivalents	4,133	–	53	–	–	4,186
Debt due in less than one year:						
Bank loans	(436)	29	(3,901)	–	4,308	–
Contingent consideration	–	(2,681)	–	–	1,875	(806)
Lease liabilities	(144)	(32)	303	(735)	426	(182)
Debt due in more than one year:						
Bank loans	(368)	(29)	–	–	(4,308)	(4,705)
Contingent consideration	–	–	–	–	(1,875)	(1,875)
Lease liabilities	(195)	–	–	–	(426)	(621)
Net cash/(debt)	**2,990**	**(2,713)**	**(3,545)**	**(735)**	**–**	**(4,003)**

The maturity reclass movements show the change in classification of the debt item maturity periods due to contractual changes or new contracts incepted in the year.

23. 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 (2022: £26,479) for a shared cost of corporate services received by SysGroup plc and Arete Capital Partners. At 31 March 2023, the balance outstanding was £nil (31 March 2022: £nil).

24. Ultimate controlling party

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

Notice of Annual General Meeting

SysGroup plc (Company)

Notice is hereby given that the Annual General Meeting of the Company will be held on **22 September 2023 at 10am** at Hill Dickinson LLP, 50 Fountain Street, Manchester M2 2AS for the purpose of considering and, if thought fit, passing the resolutions set out below, of which Resolutions 1 to 6 will be proposed as ordinary resolutions and Resolutions 7 and 8 will be proposed as special resolutions.

Ordinary business

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

1. **TO** receive, consider and adopt the annual report and financial statements for the year ended 31 March 2023 together with the Directors' and Auditors' Reports contained therein.
2. **TO** reappoint Michael James Fletcher as a Director of the Company who retires by rotation.
3. **TO** reappoint Martin Audcent as a Director of the Company who retires by rotation.
4. **TO** appoint Heejae Chae as a Director of the Company.
5. **TO** reappoint BDO LLP as auditors of the Company and authorise the Directors to fix their remuneration.
6. **THAT**, in accordance with section 551 of the Companies Act 2006, the Directors be generally and unconditionally authorised to allot Relevant Securities (as defined below):
   a. comprising equity securities (as defined by section 560 of the Companies Act 2006) up to an aggregate nominal amount of £343,307 (such amount to be reduced by the nominal amount of any Relevant Securities allotted pursuant the authority in resolution 6.b below) in connection with an offer by way of a rights issue:
      i. to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
      ii. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
   b. in any other case, up to an aggregate nominal amount of £171,653 (such amount to be reduced by the nominal amount of any equity securities allotted pursuant to the authority in resolution 6.a above in excess of £171,653),

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

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

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

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

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

Special business

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

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

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

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

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

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

   b. the allotment of equity securities or sale of treasury shares (otherwise than pursuant to resolutions 7.a above) to any person up to an aggregate nominal amount of £25,748.

   The power granted by this resolution will expire 15 months from the date this resolution is passed or, if earlier, the conclusion of the Company's next Annual General Meeting (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted (or treasury shares to be sold) after such expiry and the Directors may allot equity securities (or sell treasury shares) in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

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

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

   a. the maximum aggregate number of Ordinary Shares that may be purchased is 5,149,608;

   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
17 August 2023

Registered Office:
Walker House, Exchange Flags, Liverpool, L2 3YL

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 20 September 2023. Changes to entries on the relevant register of securities after 10.00 am 20 September 2023 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

4. As at 5pm on 16 August 2023, which is the latest practicable date before publication of this notice, the Company's issued share capital comprised 51,496,084 ordinary shares of £0.01 each, of which 2,636,394 are treasury shares in respect of which the Company is not permitted to exercise voting rights (such treasury shares equate to approximately 5.11 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 16 August 2023 is 51,496,084. The Company's website will include information on the number of shares and voting rights.

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

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

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

8. The annual report and financial statements can be downloaded from the investor section of the Company's website at the following location: **sysgroup.com/about-us/investor-relations/**.

SysGroup