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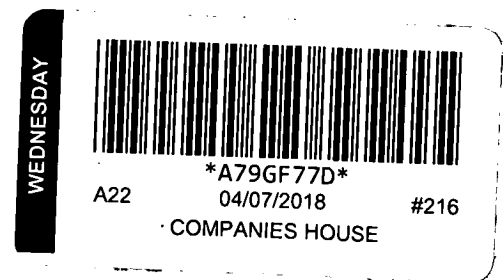
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Company Number: SC138846

# **Vianet Limited**

## **Annual Report**

**Year ended 31 March 2018**



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## Company Information

<b>Directors</b>	J W Dickson M H Foster S W Darling (appointed 10 October 2017)
<b>Secretary</b>	M H Foster
<b>Registered office</b>	4 <sup>th</sup> Floor, 115 George Street Edinburgh EH2 4JN
<b>Registered number</b>	SC138846
<b>Auditors</b>	Grant Thornton UK LLP No 1 Whitehall Riverside Leeds LS1 4BN
<b>Bankers</b>	Bank of Scotland 4 <sup>th</sup> floor 33 Old Broad Street London Branch London EC2N 1HZ

## Strategic Report

### Principal activities

The principal activities of the company continue to be the design, product development, manufacture, sale and rental of data monitoring equipment, together with the provision of data management and related services to the licensed and vending trade

Vianet's game-changing smart technologies have been repositioned to describe our capabilities more accurately and recognise the wider opportunities.

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. The technology was originally developed for automated retailing machines, however 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.

The Smart Zones Division is where we connect multiple data gathering devices into 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).

### Review of business and future developments

The Directors are satisfied with the result achieved to 31 March 2018 given the pressures in the core beer market impacted by Government proposals. The Directors are pleased with the significant step forward in vending and look forward to making positive steps forward in terms of sales in the coming year.

### Outlook & Strategy

In our Smart Zones division, and in particular for our drinks flow monitoring area, the industry headwinds associated with soaring business rates, national living wage and rapidly rising input costs, will likely result in some pressure from pub closures and disposals, and reduced investment expenditure. However the Board does expect this to be offset by continued growth in iDraught™ installations as well as results from other revenue and efficiency initiatives.

Our Smart Machines division continues to enjoy great traction in the marketplace particularly in the quality coffee segment where consumption growth is being driven by rampant consumer demand. With the addition of our new contactless payment solution and rapid adoption of technology by brand owners and machine operators, the division is in good health and poised for further growth.

Focusing on delivering even greater value to customers through world class strategic insight and actionable data, together with rigorous cost management of Vianet's legacy business and service provision, should deliver the desired benefits and performance for customers and shareholders alike. The Company has continued to make good underlying progress in a challenging environment and built a solid foundation, which positions Vianet well for future profitable growth, the execution of its strategy and broadening its reach into new areas and markets.

### Business Risk

The Directors and senior management review business risk on a regular basis. The Directors have considered areas of potential risk to the business to assess its future. On the basis of their review they consider the results and business projections taking into account market conditions 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.

## Strategic Report (continued)

The Directors consider that other material business risks are:

- The ongoing impact of the Statutory Code implementation which is being managed as and when there is sufficient clarity on the outcomes.
- 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 Company's contactless payment solutions.
- The Board potentially failing to ensure that the business builds a capable architecture and software development infrastructure to meet our growth demands and expectations. This risk is mitigated by ongoing evolution of our systems architecture, infrastructure, people and security protocols.

### Key Performance Indicators

	Target	Actual 2018	Restated Actual 2017
Percentage of revenue from recurring income streams <sup>1</sup>	75%	89%	85%
Gross Margin <sup>2</sup>	55%	69%	70%
Employee Turnover <sup>3</sup>	2%	3.3%	4.3%

We are pleased with the sustained recurring revenue streams.

### Notes to KPI's

<sup>1</sup>Percentage of revenue from recurring income streams = recurring income streams as a percentage of all income streams. Vianet Limited aims to increase shareholder value through growth in revenue, linked to profitability (see Gross Margin below). Source data is taken from management information. The company has exceeded its targets based on the nature of the company's long term contracts, cost control and revenue mix in the year.

<sup>2</sup>Gross Margin = Gross profit as a percentage of turnover. Vianet Limited aims 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.

<sup>3</sup>Employee Turnover = Vianet Limited aims to be seen as a good, attractive employer with positive values and career prospects.

### Principal risks and uncertainties

#### Financial risk management

The Directors are of the opinion that the going concern assessment is satisfactory based on the forecasts produced and that a healthy commercial proposition now exists.

The company's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, credit risk and liquidity risk.

The company does not have material exposures in any of the areas identified above and consequently does not use derivative instruments to manage these exposures.

The company's principal financial instruments comprise sterling cash and bank deposits, bank loans and overdrafts, other loans together with trade debtors and trade creditors that arise directly from its operations.

The main risks arising from the company's financial instruments can be analysed as follows:

#### Price risk

The company has no significant exposure to securities' price risk, as it holds no listed equity investments.

## Strategic Report (continued)

### ***Credit risk***

The company's principal financial assets are bank balances, cash and trade debtors, which represent the company's maximum exposure to credit risk in relation to financial assets.

The company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one customer depending upon their credit rating. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies. The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

### ***Liquidity risk***

The company's policy has been to ensure continuity of funding through arranging funding for operations via medium-term loans and additional revolving credit facilities to aid short-term flexibility.

### ***Cash flow interest rate risk***

Interest bearing assets comprise cash and bank deposits, all of which earn interest at base rate.

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



**M H Foster**  
Director

## Report of the Directors

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

### Directors

The current Directors of the company are shown on page 1, all of whom, unless otherwise stated, served throughout the year and to the date of these financial statements.

### Directors' Indemnity

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

### Directors' responsibilities statement for the financial statements

The Directors are responsible for preparing the Strategic Report, Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the 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:

- as far as each Director is aware there is no relevant audit information of which the company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are 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.

### Research and development

The company has a continuing commitment to levels of research and cost of ensuring systems perform optimally which reflect the need to be at the forefront of technological advance to ensure future growth. During the year expenditure on research and development was £1,436,000 (2017: £697,000) of which £1,436,000 was recognised as an asset on the balance sheet (2017: £697,000)

### Dividends

A dividend payment of £3,000,000 (2017: £nil) was made during the year.

## Report of the Directors (continued)

### Going Concern

The financial statements have been prepared on a going concern basis. The Directors have taken note of the guidance issued by the Financial Reporting Council on Going Concern Assessments in determining that this is the appropriate basis of preparation of the financial statements and have considered a number of factors.

The Directors, after having made appropriate enquiries, including (but not limited to) a review of the 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 historic results), have a reasonable expectation that Vianet Limited 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. In addition, Vianet Group plc has provided a letter of support and will not call for repayment of the intra-group loan and will continue to support Vianet Limited.

### Employees

Vianet Limited 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 Vianet Limited's performance through the use of share options. Employees have frequent opportunities to meet and have discussions with management. Vianet Limited aims to keep employees regularly informed of the financial and economic factors affecting the performance of Vianet Limited and its objectives in part through the 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. 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 3.3%, above the threshold we have set.

Vianet Limited'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.

### Auditors

Grant Thornton UK LLP have expressed their willingness to continue in office, and will be deemed re-appointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

### Approval

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



**M H Foster**  
Director



## Independent auditor's report to the members of Vianet Limited

### Opinion

We have audited the financial statements of Vianet Limited (the 'company') for the year ended 31 March 2018 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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, 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 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 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.

### Other information

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

### Opinions on other matters prescribed by the Companies Act 2006

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 has been prepared in accordance with applicable legal requirements.

## Independent auditor's report to the members of Vianet Limited (continued)

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

In the light of the knowledge and understanding of the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 page 5, 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 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 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



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

# Statement of Comprehensive Income

for the year ended 31 March 2018

		2018	Restated 2017
		£	£
<b>Turnover</b>	3	13,303,380	14,012,404
Cost of sales		(4,151,225)	(4,249,725)
<b>Gross profit</b>		9,152,155	9,762,679
Administrative expenses		(5,928,783)	(6,465,794)
<b>Profit from operations</b>	4	3,223,372	3,296,885
Interest receivable	6	63,278	51,261
Interest payable	7	(230,330)	(203,240)
<b>Profit on ordinary activities before taxation</b>		3,056,320	3,144,906
Tax on profit on ordinary activities	8	(236,724)	(416,802)
<b>Total comprehensive income for the year</b>		2,819,596	2,728,104

All activities relate to continuing operations

During the year, and as permitted by IAS 8 Accounting policies, accounting estimates and errors, the Directors have reconsidered their accounting policy in respect of the presentation of certain categories of expense and concluded that it would be more appropriate for certain salary costs, previously presented within cost of sales, to be included within administrative expenses. The Directors consider the revised policy will present more relevant information on the company's performance and also note that it is consistent with the parent company's own accounting policy. Comparatives have been restated to reclassify £1,233,802 of costs accordingly, this having no impact upon the net assets or result of the company.

**Balance Sheet**

at 31 March 2018

		2018 £	2017 £
<b>Fixed assets</b>			
Goodwill	10	15,267,532	15,267,532
Other intangible assets	11	2,839,482	1,898,422
Tangible assets	12	2,908,689	2,954,633
Investments	13	4,004,067	-
		<u>25,019,770</u>	<u>20,120,587</u>
<b>Current assets</b>			
Stocks	14	1,032,502	1,289,237
Debtors	15	5,518,424	4,800,262
Cash at bank and in hand		1,160	928,423
		<u>6,552,086</u>	<u>7,017,922</u>
<b>Creditors: amounts falling due within one year</b>	16	(11,193,612)	(9,480,053)
		<u>(4,641,526)</u>	<u>(2,462,131)</u>
<b>Net current liabilities</b>			
		(4,641,526)	(2,462,131)
<b>Total assets less current liabilities</b>		<u>20,378,244</u>	<u>17,658,456</u>
<b>Creditors: amounts falling due after more than one year</b>	17	(3,332,366)	(958,716)
<b>Provisions</b>	18	-	(48,000)
<b>Deferred Tax</b>	19	(562,395)	-
		<u>(3,894,761)</u>	<u>(1,006,716)</u>
<b>Net assets</b>		<u>16,483,483</u>	<u>16,651,740</u>
<b>Capital and reserves</b>			
Called up share capital	20	100	100
Merger Reserve	21	1,551,400	1,551,400
Capital Redemption Reserve	21	157,500	157,500
Capital Reserve	21	100,000	100,000
Profit and loss account	21	14,674,483	14,842,740
		<u>16,483,483</u>	<u>16,651,740</u>
<b>Shareholders' funds</b>		<u>16,483,483</u>	<u>16,651,740</u>

The financial statements were approved by the Board of Directors and authorised for issue on 4 June 2018.  
Signed on behalf of the Board of Directors:



**M H Foster**  
Director

**Statement of changes in equity**

For the year ended 31 March 2018

	Share capital £	Merger reserve £	Capital Redemption Reserve £	Capital Reserve £	Retained profit £	Total £
<b>At 1 April 2016</b>	100	1,551,400	157,500	100,000	12,089,902	13,898,902
Dividends	-	-	-	-	-	-
Capital contribution	-	-	-	-	24,734	24,734
Transactions with owners	-	-	-	-	24,734	24,734
Profit and total comprehensive income for the year	-	-	-	-	2,728,104	2,728,104
Total comprehensive income less owners transactions	-	-	-	-	2,752,838	2,752,838
<b>At 31 March 2017</b>	100	1,551,400	157,500	100,000	14,842,740	16,651,740
<b>At 1 April 2017</b>	100	1,551,400	157,500	100,000	14,842,740	16,651,740
Dividends	-	-	-	-	(3,000,000)	(3,000,000)
Capital contribution	-	-	-	-	12,147	12,147
Transactions with owners	-	-	-	-	(2,987,853)	(2,987,853)
Profit and total comprehensive income for the year	-	-	-	-	2,819,596	2,819,596
Total comprehensive income less owners transactions	-	-	-	-	(168,257)	(168,337)
<b>At 31 March 2018</b>	100	1,551,400	157,500	100,000	14,674,483	16,483,483

## Notes to the financial statements

for the year ended 31 March 2018

### 1. Company information

Company name	Vianet Limited
Registered office	24 Great King Street Edinburgh EH3 6QN
Principal location	One Surtees Way Surtees Business Park Stockton on Tees TS18 3HR
Registered number	SC138846
Country of incorporation	Scotland
Reporting period	31 March 2018

### 2. Accounting policies

#### 2.1 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 principal 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 (£)

#### 2.2 Going Concern

As described in the Report of the Directors, after reviewing the Company's forecast and projections, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

#### 2.3 Parent Company

The Company is a wholly owned subsidiary of Vianet Group plc which prepares publically available consolidated financial statements in accordance with IFRS. The Company is included in the consolidated financial statements of Vianet Group plc for the year ended 31 March 2018. These accounts are available from One Surtees Way, Surtees Business Park, Stockton on Tees, TS18 3HR.

The Company has taken advantage of the s400 Companies House exemption on preparing group accounts due to the Company being included in the EEA accounts of a larger group (s400 CA 2006).

## Notes to the financial statements

for the year ended 31 March 2018

### Accounting policies (continued)

#### 2.4 Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all relevant 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
- Presentation of comparative reconciliations for property, plant and equipment, intangible assets, investment properties and agriculture
- 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
- Disclosures in respect of financial instruments (other than disclosures required as a result of recording financial instruments at fair value)
- Fair value measurement disclosures (other than disclosures required as a result of recording financial instruments at fair value)

#### 2.5 Goodwill

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued.

Goodwill is capitalised as an intangible asset and is not amortised. Instead it is reviewed annually for impairment with any impairment in carrying value being charged to profit or loss.

The Companies Act 2006 requires acquired goodwill to be reduced by provisions for amortisation calculated to write off the amount systematically over a period chosen by the directors, not exceeding its useful economic life. It has been deemed, however, the non-amortisation of goodwill is a departure from the requirements of the Companies Act 2006, for the overriding purpose of giving a true and fair view. The effect of this departure has been quantified within the Goodwill note (Note 10).

## Notes to the financial statements

for the year ended 31 March 2018

### Accounting policies (continued)

#### 2.6 Impairment of assets

At each balance sheet date, the Company 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 statement of comprehensive income.

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 the statement of comprehensive income. Impairment losses on goodwill are not subsequently reversed.

#### 2.7 Intangible assets

##### Initial recognition of other intangible assets

##### Product development costs and internally developed software

Expenditure on the research phase of projects to develop new products or internally developed software is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Company intends to and has sufficient resources to complete the project
- the Company has the ability to use or sell the software
- the software will generate probable future economic benefits.

Directly attributable costs include employee costs incurred on along with an appropriate portion of relevant overheads and borrowing costs. Development costs not meeting these criteria for capitalisation are expensed as incurred.



## Notes to the financial statements

for the year ended 31 March 2018

### Accounting policies (continued)

#### Subsequent measurement

All finite-lived intangible assets, including capitalised internally developed software, are accounted for using the cost model whereby capitalised costs are amortised on a straight line basis over their estimated useful lives. Residual values and useful lives are reviewed at each reporting date. Where an indicator of impairment exists they are subject to impairment testing as described in Note 2.6.

The following useful lives are applied:

Internally developed software: 5 years  
Product development costs: 5 years  
Patents: 10 years  
Customer relationships: length of contract

Any capitalised internally developed software that is not yet complete is not amortised but is subject to impairment testing as described in Note 2.6.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within other income or other expenses.

#### 2.8 Investments in subsidiaries, associates and joint ventures

Investments in subsidiary undertakings are stated at cost less any applicable provision for impairment.

#### 2.9 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.

PPE is subsequently measured at cost less accumulated depreciation and impairment losses.

Depreciation is recognised on a straight-line basis (unless otherwise stated) to write down the cost less estimated residual value of PPE. The following useful lives are applied:

- Freehold buildings: 50 years
- Plant and machinery: 4 years
- Fixtures, fittings and equipment: 4 years
- Motor vehicles: 4 years

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within other income or administrative expenses.

#### 2.10 Stock

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.

## Notes to the financial statements

for the year ended 31 March 2018

### Accounting policies (continued)

#### 2.11 Financial instruments

The Company 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 Company's balance sheet when it becomes party to the contractual provisions of the instrument.

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

##### Trade Receivables 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.

#### 2.12 Operating leases

Where the Company is a lessee, payments made under an operating lease agreement are recognised as an expense on a straight-line basis over the lease term.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

#### 2.13 Provisions, contingent assets and contingent liabilities

Provisions for product warranties, legal disputes, onerous contracts or other claims are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Restructuring provisions are recognised only if a detailed formal plan for the restructuring exists and management has either communicated the plan's main features to those affected or started implementation. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Where the time value of money is material provisions are discounted to their present values, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

Any reimbursement that is virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

## Notes to the financial statements

for the year ended 31 March 2018

### Accounting policies (continued)

#### 2.14 Equity, reserves and dividend payments

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Company's ordinary shares are classified as equity. Transaction costs on the issue of shares are deducted from the share premium account arising on that issue. Dividends on the Company's ordinary shares are recognised directly in equity.

Interim dividends are recognised when they are paid. A liability for unpaid dividends is recognised when the dividends have been approved in a general meeting prior to the reporting date.

#### 2.15 Revenue recognition

Turnover comprises amounts arising from the provision of goods and services falling within an entity's ordinary activities after deducting trade discounts, VAT and other tax based on those amounts. It is measured at the fair value of consideration received or receivable, excluding sales taxes, and reduced by any rebates and trade discounts allowed.

The Company often enters into sales transactions involving a range of the Company's products and services, for example for the delivery of hardware, software and related after-sales service.

The Company applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction. The consideration received from these multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value.

##### **Sale of Machine, Payment and Vending equipment**

A sale of goods is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods.

##### **Sale of data insight packs, Machine monitoring licence and support, vending service revenue**

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

#### 2.16 Revenue – other revenue streams

##### **Interest receivable**

Interest receivable is reported on an accrual basis using the effective interest method.

#### 2.17 Foreign currency translation

##### **Foreign currency transactions and balances**

Foreign currency transactions are translated into the Company's functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate).

Foreign exchange gains and losses resulting from the re-measurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined. Where a gain or loss on a non-monetary item is recognised in other comprehensive income the foreign exchange component of that gain or loss is also recognised in other comprehensive income

## Notes to the financial statements

for the year ended 31 March 2018

### Accounting policies (continued)

#### 2.18 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.

#### 2.19 Post-employment benefits and short-term employee benefit

##### Short-term employee benefits

Short term employee benefits including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at undiscounted amount that the Company expects to pay as a result of unused entitlement.

##### Post-employment benefit plans

Contributions to defined contribution pension schemes are charged to profit or loss in the year to which they relate. Prepaid contributions are recognised as an asset. Unpaid contributions are reflected as a liability.

## Notes to the financial statements

for the year ended 31 March 2018

### Accounting policies (continued)

#### 2.20 Share based payments

Where equity settled share options are awarded by the parent company to employees of this Company the fair value of the options at the date of grant is charged to profit or loss over the vesting period with a corresponding entry in retained earnings.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest.

Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period.

Recharges from the parent company for the use of options over the parent company shares are deducted from equity.

## Notes to the financial statements

for the year ended 31 March 2018

### Accounting policies (continued)

#### 2.21 Significant judgement in applying accounting policies and key estimation uncertainty

The preparation of the financial statements in conformity with FRS 101 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 Company'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.

##### **Impairment of intangible assets and property, plant and equipment**

The Company 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.

##### **Income taxes**

The determination of the Company's tax liabilities requires the interpretation of tax law. The Company 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 Company'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 Statement of Comprehensive Income.

## Notes to the financial statements

for the year ended 31 March 2018

### 3. Turnover

Turnover relates to the principal activities and derives from the following geographical locations

	2018 £	2017 £
United Kingdom	12,351,617	13,024,796
Rest of Europe	951,763	987,155
Africa	-	454
	<hr/>	<hr/>
Total	13,303,380	14,012,404
	<hr/>	<hr/>

Total revenue, analysed by category, was as follows:

	2018 £	2017 £
Sales of goods	1,414,676	1,970,303
Rendering of services	11,888,704	12,042,101
	<hr/>	<hr/>
Total	13,303,380	14,012,404
	<hr/>	<hr/>
Interest receivable (note 6)	63,278	51,261
	<hr/>	<hr/>
Total	13,366,658	14,063,665
	<hr/>	<hr/>

### 4. Operating profit

The profit on ordinary activities before taxation is stated after;

	2018 £	2017 £
Depreciation of tangible assets (note 12)	299,309	298,079
Amortisation of intangible assets (note 11)	638,980	629,420
Staff costs (note 5)	5,087,839	5,368,248
Auditor's remuneration – Fees payable to the Company's auditor for the audit of the Company's annual accounts	21,750	21,000
Foreign exchange losses/(gains)	3,179	(62,632)
Other operating lease rentals		
- leased vehicles	196,074	196,859
- land and buildings	-	32,500
	<hr/>	<hr/>

Non-audit fees and tax compliance fees incurred by the Parent Company are not considered practical to allocate amongst group entities.

## Notes to the financial statements

for the year ended 31 March 2018

### 5. Directors and employees

Staff costs, including Directors, comprised the following:

	2018 £	2017 £
Wages and salaries	4,505,009	4,754,123
Social security costs	409,488	430,161
Share based payment	12,147	24,734
Pension costs	161,195	159,230
	<hr/>	<hr/>
	5,087,839	5,368,248
	<hr/>	<hr/>
	2018 Number of employees	2017 Number of employees
Sales	3	6
Engineering	33	28
Volume Recovery	4	5
Management	4	5
Administration	101	108
	<hr/>	<hr/>
	145	152
	<hr/>	<hr/>

The costs of the three Directors (2017: two) were borne by a fellow Group company and it is not practicable to split.

### 6. Interest receivable

	2018 £	2017 £
Bank interest receivable	-	280
Interest on balances due from group companies	63,278	50,981
	<hr/>	<hr/>
	63,278	51,261
	<hr/>	<hr/>



## Notes to the financial statements

for the year ended 31 March 2018

### 7. Interest payable

	2018 £	2017 £
Interest on bank loans and overdrafts	45,444	17,038
Interest on balances due to group companies	184,886	186,202
	<u>230,330</u>	<u>203,240</u>

### 8. Tax on profit on ordinary activities

The tax charge is based on the profit for the year and represents

	2018 £	2017 £
UK corporation tax on profits of the period	-	-
Adjustment in respect of prior period	-	-
	<u>-</u>	<u>-</u>
<b>Total current tax</b>	-	-
	<u>-</u>	<u>-</u>
<b>Deferred tax</b>		
Reversal of timing differences (note 19)	236,724	416,801
	<u>236,724</u>	<u>416,801</u>
<b>Tax on profit on ordinary activities</b>	<u>236,724</u>	<u>416,801</u>
	<u><u>236,724</u></u>	<u><u>416,801</u></u>
Analysed as follows		
Relating to continuing operations	236,724	416,801
	<u>236,724</u>	<u>416,801</u>
	<u><u>236,724</u></u>	<u><u>416,801</u></u>

## Notes to the financial statements

for the year ended 31 March 2018

### 8. Tax on profit on ordinary activities (continued)

The tax assessed differs from the standard rate of corporation tax in the United Kingdom at 19% (2017: 20%). The differences are explained as follows:

	2018 £	2017 £
Profit on ordinary activities before tax	3,056,320	3,144,906
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	580,701	628,981
Capital allowances in excess of depreciation	-	12,134
Loss relief	(236,724)	(416,801)
Movement in losses	236,724	416,801
Research and development	(465,821)	(297,582)
Other timing differences	(12,023)	(32,748)
Adjustment in respect of prior periods	9,136	-
Goodwill Amortisation	124,731	116,641
<b>Tax on results on ordinary activities</b>	<b>236,724</b>	<b>416,801</b>

### 9. Dividends

	2018 £	2017 £
Paid during the year (£3,000 per share (2017: £nil))	3,000,000	-
	<u>3,000,000</u>	<u>-</u>

## Notes to the financial statements

for the year ended 31 March 2018

### 10. Goodwill

	2018 £	2017 £
<b>Cost</b>		
At 1 April and 31 March	15,267,532	15,267,532
	<hr/>	<hr/>
<b>Accumulated impairment</b>		
At 1 April and 31 March	-	-
	<hr/>	<hr/>
<b>Carrying amount</b>		
At 31 March 2018	15,267,532	15,267,532
	<hr/>	<hr/>
At 31 March 2017	15,267,532	15,267,532
	<hr/>	<hr/>

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 cash generating unit including associated goodwill with the aggregate recoverable amount.

	2018 £	2017 £
Smart Zones	15,267,532	15,267,532
	<hr/>	<hr/>
Carrying amount 31 March	15,267,532	15,267,532
	<hr/>	<hr/>

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 an 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 the Smart Zones segment: 3% based on estimates of specific industry rates, where available.

Discount rate assumptions, applied to the Smart Zones 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, the Smart Zones segment would require no impairment.

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

Under FRS 101 goodwill is not amortised, but is instead assessed for impairment annually, this is a departure from the Companies Act 2006. If amortised over 20 years the net book value of Goodwill would have been £13,084,879 as at 31 March 2018 (2017: £13,506,104).

## Notes to the financial statements

for the year ended 31 March 2018

### 11. Other intangible fixed assets

	Intellectual Property	Software £	Development costs £	Patents £	Total £
<b>Cost</b>					
At 1 April 2017	117,760	97,074	4,392,404	11,320	4,618,558
Additions	44,477	117,787	2,177,665	-	2,339,929
Disposals	(2,500)	(28,794)	(2,211,752)	(2,017)	(2,245,063)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2018	159,737	186,067	4,358,317	9,303	4,713,424
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Amortisation</b>					
At 1 April 2017	46,518	65,784	2,600,501	7,332	2,720,135
Charge for the year	25,086	27,435	589,941	930	643,392
Disposal	(2,500)	(11,071)	(1,473,997)	(2,017)	(1,489,585)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2018	69,104	82,148	1,716,445	6,245	1,873,942
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>					
At 31 March 2018	90,633	103,919	2,641,872	3,058	2,839,482
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2017	71,242	31,290	1,791,902	3,988	1,898,422
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The development costs additions in the year relate to capitalised expenditure on research and development.

## Notes to the financial statements

for the year ended 31 March 2018

### 12. Tangible assets

	Website	Plant	Computers, Fixtures & Fittings	Rental Units	Gateway Refresh	Motor Vehicles	Dev Tools	Property	Total
	£	£	£	£	£	£	£	£	£
<b>Cost</b>									
At 1 April 2017	47,917	48,371	1,720,665	230,334	84,208	32,418	61,210	2,774,167	4,999,290
Additions	19,899	293,755	894,879	173,601	120,320	15,217	29,476	-	1,547,147
Disposals	(67,306)	(342,126)	(2,033,563)	(154,331)	-	(36,387)	(63,957)	-	(2,697,670)
At 31 March 2018	510	-	581,981	249,604	204,528	11,248	26,729	2,774,167	3,848,767
<b>Depreciation</b>									
At 1 April 2017	47,613	48,347	1,446,879	114,690	11,645	24,658	47,990	302,835	2,044,657
Charge for year	923	123,706	171,702	85,981	35,368	16,760	6,037	60,671	501,148
Disposals	(48,106)	(172,053)	(1,255,740)	(59,183)	-	(36,387)	(34,258)	-	(1,605,727)
At 31 March 2018	430	-	362,841	141,488	47,013	5,031	19,769	363,506	940,078
<b>Net book value</b>									
At 31 March 2018	80	-	219,140	108,116	157,515	6,217	6,960	2,410,661	2,908,689
At 31 March 2017	304	24	273,786	115,644	72,563	7,760	13,220	2,471,332	2,954,633

The net book value of land and building comprises:

	2018 £	2017 £
Freehold building	2,210,661	2,271,332
Land	200,000	200,000
	<u>2,410,661</u>	<u>2,471,332</u>

The company has bank loans which are secured by legal charges on the company's freehold property.

## Notes to the financial statements

for the year ended 31 March 2018

### 13. Investments

Investments comprise the following:

	2018 £	2017 £
Investments in subsidiaries	4,004,067	-
	<u>4,004,067</u>	<u>-</u>
<b>Cost</b>		<b>£</b>
At 1 April 2017		-
Addition		4,004,067
At 31 March 2018		<u>4,004,067</u>
<b>Net book value</b>		
At 31 March 2018		<u>4,004,067</u>
At 31 March 2017		<u>-</u>

On 3 October 2017, the company acquired 100% of the Share Capital of Vendman Systems Limited.

### 14. Stock

	2018 £	2017 £
Raw materials	111,247	120,889
Finished Goods	921,255	1,168,348
	<u>1,032,502</u>	<u>1,289,237</u>

There is no significant difference between the replacement cost of stock and its carrying amount.

Stock recognised in cost of sales during the year as an expense was £1,768,259 (2017: £2,221,735).

## Notes to the financial statements

for the year ended 31 March 2018

### 15. Debtors

Amounts falling due within one year:	2018	2017
	£	£
Trade debtors	1,860,413	2,158,791
Other debtors	210,000	10,483
Amounts due from group undertaking	2,590,705	2,152,241
Prepayments and accrued income	466,105	413,218
Deferred tax (note 19)	391,201	65,529
	<u>5,518,424</u>	<u>4,800,262</u>

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

### 16. Creditors: amounts falling due within one year

	2018	2017
	£	£
Overdraft	324,087	-
Bank loans (note 17)	660,190	325,575
Trade creditors	1,077,867	637,107
Amounts owed to group undertaking	6,563,578	6,098,103
Other taxation and social security	476,230	602,798
Accruals and deferred income	1,100,259	1,841,932
Deferred consideration	991,401	22,538
	<u>11,193,612</u>	<u>9,528,053</u>

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

## Notes to the financial statements

for the year ended 31 March 2018

### 17. Creditors: amounts falling due after more than one year

	2018	2017
	£	£
Deferred Consideration	1,338,616	180,898
Bank loan	1,993,750	777,818
	<u>3,332,366</u>	<u>958,716</u>

The company has bank loans which are secured by legal charges on the company's freehold property and are repayable in monthly instalments over a period of between 3 and 10 years from the date of these accounts. Interest on the loans is charged at rates of between 1 and 2% above Bank of Scotland base rate.

The maturity profile of the company's bank loans, was as follows:

	2018	2017
	£	£
Between one and two years	660,190	325,575
Between two and five years	1,993,750	652,452
More than five years	-	125,366
	<u>2,653,940</u>	<u>1,103,393</u>

### 18. Provisions

	Onerous lease	Dilapidations	Total
	£	£	£
1 April 2017	75,000	35,000	110,000
Utilised	(55,939)	(35,000)	(90,939)
Released to income statement	(19,061)	-	(19,061)
	<u>-</u>	<u>-</u>	<u>-</u>

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

	2018	2017
	£	£
Current	-	62,000
Non-current	-	48,000
	<u>-</u>	<u>-</u>

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 5 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.



## Notes to the financial statements

for the year ended 31 March 2018

### 19. Deferred tax

Deferred tax is provided for at 19% (2017: 19%) in the financial statements and consists of the following:

	2018	2017
	£	£
Accelerated capital allowances	(562,395)	(394,710)
Unrelieved losses	391,201	460,239
Deferred tax (liability)/asset carried forward	(171,194)	65,529

The amount of deferred tax recognised in the profit and loss was as follows:

	2018	2017
	£	£
Accelerated capital allowances	167,686	15,092
Losses utilised	69,038	401,709
	236,724	416,801

### 20. Called up share capital

	2018	2017
	£	£
<b>Authorised, allotted and fully paid</b>		
Equity: 1,000 ordinary shares of £0.10 each	100	100
<b>Ordinary shares</b>		
	2018	2017
	Number	Number
At 1 April 2017 and 31 March 2018	1,000	1,000

### 21. 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

**Capital redemption reserve** – represents amounts transferred from share capital on redemption of issued shares

**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

## Notes to the financial statements

for the year ended 31 March 2018

### 22. Share based payments

Employees of the Company are entitled to participate in a equity-settled share option scheme operated by the Company's ultimate parent company Vianet Group plc

The options granted over the ultimate parent Company's shares have a fixed exercise price and have a vesting period of five years. The main vesting condition is that employees must remain in employment during the vesting period. There are no other performance or market conditions attached to the share options.

The number of options outstanding at the end of the year in respect of Company employees were 438,750 (2017: 971,500)

289,250 share options were exercised throughout the year. The weighted average share price of Vianet Group plc was £1.17 (2017: £0.98)

The range of exercise prices for share options outstanding was between £0.85 and £1.51 (2017: between £0.85 and £1.51)

The remaining contractual life of the share options were between 1 month and 8 months (2017: between 1 month and 36 months)

#### 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.

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)	0.0

The fair values of each award pool are as following

30 June 2018	305,000
30 June 2019	143,000
30 June 2020	108,000

## Notes to the financial statements

for the year ended 31 March 2018

### 23. Financial Commitments

The Company's future minimum operating lease payments are as follows:

	2018 £	2017 £
Due within one year	173,972	208,006
Due between one and five years	264,920	374,514
Total	<u>438,892</u>	<u>582,520</u>

The Company's operating leases primarily relate to motor vehicles.

### 24. Related party disclosures

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

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.

### 25. Immediate and ultimate parent undertaking

The Company is controlled by its immediate parent company Vianet Group plc, a company incorporated in England and Wales. The ultimate parent undertaking is Vianet Group plc

The largest and smallest group in which the results of the Company are consolidated is that headed by the ultimate parent company Vianet Group plc. The consolidated accounts of Vianet Group plc are available from the address as stated in note 1 or on the group's website [www.vianetplc.com](http://www.vianetplc.com)