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Consolidated Annual Report & Accounts

Year ended 31 March 2018

VIANET GROUP PLC

WHO ARE WE

Vianet Group plc (LSE: VNET) is a leading provider of actionable management information and business insight created through combining data from our smart Internet of Things ('IOT') solutions and external information sources.

Servicing over 300 customers across the world and rendering live data to our IOT platform from over 235,000 connected machines daily, Vianet is one of the largest business to business (b2b) connected solutions providers in Europe with established long-term relationships with blue chip customers and growing recurring revenues which are 90% of our total revenues. The recent acquisition of Vendman Systems Limited ("Vendman") resulted in a further c 200,000 mobile connections, the majority of which will over time become higher value Smart Machines connections.

In our Smart Machines Division we connect a single data gathering device with its own on-board communication capability to a customer's asset or system. The device then sends data back via our IOT platform to cloud based servers. Whilst the technology was originally developed for automated retailing machines, the flexibility and functionality of the device means the technology can be applied to practically any machine which has the capability to output data. The device is also used to connect our contactless payment solution and communicate payment terms to our cloud based payment services providers where that application is also required.

Our Smart Zones Division connects multiple data gathering devices in one or more systems or assets with the data from those devices being communicated back to our IOT platform and cloud based servers via a single 3G communications hub. The technology was originally developed for flow monitoring devices, temperature sensors and asset management in drinks retailing but practically any data gathering device with a digital output could be connected to the communications hub where required such as gaming machines, utilities management and Electronic Point of Sale ('EPOS').

In both divisions the data collected is then structured and rendered through an advanced web portal and mobile applications to provide actionable data that supports operational and commercial decision making. Data is also structured in specific data sets and often combined with external data to deliver business insight for senior level decision makers.

This data and the insight we generate supports customer decision making by:

- Predicting future asset performance to increase utilisation and significantly reduce servicing costs;
- Identifying previously unknown trends, inefficiencies, and wasted resources;
- Defining potential new procedures, revenue streams, automation services, and incorporating these into the customers' existing processes;
- Providing alerts on fault conditions and product availability so that asset uptime can be maximized.

Building on our proven track record of converting IOT into actionable data and solutions for b2b markets, our mission is to become the recognised leader in our chosen markets through delivering actionable management information and unparalleled insight to customers by connecting them to their assets.

We aim to achieve this through:

- Combining our ability to connect customer assets via our smart devices and IOT platform with powerful data analytics tools to deliver critical insight and information;
- Continuously striving to be a business that is passionate about developing innovative and game changing solutions by employing talented people focused on transforming business performance;
- Driving our financial performance through long term contracts which have recurring high cash margins and scalable annuity streams.

FINANCIAL HIGHLIGHTS

* Adjusted operating profit is profit before exceptional costs, amortisation, interest and share based payments

OPERATIONAL HIGHLIGHTS

Our business is divided into two divisions: Smart Machines (including Vendman Systems Limited "Vendman") and Smart Zones.

Excluding Vendman, the total number of connected devices decreased by 5.6% to 236,639 from 250,618 in FY2017 predominantly due to pub closures.

Smart Machines momentum in the year continued with the acquisition of Vendman which has c 200,000 mobile connections, the majority of which will over time become higher value Smart Machines connections.

Excluding Vendman the number of Smart Machine connections fell due, amongst other things, to a combination of vending machine estate rationalisation, which is enabled by the increased transparency provided by Smart Machines and the loss of one midsized customer who sought exclusivity. The new device sales pipeline was also temporarily impacted by two customers delaying orders during their respective negotiations with Smart Machines, one of these being the Vendman acquisition and the other being the significant contract with a global coffee vendor

SMART MACHINES

- Number of new connected devices relating to Smart Machines was 4,490 (2017: 5,092).
- Highest level of Payment Card industry compliance (PCI-DSS level 1) was re-confirmed in September 2017 for Contactless Payment deployment.
- Smart Machines adjusted operating profit of £1.07 million which includes a Vendman contribution of £0.12 million grew 20.1% from £0.89 million (growth of 6.7% excluding Vendman).

SMART ZONES

- New drinks monitoring connections of c 3,000 in the UK resulted from 245 total new system installations of which 195 were higher value iDraught™ systems. (2017: 380 and 278 systems respectively).

CONTENTS

COMPANY INFORMATION

Directors	J W Dickson (Chairman) S W Darling (Chief Executive Officer) M H Foster (Chief Financial Officer) D Coplin (Non-Executive Director) – appointed 1 April 2018 M McGoun (Non-Executive Director) C Williams (Non-Executive Director)
Secretary	M H Foster
Registered office	One Surtees Way Surtees Business Park Stockton on Tees TS18 3HR
Registered number	5345684
Auditors	Grant Thornton UK LLP No 1 Whitehall Riverside Leeds LS1 4BN
Bankers	Lloyds Banking Group plc 1st Floor Black Horse House 91 Sandyford Road Newcastle NE1 8HQ
Nominated Adviser	Cenkos Securities plc 6. 7. 8. Tokenhouse Yard London EC2R 7AS
Stockbroker	Cenkos Securities plc 6. 7. 8. Tokenhouse Yard London EC2R 7AS
Solicitors	Gordons LLP Riverside West Whitehall Road Leeds LS1 4AW
Registrars	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

CHAIRMAN'S STATEMENT

James Dickson

Chairman

Performance

The Group has made significant steps towards delivery of earnings transformation and continues to benefit from the focus on exploiting growth opportunities in the Smart Machines division whilst optimising performance in the Smart Zones division.

Group turnover was £14.56 million (2017: £14.26 million) whilst adjusted operating profit was up by 9.2% at £3.62 million. Group profit before taxation amounted to £2.05 million post exceptional items (2017: £1.45 million).

Exceptional costs of £0.54 million (2017: £0.96 million) were down on the previous year and principally related to the Vendman acquisition and staff rationalisation costs.

Basic pre-tax earnings per share, post-exceptional costs and deferred tax asset movement, increased to
7.42 pence from 5.30 pence in 2017. Basic EPS after tax was 6.55 pence compared to 3.77 pence in 2017.

Given the solid underlying performance, high quality recurring income and the strong prospects for the Group, the Board is proposing to maintain the final dividend at 4.00 pence which, if approved by shareholders, would give a total dividend for the year of 5.70 pence (2017: 5.70 pence). Subject to approval from shareholders at the Annual General Meeting, to be held on 28 June 2018, the final dividend will be paid on 27 July 2018 to shareholders on the register as at 15 June 2018.

Board and Staff

We continue to evaluate the Board's composition to ensure it remains effective and has the optimum balance of experience and independence to support our operations and growth agenda.

To this end I was delighted to welcome Dave Coplin as a Non-Executive Director. Dave, formerly Chief Envisioning Officer at Microsoft, brings a wealth of experience and insight within the technology space which will be an invaluable asset to the Group as we execute our growth strategy in the Internet of Things and big data areas.

Mike McGoun, whose valued contribution and support will be missed, has chosen to retire from the Board at the time of the Annual General Meeting.

The Group's experienced management team is focused on delivering against the strong growth opportunities and new applications for Vianet's IOT expertise and technology.

Our people continue to respond with their usual enthusiasm and commitment, helping to build on the Group's excellent reputation with customers as we deliver significant development and change programmes.

I would once again like to thank all employees and my Board colleagues, for their continued efforts and commitment in taking the Group forward over the past year.

Outlook

The Group is in good shape to deliver strong earnings growth and enters FY2019 with momentum and concerted focus on our exciting growth opportunities.

- Smart Machines' leading product suite and established presence provides strong growth opportunities across UK and Europe, having already developed significant new sales opportunities with major global customers in this geography as evidenced by the major global coffee company contract.

- Together the Vendman acquisition and the global coffee company contract roll out is expected to transform Smart Machines' earnings over the next few years. There is a significant opportunity to overlay c 200,000 Vendman mobile connections with higher value Smart Machines connections and also to cross sell from the portfolio to existing customers and vending operators internationally.

- There is a concerted focus on developing our capability and accelerating growth to take advantage of our leading position in coffee device and contactless payment device connectivity where sales momentum will continue to grow.

- Smart Zones is well equipped to defend existing earnings performance and manage the decline in the UK pub market whilst securing US expansion from existing customers.

- The recent c £2.0 million investment in cloud infrastructure and mobile technology will help sustain existing revenues and facilitates growth in existing and potential new verticals.

- The Group has high levels of recurring income and strong cash flow. This cash generation and strong balance sheet gives scope for further investment to accelerate Smart Machines expansion and for selective acquisitions.

The Board remains confident that Vianet's long term strategy is the right one and that the Group is well positioned to deliver earnings growth and expand the future strategic options for Vianet.

James Dickson
Chairman
4 June 2018

STRATEGIC REPORT

Stewart Darling

Chief Executive Officer

Vianet continues to deliver value for its customers by providing actionable information and unparalleled insight with the power to drive real business change.

We currently operate two business divisions: Smart Zones (drinks monitoring and machine management services) and Smart Machines (unattended retail machine telemetry and contactless payment solutions and Vendman ERP software and mobile connectivity).

With over 300 customers including several global blue-chip companies and more than 235,000 devices (excluding c 200,000 Vendman mobile connections) connected to our Internet of Things ('IOT') platform, our experience and knowledge combine to form a powerful technology and insight capability that, we believe, is unmatched by competitors in our markets.

As the IOT evolves and businesses seek more data and insight on everything from asset performance to process automation, Vianet is well placed to grow its position in this rapidly developing area. The data and insight generated via our connected devices and web portal will deliver value for customers by materially improving decision making that will drive real business change.

At the same time, hardware and connectivity still has a significant role to play, and whilst we may not always connect to customer assets using our smart devices, our IOT platform has evolved so that our connectivity capability is agnostic and can connect to any device. Gathering information on customer asset performance enables the creation of powerful data and insight and this will drive sustained growth over the coming years.

Whilst we focus on delivering actionable information business insight using data captured via our IOT platform and third-party sources, we have resisted the distraction of developing other enablement technologies necessary to create the overall solution. Instead, our strategic choice has been to build partnerships with leading providers and partners such as Connor Solutions, a leading electronics manufacturer in the North East of England.

In the last six months the Group has also taken some significant steps forward as we strive to robustly execute key elements of our strategic plan and secure new business.

We have been successful in a tender process with an existing strategic customer for the supply of connected devices, actionable data and insight data across multiple European countries plus Australia and New Zealand. This contract with a global coffee company is for an initial three years and demonstrates both the global scalability of our IOT platform, and the competency in delivering the information and insight that major customers require to successfully manage their business.

Simultaneously, as part of our strategic intent we have sought to reduce our dependency on a capital sales based model by evolving our earnings streams, wherever possible, towards an annuity only model where hardware is rented rather than purchased. This will lead to increased quality of earnings in the long term, however, in the short term it has adversely impacted both turnover and profitability, accounting for just over £300,000 turnover on a like for like basis compared to last year.

Just after the half year, the Group acquired Vendman Systems, the leading UK provider of mobile and ERP solutions for the unattended retail market. The reason for this acquisition is that we believe the combination of Smart Machines and Vendman has a compelling strategic, commercial and financial rationale in that it will:

- Establish a market leading portfolio of solutions for unattended retail through the combination of expertise, products and services;
- Provide the combined commercial team with significant cross selling opportunities for Vianet IOT connectivity and real-time data and contactless payment technology to Vendman customers where there are already c 200,000 mobile connections; and the sale of Vendman ERP and mobile platform to Vianet customers;
- Create an incremental big data revenue opportunity through building market leading analytics and insight from combined data sets;

- Significantly enhance our route to market and distribution opportunities across Continental Europe through establishing a strong network and footprint.

To enable and accelerate our strategy we have also invested almost £2 million in new cloud and mobile technology that will allow us to scale quickly and effectively whilst engaging customers via new mobile applications and connectivity.

We aim to complete the substantial task of migrating all customers and data from our legacy platform to this new platform and capability in 2018.

OPERATING REVIEW

Smart Zones

Our legacy core business of drinks monitoring and services for the UK Leisure sector experienced a moderate 6% decline in operating profit but remains resilient with high gross margins and strong cash generation. The challenging backdrop of industry headwinds remains and this adversely impacts the operating performance and financials of pub companies generally, our key market in this division.

As a result, the iDraught pipeline slowed a little on the previous year as pub operators assess and adapt to these pressures which include increasing business rates, the national living wage and the rising cost of food and other goods and services.

Whilst we continue to make progress in the mid-sized Managed pub businesses by demonstrating the value of our Smart Zone technology, it is slower in the larger managed pub companies than originally anticipated.

UK pub disposals have continued (2018: 1,420 and 2017: 940) with the resulting impact being a net reduction of 1,175 licenced premises in our installation base over the financial year with a consequential impact on operating contribution.

Despite these pub disposals, our Smart Zones connected device base remains significant with c 219,000 devices in c 13,400 premises. The data sent from these devices forms the core of the information and insight delivered to customers via our website and mobile applications.

However the combination of strong recurring revenues from long term contract extensions and ad-hoc support activity, combined with 195 iDraught™ sales failed to offset this increase in pub closures, resulting in reduced income stream for the period under review.

Whilst we focus on strengthening our recurring income streams, pub companies are also adapting to the changing landscape through different strategies such as developing managed estates from high performing or strategically located properties and creating franchised models with increased operating performance potential and greater transparency. We expect these different strategies to be beneficial to our business as the pub companies seek to improve retailing capability and quality standards and will likely be targeting investment expenditure on that basis.

Our annual Beer Quality report continues to demonstrate the cost to the industry of poor draught beer management and we are hopeful this will be a driver for increased traction.

The challenge and focus for the Smart Zones business in the coming year is to deliver a stable performance despite the headwinds which continue to dominate the UK pub market.

In our Vianet Americas business we have once again made progress with more streamlined operations, and 60 new installations, resulting in year on year operating losses being further reduced to just over £100k with an expectation that these will further close towards breakeven during FY2019.

The quality of our installation base is encouraging with iDraught installed in 265 high quality blue chip operator sites across the USA, including AMC Theatres our largest US customer, which provides strong validation of the value provided by iDraught.

A review of the competitor landscape clearly indicates that Vianet's iDraught™ solution is substantially ahead of all competitors in the USA, and this advantage, combined with our strategic alliance with Micro Matic USA for nationwide installation, service and sales support places us in a strong position to build sales momentum.

Whilst the pace of delivery of results is slower than we would wish, the Board recognises that given the relatively modest level of investment required, a breakthrough in what is the world's largest multiple operator market could be significant. Therefore the

Group continues to work hard to establish the iDraught proposition in the USA.

Overall, the Board remains cautiously confident for the prospect of the Smart Zones division returning to growth going forward.

Smart Machines

Smart Machines made good progress in the year as our deep understanding of the key dynamics of the vending market, together with a strategy aligned to securing agreements with major blue-chip customers who have the scale to invest and the sophistication to unlock the value of our Smart Machine technology, continues to fuel growth.

The two specific areas of opportunity we continue to focus on and increase traction in are premium coffee and contactless payment solutions for snack and can vendors generally. We are much encouraged by our further sales growth in both these areas and our securing of vending contracts with major blue chip customers whose businesses are growing. This resulted in Divisional profit growth of 20.1% to £1.07 million in the year helped by a small contribution of £0.12 million from Vendman.

Last year we adopted an annuity model approach to pricing to strengthen recurring revenues and improve quality of earnings in the medium to long term, thus reducing our dependency on the fluctuating income of the capital sales model. This change adversely impacted turnover in Smart Machines by around £300,000 in the year. This approach will result in higher quality income streams and profits in the coming years. We have already seen our recurring revenues grow to 74% of Smart machines income in the year, an increase of 10% on last year.

Total Smart Machine connections grew by just over 4,400 devices in the year helped by the highly encouraging rollout of our cloud based contactless payment solution.

Our contactless payment solution, which is driving increased sales of around 20% per unattended retail machine for our customers, increased its own footprint by 113% in the year. This strong traction in the market is unlocking further growth opportunities, and is also particularly relevant to smaller snack and can vendors where telemetry alone may not support unlocking the level of value available in their operations.

During the year, Smart Machines won a large contract with a strategic global coffee customer for the rollout of connected coffee machines to a large part of its estate. This contract will see us rollout 2, 3 and 4G devices to connect machines whilst rendering data analytics and insight for the customer via our new Project Neo portal. Following on from the original deployments in its home country, we are now working closely with the customer on the phased deployment of this contract across ten further countries in Europe, Australia and New Zealand

Our supply chain and data management capabilities have been further strengthened by recent outsourcing of our device supply chain to Connor Solutions, a renowned electronics manufacturer in the North East of England. Combined with our new portal this will allow us to increase quickly and effectively the installation of many thousands of devices leading to a significant rise in the number of connected machines globally.

Vendman with c 200,000 connected machines is well placed to materially improve the operating and financial performance of the Smart Machines in FY2019 and beyond. This includes significant cross selling opportunities for the combined commercial team through the sale of Vianet IOT connectivity and real-time data to Vendman customers; the rollout of Vianet contactless payment technology to Vendman customers; and the sale of Vendman ERP and mobile platform to Vianet customers.

The market opportunity remains extensive even when limited to the immediately addressable market projections of 300,000 vending machines rather than all vending machines across mainland Europe. As technology adoption evolves, it is anticipated that the addressable market will grow to nearly 1 million vending machines with Vianet being at the forefront to grow with the market.

Our contactless payment solution, supported by leading industry partners Elavon and CreditCall, has provided a very attractive solution to the Smart Machines marketplace where traditional cash-only payments have long been an inhibitor of vending-related consumption, usage and customer experience. We believe the evolution and growth of contactless payment solutions provides a material opportunity to change this dynamic and attract more consumers to the vending vertical.

We expect that Vianet's contactless payment solution and significant experience developed in this new and dynamic space will provide exciting growth opportunities in years to come.

R&D Investment

The Group continues to invest in development activity as noted above and accelerated this activity in the year. This development has broadly covered enhancements to the customer experience, revenue generating reporting insights from our new platforms which allows us to leverage new revenue streams and necessary infrastructure investment moving away from legacy systems and software to an agile cloud based technology environment. The accelerated investment of an additional c £800,000 on top of the 'normal' development activity range of £50,000 to £600,000 per annum took the total investment in the cloud platform, analytics and mobile technology to almost £2 million with further investment expected in FY2019.

The Board believes this further investment in enhancing our core data management capability and IOT technology will enhance the Group's ability to improve the quality of the existing recurring revenue stream and to generate substantial new growth opportunities.

LOOKING FORWARD

The business is well placed and benefiting from its proven track record of converting data gathered from its IOT connected devices into actionable data and solutions for b2b markets.

In tandem, we continue to grow and develop strong working relationships with blue chip customers where contracted recurring revenues now represent well over 90% of turnover.

The acquisition of Vendman with c 200,000 mobile connections and the rollout of the recently won global coffee contract is expected to be transformational for the overall Smart Machines business and should drive significantly increased earnings for the Group in the next few years.

Whilst Smart Machines is already exploiting growth opportunities through its strong portfolio of products and services to existing customers across Europe, the recent investment of almost £2 million in new cloud and mobile capability, and the transformation of legacy systems, will facilitate much increased growth in existing and new vertical markets. The addition of our new contactless payment solution and rapid adoption of technology by brand owners and machine operators, positions this division for strong underlying growth.

In our Smart Zones division, given well publicised industry headwinds, we will continue to manage the decline in the UK pub market whilst working to grow our iDraught footprint in the USA through mid-size multiple operators.

Finally, the combination of our experienced team and robust finances provide a strong platform for the further development and expansion of our IOT capability and the delivery of data and insight applications that help our customers make better decisions about their business.

FINANCIAL REVIEW

Mark Foster

Chief Financial Officer

This KPI is measured by taking full year operating profit before amortisation, share based payments and exceptional items and dividing by the total number of connected devices at the year end.

TURNOVER

Turnover increased by 2.1% helped by the acquisition of Vendman which offset a moderate decline in Smart Zones and the £0.3 million revenue impact of the shift from capex to annuity model and vending estate rationalisation in Smart Machines.

RECURRING REVENUE

Blended recurring revenue across the two divisions was 90% (2017: 85%), helped by the Vendman acquisition and the transition from capital to annuity based sales in Smart Machines.

GROWING PROFITABILITY

Group operating profit, pre-exceptional costs, was up 9.2% to £3.62 million (FY2017: £3.32 million).

Gross margin remained healthy year on year at c70%.

The average operating profitability per connected device has grown 15.6% to £15.30 (2017: £13.23);

The average recurring revenue per connected device has grown 7.0% to £51.53 (2017: £48.18);

AVERAGE RECURRING REVENUE PER DEVICE (£)

PERFORMANCE SUMMARY

Pre-exceptional cost PBT was up 7.3% at £2.59 million (2017: £2.41 million), with PBT being up 41.5% at £2.05 (2017: £1.45 million). The table below shows the performance of the Group;

	FY2018	FY2017	Change %
Revenue	£14.56m	£14.26m	2.1
Operating profit[(a)]	£3.62m	£3.32m	9.2
Operating profit	£3.08m	£2.35m	31.1
Profit before tax[(b)]	£2.59m	£2.41m	7.3
Profit before tax	£2.05m	£1.45m	41.5
Basic EPS[(c)]	8.50p	7.30p	16.4
Dividend per share	5.70p	5.70p	
Net cash[(d)]	£1.20m	£3.45m	

(a) Pre-exceptional items, share based payments and amortisation

(b) Pre-exceptional items

(c) Profit after tax pre-exceptional items

(d) Cash at bank after deduction of bank loans including new loan for the acquisition of Vendman Systems Limited

EXCEPTIONALS

	FY2018 '£000	FY2017 '£000
US legal costs	-	388
People and office rationalisation	241	573
VFS disposal	-	(102)
Acquisition costs	231	-
Other items	66	5
Total	538	864

Current year costs predominately relate to Vendman Systems Limited acquisition costs and staff rationalisation costs.

DIVIDEND

The Board is proposing to maintain the final dividend at 4.00 pence which, if approved by shareholders, would give a total dividend for the year of 5.70 pence (2017: 5.70 pence).

On a profit after tax basis, dividend cover has increased to c 1.16 (2017: c 0.66). We expect the cover to improve further in FY2019 as a result of our anticipated growth in profits and reduction in exceptional costs.

CASH

Net operational cash generation (including share based payments and asset disposals) was £2.97 million (2017: £3.93 million). The year on year cash generation and resulting net cash position was adversely impacted by phasing of collections in FY2017 including one customer paying upfront, and the FY2018 acquisition related costs associated with Vendman. Otherwise the like for like cash generation was broadly in line.

The cash generation of £2.97 million was principally used to service accelerated R&D investment, dividend payment and servicing of new borrowings leaving an outflow of £0.6 million (2017: £0.9 million inflow).

Factoring out the accelerated R&D spend and acquisition costs the net cash flow position was within c £300k of last year.

At the year end, pre mortgage and the acquisition loan, the Group had net cash including overdraft of £3.92 million (2017: £4.55 million), borrowings of £2.65 million (2017: £1.10 million), and net cash of £1.20 million (2017: £3.45 million) impacted by the £2 million term loan associated with the Vendman acquisition.

DIVISIONAL PERFORMANCE

Currently the Smart Zones division principally consists of the core beer monitoring business (including the US) and gaming machine monitoring.

SMART ZONES

	FY2018	FY2017	Change %
Turnover	£11.45m	£11.93m	(4.1)
Operating profit[(a)]	£4.53m	£4.82m	(5.8)
Total connected devices	218,663	230,489	(5.1)
New Installation sales	245	380	(35.5)
YE Net premises[(b)]	c13,570	c14,500	(6.4)
iDraught penetration[(b)]	28.0%	25.8%	

(a) Pre-exceptional items, share based payments and amortisation
(b) UK, USA and Europe only

Turnover mix is shown below with recurring revenue being 92% (2017: 89%)

Recurring revenue per device has increased 6.1% to £48.67 (2017: £45.89) reflecting the higher quality recurring revenue streams which has resulted from our customers' disposal of relatively lower performing pubs during their estate rationalisation programmes.

Average operating profitability per device is measured by taking full year operating profit before amortisation, share based payments and exceptional items and dividing by the total number of connected devices at the year end.

Average adjusted operating profit per device (above) has decreased c 1.1% to £16.70 (2017: £16.89) reflecting lower new unit sales offset by continuing overhead rationalisation.

The Smart Zones division has performed fairly against a continuing challenging pub market landscape that resulted in a net estate reduction of c 1,175 sites (2017: c 600) to c 13,125 (2017: 14,300) in the UK and Europe.

Against this backdrop, Smart Zones delivered a credible operating profit of £4.53 million (2017: £4.82 million).

SMART MACHINES

The Smart Machines division consists of telemetry and contactless monitoring predominantly in the vending sector, and includes six months of recently acquired Vendman.

	FY2018	FY2017	Change %
Turnover	£3.12m	£2.33m	33.9
Operating profit [(a)]	£1.07m	£0.89m	20.2
New Telemetry connections	1,660	4,275	(61.2)
New Contactless Connections	2,830	8172	46.4
YE Net estate	c18,000	c20,000	(10.0)

(a) Pre-exceptional items, share based payments and amortisation on a continuing basis.

(b) Included in the above FY2018, Vendman contributed £1.18m in turnover and £0.12m in operating profit

(c) The net estate reduction in FY2018 reflects the vending machine estate rationalisation (enabled by Smart Machines), the loss of one midsized customer who sought exclusivity, and the new device sales pipeline being impacted by two customers temporarily delaying orders during their respective negotiations with Smart Machines. One of these being the Vendman acquisition and the other being the significant contract with a global coffee vendor.

(d) Excludes c 200,000 Vendman connections.

Turnover mix is shown in the chart below. Recurring revenues grew to 74% of turnover (2017: c 64%).

Smart Machines continued to make progress in the year with growth in number of new connected devices, especially in contactless with new contactless connections being 2,013 ahead of FY2017. The estate figures reflect the net movement shown above.

Average recurring revenue per device increased 15.9% to £86.25 (2017: £74.44) principally due to the improving mix of estate, the increased penetration of contactless solutions, and the shift towards annuity based revenue streams.

Average adjusted operating profit per device (above) has increased 19.2% to £52.74 (2017: £44.26) due to sales/revenue stream mix as noted above set against a relatively stable fixed cost base.

Taxation

The Group has continued to utilise available tax losses during the year resulting in no tax being paid (2017: £nil). The Group will continue to utilise the available tax losses carried forward into FY2019. In the financial year under review, the tax line includes a deferred tax charge of £0.24 million (2017: £0.42 million) recognising the impact of the tax losses available and being utilised.

Earnings per share

Earnings per share has been impacted by the recognition of the deferred tax assets provision referred to above, realising the losses carried by the Group and the unwinding of that provision since FY2014.

The underlying profit before tax from continued operations pre-exceptional items earnings per share is 9.36 pence for FY2018 compared to 8.83 pence for FY2017. Underlying fully diluted earnings per share (before exceptional costs), which takes account of all outstanding share options, amounted to 9.35 pence in FY2018 which compares to 8.79 pence for FY2017.

Basic EPS was 6.55 pence compared to 3.77 pence in 2017.

Balance sheet and cash flow

The Group balance sheet remains strong.

The Group generated operating cash flow of £2.97 million (2017: £3.93 million) with FY2017 impacted by a customer paying a five year contract up front, and FY2018 impacted by Vendman Systems Limited acquisition costs. Despite the headwinds noted in the Smart Zones above, the division itself had a healthy operational cash generation of c £4.3 million (2017:
£5.5 million).

The cash generated in FY2018 was utilised to invest in the Group's accelerated technology plans through research and development, to service borrowings, fund dividends and acquire Vendman. At the year end, the Group had borrowings of £2.65 million (2017: £1.10 million), and net cash of £1.20 million (2017: £3.45 million) impacted by the Vendman acquisition funded by a £2.0 million 4 year term bank loan drawn down in October 2017

The balance sheet and cash generating capacity of Vianet provides a continued strong base to pursue the significant growth opportunities that the Board has identified in order to generate increased shareholder value.

Business risk

The Board and senior management review business risk at least half yearly. The directors have considered the areas of potential risk in assessing the Group's future prospects. On the basis of their review, and having considered various factors such as market conditions, believe that the business is of sound financial footing and has a sustainable operating future. In particular they note that the business has achieved an acceptable result in the year despite the difficult trading conditions for the pub sector, and overall market confidence in liquidity and credit.

The directors consider that material business risks are limited to:

- The ongoing impact of well publicised headwinds in the pub retailing market.

- The potential for a cyber security breach where data security is compromised resulting in unauthorised access to information which is sensitive and/or proprietary to Vianet or its customers. This threat is in common with most technology businesses, however both short term and long term mitigation plans are in place. Payment Card Industry Data Security Standard (PCI DSS - Level 1) highest level of compliance has already been achieved to support the Group's contactless payment solutions.

Key performance indicators

	Target	Actual 2018	Actual 2017
Percentage of revenue from recurring income streams[1]	80%	90%	85%
Gross Margin[2]	70%	70%	70%
Employee Turnover[3]	2%	3.3%	4.3%

Notes to KPIs

1. Percentage of revenue from recurring income streams = recurring income streams as a percentage of all income streams. Group trading companies aim to increase shareholder value through growth in revenue, linked to profitability (see Gross Margin below). Source data is taken from management information. The recurring contractual nature of the company's income stream has led to continued improvement in performance versus target. The achievement of this target depends on the mix of new hardware sales versus on going recurring revenue.
2. Gross Margin = Gross profit as a percentage of revenue. Group trading companies aim to generate sufficient profit for both distribution to shareholders and re-investment in the company, as measured by Gross Margin. Source data is taken from the audited financial statements. It is important to recognise the margins we achieve are a reflection of the direct cost of sale and not do not include some of the key infrastructure overheads required to provide the services to our customers.
3. Employee Turnover = Group trading companies aim to be seen as a good, attractive employer with positive values and career prospects, measured against internal People & Development reports. In addition to normal employee turnover the figure also includes employees leaving as a result of business rationalisation activity.

The Strategic Report includes the above sections on Business risks and KPI's.

On behalf of the Board
Stewart Darling
Chief Executive Officer
4 June 2018

REPORT OF THE DIRECTORS

Directors left to right, Chris Williams non-executive, Mark Foster CFO, Stewart Darling CEO, James Dickson Chairman, Mike McGoun non-executive. David Coplin non-executive, not pictured, joined the Board on 01 April 2018.

The Directors present their report and the audited financial statements for the year ended 31 March 2018.

Business Risk

Business risk is discussed in the Strategic report pages 4 to 13.

Going Concern

The Directors, after having made appropriate enquiries, including (but not limited to) a review of the Group's budget for 2018/2019, and cash generating capacity at least 12 months from the date of signing (underpinned by long term contracts in place and historical results), have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Financial Instruments

Information about the use of financial instruments by the company and its subsidiaries and the Group's financial risk management policies is given in note 18.

Environment

The Group's policy with regard to the environment, and in particular Health and Safety requirements, is to ensure that the Group's operational subsidiaries understand and effectively operate in such a way that they comply with all the legal requirements relating to the Health and Safety environments in which they operate. During the period covered by this reports no Group company has incurred any fine or penalties or been investigated for any breach of Health and Safety regulations.

Employees

The Group places great importance on the involvement of its employees, the majority of whom are able to work closely with their managers on a daily basis. Employees are encouraged to be involved in the Group's performance through the use of share options. Employees have frequent opportunities to meet and have discussions with management. The Group aims to keep employees regularly informed of the financial and economic factors affecting the performance of the Group and its objectives in part through the Group intranet and website and in part through regular communication.

The quality and commitment of our people overall has continued to play a major role in our business performance, despite several changes in personnel in the previous 12 months. This has been demonstrated in many ways, including improvements in customer satisfaction, contract gains and continued profitability, the development of customer offering and the flexibility they have shown in adapting to changing business requirements and new ways of working. Employees' performance is aligned to company goals through an annual performance review process that is carried out with all employees. Employee turnover was 3%, above the target of 2% we have set.

The Group's policy is that, where it is reasonable and practicable within existing legislation, all employees, including disabled persons are treated in the same way in matters relating to employment, training and career development.

Research and Development

The Group has a continuing commitment to levels of research and cost in ensuring systems are at the forefront of technological advance to ensure future growth. During the year expenditure on research and development was
£1,456,000 (2017: £705,000) all of which has been capitalised as an asset on the balance sheet (2017: £705,000).

Dividends

The Directors recommend the payment of a final dividend of 4.00p per share (2017: final 4.00p), taking the full year dividend to 5.70p. (2017: 5.70p).

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 21. The company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation.

The Directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 24 and no person has any special rights of control over the company's share capital and all issued shares are fully paid.

Directors' Indemnity

Qualifying third party indemnity provisions are in force for the benefit of the directors.

Directors and their interests

The current directors of the company are shown below.

Those directors serving at the end of the period had interests in the share capital of the company at 31 March as follows:

	Ordinary shares of 10p each 2018	Ordinary shares of 10p each 2017
S W Darling	63,244	63,244
J W Dickson	4,889,259	4,754,469
M H Foster	228,000	228,000
C Williams	9,250	9,250
M McGoun	-	-

Directors' emoluments

Details of Directors' emoluments for the year are as follows:

	Salary and fees 2018 £'000	Other emoluments 2018 £'000	Total emoluments 2018 £'000	Salary and fees 2017 £'000	Other emoluments 2017 £'000	Total emoluments 2017 £'000
Executive						
M H Foster	174	34	208	250	33	283
S W Darling	230	12	242	304	37	341
Non-executive						
J W Dickson	94	14	108	176	14	190
C Williams	30	-	30	30	-	30
M McGoun	30	-	30	30	-	30
Total	558	60	618	790	84	874

1. Executive remuneration is determined by the remuneration committee consisting of non-executive Directors C Williams, M McGoun and J W Dickson.
2. No payments were made to any Director in respect of compensation for loss of office in 2018 or 2017.
3. Other emoluments received consist of the provision for private medical care, motor car allowances and pension contributions.
4. C William's fees are paid to MCHD Investments Limited, a company of which he is a Director.
5. M McGoun's fees are paid to Noble Adamson Limited, a company of which he is a Director.
6. Pension contributions represent payments made to defined contribution schemes. Payments made are disclosed within other emoluments. Non-executive Directors are not entitled to retirement benefits.
7. J W Dickson salary and fees for 2018 includes exceptional fees of £34,000 relating to time spent on the Group's acquisition of Vendman Systems Limited, Salary and fees for 2017 includes exceptional fees of £87,000 relating to time spent on the Group's successful litigation defence in the US court.

Directors' share options

Details of the share options held by Directors are as follows:

	At 1 April 2017	At 31 March 2018	Option price	Date granted
J W Dickson	18,600	18,600	96.5p	January 2011
M H Foster	18,600	18,600	96.5p	January 2011
	135,000	135,000	85.0p	May 2014
	124,000	124,000	103.0p	December 2015
S W Darling	18,600	18,600	96.5p	January 2011
	285,000	285,000	85.0p	May 2014

Share options are exercisable between nil and ten years from the date of the grant.

The market price of the Company's shares at the end of the financial year was 132.5p and the range of market prices during the year was between 95.0p and 141.5p.

Joint Ownership Plan

The following awards over shares in the Company were made to the following Executive Directors of the Company on 25 September 2009 by a Joint Ownership Plan.

Director	Number of Plan shares in which the Director has aninterest
M H Foster	100,000
S W Darling	100,000

Awards were made by the Company's Remuneration Committee through the Company's employee benefit trust operated by Halifax EES Trustees International Limited. The awards are subject to EPS performance targets and dependant on performance vest on 31 March 2014. No value has been paid on grant of the Plan shares and participants are entitled to growth over the Plan term.

Long Term Incentive Plan

Vianet adopted a new LTIP scheme on 17 December 2015. On 21 December 2015, awards were granted to five members of staff, who each have a percentage entitlement in the overall awards pool. Further detail is provided in note 24.

Substantial Shareholdings

The Company has been informed that on 4 May 2018 the following shareholders (excluding Directors) held substantial holdings of the issued ordinary shares of the company:

	Holding of Ordinary shares Number	Issued Share capital %
Livingbridge	2,830,786	10.01%
AXA Investment Managers UK	2,208,000	7.81%
Hargreave Hale	1,963,191	6.95%
Hargreaves Lansdown Asset Management	1,476,409	5.22%
City Asset Management	1,104,312	3.91%
Downing Corporate Finance	1,017,650	3.60%
Interactive Investor	885,293	3.13%
Lazard Asset Management	874,111	3.09%
Artemis Fund Managers Limited	735,000	2.60%
Miton Asset Management	700,000	2.48%
Unicorn Asset Management	625,200	2.21%
Alliance Trust	623,296	2.20%

Annual General Meeting

The Annual General Meeting will be held on 28 June 2018 at 11.00am, at the offices of Grant Thornton UK LLP, No 1 Whitehall Riverside, Leeds, LS1 4BN.

Statement of Directors' responsibilities for the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company has elected to prepare company statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting

Standards and applicable law, FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 and profit or loss of the company and 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 applicable UK Accounting Standards or IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

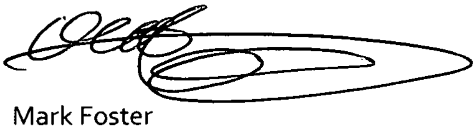
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

Grant Thornton UK LLP has indicated its willingness to continue in office. A resolution for its re-appointment as independent auditor will be proposed at the AGM.

Approval

The report of the Directors was approved by the Board on 4 June 2018 and signed on its behalf by:



Mark Foster
Director

CORPORATE GOVERNANCE STATEMENT

General Principle

The Group is committed to high standards of corporate governance in all its activities. Whilst the company does not comply with the UK Corporate Governance Code and is not required to do so, the Board recognises the value of the Code and has regard to its principles as far as it considers practicable and appropriate for a public company of its size and nature. Following the amendment to the AIM rules in March 2018, the Board is currently reviewing which corporate governance code will be adopted.

The Board

The Board consists of two Executive and four Non-Executive Directors as follows:

Executive Directors

S W Darling (Chief Executive Officer)
M H Foster (Chief Financial Officer and Company Secretary)

Non-Executive Directors

J W Dickson
(Chairman) M McGoun
C Williams
D Coplin (appointed 1 April 2018)

D Coplin, who was appointed to the Board on 1 April 2018, will replace M McGoun upon his retirement at the Group's Annual General Meeting on 28 June 2018.

All Directors have access to the advice and services of the Company Secretary.

There is a clear division of responsibilities between the Chairman, who is responsible for the running of the Board, and the Chief Executive Officer, who, together with the other Executive Director, are responsible for running the business.

The Board meets regularly, with no less than eight meetings planned over 10 days in any one calendar year. Each Director is provided with sufficient information to enable them to consider matters in good time for meetings and enable them to discharge their duties properly. There is a formal schedule of matters reserved for Board approval. In principle the Board agrees the Group business plan, determines overall Group Strategy, acquisition, investment, people and development and health and safety policies, as well as approval for major items of capital expenditure.

All Directors have access to independent professional advice at the Group's expense. The Directors continually ensure they are trained in association with duties and responsibilities of being a Director of a listed Company.

The independent non-executive Directors bring an independent judgement to the management of the Group. They are free from any business or other relationships which could interfere with the exercise of their judgement. The non-executive Directors fulfil a key role in corporate accountability.

Board Committees

The Group has established a number of committees, details of which are set out below and all of which operate with defined Terms of Reference.

Audit Committee

This consists of:

C Williams(Chairman)
J W Dickson
M McGoun

It meets at least twice in any year, and is usually attended as a minimum by the Chief Executive Officer and the Chief Financial Officer, as well as the Group's External Auditor.

The Audit Committee has terms of reference (which are available for inspection) to report on matters such as the Group's annual accounts, interim reports, major accounting issues and developments, the appointment of external auditor and their fee, the objectivity of the auditor, the Group's statement on internal control systems and the scope and findings of external audit.

Remuneration Committee

This consists of:

M McGoun(Chairman)
J W Dickson
C Williams

The Remuneration Committee has terms of reference (which are available for inspection) and meets at least twice per year, reviewing and advising upon the remuneration and benefit packages of the Executive Directors and other senior management. The remuneration of the Chairman and non-executive Directors is decided upon by the full Board.

The Remuneration policy is to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhancing shareholder value.

The remuneration of the Executive Directors consists of a basic salary and benefits, performance related bonuses and share options. The non-Executive Directors are eligible for performance related share options.

Nominations Committee

This consists of:

J W Dickson(Chairman)
C Williams
M McGoun

The Committee met as required during the course of the year. The Committee has terms of reference which are available for inspection.

Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, and recognises these systems are designed to manage rather than eliminate the risk of material loss.

The Board monitors risk through ongoing processes and provides assurance that the significant risks faced by the Group are being identified, evaluated and appropriately managed.

The main elements of the internal control systems are:

- management structure with clearly identified responsibilities

- budget setting process including longer term forecast review

- comprehensive monthly financial reporting system, with comparison to budget, supported by written report from the Chief Executive Officer and Chief Financial Officer

- report to the Audit Committee from the external auditor stating the material findings arising from the audit. This report is also considered by the main Board and action taken where appropriate

- a framework for capital expenditure and controls including authorisation procedures and rules relating to delegation of authority

- risk management policies to manage issues relating to health and safety, environment, legal compliance, insurance and security

- day to day hands on involvement of the Executive Directors

As a result of the above systems and controls, and due to its current size, the Group does not operate an internal audit function, but is keeping its position under review.

Shareholder Communication

The Group places a high level of importance on communicating with its shareholders and welcomes and encourages such dialogue within the regulations governed by the London Stock Exchange. The Board are keen to encourage the participation of a broad base of both institutional and private investors in the Group. Communication with shareholders will be maintained through the Annual General Meeting, annual and interim reports, press releases and periodic presentations.

Share Options

The share option plans in existence at 31 March 2018 were the EMI plan, the Executive plan, the Employee Plan, the Employee Company Share Option Plan, an Executive Joint Ownership Plan and a Long Term Incentive Plan. Share options will be issued at appropriate intervals in order to motivate and retain Executive Directors, senior management and other key staff whilst aligning their interests with those of the Group's shareholders. Such grants are approved by the Remuneration Committee.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VIANET GROUP PLC

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Vianet Group Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated cash flow statement, the Company balance sheet, the company statement of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosures Framework' (United Kingdom Generally Accepted Accounting Practice).

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 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £138,000, which represents 5% of the group's preliminary adjusted (pre-exceptional items) profit before taxation;

- We have identified three key audit matters, which are revenue recognition, valuation of goodwill and other intangible assets and the accounting for the acquisition of Vendman Systems Limited; and

- We have assessed the components within the group by considering each as a percentage of the Group's total assets, liabilities, revenues and profit before tax, and performed a combination of comprehensive audits, targeted audit procedures and analytical procedures.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that 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 – Group	How the matter was addressed in the audit – Group
Risk 1 Revenue Recognition There is a risk that revenue may be misstated due to the improver recognition of revenue. In respect of revenue recognised for sale of equipment, there is a risk that revenue is recognised before the risk and rewards of ownerships have transferred to the customer. In respect of the provision of monitoring services, there is a risk that revenue is misstated by recognising the revenue before the provision of the service to the customer. Therefore, we identified revenue recognition as a significant risk, and as one of the most significant assessed risks of material misstatement (whether due to fraud or error).	Our audit work included, but was not restricted to: • Walkthrough of the systems and controls in place around the recording of revenue. • Evaluation of the revenue recognition policies for appropriateness with IAS 18 'Revenue' and consistency with the prior period. • Testing a sample of revenue transactions in respect of sales of equipment and provision of monitoring services and agreeing them to supporting documentation to vouch that income had been appropriately recognised in accordance with IAS 18 'Revenue' and the Group's accounting policy. • Comparison of revenue from the sale of goods and provision of services with the revenue in the prior period and budgets, and corroborating the explanation for significant and unusual variances. The group's accounting policy on revenue recognition including the key sources of estimation uncertainty is shown in the accounting policy 1.4 and related disclosures are included in Note 3. Key observations Based on our audit work, we have found that revenues were being accounted for in line with the Group's accounting policies and IAS 18 'Revenues'.

Risk 2 Valuation of goodwill and other intangible assets

The Group records goodwill and other intangibles assets of £22.5m as at 31 March 2018. Of this £4.3m arose through the acquisition of Vendman Systems Limited, (Risk 3) and there have been £1.5m of internally generated intangibles capitalised in the year.

There is a risk that if the specific requirements under IAS 38 regarding capitalisation of intangible assets are not met, the gross book value could be materially misstated. There is also a risk that if the subsidiaries are not performing in line with forecast, that these balances may be impaired under IAS 36.

Management has undertaken its annual impairment review based on discounted cash flows in relation to goodwill and intangible assets. There are significant judgements in the discounted cash flow, including forecast operating cashflows, capital expenditure and the discount rate used.

We therefore identified valuation of Goodwill and other intangibles as a significant risk, and one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Challenging the capitalisation policy for intangible assets to ensure it is reasonable and in line with accounting standards.
- Testing on a sample basis, the additions to intangible assets during the period to supporting documentation.
- Challenging management's assessment of the useful economic lives of intangible assets and developing an expectation of amortisation expense for the period and comparing against the expense recorded.
- Assessment and challenge of management prepared reviews of the carrying value of goodwill and intangible assets, focussing on assumptions regarding future revenues relative to historic performance.

The group's accounting policy on valuation of goodwill and other intangible assets are shown in the accounting policies 1.6, 1.8 and 1.10 and related disclosures are included in notes 10 and 11.

Key observations

Based on our audit work, we have found that the valuation of Goodwill and other intangibles was accounted for in line with the Group's accounting policies, IAS 38 'Intangible Assets' and IAS 36 'Impairment of assets'. We have not identified any material misstatements in the carrying value of goodwill and intangible assets in the consolidated statement of financial position.

Risk 3 Accounting for the acquisition of Vendman Systems Limited	Our audit work included, but was not restricted to:
On 3 October 2017, the group acquired 100% of the issued share capital of Vendman Systems Limited. IFRS 3 'Business Combinations' required acquired assets and liabilities in the consolidated financial statements to be recorded at their fair value. There is management judgement in relation to the fair value of the assets and liabilities acquired and the consideration paid. Therefore, we identified acquisition accounting as a significant risk, and as one of the most significant assessed risks of material misstatement.	• Obtaining an understanding of the valuation methodology used by management to calculate the fair value of the customer relationships and comparing with accepted valuation methods. • Using internal valuation specialists to check the integrity of the valuation calculation. • Assessing the appropriateness of the assumptions used in the valuation calculations for consistency with other financial information and forecasts of the acquired company. • Assessing the accounting for the consideration by reference to the clauses in the acquisition agreement. • Challenging management as to the amount of the contingent consideration recognised. • Assessing the adequacy of the disclosures included within the financial statements. The group's accounting policy on business combinations are shown in the accounting policies section and related disclosures are included in note 26. Key observations Based on our audit work, we have found that the acquisition of Vendman Solutions Limited was accounted for in line with the Group's accounting policies and IFRS 3 'Business Combinations'. We consider that the disclosures in note 26 to the financial statements appropriately describe the management judgement.

We did not identify any key audit matters in relation to the parent company.

Independent auditor's report (continued)

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	£138,000 which is 5% of preliminary adjusted (pre-exceptional items) profit before tax. Profit before tax is considered to be the most important figure to the users of the accounts. This excludes exceptional costs, related primarily to the acquisition in the year and other restructuring costs. Materiality for the current year is consistent with the level that we determined for the year ended 31 March 2017.	Materiality is based on 2% of total assets, capped to 90% of group materiality, which is £124,000. This benchmark is considered the most appropriate given the activities of the parent company primarily being a holding company and its major activities related to fixed assets included in the financial statements. Materiality for the current year is consistent with the level that we determined for the year ended 31 March 2017.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality	75% of financial statement materiality
Communication of misstatements to the audit committee	£7,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£6,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Documenting and evaluating the processes and controls covering the Key Audit Matters.
- Evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality considering each as a percentage of Group's total assets, liabilities, revenues and profit before tax.
- We performed a full-scope audit of the financial information of the parent company, Vianet Group Plc and the Group's largest subsidiary Vianet Limited. Vendman Systems Limited was subject to targeted procedures over the balance sheet and income statement with a focus on applicable risks identified above and the significance to the Group's balances. The Group's component in the US was subject to analytical procedures.
- The components subject to a comprehensive audit approach cover 91% of the consolidated revenues, with the component subject to a targeted approach representing 7% of the consolidated revenues.
- The accounting functions are performed centrally for all entities subject to a comprehensive audit. All audit work has been undertaken by the Group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the

Consolidated annual report & accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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 for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 17 and 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Independent auditor's report (continued)

Grant Thornton UK LLP

Mark Overfield BSc
FCA Senior Statutory
Auditor
for and on behalf of Grant Thornton UK
LLP Statutory Auditor, Chartered
Accountants Leeds
4 June 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2018

	Note	Before Exceptional 2018 £000	Exceptional 2018 £000	Total 2018 £000	Before Exceptional 2017 £000	Exceptional 2017 £000	Total 2017 £000
Continuing operations							
Revenue	3	14,561	-	14,561	14,263	-	14,263
Cost of sales		(4,381)	-	(4,381)	(4,327)	-	(4,327)
Gross profit		10,180	-	10,180	9,936	-	9,936
Administration and other operating expenses		(6,559)	(538)	(7,097)	(6,621)	(964)	(7,585)
Operating profit pre amortisation and share based payments		3,621	(538)	3,083	3,315	(964)	2,351
Intangible asset amortisation		(865)	-	(865)	(693)	-	(693)
Share based payments		(142)	-	(142)	(206)	-	(206)
Operating profit post amortisation and share based payments		2,614	(538)	2,076	2,416	(964)	1,452
Net finance costs	6	(28)	-	(28)	(5)	-	(5)
Profit from continuing operations before tax	5	2,586	(538)	2,048	2,411	(964)	1,447
Income tax expense	7	(239)	-	(239)	(417)	-	(417)
Profit from continuing operations		2,347	(538)	1,809	1,994	(964)	1,030
Profit from discontinued operations		-	-	-	-	100	100
Profit and other comprehensive income for the year		2,347	(538)	1,809	1,994	(864)	1,130
Earnings per share Total							
- Basic	8			6.55p			4.14p
- Diluted	8			6.54p			4.12p
Continuing Operations							
- Basic	8			6.55p			3.77p
- Diluted	8			6.54p			3.76p
Discontinued Operations							
- Basic	8			0.00p			0.37p
- Diluted	8			0.00p			0.36p

The accompanying accounting policies and notes form an integral part of these financial statements.
Details of the exceptional items are included in note 4.

CONSOLIDATED BALANCE SHEET

at 31 March 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Goodwill	10	17,975	15,503
Other intangible assets	11	4,529	2,000
Property, plant and equipment	12	3,166	3,069
Total non-current assets		25,670	20,572
Current assets			
Inventories	13	1,086	1,308
Trade and other receivables	14	3,246	2,708
Deferred tax asset	20	391	460
Cash and cash equivalents		4,324	4,549
		9,047	9,025
Total assets		34,717	29,597
Equity and liabilities			
Liabilities			
Current liabilities			
Trade and other payables	15	4,436	3,728
Borrowings	17	1,062	325
Provisions	19	-	62
		5,498	4,115
Non-current liabilities			
Other payables	16	1,339	-
Borrowings	17	1,994	778
Provisions	19	-	48
Deferred tax	20	872	395
		4,205	1,221
Equity attributable to owners of the parent			
Share capital	21	2,872	2,843
Share premium account		11,519	11,287
Share based payment reserve		483	418
Own shares		(1,114)	(1,221)
Merger reserve		310	310
Retained profit		10,944	10,624
Total equity		25,014	24,261
Total equity and liabilities		34,717	29,597

The Group financial statements were approved by the Board of Directors on 4 June 2018 and were signed on its behalf by:

J Dickson
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

	Share capital £000	Share premium account £000	Own shares £000	Share based payment reserve £000	Merger reserve £'000	Retained profit £000	Total £000
At 1 April 2016	2,843	11,287	(1,221)	217	310	11,045	24,481
Dividends	-	-	-	-	-	(1,557)	(1,557)
Share based payments	-	-	-	207	-	-	207
Share option forfeitures	-	-	-	(6)	-	6	-
Transactions with owners	-	-	-	201	-	(1,551)	(1,350)
Profit and total comprehensive income for the year	-	-	-	-	-	1,130	1,130
Total comprehensive income less owners' transactions	-	-	-	-	-	(421)	(220)
At 31 March 2017	2,843	11,287	(1,221)	418	310	10,624	24,261
At 1 April 2017	2,843	11,287	(1,221)	418	310	10,624	24,261
Dividends	-	-	-	-	-	(1,562)	(1,562)
Issue of shares	29	232	-	(50)	-	50	261
Share based payments	-	-	-	115	-	27	142
Exercise of options	-	-	107	-	-	(4)	103
Transactions with owners	29	232	107	65	-	(1,489)	(1,056)
Profit and total comprehensive income for the year	-	-	-	-	-	1,809	1,809
Total comprehensive income less owners' transactions	29	232	107	65	-	320	753
At 31 March 2018	2,872	11,519	(1,114)	483	310	10,944	25,014

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Profit for the year		1,809	1,130
Adjustments for			
Net interest payable		28	5
Income tax expense		239	417
Amortisation of intangible assets		865	693
Depreciation		378	348
Loss/(profit) on sale of property, plant and equipment and businesses		62	(50)
Share based payments		142	207
Operating cash flows before changes in working capital and provisions		3,523	2,750
Change in inventories		219	502
Change in receivables		(537)	857
Change in payables		(126)	(289)
Change in provisions		(105)	110
		(549)	1,180
Cash generated from operations		2,974	3,930
Net cash generated from operating activities		2,974	3,930
Cash flows from investing activities			
Proceeds on disposal of subsidiary division		-	100
Purchase of subsidiary	26	(1,917)	-
Purchases of property, plant and equipment		(398)	(325)
Purchases of intangible assets		(1,610)	(711)
Net cash used in investing activities		(3,925)	(936)
Cash flows from financing activities			
Net interest payable		(28)	(5)
Issue of share capital		261	-
Share options exercised		103	-
New bank loans		2,000	-
Repayments of borrowings		(450)	(488)
Dividends paid		(1,562)	(1,557)
Net cash used in financing activities		324	(2,050)
Net increase in cash and cash equivalents		(627)	944
Cash and cash equivalents at beginning of period		4,549	3,605
Cash and cash equivalents at end of period		3,922	4,549

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2018

1. Significant accounting policies

1.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). IFRS includes Interpretations issued by the International Financial Reporting Interpretations Committee.

The financial statements have been prepared on the historical cost convention with the exception of certain items which are measured at fair value as disclosed in the principal accounting policies set out below. The measurement bases and principal accounting policies of the Group are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

The Directors, after having made appropriate enquiries, including (but not limited to) a review of the Group's budget for 2018/2019, and cash generating capacity at least 12 months from the date of signing (underpinned by long term contracts in place and historical results), have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The directors of Vendman Systems Limited, a subsidiary of Vianet Group plc, have claimed audit exemption, for the year ended 31 March 2018 under Section 479A (Subsidiary Companies) of Companies Act 2006. The Board of Vianet Group plc have provided a guarantee on behalf of the Parent Company undertaking stating that it guarantees Vendman Systems Limited under the section 479C of the Companies Act 2006. Vianet Group plc guarantees all outstanding liabilities to which Vendman Systems Limited is subject at 31 March 2018 until they are satisfied in full and the guarantee is enforceable against Vianet Group plc by any person to whom the subsidiary company is liable in respect of those liabilities.

1.2 Subsidiaries

The consolidated financial statements incorporate the results, assets, liabilities and cash flows of the company and each of its subsidiaries for the financial year ended 31 March 2018.

Subsidiaries are entities controlled by the Group. Control is deemed to exist when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results, assets, liabilities and cash flows of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.

Unrealised gains on transactions between the Group parent and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

1.3 Business combinations

For business combinations occurring since 1 January 2010, the requirements of IFRS 3 have been applied. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree' s financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at the acquisition date fair values.

1.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods provided in the normal course of business, net of all related discounts and sales tax.

1. Significant accounting policies (continued)

Smart Zones and Smart Machines

Machine, Payment and Vending equipment

The revenue from the sale is recognised at the point of installation when the transfer of risk and reward is made to the customer.

Sale of data insight services

The revenue is recognised over the length of the service contract in accordance with the respective customer's agreements.

Machine & vending monitoring sale of equipment

The revenue from the sale is recognised at the point of installation when the transfer of risk and reward is made to the customer.

Machine monitoring licence and support, vending service revenue

The revenue is recognised over the length of the service contract in accordance with the respective customer's agreements.

Machine monitoring data management services

The revenue is recognised over the length of the service contract in accordance with the.respective customer's agreements.

Interest income

Interest income is accrued on a time basis using the effective interest method.

Rental income

Income from equipment leased to customers is accounted for on a straight-line basis over the period to which it relates. These arrangements are operating leases, where the risk and reward of the unit, which is capitalised, remains with the Group.

1.5 Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the profit or loss in the period in which they arise.

1.6 Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary. Goodwill is not amortised, but tested at least annually for impairment, and carried at cost less accumulated impairment losses. Impairment losses are immediately recognised in profit or loss and are not subsequently reversed.

Goodwill arising on acquisitions before the date of transition of 1 January 2010 to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Tests have been undertaken using commercial judgements and a number of assumptions and estimates have been made to support the carrying amount, assessed against discounted cash flows. The details of these assumptions are set out in note 10.

1.7 Intangible assets: business combinations

Acquisition as part of a business combination

Identifiable intangible assets acquired as part of a business combination are initially recognised separately from goodwill at their fair value, irrespective of whether the asset had been recognised by the acquiree before the business combination. An intangible asset is considered identifiable only if it is separable or if it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets acquired as part of a business combination and recognised by the Group include customer contracts, including relationships, patents and order book.

After initial recognition, intangible assets acquired as part of a business combination are carried at cost less accumulated amortisation and any impairment losses recognised in administrative expenses in the statement of comprehensive income.

Amortisation

Intangible assets are amortised on a straight-line basis, to reduce their carrying value to their residual value, over their estimated useful lives. The following useful lives were applied during the year:

Customer contracts and relationships	5
years Software	5
years	
Trademarks	10 years
Order book	2 to 5 years

Methods of amortisation, residual values and useful lives are reviewed, and if necessary adjusted, at each balance sheet date.

1.8 Intangible assets: Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred.

Development costs incurred on specific projects are capitalised when all the following conditions are satisfied:

- completion of the intangible asset is technically feasible so that it will be available for use or sale
- the Group intends to complete the intangible asset and use or sell it

- the Group has the ability to use or sell the intangible asset

- the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits

- there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and

- the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management.

1. Significant accounting policies (continued)

Directly attributable costs include employee (other than directors) costs incurred on development and directly attributable overheads. The costs of internally generated software developments are recognised as intangible assets.

Capitalised development costs are amortised over the life of the product within cost of sales, which is usually no more than five years. However, until completion of the development project, the assets are subject to impairment testing only.

1.9 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. Cost comprises the purchase price of property, plant and equipment together with any directly attributable costs.

Subsequent costs are included in an asset's carrying value or recognised as a separate asset, when it is probable that future economic benefits associated with the additional expenditure will flow to the Group and the cost of the item can be measured reliably. All other costs are charged to the profit or loss when incurred.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of assets to their residual values over their estimated useful lives using a method that reflects the pattern in which the assets' future economic benefits are expected to be consumed by the Group.

Depreciation is charged in equal annual instalments over the following periods:

Freehold land and buildings	50 years
Plant, vehicles and equipment	3 - 5 years
Fixtures and fittings	4 years

Methods of depreciation, residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item, and is included in the profit or loss.

1.10 Impairment

At each balance sheet date, the Group assesses whether there is any indication that its assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. This present value is discounted using a pre-tax rate that reflects current market assessments of the time value of money and of the risks specific to the asset for which future cash flow estimates have not been adjusted. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss..

An impairment loss relating to assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the profit or loss.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination.

Goodwill is tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit by first reducing the carrying amount of any goodwill allocated to the cash-generating unit, and then reducing the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in profit or loss. Impairment losses on goodwill are not subsequently reversed.

1.11 Operating leases

The costs of all operating leases are charged to the profit or loss on a straight-line basis. Incentives to sign operating leases are recognised in the profit or loss in equal instalments over the term of the lease.

1.12 Own shares

The Group holds shares in both an employee benefit trust and in treasury. The consideration paid for the purchase of these shares is recognised directly in equity. Any disposals are calculated on a weighted average method with any gain or loss being recognised through reserves

1.13 Inventories

Inventories are stated at the lower of cost and net realisable value on an average pricing basis. Cost of finished goods and work in progress includes materials and direct labour.

Net realisable value is the estimated selling price, which would be realised after deducting all estimated costs of completion, and costs incurred in marketing, selling and distributing such inventory.

1.14 Taxation

The tax expense represents the sum of current tax and deferred tax.

Current tax

Current tax is based on taxable profit for the year and is calculated using tax rates enacted or substantively enacted at the balance sheet date. Taxable profit differs from accounting profit either because items are taxable or deductible in periods different to those in which they are recognised in the financial statements or because they are never taxable or deductible.

Deferred tax

Deferred tax on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the balance sheet liability method.

Using the balance sheet liability method, deferred tax liabilities are recognised in full for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, if the deferred tax asset or liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit, it is not recognised.

Deferred taxation is measured at the tax rates that are expected to apply when the asset is realised or the liability settled based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1. Significant accounting policies (continued)

Deferred tax assets and liabilities, calculated on an undiscounted basis, are offset only when there is a legally enforceable right to set off current tax amounts and when they relate to the same tax authority and the Group intends to settle its current tax amounts on a net basis.

Current and deferred tax are recognised in the profit or loss except when they relate to items recognised directly in equity, when they are similarly taken to equity.

1.15 Pension Costs

The Group operates a defined contribution pension scheme. The assets of these schemes are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the scheme for the year.

1.16 Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

The particular recognition and measurement methods adopted for the Group's financial instruments are disclosed below:

Trade receivables and Cash and cash equivalents

Trade receivables and cash and cash equivalents are categorised as loans and receivables, which are recognised initially at fair value and are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Cash and cash equivalents comprise cash on hand and demand deposits, short term overdrafts, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade payables and borrowings

Trade payables and borrowings are recorded initially at fair value, net of direct issue costs, and subsequently are recorded at amortised cost using the effective interest method.

1.17 Dividends

Final dividends are recognised as a liability in the period in which they are approved by the company's shareholders. Interim dividends are recognised when they are paid.

1.18 Employee share option schemes

All share-based payment arrangements are recognised in the financial statements in accordance with IFRS 2.

All goods and services received in exchange for the grant of any share-based payment, including awards made under the Joint Ownership Plan (an equity settled scheme) are measured at their fair values. Where employees are rewarded using share-based payments the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the profit or loss with a corresponding credit to "Share based payment reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options where new shares are issued the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

1.19 Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Share based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Own shares reserve" represents the costs/ proceeds of purchasing/ selling own shares.
- "Merger reserve" represents the excess over nominal value of fair value of consideration attributed to equity shares issued in part settlement for subsidiary company shares acquired.
- "Retained earnings reserve" represents retained profits.

1.20 New IFRS standards and interpretations not applied

New standards and interpretations currently in issue but not effective that will have an impact on the financial statements are listed below. These will affect presentation only, apart from IFRS 16 Leases:

- IFRS 17 Insurance contracts 1 January 2021
- IFRS 16 Leases (Issued on 13 January 2016) 1 January 2019
- IFRIC Interpretation 22 Foreign currency transactions and advance considerations (issued on 8 December 2016) 1 January 2018

- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015) 1 January 2018
- IFRS 9 Financial Instruments (Issued on 24 July 2014) 1 January 2018
- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) 1 January 2016
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments 1 January 2016
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) 1 January 2019
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) 1 January 2019
- Amendments to IAS 40: Transfers of investment property (issued 8 December 2016) 1 January 2018
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016) 1 January 2018
- Amendments to IFRS 9: Prepayment features with negative compensation (issued 12 October 2017) 1 January 2019
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued 12 October 2017) 1 January 2019
- Amendments to IFRS 4: Applying IFRS 9 financial instruments with IFRS 4 Insurance Contracts. 1 January 2018
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018) 1 January 2020
- Annual improvements to IFRS 2014-2016 Cycle (Issued 8 December 2016) - Relating to IFRS 1 First time adoption of IFRS and IAS 28 Investment in associates and joint ventures 1 January 2018
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) 1 January 2018
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses 1 January 2017
- Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016) 1 January 2017
- Annual improvements to IFRS 2014-2016 Cycle (Issued 8 December 2016) - Relating to IFRS 12 Disclosure of interest in other entities 1 January 2017

The directors anticipate that the adoption of the majority of these standards and interpretations in future periods (with the exception of IFRS16) will have no material impact on the financial statements of the Group except for additional disclosure and presentational requirements. IFRS 16 operating leases will have a material impact on the financial statements and will need to be shown on the balance sheet as opposed to note 23 currently.

1.21 Exceptional Items

The Group seeks to highlight certain items as exceptional operating income or costs. These are considered to be exceptional in size, frequency and/or nature rather than indicative of the underlying day to day trading of the Group. These may include items such as acquisition costs, restructuring costs, employee exit and transition costs, legal costs, material profits or losses on disposal of property, plant and equipment, profits or losses on the disposal of subsidiaries. All of these items are charged or credited before calculating operating profit or loss. Material profits or losses on disposal of property, plant and equipment are shown as separate items in arriving at operating profit or loss whereas other exceptional items are charged or credited within operating costs and highlighted by analysis. The Directors apply judgement in assessing the particular items, which by virtue of their size and nature are disclosed separately in the Statement of Comprehensive Income and the notes to the financial statements as exceptional items. The Directors believe that the separate disclosure of these items is relevant to understanding the Group's financial performance.

2. Critical accounting judgements and key sources of estimation uncertainty

2.1 Significant judgements and key sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. This forms the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may however differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or further information. Such changes are recognised in the period in which the estimate is revised.

Certain accounting policies are particularly important to the preparation and explanation of the Group's financial information. Key assumptions about the future and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities over the next twelve months are set out below.

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of intangible assets and property, plant and equipment

The Group tests goodwill at least annually for impairment, and whenever there is an indication that the asset may be impaired. All other intangible assets and property, plant and equipment are tested for impairment when indicators of impairment exist. Impairment is determined with reference to the higher of fair value less costs to sell and value in use. Value in use is estimated using adjusted future cash flows. Significant assumptions are made in estimating future cash flows about future events including future market conditions and future growth rates. Changes in these assumptions could affect the outcome of impairment reviews. See notes 10 to 12.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination including customer contracts and customer lists are recognised when they are identifiable or arise from contractual or other legal rights and their fair value can be reliably measured. Fair value is estimated using risk adjusted future cash flows. Significant assumptions are made in estimating future cash flows about future events including future market conditions and future growth rates. Changes in these assumptions could affect fair values.

Income taxes

The determination of the Group's tax liabilities requires the interpretation of tax law. The Group obtains appropriate professional advice from its tax advisors in relation to all significant tax matters. The directors believe that the judgements made in determining the Group's tax liabilities are reasonable and appropriate, however, actual experience may differ and materially affect future tax charges.

Research and development costs

Careful judgement by the directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Recognition is based on judgements at the time expenditure is incurred. In addition, all internal activities related to the research and development of new software products are continuously monitored by the directors.

Deferred consideration

Deferred consideration arises during a business combination and the future cash outflows are calculated using the discounted cash flow method. The directors review these against business forecasts annually and any changes are expensed through the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements for the year ended 31 March 2018 (continued)

3. Segment reporting

Business segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses. The segment operating results are regularly reviewed by the Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance. Vianet Group is analysed into to two trading segments (defined below) being Smart Zones (mainly adopted in the leisure sector, including US (particularly in pubs and gaming)) and Smart Machines (mainly adopted in the vending sector (particularly in vending machines)) supported by Corporate/Technology costs.

The products/services offered by each operating segment are:

Smart Zones: design, product development, sale and rental of fluid monitoring equipment, data insights and related services

Smart Machines: design product development, sale and rental of machine monitoring equipment, data insights and related services.

Corporate/Technology: Centralised Group overheads along with technology related costs for the Group

3. Segment reporting (continued)

The inter-segment sales are immaterial. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated assets and liabilities comprise items such as cash and cash equivalents, certain intangible assets, taxation, and borrowings. Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Previously, Technology was shown as a separate segment

2018

Continuing Operations (post exceptional items)	Smart Zones £000	Smart Machines £000	Corporate/ Technology £000	Total £000
Total revenue	11,445	3,116	-	14,561
Pre-exceptional segment result	4,350	595	(2,331)	2,614
Exceptional costs	(283)	(211)	(44)	(538)
Post exceptional segment result	4,067	384	(2,375)	2,076
Finance costs	(17)	(28)	17	(28)
Profit/(loss) before taxation	4,050	356	(2,358)	2,048
Taxation				(239)
Profit for the year from continuing operations				1,809
Other information				
Additions to property, plant, equipment and intangible assets	622	360	1,026	2,008
Depreciation and amortisation	455	478	286	1,219

	Smart Zones £000	Smart Machines £000	Corporate/ Technology £000	Total £000
Segment assets	25,883	4,083	4,360	34,326
Unallocated assets	-	-	391	391
Total assets	25,883	4,083	4,751	34,717
Segment liabilities	8,606	-	225	8,831
Unallocated liabilities	-	-	872	872

Total liabilities	8,606	-	1,097	9,703

3. Segment reporting (continued)

2017

Continuing Operations (post exceptional items)	Smart Zones £000	Smart Machines £000	Corporate/ Technology £000	Total £000
Total revenue	11,935	2,328	-	14,263
Pre-exceptional segment result	4,677	539	(2,800)	2,416
Exceptional costs	(325)	(25)	(614)	(964)
Post exceptional segment result	4,352	514	(3,414)	1,452
Finance costs	(17)	-	12	(5)
Profit/(loss) before taxation	4,335	514	(3,402)	1,447
Taxation				(417)
Profit for the year from continuing operations				1,030
Other information				
Additions to property, plant, equipment and intangible assets	553	116	367	1,036
Depreciation and amortisation	405	351	285	1,041

	Smart Zones £000	Smart Machines £000	Corporate/ Technology £000	Total £000
Segment assets	25,350	-	3,787	29,137
Unallocated assets	-	-	460	460
Total assets	25,350	-	4,247	29,597
Segment liabilities	4,584	-	357	4,941
Unallocated liabilities	-	-	395	395
Total liabilities	4,584	-	752	5,336

The asset base of the Vianet Group plc cannot be split across Smart Zones, Smart Machines or Technology, so has been allocated to Smart Zones.

3. Segment reporting (continued)

Analysis of revenue by category

	2018 £000	2017 £000
Continuing operations		
Sale of goods		
- Smart Zones and Smart Machines	1,402	1,984
Rendering of services		
- Smart Zones and Smart Machines	13,159	12,279
	14,561	14,263
Geographical analysis		
- United Kingdom	13,234	12,999
- Rest of Europe	1,013	987
- United States/Canada	314	277
	14,561	14,263

4. Exceptional items

	2018 £000	2017 £000
US litigation	-	388
Bolton rationalisation	(19)	495
Acquisition costs	231	-
Corporate restructuring and transitional costs	260	83
Other	66	-
Disposal of VFS subsidiary	-	(102)
	538	864

Acquisition costs relate to the acquisition of Vendman Systems Limited in October 2017.

Corporate restructuring and transitional costs relate to the redundancy of people and management to ensure we have to succession and calibre of people on board to deliver the strategic aims and aspirations of the Group.

5. Profit for the year

The following items have been included in arriving at profit for the year:

	2018 £000	2017 £000
Employee benefits expense (note 22)	6,790	6,665
Depreciation of property, plant and equipment (note 12)	378	348
Amortisation of intangible assets (note 11)	865	693
Loss/(profit) on disposal of property, plant and equipment and businesses	61	(50)
Operating lease rentals payable	196	197

Auditor's remuneration

Services to the company and its subsidiaries	2018 £000	2017 £000
Fees payable to the company's auditor for the audit of the annual financial statements	23	15
Fees payable to the company's auditor and its associates for other services:		
Audit of the financial statements of the company's subsidiaries pursuant to legislation	22	21
Other services relating to tax - taxation compliance services	8	7
Other services – corporate acquisition advice	48	-
Other services - half year reporting and accounting advice	13	16
	114	59

6. Net finance costs

	2018 £000	2017 £000
Interest payable on bank borrowings	45	25
	45	25

	2018 £000	2017 £000
Interest receivable on bank deposits	17	20
	17	20

Notes to the Financial Statements for the year ended 31 March 2018 (continued)

7. Taxation

Analysis of charge in period

	2018 £000	2017 £000
Current tax expense		
- Amounts in respect of the current year	-	-
- Amounts in respect of prior periods	-	-
	-	-
Deferred tax charge/credit		
- Amounts in respect of the current year	230	427
- Amendment re-recognition of losses	9	(10)
Income tax charge	239	417

Reconciliation of effective tax rate

The tax for the 2018 period is lower (2017 was higher) than the standard rate of corporation tax in the UK (2018: 19% and 2017: 20%). The differences are explained below:

	2018 £000	2017 £000
Profit before taxation		
- Continuing operations	2,226	1,547
Profit before taxation multiplied by rate of corporation tax in the UK of 19% (2017:20%)	423	309
Effects of:		
Other expenses not deductible for tax purposes	35	25
Amortisation of intangibles	123	125
Movement on losses	120	266
Adjustments for prior years	9	(10)
Research and development	(471)	(298)
Total tax charge	239	417

8. Earnings per share

Earnings per share has been impacted by the release of a deferred tax asset provision. After adjustment for the lower tax charge, the overall basic earnings per share for the year ended 31 March 2018 before exceptional costs increased to 8.50 pence compared to 7.30 pence at March 2017.

Basic earnings per share are calculated by dividing the earnings attributable to ordinary shareholders (£1,809,000) by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated on the basis of profit for the year after tax divided by the weighted average number of shares in issue in the year plus the weighted average number of shares which would be issued if all the options granted were exercised

The table below shows the earnings pre and post the impact of the movement in the deferred tax asset.

	2018 Earnings £000	2018 Basic earnings per share	2018 Diluted earnings per share	2017 Earnings £000	2017 Basic earnings per share	2017 Diluted earnings per share
Post-tax profit attributable to equity shareholders	1,809	6.55p	6.54p	1,130	4.14p	4.12p
Pre-tax profit attributable to equity shareholders	2,048	7.42p	7.40p	1,547	5.67p	5.64p
Of which is attributable to continuing operations	2,048	7.42p	7.40p	1,447	5.30p	5.28p
Pre-tax, pre-exceptional profit attributable to equity shareholders	2,586	9.36p	9.35p	2,411	8.83p	8.79p
Post-tax, pre-exceptional profit attributable to equity shareholders	2,347	8.50p	8.48p	1,994	7.30p	7.27p

	2018 Number	2017 Number
Weighted average number of ordinary shares	27,613,719	27,302,694
Dilutive effect of share options	54,259	141,063
Diluted weighted average number of ordinary shares	27,667,978	27,443,757

9. Ordinary dividends

	2018 £000	2017 £000
Final dividend for the year ended 31 March 2017 of 4.0p (year ended 31 March 2016: 4.0p)	1,096	1,092
Interim dividend paid in respect of the year of 1.70p (2017: 1.70p)	466	465
Amounts recognised as distributions to equity holders	1,562	1,557

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2018 of 4.0p per share. If approved by shareholders, it will be paid on 28 July 2018 to shareholders who are on the register of members on 17 June 2018. Total dividend payable 5.70p (2017: 5.70p).

10. Goodwill

Group	2018 £000	2017 £000
Cost		
At 1 April	15,503	15,503
Addition	2,472	-
At 31 March	17,975	15,503
Accumulated impairment losses		
At 1 April and 31 March	-	-
Net book amount	17,975	15,503

Goodwill is tested for impairment annually or when events or changes in circumstances indicate that the carrying amount may not be recoverable. The goodwill impairment test is performed by comparing the carrying value of the CGU including associated goodwill with the aggregate recoverable amount.

The carrying value of goodwill is allocated to the following cash generating units:

	2018 £000	2017 £000
Smart Zones	15,503	15,503
Smart Machines	2,472	-
Carrying amount 31 March	17,975	15,503

The recoverable amounts attributed are based on value in use calculations. The key assumptions made in undertaking the value in use calculations are set out below.

Budgeted profit and cash flow forecasts for the financial year ended 31 March 2019 were extrapolated for a five year period using sector growth assumptions and used as the basis for the impairment review. The key assumption included within these is a improvement in profitability, based on committed (medium to long term contracts) and pipeline orders.

Budgets and assumptions are based around historical track record and committed medium to long term contracts.

Sector growth assumptions, applied to both the Smart Zones and Smart Machines segment: 3% based on estimates of specific industry rates, where available.

Discount rate assumptions, applied to both the Smart Zones and Smart Machines segment: 10% based on management's view of risks specific to the group.

If sector growth assumption rates were applied at 3% and a discount rate assumption of 15% was applied, both the Smart Zones and Smart Machines segment would require no impairment.

If sector growth assumption rates were applied at 0% and a discount rate assumption of 15% was applied, both the Smart Zones and Smart Machines segment would require no impairment.

11. Other intangible assets

Group	Capitalised development £000	Order book £000	Software £000	Customer contracts £000	Patents £000	Total £000
Cost						
At 1 April 2016	4,034	281	261	1,445	88	6,109
Internally generated development costs	705	-	-	-	-	705
Additions	-	-	1	-	5	6
At 31 March 2017	4,739	281	262	1,445	93	6,820
Internally generated development costs	1,456	-	-	-	-	1,456
Acquisitions (note 26)	-	-	-	1,784	-	1,784
Additions	44	-	100	-	10	154
At 31 March 2018	6,239	281	362	3,229	103	10,214
Amortisation						
At 1 April 2016	2,228	281	139	1,445	34	4,127
Charge for the year	620	-	66	-	7	693
At 31 March 2017	2,848	281	205	1,445	41	4,820
Charge for the year	626	-	53	178	8	865
At 31 March 2018	3,474	281	258	1,623	49	5,685
Net book amount						
At 31 March 2018	2,765	-	104	1,606	54	4,529
At 31 March 2017	1,891	-	57	-	52	2,000

Where appropriate, intangible assets identified in business combinations have been recognised in accordance with the provisions of IFRS 3 (Business Combinations) and IAS 38 (Intangible Assets). Intangible assets have only been recognised where they have identifiable future economic benefits that are controlled by the entity, it is probable that these benefits will flow to the entity and their fair value can be measured reliably.

The £1,456,000 of capitalised development costs represents expenditure developing technological advancements to ensure the group is at the forefront of technology that fulfils the requirement of IAS 38. These costs will be amortised over the future commercial life of the related product, commencing on the sale of the first commercial unit.

12. Property, plant and equipment

Group	Freehold Land and buildings £000	Plant, vehicles and equipment £000	Fixtures and fittings £000	Total £000
Cost				
At 1 April 2016	3,125	864	3,080	7.069
Additions	-	225	100	325
Disposals	-	(171)	(6)	(177)
At 31 March 2017	3,125	918	3,174	7,217
Additions	-	311	87	398
Acquisitions (note 26)	141	-	53	194
Disposals	-	(271)	(1,217)	(1,488)
At 31 March 2018	3,266	958	2,097	6,321
Accumulated depreciation				
At 1 April 2016	593	588	2,745	3,926
Charge for the year	61	134	153	348
Disposals	-	(120)	(6)	(126)
At 31 March 2017	654	602	2,892	4,148
Charge for the year	68	172	138	378
Acquisitions (note 26)	7	-	48	55
Disposals	-	(209)	(1,217)	(1,426)
At 31 March 2018	729	565	1,861	3,155
Net book amount				
At 31 March 2017	2,537	393	236	3,166
At 31 March 2016	2,471	316	282	3,069

13. Inventories

	2018 £000	2017 £000
Raw materials	1,232	1,442
Write down on raw materials	(146)	(134)
	1,086	1,308

No reversal of previous write-downs was recognised as a reduction of expense in 2017 or 2018. In 2018 £1,768,000 (2017: £2,222,000) was included in the statement of comprehensive income under cost of sales. None of the inventories are pledged as securities for liabilities.

The Group's inventories comprise of products, which are not generally subject to rapid obsolescence on account of technological, deterioration in condition or market trends. Consequently management considers that there is little risk of significant adjustments to the Group's inventory assets within the next financial year.

14. Trade and other receivables

	2018 £000	2017 £000
Trade receivables	2,225	2,208
Other receivables	259	33
Prepayments and accrued income	762	467
	3,246	2,708

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

All trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a provision of £34,000 (2017: £29,000) has been recorded accordingly (note 18).

Of the other receivables £200,000 relates to a related party, Screenreach Interactive Limited, of which the Chairman of Vianet Group plc is also Chairman of Screenreach Interactive Limited. The Directors believe the amount will be recovered in full.

In addition some of the unimpaired trade receivables were past due at the balance sheet date as follows:

	2018 £000	2017 £000
Not past due	1,246	1,350
Not more than three months	856	790
More than three months but not more than six months	69	68
More than six months but not more than one year	54	-
	2,225	2,208

15. Trade and other payables

	2018 £000	2017 £000
Trade payables	1,479	870
Other taxation and social security	550	628
Corporation tax liability	20	-
Accruals and deferred income	1,396	2,230
Deferred consideration	991	-
	4,436	3,728

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

16. Other payables

	2018 £000	2017 £000
Deferred consideration	1,339	-
	1,339	-

The Directors consider that the carrying amount of other payables approximates their fair value.

17. Borrowings

Current	2018 £000	2017 £000
Bank overdraft	402	-
Bank loans	660	325
	1,062	325

Non-current	2018 £000	2017 £000
Bank loans	1,994	778
	1,994	778

Bank loans are denominated in £ sterling and bear interest based on Bank of Scotland Base Rate plus a rate of between 1% and 3%. The bank loans are secured by a fixed charge over the land and buildings of the Group.

The weighted average effective interest rates on the Group's borrowings were as follows:

	2018 %	2017 %
Bank overdrafts - floating rates	2.5	2.5
Bank borrowings - floating rates	1.5	1.5

The maturity profile of the Group's non-current bank loans and hire purchase was as follows:

	2018 £000	2017 £000
Between one and two years	662	160
Between two and five years	1,332	482
More than five years	-	136
	1,994	778

The Group's bank borrowings bear interest at floating rates, which represent prevailing market rates.

18. Financial Instruments

The Group is exposed on a minimal basis to market risk through its use of a US Dollar and a Euro account. The Group's risk management is co-ordinated by the directors who focus actively on securing the Group's short to medium term cash flows through regular review of all the operating activities of the business.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below.

Foreign currency sensitivity

Exposures to currency exchange rates arise from the Group's overseas activities, all of which are denominated in US Dollars and Euros.

Due to the non material nature of the Group's exposure to foreign currency risk, sensitivity analyses to movement in exchange rates are not produced.

Foreign currency denominated financial assets and liabilities are set out below.

	2018 $000	2017 $000
Financial assets	39	238
Financial liabilities	-	-
	39	238

	2018 €000	2017 €000
Financial assets	86	13
Financial liabilities	-	-
	86	13

The Group has no long term foreign exchange exposure.

At the beginning and end of the year, the Group had no unexpired forward foreign exchange contracts.

Credit risk analysis

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date and which are set out below.

	2018 £000	2017 £000
Cash and cash equivalents	4,324	4,549
Trade and receivables	2,484	2,241
	6,808	6,790

The Group continuously monitors credit risk of customers and other counterparties and incorporates this information into its credit risk controls. The Group takes up trade references on all new customers and its policy is to deal only with credit worthy companies.

The movement on the bad debt provision in the period is analysed below. The Group provides for bad debts on a specific basis with reference to the age profile of the trade receivables held at the year end

Notes to the Financial Statements for the year ended 31 March 2018 (continued)

18. Financial Instruments (continued)

Credit risk analysis (continued)

	£000
Bad debt provision at 31 March 2017	29
Amounts provided	34
Amounts utilised	-
Amounts released	(29)
Bad debt provision at 31 March 2018	34

Management considers that all the above financial assets are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds is considered negligible, since the counterparty is a reputable bank with a high quality external credit rating.

Liquidity risk analysis

The Group manages its liquidity needs by carefully monitoring all scheduled cash outflows. Liquidity needs are monitored in various time bands, on a day-to-day and week to week basis, as well as on the basis of a rolling eight week projection. Longer term needs are monitored as part of the Group's regular rolling monthly reforecasting process.

Loans and receivables

Current assets	2018 £000	2017 £000
Cash and cash equivalents	4,324	4,549
Trade and receivables	2,484	2,241
	6,808	6,790

Current liabilities	2018 £000	2017 £000
Financial liabilities measured at amortised cost	4,928	3,425
Non current liabilities		
Financial liabilities measured at amortised cost	1,994	826
	6,922	4,251
Net financial (liabilities)/assets	(114)	2,539

The carrying value of the above assets and liabilities are equal to their fair value.

18. Financial instruments (continued)

Capital management policies and procedures

The Group's capital management objectives are to ensure its ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group's dividend policy is to monitor reserves available for distribution to shareholders

The Group monitors capital on the basis of carrying amount of equity less cash and cash equivalents as presented on the face of the balance sheet. Capital for the reporting periods under review is set out below.

	2018 £000	2017 £000
Total equity	25,014	24,261
Less cash equivalents	(4,324)	(4,549)
	20,690	19,712

The Group is not subject to external imposed capital requirements, other than the minimum capital requirements and duties regarding reduction of capital as imposed by the Companies Act 2006 for all public limited companies.

19. Provisions

Group	Onerous leases £000	Dilapidations £000	Total £000
1 April 2017	75	35	110
Utilised in year	(56)	(35)	(91)
Released to profit	(19)	-	(19)
At 31 March 2017	-	-	-

Provisions are analysed between current and non-current as follows:

	2018 £000	2017 £000
Current	-	62
Non-current	-	48
	-	110

The provision for onerous leases is in respect of leasehold properties from which the Group no longer resides, but is liable to fulfil rent and other property commitments up to the lease expiry date. If a property is sub-let below the head rent, or for a period shorter than the remaining lease term, provision is made for the onerous element of the lease. Obligations are payable within a range of 1 to 2 years.

The Group provides for the estimated cost of property dilapidations, where appropriate, during the period of the tenancy. The provisions are expected to be utilised over the next 1 to 2 years.

20. Deferred tax

Deferred tax has been recognised during the year in respect of tax losses in certain of the group's subsidiaries as the Directors believe there is sufficient certainty over the extent and timing of their recovery to do so. Included in the amount of £391,000 (2017: £460,000) are amounts of £391,000 relating to tax losses (2017: £460,000).

The group has unused tax losses amounting to £nil (2016: £nil) for which no deferred tax asset has been recognised.

The movement on the deferred tax account is as shown below:

Deferred tax asset

	2018 £000	2017 £000
At 1 April	460	862
Profit and loss credit in respect of losses utilised	(69)	(402)
At 31 March	391	460

Deferred tax liability

	2018 £000	2017 £000
At 1 April	(395)	(380)
On acquisition of subsidiary	(308)	-
Profit and loss credit in respect of timing differences	(169)	(15)
At 31 March	(872)	(395)

Deferred tax has been recognised during the year in respect of tax losses in certain of the group's subsidiaries as the Directors believe there is sufficient certainty over the extent and timing of their recovery to do so. Included in the amount of £391k (2017: £460k) are amounts of £391k relating to tax losses (2017: £460k).

The group has unused tax losses amounting to £nil (2016: £nil) for which no deferred tax asset has been recognised

21. Issued share capital

	2018 £000	2017 £000
Issued and fully paid		
Ordinary shares of 10p each: 28,723,414 (2017: 28,427,164)	2,872	2,843

Own shares

The Group accounts for its own shares held by the Trustees of the employee option scheme as a deduction from shareholders equity. At 31 March 2018, the Trust owned 568,470 shares (2017: 668,470 shares) with a nominal value of £56,847 (2017: £66,847).

At 31 March 2018, Vianet Group plc owned 456,000 shares (2017: 456,000 shares) with a nominal value of £45,600 (2017: £45,600), all held in treasury.

Own shares held in Trust and Treasury are value at cost.

Dividends payable on these shares have been waived.

22. Employees and directors

Employee benefit expense during the period

	2018 £000	2017 £000
Wages and salaries	5,903	5,720
Social security costs	538	533
Pension costs	207	206
Share based payments	142	206
	6,790	6,665

Average monthly number of people (including directors) employed

	2018 Number	2017 Number
Sales	9	6
Engineering	33	28
Volume Recovery	4	5
Management	11	12
Administration	117	108
	174	159

Key management personnel - Directors

Group	2018 £000	2017 £000
Directors' emoluments	596	828
Pension contributions	22	46
	618	874

During the year one (2017: two) directors had benefits accruing under defined contribution pension schemes.

Highest paid director

	2018 £000	2017 £000
Short term employment benefits (emoluments)	242	316
Pension contributions	-	25
	242	341

On 27 June 2017, J W Dickson exercised 100,000 shares held in an Executive Joint Ownership plan. The shares had an exercise price of 102.5p which were all retained by the Director's SIPP, and in so doing there was a gain between the market price paid and the exercise price of £9,960.

23. Operating lease commitments

The Group lease various motor vehicles and property under non-cancellable operating leases. The leases have been entered into under normal commercial terms.

Total future minimum lease payments under non-cancellable operating leases:

Group	Motor Vehicles £000	2018 Total £000	2017 Total £000
Within one year	174	174	209
After one year and less than five years	265	265	374
	439	439	583

24. Share-based payments

There are six share option plans in place the EMI Plan, the Executive Plan, the Employee Plan, an Employee Company Share Option Plan, an Executive Joint Ownership Plan, and a Long Term Incentive Plan. Under the share option plans, the directors can grant options over shares in the company to employees. Options are granted with a fixed exercise price equal to the market value of the shares at the date of grant. The contractual life of an option is 10 years. Options granted under the EMI share option plans will become exercisable immediately, and options granted under the Executive Plan and the Employee Plan will become exercisable on the third anniversary of the date of grant. Exercise of an option is subject to continued employment.

Details of share options outstanding during the period (including those held by directors) are set out below:

	2018 Number of share options	Weighted average exercise price(p)	2017 Number of share options	Weighted average exercise price(p)
At start of the financial year	1,601,300	91.5	1,782,800	94.2
Exercised	(296,250)	(88.3)	-	-
Granted	-	-	100,000	95.0
Forfeited	(266,500)	(90.0)	(105,500)	(90.8)
Lapsed	-	-	(176,000)	(123.0)
At end of financial year	1,038,550	92.9	1,601,300	91.5
Exercisable at end of financial year	654,550	90.4	251,800	104.4

Name of director / senior employee	Date of grant	Number of options	Exercise price	Exercise date	Weighted average share price at date of exercise	Gain on exercise	Exercise period
J W Dickson	27/01/11	18,600	96.5p	-	-	-	28/01/14 to 27/01/20
M H Foster	27/01/11	18,600	96.5p	-	-	-	28/01/14 to 27/01/21
S Darling	27/01/11	18,600	96.5p	-	-	-	28/01/14 to 27/01/21
M H Foster	09/04/14	135,000	85.0p	-	-	-	10/04/17 to 09/04/24
S Darling	09/04/14	285,000	85.0p	-	-	-	10/04/17 to 09/04/24
M H Foster	21/12/15	124,000	103.0p	-	-	-	21/12/18 to 20/12/25

24. Share-based payments (continued)

Expected volatility was determined by discounting the weighted average volatility of comparable listed companies to a comparable private company volatility. The share price of £0.348 was agreed with HMR&C as the fair value of Vianet Group plc shares at the time of grant of the EMI options. The fair value of the other shares was as per market value at date of grant as shown above. The risk free rate of return is the yield on zero coupon UK government bonds of a term consistent with the assumed option life.

The fair value on the EMI Plan, the Executive Plan, the Employee Plan and the Employee Company Share Option Plan were all calculated under the Black Scholes model.

The Group recognised an expense of £142,000 (2017: £206,000) in relation to equity settled share-based payment transactions in the year.

Joint Ownership Plan

The following awards over shares in the Company were made to the following Executive Directors of the Company on 25 September 2009 by a Joint Ownership Plan.

Director	Number of Plan shares in which the Director has an interest
M H Foster	100,000
S Darling	100,000

Awards were made by the Company's Remuneration Committee through the Company's employee benefit trust operated by Halifax EES Trustees International Limited. The awards are subject to EPS performance targets and dependant on performance vest on 31 March 2015. No value has been paid on grant of the Plan shares and participants are entitled to growth over the Plan term. The fair value on the Joint Ownership Plan was calculated under the Black Scholes model.

Long Term Incentive Plan

The Group adopted a new Long Term Incentive Plan (LTIP) on 17 December 2015 and on 21 December 2015, awards were granted to two executive directors and three key management personnel under the scheme.

LTIP awards give a conditional right to a 'cash payment' at three separate points in time 30 June 2018, 30 June 2019 and 30 June 2020. The amount of the cash payment is determined by the participant's percentage entitlement to the award pool at each date, and the size of the award pool itself is based upon performance criteria relating to growth in the parent company's share price and dividends over the period to 30 June 2020. There is no clawback of earlier awards if performance declines in later periods. The entitlement of Stewart Darling and Mark Foster in the overall award pool is 38% and 29% respectively.

Any cash payment awarded under the LTIP will (after the deduction of income tax and employee national insurance) be used to acquire a number of shares in the Company based upon the prevailing market value on behalf of the participant. Accordingly, the LTIP is accounted as an equity settled share based payment with a net settlement feature.

Notes to the Financial Statements for the year ended 31 March 2018 (continued)

24. Share-based payments (continued)

The fair value of the LTIP was calculated at the date of grant using the Monte Carlo Model and the following key assumptions:

	21 December 2015
Expected volatility (%)	27.3
Risk free rate (%)	1.15
Expected dividend yield (%)	5.534
Share price on grant date (p)	103.0
Exercise price (p)	0

The fair values of each award pool are the following:	£000
30 June 2018	305
30 June 2019	143
30 June 2020	108

25. Related party transactions

IAS 24 (Related party transactions) requires the disclosure of the details of material transactions between reporting entities and related parties. Transactions with group entities are eliminated on consolidation. C Williams, a non-executive director, invoiced Vianet Group plc for fees totalling £30,188 (2017: £30,706). As at 31 March 2018, there was
£nil outstanding (2017: £nil). M McGoun, a non-executive director, invoiced Vianet Group plc for fees totalling £38,291 (2017: £36,000). As at 31 March 2018 there was £nil outstanding (2017: £nil).

Included in other receivables is £200,000 relating to Screenreach Interactive Limited, of which the Chairman of Vianet Group plc is also Chairman of Screenreach Interactive Limited. The Directors believe the amount will be recovered in full.

26. Business combinations

On 3 October 2017, the Group acquired 100% of the issued share capital of Vendman Systems Limited, a company based in the UK through Vianet Limited. The purchase price was settled for £1,854,948 in cash and £2,149,119 in deferred consideration Details of the acquisition are set out below:

	Carrying values pre acquisition £000	Fair value £000
Intangible assets		
- Customer contracts	-	1,784
Property, plant and equipment	138	138
Inventories	9	9
Trade and other receivables	478	478
Trade and other payables	(487)	(487)
Taxation		
- Current	(20)	(20)
- Deferred	(5)	(308)
Net assets acquired	113	1,594
Goodwill		2,472
Consideration		4,066
Consideration satisfied by:		
- Cash		1,917
- Deferred consideration		2,149
		4,066

26. Business combinations (continued)

The goodwill that arose on the combination is attributable to on going un-contracted customer relationships, synergies expected to be derived from the combination and the value of the workforce of Vendman Systems Limited which cannot be recognised as an intangible asset under IAS 38 "Intangible Assets".

All intangible assets were recognised at their respective fair values. The residual excess over the net assets acquired is recognised as goodwill in the financial statements.

The outflow of cash and cash equivalents on the acquisition of Vendman Systems Limited is calculated as follows:

	£000
Cash consideration	1,855
Overdraft acquired	62
	1,917

The results of operations as if the above acquisition has been made at the beginning of the year are as follows:

	£000
Revenue	2,154
Profit for year	51

The results of operations for the above acquisition, from the date of acquisition are as follows:

	£000
Revenue	1,183
Profit for year	120

COMPANY BALANCE SHEET

at 31 March 2018

	Note	2018 £000	2017 £000
Fixed assets			
Investments in subsidiaries	2	4,941	4,929
Other intangible assets	3	50	71
Tangible assets	4	18	25
		5,009	5,025
Current assets			
Debtors	5	7,822	7,190
Cash at bank		4,217	3,618
		12,039	10,808
Creditors: amounts falling due within one year	6	(237)	(373)
Net current assets		11,802	10,435
Net assets		16,811	15,460
Capital and reserves			
Ordinary share capital	7	2,872	2,843
Share premium	8	11,519	11,287
Share based payment reserve	8	483	418
Own shares	8	(1,115)	(1,227)
Merger reserve	8	310	310
Retained earnings	8	2,742	1,829
Total equity		16,811	15,460

The company's profit for the financial year was £2,398,000 (2017: loss £864,000).

The balance sheet was approved by the Board on 4 June 2018 and signed on its behalf by:

J Dickson
Director
Company number: 5345684

The accompanying accounting policies and notes form an integral part of the financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

	Share capital £000	Share premium £000	Own shares £000	Share based payment reserve £000	Merger reserve £'000	Retained earnings £000	Total £000
At 1 April 2016	2,843	11,287	(1,227)	218	310	4,244	17,675
Dividends	-	-	-	-	-	(1,557)	(1,557)
Issue of shares	-	-	-	-	-	-	-
Share based payment	-	-	-	206	-	-	206
Share option forfeiture	-	-	-	(6)	-	6	-
Exercised options	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	200	-	(1,551)	(1,351)
Profit and total comprehensive income for the year	-	-	-	-	-	(864)	(864)
At 31 March 2016/1 April 2016	2,843	11,287	(1,227)	418	310	1,829	15,460
Dividends	-	-	-	-	-	(1,562)	(1,562)
Issue of shares	29	232	-	(50)	-	50	261
Exercise of options	-	-	112	-	-	-	112
Share based payment	-	-	-	115	-	27	142
Total transactions with owners	29	232	112	65	-	(1,485)	(1,047)
Profit and total comprehensive income for the year	-	-	-	-	-	2,398	2,398
At 31 March 2017	2,872	11,519	(1,115)	483	310	2,742	16,811

The accompanying accounting policies and notes form an integral part of the financial statements.

NOTES TO THE COMPANY BALANCE SHEET

1. Principal accounting policies

1.1 Statement of compliance

These financial statements have been prepared in accordance with applicable accounting standards and in accordance with Financial Reporting Standard 101 - 'The Reduced Disclosure Framework' (FRS 101). The principle accounting policies adopted in the preparation of these financial statements are set out below. These policies have all been applied consistently throughout the year unless otherwise stated.

The financial statements have been prepared on a historical cost basis.

The financial statements are presented in Sterling (£)

1.2 Disclosure exemptions

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include

- A statement of cash flows and related notes
- The requirement to produce a balance sheet at the beginning of the earliest comparative period
- The requirements of IAS 24 related party disclosures to disclose related party transactions entered in to between two or more members of the group as they are wholly owned within the group
- Capital management disclosures
- Presentation of comparative reconciliation of the number of shares outstanding at the beginning and at the end of the period
- The effect of future accounting standards not adopted
- Certain share based payments disclosures
- Disclosures in relation to impairment of assets
- Fair value measurement disclosures (other than disclosures required as a result of recording financial instruments at fair value)

1. Principal accounting policies (continued)

1.3 Income taxes

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the liability method.

Calculation of deferred tax is based on tax rates and laws that have been enacted or substantively enacted by the end of the reporting period that are expected to apply when the asset is realised or the liability is settled.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover the related asset or settle the related obligation. Certain of the Company's investment property portfolio is to be recovered through sale whereas investment property occupied by group companies is expected to be recovered through use.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. Deferred tax assets are not discounted.

Deferred tax liabilities are generally recognised in full with the exception of the following: on the initial recognition of goodwill on investments in subsidiaries and joint ventures where the Company 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 on the initial recognition of a transaction that is not a business combination and at the time of the transaction affects neither accounting or taxable profit.

Deferred tax liabilities are not discounted.

1.4 Investment in subsidiaries

Investments in subsidiary undertakings, associates and joint ventures are stated at cost less any applicable provision for impairment.

1.5 Employee share option schemes

All share-based payment arrangements are recognised in the financial statements in accordance with IFRS 2.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to "share based payment" reserve. Subsidiary costs are incurred by the parent entity and treated as a capital contribution and added to the cost of investment.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

Notes to the Company Balance Sheet

1. Principal accounting policies (continued)

1.6 Tangible assets

Property plant and equipment (PPE) is initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Company's management.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of assets to their residual values over their estimated useful lives using a method that reflects the pattern in which the assets' future economic benefits are expected to be consumed by the Company.

Depreciation is charged in equal annual instalments over the followingperiods:

Fixtures and fittings	4 years

Methods of depreciation, residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the item, and is included in the Group statement of comprehensive income.

1.7 Intangible assets

Patents

Patents are stated at cost net of amortisation and any provision for impairment.

Software

Purchased software are stated at cost net of amortisation and any provision for impairment.

Amortisation

Intangible assets are amortised on a straight-line basis, to reduce their carrying value to their residual value, over their estimated useful lives. The following useful lives were applied during the year:

Trademarks	expected length of trademark
Purchased software	4 years

Methods of amortisation, residual values and useful lives are reviewed, and if necessary adjusted, at each balance sheet date.

2. Investments in subsidiaries

Company	2018 £000	2017 £000
Cost and net book amount:		
Shares in subsidiaries		
At 1 April	4,929	4,905
Additions	12	24
At 31 March	4,941	4,929

Additions relate to the subsidiary costs of the employee share option scheme

2. Investments in subsidiaries (continued)

The company owns the whole of the issued ordinary share capital of the following subsidiaries:

Subsidiary	Shareholding	Country of incorporation	Principal activity
Retail & Forecourt Solutions Limited	100%	UK	Dormant
Energy Level Systems Limited	100%	UK	Dormant
Brulines Group Limited	100%	UK	Dormant
Vianet Americas Inc	100%	USA	Smart Zones
Vianet Limited	100%	UK	Smart Zones

Brulines Limited, Machine Insite Limited and Vendman Systems Limited, are indirect 100% investments based in the UK via Vianet Limited in Smart Zones.

3. Other intangible assets

	Patents £000	Software £000	Total £000
Cost			
At 1 April 2016	60	165	225
Additions	5	-	5
At 31 March 2017	65	165	230
Additions	10	-	10
At 31 March 2018	75	165	240
Amortisation			
At 1 April 2016	15	97	112
Charge for the year	6	41	47
At 31 March 2017	21	138	159
Charge for the year	7	24	31
At 31 March 2018	28	162	190
Net book amount			
At 31 March 2018	47	3	50
At 31 March 2017	44	27	71

Notes to the Company Balance Sheet

4. Tangible Assets

	Fixtures and fittings £000
Cost	
At 1 April 2016	16
Additions	21
At 31 March 2017	37
Additions	2
At 31 March 2018	39
Accumulated depreciation	
At 1 April 2016	4
Charge for the year	8
At 31 March 2017	12
Charge for the year	9
At 31 March 2018	21
Net book amount	
At 31 March 2018	18
At 31 March 2017	25

5. Debtors

	2018 £000	2017 £000
Amounts due from subsidiaries	7,734	7,103
Other debtors	75	71
Other taxation	13	16
	7,822	7,190

All intercompany debt is repayable on demand. Interest is charged at base rate plus 2.25%

6. Creditors: amounts falling due within one year

	2018 £000	2017 £000
Other payables	59	103
Accruals and deferred income	178	270
	237	373

7. Issued share capital

	2018 £000	2017 £000
Issued and fully paid		
Ordinary shares of 10p each: 28,723,414 (2017: 28,427,164)	2,872	2,843

Allotments during the year

Since the end of the financial year no shares have been issued under the share option scheme.

8. Share capital and reserves

Called-up share capital - represents the nominal value of shares that have been issued

Share premium account - includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium

Own shares - represents the shares held in Trust and Treasury at historical cost.

Share based payment reserve - represents the fair value of all share options issued by the Company which have yet to be exercised

Merger reserve - excess of fair value of shares issued over nominal value when shares are issued in exchange for obtaining at least a 90% interest in the equity share capital of another entity

Profit and loss account - includes all current and prior period retained profits and losses

9. Dividends

	2018 £000	2017 £000
Final dividend for the year ended 31 March 2017 of 4.0p (year ended 31 March 2016: 4.0p)	1,096	1,092
Interim dividend paid in respect of the year of 1.70p (2017: 1.70p)	466	465
Amounts recognised as distributions to equity holders	1,562	1,557

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2018 of 4.0p per share. If approved by shareholders, it will be paid on 28 July 2018 to shareholders who are on the register of members on 17 June 2018. Total dividend payable 5.70p (2017: 5.70p).

	2018 £000	2017 £000
Dividend received from Group undertaking	3,000	-
	3,000	-

10. Employees and directors

Employee benefit expense during the period

	2018 £000	2017 £000
Wages and salaries	542	774
Social security costs	71	103
Pension costs	22	46
Share based payments	142	206
	777	1,129

Average monthly number of people (including directors) employed

	2018 Number	2017 Number
Management	5	5
	5	5

11. Directors

	2018 £000	2017 £000
Directors' emoluments	596	828
Pension contribution	22	46
	618	874

The amounts in respect of the highest paid director are as follows:

	2018 £000	2017 £000
Directors' emoluments	242	316
Pension contribution	-	25
	242	341

For other Directors' emoluments see page 13 in the Report of the Directors.

12. Share-based payments

The company disclosures required under FRS 101 are identical to those required under IFRS. See Group accounts, note 24, for details.

13. Parent Company Profit and Loss Account

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's profit for the financial year was £2,398,000 (2017: loss £864,000).

14. Related Party Transactions

As permitted by FRS 101 related party transactions with wholly owned members of Vianet Group plc have not been disclosed

Non-executive director payments were incurred in the company during this year.

IAS 24 (Related party transactions) requires the disclosure of the details of material transactions between reporting entities and related parties. Transactions with group entities are eliminated on consolidation. C Williams, a non-executive director, invoiced Vianet Group plc for fees totalling £30,188 (2017: £30,706). As at 31 March 2018, there was
£nil outstanding (2016: £nil). M McGoun, a non-executive director, invoiced Vianet Group plc for fees totalling £38,291 (2017: £36,000). As at 31 March 2018 there was £nil outstanding (2017: £nil).

See the Report of the Directors for details of non-executive directors' emoluments.