6 December 2017

**SysGroup plc**
("SysGroup" or the "Company" or the "Group")

**Half yearly results for the six months ended 30 September 2017**

SysGroup PLC (AIM: SYS), the Managed IT Services and Cloud Hosting provider, is pleased to announce its unaudited half year results for the six months ended 30 September 2017 (H1 2018).

**Financial highlights**

- Revenue from continuing operations up 46.6% to £3.93m (H1 2017: £2.68m)
    - Recurring Managed IT Services revenue 72.8% of total revenue (H1 2017: 62.4%; FY 2017: 68.7%), reflecting rebalancing towards Managed IT Services
- Sales pipeline growth of 17.1% since end of FY17 to £4.1m
- Adjusted EBITDA[1] (continuing operations) of £0.14m (H1 2017: £0.23m)
- Profit before tax (continuing operations) of £0.08m (H1 2017: loss of £0.55m)
- Adjusted loss[2] before tax of £0.04m (H1 2017: profit of £0.28m)
- EPS 0.8 pence (H1 2017: 6.1 pence; FY 2017 1.9 pence)
- Gross cash of £2.69m (H1 2017: £3.88m; FY 2017: £3.47m)

[1]Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation, acquisition and integration costs, restructuring costs, fair value adjustments, and profit on sale of discontinued operations

[2]Adjusted (loss)/profit is profit before tax after adding back amortisation on acquired intangibles and costs relating to acquisition and integration, restructuring costs, and fair value adjustments

**Operational highlights**

- Completed the integration of System Professional, acquired in July 2016
    - Establishment of single senior management team across the Group
    - Integration of back office systems
- Appointments of Group Sales Director and Group Marketing Director, to support new Group structure
- Continued investment in technology including new Manchester datacentre build and go-live

**Post period-end:**

- Acquisition of Rockford IT for £3.9m, demonstrating further execution of buy and build strategy

## Michael Edelson, Executive Chairman, commented:

"Trading remains in line with the revised guidance provided on 6 November and, as outlined, we continue to expect the full year results to be second half weighted.

"The growth opportunity remains significant and the Group's alignment to Managed IT Services and its early education efforts are proving fruitful. The structural and operational changes achieved during the period better position the business to execute the growth strategy. This combined with a strong pipeline, leaves the Board optimistic about the Group's future prospects over the next 12 months."

**For further information please contact:**


| | |
|---|---|
| **SysGroup Plc**<br>Michael Edelson, Executive Chairman<br>Adam Binks, Chief Operating Officer<br>Julian Llewellyn, Chief Financial Officer | Tel: 0151 559 1777 |
| **Shore Capital (Nomad and Broker)**<br>Edward Mansfield/Anita Ghanekar | Tel: 020 7408 4090 |
| **Alma PR (Financial PR)**<br>Josh Royston / Hilary Buchanan / Helena Bogle | Tel: 020 8004 4218 |

**About SysGroup**

SysGroup is a leading provider of Managed IT Services, Cloud Hosting, and expert IT Consultancy. 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 - enabling clients to free up resources, grow their core business and avoid the distractions and complexity of delivering IT services.

The Group has offices in Liverpool, Coventry, London and Telford.

For more information, visit http://www.sysgroup.com

**Introduction**

Following a year of transformation in FY17, in which the business initiated a strategy of refocusing on high margin Managed IT Services, the first six months of the current financial year was a period of integration and continued evolution of the Managed IT Services offering. While there is still work to be done in refining the business platform, the Group made a number of significant operational achievements in the period which has left the business in a better position to capitalise on the substantial market opportunity available.

A significant milestone during the period was the completion of the integration of the System Professional Ltd business, acquired in July 2016, which included the establishment of a single senior management team across the Group. At the same time, all back office systems, including CRM, service desk and unified messaging platforms were successfully integrated, resulting in a single operational Group structure aligned to providing Managed IT Services.

To support this new structure, the Group appointed a new Group Sales Director as well as a newly created role of Group Marketing Director to translate the Group's vision into a coherent message across the organisation and target market. Early indications are that this streamlined approach is resonating amongst existing and prospective customers as evidenced by the growing pipeline, which consists of a greater proportion of Managed IT Services opportunities. The sales pipeline currently stands at £4.1m, up 17.1% from the end of FY17, with 79% relating to recurring revenue services.

Investment in technology solutions continued in the period and remains a key focus for the Group. During the period the Group established a presence in a new Manchester datacentre, with the first customer going live in July. Further consolidation of legacy platforms hosted in different datacentres is expected to complete by the end of the calendar year, generating improved efficiency and cost economies.

The operational changes achieved to date are delivering early results against the Group's strategy. A growing proportion of Group revenue is being generated from recurring Managed IT Services, now equating to 72.8% of total revenue and adding to the Group's long-term visibility of revenue under contract. Pleasingly, despite these substantial changes implemented across the business, customer retention levels remain very high, providing a strong base for the continued execution of the growth strategy.

**Strategy**

SysGroup's clear focus is to expand its position as a trusted provider of Managed IT Services to clients in the UK. The Board believes that a business focused on the provision of Managed IT Services offers the highest growth opportunity and the potential for increased margins and longer-term contracts, thereby providing greater revenue visibility. In pursuit of this strategy, the Group has been positioned as an extension of a customer's existing IT department, with an emphasis on consultative-led sales to guide customers through the complexities and developments in the market.

The Group intends to continue to supplement organic growth with carefully considered acquisitions and has established an integration team, amongst senior management, who are currently executing the integration of Rockford IT and will be responsible for integrating any future acquisitions.

**Results and trading**

During the period the Group has delivered revenues of £3.93m (H1 2017: £2.68m) and Adjusted EBITDA[1] of £0.14m (H1 2017: £0.23m). Of this revenue, 72.8% was generated from recurring Managed IT Services business, up from 62.4% at the same time last year and a further increase from the 68.7% generated at the year end, demonstrating the successful rebalancing of the business towards Managed IT Services.

Gross profit for the period increased to £2.38m (H1 2017: £1.68m), corresponding to a gross profit margin of 60.6% (H1 2017: 62.6%), the result of a higher than expected mix of initial Value Added Reseller (VAR) sales offset by improved infrastructure hosting margins. VAR sales themselves often lead to higher margin Managed IT Services work.

[1]Adjusted EBITDA is earnings before interest, taxation, depreciation, amortisation, acquisition and integration costs, restructuring costs, fair value adjustments, and profit on sale of discontinued operations

The expected increase in staff costs and administrative costs is due to transition of the cost base into Managed IT Services, along with increased investment in Sales and Marketing and Group support functions.

Earnings per share (EPS) for the half year ended 30 September 2017 was 0.8 pence (31 March 2017: 1.9 pence; 30 September 2016: 6.1 pence) and more detail is provided in note 4 to the accounts. On 6 June 2017 the earn out agreement with System Professional Ltd was cancelled. The accrued liability of £690k at 31 March 2017 was settled in cash for £150k.

Gross cash at 30 September 2017 was £2.69m (31 March 2017 £3.47m; 30 September 2016 £3.88m). The period has seen further improvements in credit control. Improved working capital management enabled the Group to reduce debtor days to 29.1 days at 30 September 2017 (31 March 2017: 45.9 days). The Group had banking facilities with Santander comprising: £2.5m revolving credit term facility to finance acquisitions; £0.5m overdraft facility; and a £0.5m asset finance line, of which £0.2m has been utilised. Post period end, £2.0m of the revolving credit term facility was utilised to fund the acquisition of Rockford IT and the remaining £0.5m of the facility was cancelled in November 2017.

**Post period end activity**

*Acquisition of Rockford IT*
As announced on 1 November, the Group acquired Rockford IT, a specialist provider of Managed IT, Hosting and Security Services, marking the continued execution of the Group's acquisitive growth strategy. The total consideration for Rockford was £3.9m in cash (on a cash-free/debt-free basis) with £1.0m of the total consideration deferred for a maximum period of 120 days whilst the vendors assist with a pre-agreed handover and integration of Rockford into the Group's existing operations. Early progress is encouraging, with Rockford bringing enhanced capabilities to the Group's product portfolio, particularly boosting its security credentials. Integration is progressing smoothly and we expect the Finance and HR support functions to be integrated by the end of the calendar year. Furthermore, the acquisition accelerates the Group's growth, providing critical mass in Managed IT Services and enabling further market consolidation in sector verticals. The Board is confident that the newly combined and deeper skills as a result of the acquisition of Rockford will further the organic growth of the Group.

*Board Changes*
A number of changes were implemented at Board level post period end. Amy Yateman-Smith stepped down as Non-Executive Director at the start of her maternity leave. The Board welcomed Mark Quartermaine as Non-Executive Director on 7 November, bringing with him a wealth of sector and quoted company experience. In addition, Adam Binks, COO of the Group since 2014, joined the Board and continues to be responsible for the day-to-day operations of the Group. As announced on 7 November, Chris Evans stepped down from the Board as CEO, effective from 30 November, and the Board wishes him well in his future endeavours. Michael Edelson, Non-Executive Chairman, has become interim Executive Chairman supporting Adam Binks and Julian Llewellyn, COO and CFO respectively, and the process to appoint a permanent successor is ongoing.

**Sales and Marketing**
A number of strategic changes to the Sales and Marketing functions were implemented in the period as part of the integration process of Systems Professional Ltd and to support the new Group structure as a Managed IT Services business. The sales function has been restructured to create a single team focused fully on Managed IT Services, headed up by the appointment of James Rush as Group Sales Director. James previously held senior sales management roles with NCC Group, Getronics and IBM Global Services. All supporting teams have likewise been integrated across the Group with single teams operating across the service desk, infrastructure team, cloud delivery team and professional services team.

The result of these initiatives is a trend towards securing bigger ticket deals, characteristic of a move to Managed IT Services. While this has a corresponding extending effect of sales cycles, the Group believes its consultancy-led approach continues to be a powerful differentiator in the market. Security remains a key focus for customers, and the Group's recently enhanced security expertise following the acquisition of Rockford IT is resonating well amongst the customer base.

In Marketing, the Group initiated a complete overhaul of the marketing efforts to create a new strategic marketing function. This included the appointment of Emmy Lippold to the newly created role of Group Marketing Director. Emmy has previously held senior positions in technology companies with Data8 Limited and Upland Software Inc. based in the USA. The early results show a much more coherent message and strategy centred on the Managed IT Services offering and a newly embraced digital marketing capability which is driving early stage positive results.

**Customer case study**

SysGroup was selected by a leading supplier of construction materials to help the customer design and implement a robust, custom IT solution. With an estimated 1.5-2 million visits per month over three e-commerce websites, the customer realised that in order to support their growth plan, changes to their current e-commerce solution needed to be made to meet the needs of an anticipated increase in traffic and future expansion. This included the consolidation of all e-commerce websites to a single platform, increasing security to reach PCI compliance level 1 and increasing speed and performance across all three websites.

SysGroup built a custom solution to address these requirements, including the assignment of dedicated technicians to provide ongoing support. Within two months, the customer had a new private cloud infrastructure configuration, built and designed by the Group to streamline their data storage, and website hosting. The customer now has reliable support from expert technicians, increased speed, improved uptime, and enhanced security compliance.

The contract is valued at more than £100,000 over the three year term.

**Outlook**

The growth opportunity is significant and the Group’s alignment to Managed IT Services and its early education efforts are proving fruitful. The result of this shift in the Group's revenue base and the associated impact on timing of recognising revenue means that the Board expects revenue and profitability to be significantly weighted to the second half of the year. The pipeline is strong, consisting of a greater proportion of Managed IT Services opportunities, leaving the Board confident in achieving the revised market expectations for the full year. The structural and operational achievements to date leaves the business in a good position to execute its growth strategy and the Board is encouraged by the prospects and opportunities that lie ahead.

Michael Edelson
Executive Chairman
5 December 2017

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**SIX MONTHS ENDED 30 SEPTEMBER 2017**

| | Notes | Unaudited six months to 30-Sep-17 £'000 | Unaudited six months to 30-Sep-16 £'000 | Audited year to 31-Mar-17 £'000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| **Total group revenue - continuing and discontinued operations** | | **3,928** | **3,379** | **7,865** |
| **Revenue discontinued operations** | | **-** | **700** | **700** |
| **Revenue - continuing operations** | | **3,928** | **2,679** | **7,165** |
| Cost of sales | | (1,549) | (1,002) | (2,783) |
| **Gross profit** | | **2,379** | **1,677** | **4,382** |
| Operating expenses before depreciation, amortisation, acquisition and integration costs, fair value adjustment | | (2,236) | (1,444) | (3,764) |
| **Adjusted EBITDA - Continuing** | | **143** | **233** | **618** |
| Depreciation | | (177) | (132) | (324) |
| Amortisation of intangibles | | (168) | (143) | (326) |
| Acquisition and integration costs | | (268) | (415) | (791) |
| Fair value adjustment on contingent consideration | | 555 | (77) | (300) |
| Administrative expenses | | (2,294) | (2,211) | (5,505) |
| **Profit/(loss) from operations** | | **85** | **(534)** | **(1,123)** |
| Finance costs | | (7) | (17) | (27) |
| Profit/(loss) before taxation | | 78 | (551) | (1,150) |
| Taxation | | 113 | 5 | 20 |
| **Profit/(loss) from continuing operations** | | **191** | **(546)** | **(1,130)** |
| **Discontinued operations – net of income tax** | | **-** | **1,598** | **1,508** |
| **Total comprehensive profit attributable to the equity holders of the company** | | **191** | **1,052** | **378** |
| Basic earnings per share (pence) | 4 | 0.8p | 6.1p | 1.9p |
| Fully diluted earnings per share (pence) | 4 | 0.7p | 6.0p | 1.8p |

The accompanying notes form an integral part of this consolidated statement of comprehensive income

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION**
**AS AT 30 SEPTEMBER 2017**

| | Unaudited 30-Sep-17 £'000 | Unaudited 30-Sep-16 £'000 | Audited 31-Mar-17 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 7,563 | 7,283 | 7,620 |
| Intangible assets | 1,454 | 1,982 | 1,617 |
| Plant, property and equipment | 602 | 424 | 666 |
| | **9,619** | **9,689** | **9,903** |
| **Current assets** | | | |
| Stock and WIP | - | 64 | - |
| Trade and other receivables | 1,056 | 1,313 | 1,311 |
| Cash and cash equivalents | 2,691 | 3,877 | 3,473 |
| | **3,747** | **5,254** | **4,784** |
| **Total Assets** | **13,366** | **14,943** | **14,687** |
| **Equity and liabilities** | | | |
| **Equity attributable to the equity shareholders of the parent** | | | |
| Called up share capital | 4,620 | 4,430 | 4,620 |
| Other reserve | 1,622 | 1,396 | 1,622 |
| Translation reserve | 4 | - | 4 |
| Retained profits | 5,034 | 5,517 | 4,843 |
| | **11,280** | **11,343** | **11,089** |
| **Non-current liabilities** | | | |
| Obligations under finance leases | 149 | 87 | 184 |
| Deferred taxation | 295 | 401 | 365 |
| Contingent consideration due on acquisitions | - | - | 690 |
| | **444** | **488** | **1,239** |
| **Current liabilities** | | | |
| Trade and other payables | 1,133 | 1,365 | 1,671 |
| Deferred income | 378 | 339 | 465 |
| Contingent consideration due on acquisitions | - | 1,281 | - |
| Obligations under finance leases | 131 | 127 | 223 |
| | **1,642** | **3,112** | **2,359** |
| **Total Equity and liabilities** | **13,366** | **14,943** | **14,687** |

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**
**SIX MONTHS ENDED 30 SEPTEMBER 2017**

| | Attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Share premium account | Other reserve | Translation reserve | Retained earnings | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **At 1 April 2016** | **2,552** | **6,493** | **1,008** | **-** | **(5,118)** | **4,935** |
| Profit and total comprehensive income for the period | - | - | - | - | 1,052 | 1,052 |
| Issue of share capital - share placing | 1,683 | 3,367 | - | - | - | 5,050 |
| Issue of share capital - consideration shares | 195 | - | 390 | - | - | 585 |
| Expenses of share issue | - | (277) | - | - | - | (277) |
| Capital reorganisation | - | (9,583) | - | - | 9,583 | 0 |
| Movement in share option reserve | - | - | (2) | - | - | (2) |
| **At 30 September 2016** | **4,430** | **-** | **1,396** | **-** | **5,517** | **11,343** |
| Profit and total comprehensive income for the period | - | - | - | - | (674) | (674) |
| Translation of foreign subsidiaries | - | - | - | 4 | - | 4 |
| Issue of share capital - share placing | 3 | - | - | - | - | 3 |
| Issue of share capital - consideration shares | 187 | - | 226 | - | - | 413 |
| **At 31 March 2017** | **4,620** | **-** | **1,622** | **4** | **4,843** | **11,089** |
| Profit and total comprehensive income for the period | - | - | - | - | 191 | 191 |
| **At 30 September 2017** | **4,620** | **-** | **1,622** | **4** | **5,034** | **11,280** |

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

| Reserve | Description and purpose |
|---|---|
| **Share Premium** | 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 and the amount subscribed for share capital in excess of nominal value of acquisition of another company |
| **Retained earnings** | All accumulated profits and losses arising net of distributions to shareholders |

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
SIX MONTHS ENDED 30 SEPTEMBER 2017

| | Unaudited six months to 30-Sep-17 £'000 | Unaudited six months to 30-Sep-16 £'000 | Audited year to 31-Mar-17 £'000 |
|---|---|---|---|
| **Cash flows used in operating activities** | | | |
| Net income (loss) | 191 | 1,052 | 378 |
| Profit net of tax – discontinued operations | - | (1,598) | (1,508) |
| Adjustments for: | | | |
| Depreciation and other amortisation | 345 | 275 | 650 |
| Fair value adjustment on contingent consideration | (555) | 77 | 300 |
| Finance costs | 7 | 17 | 27 |
| Acquisition costs | 268 | 50 | 791 |
| Taxation | (113) | (5) | (20) |
| Operating cash flows before movement in working capital | 143 | (132) | 618 |
| Decrease/(increase) in trade and other receivables | 292 | (39) | (163) |
| (Decrease)/increase in trade and other payables | (448) | (107) | 544 |
| **Net cash flow from continuing operating activities** | **(13)** | **(278)** | **999** |
| | | | |
| **Cash (outflow)/inflow from investing activities** | | | |
| Payments to acquire property, plant & equipment | (118) | (58) | (380) |
| Payment for acquisitions net of cash received | (150) | (3,026) | (3,425) |
| Acquisition and integration costs | (254) | - | (742) |
| Net cash used in investing activities | (522) | (3,084) | (4,547) |
| | | | |
| **Cash flows from financing activities** | | | |
| Issue of ordinary share capital | - | 4,723 | 4,722 |
| Repayment of loan facility | - | (105) | (105) |
| Interest element of finance lease payments | (7) | (17) | (27) |
| Taxation (paid)/received | 80 | - | (197) |
| Drawdown of finance lease facility | - | - | 189 |
| Capital repayment of finance leases | (127) | (55) | (153) |
| Net cash from financing activities | (54) | 4,546 | 4,429 |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents provided by continuing operations** | **(589)** | **1,184** | **881** |

| Cash flows from discontinued operations | | | |
|---|---|---|---|
| Net cash used for operating activities | - | 143 | 99 |
| Net cash provided for investing activities | - | 2,044 | 1,987 |
| Net cash used for financing activities | (193) | (7) | (7) |
| **Net increase/(decrease) in cash and cash equivalents provided by discontinued operations** | **(193)** | **2,180** | **2,079** |
| Cash and cash equivalents at the beginning of the period/year | 3,473 | 513 | 513 |
| **Cash and cash equivalents at the end of the period/year** | **2,691** | **3,877** | **3,473** |

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**
**SIX MONTHS ENDED 30 SEPTEMBER 2017**

## 1. ACCOUNTING POLICIES

The financial information for the half year ended 30 September 2017 set out in this half yearly report does not constitute statutory financial statements as defined in section 435 of the Companies Act 2006.

The half yearly financial information has been prepared using the same accounting policies and estimation techniques as will be adopted in the Group financial statements for the year ending 31 March 2018. The Group financial statements for the year ended 31 March 2018 will be prepared under International Financial Reporting Standards as adopted by the European Union. These half yearly financial statements have been prepared on a consistent basis and format with the Group financial statements for the year ended 31 March 2018. The provisions of IAS 34 'Interim Financial Reporting' have not been applied in full.

The Group currently applies IAS 18. Its application of IAS 18 is as follows:

- Revenue for Managed IT Services is recognised over the period of the contract
- Revenue for professional and VAR (Value Added Reseller) services is recognised when the customer has the economic benefit of the goods or service

The Group notes that IFRS 15 will become effective for financial periods beginning on or after January 2018. The Group will therefore adopt IFRS 15 for the year ended March 2019 or before.

### EXCEPTIONAL ITEMS

Items which are material because of their size or nature and which are non-recurring are highlighted separately on the face of the income statement. The separate reporting of exceptional items helps provide a better picture of the Company's underlying performance. Items which may be included within the exceptional category include:

- spend on the integration of significant acquisitions and the other major restructuring programmes;
- significant goodwill or other asset impairments; and
- other particularly significant or unusual items.

Spend on integration is incurred by the Group when integrating one trading business into another. The types of costs include employment related costs of staff being made redundant as a consequence of integration, due diligence costs, property costs such as lease termination penalties and vacant property provisions and third party advisor fees. Exceptional costs also include internal technical staff time where those staff have delivered IT projects relating to business integration.

Exceptional items are excluded from EBITDA as an adjustment as management believe that they need to be considered separately to gain an understanding of the underlying profitability of the trading businesses.

Further information is provided in note 5 to the accounts.

### GOING CONCERN

The condensed consolidated interim financial information has been prepared on a going concern basis.

The Directors have prepared cash flow forecasts for the Group, including sensitivity analysis on key assumptions. These forecasts show that the Group expects to meet its liabilities from cash resources, taking into account all risks and uncertainties. At the period end the Group had cash and cash equivalents of £2.69m.

As a result, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors consider that the adoption of the going concern basis is appropriate.

## 2. SEGMENTAL REPORTING

The Group has two operating segments: Managed IT Services and Value Added Resale (VAR). The SME Mass Market segment was discontinued during July 2016.

The Managed IT Services segment comprises enterprise hosting, private and public cloud, IT support and consultancy. Managed IT Services consists of the Netplan and System Professional businesses, the latter being acquired on 6 July 2016. Value Added Resale (VAR) is resale of hardware and 3rd party support services under the System Professional brand and often leads to the provision of additional Managed IT Services work.

No customer in any period represents more than ten per cent of the Group's revenue.

The following tables represent the revenue and gross profit information for the Group's business segments:

| | Unaudited<br>30-Sep-17<br>£'000 | Unaudited<br>30-Sep-16<br>£'000 | Audited<br>31-Mar-17<br>£'000 |
|---|---|---|---|
| **Revenue** | | | |
| SME Mass Market - discontinued | - | 700 | 700 |
| Managed IT Services - continuing | 2,858 | 2,107 | 5,400 |
| Value Added Resale (VAR) - continuing | 1,070 | 572 | 1,765 |
| | **3,928** | **3,379** | **7,865** |
| **Gross Profit** | | | |
| SME Mass Market - discontinued | - | 436 | 436 |
| Managed IT Services - continuing | 2,132 | 1,536 | 3,932 |
| Value Added Resale (VAR) - continuing | 247 | 141 | 450 |
| | **2,379** | **2,113** | **4,818** |

There are 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.

## 3. DISCONTINUED OPERATIONS

Discontinued operations include the SME Mass Market business unit comprising the Daily, EVO Hosting and NameHog brands. 100% of the trade and assets of these brands were disposed of on 22 July 2016 in a trade/asset deal for a total cash consideration of £2.74m (less an initial amount of £0.46m in respect of advance receipts/payments). The sale will enable SysGroup to focus its strategy on creating longer term Managed IT Services relationships with larger customers who in the most part contract for a three year period.

The following table summarises the results of the SME Mass Market segment included in discontinued operations in the consolidated statement of income:

| | Unaudited six months to<br>30-Sep-17<br>£'000 | Unaudited six months to<br>30-Sep-16<br>£'000 | Audited year to<br>31-Mar-17<br>£'000 |
|---|---|---|---|
| Sales | - | 700 | 700 |
| Cost and expenses | - | (539) | (629) |
| Profit on sale | - | 1,399 | 1,399 |
| Profit before tax | - | 1,560 | 1,470 |
| Taxation | - | 38 | 38 |

| | | | |
|---|---|---|---|
| **Profit (loss) attributable to the equity holders of the company** | - | 1,598 | 1,508 |

## 4. EARNINGS PER SHARE

| | **Unaudited six months to 30-Sep-17** | **Unaudited six months to 30-Sep-16** | **Audited year to 31-Mar-17** |
|---|---|---|---|
| Profit/(loss) for the financial year attributable to shareholders | £190,680 | £1,052,000 | £378,000 |
| Weighted number of equity shares in issue | 23,103,898 | 17,275,694 | 19,805,397 |
| Basic earnings per share (pence) | 0.8p | 6.1p | 1.9p |
| Diluted earnings per share (pence) | 0.7p | 6.0p | 1.8p |

On 6 July 2016 the Company consolidated its £0.005 (half a penny) shares in 1 share for 40, the nominal value therefore becoming £0.20 (20 pence). Subsequently on 4 August 2016 the Court approved a capital reduction which reduced the nominal value of shares to £0.01 (one penny).

## 5. ACQUISITION AND INTEGRATION COSTS

In accordance with the Group's policy in respect of acquisition, integration and restructuring costs, the following charges were incurred:

| | **Unaudited 30-Sep-17 £'000** | **Unaudited 30-Sep-16 £'000** | **Audited 31-Mar-17 £'000** |
|---|---|---|---|
| Integration and restructuring costs * | 268 | 16 | 339 |
| Acquisition costs – System Professional Ltd | - | 361 | 414 |
| Acquisition costs - aborted transactions | - | 38 | 38 |
| | 268 | 415 | 791 |
| Continuing operations | 268 | 415 | 791 |
| Discontinued operations | - | - | - |
| | 268 | 415 | 791 |

* Integration and restructuring costs relate to closing and relocating offices/teams, streamlining operations and establishing single front and back office IT platforms/systems. H1 FY18 includes £30k in relation to the use of internal technical staff resources to deliver the changes (FY 2017: £161k).

## 6. TRADE AND OTHER RECEIVABLES

| | Unaudited six months to 30-Sep-17 £'000 | Unaudited six months to 30-Sep-16 £'000 | Audited year to 31-Mar-17 £'000 |
|---|---|---|---|
| Trade debtors | 682 | 891 | 902 |
| Prepayments and accrued income | 374 | 422 | 409 |
| | 1,056 | 1,313 | 1,311 |

## 7. TRADE AND OTHER PAYABLES

| | Unaudited six months to 30-Sep-17 £'000 | Unaudited six months to 30-Sep-16 £'000 | Audited year to 31-Mar-17 £'000 |
|---|---|---|---|
| Trade payables | 484 | 408 | 590 |
| Corporation tax | 106 | 281 | 106 |
| Other taxes and social security | 290 | 274 | 322 |
| Other creditors | - | 182 | 184 |
| Accruals | 253 | 220 | 469 |
| | 1,133 | 1,365 | 1,671 |

## 8. SUBSEQUENT EVENTS

On 1 November 2017 the Group announced the 100% acquisition of Rockford IT for a total consideration of £3.9m. Rockford IT are a managed IT, hosting and security services company and offers unparalleled and flexible IT solutions to an impressive list of customers across financial services, insurance, retail, technology, education and private health sectors.

On 30 November 2017 the Group's CEO Chris Evans left the Company due to long term health reasons with the Group's chairman Michael Edelson becoming Interim Executive Chairman.

## 9. AVAILABILITY OF INTERIM REPORT

Copies of this report are available on the Company's website at http://www.sysgroup.com

**INDEPENDENT REVIEW REPORT TO SYSGROUP PLC**

**Introduction**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 which comprises the Consolidated Interim Statement of Comprehensive Income, the Consolidated Interim Statement of Financial Position, the Consolidated Interim Statement of Changes in Equity, the Consolidated Interim Statement of Cash Flows and the related explanatory notes that have been reviewed.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

**Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

**Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

**BDO LLP**
Chartered Accountants and Registered Auditors
Manchester, United Kingdom
5 December 2017

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